Annual Report
2023

Bank of Namibia

The Bank of Namibia Annual Report and Financial Statements for the financial year ended 31 December 2023 are prepared pursuant to Section 67(1) of the Bank of Namibia Act (No. 1 of 2020).

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Bank of Namibia

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Inflation in Namibia has slowed to an average of 5.9 percent in 2023, and is forecast to declline further to an average of 4.8 percent in 2024 as tight monetary policy continues to take effect.

MESSAGE FROM THE GOVERNOR

Mr Johannes !Gawaxab
Governor & Chairperson

The 2023 Bank of Namibia Annual Report has been prepared in line with section 67(1) of the Bank of Namibia Act (No. 1 of 2020). The report outlines the governance of the Bank of Namibia (hereinafter referred to as "the Bank") and key achievements of the Bank in 2023 in the execution of its three-year strategic plan (2022–2024). The report also presents the state of the Namibian economy. It includes a Theme Chapter titled: "The impact of climate change on the economy: Adaptive strategies and policy options for Namibia". The Theme Chapter is a timely intervention as we navigate climatic swings resulting in erratic rainfall that will probably have a negative impact on the most vulnerable in society and require the redirection of critical resources to emergency relief programmes and mitigation strategies. Finally, the report contains an assessment of banking supervision, and audited annual financial statements of the Bank for the year 2023.

Global growth and inflation

During 2023, global GDP growth is estimated to have slowed compared to 2022 owing to high interest rates, the gradual withdrawal of fiscal support, the fallout from regional conflicts, and the long-term consequences of the COVID-19 pandemic. The growth rate for global GDP slowed from 3.5 percent in 2022 to an estimated 3.1 percent in 2023. Weaker global GDP growth is ascribed to high interest rates, the gradual withdrawal of fiscal support amid high debt, fallout from the conflicts in Ukraine, Gaza and the Red Sea, and extreme weather events, as well as the long-term consequences of the pandemic that have continued to depress global economic activity. Economic growth in most advanced economies and in some emerging markets and developing economies slowed down in 2023. Nevertheless, growth held up well in the US economy and accelerated in China, Japan and Russia over the same period. The global economic growth rate is expected to remain unchanged in 2024, with major risks centred on climate and geopolitical shocks, increasing geoeconomic fragmentation, the slowing Chinese economy, and the possible persistence of underlying inflation.

Global inflation declined in 2023 as supply chains eased and transportation costs declined, resulting in policy interest rates remaining unchanged in the latter part of the year. Inflation decreased in AEs and EMDEs, which is mainly ascribed to a reduction in energy and transportation costs, coupled with a fall in the costs for food due to an abundant supply of agricultural products resulting from favourable weather. Global inflation is projected to decline further to 5.8 percent in 2024 from 6.9 percent in 2023 as tight monetary policy continues to take effect.

Domestic growth and inflation

During the period under review, real GDP in Namibia recorded further growth, albeit at a slower pace than in 2022. The growth rate of the Namibian economy eased slightly to 4.2 percent from a robust growth rate of 5.3 percent registered in 2022.

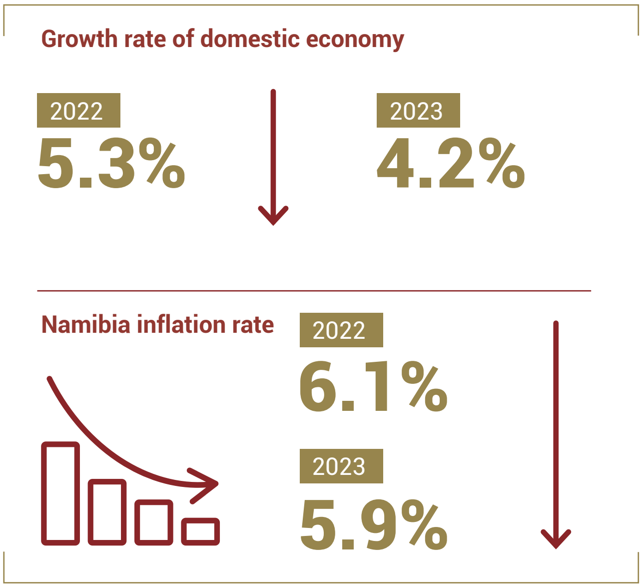
This is attributed to slower growth in primary and secondary industries, underpinned by a moderation in demand in both the global and the domestic economies. The slowdown in growth was largely ascribed to high interest rates that had a negative impact on consumer spending, alongside drought-related reductions in agricultural crop output and slow execution of public sector construction activity. However, on the demand side, private sector investment and exports held up well.

Inflation in Namibia eased in 2023 compared to 2022, offering some relief to consumers. Overall inflation for Namibia decreased to an average of 5.9 percent during the year under review from 6.1 percent in 2022. This is ascribed to the effect of the tight monetary policy stance filtering through to the economy. The moderation in inflation was primarily reflected in a decline in transport inflation resulting from generally more favourable fuel prices, which were kept unchanged or adjusted downwards for the greater part of the year. Conversely, inflation for food and housing increased in 2023, somewhat offsetting the decline in the other components of inflation. By February 2024, inflation had slowed to 5.0 percent.

Developments in interest rates, credit growth and money supply

During 2023, Namibia recorded an elevated interest rate trajectory, with the Monetary Policy Committee (MPC) of the Bank increasing the repurchase rate ("repo rate") at three meetings. Starting in February 2023, the MPC increased the repo rate by 25 basis points, followed by another upward adjustment of the same magnitude in April 2023. Then in June 2023, the MPC hiked the repo rate by 50 basis points, pegging it at 7.75 percent, where it remained unchanged for the rest of the year. Despite a cumulative increase in the repo rate of 100 basis points in 2023, it remained 50 basis points below that of the South African Reserve Bank. These decisions were taken to anchor inflation expectations and safeguard the exchange rate peg while supporting domestic economic activity by adopting a policy rate moderately below that of the anchor country to cushion borrowers in Namibia.

The annual growth in Private Sector Credit Extension (PSCE) slowed in 2023 due to lower demand for credit ascribed to rising interest rates and lustreless income, which continued to supress borrowers' appetite for credit. Growth in PSCE slowed to an annual rate of 1.9 percent in 2023, from 4.2 percent recorded in 2022, owing to lower demand for credit and repayments by corporates. Loans extended to corporates posted lower growth, driven by lower demand and repayments by corporates, while household demand for credit also remained weak. The subdued growth in total credit extended was reflected in lower growth rates for mortgage credit and other loans and advances during the review period.



Growth in broad money supply (M2) increased in 2023, driven by a rise in Net Foreign Assets (NFA), whereas growth in PSCE decreased. Growth in M2 rose to 10.7 percent in 2023, from the muted growth recorded at the end of 2022. The higher growth in M2 during the period under review was mainly owing to a rise in the NFA of the depository corporations.

Developments in public finance

The Government's budget deficit as a ratio of GDP eased during FY2023/24, while the debt ratio to GDP declined over the year to the end of December 2023. The central Government's budget deficit for FY2023/24 narrowed to 3.2 percent of GDP, compared to 5.1 percent of GDP registered during the preceding fiscal year. The narrowing of the deficit resulted from a buoyant 26.0 percent increase in revenue during the period under review, exceeding the rise in expenditure, which is estimated to have increased by 18.6 percent. Meanwhile, total debt as a percentage of GDP stood at 65.3 percent at the end of December 2023, representing a decrease of 1.5 percentage points from a year earlier as the economy grew faster than the Government debt. The declines in the deficit and debt ratios reflect the concerted fiscal consolidation efforts and show progress towards restoring macroeconomic stability.

External sector developments

Namibia's current account deficit deteriorated further, primarily due to increasing outflows on the services account on the back of oil exploration and appraisal activities. The deficit on the current account widened to N$34.1 billion during 2023, from N$26.4 billion recorded in the preceding year. This was due to a higher outflow recorded in the services and primary income accounts. As a ratio of GDP, the current account deficit stood at 15.0 percent in 2023, relative to a deficit of 12.8 percent recorded a year previously. On the financial account, buoyant non-reserve related inflows in the form of foreign direct investment were strong enough to cover the current account deficit. As a result, the overall balance of payments registered a moderate surplus amounting to N$4.7 billion in 2023, contributing to a rise in reserves.

Namibia's foreign exchange reserves remained resilient during 2023 amidst increasing pressure from rising imports. The stock of international reserves rose by 11.9 percent during 2023, from N$ 47.6 billion recorded at the end of 2022 to N$53.2 billion as at 31 December 2023. The increase was supported by higher SACU receipts and government foreign borrowing. The reserve position remains adequate as measured in terms of the three adequacy measures adopted by the Bank, with the import cover in particular closing off the year at 3.8 months of imports, above the 3-month international benchmark.

Theme Chapter

The Theme Chapter of the report is titled, "The impact of climate change on the economy: Adaptive strategies and policy options for Namibia". Given Namibia's susceptibility to the phenomenon of climate change, the article examines its potential to disrupt the macroeconomy through key economic variables such as output, inflation, government revenue, and government expenditure. The chapter makes the key recommendation that financial sector regulators must be at the fore of climate change policies by integrating climate-related risks into supervision and financial stability monitoring. Furthermore, the article recommends the development of green bonds in the economy. On the fiscal side, it recommends that the Government strengthen resilience by investing in adaptation and building fiscal buffers.

> **Namibia's current account deficit deteriorated further in 2023 on the back of increasing outflow resulting from oil exporation and appraisal activity.**

Namibia's financial system remained resilient, stable and sound amidst slower economic growth and higher interest rates. The banking sector remained well-capitalised and liquid during 2023, above the prudential requirements. The banking sector's profitability remained solid due to higher net income, particularly interest income. Asset quality, as measured by the non-performing loans (NPLs) ratio, deteriorated slightly in 2023 but remained below the crisis time supervision intervention trigger point. Going forward, the risks to the banking sector are centred around the impact of climate change, grey listing, and cyber security. Regarding climate change, the Bank has joined the Network of Central Banks and Supervisors for Greening the Financial System to integrate climate-related risks into supervision and financial stability monitoring.

Similarly, the non-bank financial institutions (NBFIs) sector continued to exhibit resilience during 2023. The NBFI sector withstood the headwinds of the macroeconomic environment, characterised by slowing growth in the domestic economy, volatility in global financial markets, elevated inflation rates, and, correspondingly, high-interest rates. The demand for NBFI products was observed to remain sound in 2023, while investment assets performed positively.

The Macroprudential Oversight Committee (MOC) revised the loan to value regulations in July 2023. In response to the challenges faced by the property market, specifically high NPLs for the mortgage credit category and the dampened demand for mortgage credit, coupled with the low volume of property sales and lacklustre performance in the construction sector, the MOC intervened by revising the loan-to-value regulations in July 2023. The MOC will continue to closely monitor these developments going forward.

> **Accountability and transparency are the cornerstone of the Bank of Namibia Strategy, which helps safeguard monetary and financial stability.**

Strategy execution and key achievements in 2023

In 2023, the Bank marked a significant milestone as it completed the second year of its three-year strategic plan. This year was particularly notable as 68 percent of its three-year strategic goals were realised. Furthermore, 93 percent of its year two objectives were also successfully achieved. Efforts were focussed on advancing the four key strategic pillars. For the Purpose Pillar, the focus was on leveraging analytics to support and enhance monetary policy decision-making and enhance supervisory frameworks established by the Banking Institutions Act (No. 13 of 2023) and the Payment System Management Act (No. 14 of 2023). The focus was furthermore on the enhancements brough about by the Virtual Assets Act (No. 10 of 2023), which mandates the Bank to prudentially supervise and license virtual asset service providers. The Bank further issued Guidelines on the Standardisation of Quick Response Codes in the National Payment System to guide the financial sector industry in developing payment QR codes that are interoperable and safe, and advance financial inclusion. For the Future-fit Organisational Efficiency and Effectiveness Pillar, the Bank aimed at redesigning business processes and automating routine tasks to improve operational efficiency. Regarding the Talent and Transformation Pillar, the Bank sought to nurture a culture of innovation and creativity among the workforce. Lastly, for the Stakeholder Engagement Pillar, the Bank expanded its engagement with stakeholders, including by communicating in more languages and using more platforms.

The Bank furthermore reformed the monetary policy communication process to promote dialogue and transparency around monetary policy. Amongst other actions, the monetary policy communication activities were overhauled by introducing the monetary policy dialogue to interact with local economists, analysts, researchers, and industry players to explain monetary policy decisions and foster dialogue and transparency. I am pleased to announce that the Bank has been recognised for its commitment to transparency and accountability with the Transparency Award from Central Banking Publications in their annual central banking awards for 2023. This achievement is the result of collective efforts across the organisation to be responsive to all stakeholders and transparent at all times. Accountability and transparency are the cornerstone of the Bank of Namibia Strategy, which helps safeguard monetary and financial stability. The award reflects the highest standards of governance that we have put in place, and showcases our vision of becoming a leading central bank committed to fostering Namibia's prosperity.

Currency management

During the period under review, the Bank recorded a significant increase in the currency in circulation compared to the previous financial year. The value of currency in circulation increased from N$4.87 billion in 2022 to N$5.24 billion in 2023, equating to an increase of 7.6 percent, the highest ever recorded in the history of the Bank. The Bank ensured that its mandate of currency provision was effectively executed by supplying the Namibian market with high quality banknotes and coins during the review period. Despite the continued importance of cash, the shares of cashless payments (electronic payments) are increasing, with electronic funds transfers (EFTs) rising by 10 percent in 2023, albeit a lower rate of growth than the 12 percent increase recorded in 2022. The high growth rate in EFT transactions points to the gradual evolution towards electronic money. In this regard, and in keeping with its modernisation drive, the Bank continually assesses the ecosystem with the intention of innovating and enhancing current offerings and bridging the financial inclusion gap. For this reason, the Bank is deliberately trying to study the appropriateness and relevance of a Central Bank Digital Currency (CBDC) for Namibia, while building up the necessary skills and institutional capacity. Given the Common Monetary Area (CMA) realities, the Bank will continue its collaboration within the CMA towards developing, as far as possible, a common view and approach on CBDCs that will optimally serve all the CMA countries.

Value of currency in circulation

2022
4.87 billion

2023
5.24 billion

= 7.6%

Digitalisation at the Bank

Digital transformation remains a critical strategic enabler for the Bank, and significant progress has been made in establishing an interrogative redesign of all fundamental processes. The Automation Centre of Excellence was established to leverage internal skills to spearhead the institution's digitisation and automation journey. As an example, through collaboration with the Ministry of Finance and Public Enterprises, the Bank automated the local and foreign payment processes for the Ministry by introducing robotic process automation, and there are plans to further scale a similar solution to the offices, ministries and agencies, creating substantial efficiencies and further affirming that digital transformation is a key enabler for the Bank. Furthermore, the exploratory work around CBDCs is continuing, and the bank is close to finalising its roadmap consisting of short, medium and long-term objectives. Collaboration with the CMA countries on the opportunities that CBDCs may offer towards enhancing cross-border payments efficiencies is also underway.

Human resources development and the Bank's culture statement

The capability of creating a vision and executing on our strategy remained our focus in responding to a disruptive and fast-changing world of work brought on by automation, artificial intelligence, and other technological developments. As such, the Bank continued with its capacity development interventions aimed at building a future-fit workforce that will be able to navigate the working environment of the future. This required the Bank to upskill and reskill its workforce within the fields of core central banking, technology, and leadership to ensure the successful execution of the Bank's mandate and strategy.

To ensure a future-fit workforce, the Bank continued with its capacity development initiatives through a blended approach. These included in-person and online training, webinars, rotations, coaching, and conferences to ensure the successful execution of the bank's mandate and strategy. The development interventions were focused on enhancing core central banking, technology, and leadership skills. During the period under review, 400 courses were completed on the Bank's online learning platform, and 197 face-to-face interventions were attended through leveraging opportunities with existing development partners. To strengthen the Bank's leadership, bench strength coaching programmes were undertaken and leadership development programmes were offered by Harvard Business School and Stellenbosch University. The Bank further supported 17 employees through its study loan facilities to obtain formal qualifications related to the operations of the Bank.

The cornerstone of a successful organisation is founded on strong cultural values. The Bank continued to embed the desired culture to create an enabling environment that supports the achievement of the Bank's strategy. The Bank's culture is built on the philosophy of "running the same race faster and simultaneously running a different race to prepare for the future," which in essence is expressed by the culture statement "Embracing Agility, Collaboration and Trust (ACT)" which the Bank has adopted. Employees were introduced to the Growth mindset concept, and workshops were rolled out Bank-wide to educate staff on how to be agile, collaborative, and trusting. Culture Champions were appointed and equipped with the necessary skills to support management in driving the desired culture. Customised solutions were also deployed to drive the Bank's organisational culture.

Financial performance of the Bank

The Bank's financial performance showcased increased robustness in 2023. Operating profit soared by 57.5 percent, from N$651 million in 2022 to N$1.025 billion in 2023, due to higher interest rates and average investment balances. The Bank's total assets increased by N$9.56 billion, from N$52.36 billion in 2022 to N$61.92 billion in 2023, mainly driven by increased investments on the back of SACU revenues and higher-than-expected diamond sales, proceeds of the sale of Namibia Breweries to Heineken, and valuation gains.

As a result, the Bank will increase the dividend paid to the Government by almost N$100 million. The amount designated for distribution increased by 24 percent year-on-year, from N$772.6 million in 2022 to N$956.9 million in 2023. The Bank will distribute a dividend of N$511.5 million (2022: N$413.7 million) to the Government for 2023. An allocation of N$100 million was made to the Development Fund Reserve for development purposes, and one of N$10 million to the Training Fund Reserve.

Operating profit

↑ **57.5%**

2022

N$651 million

2023

N$1.025 billion

Concluding remark

The achievements presented in this report would not have been possible without the important contributions of our staff and Board and the critical support of all our stakeholders. In particular, I would like to thank our staff members for their tireless efforts and commitment to deliver on the Bank's mandate. Let me also acknowledge the important role played by the Bank's Board Members for their independent views and strategic focus on attaining the objectives of the Bank. My appreciation equally goes to our stakeholders, who granted their cooperation and provided us with information and data throughout the year, which the Bank used to compile this report and other publications. We ended the year strong and well-positioned to discharge our mandate in 2024.

Looking ahead, the Bank remains steadfast in fulfilling its mission through its commitment and dedication to always being a leading central bank committed to a prosperous Namibia. The Bank will strive to fulfil its mission of fostering the stability, integrity, and efficiency of the nation's monetary, financial and payment systems. Namibia has a small, open economy which is highly exposed to risks arising from various sources, not least climate variability and change, and this requires the Bank to continue to safeguard and maintain price and financial stability for the sustainable economic development of the country.

Governor
28 March 2024

Annual Report Dashboard 2023

Social And Relationship Outcomes

Committee of Central Bank Governors in SADC

STEAM Launch

Transparency Award
(Central Banking Awards 2024)

Digital Transformation

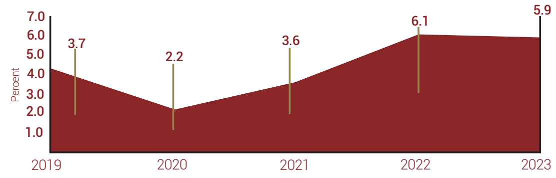
Trade Verification System

Process Redesign and Robotics Process Automation

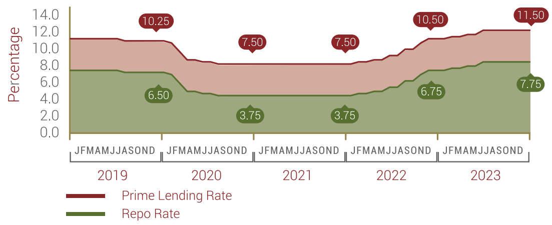
SUPTECH / REGTECH System

Price Stability

Overall Inflation



Interest rates



Repo rate

Repo rate
2022 6.75%
2023 7.75%

Financial Stability

Capital Adequacy
2022 16.9%
0.3%
2023 16.6%

Liquidity
2022 N$ 25.3 Bill
2023 4.7% N$ 26.5 Bill

NPL Ratio
2023 5.9%

Driven by excellence to deliver value for a prosperous Namibia in 2023. Highlights from our 2023 Annual Report

Financial Outcomes

Government Dividends

N$ 413.7 Mill 2022

N$ 511.5 Mill 2023

24%

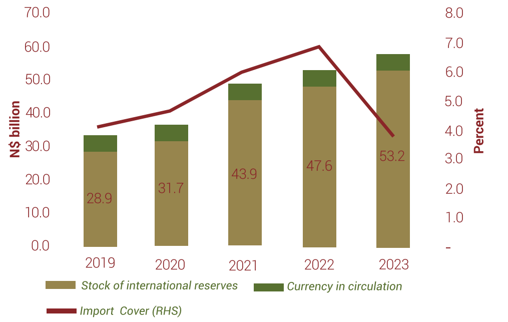
Amount Available for Distribution

2023
N$ 956.9 Mill

2022
N$ 772.6 Mill

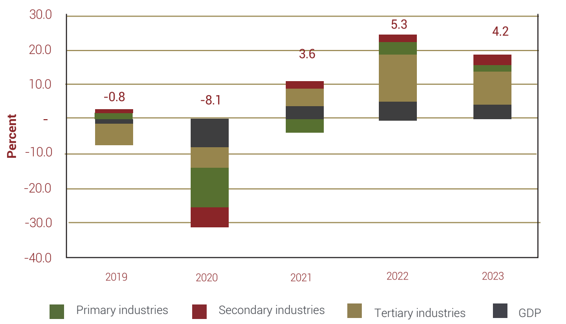
Reserves

Stock of International Reserves



Growth

Economic Growth



Currency

Currency in circulation

2023
N$ 5.24 Bill

The value of currency in ciculation in 2023 is the highest ever recorded in the history of the Bank.

Strategy Execution

93% Future-fit Organisational Efficiency and Effectiveness

93% Talent and Transformation

89% Digital Transformation as the Enabler

94% Stakeholder Engagement

93% Purpose

94% **Overall Strategy Execution Rate**

Bank of Namibia

Remembering our colleagues

At the Bank, we value teamwork and in this regard, we recognise the contribution of our ex employees who retired in 2023.

- Matheus Fotolela (Chief Protection Officer : Oshakati)
- Absalom Shapumba (Technician: Oshakati)
- Christian Phillipus (Principal Economist)
- Ingrid Katjavivi (Examiner)
- Martha Mwahafa-Haundjodjo (Currency Officer)

They served the Bank over twenty three (23) years and their contribution brought the Bank where it is today.

We also pay tribute to our colleague, the Late **Mr Tukondjelanee Nghihalua** who passed away in March 2023. He served the Bank as an IT Technician.

NOTICE:

CHANGES TO THE BANK OF NAMIBIA ANNUAL REPORT

In pursuit of its goal of continuous improvement, the Bank of Namibia from time to time conducts assessments of its publications and engages in relevant benchmarking exercises with similar institutions. If deemed worthwhile, the lessons learnt from these exercises are implemented, taking certain factors into consideration. As a result, the Bank has changed the format and content of its Annual Report, starting with the 2022 Annual Report.

The effected changes are most notably in Part B of the Annual Report, the Macroeconomic Review. They are as follows:

- Part B has been condensed, focussing on the state of the economy, and presenting a summary picture of the performance of the key macroeconomic indicators during the year, in comparison to the previous year.
- Statistical tables that were formerly part of the Annual Report have been removed.
- The Bank of Namibia Quarterly Bulletin which was issued in March and was discontinued in 2009 has been reinstated to present the more detailed economic and financial information, including the statistical tables that have been removed from the Annual Report.
- Statistical tables can also be downloaded from the Bank of Namibia website (bon.com.na) (navigate to Bank of Namibia – Statistical Information).

PART A

Operations and Affairs of the Bank

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Part A
Operations and Affairs of the Bank

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STAKEHOLDER ENGAGEMENT PILLAR

TALENT AND TRANSFORMATION PILLAR

FUTURE-FIT ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS PILLAR

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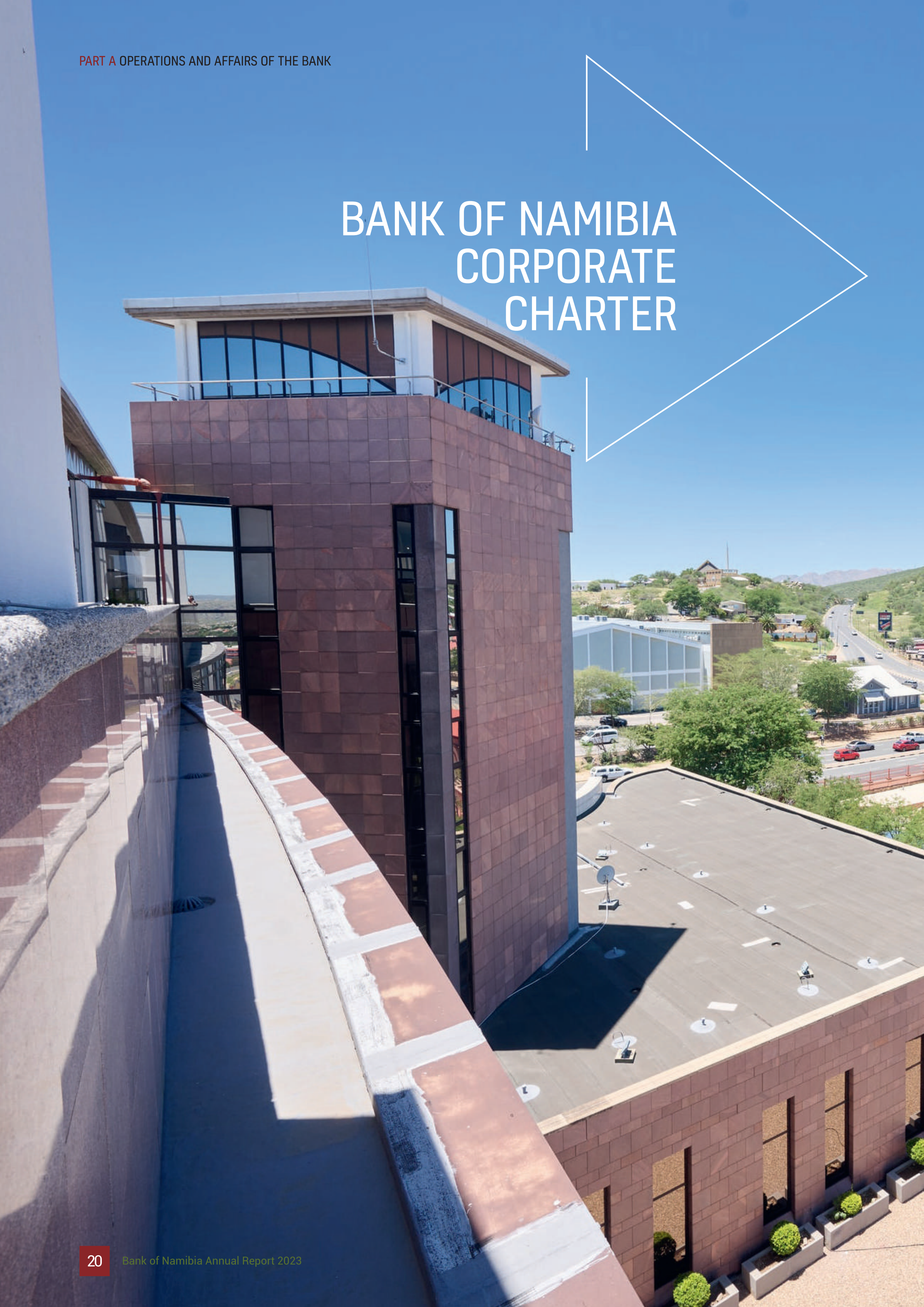


Mission

Support sustainable economic development through effective monetary policy and an inclusive and stable financial system for the benefit of all Namibians

Vision

To be a leading central bank committed to a prosperous Namibia

Culture Statement

Embracing **"Agility, Collaboration** and **Trust"** (ACT)

Values

- Act with integrity
- Performance excellence
- Open engagement
- We care
- Lead through innovation
- Embrace diversity

ORGANISATIONAL STRUCTURE OF THE BANK OF NAMIBIA

Members of the Board (as at 31 December 2023)

MR JOHANNES !GAWAXAB

POSITION HELD
- Governor of the Bank of Namibia
- Executive Member of the Board

TERM
- Incumbent since 1 June 2020
- Current term ends 31 December 2026

QUALIFICATIONS
- Bachelor of Arts (BA) and Master of Business Leadership (University of South Africa (UNISA))
- Master of Arts (MA) (Graduate Business School, Kingston)
- Certificate in Global Leadership (London School of Business)
- Advanced Management Program (Harvard Business School)

YEARS OF EXPERIENCE
46

EXPERTISE
- Financial services
- Finance
- Financial economics
- Central banking
- Investments
- Governance

MR EBSON UANGUTA

POSITION HELD
- Deputy Governor of the Bank of Namibia
- Executive Member of the Board

TERM
- Incumbent since 1 January 2012
- Current term ends 31 December 2026

QUALIFICATIONS
- Master of Science (MSc) in Economic Policy Analysis (Addis Ababa University)
- Bachelor of Economics (University of Namibia (UNAM))
- Advanced Management Program (Harvard Business School)
- Senior Executive Fellow (Harvard Kennedy School of Government)
- Senior Management Programme (University of Stellenbosch (US))
- Project Management Programme (US)

YEARS OF EXPERIENCE
27

EXPERTISE
- Economic policy research
- Central banking
- Public policy
- Leadership and corporate governance

MS LEONIE DUNN

POSITION HELD
- Deputy Governor of the Bank of Namibia
- Executive Member of the Board

TERM
- Incumbent since 1 January 2021
- Current term ends 31 December 2026

QUALIFICATIONS
- Master of Laws with specialisation in Commercial Law (LLM) (cum laude) Cardiff University, Wales (UK)
- Bachelor of Laws (LLB) (US)
- BA Law (US)
- Admitted Legal Practitioner of the High Court and the Supreme Court of Namibia
- Women in Leadership Development USA
- International Executive Development Programme (Wits Business School (WBS)/London Business School (LBS))
- International Leaders Programme (Foreign, Commonwealth & Development Office, UK)
- Advanced Management Program (Harvard Business School)

YEARS OF EXPERIENCE
25

EXPERTISE
- Commercial and criminal law
- Financial services regulation
- Financial market integrity
- Anti-money laundering / counter-terrorism financing / counter-proliferation financing compliance, monitoring, supervision, administrative enforcement and strategic analyses
- Financial intelligence unit strategic leadership
- Central banking
- Central Banking Executive Leadership

Members of the Board (since 01 February 2024)

MR TITUS NDOVE

POSITION HELD
- Ex-Officio Member of the Board
- Executive Director of the Ministry of Finance

TERM
- Incumbent since 1 April 2022

QUALIFICATIONS
- MSc in Financial Economics (University of London)
- Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) graduate fellow in Debt Markets
- Bachelor of Economics (UNAM)
- International Executive Development Programme (WBS/LBS)
- A Cutting Edge of Development Thinking (Harvard Kennedy School)
- Financial Programming and Policies (International Monetary Fund (IMF))

YEARS OF EXPERIENCE
26

EXPERTISE
- Public financial management
- Research
- Public procurement
- Public and commercial banking
- Financial markets
- Corporate governance
- Public and commercial banking
- Financial markets
- Corporate governance

ADV. CHARMAINE VAN DER WESTHUIZEN

POSITION HELD
- Non-executive Member of the Board
- Member of the Audit Committee
- Member of the Remuneration Committee

TERM
- Incumbent since 30 May 2012
- Term ended 31 December 2023

QUALIFICATIONS
- Master of Business Administration (MBA) (cum laude) (US)
- LLB (US)

YEARS OF EXPERIENCE
20

EXPERTISE
- Commercial and related litigation
- Arbitration
- Leadership development
- Corporate governance

MS ELINA SHANGEELAO TUYAKULA HAIPINGE

POSITION HELD
- Non-executive Member of the Board
- Member of the Remuneration Committee

TERM
- Incumbent since 18 July 2014
- Term ended 31 December 2023

QUALIFICATIONS
- MBA Corporate Strategy and Economic Policy (Maastricht School of Management, The Netherlands)
- Diploma in Personnel Management (Polytechnic of Namibia / Namibia University of Science and Technology (PoN/NUST)
- Specialised Training in Senior Management Development Programme (US)
- Project Management Estara Skills Development (Bloemfontein, SA / Namibia Institute of Public Administration and Management (NIPAM))
- Driving Government Performance (Harvard Kennedy School of Government)
- Leadership, Innovation, and Change Management (US/ NIPAM)
- Advance Online Training Programme in Government Performance Management (Award for Excellence) (The Commonwealth)

YEARS OF EXPERIENCE
31

EXPERTISE
- Strategic human resources management
- Training and development
- Course facilitation
- Strategic planning
- Policy formulation
- Performance management

Members of the Board (as at 31 December 2023)

MR APOLLUS CHRISTIAAN BAISAKO

POSITION HELD
- Non-executive Member of the Board
- Chairperson of the IT Governance and Projects Committee

TERM
- Incumbent since 1 February 2019
- Term ended 31 December 2023

QUALIFICATIONS
- MSc Information Systems Engineering (University of Manchester, UK)
- BSc Computer Science and Mathematics (UNAM)

YEARS OF EXPERIENCE
29

EXPERTISE
- Leadership
- Information technology (IT)
- Leadership
- Information technology (IT)

MS RIKA PRETORIUS

POSITION HELD
- Non-executive Member of the Board
- Chairperson of the Audit Committee

TERM
- Incumbent since 1 April 2022
- Current term ends 31 March 2027

QUALIFICATIONS
- MA in Forensic Accounting (North-West University)
- Honours in Financial Accounting (UNISA)
- BA in Accounting Science (North-West University)

YEARS OF EXPERIENCE
29

EXPERTISE
- Financial management
- Professional membership includes Institute of Chartered Accountants Namibia, Public Accountant's and Auditors' Board, and South African Institute or Chartered Accountants

MR EHRENFRIED MERORO

POSITION HELD
- Non-executive Member of the Board
- Member of the Audit Committee
- Chairperson of the Remuneration Committee
- Member of the IT Governance and Projects Committee

TERM
- Incumbent since 1 February 2019
- Term ended 31 December 2023, renewed till 31 December 2028

QUALIFICATIONS
- MSc Economics (A & T State University, North Carolina, USA)
- BSc Economics (A & T State University, North Carolina, USA)
- Economic Analysis of Structural Adjustments (Word Bank)
- Financial Programming and Analysis (IMF)
- Senior Management Programme (US)
- Advanced Course for Research Economists (Switzerland)
- Risk Management Training (Intuition Web)

YEARS OF EXPERIENCE
32

EXPERTISE
- Risk management
- Economic policy research
- Currency management
- Banking regulation

Members of the Board (since 01 February 2024)

DR MESHACK TJIRONGO

POSITION HELD
- Non-Executive Member of the Board

TERM
- Incumbent since 1 February 2024
- Current term ends 31 January 2028

QUALIFICATIONS
- DPhil Economics (Oxford University, UK)
- MA in Economics (New Mexico State University, USA)
- Bachelor of Science (BSc) in Agricultural Business (Iowa State University, USA)
- Diploma in Agriculture (University of Botswana and Swaziland)

YEARS OF EXPERIENCE
35

EXPERTISE
- Macroeconomic policy formulation and implementation
- Economic policy research
- Strategic planning and management
- Economic and development policy

ADV. ELIASER NEKWAYA

POSITION HELD
- Non-executive Member of the Board

TERM
- Incumbent since 1 February 2024
- Current term ends 31 January 2028

QUALIFICATIONS
- Master of Laws in Corporate Law (UNISA)
- LLB (UNAM)
- B Juris (UNAM)

YEARS OF EXPERIENCE
11

EXPERTISE
- Corporate governance
- Risk management
- Regulations and policy oversight
- Financial and operational oversight
- Stakeholder relations and management
- Strategy and governance

DR PIETER KRUGER

POSITION HELD
- Non-executive Member of the Board

TERM
- Incumbent since 1 February 2024
- Current term ends 31 January 2028

QUALIFICATIONS
- Doctorate in Business Administration (Universidad Catolica San Antonio de Murcia, Spain)
- MPhil in Business Administration (Universidad Catolica San Antonio de Murcia, Spain)
- MSc Degree in Computer Science (US)
- BSc in Computer Science and Applied Mathematics (US)

YEARS OF EXPERIENCE
26

EXPERTISE
- Artificial intelligence
- Cybersecurity
- Operational leadership
- Financial management
- Corporate governance

SENIOR MANAGEMENT TEAM (as at 31 December 2023)

MR JOHANNES !GAWAXAB

POSITION HELD
- Governor of the Bank of Namibia
- Executive Member of the Board

QUALIFICATIONS
- Bachelor of Arts (BA) and Master of Business Leadership (University of South Africa (UNISA))
- Master of Arts (MA) (Graduate Business School, Kingston)
- Certificate in Global Leadership (London School of Business)
- Advanced Management Program (Harvard Business School)

YEARS OF EXPERIENCE
46

EXPERTISE
- Financial services
- Finance
- Financial economics
- Central banking
- Investments
- Governance

MR EBSON UANGUTA

POSITION HELD
- Deputy Governor of the Bank of Namibia
- Executive Member of the Board

QUALIFICATIONS
- Master of Science (MSc) in Economic Policy Analysis (Addis Ababa University)
- Bachelor of Economics (University of Namibia (UNAM))
- Advanced Management Program (Harvard Business School)
- Senior Executive Fellow (Harvard Kennedy School of Government)
- Senior Management Programme (University of Stellenbosch (US))
- Project Management Programme (US)

YEARS OF EXPERIENCE
27

EXPERTISE
- Economic policy research
- Central banking
- Public policy
- Leadership and corporate governance

MS LEONIE DUNN

POSITION HELD
- Deputy Governor of the Bank of Namibia
- Executive Member of the Board

QUALIFICATIONS
- Master of Laws with specialisation in Commercial Law (LLM) (cum laude) Cardiff University, Wales (UK)
- Bachelor of Laws (LLB) (US)
- BA Law (US)
- Admitted Legal Practitioner of the High Court and the Supreme Court of Namibia
- Women in Leadership Development USA
- International Executive Development Programme (Wits Business School (WBS)/London Business School (LBS))
- International Leaders Programme (Foreign, Commonwealth & Development Office, UK)
- Advanced Management Program (Harvard Business School)

YEARS OF EXPERIENCE
25

EXPERTISE
- Commercial, Civil and and Criminal litigation
- Corporate Governance
- Financial services regulation
- Financial market integrity
- Anti-money laundering / counter terrorism financing / counter proliferation financing compliance, monitoring, supervision, administrative enforcement and strategic analyses
- Financial intelligence unit strategic leadership
- Central banking
- Central Banking Executive Leadership

SENIOR MANAGEMENT TEAM (as at 31 December 2023)

MR ROMEO NEL

POSITION HELD
- Technical Advisor to the Governor

QUALIFICATIONS
- LLB (UNISA)
- MSc Banking (University of London)
- BEcon (UNAM)
- Postgraduate Certificate in Accounting (University of KwaZulu-Natal)
- International Executive Development Programme (WBS/LBS)

YEARS OF EXPERIENCE
31

EXPERTISE
- Customs and Excise
- Finance
- Financial Analysis
- Compliance Management
- Banking Regulation
- Risk management
- Strategy and Corporate Governance

MS FLORETTE NAKUSERA

POSITION HELD
- Director: Financial Stability and Macroprudential Oversight

QUALIFICATIONS
- MComm Economics (US)
- BComm Hons (Economics) (US)
- BComm (UNAM)
- Executive Development Programme (US)
- International Executive Development Programme (WBS/LBS)

YEARS OF EXPERIENCE
25

EXPERTISE
- Macroeconomic policy
- Economic research and statistics
- Central banking
- Finance
- Strategic management
- Leadership and corporate governance
- Environmental economics and policy

DR LEA NAMOLOH

POSITION HELD
- Director: Human Resources

QUALIFICATIONS
- PhD Management, Swiss Management Center)
- MBA (Maastricht University, Netherlands)
- MEd (UNAM)
- BEd (Honours) (Bristol University, UK)
- International Executive Development Programme (University of the Witwatersrand)
- Diploma in Teaching English as a Foreign Language (University of Edinburgh)
- Certificate Board of Directors (US)

YEARS OF EXPERIENCE
30

EXPERTISE
- Human resources management
- Project management
- Currency management
- Banking services
- Strategic leadership

SENIOR MANAGEMENT TEAM (as at 31 December 2023)

MS ANCOIS PLAATJE

POSITION HELD
- Director: Banking Supervision

QUALIFICATIONS
- MSc International Banking and Finance (University of Salford, UK)
- B Comm (UNAM)

YEARS OF EXPERIENCE
21

EXPERTISE
- Financial analysis
- Compliance management
- Banking regulation
- Risk management
- Strategy and corporate governance

MR KAZEMBIRE ZEMBURUKA

POSITION HELD
- Director: Strategic Communications and International Relations

QUALIFICATIONS
- MA in Development Policy and Practice (University of Cape Town)
- MA in Journalism (Distinction) (Cardiff University, Wales (UK)
- BA in Media Technology; Honours in Journalism (Polytechnic of Namibia)
- National Diploma in Media Technology and Journalism (PoN)
- Management Development Programme (US)

YEARS OF EXPERIENCE
23

EXPERTISE
- Journalism
- Media
- International relations
- Communications

MR NICHOLAS MUKASA

POSITION HELD
- Director: Financial Markets
- MPC member

QUALIFICATIONS
- Bachelor of Business Administration (UNAM)
- Chartered Financial Analyst (CFA) (CFA Institute)
- Senior Management Development Programme (US)
- Postgraduate Diploma in Financial Management (Heriot-Watt University)
- Global Executive Leadership Program (Deloitte, LBS)

YEARS OF EXPERIENCE
22

EXPERTISE
- Portfolio management
- Financial analysis
- Asset valuation
- Capital markets
- Reserves management
- Risk management

SENIOR MANAGEMENT TEAM (as at 31 December 2023)

MS BARBARA DREYER

POSITION HELD
- Director: National Payment System

QUALIFICATIONS
- M.Sc Global Central Banking and Financial Regulations (Warwick Business School, UK)
- MBA (Swiss Management Center)
- MEd (State University of New York, Buffalo)
- BA Hons and BEd (University of the Western Cape (UWC))
- Postgraduate Diploma in Social Science Research Methods (US)
- Postgraduate Diploma in Higher Education (UWC)
- Fellow at the Fletcher School Leadership Program for Financial Inclusion (Tufts University, Boston, MA)
- International Executive Development Programme (WBS/LBS)

YEARS OF EXPERIENCE
32

EXPERTISE
- Payment systems strategy
- Payment systems risk management
- Payment systems policy and regulation development and implementation
- Corporate governance
- Human resources management strategy
- Remuneration strategy and organisation development
- Strategic management and leadership
- Knowledge management

MR MARSORRY ICKUA

POSITION HELD
- Director: Information Technology

QUALIFICATIONS
- MSc Information Systems Management (University of Liverpool, UK)
- Diploma in PC Support (Boston City Campus, Witbank, SA)
- Diploma in Business Computing (Boston City Campus, Witbank, SA)
- Management Development Programme (US)
- International Executive Development Programme (WBS/LBS)

YEARS OF EXPERIENCE
21

EXPERTISE
- Information technology, strategy and governance
- Technology innovation
- Programme management
- Information technology security management
- Resource planning and IT risk
- Disaster recovery and business continuity management

DR EMMA HAIYAMBO

POSITION HELD
- Director: Research and Financial Sector Development
- MPC member

QUALIFICATIONS
- PhD in Development Finance (US)
- MSc in Financial Economics (University of London)
- Master of International Business (PoN/NUST)
- Postgraduate Diploma in Financial Economics (University of London)
- BEcon (UNAM)
- Diploma in Public Administration (PoN/NUST)
- Fellow at the Fletcher School Leadership Program for Financial Inclusion (Tufts University, Boston, MA)
- Certified Expert in Financial Inclusion Policy (Frankfurt School of Finance and Management)
- International Executive Development Programme (WBS/LBS)
- Management Development Programme (US)

YEARS OF EXPERIENCE
27

EXPERTISE
- Macroeconomic research and statistics
- Financial sector development
- Development finance
- Project management
- Strategic planning and management
- Corporate governance

SENIOR MANAGEMENT TEAM (as at 31 December 2023)

MS SENCIA KAIZEMI-RUKATA

POSITION HELD
- Director: Currency Management and Banking Operations

QUALIFICATIONS
- MComm in Business Management (cum laude) (UNISA)
- Hons BComm in Business Management (UNISA)
- BComm with specialisation in Human Resources Management (UNISA)
- National Diploma in Commerce (NUST)
- National Secretarial Certificate (NUST)
- Specialised training in Foundational Payment Systems (Payments Association of South Africa)
- Specialised Training in Banknote Production (Joh Enschede, Netherlands
- Senior Management Development Programme (US)
- Global Executive Development Programme (Deloitte Alchemy/ LBS)

YEARS OF EXPERIENCE
26

EXPERTISE
- Commercial and central banking
- Currency management
- Banking services
- Strategic payment systems management
- Leadership and corporate governance

MR LLOYD LONDT

POSITION HELD
- Director: Finance and Administration

QUALIFICATIONS
- MBA (Distinction) (Warwick University, UK)
- Chartered Accountant (South Africa; Namibia); professional member of the South African Institute of Chartered Accountants and the Institute of Chartered Accountants of Namibia
- Bachelor of Accounting Hons (Rhodes University)

YEARS OF EXPERIENCE
17

EXPERTISE
- Financial management, annual report writing and storytelling
- International financial reporting standards
- Business administration
- Financial management and management accounting
- Basic behavioural and emotional finance analysis
- Communication
- Facilitation and training
- Auditing

MR BRYAN EISEB

POSITION HELD
- Director: Exchange Control and Legal Services

QUALIFICATIONS
- LLM (Corporate Law) (UNISA)
- LLB Hons (UNAM)
- BJuris (UNAM)
- Diploma in Police Science (NUST)
- Legal Practitioner of the High Court of Namibia
- Senior Management Development Programme (US)
- International Executive Development Programme (WBS/ LBS)
- Certificate in Central Bank Governance (Deutsche Bundesbank)
- Certificate in Digital Leadership (Deloitte Leadership)
- Certificate in Leadership in Corporate Legal Counsel (Harvard Law School)

YEARS OF EXPERIENCE
33

EXPERTISE
- Corporate law
- Banking law
- Corporate governance
- Criminal investigations
- Corporate security management
- Exchange control administration
- Currency production

SENIOR MANAGEMENT TEAM (as at 31 December 2023)

MS MAGRETH TJONGARERO

POSITION HELD
- Head: Risk Management and Assurance

QUALIFICATIONS
- MSc in International Banking and Finance (University of Salford, Manchester)
- BComm (Accounting) (UNAM)
- International Executive Development Programme (WBS/LBS)
- ISO22301:2012 Business Continuity Management Systems: Lead Implementer

YEARS OF EXPERIENCE
23

EXPERTISE
- Auditing
- Credit risk auditing
- Risk management
- Business continuity management

MR GERRIT EIMAN

POSITION HELD
- Acting Director: Financial Intelligence Centre

QUALIFICATIONS
- B Juris; LLB (UNAM)
- National Diploma in Police Science (PoN/ NUST)
- Senior Management Development Programme (US)

YEARS OF EXPERIENCE
33

EXPERTISE
- Law enforcement
- Legal practitioner in the High Court of Namibia
- Financial investigations and analysis
- Prosecutorial support

MANAGEMENT STRUCTURE (as at 31 December 2023)

Governor
Johannes !Gawaxab

Deputy Governor
Ebson Uanguta

- **Head Risk Management and Assurance** — Magreth Tjongarero
  - **Technical Advisor to the Govenor** — Romeo Nel
  - **Director: Strategic Communications & International Relations** — Israel Zemburuka
  - **Deputy Director: Strategy, Projects & Transformation** — Valeria Mbango
- **Director: Finance and Administration** — Lloyd Londt
  - **Deputy Director: Finance and Administration** — John Amakali
  - **Deputy Director: Procurement & Facilities Management** — David Kambinda
  - **Deputy Director: Treasury** — Avril Muzengua
- **Director: Research and Financial Sector Development** — Emma Haiyambo
  - **Deputy Director: Policy Reseach and International Affairs** — Erwin Naimhwaka
  - **Deputy Director: Macroeconomics Statistics and Analysis** — Sanette Schulze Struchtrup
  - **Deputy Director: Macro Models and Monetary Policy** — Postrick Mushendami
- **Director: Financial Markets** — Nicholas Mukasa
  - **Technical Adviser** — Helvi Fillipus
  - **Deputy Director: Compliance & Risk Analytics** — Vernon Louw
  - **Deputy Director: Investments & Domestic Markets** — Anthea Angermund
- **Director: Human Resources** — Lea Namoloh
  - **Deputy Director: HR Admin and ER** — Theopoltine Veii
  - **Deputy Director: OD and Training** — Shirene Bampton
- **Currency Management & Banking Operations** — Sencia Kaizemi- Rukata
  - **Deputy Director: Currency and Banking** — Cindy Fillipus
  - **Deputy Director: Protection Services** — Johannes Asino
  - **Branch Manager** — Moudi Hangula

Deputy Governor
Leonie Dunn

- **Acting Director: Financial Intelligence Center** — Gerrit Eiman
  - Deputy Director: Investigations & Analysis — Melintha Fleermuys
  - Deputy Director: Legal, Policy & Enforcement — Zenobia Barry
  - Deputy Director: Compliance Monitoring & Startegic Analysis — Kristian Hamutenya
  - Deputy Director: Law Enforcement & Prosecutorial Support — Gerrit Eiman
- **Director: Banking Supervision** — Ancois Plaatje
  - Deputy Director: Onsite Examinations — Karin Elago
  - Deputy Director: Policy & Regulation — Elifas Kamati
  - Deputy Director: Off-site Analysis — Imanuel Hawanga
- **Director: Financial Stability & Macroprudential Oversight** — Florette Nakusera
  - Deputy Director: Resolution & NDGA — Petrus Shifotoka
  - Deputy Director: Financial Stability & Macroprudential Surveillance — Anna William
- **Director: National Payment System** — Barbara Dreyer
  - Deputy Director: NISS Operations and Projects — Peter Nghinyotwa
  - Deputy Director: Oversight, Policy and Research — Candy Ngula
- **Director: Exchange Contor and Legal Services** — Bryan Eiseb
  - Deputy Director: Legal Services & Contract Mgmt — Ruben Philander
  - Deputy Director: Exchange Control — Penelao Kapenda
- **Director: Information Technology** — Marsorry Ickua
  - Deputy Director: Business Systems — Martha Dama
  - Deputy Director: IT Infrastructure — Paulus Tshiningayamwe

GOVERNANCE

OBJECTIVES AND ACCOUNTABILITY OF THE BANK

The Bank of Namibia is the central bank of the Republic of Namibia, created under Article 128(1) of the Namibian Constitution. The Constitution mandates the Bank of Namibia ("the Bank") to serve as the principal instrument of the Government of the Republic of Namibia ("the Government") for controlling money supply, the currency and banking institutions, and any other financial institutions.

The objectives of the Bank as defined in the Bank of Namibia Act (No. 1 of 2020) are, inter alia:

- to promote and maintain a sound monetary, credit and financial system in Namibia and sustain the liquidity, solvency, and functioning of that system;
- to promote and maintain internal and external monetary stability and an efficient payment mechanism;
- to foster monetary, credit and financial conditions that are conducive to the orderly, balanced and sustained economic development of Namibia;
- to serve as the Government's banker, financial advisor and fiscal agent; and
- to assist in the attainment of national economic goals.

In addition, the Bank fulfils other key functions as defined in other Acts, notably:

- the Banking Institutions Act (No. 13 of 2023), which empowers the Bank to regulate and supervise banking institutions;
- the Payment System Management Act (No. 14 of 2023), which provides for the management, administration, operation, regulation, oversight and supervision of payment, clearing and settlement systems in Namibia;
- the Currency and Exchanges Act (No.9 of 1933), as amended, which regulates exchange control in Namibia;
- the Deposit Guarantee Act (No. 16 of 2018), which obliges the Bank to provide certain administration and support services to the Namibia Deposit Guarantee Authority; and
- the Financial Intelligence Act (No. 12 of 2012), which requires the Bank of Namibia to contribute to the protection of the integrity and stability of the Namibian financial system.

In line with section 3(b) of the Bank of Namibia Act, the Bank performs its functions independently, subject to regular consultation with the Minister of Finance and Public Enterprises. The relationship between the Government, as sole shareholder, and the Bank is broadly defined in the Act.

The Bank's specific obligations are clearly defined in a Memorandum of Understanding entered into between the Ministry of Finance and Public Enterprises (MFPE) and the Bank. The Memorandum covers the terms and conditions of banking services rendered to the Government, public debt management arrangements, and the nature and frequency of consultations. The Minister of Finance and Public Enterprises and the Governor of the Bank also hold regular consultations on relevant matters.

The 2020 Bank of Namibia Act incorporates a range of stipulations relevant to contemporary central banking. The new Act repealed the Bank of Namibia Act (No. 15 of 1997) and the Bank of Namibia Amendment Act (No. 11 of 2004). In terms of the new Act, the Bank is explicitly entrusted with responsibility for safeguarding financial stability and macroprudential oversight.

Objective

To promote and maintain a sound monetary, credit and financial system in Namibia

CORPORATE CHARTER

Apart from its statutory mandate, the Bank's actions and the manner in which it carries out its mandate are guided by its Mission Statement and Vision Statement, as detailed in its Corporate Charter and the Culture Statement. The Bank's Vision portrays the desired state of the Bank with respect to how the institution would like to carry out its Mission. The Mission defines the fundamental purpose of the Bank, specifying why it exists and underlining the importance of achieving the Vision. The Bank's Values express the essence of the culture and beliefs that are shared among its stakeholders. The Values drive the Bank's culture and articulate the code of conduct that guides the Bank in mobilising all its resources in pursuit of its Mission and Vision. All the Bank's stakeholders are expected to conform to and identify with these standards and principles relating to ethical behaviour and excellence. The Charter strives to promote a sense of shared expectations among all levels and generations of employees regarding the Mission, the Vision, and standards of ethical behaviour. A culture of agility, collaboration and trust also forms part of the Corporate Charter.

STRATEGIC PLAN 2022-2024

The Bank's Strategic Plan is linked to its mission and functional priorities. Following the launch of the Bank's three-year Strategic Plan on 1 December 2021, the focus for the Bank has been on executing the Strategic Plan, with 2023 being no exception. The Bank stayed true to the Strategic Plan, which continued to set the direction and clear priorities to align departments towards a common goal which, in turn, clarifies and simplifies decision-making. Through the three-year strategy, the Bank aims to recalibrate, repurpose, reprioritise and become future-fit. To achieve this, it is envisaged that the Bank will become a digitally transformed institution with a fully modernised financial system that can help restore economic growth and sustain economic development. In 2023, the Bank conducted biannual strategy reviews in May and November. These sessions involved cumulative reviews that evaluated not only the progress made within the year, but also the overall progress towards successfully completing the three-year Strategic Plan in 2024. Simultaneously, careful consideration was given to prioritising key initiatives for the attainment of this goal.

At the core of the Bank's Strategic Plan lies a shared Vision for the Bank, which incorporates a Mission Statement: "To support sustainable economic development through effective monetary policy and an inclusive and stable financial system for the benefit of all Namibians". Moreover, the Bank aspires to be a leading central bank committed to a prosperous Namibia.

ACCOUNTABILITY

The Bank is committed to good corporate governance practices and accountability to the public. It is of paramount importance that the Bank always remains accountable to the public at large by adhering to sound corporate governance principles. Relevant legislation and the Bank's Corporate Charter and Strategic Plan are amongst the tools that guide the Bank in living up to the standards of good governance. The Bank also strives to be transparent through its concrete communication strategy that enables open and clear expression of why and how the Bank acts as it does.

The aspects of good governance that the Bank is committed to meeting include:

- being responsible, respected, trustworthy, and credible;
- being accountable to its shareholder – the Government – and the Namibian people;
- demonstrating an exceptionally high degree of integrity;
- ensuring that its actions and policies are efficient, effective and transparent;
- maintaining professionalism and excellence in the delivery of its services; and
- being flexible and forward-looking in its approach, while still avoiding undue risk.

THE GOVERNOR

The Governor serves the Bank as its Chief Executive Officer (CEO) and is accountable to the Board for the management of the Bank and the implementation of its policies.

The Governor also represents the Bank in its relations with the Government and other institutions. In most other matters, comprehensive and Board-approved delegations of authority are in place to enable the Governor and his delegates to carry out their duties related to the implementation of policies. Ordinarily, the Governor is appointed for a five-year term. The Act sets specific criteria for the appointment, reappointment, and dismissal of a Governor. The current incumbent, Mr. Johannes !Gawaxab, was reappointed for a five-year term, effective from 1 January 2022 to 31 December 2026.

> The Bank is committed to good corporate governance practices and accountability to the public.

THE BOARD OF THE BANK OF NAMIBIA

The Board is responsible for the policies, internal controls, risk management and general administration of the Bank. In addition to their typical fiduciary duties, Board members are also charged with many high-level responsibilities directly related to the policies and operations of the Bank, including approving the licensing of banking institutions and ensuring the prudent management of international reserves. In addition, the Board is responsible for approving the Bank's financial statements and annual budget, promoting effective corporate governance practices, and monitoring internal controls and risk management frameworks.

The Bank's Board members are appointed by the President of the Republic of Namibia. They consist of the Chairperson (executive member), two further executive members, one ex officio member (non-executive), and a minimum of five and a maximum of six further non-executive members.

The Governor (Chairperson) and the Deputy Governors are the executive members, while the Executive Director of the MFPE is the ex officio member. In addition, not fewer than five but not more than six non-executive members of the Board are appointed with due cognisance of their respective skills and areas of expertise in the fields of central banking, economics, the banking sector, finance, law, business, commerce and such other disciplines as may be relevant to the execution of the Bank's mandate.

The Board meets regularly (at least four times a year) with the main purpose of overseeing and monitoring the Bank's finances, operations and policies. During 2023, four ordinary and two special Board meetings were held. Table A.1 below sets out the dates of Board meetings and the attendance of members during 2023.

Table A.1

DATES AND ATTENDANCE OF BOARD MEETINGS DURING 2023

Board member	17 March	8 May (special)	6 June	18 July (special)	25 August	24 November
Mr J. !Gawaxab (Chairperson)	✓	✗	✓	✓	✓	✓
Mr E. Uanguta	✓	✓	✓	✓	✓	✓
Ms L. Dunn	✗	✓	✓	✓	✓	✓
Mr T. Ndove	✓	✗	✗	✓	✓	✓
Ms E. Haipinge	✗	✓	✓	✓	✓	✓
Adv C. van der Westhuizen	✓	✓	✓	✓	✓	✓
Mr A. Baisako	✓	✓	✓	✓	✓	✓
Mr E. Meroro	✓	✓	✓	✓	✓	✓
Ms R. Pretorius	✓	✓	✓	✓	✓	✓

✓ = attended; ✗ = apology

The Board delegates certain functions to its sub-committees (the Information Technology Governance and Projects Committee (ITGPC), the Audit Committee, and the Remuneration Committee). All these sub-committees are important elements of the Bank's sound corporate governance structure, have been established through formal terms of reference, and report to the Board. The Board can assure stakeholders that the sub-committees held regular meetings during the period under review and that they met their respective obligations in all material respects.

The ITGPC was established to assist the Board in discharging IT-related duties and responsibilities. The purpose of the Committee is to perform a strategic oversight role to ensure alignment of the IT strategy with the Bank's strategy through the approval, prioritisation and monitoring of strategic IT projects and initiatives for value creation, risk mitigation and resource allocation. The ITGPC is comprised of three non-executive Board members, and its meetings are held quarterly. The dates of the ITGPC meetings and the attendance of members during 2023 are outlined in Table A.2.

Table A.2

DATES AND ATTENDANCE OF ITGPC MEETINGS DURING 2023

ITGPC member	02 March	11 May	17 August	09 November
Mr C. Baisako (Chairperson)	✓	✓	✓	✓
Mr E. Meroro	✓	✓	✓	✓
Ms R. Pretorius	✓	✓	✓	✓

✓ = attended

The Audit Committee is responsible for evaluating the adequacy and efficiency of the Bank's corporate governance practices, including its internal control systems, risk control measures, accounting standards, and auditing processes. Three independent non-executive Board members currently serve as members of the Audit Committee, whose meetings are also attended by the Bank's Deputy Governors; Director: Finance and Administration; Head of Risk Management and Assurance; the external auditors; and relevant staff members. In general, the Audit Committee is responsible for considering all audit plans and the scope of external and internal audits to ensure that the coordination of audit efforts is optimised.

The Audit Committee is also required to introduce measures to enhance the credibility and objectivity of financial statements and reports prepared regarding the affairs of the Bank, and to enhance the Bank's corporate governance, with emphasis on the principles of accountability and transparency.
Table A.3 below summarises the dates of the Audit Committee meetings and the attendance of the audit committee members during 2023.

Table A.3

DATES AND ATTENDANCE OF AUDIT COMMITTEE MEETINGS DURING 2023

Audit Committee member	09 March	16 May	18 August	10 November
Ms. R. Pretorius (Chairperson)	✓	✓	✓	✓
Mr E. Meroro	✓	✓	✗	✓
Adv C. van der Westhuizen	✓	✓	✓	✓

✓ = attended; ✗ = apology

The Remuneration Committee is responsible for overseeing and coordinating the Bank's remuneration policy and strategy to ensure its competitiveness and comprehensiveness, in order to attract and retain quality staff and Board members. This Committee consists of three non-executive Board members and the Deputy Governor designated to this area. The dates of the Remuneration Committee meetings and the attendance of members during 2023 are set out in Table A.4.

Table A.4

DATES AND ATTENDANCE OF REMUNERATION COMMITTEE MEETINGS DURING 2023

Remuneration Committee member	10 August	07 November	17 November
Mr E. Meroro (Chairperson)	✓	✓	✓
Ms T. Haipinge	✓	✓	✓
Adv C. van der Westhuizen	✗	✗	✓

✓ = attended; ✗ = apology

MANAGEMENT STRUCTURE

The Bank's Senior Management Team as at the end of 2023 consisted of the Governor, two Deputy Governors, and the Directors of the Bank's various departments. To ensure that the Bank implements its policies effectively, several committees are in place. These are the Monetary Policy Committee (MPC); the Financial System Stability Committee; the Macroprudential Oversight Committee (MOC); the Management Committee; the Investment Committee; the Risk Management Committee; the Digital Transformation Management Committee; the Budget Committee; and the Tender Committee.

The function of the MPC is to implement an appropriate monetary policy stance. The MPC in 2023 was comprised of the Governor (Chairperson); the two Deputy Governors; the Director: Research and Financial Sector Development Department; the Director: Financial Markets Department; the Technical Advisor to the Governor; the Advisor on Monetary and Economic Matters; and the Director: Strategic Communications and International Relations. The MPC normally meets every second month to deliberate on an appropriate monetary policy stance to be implemented by the Bank in the subsequent two-month period. All decisions relating to monetary policy matters are taken by consensus. In seeking consensus, each member expresses his or her view regarding the appropriate policy stance, with motivation. Where consensus does not emerge, the Chairperson may exercise his/her casting vote. The view of each member is recorded along with the member's reason(s) for holding such a view. The monetary policy decision is communicated to the public through a media statement delivered at a media conference.

The Financial System Stability Committee assesses the vulnerability and risk exposure of the entire financial system. It is an inter-agency body set up between the Bank and the Namibia Financial Institutions Supervisory Authority (NAMFISA), with the MFPE as an observer. The Committee is made up of the Governor (Chairperson); the Deputy Governors; the CEO of NAMFISA (Deputy Chairperson), and a representative of the MFPE nominated by the Minister. In addition, the Bank nominates the Director: Banking Supervision and the Director: Financial Stability and Macroprudential Oversight to the committee. The CEO of NAMFISA nominates the two Deputy CEOs and the General Manager responsible for Research, Policy and Statistics, to the Committee. The Committee meets on a quarterly basis to assess the potential risks that apply to the financial system, and to discuss and recommend appropriate policy measures to address such risks.

The Macroprudential Oversight Committee supports the Governor in the execution of the Bank's macroprudential mandate. The MOC's mandate involves the assessment of risks and vulnerabilities in the financial system and the design of appropriate policy responses to mitigate their impact. It consists of the Governor as the Chairperson; the two Deputy Governors (with the Deputy Governor responsible for Financial Stability as the Deputy Chairperson); the Advisor(s) to the Governor; and the Directors of Financial Stability and Macroprudential Oversight, Research and Financial Sector Development, Payments and Settlement Systems, Banking Supervision, Financial Markets, and Strategic Communications and International Relations. The Committee meets at least twice a year or at any time during the year as the need arises to discuss key changes to systemic risk during the period and the overall state of the financial system.

Additionally, recommendations from the Financial System Stability Committee may be approved at these meetings. Macroprudential decision-making powers in Namibia are vested in the Governor of the Bank of Namibia, and the MOC provides the Governor with the necessary support.

The Management Committee is responsible for reviewing the Bank's policies on financial and other administrative matters. The Management Committee consists of the Governor (Chairperson); Deputy Governors; Advisor(s) to the Governor; all Directors; and the Head of Risk Management and Assurance. The Management Committee meets every second week.

The Investment Committee is responsible for reviewing the management of Namibia's foreign exchange reserves. While the Board approves the International Reserves Management Policy, the Investment Committee reviews the investment guidelines for final approval by the Governor. The Investment Committee is also expected to ensure that investments comply with the approved policy. The Investment Committee consists of the Governor (Chairperson); the Deputy Governors; Advisor(s) to the Governor; the Director: Financial Markets Department; the Director: Research and Financial Sector Development Department; the Director: Strategic Communications and International Relations Department; and the Director: Finance and Administration Department.

The Risk Management Committee assists the Audit Committee to ensure that the Bank implements an effective risk management policy. The Committee also supports the annual strategic focus areas that enhance the Bank's ability to achieve its Strategic Objectives and ensure that disclosure regarding risks is comprehensive, timely and relevant. The Committee consists of all members of the Management Committee and is chaired by the Deputy Governor responsible for administrative departments. Its meetings are held on a quarterly basis preceding the Audit Committee meetings.

The function of the Budget Committee is to oversee the budget deliberations of the Bank. The Budget Committee meets as part of the normal annual budget process of determining and providing for the Bank's income and expenditures (both operational and capital) to be incurred in the execution of its functions and responsibilities. Each department presents and defends anticipated annual budgetary allocations before the Budget Committee. The Budget Committee consists of the Governor (Chairperson); the Deputy Governors; and the Director and senior staff members of the Finance and Administration Department, which also provides administrative and support services. To ensure transparency, two employee representatives, one each from the Employee Liaison Forum and the employees' bargaining union, are permitted to attend (in a non-voting capacity) and participate in the budget deliberations.

The Tender Committee is responsible for ensuring sustainable, ethical, transparent, and cost-effective procurement of and tendering for the Bank's assets, goods and services. To achieve these objectives, the Tender Committee takes into consideration the following:

- quality of the product/service;
- cost/price;
- reliability of suppliers;
- delivery time and after-sales service support;
- support to small and medium-sized enterprises (SMEs).

The key objectives of the Digital Transformation Management Committee are to determine and align the Strategic Objectives of the Bank with cross-departmental matters of digital transformation, technology, projects, processes and overall efficiency within the bank. The Committee is comprised of the Governor (Chairperson); the Deputy Governors; Advisor(s) to the Governor; and all departmental heads. The Head: Risk Management and Assurance; the Deputy Director: Strategy, Projects and Transformation; and the Director: Information Technology are permanent attendees who serve in the capacity of Advisors to the Committee. The Digital Transformation Management Committee meets at least four times per calendar year.

REPORTING OBLIGATIONS

The Bank of Namibia Act requires the Bank to submit various reports to the Minister of Finance and Public Enterprises, including a copy of the Bank's Annual Report within three months of the end of each financial year. The Minister, in turn, is required to table the Annual Report in the National Assembly within 30 days of receiving it. The Report must contain the Bank's annual accounts, certified by external auditors, information about the Bank's operations and affairs, and information about the state of the economy. Apart from the Annual Report, the Bank is further required to submit a monthly balance sheet, which is published in the Government Gazette.

THE YEAR UNDER REVIEW

The Bank's strategic focus is channelled into four main pillars:

- Purpose Pillar;
- Stakeholder Engagement Pillar;
- Talent and Transformation Pillar; and
- Future-fit Organisational Efficiency and Effectiveness Pillar, with
- Digital Transformation serves as the Key Enabler.

The pillars consist of the high-level Strategic Objectives that the Bank aspires to achieve. These Strategic Objectives are directly connected to the Bank's functional priorities, its Mission, its Vision, and developments in the internal and external environments.

In order to ensure successful implementation of the Strategic Plan, the Strategic Objectives have been divided into strategic initiatives, with clear and measurable targets. In 2023, the Bank conducted biannual strategy reviews in May and November. These sessions involved cumulative reviews that evaluated the overall advancement towards completing the three-year strategic plan. By the end of 2023, the Bank had made noteworthy progress, completing 68% of the comprehensive three-year plan and meeting 93% of the specific goals set for 2023. The substantial progress made can be credited not just to the clear goals aligned with the Strategic Plan's objectives, but also to the explicit definition of strategic outcomes. This was evident in the unwavering commitment of each department to the Bank's strategy and its intended impact.

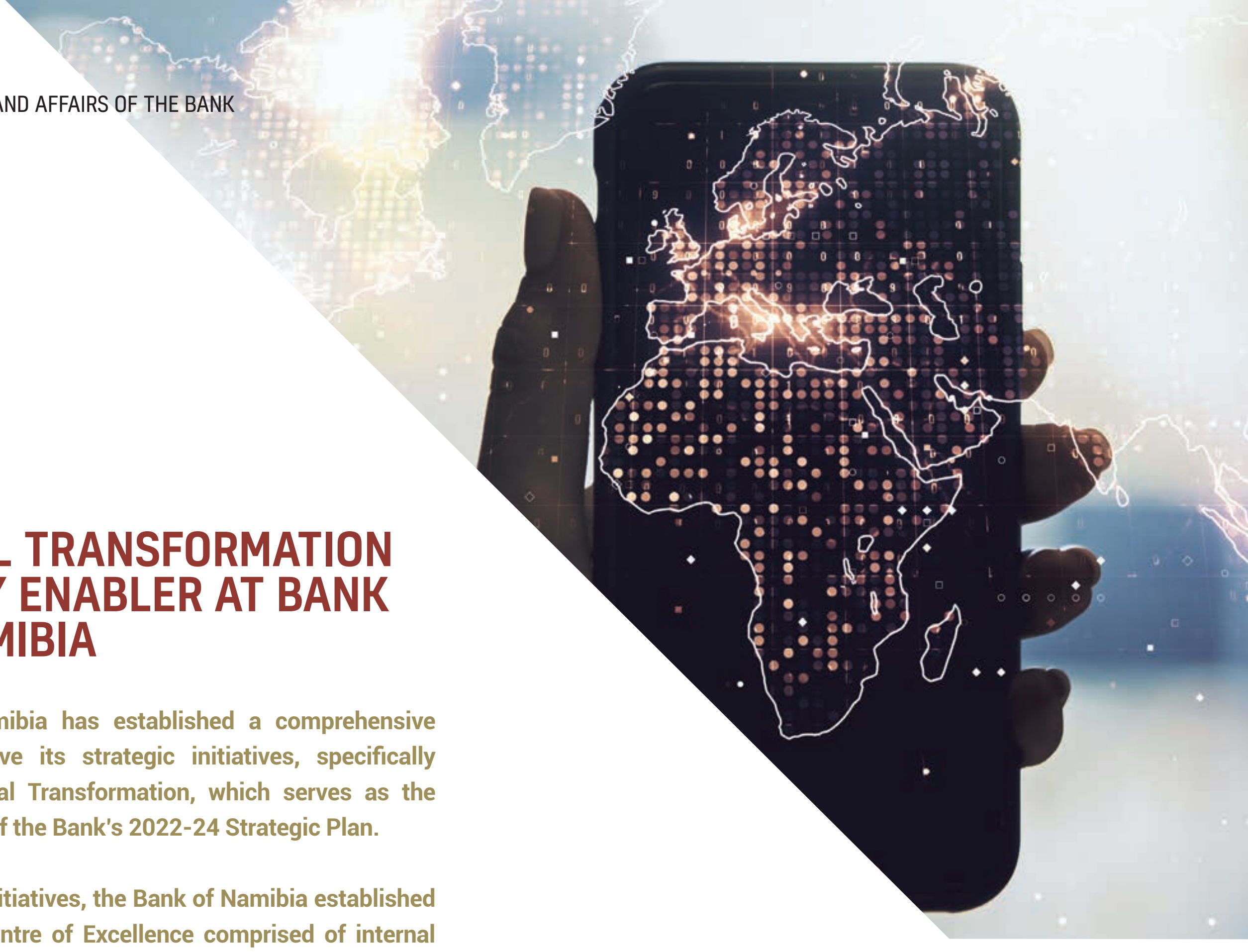
In this section, the High-Level Strategic Objectives are presented in a tabular format with performance measures expressed in terms of the completion rate percentage. These performance outcomes are complemented and further substantiated by a summary of key actual outcomes and achievements during the year. The more detailed discussions on specific Strategic Objectives initiatives follow in this Section.

93% average completion of all objectives

PURPOSE PILLAR

The Purpose Pillar of the Bank embodies the institution's Mission, highlighting its mandate and pivotal role in Namibian society. The Bank is dedicated to fulfilling its mandate effectively, emphasising the necessity of a clear understanding and vision in meeting obligations. Essentially, the Purpose Pillar aims to ensure monetary policy and financial stability, align the supervisory and regulatory environment with global practices, and promote long-term sustainable economic growth. This becomes especially crucial in the post-financial crisis era, anticipating heightened and more frequent regulatory interactions between the regulator and the regulated.

High-level Strategic Objectives	Number of initiatives	Completion % for 2023
Maintain a stable and inclusive financial system	50	92
Maintain price and monetary stability	5	100
Ensure the sufficiency of supply and the integrity of currency	6	88
Operate as fiscal advisor to and banker for the Namibian Government	3	100
Manage reserves prudently	18	86
Promote financial sector growth and economic development	9	91



DIGITAL TRANSFORMATION AS KEY ENABLER AT BANK OF NAMIBIA

The Bank of Namibia has established a comprehensive framework to drive its strategic initiatives, specifically focusing on Digital Transformation, which serves as the strategic enabler of the Bank's 2022-24 Strategic Plan.

As part of these initiatives, the Bank of Namibia established its Automation Centre of Excellence comprised of internal roles and skills to spearhead the institutions' digitisation and automation efforts across all facets of the Bank's operations. This involved the careful selection and redesign of processes, and automation, to manage costs and facilitate enhanced development and automation capabilities. Notably, this also included the elevation of the Bank's digital technology stack to include robotics and AI/ML capabilities, a key foundation for our digital transformation toolbox. Through its Automation Centre, the Bank has automated 20 of its processes including the collection of data from industry players for the monetary policy setting process, as well as the enhancement of the process for sanction screening by the Financial Intelligence Centre to name a few. These automation initiatives have reduced the Bank's costs of utilising external vendors and yielding savings of around N$ 4.2 million and saving the organisation time that would have been dedicated to these processes. As part of these digital transformation initiatives, the Bank of Namibia's Currency Management and Banking Operations Department (CMBO) which fulfils the vital role of serving as the banker of the Namibian Government, modernised Government Payments, and Payment Operations. The process was entirely manual, requiring officials from the Ministry of Finance to physically visit the central bank to process local and foreign payments. This process was entirely redesigned and automated with an online portal having been developed for payments to be uploaded and a robot to automatically process the transactions reducing the processing time per transaction from 30 to 2 minutes. Since going live in May 2023 and created resource capacity to focus on other high-value activities.

Additionally, during the month of February 2023, the Bank launched Namibia's first-ever Automated Regulatory Reporting System, which was availed to regulated and supervised entities licensed by the Bank to conduct banking, currency exchange, and payment service provision activities. Through the system, regulated institutions can submit applications with enhanced speed and accuracy while the Bank simultaneously tracks and monitors compliance with supervisory requirements and outstanding compliance obligations. This has allowed banking institutions to manage compliance with the relevant legislative frameworks and significantly reduced the burden and cost of regulatory compliance. This solution has also allowed for the consolidation of data on regulated entities into a single database and has yielded efficiencies and improved accuracy of submitted data due to in-built validation checks. The project was undertaken by the Bank's supervisory departments to transform and modernise Namibia's financial sector, in line with the Strategic Plan (2022-2024).

90% completion on positive reputation

85% completion on future fit capacity building

STAKEHOLDER ENGAGEMENT PILLAR

A primary focus for the Bank is engaging with the Government, the public, and key stakeholders across the economy to inform its purpose and establish trust within the communities it serves. Stakeholder engagement and communication are deemed to be crucial, especially for an institution endowed with authority, like the Bank. Through these efforts, the Bank shapes its public image, engages in dialogue with key stakeholders, and contributes to forming expectations that underpin effective and transparent interactions with the public, financial institutions, and other stakeholders. The Bank aims for comprehensive, consistent, and inclusive stakeholder engagement, covering various aspects such as monetary and macroprudential policy, financial regulation, and consumer education and protection. Recognising the importance of meaningful engagement, the senior leadership of the Bank are committed to building a positive reputation within the country, and beyond.

High-level Strategic Objectives	Number of initiatives	Completion % for 2023
Promote a positive reputation	3	90
Enhance stakeholder awareness and confidence	4	96
Maintain proactive public engagement	2	95

TALENT AND TRANSFORMATION PILLAR

In adapting to a rapidly changing environment, the Bank recognises that traditional organisational models are no longer adequate. To effectively achieve its objectives, the Bank emphasises the importance of allowing time and space, fostering a culture of innovation, and encouraging staff to explore new ideas and approaches outlined in the Strategic Plan. Aspiring to be an employer of choice, the Bank aims to provide a value proposition that inspires individuals and teams to realise their full potential in a work environment promoting collaboration, continuous learning, growth, teamwork, and innovation. The goal includes attracting and retaining talent aligned with the Strategic Objectives, cultivating a future-ready workforce attuned to stakeholder expectations, and fostering a culture of inspiring leadership, collaboration, trust, participation, and equal opportunities based on merit.

High-level Strategic Objectives	Number of initiatives	Completion % for 2023
Future-fit capacity building	7	85
Promoting potential through talent transformation	3	91
Being an employer of choice	2	98
Fostering visionary and collaborative leadership	4	100
Promoting a staff culture of integrity, agility, excellence and performance	1	100

FUTURE-FIT ORGANISATIONAL EFFICIENCY & EFFECTIVENESS PILLAR

The Bank recognises the potential of digital technology to elevate its organisational capability, efficiency, and effectiveness. A key focus will be on digitally transforming the workplace and leveraging technological innovations to enhance internal processes. The goal of this transformation is establishing a more agile and collaborative working environment, optimising IT platforms for efficiency, and bolstering the organisation's capacity to operate as a data-driven and evidence-based decision-making organisation. Additionally, the Bank will emphasise enhancing coordination with other institutions through technological partnerships, fostering the exchange of information, and promoting the adoption of best practices in the digital domain.

High-level Strategic Objectives	Number of initiatives	Completion % for 2023
Effective and proactive risk management	22	76
Deliver responsive and innovative solutions	31	80
Develop a sustainable and green organisation	3	98
Effective financial management	4	100
Enhance operational capability and value maximisation	10	100
Strengthen resilience through good governance and compliance	2	100
Adopt data-driven solutions and decision making	6	99

KEY ENABLER: DIGITAL TRANSFORMATION

The Bank plans to leverage digital transformation to enhance efficiency in its technology infrastructure and implement technologies that facilitate modern work practices, fostering increased collaboration among staff across departments. Central to this transformation is a shift in mindset and the cultivation of a culture conducive to and supportive of the new approach. The process will entail collaboration among people, processes, and systems, facilitated by newly integrated teams with a primary focus on advancing automation.

High-level Strategic Objectives	Number of initiatives	Completion % for 2023
Digitally transforming the Bank	31	89

PURPOSE PILLAR

STRATEGIC OBJECTIVE 1: MAINTAIN A STABLE AND INCLUSIVE FINANCIAL SYSTEM

> The Bank's powers enable it to mitigate the risks posed by the failure of a banking institution.

Financial stability assessment and surveillance

The Bank assesses risks and vulnerabilities that could threaten financial sector stability to determine the sector's resilience and ability to withstand internal and external shocks. These risks are assessed in the Financial Stability report, which is published in April each year and is followed by an internal review in September. Risks to financial stability in Namibia have been and will continue to be monitored accordingly under the advisory guidance of the Financial System Stability Committee and the direction of the Macroprudential Oversight Committee (MOC). All high-level strategic initiatives pertaining to the assessment of risks and vulnerabilities in the financial system were completed in 2023. Furthermore, the Bank has been given enhanced resolution powers under the Banking Institutions Act (No. 13 of 2023). The Bank's powers enable it to mitigate the risks posed by the failure of a banking institution.

Namibia's financial system remained stable given the current macroeconomic environment. During 2023, the domestic financial system remained stable, robust, and resilient, withstanding elevated risks and vulnerabilities emanating from the global and domestic economic and financial environments. Both the banking and non-banking financial sectors continued to perform adequately and remained resilient during 2023. Moreover, the banking sector remained liquid and well capitalised, while the non-banking financial industry reported funding and solvency positions above the prudential limits.

The Banking sector and non-banking financial institutions (NBFIs) continued to be profitable, liquid, and well capitalised. Both the capital adequacy and the liquidity position of the banking sector improved and remained above the statutory minimum requirements. Profitability increased during 2023, reaching pre-pandemic levels, as observed in both the return on assets and return on equity. Asset quality, as measured by the non-performing loans (NPLs) ratio, remained stable and below the crisis time supervisory intervention trigger point of 6.0 percent, at the end of 2023. The NBFI sector withstood the headwinds of the macroeconomic environment, characterized by slowing growth in the domestic economy; volatility in global financial markets; elevated inflation rates; and correspondingly, high interest rates. The demand for NBFI products was observed to remain sound in 2023, while investment assets performed positively. Overall, the banking sector and NBFIs reported sound developments with adequate containment of threats to financial system stability.

During the review period, the Bank continued to support the Namibia Deposit Guarantee Authority. The Namibia Deposit Guarantee Authority is mandated to manage the Deposit Guarantee Scheme, the purpose of which is to protect depositors in the event of bank failures. This is done by ensuring that deposits are reimbursed in an efficient, transparent, and speedy manner. The Scheme is considered a necessity in the financial sector as its existence provides confidence in the system and reduces the risk of a financial system crisis.

Payment system oversight

The Bank continued to fulfil its regulatory mandate as the overseer of the National Payment System (NPS) in 2023, in line with the Payment System Management Act (No. 14 of 2023). Payment systems are a crucial part of the financial infrastructure of a country. In Namibia, the regulatory mandate to oversee the NPS was accomplished through risk-based on-site and off-site oversight activities. The Bank conducted off-site activities by monitoring system participants through a combination of assessments based on information provided by the regulated institutions in the NPS. During the review period, the Bank conducted five risk-based inspections of various participants. The observations from the assessments have been shared with the respective participants to be addressed within the agreed timelines.

Following the introduction of the Payment System Management Act during the year under review, the Bank commenced with revising its regulatory framework to ensure the alignment of regulations (Determinations, Directives, etc.) with the new Act. The new Act empowers the Bank to be the sole regulator of the NPS, thus withdrawing the powers previously vested in the Payments Association of Namibia (PAN) to license and oversee payment service providers. In terms of the Act, PAN will continue to operate as an advisory and collaborative body for setting technical rules and standards for its members to participate in the NPS.

The Act established the collective term 'payment service providers' in reference to both banking institutions and non-bank financial institutions authorised and licensed to offer payments services, as listed in the Schedule of the Act. In line with this stipulation, the Bank revised the current Determination on Issuing of a Payment Instrument (PSD-1) to provide requirements for the licencing and authorisation of payment service providers in Namibia. The revised PSD-1, the Determination on the Licensing and Authorisation of Payment Service Providers in Namibia also includes specific requirements for the various payment service provider categories and repeals various instruments previously used to license and oversee payment service providers in the NPS. The revised PSD-1 was gazetted on 15 February 2024.

Furthermore, during the review period, the Bank undertook a comprehensive review of the Determination on Issuing Electronic Money in Namibia (PSD-3), set to be gazetted in the first quarter of 2024. Similarly, this revision intends to align PSD-3 with the Payment System Management Act (No.14 of 2023) and the National Payment System Vision and Strategy (2021–2025). The proposed revised PSD-3 aims, among other objectives, to provide a level playing field for e-money issuers to enhance financial inclusion, promote competition, accommodate interoperable wallets, encourage the development of innovative products and services, enhance the capabilities of wallets, and align with international best practises in the e-money ecosystem.

"The new Act empowers the Bank to be the sole regulator of the NPS, thus withdrawing the powers previously vested in the Payments Association of Namibia (PAN) to license and oversee payment service providers.

PAN established an Open Banking Forum during the period under review. Open Banking allows third-party and other financial service providers to access customer data at banking institutions to provide customers with other value-added financial services not offered by banking institutions. The Forum comprises representatives from various institutions, namely banking institutions, non-bank financial institutions, the PAN Stakeholder Forum, the Bank of Namibia, and NAMFISA (the Namibia Financial Institutions Supervisory Authority). The Forum enables the various stakeholders to discuss issues of mutual interest pertaining to the adoption of Open Banking and to facilitate consultations on the Bank's Open Banking Position Paper. The Bank intends to issue an Open Banking regulation in 2024 to operationalise the modernisation of the payment system, broaden service offerings, and improve customer convenience, amongst others.

During the period under review, the Bank issued the Guidelines on the Standardisation of Quick Response Codes in the National Payment System. The Guidelines provide the Bank's guidance on the standardisation of Quick Response (QR) codes in the NPS. QR codes are a type of barcode that can be read easily by a digital device, storing information as a series of pixels in a square-shaped grid. QR codes are based on detailed specifications and are commonly utilised to code information for tracking items in a supply chain. Due to the prevalence of smartphones with built-in QR readers, they are frequently employed in marketing and advertising campaigns. QR codes are increasingly being used to make point-of-sale payments. The guidelines specifically address key aspects of QR codes, including technical specifications, interoperability, security and privacy, accessibility and usability, adoption and promotion, and the approach to enforcing standardisation of QR Codes. The Guidelines became effective during the second semester of 2023.

In September 2023, the Bank underscored its commitment to ensuring financial stability by issuing its first payment system simulation research paper. Employing the Bank of Finland Payment and Settlement Systems Simulator, the paper, titled "Stress-Testing Liquidity Risk in the Namibia Interbank Settlement System (NISS)", investigated the impact of collateral deterioration (at severity levels of 30%, 50%, and 70%) on NISS participants' ability to meet payment obligations amidst stress conditions. The findings revealed that NISS participants consistently maintained ample liquidity during stress scenarios, enabling them to fulfil their payment obligations seamlessly throughout the simulated period.

As part of the Bank's ongoing public education initiatives, the Bank issued a payment system newsletter during the period under review. Titled "Understanding Cybersecurity and Banking Fees and Charges in the National Payment System", the newsletter aimed to raise awareness and educate the public on two key fronts. Firstly, it explained the significance of the Determination of Operational and Cybersecurity Standards within the NPS (PSD-12), which is designed to strengthen cybersecurity measures and enhance operational resilience in the NPS. Additionally, the newsletter shed light on fees associated with banking products, including the Basic Bank Account and electronic-money wallets. Through these informative efforts, the Bank strives to empower the public and enhance financial inclusion by fostering a better understanding of cybersecurity measures and the regulations that apply to fees and charges.

Settlement system

In 2023, the Bank provided interbank settlement services through the NISS to authorised institutions. The interbank transactions settled through the NISS comprise single-item time-critical transactions processed by the participants in the NISS, and retail payments such as electronic funds transfers (EFTs) and card transactions, that are cleared through Namclear. During 2023, the Bank conducted one announced NISS disaster recovery exercise during the first quarter of the year. The disaster recovery exercise was unsuccessful as the two-hour recovery time objective was not met due to IT-related issues. The Bank engaged in work to resolve these issues, which resulted in the success of the subsequent unannounced NISS disaster recovery exercise, conducted during the third quarter of 2023. Additionally, no business continuity management exercise was performed during 2023 due to IT infrastructure upgrades.

During 2023, the Bank recorded a slight increase in settlement volume and value. The aggregate settlement value recorded in the NISS during 2023 was N$1 205.8 billion, with a volume of 95 539 transactions, which translates to an average of 319 transactions per settlement day. The total value and volume settled through the NISS between 2022 and 2023 increased by 6.6 percent and 5.7 percent, respectively. Moreover, the share of single transactions settled in the NISS amounted to N$800.5 billion, which translates to 66.4 percent of the total value settled. The value of retail payment transactions cleared through Namclear was N$405.3 billion, which represents 33.6 percent of the aggregate value settled.

TABLE A.5

NISS TRANSACTION VALUES AND VOLUMES

Year	Number of settlement days	Values settled in N$ billion			Total number of settlement transactions
		Total value settled	Real-time transaction	Retail payment transactions	
2019	300	975.7	672.4	303.3	66 148
2020	301	983.8	687.8	296.0	70 150
2021	301	1 050.4	726.4	323.9	89 758
2022	302	1 131.0	766.3	364.7	90 434
2023	300	1 205.8	800.5	405.3	95 539

Clearing system

The Bank continued to oversee clearing operations in the NPS. During the review period, Namclear was the only payment service provider that provided clearing services within the NPS. It clears interbank EFT and card transactions, which are submitted to the NISS for settlement.

The value of EFT transactions processed by Namclear was significantly higher in 2023 than in 2022. EFT transactions processed increased to 27 million, valued at N$388 billion, which represents a 9 percent increase in volume and a 10 percent increase in value. The increase in EFT usage could be attributable to increased economic activity.

Card payment transactions continue to increase year-on-year. In 2023, Namclear processed 84 million card transactions with a total value of N$ 42.6 billion which represented a 13 percent and 10 percent increase in volume and value, respectively.

Intrabank and electronic money schemes

The value of EFT intrabank transactions decreased in 2023. The EFT intrabank transactions processed in 2023 amounted to 47 million, valued at N$834 billion, down from the N$922.7 billion reported in 2022. The decrease in EFT usage can be attributed to the use of electronic money (E-money), which is the payment stream most preferred by consumers.

Payment card intrabank transactions in 2023 increased over the transactions reported in 2022. Card transactions processed between merchants and customers of the same banking institution amounted to 766 million, valued at N$57 billion, which is a moderate decrease from the N$66 billion reported in 2022.

The use of E-money schemes, which are currently close-loop (i.e., only operating within the same banking institution's systems) continued to increase in 2023. The Bank observed a significant increase in the use of E-money as a payment instrument, which shows a shift in the payments behaviour of consumers of the domestic payment system. In 2023, the value and volume of E-money increased to N$49 billion and 96 million, respectively. This increase can be attributed to consumer behaviour changing as a result of ease of use and access, particularly to the wallets.

TABLE A.6

NAMCLEAR VALUES AND VOLUMES

Year	Cheque transactions		EFT transactions		Card transactions		E-money transactions		Value of total intrabank transactions
	Value (N$ million)	Volume ('000)	Value (N$ Million)	Volume ('000)	Value (N$ Million)	Volume ('000)	Value (N$ Million)	Volume ('000)	(N$ Million)
2019	0.496	42	260 597	17 834	22 937	42 901	24 760	43 446	1 012 368
2020	-	-	269 614	20 475	25 946	47 386	30 035	53 244	670 241
2021	-	-	307 671	23 093	31 733	59 433	31 464	61 305	724 745
2022	-	-	349 742	25 362	38 251	73 004	34 123	64 615	989 376
2023	-	-	387 021	26 811	42 629	83 958	48 865	96 268	890 808
Annual percent change									
2019	-90	-92	4	5	22	21	4	14	-45
2020	-100	-100	3	13	12	9	18	18	-51
2021	-	-	12	11	18	20	5	13	8
2022	-	-	12	9	17	19	8	5	27
2023	-	-	10	5	10	13	30	33	-11

Regional payment systems

The Bank remained a participant in the SADC Real-Time Gross Settlement (SADC-RTGS) system. The SADC-RTGS is a regional settlement system that processes time-critical or high value payments between participating SADC countries. At the end of the 2023 reporting period, there were 95 participants (i.e., registered banking institutions, as well as central banks within the respective SADC jurisdictions) of which five, including the central bank, were Namibian. During 2023, the total value of payments processed in the SADC-RTGS amounted to R2.2 trillion. Namibian banks accounted for R641 billion, which is 29 percent of the SADC-RTGS total. This reflects the optimal usage by Namibian banks of the SADC-RTGS in support of regional payments integration in accordance with the Finance and Investment Protocol.

The Bank continues to actively participate on regional platforms. Financial institutions within the Common Monetary Area (CMA) currently treat cross-border EFT transactions within the CMA as domestic transactions in South Africa. This created reporting and compliance challenges for central banks and financial intelligence units within the CMA. The Bank issued the Determination on the Conduct of Electronic Fund Transfers in the National Payment System (PSD-9), which aims to prohibit the processing of Namibian cross-border EFT transactions as domestic transactions in South Africa (and other CMA countries). To supplement PSD-9 and ensure a standardised approach to cross-border EFT transactions within the CMA, the CMA Cross-border Payments Oversight Committee through the domestic central banks provided guidance to domestic financial institutions that execute cross-border EFT transactions to discontinue executing these transfers through the existing interim arrangements by April 2024 for Namibian participants, and by September 2024 for the rest of the CMA countries. The directive will be issued during the first half of 2024.

The SADC-RTGS Operator collaborated with the SADC Bankers Association to support the adoption of ISO 20022 messaging standards for cross-border payments. To ensure timely adoption within the SADC region, an ISO 20022 Migration Project was launched. The Society for Worldwide Interbank Financial Telecommunications (SWIFT) has directed all financial institutions using the SWIFT messaging standards globally to migrate from the current MT (messaging text) standards to ISO 20022 messaging standards by November 2025. Engagements are underway at both regional and domestic levels to ensure compliance with SWIFT's deadline. At a regional level, the SADC-RTGS Operator and the SADC Bankers Association ISO 20022 Migration Project have proposed that the provisional implementation date for the SADC region be June 2024. The Bank will continue to ensure domestic compliance with international standards as part of its oversight efforts. Additionally, to support the ISO 20022 migration efforts, the Bank has issued a guidance note to ensure the timely migration to the new standards by participants within the Namibian jurisdiction.

Industry fraud statistics

The total value of fraudulent transactions perpetrated within the NPS has increased over the past five-year period. For the period under review, the total value of fraudulent transactions increased substantially compared to 2022. The industry recorded increases of N$18 million, N$17 million and N$11 million for the Card, EFT and E-money streams, respectively. Payment card fraud increased by 58 percent, EFT fraud increased by 14 percent, and E-money payments fraud by 12 percent. The increase in payment card fraud was primarily due to card-not-present payment incidents perpetrated via internet banking platforms and/or mobile applications, and an isolated incident of fraud due to weak controls at a participant, which has since been addressed. Card-not-present fraud is a common type of payment fraud that has been increasing over time.

This occurs when a customer uses their card at a non-secure merchant, where transactions are not authenticated with a one-time password (OTP), and therefore, no OTP confirmation is required from the customer. In most cases, the customers are refunded because they are not at fault, while they request a chargeback from the merchant. The EFT fraud was perpetrated primarily via phishing, whilst that in E-money payments resulted from incidents that were perpetrated via phone scams, especially the wallets. The total fraud perpetrated within the NPS remained within the fraud safety index indicator of 0.05 percent, as per the Bank's Strategic Goal, with a figure of 0.0033 percent being recorded.

Table A.7

INDUSTRY FRAUD STATISTICS (NPS)

Year	Card fraud	EFT fraud	Cheque fraud	E-money fraud	Total fraud
	Value	Value	Value	Value	Value
	(N$'000)	(N$'000)	(N$'000)	(N$'000)	(N$'000)
2019	3 126	5 648	320	320	9 414
2020	5 690	1 476	-	1 585	8 751
2021	6 753	2 907	-	3 618	13 278
2022	7 391	14 455	-	9 610	31 456
2023	17 720	14 420	-	14 930	47 070

STRATEGIC OBJECTIVE 2: MAINTAIN PRICE AND MONETARY STABILITY

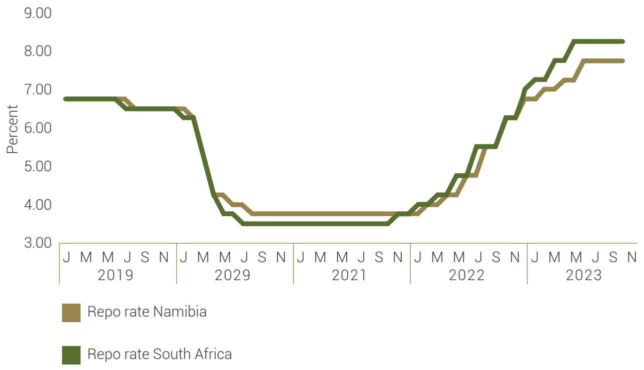
Monetary policy stance during 2023

The Bank's Monetary Policy Committee tightened its monetary policy stance during the first half of 2023 but kept the Repo rate unchanged during the second half of the year to safeguard the one-to-one link to the South African Rand, while providing support to the domestic economy to the extent possible. Domestic economic activity held firmly during 2023 mainly supported by sustained improvements in the mining, electricity generation, livestock agriculture, wholesale and retail trade, tourism, communication and transport sectors. Notwithstanding, Namibia's economic growth was projected to slow in 2023 and 2024 relative to 2022, attributed to headwinds especially in the primary industry. Some of the additional production via oil exploration was also slow to translate into domestic income growth, particularly for 2023. The annual growth in credit to the private sector remained subdued. However, inflation initially remained high, registering a peak for the year of 7.2 percent in both February and March 2023. As a result, the Bank gradually tightened its monetary policy stance by a cumulative 100 basis points during the first half of 2023. As inflation slowed to levels of 6 percent and below reflecting tighter monetary policies, lower international energy prices and the easing of supply chain disruptions, the MPC opted to keep the Repo rate steady at 7.75 percent during the latter half of the year primarily to safeguard the currency peg and support the domestic economy. In addition, the MPC meticulously considered the pros, cons and risks of maintaining a negative policy rate differential with the South African Reserve Bank (SARB). The Bank's monetary policy was consistent with that of most central banks, including the SARB, in response to developments in inflationary pressures. With inflation receding to target levels, most key economies paused their interest rate hiking cycles in the second half of 2023. The Bank was gratified under these conditions to observe Namibia's inflation rate slowing to an annual average of 5.9 percent in 2023, down from 6.1 percent in 2022, and reaching 5.3 percent by December 2023.

The monetary policy stance implemented in 2023 was successful in ensuring that foreign reserve levels remained sufficient to sustain the fixed exchange rate between the Namibian Dollar and South African Rand. Pursuant to containing inflation, preserving the exchange rate peg and providing a measure of support to the domestic economy, the Bank maintained a policy interest rate that was lower compared to that of the anchor country, South Africa, but within a range considered prudent (Figure A.1). The interest rate differential was largely in the interest of supporting the domestic economy. Despite arbitrage-driven capital outflows and record levels of liquidity among others, the Bank consistently ensured that the reserves remained sufficient to maintain the peg and meet the country's international financial obligations.

Figure A.1

NAMIBIAN VERSUS SOUTH AFRICAN REPO RATE



Source: Bank of Namibia and the South African Reserve Bank

To continue supporting the domestic economy, the Bank reinstituted stimulative economic relief measures, particularly the COVID-19 relief measures and the SME economic recovery scheme. The global recovery from the COVID-19 shock remained slow and uneven throughout 2022 to 2023 and Namibia was no exception as several forces - including the long-term consequences of the pandemic, the Russian-Ukraine conflict and increased geopolitical and geoeconomic fragmentation - held the recovery back. To support the domestic economic recovery, the Bank extended the COVID-19 relief measures for another year until 1st April 2024, retaining interventions such as a loan repayment moratorium, distressed restructuring, and the prohibition on adverse loan reclassification. Additionally, the Bank relaunched the SME economic recovery scheme in February 2023 to the tune of N$500 million, with relaxed participatory requirements. The scheme, designed to provide working capital and liquidity for cashflow management purposes, received a robust appetite throughout 2023, with N$359 million of the total scheme funds disbursed at the end of December 2023.

STRATEGIC OBJECTIVE 3: ENSURE SUFFICIENT SUPPLY AND INTEGRITY OF CURRENCY

Currency management

The mandate of the Bank as the sole producer and issuer of Namibian currency is derived from the Bank of Namibia Act (No. 1 of 2020). In this regard, the Bank ensured that the Nambian market was supplied with adequate banknotes and coins of high quality.

During the period under review, the Bank recorded a significant increase in the currency in circulation in comparison to the previous financial year. The value of currency in circulation increased from N$4.87 billion in 2022 to N$5.24 billion in 2023, the highest ever recorded in the history of the Bank.

The most notable increase from a demand perspective was noted on the N$20 banknotes, with a 21.6 percent increase, whereas the highest increase in respect of coins was noted in the 10 cent coin, with 5.5 percent. The increase in the 10 cent coin issuance is higher than the increase of 3.5 percent recorded in 2022, which was attributed to the discontinuance of the minting of the 5 cent coin. An overall increase of 2.9 percent was noted for coins and 7.9 percent for banknotes for 2023, compared to 2022.

Table A.8

COMPOSITION OF CURRENCY IN CIRCULATION

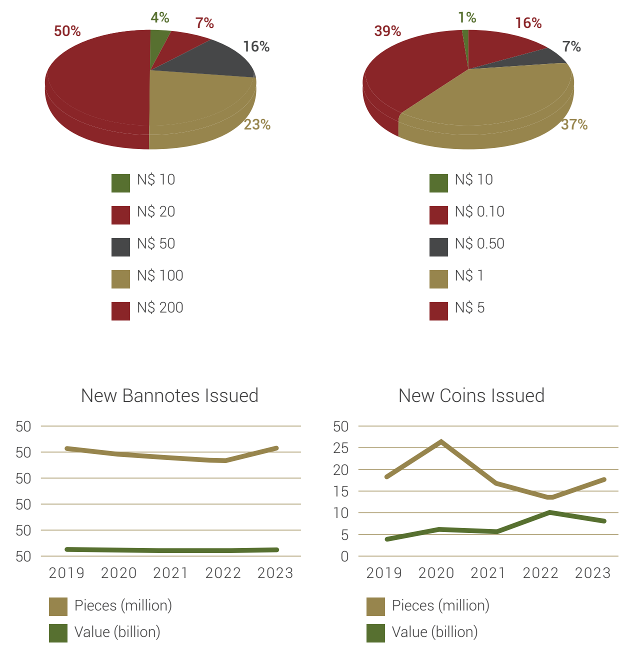
Denomination	2022		2023		Change in value percent
	Value (N$ million)	Volume (million)	Value (N$ million)	Volume (million)	
5c coin	14.5	290.0	14.5	290.7	0.0
10c coin	23.8	237.9	25.1	250.8	5.5
50c coin	17.0	34.0	17.5	35.1	2.9
N$1 coin	119.8	119.8	122.8	122.8	2.5
N$5 coin	75.9	15.2	79.0	15.8	4.1
N$10 coin	17.0	1.7	17.0	1.7	0.0
TOTAL COINS	268.0	698.6	275.9	716.8	2.9
N$10 notes	117.8	11.8	123.2	12.3	4.6
N$20 notes	149.3	7.5	181.5	9.1	21.6
N$30 notes	147.3	4.9	146.6	4.9	-0.5
N$50 notes	352.2	7.0	376.1	7.5	6.8
N$100 notes	846.1	8.5	947.3	9.5	11.9
N$200 notes	2 993.2	15.0	3193.2	16.0	6.7
TOTAL NOTES	4 605.9	54.7	4 967.9	59.3	7.9
GRAND TOTAL	4 873.9	753.2	5 243.8	776.0	7.6

The Bank continued to deliver on its mandate of high quality currency provision during the financial year under review. The N$20 banknote denomination replaced the N$10 banknote as the most issued note, whilst the N$100 banknote was in second place in 2023. The issuance on the N$10 banknote denomination remained fairly stable, however, with an increase of 4.6 percent, compared to the significant increase of 21.6 percent that was observed in the N$20 banknote. Further increases were noted in the N$50, N$100 and N$200 banknote denominations, with 6.8 percent, 11.9 percent and 6.7 percent, respectively, during 2023. The N$30 banknote was the only denomination that had a reduction in issuance, as outlined in Table A.8 above. Worth noting is that the N$30 banknote was a commemorative banknote and hence printed in limited quantities, which have been issued in full.

Overall issuance of new banknotes remained stable between 2022 and 2023 in terms of volume and value. Coins have been reduced by N$2.0 million in terms of value. In respect of total coin value, the N$5 coin accounted for 39 percent of the total issuance for 2023, followed by the N$1 coin, at 37 percent. At 50 percent, the N$200 banknote accounted for the highest proportion of new issuance value, whereas the lowest was the N$10 banknote, at 4 percent (Figure A.2 below).

Figure A.2

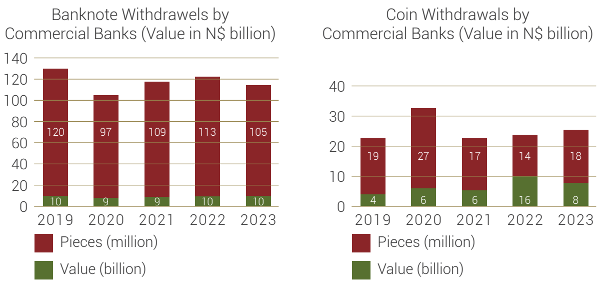
VALUE OF NEW BANKNOTES AND COINS



During the period under review, the Bank successfully fulfilled its primary mandate of issuing national currency in a balanced manner to the commercial banks. In 2023 banknotes to the value of N$10 billion were issued to commercial banks, this being consistent with the value of banknote issuance in 2022. The difference, however, is in the number of banknote pieces issued, with 105 million pieces withdrawn in 2023 compared to the 113 million pieces in 2022. Coin issuance in 2023 also increased by 4 million to 18 million in volume compared to the 14 million in 2022. The overall value of coin issuance in 2023 amounted to N$8 million, down from N$10 million in 2022. The total commercial banks' deposits recorded for the 2023 financial year amounted to N$9.1 billion, whereas in 2022, total deposits stood at N$9.5 billion.

Figure A.3

BANKNOTE AND COIN WITHDRAWALS BY COMMERCIAL BANKS



The Bank is furthermore responsible for the withdrawal of unfit currency from circulation. Banknotes to the value of N$2.4 billion were withdrawn during the year under review in comparison to the N$2.3 billion withdrawn in 2022.

To give effect to its constitutional mandate, the Bank issued modified N$20 and N$200 banknotes on 20 February and 21 February 2023, launching in Opuwo and Outapi, respectively. The printing and issuance of the aforementioned banknotes were in full compliance with the Bank of Namibia Act (No. 1 of 2020) and the Currency Procurement Policy. The modified banknotes featured the current Governor's signature as a key level 1 security feature; however, all other security features remain the same. The decision to launch the modified N$20 and N$200 banknotes in Opuwo and Outapi was premised on the Bank's agenda to drive financial inclusion in Namibia and most especially in the rural areas.

The launch of the N$20 banknote in Opuwo by Governor Johannes !Gawaxab and Hon. Marius Sheya, the Governor of Kunene Region

The launch of the N$200 banknote in Outapi by Governor Johannes !Gawaxab, Hon. Erginus Endjala, the Governor of Omusati Region, and Ms. Sencia Kaizemi-Rukata, the Director: Currency Management and Banking Operations

Research remained a strategic focal area for the Bank in shaping its decisions relating to currency. During the period under review, the Bank undertook a comprehensive study on the circulating currency. International best practices dictate that a central bank should undertake a review of its currency every six to eight years. The currently circulating Namibia dollar banknotes entered circulation on 15 May 2012, and so have been in circulation for more than ten years. It is also worth noting that the current Namibian coinage was issued in 1993, and has therefore been in circulation for close to 30 years.

The study revealed the need for the Bank to undertake a minor upgrade of the current banknote series and a comprehensive review of the entire Namibian coinage range. In an environment of constantly improving technology, it is vital that the Namibia dollar maintains superior security features and low levels of counterfeiting in order not to lag in terms of its regional and global ranking. This process will be executed in accordance with the provisions of the Bank of Namibia Act during the ensuing financial year.

As part of its service delivery to the commercial banks, the Bank embarked upon the development of an Integrated Cash Management System in 2023. The aim is to enhance the currency management services offered to the commercial banks and enable electronic prenotification of withdrawals and deposits. It will further ensure a clear audit trail of the end-to-end currency operational process and increase overall efficiency by reducing and ultimately eliminating the manual intervention required in the existing process. The current process is prone to errors, and the proposed enhancements will mitigate such risks, thus ensuring a more efficient process. The platform's development is set to be completed and implemented in the third quarter of 2024.

The unwavering dedication of the Bank to the execution of one of its core activities, namely the provision of high quality banknotes and coins to the Namibian market, was once again proven by the recent upgrade of the vault facility at the Oshakati branch. The improvements effected at the Oshakati branch have increased the vault storage capacity by 70 percent. This has enhanced overall efficiency in the execution of the Bank's core mandate of currency provision in the northern regions of Namibia. The enhanced storage capacity allows for the introduction of automated features, which is a key enabler for improved service delivery.

The Bank continued to exercise strict control in the prevention and monitoring of counterfeits, resulting in a substantive reduction in counterfeit banknotes during the current financial year. A total of 84 counterfeit banknotes were detected in 2023, compared to 206 in 2022, thus translating to a decrease of 59 percent. Counterfeits remain of poor quality and below the Bank's threshold of 10 pieces per million in circulation and the industry standard of 70 pieces per million in circulation. The Bank has noted a steady decline in the volume of counterfeited banknote pieces over the past five years, with 2023 being the lowest at 84 pieces. The N$200 banknote remained the most counterfeited banknote followed by the N$100 and N$50 denominations.

Figure A.4

TOTAL COUNTERFEIT NAMIBIA DOLLAR BANKNOTE PIECES

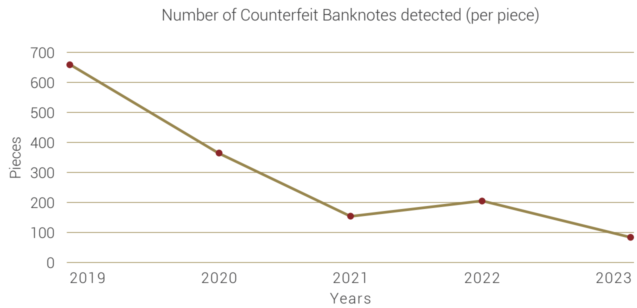


Table A.9

COUNTERFEIT NAMIBIA DOLLAR BANKNOTES

Denomination	Number of counterfeit banknotes detected per denomination					Counterfeits per single denomination per million notes in 2022	Counterfeits per single denomination per million notes in 2023
	2019	2020	2021	2022	2023		
N$10	2	23	1	1	2	0	0
N$20	42	29	6	7	8	1	1
N$30	0	0	0	0	0	0	0
N$50	189	59	37	28	13	4	1
N$100	180	54	33	54	26	7	3
N$200	247	199	78	115	35	9	4
TOTAL Counterfeits per million notes for all denominations	660	364	155	206	84	3.97	1.43

STRATEGIC OBJECTIVE 4: OPERATE AS FISCAL ADVISOR TO AND BANKER FOR THE NAMIBIAN GOVERNMENT

The Bank's drive towards digitisation and automation culminated in the successful implementation and operationalisation of Phase One of the Government Payment Portal. The portal enables the capturing of foreign payments between the MFPE and the Bank, resulting in a paperless, efficient and transparent process. The Government Payment Portal was implemented in quarter one of 2023 and has greatly improved efficiency for both institutions. In the past, the process entailed the physical exchange of payment instructions between the two institutions, which was time consuming, manual and prone to human error, and thus risky. The new process eliminates these risks and also allows for efficiency gains and savings in terms of operational costs. The Bank has since embarked on the development of Phase 2, which entails the domestic high-value payment instructions; the implementation of Phase 2 is set for the first quarter of 2024. In addition, the Bank will explore the extension of the Payment Portal to the line ministries, which will bring about additional development. This is set to commence in the second quarter of 2024, with implementation planned for quarter four.

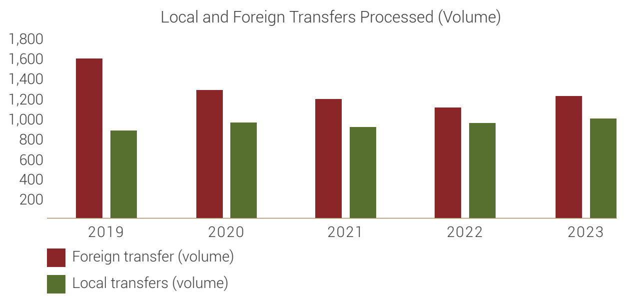
The management of Government accounts remained a key responsibility for the Bank and included the collection and processing of ministerial cash deposits into the respective accounts. In its pursuit of automation of its key business processes, the Bank has identified the public teller function as an area that will greatly benefit from such automation. The Bank has finalised a feasibility study and is set to commence with development of the solution to this effect.

Provision of banking services

As the provider of banking services to the Government of Namibia, the Bank is responsible for executing all Government domestic and foreign payments. A slight increase in terms of volume has been observed in the foreign payment stream, from 1 114 payments in 2022 to 1 228 in 2023, an increase of 10.2 percent. Domestic payments further recorded a rise of 5.6 percent during the period under review, from 949 in 2022 to 1 002 in 2023.

Figure A.5

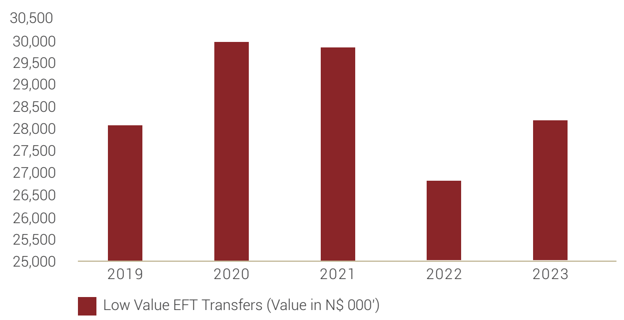
LOCAL HIGH-VALUE AND FOREIGN GOVERNMENT PAYMENTS



Payments below N$5 million are classified as low-value payments and are processed through the Bank's EFT system. The collective value of the low-value payments increased slightly, by 5.1 percent, from N$26.8 million in 2022 to N$28.2 million in 2023.

Figure A.6

LOW VALUE EFT TRANSFERS



Issuance of Government debt

In fulfilling its role as fiscal agent to the Government, the Bank continues to facilitate the issuance and management of Government debt securities. This role is primarily intended to assist the Government in financing the national budget effectively. The issuance of Government debt instruments is especially vital for capital markets development, given the limited offering of debt securities in the local market. For this reason, the Bank of Namibia held several auctions for both short-term discount instruments and bonds, in line with the FY2023/24 borrowing plan. The Bank also held various switch auctions for government bonds. Switches afford investors an opportunity to extend duration and maintain bond exposure by switching bonds that are close to maturity into longer-dated instruments, which also reduces the rollover risk for the issuer. Finally, during the period under review, the Bank facilitated Government bond redemptions, including a JSE-listed bond (NAM03) with a maturity amount of ZAR157.0 million, as well as the GC23, a local bond that had a balance of N$2.0 billion.

STRATEGIC OBJECTIVE 5: MANAGE RESERVES PRUDENTLY

As stipulated in Section 61 of the Bank of Namibia Act, the Bank is mandated to accumulate and prudently manage Namibia's foreign exchange reserves. The foreign exchange reserves are held primarily to back the Namibian currency in circulation, which is required to maintain the peg to the ZAR and to ensure that the country meets its international financial obligations. Reserve assets are also held for other reasons, such as maintaining confidence in the country's monetary and exchange rate policies and ensuring resilience to external shocks.

The Bank needs to ensure that the core objectives of capital preservation and liquidity management are met in order to hold sufficient foreign reserves. Subject to meeting these two objectives, excess reserves should be managed to maximise risk-adjusted returns, minimise the cost of holding reserves, and thereby maintain the purchasing value of long-term reserves in real terms. These objectives are achieved through exposure to a range of eligible foreign assets set within limits which are informed by the Bank's annual strategic asset allocation exercise.

Increased foreign reserve position:

2022		2023
8.4%	↑	**11.9%**

Over the course of the 2023 calendar year, the level of foreign exchange reserves increased by a larger margin than in 2022, mainly on account of higher inflows. The foreign reserve position increased by 11.9 percent from N$47.558 billion at the end of 2022 to N$53.229 billion at the end of 2023, compared to the 8.4 percent increase that was reported over the previous year. On balance, the main factors affecting the change in the reserve level over the review year include a rise in the allocation from the Southern African Customs Union (SACU) pool to N$21.808 billion (2022: N$14.330 billion), and a total inflow of N$6.8 billion and N$1.443 billion from the Namibian Breweries Limited/Heineken deal and KfW loan proceeds, respectively. Strong diamond sale proceeds (N$22.891 billion in 2023 vs N$19.351 billion in 2022) and net Customer Foreign Currency placements (N$3.832 billion vs N$1.128 billion) further significantly sustained the foreign reserve position. On the outflow side, net commercial bank flows were recorded (N$16.609 billion vs N$10.588 billion), while foreign payments made on behalf of the Government amounted to N$6.207 billion (2022: N$5.903 billion) further significantly sustained the foreign reserve position. On the outflow side, net commercial bank flows were recorded (N$16.609 billion vs N$10.588 billion), while foreign payments made on behalf of the Government amounted to N$6.207 billion (2022: N$5.903 billion).

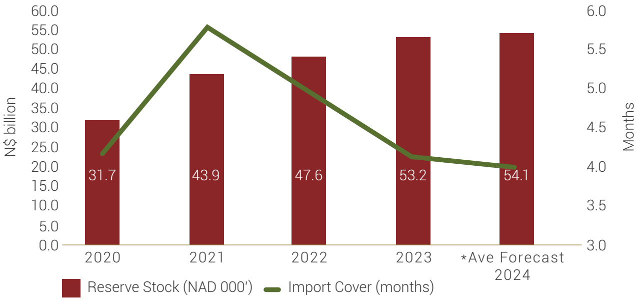
The weakening of the local currency favourably affected the valuation position of the Bank's foreign portfolios when reported in NAD terms. The ZAR, to which the NAD is pegged, faced considerable headwinds in 2023, largely stemming from factors such as China's growth performance, the US Dollar strength, and electricity supply and logistical challenges hampering South African exports. These factors have resulted in the local currency depreciating by more than 9 percent over the review period.

Despite the pressure exerted by the abovementioned factors bringing about a volatile year, the reserve position remains adequate as measured in terms of (1) import coverage; (2) currency in circulation plus a buffer of three times monthly commercial bank outflows; and (3) the currency plus buffer denoted in (2) plus 12-month external debt, as required by Section 62 of the Bank of Namibia Act. The aforesaid adequacy measures were well above their respective thresholds during the review period, with a coverage of 3.8 months' worth of imports and ratios of 6.3 and 4.8 for metrics (2) and (3), respectively. At these levels, the measures are considered adequate to support the peg to the ZAR. Furthermore, all the internally and externally managed sub-portfolios met their respective objectives over the review year, inline with the Bank's Investment Policy and Guidelines.

Figure A.7

OFFICIAL FOREIGN EXCHANGE RESERVE STOCK

The stock of international reserves increased by 11.9 percent over 2023, and remains well above the international benchmark import coverage ratio of 3 months.

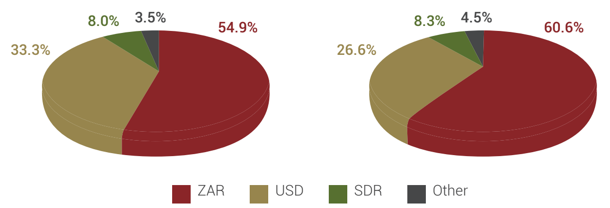


The ZAR and US Dollar (USD) currencies continued to constitute the biggest share of the Bank's overall foreign exchange reserves, as at 31 December 2023 accounting for 54.9 percent and 33.3 percent, respectively. The remaining portion of 11.7 percent was made up of the IMF Special Drawing Rights allocation (8.0 percent) and other currencies of the basket, namely the Euro, British Pound Sterling, Japanese Yen and the Chinese Yuan/ Renminbi (see Figure A.8).

Figure A.8

CURRENCY MIX OF FOREIGN EXCHANGE RESERVES AS AT 31 DECEMBER 2023

The largest currency allocation of the overall reserves was apportioned among the ZAR and USD currencies, with the USD currency allocation increasing over the course of 2023.



Administration of exchange controls

Pursuant to its mandate as the agent for exchange control administration as provided for in the Bank of Namibia Act (No.1 of 2020) and the Currency and Exchanges Act (No. 9 of 1933) and its complementing Regulations (1961), the Bank continued to fulfil this function to support a stable foreign exchange market in the country, in line with its Foreign Reserves Management Policy. For the period under review, the Bank made significant strides in accordance with its mandate based on a high-priority focused strategy to accomplish planned Key Performance Indicators for 2023, comprising the following key activities:

- conducting risk-based supervision and a compliance enforcement strategy resulting in a satisfactory overall market rating;
- implementation the Trade Verification System (TVS) platform to enhance ease of doing business in the country and improve compliance;
- ensuring that the country's exchange controls remain aligned with the CMA as required by the Multilateral Monetary Agreement;
- adopting of the Exchange Control Liberalisation Index for fostering enhanced monitoring and eventual convergence of capital controls in the SADC region as contemplated in Annex 4 of the SADC Finance and Investment Protocol; and
- undertaking robust risk mitigation efforts to combat illicit financial flows (IFFs).

Off-site monitoring

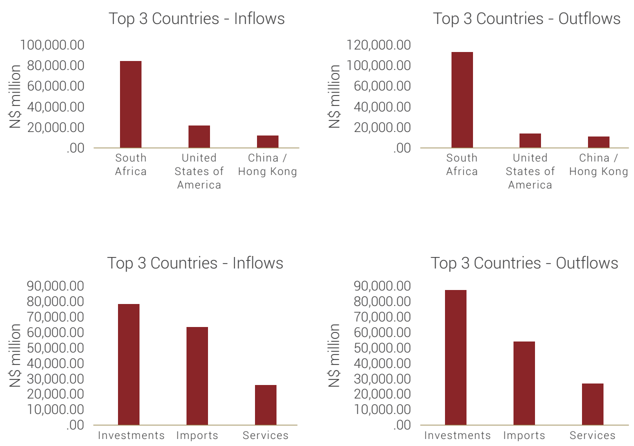
Cross-border transactions (flows of funds) are reported to the Bank via the Cross-Border Reporting System by the Authorised Dealers (ADs) and Authorised Dealers with Limited Authority (ADLAs) within two business days from the value date of the transactions. During 2023, the country experienced substantial investment inflows by non-residents, as well as huge investment outflows by both residents and non-residents which mitigated the impact on the foreign currency reserves.

With regards to services, resident entities rendered services to foreign entities abroad at almost the same rate of services rendered by foreign entities to local entities. With regards to trade transactions i.e. imports and exports, resident entities' export proceeds were higher than import payments.

The three countries Namibia transacted with most during 2023 were South Africa, the United States of America, and China/Hong Kong. The United States of America was the top country Namibia transacted with in terms of investment and services transactions. South Africa and China/Hong Kong were the top countries Namibia transacted with in terms of mainly export and import transactions.

Figure A.9

Top Three Countries and Categories Of Actual Cross-border Inflows and Outflows



South Africa and China/Hong Kong were the top countries Namibia transacted with in terms of mainly export and import transactions.

On-site compliance inspection

The Bank continued to shape the compliance environment of the regulated populace consisting of seven Authorised Dealers (ADs) and four Authorised Dealers with Limited Authority (ADLAs) through on-site and offsite inspections and regular industry meetings. For the period under review, two on-site inspections and continuous offsite monitoring, together with data analysis on the Balance of Payment Reporting System to assess the industry compliance with the Exchange Control Regulations and the reporting requirements, were conducted. The Bank noted an acceptable level of compliance with the Exchange Control Regulations whilst also noting the risk of IFFs and the incorrect categorisation of transactions.

Mitigating the risks of illicit financial flows During 2023, efforts to stem IFFs in Namibia continued. Through the facilitation of the Bank, the Inter-agency Technical Working Group on IFFs established a temporary National IFFs Project Office that now bears the responsibility for administering and executing the project tasks under the Sustainable Development Goal indicator 16.4.1 ("Total value of inward and outward illicit financial flows (in current United States dollars)") and monitoring the implementation of the National Action Plan Recommendations to Tackle IFFs, once it has been approved by Cabinet.

The National Project Office was resourced with a staff member during the period under review. Following the successful completion of the pilot project for measuring IFFs on the continent, Namibia has also been selected to participate in further projects by the United Nations agencies with the aim being to continue measurement work on IFFs and formulate policy recommendations that will strengthen institutional capacity in identifying, measuring, and curtailing IFFs. Ultimately, all these efforts are aimed at recovering lost funds. The Inter-agency Technical Working Group will formally disseminate statistics on IFFs from the pilot project in the next financial year, and developments are underway to ensure continuous reporting of IFFs. The project on IFFs also assists in identifying risk drivers and the introduction of controls that strengthen the compliance environment.

The launch of the TVS by the Bank and the Namibia Revenue Agency (NamRA) is further aimed at strengthening the identification and measurement of IFFs, and enhancing reporting quality. The implementation of the TVS was one of the strategies to reduce IFFs that is used as a monitoring capability to reconcile the cross-border transfer of money to the movement of goods into the country. The TVS also serves as an Electronic Export Monitoring system to improve efficiency in the repatriation of export proceeds, and for the detection of misclassification of export proceeds.

Administration of the Virtual Assets Act

The Virtual Assets Act (No. 10 of 2023) was passed on 25 July 2023 to license and regulate virtual asset service providers and initial token-offering service providers. Complementing Rules in the following categories were published in the Government Gazette on 1 September 2023 to operationalise the Act:

- General Notice Virtual Assets
- Advertising Rules
- Capital and Financial Requirements Notice
- Risk Management Rules
- Cyber Security Rules
- Statutory Returns
- Travel Rules
- Notice on Fitness and Propriety
- Rules on Disclosure
- Custody of Client Assets

Following the promulgation of the legal framework, the Bank was designated as the Prudential Regulator by the Minister of Finance and Public Enterprises. As part of the operationalising of the Virtual Assets Act, the Bank has received three applications which are being assessed in line with the relevant provisions of the Act and complementary Rules. The public is therefore cautioned to ensure they only trade through the licensed Virtual Assets Service Providers as published on the Bank of Namibia Website. The public is urged to report illegal trading conducted by virtual asset businesses. Furthermore, to enhance the work around virtual currencies, the Bank has acquired monitoring and supervision tools which will be used to uncover virtual currency-related transaction risk, to detect fraud, and to investigate financial crime.

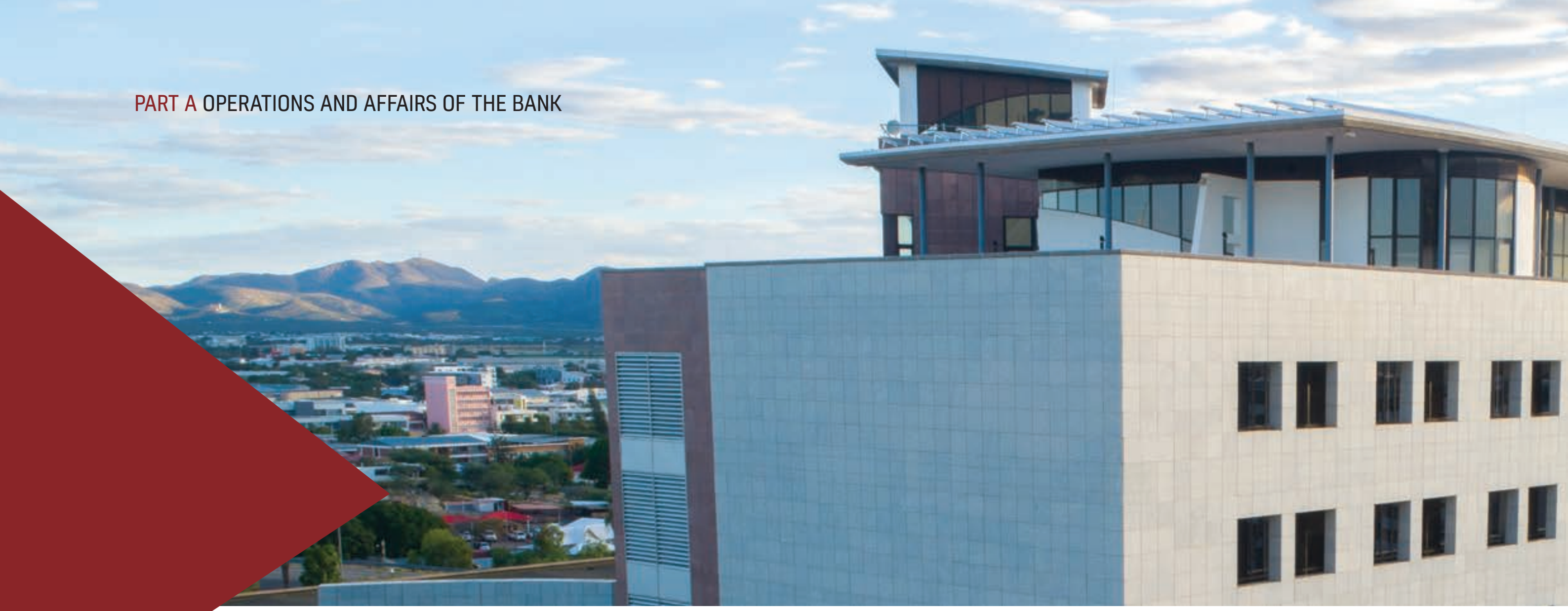
Investigations

In collaboration with other law enforcement agencies, the Bank has stepped up its efforts to enforce compliance with the Currency and Exchanges Act and the complementing Regulations. For the period under review, the Bank and Treasury forfeited the foreign currency equivalent of N$31.7 million to the National State Revenue account. The cases in question involved illegal dealings and the transfer of funds in contravention of Regulations 2 and 3 (5) of the Exchange Control Regulations, 1961, as amended.

STRATEGIC OBJECTIVE 6: PROMOTE FINANCIAL SECTOR GROWTH AND ECONOMIC DEVELOPMENT

Policy research and advice

As part of its statutory mandate, the Bank is required to provide policy advice to the Government. In this regard, the Bank conducts economic and financial research, as well as other research of strategic importance. The main aim of the research undertaken by the Bank is to inform policy direction and actions. The following is a summary of research activities carried out in 2023.



The Bank continued to provide the MFPE with technical advice on public debt sustainability, in line with its mandate. Debt sustainability analysis is an important facet of debt management and an avenue through which risks and vulnerabilities associated with the country's debt trajectory can be identified and mitigated. The Bank prepared three debt sustainability analysis reports and submitted these to the MFPE during 2023. After a careful analysis of Namibia's macroeconomic and fiscal indicators, the debt sustainability analysis established that Namibia's public debt is projected to remain elevated, with a slight moderation expected in the last year of the Medium-Term Expenditure Framework (MTEF) period (2023– 2026).

This is on the back of improved revenue and nominal gross domestic product (GDP) prospects. In light of this, the debt sustainability analysis recognised a need for a more systematic execution of medium-term policies, which should result in the alignment of fiscal policy towards debt stabilisation. To this effect, the MFPE and NamRA were encouraged to continue intensifying efforts to improve efficiency in revenue collection, including simplifying tax codes, reducing tax evasion, and where appropriate, increasing progressivity in the tax system to increase revenue collection in the country. The reports further pointed to the need for the Government to improve the collection, monitoring and reporting of accurate public debt data to help reduce risks of debt distress, amongst others. Additionally, the report highlighted the importance of speedy execution and a moderate rise in the Development Budget to support economic growth, while continuing to create a favourable and enabling environment that promotes private sector-led growth.

The Bank further conducted research on the impact of high public debt on investment in Namibia. This was necessitated by concerns regarding Namibia's fast-increasing public debt and the uneven level of total investment in the country. The study found evidence of the existence of the crowding-out effect in Namibia, in both the short- and the long-run, which implies that an increase in the public debt-to-GDP ratio may negatively impact investment. Real GDP was found to have a positive impact on investment, in both the short- and the long-run, which is in line with basic principles of growth theory that suggest that economic growth propels more investment through increased demand. To remedy the negative impact of public debt on investment and ultimately on economic growth, the study recommends the curtailment of excessive public borrowing and the reduction of the stock of public debt by reducing unplanned current expenditures, improving the revenue base, and enhancing revenue collection efficiency. Furthermore, the Government should continue with efforts aimed at improving the investment climate for domestic and foreign capital in order to enhance competitiveness. It is also recommended that the Government's efforts should be geared towards targeted investments that are growth-enhancing and employment-creating in nature; entering into well-structured public-private partnership initiatives with high economic return; and ensuring that new borrowing is prudently utilised for productive investments.

The Bank also conducted a study that assessed the vulnerability of the fiscal variables to external shocks in Namibia and determined which shocks have the most pronounced impact on the fiscal variables. The study found evidence that Namibia's fiscal variables are indeed vulnerable to external shocks. The results also demonstrate that expenditure responds positively to external revenue variables and that public debt is more responsive to shocks on SACU revenue and exports earnings whose impacts are largely negative and long-lived. Furthermore, the results illustrate that debt responds positively to shocks on variables that increase expenditure, such as the depreciation of the Namibian dollar (against the USD) and increases in oil prices.

Real GDP was found to have a positive impact on investment, in both the short- and the long-run, which is in line with basic principles of growth theory that suggest that economic growth propels more investment through increased demand.

To mitigate the adverse impact of external shocks on Namibia's fiscal stance, the paper calls for intensified efforts to widen the revenue base and avoid an overdependence of government revenue on the resource sector. This includes the mobilisation of more resources to support growth-enhancing capital projects and enhance diversification in the economy in order to cushion the fiscal sector against external vulnerabilities.

Financial Sector Development

During the year under review, the Bank coordinated the development of the new Namibia Financial Sector Transformation Strategy (NFSTS) for 2024–2034. The NFSTS replaced the Namibia Financial Sector Strategy (NFSS) which was implemented during the period 2011–2021. The implementation of the NFSS resulted in, amongst others, the establishment of the Namibia Deposit Guarantee Agency and the implementation the SME Financing Strategy. The NFSTS aims to build on the achievements of the NFSS and entails the following new pillars: financial sector development for growth and sustainability; digital transformation; and the regulatory environment. The financial sector development for growth and transformation pillar will focus on broadening and deepening the financial sector, enhancing sustainable financing initiatives, and modernising the financial infrastructure. The digital transformation pillar will deal with digitising financial services, their regulation and supervision, and addressing the issue of digital identity and the Electronic Know Your Customer (eKYC) process. Aspects regarding the institutional framework for regulation, supervision, and consumer protection, as well as the financial regulatory architecture, will be addressed under the pillar on the regulatory environment.

The strategic goal of skills development from the previous strategy, which was partially achieved, was repackaged to align with the evolving skills needs of the workforce. Similarly, given slow progress in financial sector localisation beyond senior management and board membership, this pillar has been reintroduced in the NFSTS.

The Bank further continued to provide technical assistance for ongoing projects under the NFSS 2011–2021. In this regard, assistance was provided to improve key elements of the SME Financing Strategy housed at the Development Bank of Namibia and the Namibia Special Risks Insurance Association (NASRIA), namely the Venture Capital Fund, the Mentoring and Coaching Scheme, and the Credit Guarantee Scheme. The pilot implementation of the skills development programme for the financial sector, aimed at narrowing skills gaps, will be concluded in 2024. Once the pilot programme has been fully implemented, the actual programme will commence in the latter part of 2024.

BOX ARTICLE

Policy Issues Emanating From the Bank of Namibia's 24th Annual Symposium on Transformation of the Rural Economy in Namibia

INTRODUCTION AND BACKGROUND

The Bank of Namibia held its 24th Annual Symposium on the 5th October 2023 at Mercure Hotel, Windhoek, under the theme "Transformation of the Rural Economy in Namibia". The theme focused discussion on what the country can do to increase economic activity in the rural regions to improve the economic wellbeing of those living there (thereby reducing rural-urban migration), how far Namibia has come in rural economic development since independence, and what challenges are faced by rural inhabitants. Ways of improving skills development, job creation and income-generating activities were explored. Furthermore, the participants investigated ways of realigning institutions for better coordination of activities in rural areas and proposed strategies that would be informed by international experience.

The gap between the quality of living conditions in rural and urban areas is gradually increasing. Rural areas in Namibia are underdeveloped and have elevated poverty rates compared to urban areas. As it stands, at 25.1 percent, the rural poverty rate is almost triple the urban rate of 8.6 percent (Namibia Statistics Agency (NSA), 2018). In addition, rural areas in Namibia had an electrification rate of only 21 percent in 2021, compared to 73 percent in urban areas. Equally concerning is the youth unemployment rate, which in rural areas stood at 49.1 percent of the population in 2018, compared to 46.1 percent in urban areas.

While the Namibian population has continued to expand since 1990, as a result of increased urbanisation, the rural proportion of that population has decreased significantly. Rural-urban migration of the working age population has increased over the last 10 years, notably by 180 percent between 2013 and 2014, and by 80 percent between 2014 and 2018 (The Namibian Labour Force Survey 2018 Report). Rural-urban migration is the root cause of some socioeconomic challenges, such as the housing backlog, which was estimated at around 300 000 units countrywide in 2020. The urban proportion of the total Namibian population has almost doubled, from 28 percent at independence in 1990 to 55 percent in 2019, principally driven by the disparity in development and economic activity between urban and rural areas and the consequent polarisation of economic opportunities in favour of urban areas.

Rural development and transformation principally revolve around improving the economic well-being and standard of living of people living in rural areas. This transformation can be defined as "a process of comprehensive societal change whereby rural societies diversify their economies and reduce their reliance on agriculture; become dependent on distant places to trade and to acquire goods, services, and ideas; move from dispersed villages to towns and small and medium cities; and become culturally more similar to large urban agglomerations" (Berdegué et al., 2014). It requires political will and commitment, changing the rules of the game, and the voice and participation of rural inhabitants.

Very few countries in Africa articulate a rural development strategy beyond that of the agriculture sector. Most African governments' rural development strategies focus on agriculture, even though this is not the only way to transform the economy of rural areas (NEPAD (New Partnership for Africa's Development), 2019). Governments need to embrace agendas that provide wide-ranging and quality services to broad sections of the population, and this includes promoting equal access to economic opportunities in both rural and urban areas, across rural regions, and for both men and women.

Rural areas have considerable untapped potential. Their vast natural resources and human capital can be developed and used more effectively to boost rural growth and development, attract investment, and create productive and attractive jobs with high returns for individuals and their communities. Investments in environmental protection, rural infrastructure and rural education (skills development) are critical not only to sustainable rural economic development, but also to national well-being. Beyond meeting basic needs, investments must be linked to the potential to raise productivity and income.

It was against the above backdrop that the symposium was organised, in the hope of advancing the country through sustained rural economic development. More specifically, the deliberations were focused on the following key questions:

- How can Namibia promote and accelerate sustainable economic development in its rural areas? What lessons can be learnt from the experiences of other countries?
- How important is rural electrification and digitalisation for economic development?
- What policies are most effective in increasing income-generating activities and improving economic well-being in rural areas?
- How best can we ensure that rural communities have access to markets, without the need to travel to urban areas – should there be a facilitating agency?
- How can the economies of rural areas in the developing world, and Namibia in particular, be incorporated into the mainstream economy?

These issues, amongst others, were addressed through presentations given by local and international speakers and supplemented by a panel discussion. Participants included representatives from the International Labour Organisation, the Ministry of Local Government and Rural Development of the Republic of Botswana, the Ministry of Urban and Rural Development of Namibia, the Organisation for Economic Co-operation and Development, the United Nations and the Bank of Namibia.

A major conclusion that emanated from the 24th Annual Symposium was that there is a need to change the narrative of rural areas being for the hopeless or the poor and foreground the fact that rural areas have enormous potential, and can play a major role in national food security. A number of interventions were proposed and grouped in three categories, namely (i) improving and intensifying economic activity in rural areas; (ii) diversifying rural economies; and (iii) enabling rural economies to catch up with urban ones and even leapfrog them. Such interventions call for a policy mix which may include the following integrated and interrelated components:

- investing in rural infrastructure, as it is a key enabler for rural development;
- increasing access to finance for rural areas;
- ensuring that decent jobs are available in rural areas;
- foregrounding youth skills development and certification;
- ensuring fair distribution of and secure access to land;
- advancing agricultural development and improving agricultural productivity;
- accelerating business formalisation in rural areas;
- tackling the issue of overlapping policies and poor coordination of rural policies; and
- strengthening policy implementation and service delivery through a sound decentralisation policy.

KEY POLICY ISSUES AND RECOMMENDATIONS EMANATING FROM THE SYMPOSIUM

Key recommendations that emerged from the papers and discussions at the Symposium were that the country needs to urgently roll out new ways of improving skills development and sustainable agriculture, while fostering income-generating activities. The following is a summary of the key policy issues that emerged from the Symposium, arranged according to three broad themes in line with the rural economy discourse:

IMPROVING AND INTENSIFYING ECONOMIC ACTIVITY IN RURAL AREAS

> *"Improving and stepping up agricultural activity in the rural economy involves making agro-food systems more sustainable; rejuvenating agriculture; promoting agro-enterprises; skills development for improved production methods and productivity; crop diversification; digital technologies; [and] improving working conditions in agriculture."*

Advancing agricultural development and improving agricultural productivity

Increasing agricultural productivity has been and will continue to be the key catalyst for reducing poverty. Therefore, better access to fertilisers and improved seed should be a priority for the country. Agricultural productivity should further be raised by increasing access to feed for livestock. Namibia has the potential to increase its resiliency to droughts in livestock production – for both communal and commercial areas – by producing its own commercial feed as an alternative to imported feed.

A set of co-ordinated actions will be necessary to continue to improve agricultural productivity. On the one hand, improving agricultural productivity will require expanding the adoption of modern inputs (improved seed, fertiliser and agrochemicals), in addition to supporting farmers in the adoption of mechanical, electrical and electronic technologies and better irrigation methods. Moreover, this will further require enabling better access to both input markets and financing mechanisms. On the other hand, even if these conditions are in place, they may not be enough to improve crop productivity unless farmers know how to exploit such improved inputs and new technologies. For this reason, improving the quality (and not just the quantity) of extension services will be key.

The Government should continue relying on joint work with national universities and other agricultural research centres to expand domestic innovation and access to improved seeds for more crops. The Government can start by broadening domestic research and development capabilities. This will require investment in human and capital resources for research and development in the country, and will facilitate the field and laboratory seed inspection and testing that can promote the participation of breeders from the private sector.

Approaches should centre on technical transfers such as the construction of irrigation facilities and the introduction of new farming techniques. Expanding agricultural output includes activities such as the construction of farm roads, optimal alignment of farmland, and mechanisation of agricultural production.

Increasing agricultural productivity will be fundamental for promoting off-farm job creation. Increasing agricultural productivity will be necessary to boost rural household incomes, which in turn will increase their demand for goods and services. Addressing this demand will open non-farm employment opportunities and the diversification of household activities.

Ensure fair distribution of and secure access to land

The Government needs to reform land tenure in the country to enable rural communities to retain some control over land use for collateral purposes. The land tenure system will need to be reformed to ensure access to land and the use of land for trade purposes and agricultural productivity, especially as climate change continues to threaten subsistence farming. The land issue continues to be a problem in Namibia; however, access to land is fundamental for productive agricultural use. Promoting equitable access to land requires dynamic and effective implementation of ongoing land redistribution programmes, and a systematic assessment of the appropriateness of the institutional arrangements for those programmes. Securing land rights requires developing and implementing policy, legal and practical tools that are appropriate for different groups and circumstances, and that pay special attention to the specific land tenure security needs of poorer and more vulnerable groups.

DIVERSIFYING THE RURAL ECONOMY

"Rural economic diversification entails income-generating activities and employment beyond agriculture and including other economic sectors; skills development and employment services for diverse local economies; harnessing the potential of the circular economy in rural areas."

Increase access to finance for rural areas

Financial inclusion is essential to transforming the rural economy by providing financial products and services for poor households and rural entrepreneurs. Financial inclusion, defined as access to a broad range of financial services provided by financial service providers, is a tool that fosters opportunities that enhance the capacity to achieve development. It enables development by providing a way to make and receive payments; accumulate assets securely; leverage available assets to invest in education, health and physical capital; and mitigate risks. Financial inclusion has the potential to help households attain higher levels of economic and social well-being, and to foster a higher level of enterprise productivity and growth.

Despite agent banking guidelines that were put in place to enhance financial inclusion by bringing banking services closer to the people, a larger portion of the population, especially in remote areas and informal economies, remains underserved. Retail agent banking, often referred to as agent banking, is a banking model where traditional banks partner with third-party outlets (such as retail shops, post offices and other non-bank outlets) to offer specific banking services. This model is particularly beneficial for expanding the reach of banking services to underserved or remote areas, where setting up traditional bank branches may not be viable. Intensifying the implementation of agent banking guidelines may promote the accessibility of financial services in rural areas.

Increasing the levels of mobile adoption and e-payments will boost financial inclusion. As mobile devices become more affordable and network coverage expands, digital connectivity of financially excluded individuals and small businesses will improve. The well documented growth of m-Pesa has transformed access to financial services by providing an entry-level e-payment platform to most of the Kenyan population. High levels of mobile adoption, coupled with government action to digitalise payments (e.g., G2P (government-to-person) direct cash assistance programmes) could be a catalyst for low-income communities to adopt financial services. However, this will require the country's high data costs to be examined and reduced, either through regulation or new entrants into the market to promote competition. Technological improvements are also a way to drive down costs and expand the capabilities of mobile devices. This will help to moderate the high data costs.

Acceleration of business formalisation in rural areas

The informal sector represents an important part of the economy (particularly of the labour market in Namibia) and plays a major role in employment creation, production and income generation. Informal sector employment is a necessary survival strategy in a country like Namibia that lacks social safety nets such as unemployment insurance, or for people whose wages and pensions are too low to cover their cost of living. It is a significant sector that has helped to absorb unemployment in the labour market.

Given the role of the informal sector in the economy, the Government should look at it with a view to enacting policies that will synergise both the informal and formal sectors in order to unleash the vast potential of the economy. These include things like economic diversification, industrialisation, sustainable economic growth and investment, and social concerns such as inequality, poverty, and well-being.

Youth digital skills development and certification

Limited access to and use of digital technologies in rural areas go hand in hand with the lack of digital skills amongst different social groups (e.g. elderly people) and in businesses. They are considered essential for businesses to be competitive and for citizens to benefit from improved access to jobs and the public and private services digitalisation can provide, particularly in rural contexts. However, there is a digital divide between rural economies and their urban counterparts. This digital divide severely limits opportunities for education, employment, healthcare, and entrepreneurship within these rural communities.

Digital skills training programmes are powerful tools for empowering rural youths and bridging this gap. By equipping them with essential digital skills, these programmes enable them to navigate the digital landscape, seize opportunities, and drive change in their communities. Access to digital skills training opens up a world of economic opportunities for rural youths. By acquiring essential skills such as coding, web development and digital marketing, they can tap into the global marketplace and find freelance work or start their own businesses.

Efforts aimed at providing quality digital infrastructure in rural areas need to be complemented by enhanced capacities for rural actors to maximise its use. Digitalisation and smart development should be core priorities for Namibia as they are of crucial importance for rural development in the era of digitalisation. In the same vein, to encourage digital skills, digital services should be accessible and affordable.

ENABLING RURAL ECONOMIES TO CATCH UP WITH URBAN ONES AND EVEN LEAPFROG THEM

> *"Rural development is about well-connected and dynamic rural economies which are attractive to investment; it is about turning rural areas into rural innovation hubs through improved services, infrastructure and connectivity; empowering women and youth; and participation and social cohesion."*

Ensuring decent work in rural areas

Rural policy that increases rural employment opportunities through investment-based mechanisms rather than subsidies can be a valuable way of reducing spatial inequality. Ensuring decent job creation in rural areas requires effort and resources that can be exerted on accelerating enablers such as internet connectivity, rural electrification, skills development and recognition of prior learning among rural youths, and thereby creating a database or inventory of rural jobs to facilitate future special planning. Further, investment in strategic sectors such as agrifood is crucial for boosting the potential for decent job creation (direct, indirect and induced employment creation) in rural economies. Boosting these sectors not only harnesses the job creation potential but also supports the economic diversification of rural areas.

Invest in rural infrastructure as it is a key enabler of rural development

Namibia should invest in infrastructural development like rural road upgrading, affordable rural electrification, and increasing financial services. The Government should prioritise the upgrading of earthen roads to gravel roads in rural areas to enable inhabitants to access markets with their agricultural produce. The Government should ensure that there is access to affordable electricity, generated from renewable sources, to induce income generating activities by increasing private sector involvement and ensuring that the regulatory environment is conducive. Furthermore, stakeholders in financial sector development should continue to expand agent banking provisions to increase financial inclusion by bringing banking services closer to a larger portion of the population, especially those in remote or underserved areas.

The Government and internet providers should promote the use of the internet to benefit entrepreneurship activities in rural areas through skills development. Stakeholders need to design fit-for-purpose digital services and develop needs-specific applications for rural entrepreneurs that are simple and easy to use, considering the low level or absence of skills in rural communities to use smart devices and to navigate the internet for socioeconomic purposes. There is a need for the Government, service providers and internet society and other stakeholders to step up programmes that will enhance the digital skills and literacy of rural communities.

Use of rural development centres as innovation hubs

Rural development centres should become rural technology hubs. Namibia's rural development centres should be used to drive development in rural Namibia. The rural development centres can act as innovation hubs or rural centres to promote place-based policy interventions to promote rural economic activity. The Government should increase capacity development in rural areas by exploring partnerships with service providers and institutions such as vocational training centres to add value to the activities of rural development centres by introducing technology advice and skills upgrading, especially for artisans.

Strengthening policy implementation and service delivery through the Decentralisation Policy

Policy-making processes require coherence and coordination for effective and efficient allocation of resources in order to reach those at the bottom. However, enabling the voice and participation of rural inhabitants and the inclusion of decentralised powers and functions, as envisioned in the Decentralisation Policy, has not yet been meaningfully implemented in Namibia. Where decentralisation has occurred in its more limited forms of delegation and de-concentration by line ministries, it has often been unevenly implemented, with the result that regional councils are encumbered with more administrative responsibilities without being given access to greater resources and authority to perform their duties effectively. Continued institutional oversight from the centre, such as through the appointment of regional governors by the Presidency, has also impeded regional ability to independently pursue local development measures. This has not had the effect of improving local service delivery, which in turn has made it difficult for regional councils to gain legitimacy or engage local populations in public action.

Ensuring that rural development follows a bottom-up approach

Social dialogue – which is based on consensus-building and the democratic involvement of the main stakeholders – contributes to more efficient design and implementation of policies to ensure the sustainable development of the rural economy. A strong bottom-up approach and accountability are therefore needed to ensure that development in rural areas proceeds in accordance with the needs of those living there. In this approach, the local community and local players can express their views and help define the development course for their area in line with their own views, expectations, and plans. The role of traditional leaders and their institutions in rural development as custodians of the land, in proximity to the rural villages, and particularly remote rural villages, cannot be overemphasised. It is therefore important that they not only be seen as partners, but that their role be clearly defined. However, all stakeholder structures should be run according to reasonable timeframes that are strictly enforced so that participation does not culminate in endless debate and paralysis.

Tackling the issue of overlapping policies and poor coordination of rural policies

Policy coherence and coordination are of paramount importance. This often requires a whole-of-government approach, with strengthening of linkages and collaboration among state agencies across sectors and governance levels. Social dialogue plays a crucial role in designing policies to promote social justice in rural areas. As much of the policy responses would be multi-sectoral, there are opportunities for capitalising on synergies among rural economy sectors and ensuring that interventions are mutually reinforcing.

The Namibian Government should tackle the issue of overlapping policies and poor coordination of rural policies by introducing a Rural Development Act. To effectively deliver rural well-being, horizontal co-ordination is needed between traditional ministries in charge of rural development (e.g., the Ministry of Agriculture, Water and Land Reform and the Ministry of Urban and Rural Development) with other ministries responsible for enablers of development (innovation, services, roads, etc.). Horizontal co-ordination across levels of government involves an approach in which policy makers mainstream rural issues across all policies to ensure that rural needs are taken into account. This can be achieved through a legal framework such as a Rural Development Act, mandating all rural development stakeholders to work together.

OTHER POLICY RECOMMENDATIONS

Given the complex and multi-faceted nature of rural poverty, the required interventions to address rural under-development are also complex. The processes of project monitoring and evaluation should be therefore be carefully considered and subject to re-evaluation. Rural development is a cross-cutting programme that calls for partnerships with multiple stakeholders both within and outside the Government. Therefore, a complex set of partnerships will be required to ensure that rural development can be achieved. For effective implementation it will be necessary to have clearly defined roles and responsibilities among all role-players, including non-governmental stakeholders that will provide support and contribute to the achievement of different outputs. The policy recommendations below are therefore made on the premise that they should be championed by one institution that can hold accountable any institutions that are not delivering on their mandates. Furthermore, to ensure implementation, the Government's ministries and agencies should step-up project prioritisation, review and monitoring, and provide regular updates to account for public funds.

The policy recommendations are subdivided into short to medium-term policies, and long-term policies. The former are clustered into three groups, namely infrastructure development policies, which are focused on improving rural infrastructure necessary to foster development; skills development policies aimed at increasing the skills of the rural people; and policies aimed at improving agricultural output and food quality.

Short-term to medium-term policies

Reliable rural development data

- **The NSA, in collaboration with the Ministry of Urban and Rural Development, needs to generate quality rural economic activity statistics to inform policy decisions.** A lack of reliable and timely data will render rural development impossible. There is a need to improve the quality of the data collected by improving the methodologies and systems for data collection, processing and dissemination. The NSA therefore needs to develop and maintain a more comprehensive database of statistics on the national rural economy.

Skills development policies

- **The Ministry of Education, Arts and Culture, in conjunction with the Ministry of Agriculture, Water and Land Reform and the Ministry of Urban and Rural Development, should narrow skills gaps in the food economy by providing adequate training.** The focus should be on educating the youth about holistic food systems (ecology, food safety, food processing, marketing, use of digital technologies, etc.).
- Training should be provided in agroecological and climate-smart agricultural practices. Climate-smart agriculture is a comprehensive strategy for managing farmlands, crops, livestock, and forests that counteracts the negative impacts of climate change on agricultural productivity. By enhancing crop and livestock production and farm profitability, climate-smart agriculture works to raise overall agricultural productivity and provide greater food security.
- **The youth should be re-skilled in agriculture to integrate downstream activities.** Small-scale farmers and low-skilled rural youths have trouble integrating into local and global agricultural value chains and moving up the ladder to meet the quantity and quality standards required for both national and export markets. There is therefore a need to provide vocational training specifically tailored to rural settings, combined with employment promotion and access to markets which

allows youths to integrate into downstream activities. This should be done by the Ministry of Higher Education, Technology and Innovation in collaboration with the Ministry of Urban and Rural Development.

- **In coordination with the Ministry of Urban and Rural Development, the Ministry of Higher Education, Technology and Innovation should develop formal and informal technical and vocational education and training programmes which are relevant to rural communities.** This can be done by identifying people (such as farmers) who are prepared to retrain in alternative entrepreneurial activities. Some farmers might prefer to remain in farming but take advantage of new technologies. When an understanding of the issues and context, and agreement of all stakeholders involved are achieved, a start can be made with designing a technical and vocational education and training programme and implementing appropriate curricula and training packages (including detailed instructional materials for trainers and/or trainees).

Policies to improve agricultural food production

- **The Ministry of Agriculture, Water and Land Reform, in collaboration with the Ministry of Urban and Rural Development, should support markets for premium local agri-food products through standards and regulatory mechanisms.** There is a need to support the development of premium organic and other certified products that could fetch higher prices in both global and domestic markets (e.g., through the adoption of a common regional organic standard).
- **Consumer awareness of local and organic products should be raised.** The organic fruits and vegetables market is primarily driven by a significant shift of consumers toward organic products. Growing awareness about health benefits is expected to drive the demand over the forecast period. Additionally, Government support for organic farming is expected to have a positive influence on the market by improving supply and product quality. However, a lack of consumer awareness regarding organic products and the high cost of production are hindering the growth of the organic fruits and vegetables market. Therefore, the Ministry of Agriculture, Water and Land Reform and the Ministry of Urban and Rural Development should raise consumer awareness of local organic products.
- **There is also a need for effective development and beneficiation of land reform policies, the creation of decent jobs on farms, and the establishment of agri-villages for local economic development.** The Ministry of Agriculture, Water and Land Reform, in collaboration with the Ministry of Urban and Rural Development, should therefore ensure that there is sufficient land available for the development of agricultural production, and for decent housing.

Long-term policies

Infrastructure development policies

- **The Ministry of Works and Transport should improve access to markets through better rural-urban linkages (soft and hard infrastructure).** This includes improving road and rail infrastructure that serve ports as a means of efficiently accessing regional and global markets.
- **The Ministry of Mines and Energy should scale up rural electrification using renewable energy sources that are in abundance in rural areas.** Limited grid capacity makes it very difficult to use renewable energy, even if the area is rich in renewable sources of energy. Rural electrification is an integral component for poverty alleviation and rural development of a nation. Therefore, the Ministry should ensure that there is grid capacity to allow for renewable energy sources to be set up.

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THEME CHAPTER GLOBAL ECONOMIC SHOCKS
5.2 POLICY OPTIONS
Amid a fragile global economic environment, the domestic economy has demonstrated some resilience in 2021 and 2022, as it continued to recover from the Covid-19 pandemic shock.
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STAKEHOLDER ENGAGEMENT PILLAR

STAKEHOLDER RELATIONS

The Bank places high value on proactive public engagement. Accordingly, effective stakeholder engagement emerges as a fundamental cornerstone in the Bank's comprehensive strategy for the period 2022–2024. Throughout the past year, there has been a deliberate focus on fostering dialogue and discourse to advance Namibia towards sustainable economic growth and recovery, in alignment with the Bank's governing mandate. In pursuit of this strategic objective, the Bank has maintained a steadfast commitment to the principles of transparency and open communication. Actively establishing platforms for engaging stakeholders in meaningful and transparent dialogue has been a priority. This was achieved through the meticulously formulated and executed Annual Bank-wide Stakeholder Engagement Plan, which is based on the Bank's Stakeholder Identification and Engagement Procedures. The engagements with the identified stakeholders of the Bank were consistently led by the Governor, Deputy Governors, and executive management. This concerted effort underscores the Bank's dedication to fostering a collaborative and inclusive approach in fulfilling its mandate.

Statutory/Government stakeholders

Courtesy visits to the President of the Republic of Namibia

During the year under review, there were standing biannual engagements between H.E. President Dr Hage G. Geingob and the Governor. These served to brief the President on strategic matters within the ambit of the monetary and financial stability mandate of the Bank while providing him with first-hand information on macroeconomic developments prevailing at any point in time. During these engagements, the President (now sadly deceased) was briefed on key geopolitical and macroeconomic developments and provided with an update on the country's progress with the execution of the Action Plan to address the Financial Action Task Force's Anti-Money Laundering and Combatting the Financing of Terrorism Mutual Evaluation exercise.

The late H.E. President Hage G. Geingob and Governor Johannes !Gawaxab pictured during a courtesy visit to State House. The biannual engagements are prioritised to provide the President with relevant updates on the discharge of the macroeconomic management functions of the central bank

Parliamentary stakeholder engagement

As per the statutory requirement in terms of section 68 of the Bank of Namibia Act (2020), the Bank of Namibia is required to report to the National Assembly Standing Committee on Economics and Public Administration on an annual basis on matters related to the state of the economy and the conduct of monetary policy, as well as on operations and affairs of the Bank. In July and November 2023, accompanied by members of the Bank's Management Committee, Governor !Gawaxab engaged the Standing Committee to discuss matters pertaining to the affairs of the Bank. During the July session, members were updated on the discharge of the monetary and financial stability mandates of the Bank.

Furthermore, the discussions covered issues related to COVID-19 economic recovery initiatives, the Bank's efforts to regulate banking fees and other related bank charges, the currency-peg arrangement, and Namibia's progress in addressing the findings of the 2022 Financial Action Task Force Mutual Evaluation. During the November engagement, the issues of fees and charges, and discrimination against clients at banking institutions were discussed in the context of a motion adopted beforehand by the National Assembly. The Governor acknowledged the challenges arising from gaps in market conduct. However, with the passing of the Banking Institutions Act (No.13 of 2023) and the Payment System Management Amendment Act (No. 14 of 2023), a new regulatory framework for addressing these issues has been established, which will require commercial banks to justify fee increases. The new Regulations will be issued with due consideration of the Bank's financial stability mandate.

Launch of the Bank of Namibia's 2022 Annual Report

The Bank launched its 2022 Annual Report under the theme "Global Economic Shocks – Rewiring Namibia to bolster resilience". This event also served as an occasion to hand over a dividend payment of N$413.7 million to the MFPE.

Deputy Minister of Finance and Public Enterprises, Hon. Maureen Hinda-Mbuende, Governor Johannes !Gawaxab and the Bank's management

...discrimination against clients at banking institutions were discussed in the context of a motion adopted beforehand by the National Assembly.

Engagement with the diplomatic corps and development partners

The Bank hosted members of the diplomatic corps and development partners to exchange views on relevant social and economic issues. The engagement aimed to offer insights into prevailing economic trends and the institution's concerted efforts to promote monetary and financial stability. This engagement with diplomats serves as a platform for fostering dialogue with the diplomatic community, underscoring the Bank's commitment to driving the country's sustained economic development over the long term.

The Bank's management pictured with representatives from various embassies in Namibia

Media tonality

2023 94%

COMMUNITY AND KEY INTEREST GROUPS

Regional engagements

Regional stakeholder engagements with key regional and local authority leaders and representatives from the business community, commercial banks and civil society organisations were held in Lüderitz, Karas Region, and Oshakati, Oshana Region, as part of the broader objective of bringing the Bank closer to the citizens of the country. In August 2023, the Bank made history by hosting its Monetary Policy Announcement not in the capital city at its headquarters, but at the Oshakati Branch. As part of the Bank's commitment to promoting transparency, there was a live broadcast of the event at Head Office. A public lecture was also held with university and high school students in attendance. The lecture was on the topic "Monetary Policy Explained", with its aim being to unpack and enhance understanding of monetary policy formulation and the role of the Bank of Namibia.

Governor !Gawaxab delivering the Monetary Policy Announcement in Oshakati

Governor !Gawaxab presenting a lecture on "The mandate and operations of the Bank of Namibia" to a packed audience at the Oshakati UNAM Campus

Senior editors' engagement

The senior editors' annual engagement involves discussions with senior editors representing various local media outlets. These interactions encompass a presentation highlighting developments over the past year at the Bank. Facilitated by the Bank's Deputy Governors and management, the presentation touched on various topics, including the economic outlook, ongoing initiatives, and matters drawn from topical media coverage and enquiries. The Bank values the role of the media in a democratic society premised on accountability and transparency. Promoting the Bank's positive reputation is a crucial function that features prominently among its primary objectives of enhancing stakeholder satisfaction and confidence in the Bank. As such, the Bank recorded a positive tonality of 94 percent based on a systematic media analysis of news articles in traditional and online media platforms in which it featured.

Deputy Governors Mr Ebson Uanguta and Ms Leonie Dunn together with the Bank's management and senior editors from local media houses during a lunch engagement

THOUGHT LEADERSHIP AND POLICY INTERVENTION EVENTS

As part of its efforts to contribute to the country's sustainable economic growth and development, the Bank of Namibia continued to host events and provide recommendations on a range of issues relevant to the country's development agenda and aspirations. At these events, stakeholders including policymakers, business leaders, experts, and professionals from local and international organisations and academic institutions are brought together to discuss issues within the mandate of the Bank, such as economic development, price and financial stability.

Launch of SME Economic Recovery Loan Scheme

In partnership with the MFPE, the Bank jointly relaunched the SME Economic Recovery Loan Scheme in February 2023. This initiative made N$500 million available as guarantees to designated SMEs, thereby assisting them to withstand economic challenges by providing working capital and liquidity to aid them in managing their cash flow and cover certain costs. The reformed scheme was relaunched to accommodate SME's that had struggled to meet the qualifying criteria. Its reach was expanded so that business owners were made aware of the facility and could meaningfully participate.

Participating banks in this scheme included FNB Namibia, Bank Windhoek, Nedbank Namibia and Standard Bank Namibia. The applications and disbursements as of December 2023 were as follows:

- total applications: 468;
- approved applications: 346;
- disbursed amount: N$358.8 million; and
- sectors: manufacturing, construction, retail, oil and gas, business services.

The management of the Bank of Namibia, the Deputy Minister of Finance and Public Enterprises, Hon. Maureen Hinda-Mbuende, and representatives from banking institutions during the launch of the SME Economic Recovery Loan Scheme

Participating in the 5th Namibia International Energy Conference

On 26 April 2023, the Bank participated in the 5th edition of the Namibia International Energy Conference, held under the theme "Shaping the future of energy towards value creation". The conference drew together policymakers, energy leaders and industry professionals from across the continent and beyond to engage with one another, discuss issues and gain valuable strategic insight into shaping Namibia's role in driving value creation within the global energy landscape. Governor !Gawaxab used the opportunity to highlight the country's need to build competent and accountable institutions to ensure a level playing field for all actors operating in the industry. The Governor highlighted the head start the country had made in promoting the equitable distribution of the benefits of Namibia's natural resources through the establishment of a sovereign wealth fund, the Welwitschia Fund.

Official working visit to Norway on oil and gas sector

The Bank of Namibia collaborated with the Ministry of Mines and Energy in an official working visit to Norway in June 2023. The visit sought to draw insights from Norway's prudent approach to developing its oil and gas sectors and facilitated engagement with Norwegian policymakers and private sector representatives on best practices in the oil and gas sector. As an outcome, the participating national institutions committed to establishing an inter-ministerial committee to conduct further work related to crafting local participation and ecosystem development plans to ensure the meaningful participation of Namibians in the sector.

"...the head start the country had made in promoting the equitable distribution of the benefits of Namibia's natural resources..."

The Namibian ministerial delegation, including Bank of Namibia officials, pictured in Oslo, Norway

Bloomberg's flagship event in Namibia

In September 2023, Governor !Gawaxab took centre stage at Bloomberg's flagship event in Namibia, titled "Namibia in Focus", to underscore Namibia's commitment to showcasing its vast potential as a prime investment destination. In his keynote address, Governor !Gawaxab provided a comprehensive analysis of Namibia's economic landscape, highlighting its accomplishments and addressing the challenges that lie ahead. Governor !Gawaxab emphasised the critical role that inclusive institutions play in a nation's success and highlighted the Bank's leading role in maintaining monetary and financial stability, which is the bedrock for economic progress.

Governor !Gawaxab providing the keynote address at Bloomberg's flagship event in Namibia

> **...improving rural communities through skills development, job creation, income-generating activities and applying lessons from other countries.**

Monetary Policy Dialogues

Following the Monetary Policy announcements in February and June 2023, the Bank of Namibia hosted two Monetary Policy Dialogues held under the theme "Building monetary resilience amid challenging macroeconomic headwinds". To enhance understanding of the monetary policy framework and decision-making in Namibia, the Bank launched the Monetary Policy Dialogues to engage with local economists, analysts, researchers, and industry players.

Accompanied by all MPC members, the Governor discussed the domestic and global economic and financial trends that influenced actions and decisions related to the Monetary Policy with participants as a means of promoting open dialogue and transparency.

Members of the MPC addressing market players, economists and analysts during the Monetary Policy Dialogue

Hosting of the 24th Annual Symposium

The Bank of Namibia hosted the 24th Annual Symposium under the theme "Transformation of the rural economy in Namibia". In the Symposium, technical experts took stock of the status of rural development in Namibia. The discussions also focused on improving rural communities through skills development, job creation, income-generating activities and applying lessons from other countries. Finally, as a way forward, the dialogue focused on policy priorities that the country should focus on.

Governor !Gawaxab together with the Deputy Governors of the Bank, the Minister of Urban and Rural Development, Hon. Erastus Uutoni, and other speakers at the Bank's Annual Symposium

REGIONAL AND INTERNATIONAL COOPERATION

The Bank of Namibia values good bilateral relations with sister central banks to promote and solidify bilateral stakeholder cooperation and mutual learning.

The Bank of Namibia and Banco Nacional De Angola formalise partnership

Following renewed efforts to strengthen bilateral relations, the Bank of Namibia and Banco Nacional de Angola signed a Memorandum of Agreement to formalise the technical collaboration and partnership between the two institutions. Under the rubric of the landmark agreement, the two central banks agreed to prioritise promoting trade facilitation through enhanced payment system integration and exploring trade related guarantees as a means of realising the efficient movement of goods and services between the two countries.

Governor !Gawaxab and former Governor Jose de Lima Massano of Banco Nacional de Angola pictured signing the Memorandum of Understanding

...the central banks agreed to collaborate on various projects and demonstrated their shared commitment to advancing financial inclusion...

Bank of Namibia strengthens Digital Transformation Strategy with visit to the Central Bank of Kenya

In its ongoing pursuit of digital transformation to modernise the financial sector and achieve higher levels of financial inclusion, the Bank of Namibia undertook a visit to the Central Bank of Kenya in April 2023. Led by Governor Johannes !Gawaxab, the visit aimed to enhance the Bank's capacity to effectively manage financial risks emanating from new forms of money and promote financial inclusion in Namibia through digital financial services. The Bank intends to continue to explore opportunities for collaboration and knowledge sharing with other central banks on the continent to enhance its policy framework and support sustainable economic growth in Namibia.

Former Governor of the Central Bank of Kenya, Patrick Njoroge, Governor !Gawaxab and Bank of Namibia officials

Bank of Namibia strengthens partnership with Deutsche Bundesbank

In July 2023, Governor Johannes !Gawaxab led a high-level delegation from the Bank of Namibia to the Deutsche Bundesbank in Frankfurt, Germany. The visit aimed to review and enhance the exemplary cooperation between the two institutions, which dates back to 2011, and exchange perspectives on various issues of mutual interest. The discussions covered key topics such as monetary policy, digitalisation, climate change, banking supervision and financial inclusion. As a result of the trip, the central banks agreed to collaborate on various projects and demonstrated their shared commitment to advancing financial inclusion, innovation, and shaping future-ready organisations.

Governor !Gawaxab, President Joachim Nagel of the Deutsche Bundesbank and officials from the two central banks

Bank of Namibia visits the Bank of Guyana

Recognising the transformative potential of Namibia's burgeoning oil and gas sector, the Bank of Namibia undertook a visit to the Bank of Guyana in December 2023. Led by the Technical Advisor to the Governor, Mr Romeo Nel, the Bank aimed to gain insights from the Bank of Guyana in light of the country's profound economic shift owing to Guyana's recent oil discoveries and production. The engagement highlighted the need for oil-producing countries to create conducive conditions to maintain attractive investment climates and adapt the regulatory environment to manage the influx of abundant liquidity and capital, and safeguard against adverse impacts on the broader economy and financial sector.

Officials from the Bank of Guyana with Mr Romeo Nel

The engagement highlighted the need for oil-producing countries to create conducive conditions to maintain attractive investment climates...

Common Monetary Area meeting

As a member of the CMA, the Bank of Namibia hosted the second of three meetings it attended of central bank Governors of the CMA (Namibia, South Africa, Lesotho and Eswatini). Held in Swakopmund, the meeting aimed to build upon discussions from the previous gathering in Maseru, Lesotho, and set the stage for developing clear action plans to effectively implement the CMA strategy and enhance cross-border payments, exchange controls, central bank digital currencies, banking regulation and supervision, and financial stability within the CMA member countries. Furthermore, the meeting assessed recent economic developments in member countries as well as global economic developments and their potential impact on the CMA economies. Moreover, common risks and challenges confronting CMA countries and policy options to address these risks and challenges were discussed.

Governor Emmanuel Letete (Central Bank of Lesotho), Governor Lesetja Kganyago (South African Reserve Bank), Governor !Gawaxab (host) and Governor Phil Mnisi (Central Bank of Eswatini)

Bank of Namibia hosts the SADC Committee of Central Bank Governors meeting

In September 2023, the Bank of Namibia had the honour of hosting distinguished central bank governors from across southern Africa for the 57th Committee of Central Bank Governors meeting in Swakopmund, Namibia. The event featured a panel discussion focused on sustainability within the financial system and was opened by the Prime Minister of the Republic of Namibia, Right Honourable Saara Kuugongelwa-Amadhila. The Prime Minister stressed the need for the financial sector to adapt and craft creative techniques and models to mitigate the impact of climate-related shocks and their macroeconomic implications. The discussions at the meeting also emphasised the need for international cooperation and equitable partnerships, ensuring that no one is left behind on the journey towards a greener financial system.

Governors from SADC central banks with Rt. Hon. Prime Minister Saara Kuugongelwa-Amadhila during the 57th Committee of Central Bank Governors meeting in Swakopmund

Cooperation with the IMF, the World Bank Group, the Alliance for Financial Inclusion, MEFMI, the Association of African Central Banks, and SACU

The Bank continued with its participation in the IMF/ World Bank Group (WBG) annual meetings in 2023. The annual meetings bring together central bankers, ministers of finance and development, parliamentarians, private sector executives, representatives from civil society organisations and academics to discuss issues of global concern, including the world economic outlook, poverty eradication, economic development, and aid effectiveness. For 2023, the meeting was held in Marrakesh, Morocco on 9–15 October 2023 and was attended by Deputy Governor Ebson Uanguta together with senior officials.

The Bank attended most of the open events, such as the launches of the IMF October 2023 World Economic Outlook and the Global Financial Stability Report, and took part in discussions of the issues dealt with in these publications, amongst others. In addition, exclusive invitations were extended to meetings such as the IMF Africa Group 1 Constituency, the African Caucus with the IMF Managing Director, and the World Bank Executive Forum for Policy Makers and Senior Officials.

Other meetings that were hosted on the sidelines of the annual meeting were those of the Commonwealth Central Bank Governors, the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), and the Climate Vulnerable 20 (V20). For discussions on technical assistance and specialised skills transfer, the Bank attended bilateral meetings with relevant departments at the IMF and WBG to discuss specific technical assistance and provide updates.

The Bank of Namibia was an important respondent in the Annual IMF Article IV Consultations in 2023. The Article IV Mission took place from 19 September to 3 October 2023. The report highlighted that Namibia has shown resilience to the negative shocks from the COVID-19 pandemic and Russia's war in Ukraine. GDP has recovered to the pre-pandemic level, inflation has fallen below 6.0 percent, and expectations remain anchored. The executive directors of the IMF concluded that there were no new acute or significant risks or general policy issues that have emerged since the Article IV Consultations of 2022 that require Board discussion. In addition, policies or circumstances are unlikely to have significant regional or global impacts in the near term.

Staff members of the Bank attended specialised training provided by AFRITAC South (the Regional Technical Assistance Centre in Southern Africa) in 2023. The IMF offers training through AFRITAC South, and Bank staff members attended training on fiscal policy analysis, monetary policy and exchange rate regimes, and macroeconomic diagnostics. The training programmes have improved and strengthened the participants' ability to implement specific programmes at the Bank. The Bank is also benefiting from ongoing technical assistance on payment systems.

The staff members of the Bank continued to benefit from specialised training and technical assistance through the World Bank's Reserves Advisory and Management Program. Training included strategic asset allocation for fixed income portfolios, which provided participants with the quantitative and technical knowledge required to perform strategic asset allocation, and a performance measurement workshop, which equipped participants with the ability to effectively monitor, interpret and assess the performance of fixed income portfolios. Other workshops attended were on attribution and reporting, fundamentals of active management, risk budgeting and active portfolio management, and investing in China's financial markets, amongst other topics.

During the year under review the Bank continued to be involved in the programmes of the Alliance for Financial Inclusion (AFI). In this regard, the Bank served as a member of different working groups of AFI, namely those on Consumer Empowerment and Market Conduct; Digital Financial Services; Financial Inclusion Data; Global Standard Proportionality; Inclusive Green Finance; and SME Finance. Working group members from the Research and National Payment Systems departments and the Financial Intelligence Centre participated in the AFI working group meetings held between April and May 2023. Through its working groups, the AFI global network aims at shaping policies and strategies geared towards enhancing financial inclusion on global, regional and member country levels. The Bank also attended the African and Pacific Islands Financial Inclusion Policy Initiative and the Annual Global Policy Forum hosted by the Central Bank of Seychelles and the Central Bank of the Philippines in June and September 2023, respectively. At the Global Policy Forum, the Bank participated in the 7th Annual General Meeting of the AFI.

The Bank participated in the activities of the Association of African Central Banks in 2023, attending the 45th Ordinary Meeting of its Assembly of Governors hosted by the Bank of Zambia on 4 August 2023. The meeting was preceded by a Governors' Symposium themed "Recurrence of Shocks and Macroeconomic Implications for African Economies: Challenges and Prospects for Central Banks", and the meetings of the Technical Committee and Bureau. The Governors reviewed the status of the African Monetary Cooperation Programme implementation in 2023 and discussed the reports of the working groups of the Community of African Banking Supervisors, amongst others.

...Namibia has shown resilience to the negative shocks from the COVID-19 pandemic and Ukraine war.

The Bank attended the annual meetings of the Board of Governors of MEFMI, alongside the IMF/WBG annual meeting in 2023. The MEFMI meetings preceded the meetings of the IMF and WBG. The three institutions, namely MEFMI, the IMF and the WBG, collaborate in providing training in the areas of debt management, macroeconomic management, foreign exchange reserves management, and financial sector management. Training offered by MEFMI included advanced macroeconomic modelling, and forecasting and insurance stress testing.

The Bank continued with its active participation in SACU activities in 2023. The Bank participated in activities related to SACU, namely the joint World Trade Organisation/SACU Trade Policy Review workshops, and attended meetings of the SACU Commission and the Finance and Audit Committee, as well as of the trade data reconciliation fora.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, the Bank understands and recognises its stakeholders' social, economic, environmental, and related needs. As such, through its Corporate Social Responsibility Programme, the Bank continues to create sustainable opportunities as a commitment to support the country's broader socioeconomic development.

STEAM Robotics and Coding Bootcamp Launch

In collaboration with Mindsinaction, the Bank launched the STEAM (Science, Technology, Engineering, Arts and Mathematics) Robotics and Coding Bootcamp. The aim was to introduce and expose 240 Namibian learners from public schools and rural areas to educational activities and capacitate them with skills in robotics, automation, coding, IT electronics, 3D printing, and other technological applications.

Governor Mr Johannes !Gawaxab, BoN Deputy Governor Ms Leonie Dunn, Deputy Governor Mr Ebson Uanguta, Deputy Minister of Education, Arts and Culture, Hon. Faustina Caley, NUST Vice-Chancellor Dr Colin Stanley, Mindsinaction CEO Mr Ndaudika Mulundileni, and representatives and learners from four beneficiary schools at the official launch of the STEAM project

Bank of Namibia Ambassador's Programme

The Bank's Ambassador's Outreach Programme is an initiative aimed at inspiring social investment and responsibility among staff members, while simultaneously introducing Namibian learners to activities of the central bank. Through this programme, staff members share their own educational journeys and experiences and also highlight the importance of economic literacy and the role of the central bank in the nation's economic framework. About 400 school learners were reached through the Ambassador's Outreach Programme during the year under review.

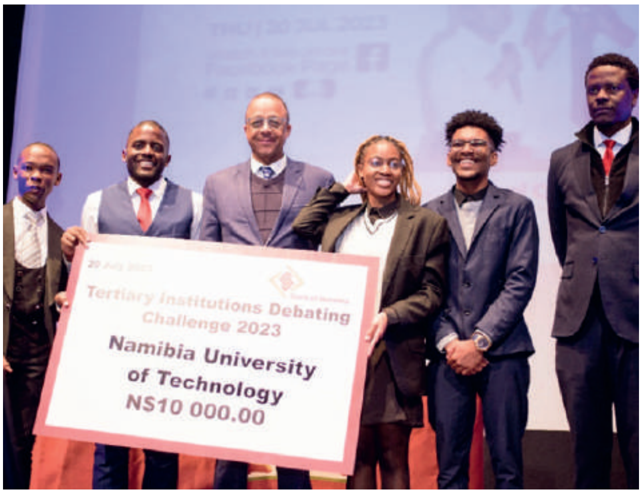
Ms. Rauna Iitembu, Senior Financial Analyst, and Mr Frans Amakali, Senior Officer: Records and Information Management, together with learners from A. Shipena Secondary School

Public education

The Bank has made a concerted effort to elevate its public profile through extensive outreach and awareness initiatives that inform and educate the public about its crucial role. In this regard, the Bank adhered to the guidelines outlined in the approved Consolidated Public Education Strategy for the period 2021– 2023. This strategy was formulated to align with the Bank's overarching Strategic Plan and focuses on harnessing the power of open communication through enabling technologies and digital innovations to enhance its public education capabilities.

Tertiary Institutions Debating Challenge

The Bank of Namibia Tertiary Institutions Debating Challenge is one of the Bank's flagship public education initiatives aimed at increasing tertiary students' interest in economics and the role of the central bank in our economy. NUST achieved a resounding victory in the 2023 Debating Challenge, securing the grand prize of N$10 000 for the second year running. Competing against the University of Namibia, the International University of Management, and Triumphant College, NUST demonstrated remarkable expertise in debating the two selected topics: "Stabilising inflation" and "Virtual currencies".



Deputy Governor Mr Ebson Uanguta, and Mr Salomo Hei (a judge) hand over a cheque to NUST students, the Tertiary Institutions Debating Challenge winners

Visitors to the exhibition admiring historical artifacts

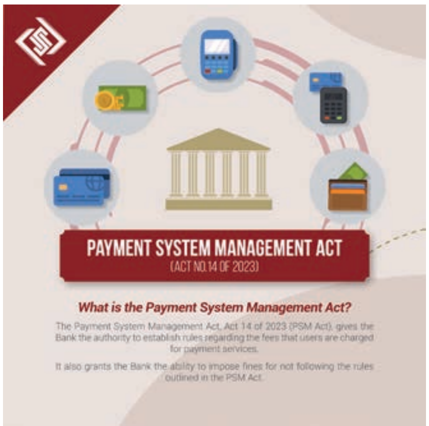
Commemoration of Heritage Week

For the first time, the Bank participated in Namibia Heritage Week, a week-long event that took place from 18 to 24 September 2023. The theme of the week was "Heritage and Culture: A 'Rock-Solid' Foundation in Namibian Sign Language". The Bank developed an exhibition which consisted of audio-visual material and a physical display showcasing artefacts and memorabilia. The exhibition also displayed informative galleries illustrating topics ranging from the history of the Bank to the story of trade and money, videos on monetary policy matters, and related content.

Public awareness of laws pertaining to the Bank

The Bank of Namibia has recently undergone significant legislative updates, resulting in the introduction of three new Acts. Two of these Acts, namely the Banking Institutions Act (No. 13 of 2023) (which repeals the Banking Institutions Act (No. 2 of 1998)) and the Payment System Management Amendment Act (No. 14 of 2023), update the law to reflect the evolving financial landscape and better serve the needs of the nation.

Additionally, Parliament promulgated the groundbreaking Virtual Assets Act (No. 10 of 2023). This is a novel piece of legislation that aims to regulate and foster the development of virtual currencies within the country's financial ecosystem. These new Acts constitute a momentous step towards modernising Namibia's financial regulatory framework and ensuring a secure and dynamic banking environment for its citizens and businesses alike. Accordingly, public awareness campaigns to publicise these Acts were held.



Public awareness of the Trade Verification System

The Bank of Namibia and NamRA jointly launched the TVS, a transformative digital initiative set to redefine trade operations within Namibia. The system, which officially went live on 16 October 2023, marks a significant leap forward in bolstering the efficiency and transparency of trade processes in the country. The system offers a more efficient, secure, and technologically advanced approach to international trade. To create awareness and compliance with this new system, a public awareness campaign was held.

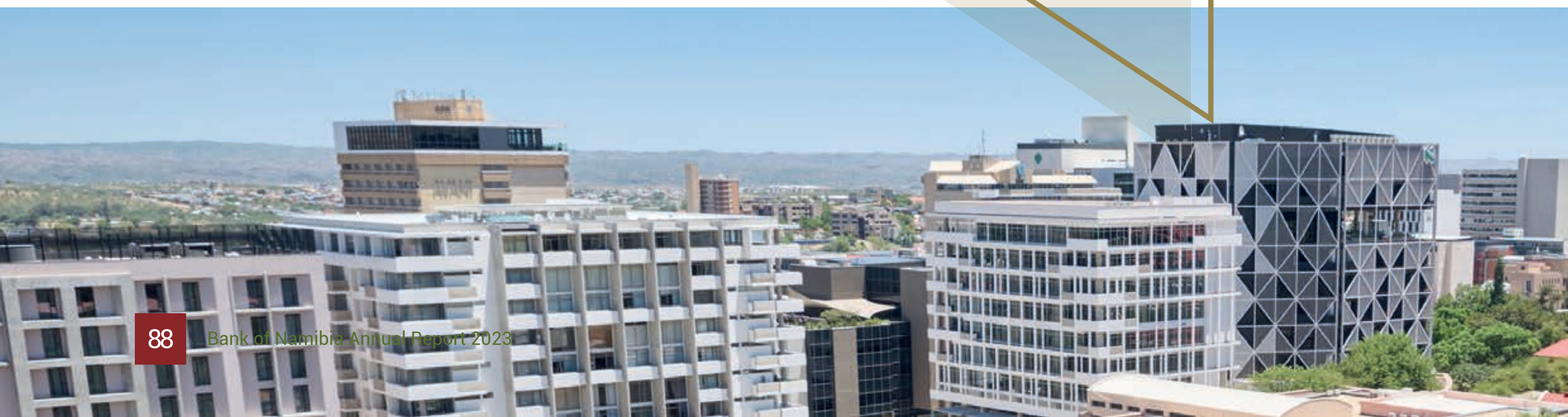
Deputy Governor Ms Leonie Dunn and NamRA Commissioner Mr Sam Shivute at the signing of the Memorandum of Agreement on allocating resources to the TVS system

TALENT AND TRANSFORMATION PILLAR

STAFF COMPLEMENT

A workforce staff complement of 329 positions was approved for the 2023 financial year, of which 316 were filled, which equates to a staff strength of 96 percent. Despite the vacancies, the operations of the Bank were not impacted as it managed to retain 100 percent of its critical skills. During the period under review, approximately 80 percent of leadership roles were filled by internal staff members.

...gender representation, with 54 percent female representation and 46 percent male representation at the management level.



Employment equity

The Bank is proactively managing compliance with the Affirmative Action (Employment) Act (No. 29 of 1998) requirements by fulfilling its target plan and continues to receive its Employment Equity Compliance Certificate annually. The Employment Equity Report for 2023 was recommended for approval. It is worth noting that a balanced workforce profile exists regarding gender representation, with 54 percent female representation and 46 percent male representation at the management level. The Bank is also maintaining a diverse age distribution, which brings numerous benefits and contributes to a more dynamic, resilient and inclusive work environment.

Figure A.10

EMPLOYMENT EQUITY

Employee relations, value proposition and wellbeing

The Bank maintains good employee relations through constructive and mature engagements with employees and the Employee Liaison Forum. The Employee Liaison Forum has been created to serve as a link between management and staff by elevating the concerns expressed by staff, as well as by proposing innovative ideas on how to improve the work environment and relationship. A new Recognition and Procedural Agreement was signed between the Bank and NAFINU (the Namibia Financial Institutions Union) after the union gained majority membership in the bargaining unit.

For the Bank's employee value proposition (remuneration, reward and recognition) to act as a key driver of talent attraction, performance and retention, policies were reviewed to ensure that the benefit offerings remain competitive. The Bank participates in annual remuneration surveys, and remuneration remains market-related. Salary scales are reviewed accordingly to ensure that the Bank continues to attract and retain talented individuals.

In furtherance of the Bank's Value of showing that we care, a holistic approach to employee wellbeing, ensuring a healthy and productive workforce by focusing on mental, physical, and financial wellbeing, remained a key imperative during the period under review. The well-being interventions included a wellness day with various physical activities, cancer-awareness sessions, mental well-being sessions, financial coaching sessions, and onsite health and cancer screenings.

54% Female Representation

46% Male Representation

LEARNING AND DEVELOPMENT

Continuous capacity development remained a key focus area to ensure a future-fit workforce through a blended approach of in-person and online training, webinars, rotations, coaching and conferences to ensure the successful execution of the Bank's mandate and strategy. The development interventions were focused on enhancing core central banking, technology, and leadership skills. During the period under review, 400 courses were completed on the bank's online learning platform and 197 face-to-face interventions were attended through leveraging opportunities with the existing development partners (Deutsche Bundesbank, IMF, DBN, MEFMI, Afritac South and the World Bank) to enhance core central banking skills. To strengthen the Bank's leadership, bench strength coaching programmes were undertaken and leadership development programmes offered by Harvard Business School and Stellenbosch University were attended. The Bank further supported 17 employees through the Bank's study loan facilities to obtain formal qualifications related to the operations of the Bank.

"The Bank further supported 17 employees through the Bank's study loan facilities to obtain formal qualifications...

Bursary and scholarship scheme

The Bank continues to sponsor students through its bursary scheme. In 2023, seven bursaries were awarded to students to study in the fields of Artificial Intelligence, Computer Science, Economics and Statistics, Accounting, and Financial Mathematics. The Bank's cooperation with the British High Commission to co-fund two students per annum continued, and two students were awarded postgraduate scholarships in the fields of Data Science and Analytics. They commenced studies in September 2023 in the United Kingdom.

In support of the country's national development agenda and enhancement of the Bank's talent pipeline, the Graduate Accelerated Programme continues to yield positive results in grooming future skills for key areas in the Bank and the Namibian market. The programme provided seven graduate trainees with 18 months of on-the-job exposure from February 2022 to July 2023. All seven candidates were absorbed into the structures of the Bank, with five being permanently employed and two employed on fixed-term contracts.

The Bank also provided work-integrated learning opportunities to 21 students to assist them with the completion of their studies. The interns were attached to various departments in different fields of study. Over the years, we have received positive feedback from the students who completed internships at the Bank as they were able to successfully complete their studies. Moreover, some of the students were able to join the Bank on the completion of their studies.

FUTURE-FIT ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS PILLAR

RISK MANAGEMENT AND ASSURANCE

The Bank's enterprise risk management framework provides the governance structure and approach for our risk management discipline and guidance on instilling an effective risk culture. It establishes the Bank's risk management universe, structure, policies, and processes. The Risk Management and Assurance Department (RMAD) also works with the IT Security Team, which oversees comprehensive and integrated governance and management of the Bank's Cyber and Information Security Programme and monitors the IT Security Plan's implementation.

> The Board oversees risk strategy execution, approves risk appetite and tolerance...

The governance of risk

The Bank has a complex, multi-layered risk management structure, but the Board is ultimately responsible for risk management. This involves ensuring that risks are appropriately identified, assessed, measured, managed and monitored, and maintaining governance. The Board oversees risk strategy execution, approves risk appetite and tolerance, and ascertains whether risks are mitigated within acceptable tolerance levels.

The Bank's Risk Management Committee, Audit Committee, and Board meetings continued to examine and monitor the highest strategic and operational risks and their defined response strategies. A forward-thinking approach encourages healthy risk discussions while keeping track of past risk events.

The Bank scans the horizon for new emerging risks and identifies top risks impacting its operations. As is customary, various surveys and reports on global risk were reviewed to ensure that the Bank identifies all key risks that might interfere with the attainment of its Strategic Objectives, and that the Bank's top risks are aligned with the global risks. There were 21 risk incidents, which is the same as the number reported in 2022.

Cross-cutting risks

By its nature, the Bank's business is vulnerable to risks that are inherent in its core objectives. The achievement of the core objectives is susceptible to various risks, necessitating special attention and specialised skills for efficient risk management. As a result, the RMAD also orchestrates the processes outlined below.

BUSINESS CONTINUITY MANAGEMENT

The RMAD coordinates the Bank's Business Continuity Management Policy based on ISO22301, as approved by the Board. The Crisis Management Team oversees all aspects of the Bank's business continuity. The RMAD conducts business continuity impact assessments and facilitates all departments' business continuity plans. The plans include procedures to be followed in the event of an extreme disruption. Business continuity practices were incorporated in strategy formulation and routine processes.

An independent peer review was conducted to evaluate conformity and effectiveness of the business continuity management system against ISO 22301 (2019 standard). The peer review showed that the Bank has achieved a 79.6 percent level of conformance. This falls under Level 4, which implies that ISO 22301 is being implemented, but with some areas requiring improvement; in this regard, an action plan has been put in place.

COMPLIANCE MANAGEMENT

The compliance function contributes to developing a culture that values compliance risk identification, assessment, management, monitoring and reporting amongst the Bank's ongoing activities. The compliance function monitors new regulatory developments and collaborates with those responsible for formulating policy and other actors within the Bank to ensure that all applicable laws and regulations, internal policies and procedures are accessible and followed, and supported by appropriate controls.

An updated compliance system is in place. No significant non-compliance issues were reported during the period under review. Policy awareness and the execution of compliance monitoring remain essential to the functioning of the Bank.

Ethics

The working environment at the Bank demands high ethical standards, with rules applying equally to all employees, irrespective of their positions. Our business activities and relations with stakeholders are infused with ethical standards of behaviour. As a result, the Bank is committed to the principle of accountability and to developing a work culture in which employees and the public are encouraged to report any improper behaviour or violation of the Bank's Code of Ethics and Conduct, or of relevant laws, policies, and procedures that apply to staff members at all levels. The Bank's Code of Ethics and Conduct was reviewed in 2023 to align with best practices and with the recommendations ensuing from the ethics risks assessment. The outcomes of the ethics awareness and risks assessment were shared with all departments.

An independent external hotline service (Deloitte Tip-offs Anonymous) was implemented towards the end of 2022 and became effective during 2023. It allows whistle-blowers to report wrongdoing related to the Bank's business, while guaranteeing employees and the public anonymity, if desired. In 2023, five tip-offs were made; of these, four related to other institutions' normal business operations, while one was handled through the approved process.

Internal Audit

The Internal Audit provides objective and independent assurance on the adequacy and effectiveness of the Bank's governance, risk management and control processes. The approved risk-based Internal Audit Plan for 2023 provided comprehensive assurance regarding the processes which manage key risks. This was undertaken as planned, and all material issues that arose were reported to the appropriate management level and the Board's Audit Committee. Tracking and accountability for corrective actions on issues raised during audits were prioritised through quarterly reporting to the Audit Committee regarding the Bank-wide cure (resolution) rate.

A quality assurance review of the Internal Audit function was performed. The review assessed the performance of the Internal Audit function to ascertain whether it is aligned with industry and broader best practices. The review was performed to meet the good practices recommendation of the Institute of Internal Auditors that an external quality assessment be conducted every five years.

The independent assessment concluded that the Internal Audit activity "Generally conforms" with the Institute of Internal Auditing Standards. "Generally conforms" means that the processes undertaken comply with the Institute of Internal Auditing standards with no or only minor exceptions noted. Key observations that required improvements were identified, and corrective management action has been put in place.

Internal Audit key achievements

The Bank successfully completed 82 percent of the 2023 Internal Audit plan. As per the completed assignments, sufficient audit coverage was achieved to enable the Bank to state that it had adequate and effective risk management practices, and that controls and governance processes were in place to achieve the objective of the Strategic Plan. Areas requiring attention were identified, and management initiated actions to improve the control environment, with implementation timelines being tracked. The cure rate result for December 2023 was 76 percent (2022: 99.8 percent), which is below the target of 100 percent.

Legal affairs

During the period under review, the Bank continued to mitigate legal risks emanating from the discharge of its mandate. A total of 19 cases served before courts involving the Bank either as a primary party or a party which may have an interest in the particular matter. Twelve cases, the majority of which had their origin in the Bank's regulatory mandate, were launched during 2023. Six of these cases were either finalised in favour of the Bank or await delivery of final judgment. The Bank has also established its panel of legal service providers, comprising four law firms.

...sufficient audit coverage was achieved to enable the Bank to state that it had adequate and effective risk management practices...

INFORMATION TECHNOLOGY

The Bank made significant strides over the past year in aligning its technology with the Bank's corporate strategy, and contributing to its overall success. The Bank's technology accomplishments span the three themes listed below.

Theme 1: Innovate (digitise the Bank)

The optimisation of the enterprise resource planning system through the integration of modern applications was one of the opportunities explored to enhance productivity and efficiency internally and externally. Some essential benefits realised were improvements in the general procurement process, currency processing, budgeting management automation, and extending the depositing function to commercial banks. Other notable enhancements, particularly in the Employee's self-service domain, were the automation of deductions of home loan insurance, overtime claims processing, student salary payments, leave commutations, and viewing historical tax certificates. All these enhancements have contributed to significant time and effort savings, making the SAP system more user-friendly and efficient. The Introduction of a digital suggestion box on the corporate intranet has promoted an innovation culture among the employees, prompting them to contribute ideas and suggestions for ongoing improvement in any area.

To ensure compliance with the anti-money laundering and terrorism financing Act, two critical systems aimed at curbing IFFs were implemented. The first, the TVS, is designed to monitor and flag irregular financial activities, such as when funds leave the country without corresponding imports or exports from Namibia without receiving payment. This system represents a collaborative effort between the Bank of Namibia, NamRA, and commercial banks. The second system, the Sanction Screening tool, allows regulated entities to screen all their clients against primary Sanctions Lists before initiating business relationships. This tool is instrumental in helping reporting entities filter, identify, and detect individuals, entities, and vessels listed by significant sanction authorities, thereby maintaining strict adherence to the requirements of the Financial Intelligence Act (No. 13 of 2012).

To ensure compliance with the anti-money laundering and terrorism financing Act, two critical systems aimed at curbing IFFs were implemented. The first, the TVS, is designed to monitor and flag irregular financial activities, such as instances where funds leave the country without corresponding imports, or exports from Namibia occur without the receipt of payment. This system represents a collaborative effort between the Bank of Namibia, NamRA, and commercial banks. The second system, the Sanction Screening tool, serves a crucial role in allowing regulated entities to screen all their clients against primary Sanctions Lists before initiating business relationships. This tool is instrumental in helping reporting entities filter, identify and detect individuals, entities and vessels that are listed by significant sanction authorities, thereby maintaining strict adherence to the requirements of the Financial Intelligence Act (No. 13 of 2012).

Theme 2: Alignment to Bank business

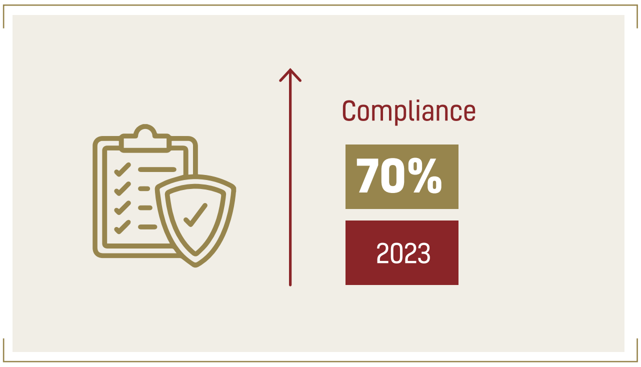
The Bank has taken significant steps to align its technology strategy with the Bank's broader business goals, focusing on assessing and upgrading key areas of its infrastructure and operations. In an effort to achieve this alignment, the Bank engaged a consulting firm to evaluate it's enterprise architecture maturity. The firm identified gaps between the current and desired maturity levels, and plans were formulated to address these starting in 2024. Additionally, the Disaster Recovery Site infrastructure was upgraded to an active-active configuration, allowing it to continuously operate alongside the production infrastructure, thereby enhancing the Bank's resilience and readiness for potential disruptions.

To further support new technology initiatives, a technology user awareness session was conducted for staff, effectively communicating the available technological tools and capabilities, along with guidelines for their appropriate use.

Theme 3: Safeguard (protect IT assets)

The Bank has made good progress in enhancing its cybersecurity measures, as evidenced by the diligent execution of its three-year IT Security Plan. Over the past two years, the Bank has successfully completed two-thirds of this plan, with the final third on track for completion during 2024.

During the year under review, the primary focus was on bolstering the detection and response capabilities, which led to notable improvements in the Incident Response Plan and the vulnerability management process. A pivotal achievement in this endeavour was the successful completion of a cyber maturity test, which evaluated the Bank's operations against the maturity target level set by the Federal Financial Institutions Examination Council, as agreed upon by the SADC central banks. The Bank has already achieved over 70 percent compliance in just its second year of operation, underscoring its robust cybersecurity posture and commitment to safeguarding its IT assets.



PART B

Macroeconomic review

Contents

FIGURES

SUMMARY OF GLOBAL AND DOMESTIC ECONOMIC AND FINANCIAL DEVELOPMENTS

The global GDP growth rate is estimated to have decelerated in 2023 from the rate recorded in 2022. The global GDP growth rate declined from 3.5 percent in 2022 to 3.1 percent in 2023. This can be attributed to high interest rates, the enduring effects of the COVID-19 pandemic, and the gradual reduction of fiscal assistance. Economic growth in most advanced economies (AEs) and several emerging market and developing economies (EMDEs) decelerated in 2023, except in the United States, where predictions are that growth remained stable. On the other hand, China, Japan, and Russia experienced an upturn in growth during the same period.

Real global GDP is expected to increase at the same rate in 2024 as in the previous year, but there are downside risks to consider. The International Monetary Fund (IMF) expects the real GDP growth rate in AEs to moderate to 1.5 percent in 2024, down from 1.6 percent in 2022. In EMDEs, it is projected that real GDP will maintain the same pace of growth in 2024 as in 2022, namely 4.1 percent. On a positive note, countries in sub-Saharan Africa are expected to recover in 2024. Overall, global growth is anticipated to be at 3.1 percent in 2024, the same rate as estimated for 2023. However, there are downside risks to the outlook due to the lagged and ongoing effects of tight monetary policy, as well as risks from escalating conflicts in the Middle East. Additionally, the slowing Chinese economy and climate-related disasters are likely to restrict global economic activity and growth in 2024.

Global inflation declined in 2023, as supply chains eased and transportation costs declined, with the result that policy interest rates remained unchanged in the latter part of the year. Inflation declined in AEs and EMDEs, mainly due to a reduction in energy and transportation costs, coupled with a fall in the costs for food due to an abundant supply of agricultural products attributed to favourable weather. Global inflation is projected to decline further to 5.8 percent in 2024, from 6.9 percent in 2023, as tight monetary policy continues to take effect.

Financial markets witnessed significant events in 2023. In March 2023, the collapse of Silicon Valley Bank and a major bond sell-off resulting from higher interest rates were among the notable market dynamics. However, by late October 2023, several asset classes began to rebound as declining inflation and anticipated rate cuts instilled confidence. The year ended on a positive note for both stock and bond markets, with an increased appetite for both riskier assets and sovereign bonds. Conversely, the prices of most monitored commodities declined throughout the year. In contrast, the demand prospects for uranium and gold surged due to countries' pursuit of energy security and reduced fossil fuel emissions, as well as the safe-haven[1] demand driven by the Israel-Hamas war, respectively. In the currency market, the US Dollar (USD) appreciated against a basket of

currencies, while the South African Rand (ZAR) exchange rate depreciated against major currencies.

The domestic economy built up further momentum during 2023, although at a slower pace than in 2022. The growth of the Namibian economy scaled down to 4.2 percent, compared to growth of 5.3 percent recorded in 2022. This can be ascribed to slower growth in the primary and secondary industries, underlined by weaker demand in both global and domestic economies. The slowdown in 2023 growth was largely ascribed to weaker demand in global and domestic economies, underpinned by high inflation and high interest rates that have a negative impact on consumer spending. From the demand side, all variables except Government consumption remained in positive territory, underpinned by elevated increases in private investment and exports.

Global GDP growth rate

2022 3.5% ↓ 2023 3.1%

Namibia Economic Growth

2022 5.3% ↓ 2023 4.2%

Namibia's inflation rate eased during 2023 compared to the previous year, thus easing pressure on consumers' purchasing power. Overall inflation for Namibia declined from 6.1 percent in 2022 to an average of 5.9 percent during the year under review, as the effect of the tight monetary policy stance penetrated through the economy, ameliorating the shrinkage of consumers' purchasing power. The moderation in inflation was primarily ascribed to a decline in transport inflation on the back of softer fuel prices, which were kept unchanged and/or adjusted downwards for most of the year. Conversely, inflation for food and non-alcoholic beverages, as well as housing, water, electricity, gas and other fuels, inched higher in 2023, somewhat offsetting the decline in other components of inflation.

> **The slowdown in 2023 growth was largely ascribed to weaker demand in global and domestic economies, underpinned by high inflation and high interest rates that have a negative impact on consumer spending.**

Growth in broad money supply (M2) rose in 2023, arising from an increase in net foreign assets (NFA) supported by moderate growth in domestic claims despite a decline in private sector credit extension (PSCE). Growth in M2 increased to 10.7 percent in 2023, compared to muted growth at the end of 2022. The higher growth in M2 during the period under review was underpinned by a rise in NFA of the depository corporations. The growth in PSCE slowed to an average annual rate of 1.9 percent in 2023, from 4.2 percent recorded in 2022. The slowdown was due to lower demand for credit and repayments by corporates as a result of sustained economic uncertainty and the supressed business environment due to high inflation and interest rates, as borrowers' appetite for credit remained low.

1 A safe haven investment is one that is expected to either maintain or increase its value during periods of market turbulence.

The budget deficit of the Government of the Republic of Namibia (hereinafter referred to as "the Government") narrowed during FY2023/24, while the Government debt ratio declined declined over the year to the end of December 2023. The narrowing of the deficit is ascribed to a faster rise in revenue collection, as reflected in the increases in income tax on individuals, and diamond mining and non-mining tax, coupled with higher SACU receipts during FY2023/24. Government expenditure also rose, but at a slower pace in relation to revenue. The rise in expenditure was ascribed to the inclusion of a N$2.0 billion project direct funding expenditure into the budget, as well as once-off expense provision for the population census and general registration of voters for the 2024 election. Over the Medium Term Expenditure Framework (MTEF) period, the budget deficit as a percentage of GDP is projected to narrow to 3.0 percent in FY2026/27, in line with the set threshold of 3.0 percent as the increase in revenue is projected to average 10.3 percent, outpacing the rise in expenditure, which averages 8.5 percent over the MTEF period. Meanwhile, total debt as a percentage of GDP stood at 65.3 percent at the end of December 2023, representing a decrease of 1.5 percentage points from a year earlier as the economy grew faster than the Government debt.

Namibia's current account deficit deteriorated further, primarily due to increasing outflows on the services account on the back of oil exploration and appraisal activities. The deficit on the current account widened to N$34.1 billion during 2023, from N$26.4 billion recorded in the preceding year. This was due to higher outflows recorded in the services account and the primary income account. As a ratio of GDP, the current account deficit stood at 15.0 percent in 2023, relative to a deficit of 12.8 percent recorded a year previously. The stock of international reserves rose during 2023, supported by SACU receipts and government foreign borrowing. Meanwhile, the REER depreciated on an annual basis, signalling an improvement in the competitiveness of Namibian products in international markets.

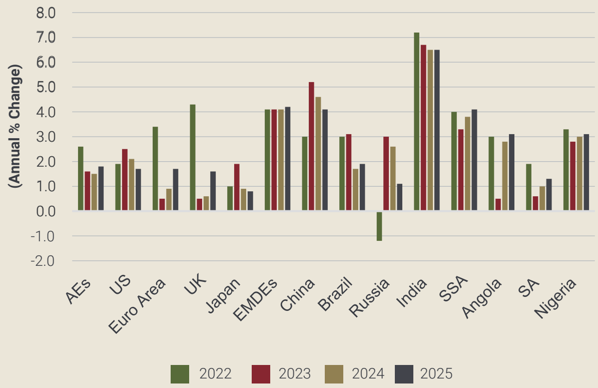
GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

GLOBAL GROWTH AND OUTLOOK

Figure B.1

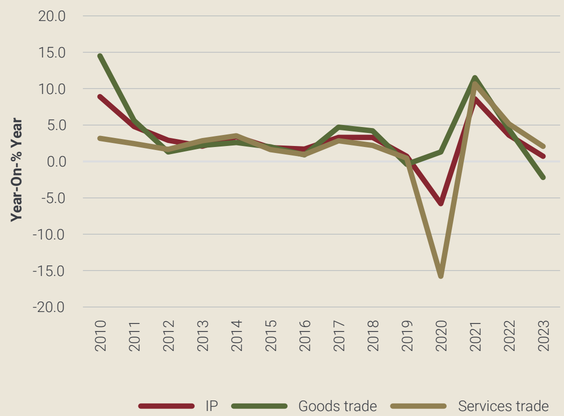
World Economic Output (Annual Percentage Change)

(a) IMF GDP Review 2023, Outlook 2024 -2025



In 2023, global trade declined. Similarly, global industrial production also experience a slower rate of growth

(b) Growth of global trade and industrial production (% y o-y)



Source: IMF January 2024 WEO Update, Markit, CPB Netherlands Bureau of Economic Analysis

Real Global GDP growth for 2023 is estimated to have slowed compared to 2022, primarily due to high interest rates, a weaker Chinese economy, and tight financial conditions. Despite the unfavourable economic environment in 2023, the US economy demonstrated resilience by registering a growth rate of 2.5 percent, compared to 1.9 percent in 2022 (Figure B.1a). Similarly, Japanese GDP growth rose to 1.9 percent in 2023, faster than the 1.0 percent recorded in 2022. In contrast, the Eurozone experienced slower GDP growth of 0.5 percent in 2023, compared to 3.4 percent in 2022. Additionally, the United Kingdom (UK) registered a deceleration in GDP growth, which stood at 0.5 percent in 2023, compared to 4.3 percent in 2022.

Among the emerging market and developing economies (EMDEs), there was encouraging performance with robust growth observed in the overall region. The group of EMDEs is estimated to have recorded a growth rate of 4.1 percent in 2023, the same as in 2022 (Figure B.1a). This robust growth was mainly driven by India, which maintained the highest growth rate of 6.7 percent in 2023. Furthermore, Russia's GDP growth recovered to 3.0 percent in 2023, following a contraction of 1.2 percent in 2022. Additionally, China's GDP increased at a faster rate of 5.2 percent in 2023, compared to 3.0 percent in the previous year. Brazil's real GDP growth rate was 3.1 percent in 2023, up from 3.0 percent in 2022. Conversely, South Africa's GDP growth slowed to 0.6 percent from 1.9 percent in 2022.

Global trade declined in 2023, primarily due to weaker demand from developed countries and a decrease in commodity prices, while global industrial production increased at a slower pace. Global trade in goods contracted by 2.2 percent in 2023, marking the first annual decline outside of global recessions in the past 20 years (Figure B.1b). This decline can be attributed to geopolitical strains, shifting trade patterns, and high borrowing costs. On the other hand, global trade in services recorded growth of 2.1 percent, slower than the 5.1 percent growth observed in 2022. This growth was supported by the ongoing normalisation of travel in Asia, which boosted tourism. The World Bank projects that global trade will recover by 3.3 percent in 2024, although it is expected to be negatively impacted by rising trade distortions and geoeconomic fragmentation.

The International Monetary Fund (IMF) projected in its World Economic Outlook (WEO) Update for January 2024 that global GDP would grow at the same rate in 2024 as in 2023. The WEO forecast that global GDP would grow by 3.1 percent in 2024, the same rate as estimated for 2023 (Figure B.1a). This forecast was revised upwards by 0.2 percentage points, driven by resilience in the US economy and some EMDEs, and increased fiscal support in China. Despite this projected growth, the global growth rate is still expected to be lower than the pre-pandemic period (2000–2019) average rate of 3.8 percent, as elevated interest rates and the withdrawal of fiscal support by governments weigh down economic activity.

The risks to the global economic outlook are more balanced. On the upside, if inflation decelerates more rapidly, tighter financial conditions could ease. Additionally, looser-than-expected fiscal policy could result in temporary stronger growth, while stronger reform momentum could boost productivity growth, with positive spillover effects. Downside risks include, among others, the escalation of conflicts in the Middle East and Russia's invasion of Ukraine. These elevated geopolitical risks could lead to disruptions in commodity markets and higher prices. Other risks include financial stress due to elevated real interest rates, persistent inflation, weaker-than-expected activity in China, trade fragmentation, and climate-related disasters.

Global trade in goods contracted by 2.2 percent in 2023, marking the first annual decline outside of global recessions in the past 20 years.

INFLATION AND INTEREST RATE DEVELOPMENTS

Table B.1

Annual Average Consumer Price Inflation Rates for Selected Economies (%)

	2019	2020	2021	2022	2023
AEs					
US	1.8	1.2	4.7	8.0	4.1
UK	1.8	0.9	2.6	9.1	7.4
Eurozone	1.2	0.3	2.6	8.4	5.5
Japan	0.5	0.1	-0.1	2.4	3.3
EMDEs					
Brazil	3.7	3.2	8.3	9.4	4.6
Russia	4.5	3.4	6.7	13.8	6.0
India	3.7	6.6	5.2	6.7	5.6
China	2.9	2.5	0.9	2.0	0.2
SA	4.1	3.3	4.6	6.9	5.9

Source: Trading Economics

Inflation declined in most of the monitored AEs in 2023 compared to 2022, as supply chain pressure eased and transportation costs declined, except in Japan, where they rose. The inflation rate in the US slowed to an average of 4.1 percent in 2023, down from 8.0 percent in 2022, on the back of declining energy costs (Table B.1). Similarly, inflation in the UK declined to 7.4 percent in 2023, down from 9.1 percent in the previous year, due in part to the reduction in energy prices following the Office of Gas and Electricity Markets' decision to lower the cap on household bills, in addition to easing food inflation. In the Eurozone, inflation declined to 5.5 percent in 2023 from 8.4 percent in 2022, led by the lower costs of energy and food. Conversely, inflation in Japan rose slightly to 3.3 percent from 2.4 percent in 2022, partly driven by the depreciation of the Japanese Yen against major currencies.

Inflation in the EMDEs also decelerated in 2023, compared to high levels experienced in 2022. Inflation in Brazil decreased to 4.6 percent in 2023 from 9.4 percent in 2022. This decline can be attributed to lower prices of transportation, food, and non-alcoholic beverages (Table B.1). Similarly, India saw a decrease in inflation from 6.7 percent in 2023 to 5.6 percent in the previous year. Furthermore, Russia experienced a significant drop in headline inflation from 13.8 percent in 2022 to 6.0 percent in 2023. This decline was mainly due to falling costs of food, gasoline, medicines, and tobacco. The Chinese economy's consumer prices also declined notably from 2.0 percent in 2022 to 0.2 percent in 2023. This decrease was primarily driven by an abundant supply of agricultural products as a result of favourable weather conditions. Additionally, a fall in consumption after the Golden Week holiday towards the end of 2023 and weak recovery in domestic demand contributed to the decline. In South Africa, the annual inflation rate decreased from 6.9 percent in 2022

Table B.2

Policy rates of selected economies

Country or grouping	Policy rate name	Policy rates at end of 2023 (%)	Month of last meeting in 2023	Policy rate change in 2023 (%)	Inflation rate at end of 2023 (%)	Real interest rate at end of 2023 (%)
AEs						
USA	Federal funds rate	5.25-5.50	Dec	1.00	3.4	2.1
UK	Bank rate	5.25	Dec	1.75	4.0	1.3
Euro Area	Refinancing rate	4.50	Dec	2.00	2.9	1.6
Japan	Call rate	-0.10	Dec	0.00	2.6	-2.7
EMDEs						
Brazil	SELIC rate	11.75	Dec	-2.00	4.6	7.1
Russia	Key rate	16.00	Dec	8.50	7.4	8.6
India	Repo rate	6.50	Dec	0.25	5.7	0.8
China	Lending rate	3.45	Dec	-0.20	-0.3	3.8
SA	Repo rate	8.25	Nov	1.25	5.1	3.2

Source: Trading Economics

to 5.9 percent. This decrease was mainly attributed to the lower cost of transportation and a decrease in the cost of food, supported by ample supplies following favourable harvests during the review period.

Many of the monitored AEs raised their policy rates in 2023, except for Japan, which kept its call rate unchanged. In 2023, the US Federal Open Market Committee increased its federal funds rate target range by 100 basis points to 5.25–5.50 percent (Table B.2) to address the elevated inflation. Similarly, in 2023, the Bank of England raised its key interest rates by 175 basis points to 5.25 percent to combat high inflation. Additionally, the European Central Bank increased its policy interest rate by 200 basis points to 4.50 percent in 2023 to control upward price pressures. However, the Bank of Japan maintained its call rate at -0.10 percent and 10-year bond yields at around 0.0 percent in 2023.

The majority of the monitored central banks in the EMDEs raised their benchmark interest rates in 2023 in response to rising inflation, except for Brazil and China, where interest rates were reduced. In 2023, the Reserve Bank of India increased the benchmark policy repo rate by 25 basis points to 6.50 percent to address elevated inflation and align it with its tolerance range of 4 percent ± 2 percent. The South African Reserve Bank (SARB) reduced the repo rate by 125 basis points to 8.25 percent in 2023 to combat high inflation and enhance confidence in achieving the inflation goal (Table B.2). The Central Bank of Russia raised its key interest rate by 850 basis points to 16.00 percent in 2023 to combat elevated inflation and expected inflationary pressures. In contrast, the People's Bank of China reduced policy rates by 20 basis points to 3.45 percent to support a slowing and weakening economy. Furthermore, the Central Bank of Brazil reduced its Selic rate by 200 basis points to 11.75 percent in 2023, in line with declining inflation and to support weak economic activity.

COMMODITY MARKET DEVELOPMENTS

The price of uranium rose in 2023, while that of Brent crude oil declined, compared to the respective 2022 prices. The price of uranium increased by 25.5 percent, reaching an average of US$62.51 per pound in 2023 (Figure B.2). This increase was largely attributed to strong demand for energy security, as well as China's growing need for uranium in its nuclear projects. Additionally, the decision made by uranium producer Cameco to reduce its production has continued to support the price of uranium. Conversely, the price of Brent crude oil declined by 16.8 percent, averaging US$80.76 per barrel in 2023. This decline was mainly attributed to a deteriorating global economic environment. As a result, gasoline deliveries hit their lowest point in two decades. The fragile state of industrial production, particularly in China, also exerted downward pressure on oil prices. Interestingly, despite the production cut imposed by the Organization of Petroleum Exporting Countries, oil prices still experienced a decline.

The prices of copper and zinc declined, while that of gold increased in 2023 over 2022. The average price of copper dropped by 3.8 percent to U$8 490 per metric tonne in 2023 (Figure B.2). This was on the back of declining demand, especially from China. Meanwhile, zinc prices dropped by 23.8 percent to an average of US$2 653 per metric tonne in 2023, chiefly attributed to weak demand, notably from China. On the positive side, the gold price increased by 7.9 percent to an average of US$1 943 per ounce in 2023, mainly on the back of safe-haven demand driven by the Israel-Hamas war.

In 2023, diamond prices continued to decline. According to the International Diamond Exchange diamond price index, there was an 18.2 percent decrease, with the index averaging approximately 97.42 points (Figure B.4). The weakening consumer demand for polished diamonds in the US and China contributed to the downturn in the diamond market. The US, which represents the largest market in the industry, faced challenges due to increasing inflationary pressure. Additionally, China, a key growth market, experienced a real estate crisis that negatively impacted consumer confidence. Furthermore, the diamond market also faced an oversupply issue because of people stockpiling goods during the pandemic and choosing to purchase diamond jewellery and other luxury items while staying at home. To exacerbate the situation, the lab-grown diamond industry made significant advancements in certain crucial sectors, thus constituting formidable competition to the natural diamond sector.

"The weakening consumer demand for polished diamonds in the US and China contributed to the downturn in the diamond market.

Figure B.2

Uranium And Brent Crude Oil

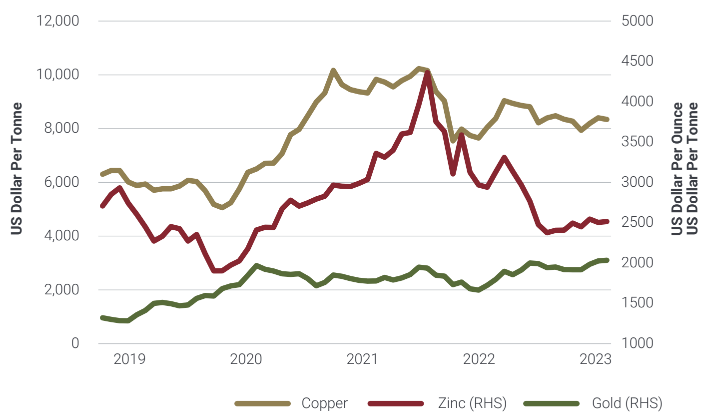
Energy commodities

Source: IMF

Figure B.3

Other Commodity Prices

Copper, Zinc & Gold markets



Source: IMF

Figure B.4

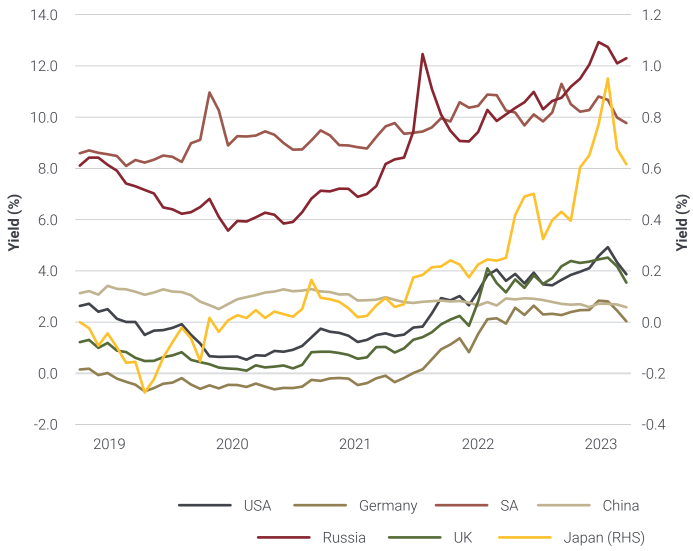
Diamonds Market

Source: Idexonline.com

The performance of the bond yields increased in 2023 among the monitored AEs and EMDEs, leading to losses. The US 10-year government bond yield averaged 4.0 percent in 2023, up from 3.0 percent in the previous year (Figure B.5). The increase in US Treasury yields has caused the Japanese Government Bond (JGB) yields to rise as well. As a result, there has been a gradual adjustment in the yield curve control policy by the Bank of Japan. Furthermore, the UK's 10-year bond yields rose to 4.0 percent in 2023, from 2.5 percent in the previous year. Comparably, yields on Germany's 10-year government bond increased to 2.4 percent from 1.3 percent in the previous year. Among the EMDEs, Russian bond yields rose to 11.5 percent from 10.1 percent in the previous year because of strong government spending, prompting the Russian government to depend on Federal Loan Obligations issuance to cover fiscal deficits. Furthermore, the decline in South African bonds tracked the depreciation of the ZAR against major currencies and lower international bond yields. Chinese bond yields were virtually unchanged in 2023, averaging 2.7 percent compared to 2.8 percent in the previous year.

Figure B.5

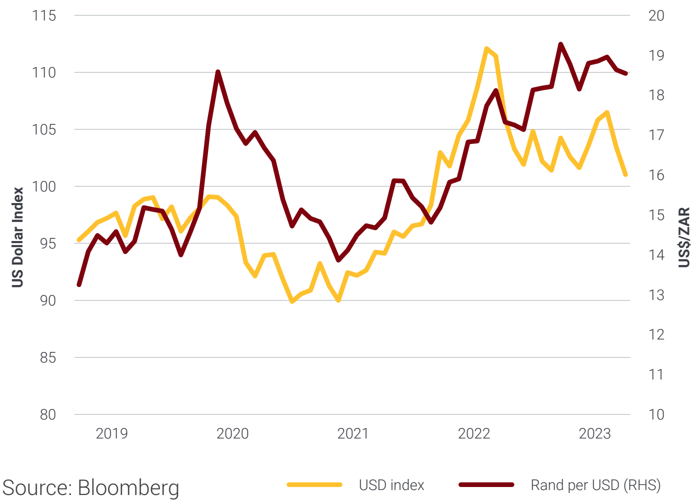
Bond Market



Source: Bloomberg

Figure B.6

Foreign Currency Markets



Source: Bloomberg

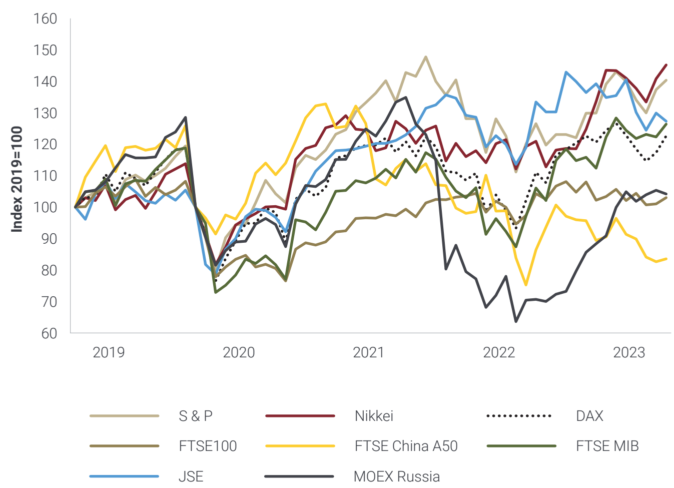
The USD appreciated during 2023, in contrast to the ZAR, which depreciated against major currencies. The USD appreciated against a basket of six major currencies in 2023 (Figure B.6), mainly due to the increased demand for safe-haven assets as political tensions escalated in the Middle East. The stronger USD, coupled with the Federal Reserve's decision to postpone interest rate cuts, dampened the interest in portfolios and currencies of EMDEs, including the ZAR. As a result, the ZAR depreciated against the Dollar on quarterly and yearly bases. Additionally, the ZAR's exchange rate was negatively affected by other issues specifically affecting South Africa, such as slow economic growth, negative investor sentiment due to frequent power cuts, and logistical challenges at ports and railway operations.

STOCK MARKET DEVELOPMENTS

The stock markets had a successful year in 2023, despite concerns among investors of a recession. They faced some uncertainty in the first half of the year due to declining corporate earnings. Worries about a banking crisis resulting from the collapses of Silicon Valley Bank, Signature Bank, and First Republic Bank also contributed to market volatility in equities. However, towards the end of the year, equities began to recover, thanks to strong job growth, decreasing inflation, diminishing recession fears, and improved corporate earnings. The S&P 500 defied concerns about the sustainability of the fiscal outlook and the US debt downgrade, recording yearly gains of 17.3 percent to end the year at 4 528 points. Germany's DAX also gained 13.8 percent, reaching 15 919 points in 2023. The Japanese Nikkei likewise recorded gains of 28.7 percent, ending the year at 33 585 points. Similarly, the UK's FTSE 100 reported minor gains of 0.5 percent, reaching 7 504 points. On the other hand, the EMDE stock markets lost ground, with China's FTSE A50 experiencing losses of 10.7 percent. These

Figure B.7

Stock Price Indices



Source: Bloomberg

Global Growth projected for 2024

= 3.1%

losses were primarily driven by poor investor sentiment due to slowing economic growth and ongoing issues in the real estate sector. Likewise, South Africa's JSE ALSI also recorded losses of 2.3 percent, reaching 71 393 points, tracking the performance of the Chinese stock market.

CONCLUSION

The global GDP growth rate experienced a deceleration in 2023 due to high interest rates, a weakened Chinese economy, and tight financial conditions. Despite the unfavourable economic environment, the US economy demonstrated resilience. In contrast, the Chinese economy continued to falter and exhibited deflationary tendencies as a result of weak demand. Similarly, the Eurozone was weaker in 2023 compared to the previous year. As China is the largest global consumer of commodities, the currently subdued recovery in the Chinese economy could potentially harm both Namibian commodity prices and export revenue. Additionally, South Africa's economic challenges, notably electricity supply issues, directly affected Namibia's manufacturing sector and overall economy. However, congestion in South African ports may present opportunities for the expansion of Walvis Bay port as a regional logistics hub. The IMF anticipates a decline in growth for AEs in 2024, while EMDEs are projected to experience a moderate recovery. Overall, global growth is expected to reach 3.1 percent in 2024, the same rate estimated for 2023.

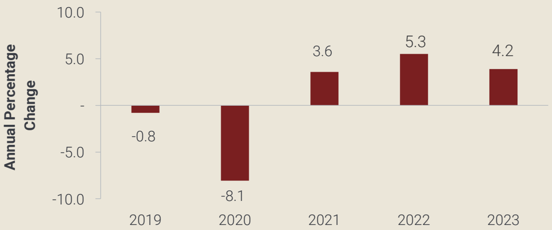
Headline inflation has decreased in several monitored economies, although it remains relatively high overall. Despite this downward trend, most central banks have chosen to maintain their current policy rates. The IMF predicts that global headline and core inflation will slow down in 2023 and 2024, mainly due to lower commodity prices and reduced disruptions in the supply chain. However, the Israel-Gaza conflict could lead to increased crude oil prices, potentially prolonging high inflation for oil-importing countries like Namibia.

"Economic growth in most advanced economies and in some emerging market and developing economies slowed down in 2023, of which the downward trend was also observed in the Namibian economy.

THE DOMESTIC ECONOMY AND FINANCIAL DEVELOPMENTS AT A GLANCE

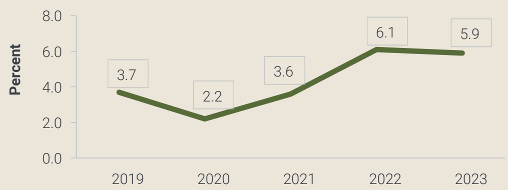
The Namibian economy continued its recovery in 2023, but at a moderately slower pace.

GDP Growth

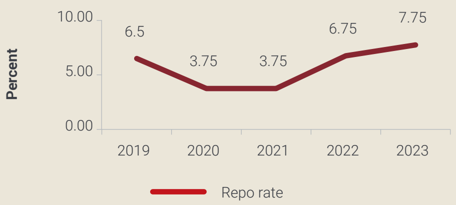


The annual inflation rate decelerated somewhat during 2023.

Overall inflation (%)

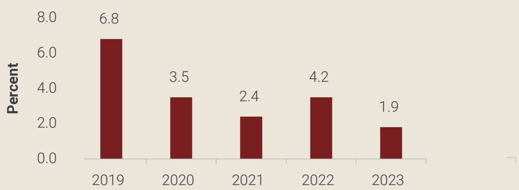


Monetary policy was tightened further throughout 2023.



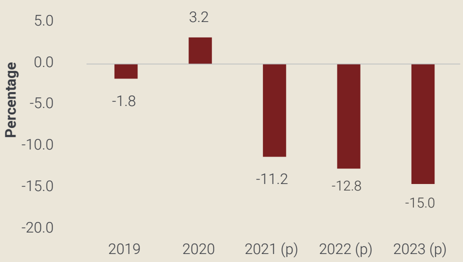
Growth in PSCE weakened during 2023.

PSCE (%)



The current account deficit deteriorated further during 2023.

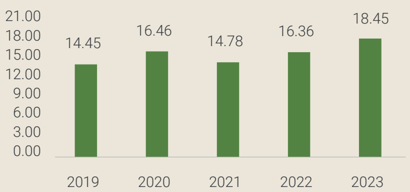
Current account % of GDP



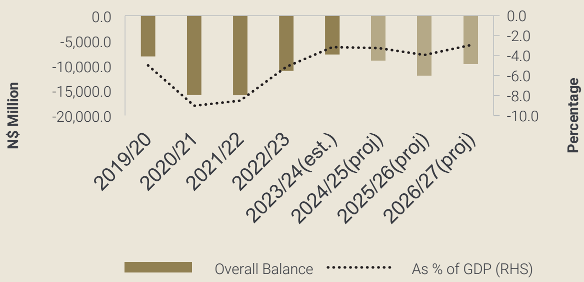
Official reserves remained adequate and above the statutory requirements.

The Namibia Dollar weakened against the USD during 2023.

Average exchange rate (US$/NAD)



The Government budget deficit narrowed during fiscal year 2023/24



REAL SECTOR DEVELOPMENTS

GDP GROWTH

The Namibian economy built up further momentum during 2023, but at a slower pace than in 2022. The growth of the Namibian economy scaled down to 4.2 percent, compared to marked growth of 5.3 percent recorded in 2022 (Figure B.8), on the back of slower growth in the primary and secondary industries. The slowdown in 2023 growth was largely ascribed to weaker demand in global and domestic economies, underpinned by high inflation and high interest rates that had a negative impact on consumer spending. Other factors contributing to the slowdown in 2023 growth were the high base effects in the mining industry, where diamond mining had expanded by 45.1 percent in 2022.

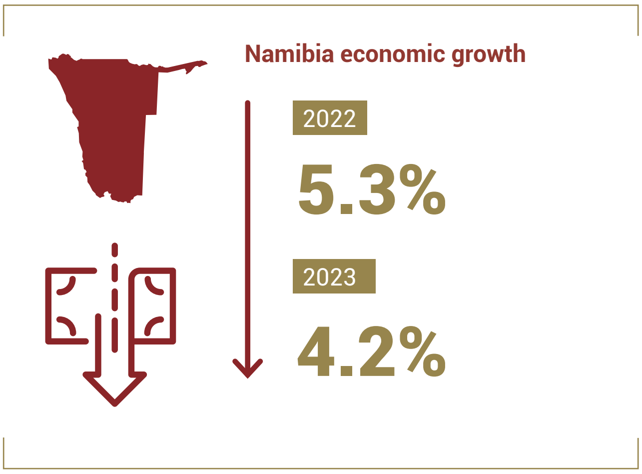
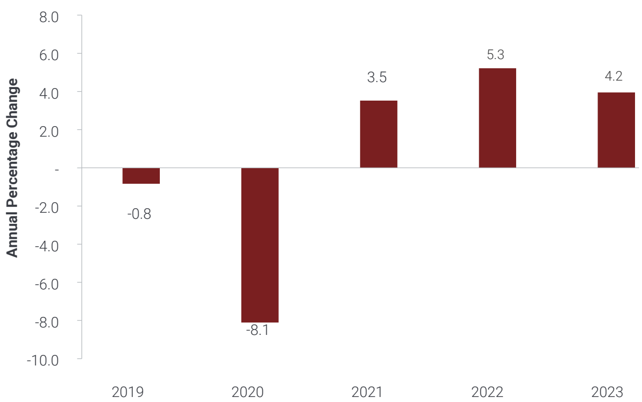


Figure B.8

GDP Growth



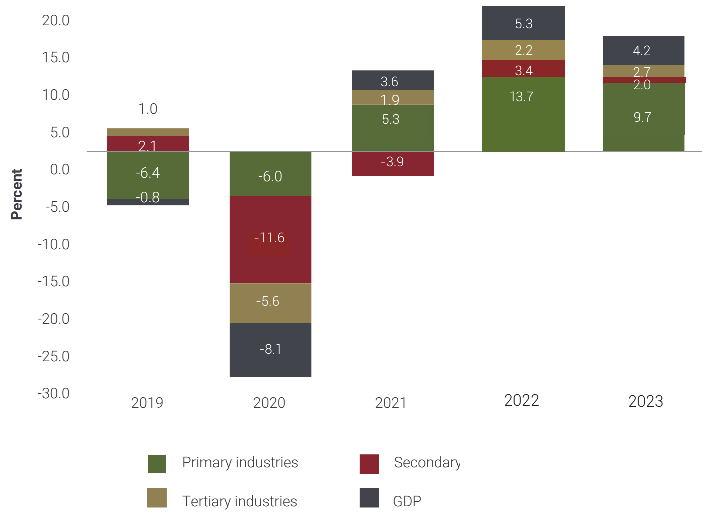
Source: NSA

CONTRIBUTIONS TO REAL GDP GROWTH BY INDUSTRY

During 2023, the economic growth largely stemmed from a slowdown in the growth of economic activity in the primary and secondary industries. Primary industry rose at a slower pace, mainly on the back of lacklustre performance in the diamond mining and agriculture sectors. This was primarily due to unfavourable diamond prices, resulting from weaker consumer and retailer demand in key markets, which depressed domestic diamond production. In addition, the erratic and insufficient rainfall received in the 2022/23 rainfall season jeopardised local crop production. Similarly, secondary industry growth was partly weakened by the weaker global demand, in addition to local operational dynamics. While production by the food industry expanded, beverage output and diamond cutting and polishing activity shrank, resulting in an overall contraction in the manufacturing sector. By contrast, electricity production soared bolstered by good rainfall in the catchment area feeding the Ruacana hydroelectric power station. On the other hand, activity in the construction sector declined, during 2023. The decline was mainly evident in Government and private construction work programmes. However, relief arose from tertiary industry, which experienced broad-based growth during the period under review. This growth arose in various sectors, including the wholesale and retail, administrative and support services, hotels and restaurants as well as transport and storage sectors.

Figure B.9

GDP Growth by Industry



Source: NSA

The oil and gas exploration activity contributed to a rise in GDP

REAL GDP GROWTH BY EXPENDITURE

From the demand side, all variables remained in positive territory, underpinned by elevated increases in private investments and exports. Real GDP increased to N$151.4 billion in 2023 from N$145.3 billion in the preceding year (Figure B.10). This increase was largely attributed to rising total gross fixed capital formation, supported by private final consumption expenditure, government consumption as well exports which increased by 69.3 percent, 4.7 percent, 1.0 percent and 14.1 percent, respectively, in 2023. While all variables remained in positive territory, their respective rates of increase were lower than those of the previous year with exception of gross fixed captial formation, reaffirming the fact that domestic demand for goods and services diminished from the levels recorded in the previous year (Figure B.6).

Economic activity within the primary industry rose at a tardy pace, primarily due to slow growth from diamond mining and agriculture. Primary industry increased by 9.7 percent, a significant slowdown from the 13.7 percent recorded during 2022 (Figure B.11), dragged down by slower growth in the production of diamonds. The slow growth was attributable to base effects as well as unfavourable prices resulting from weaker consumer and retailer demand in key markets. Meanwhile, activity in the agriculture, forestry and fishing sector contracted by 3.1 percent, compared to a positive growth of 1.7 percent recorded in the preceding year. This was primarily owing to the poor and sporadic rainfall received during the 2022/23 rainfall season. Consequently, local crop production dwindled and crop imports rose further in order to augment weak local production. Meanwhile, the fishing and fish-processing-on-board subsectors registered a slow growth in real value addition, owing to higher fish landing attributed to more quotas that were auctioned by the ministry of finance and public enterprises, together with the Ministry of Fisheries.

Figure B.10

GDP Growth By Expenditure

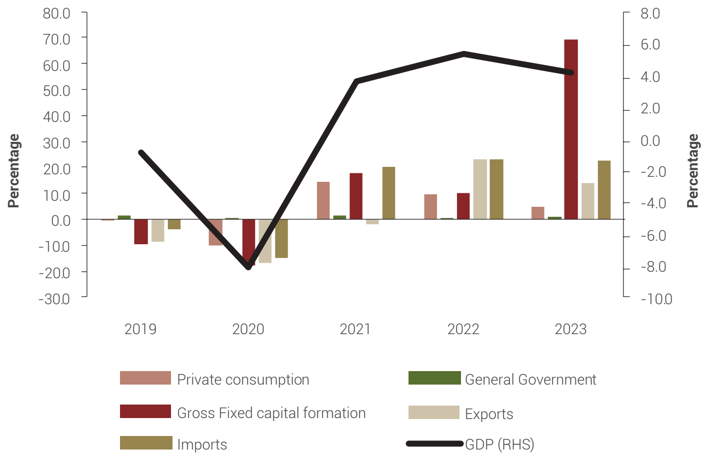


Figure B.11

Primary Industry

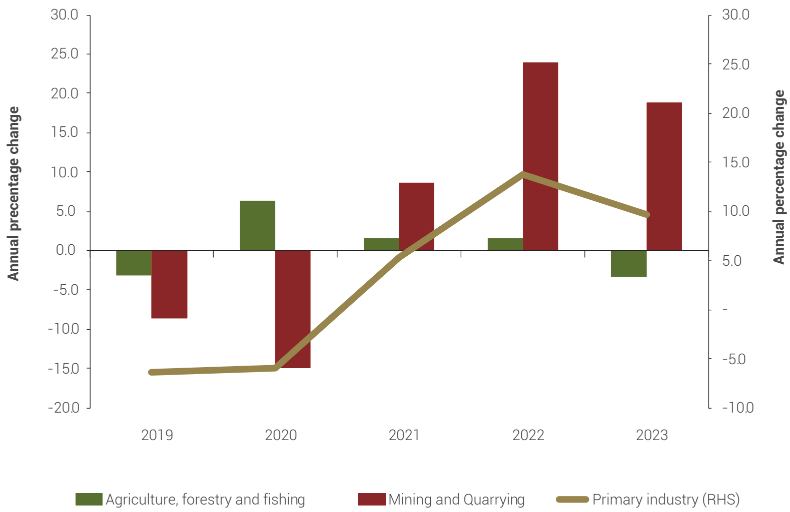
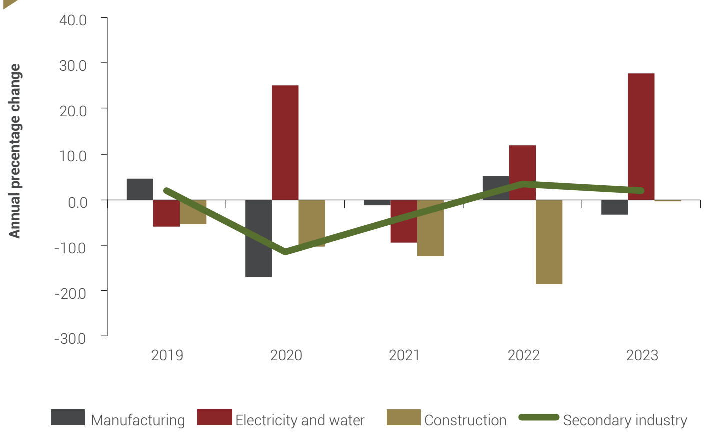


Figure B.12

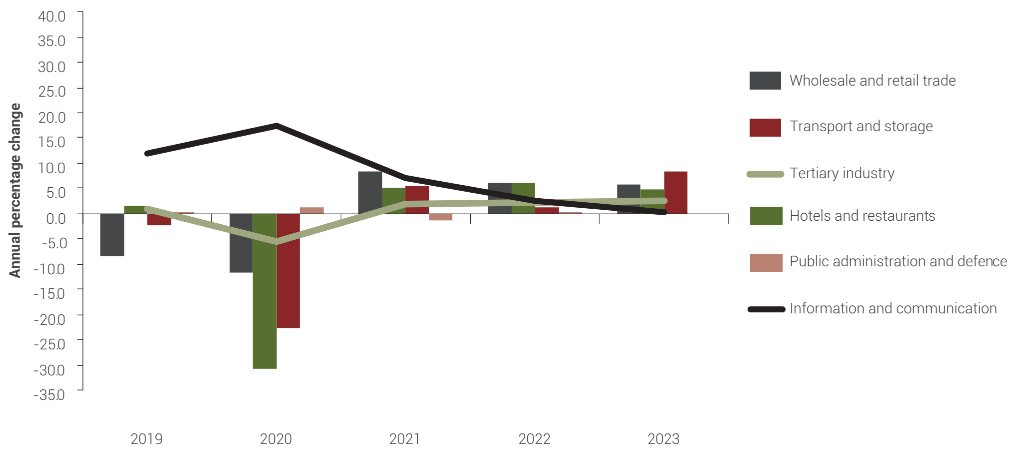
Secondary Industry



Source: NSA

Figure B.13

Tertiary Industry



Source: NSA

Growth in the secondary industries slowed down in 2023, mainly due to slower manufacturing growth and continued contraction in the construction sector. Secondary industries grew by 2.0 percent during 2023 (Figure B.12), a slowdown from the 3.4 percent registered in 2022. This was mainly attributed to a decline in growth for manufacturing, particularly beverages, diamond processing, non-metallic mineral products, basic non-ferrous metals, and leather and related products. The construction sector also contracted by 0.2 percent in 2023, following a higher contraction of 18.4 percent registered in 2022. This trend means that the sector has contracted every year since 2016, when major construction projects in the mining sector came to an end and the Government commenced with fiscal consolidation. However, the electricity and water sector continued to sustain the secondary industry. The electricity and water sector registered growth of 27.9 percent in 2023, higher than the 11.9 percent registered in 2022. The strong growth in 2023 is mainly attributed to the electricity sub-sector, where local generation of electricity improved on the back of increased water levels at the Ruacana hydropower plant during the 2022/2023 rainfall season.

The tertiary industries maintained broad-based growth, as reflected in several sectors, including wholesale and retail trade, hotels and restaurants and transport and storage sectors. The tertiary industries grew by 2.7 percent in 2023, up from 2.2 percent registered in 2022 (Figure B.13). The growth was brought about by the performance of several sectors, including wholesale and retail trade, hotels and restaurants, transport and storage, information and communication, financial and insurance service activities, real estate activities, and administrative and support services. Although the hotels and restaurants sector maintained strong growth momentum during 2023, supported by increasing tourist arrivals, its performance remained below the pre-pandemic levels. The public administration and defence sector contracted in 2023, owing to a slowdown in the health sector.

“

Tourism sector maintained strong growth momentum during 2023.

INFLATION DEVELOPMENTS

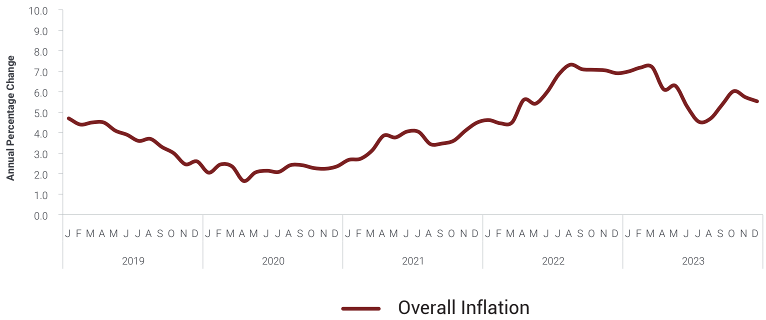
Namibia's inflation rate eased during 2023 compared to the previous year, bringing some relief to consumers. Overall inflation for Namibia declined from 6.1 percent to an average of 5.9 percent during the period under review, as the effect of the tight monetary policy stance penetrated through the economy, ameliorating pressure on consumers' purchasing power. In 2023, headline inflation ticked as high as 7.2 percent in February, and the stubborn inflationary pressures – although softer than in the previous year – persisted for most of the year before moderating somewhat during the last two months (Figure B.14).

The slower inflation rate was primarily ascribed to a deceleration in transport inflation. Inflation for transport receded by 13.2 percentage points to 4.3 percent, supported by softer fuel prices which were kept unchanged and/or adjusted downwards for the most part of the year. Despite prolonged cuts in oil production by major oil producing countries during March, July and October 2023, oil prices exerted less pressure on inflation than in the previous year. However, Namibian pump prices of petrol and diesel rose during 2023, with the pump price of diesel 50 ppm rising by N$0.11 per litre to N$20.71 per litre, and that of petrol by N$0.96 per litre to N$20.30 per litre. Inflation for the purchase of vehicles sub-category picked up over the same period as the weaker exchange rate transmitted into exorbitantly high prices of motor vehicles.

Inflation for food and non-alcoholic beverages soared in 2023. Inflation for food and non-alcoholic beverages rose by 3.7 percentage points to 11.4 percent during 2023, from 7.7 percent in 2022. The upsurge in food inflation was predominantly reflected in the vegetables, as well as bread and cereals subcategories. This was

Figure B.14

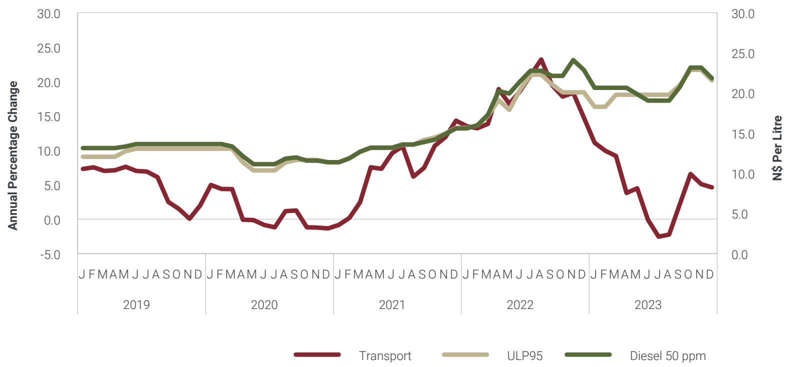
Overall Inflation



Source: NSA

Figure B.15

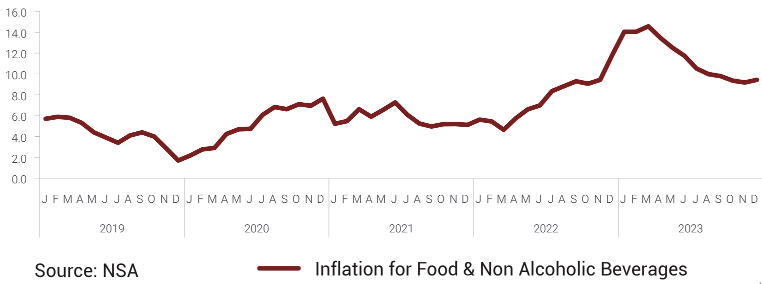
Transport Inflation



Source: NSA and Ministry of Mines and Energy

Figure B.16

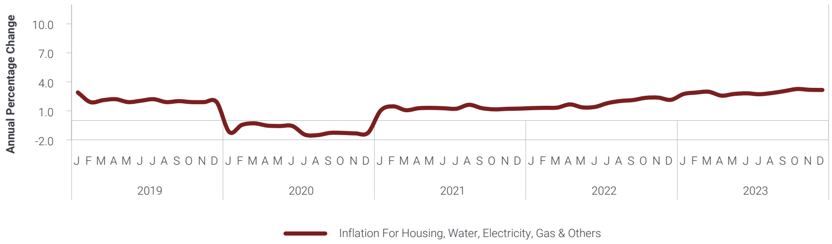
Food Inflation



Source: NSA

Figure B.17

Housing Inflation



Source: NSA

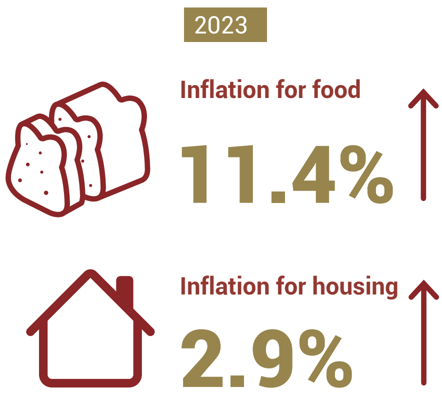
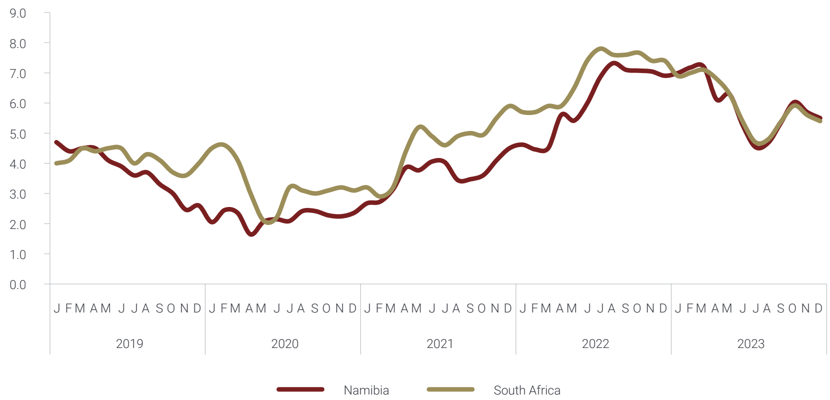


Figure B.18

Inflation Comparison Between Namibia And South Africa



Source: NSA and Statistics South Africa

mainly due to supply constraints resulting from unfavourable weather conditions which disrupted vegetable production in South Africa, as well as exchange rate depreciation.

Annual inflation for housing, water, electricity, gas and other fuels increased during 2023. Inflation for this category rose by 1.2 percentage points to 2.9 percent over the period under review, from 1.8 percent in the previous year, mainly driven by a rise in rental payments, and electricity, gas and other fuels.

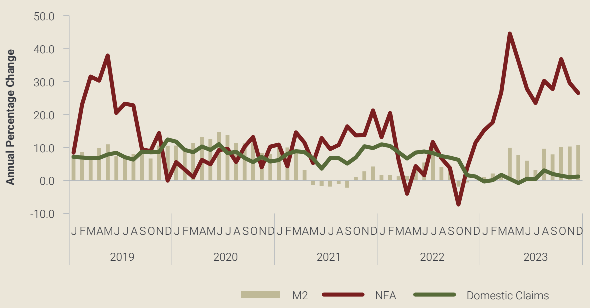
A comparison of the developments in inflation for Namibia and South Africa shows similar trends, especially in 2023. South Africa's inflation rate declined by 0.9 percentage point to average 5.9 percent during the year under review, well congruent with that of Namibia (Figure B.18). The inflation gap between Namibia and South Africa narrowed during 2023 primarily because Namibia's inflation for food and housing accelerated at faster rates of 3.7 percent and 0.9 percent, respectively. Inflation for food in South Africa rose at 0.3 percent, whereas in Namibia it rose more steeply, by 1.6 percent. However housing inflation remained higher at 4.7 percent in South Africa, compared to 2.9 percent in Namibia. In addition, the inflation differential between the two countries shrank as both nations continued to receive headwinds from oil prices and the depreciation of the ZAR.

MONETARY AND FINANCIAL MARKET DEVELOPMENTS

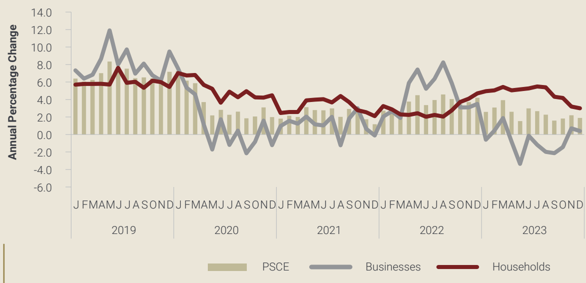
Figure B.19

Monetary and Financial Development

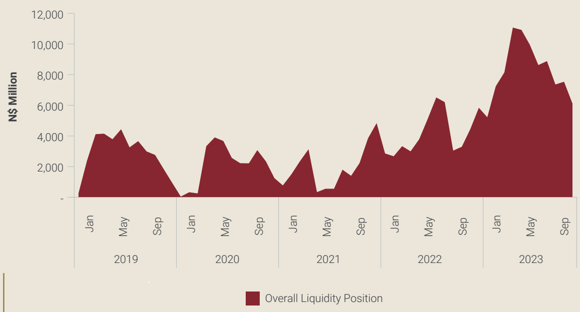
(a) The annual growth in broad money supply (M2) rose in 2023 relative to 2022 amid a rise in transactions demand for money and rising NFA



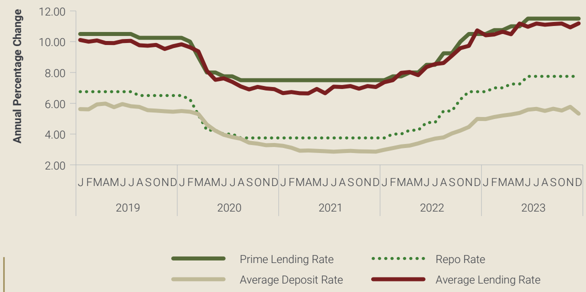
(b) Growth in PSCE slowed in 2023 due to lower demand from both the household and corporate sectors, coupled with higher net repayments.



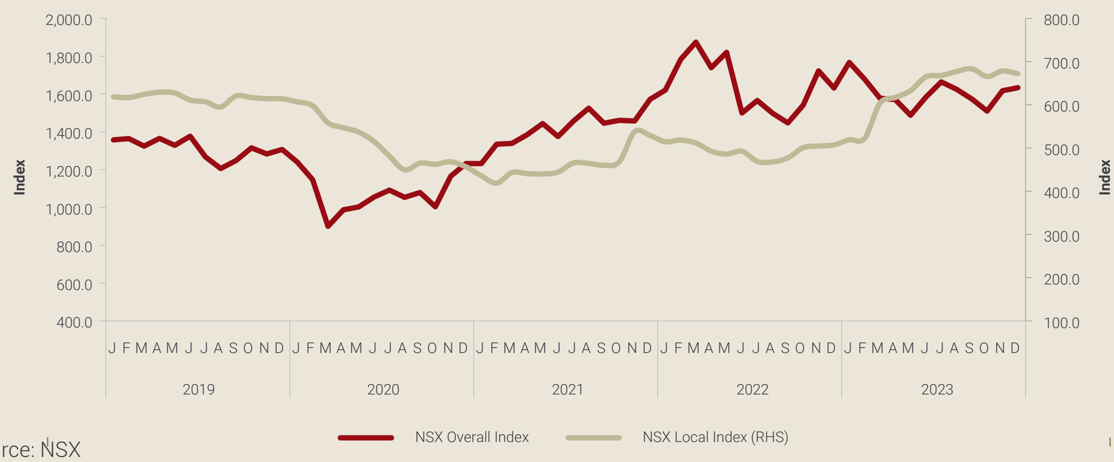
(c) The Namibian banking industry cash balances increased significantly during 2023.



(d) The bank's prime lending rate rose in 2023 in line with the repo rate.



(e) The overall and local share price indices of the Namibian Stock Exchange ended 2023 at higher levels compared to 2022.



Source: NSX

MONETARY AND CREDIT AGGREGATES

In 2023, monetary aggregates were characterised by higher growth arising mainly from a rise in NFA, whereas credit aggregates recorded sluggish growth, largely owing to lower demand. With muted growth and low economic activity in 2022, transactions demand for money in 2023 increased in line with a rise in inflation and an upsurge in economic activities. The main counterpart to the higher growth in broad money supply (M2) during the period under review was the significant rise in NFA of the depository corporations driven by diamond proceeds and Namibia Breweries Limited's sale in 2023. Contrary, credit aggregates recorded lower growth relative to 2022, largely owing to lower demand by both businesses and households, coupled with higher repayments.

Table B.3

Monetary and Credit Aggregates

(N$ million)	2019	2020	2021	2022	2023
Net foreign assets	37 934	41 819	50 697	56 675	71 713
Net domestic assets	127 622	134 933	148 158	149 922	146 713
Claims on other sectors	110 278	111 239	112 371	113 879	118 262
of which: claims on households	58 079	60 727	61 942	64 997	66 869
claims on businesses	45 132	44 941	44 832	46 238	47 440
Net claims on Government	17 344	23 694	35 787	36 043	28 451
Claims on Government	25 223	30 811	39 848	39 647	34 044
less Government deposits	7 879	7 118	4 060	3 643	5 593
Other items, net*	-50 220	-52 100	-68 911	-72 708	-74 626
Broad Money	115 336	124 652	129 944	129 956	143 800
(Change during period, N$ million)					
Net foreign assets	-24	3 885	8 878	5 840	15 176
Net domestic assets	14 113	7 311	13 225	1 764	-3 209
Total claims on other sectors	6 698	961	1 131	1 508	4 383
of which: claims on individuals	3 072	2 648	1 214	3 055	1 873
claims on businesses	3 753	-191	-109	1 407	1 201
Net claims on Government	7 415	6 350	12 094	255	-7 592
Claims on Government	5 885	5 589	9 036	-201	-5 602
less Government deposits	-1 530	-761	-3 057	-456	1 951
Other items, net*	-3 098	-1 880	-16 811	-3 798	-1 918
Broad money	10 991	9 316	5 292	12	13 843
(Annual percentage growth rates)					
Net foreign assets	-0.1	10.2	21.2	11.5	26.5
Total claims on other sectors	6.5	0.9	1.0	1.3	3.8
of which: claims on individuals	5.6	4.6	2.0	4.9	2.9
claims on businesses	9.1	-0.4	-0.2	3.1	2.6
Broad money	10.5	8.1	4.2	0.0	10.7

> **The annual growth in M2 increased in 2023 compared to 2022 due to a rise in inflation and improved economic activity, amid a rise in transactions demand for money.**

Money supply

The annual growth in M2 increased in 2023 compared to 2022 due to a rise in inflation and improved economic activity, amid a rise in transactions demand for money. M2 growth increased to 10.7 percent year-on-year in 2023, compared to muted growth at the end of 2022 (Figure B.19a). The higher growth in M2 during the period under review was underpinned by a rise in both domestic claims and NFA of the depository corporations. Similarly, the less volatile non-transferable deposits registered a growth of 3.3 percent in 2023 relative to a contraction of 5.7 percent in 2022, as reflected in a rise in the deposit holdings of regional and local government, other nonfinancial corporations, and other resident sectors, in particular. Transferable (demand) deposits stood at N$79.8 billion at the end of 2023, an increase of 17.2 percent, from the 5.2 percent registered in 2022. Conversely, growth in currency in circulation, the most liquid form of money, stood at 6.2 percent in 2023, less than the 6.5 percent growth in 2022, reflecting a rise in other payment instruments (Table B.4).

Private Sector Credit Extension (PSCE)

Growth in PSCE slowed in 2023 compared to 2022, due to lower demand and repayments by the corporate and household sectors. On an annual basis, PSCE grew by 1.9 percent in 2023, relative to growth of 4.2 percent in 2022. The annual growth in PSCE slowed in 2023 due to lower demand for credit by individuals, in particular, as a result of rising inflation and interest rates which continued to subdue borrowers' appetite for credit. Loans extended to corporates posted lower growth driven by lower demand and repayments by these entities. The subdued growth in total credit extended was reflected in lower growth rates for mortgage credit, and other loans and advances during the period under review.

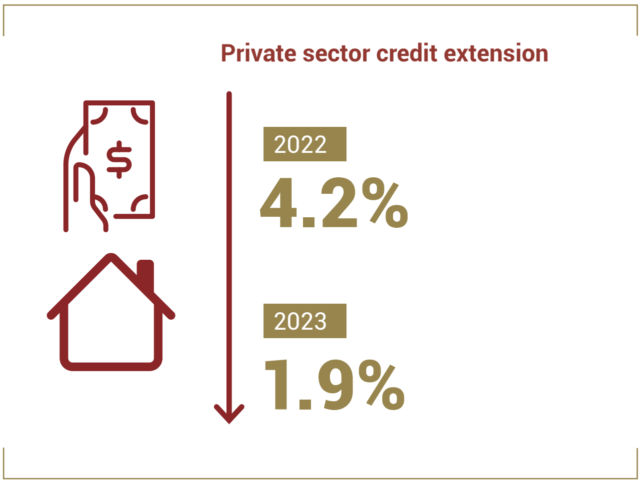
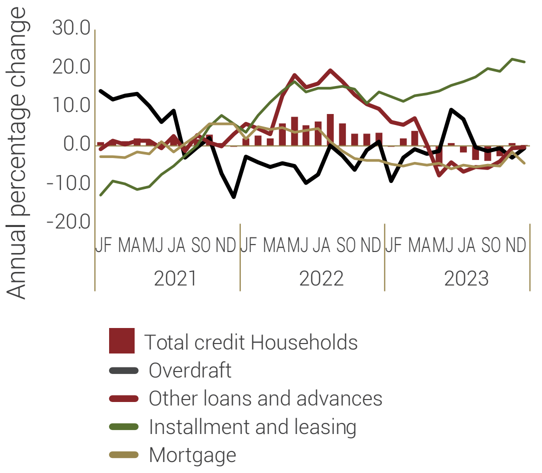


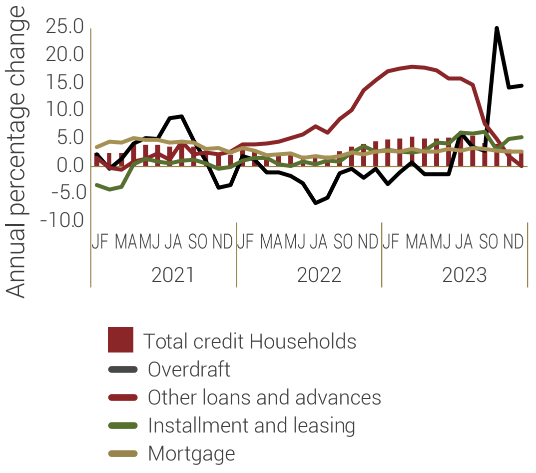
Figure B.20

CREDIT DEVELOPMENTS BY CATEGORY

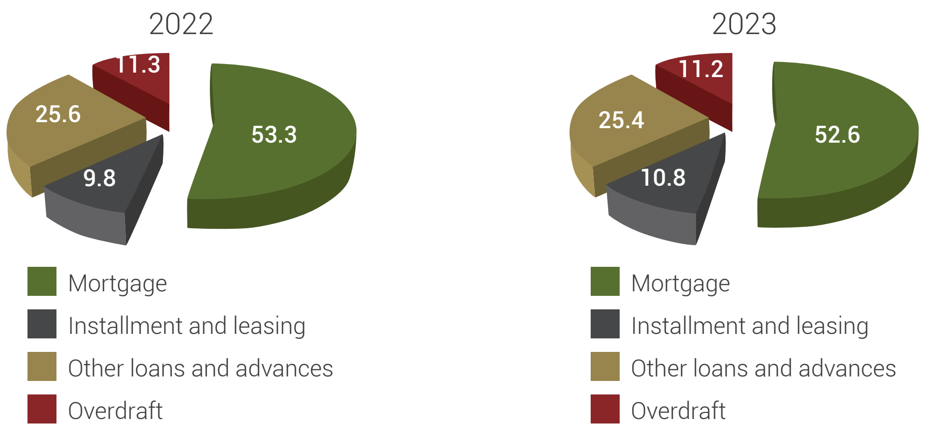
a. Growth in credit extended to individuals slowed in 2023.



b. Similary, growth in total credit extended to corporations slowed in 2023 in comparison to the preceding year.



c. Mortgage loans continued to be the main contributor to total PSCE in 2023, followed by other loans and advances, and overdraft credit.



Credit extended to households slowed in 2023, partly due to increases in the cost of borrowing and the cost of living. The annual growth in total credit extended to households slowed to 3.0 percent in 2023, from 4.7 percent in 2022 (Figure B.20a). The decline in the growth of credit extended to the household sector was reflected in other loans and advances, which recorded growth of 0.2 percent in 2023, relative to growth of 15.7 percent registered in 2022. The decline in the uptake of credit by households resulted in weak income and the rising cost of borrowing forcing households to cut down on their uptake of new credit.

Growth in credit extended to businesses slowed in 2023, driven by lower demand and net repayments. On an annual basis, growth in total credit extended to businesses slowed to 0.4 percent in 2023 from 3.5 percent a year earlier. The sluggish growth observed in credit extended to businesses was reflected across most of the credit categories, with the exception of instalment and leasing sales, which increased. The lower growth was mainly on account of lower demand for business credit, and repayments of other loans and advances, as well as mortgage loans by corporates in the services, fishing, manufacturing, and wholesale and retail trade sectors in the period under review.

In 2023, mortgage credit continued to account for more than half of the total PSCE as Namibian banks remained highly exposed to mortgages. Mortgage credit remained the largest contributor to total PSCE, representing 52.6 percent of total PSCE, followed by other loans and advances, and overdraft

credit in the second and third places, with contributions of 25.4 percent and 11.2 percent, respectively. Instalment and leasing sales credit contributed 10.8 percent in 2023, up from 9.8 percent a year earlier (Figure B.20c). The rise in the share of instalment and leasing credit largely reflects the recent improvement in the demand for vehicles in part as a result of car rental companies revamping their fleets, supported by the extension of the maximum repayment period introduced in 2020.

Other/Non-bank Financial Corporations[2]

In 2023 the total assets of Other/Non-Bank Financial Corporations (OFCs) rose due to a slightly stronger market performance. The total asset value of OFCs stood at N$239.9 billion at the end of 2023, representing an increase of 6.2 percent when compared to 2022 (Table B.4). The increase primarily stemmed from a rise in the market value of investments, particularly securities, during the period under review. In terms of absolute size, pension funds continued to dominate the OFC sector with N$152.8 billion of net equity of households, while N$32.3 billion was net equity of households in life assurance at the end of 2023.

Table B.4

Key Financial Aggregates (N$ Million At End Of Period)[3]

Category	2021	2022	2023
BoN total asset value	48 123	52 359	61 924
Net foreign assets	37 057	41 365	47 474
Claims on other sectors	114	117	171
2. Other depository corporations			
Other depository corporations total asset value	200 947	216 152	232 023
Net foreign assets	13 640	15 311	24 239
Claims on other sectors	112 257	113 762	118 091
of which: individuals	61 827	64 879	66 727
businesses	44 832	46 238	47 440
3. Depository corporations survey (1+2=3)			
Depository corporations total asset value	249 070	268 511	294 521
Net foreign assets	50 697	56 675	71 713
Net domestic assets	143 425	144 956	146 713
of which: claims on individuals	61 942	64 997	66 869
claims on businesses	44 832	46 238	47 440
Broad money supply	129 944	129 958	143 800
4. Other financial corporations survey			
Other financial corporations total asset value	221 838	226 029	239 930
Net foreign assets	85 251	95 766	117 842
Claims on other sectors	28 263	19 452	18 119
Insurance technical reserves	161 479	186 379	200 109
5. Financial corporations survey (3+4=5)			
Financial corporations total asset value	470 908	494 540	534 451
Net foreign assets	135 948	152 442	189 555
Net domestic assets	191 720	185 462	188 729
Insurance technical reserves	161 479	186 379	200 109
Net equity of households in life insurance	23 957	30 164	32 330
Net equity of households in pension funds	124 218	142 419	152 817
Prepayments of premiums	13 304	13 797	14 961

2 The OFC sub-sector reported herein consists of a sample of resident pension funds, insurance corporations and development finance institutions.
3 The values in Table B.4 are as at the end of the period and not year averages, and are thus are not directly

The net foreign assets of OFCs rose over the year to the end of 2023. Net foreign assets of OFCs stood at N$117.8 billion at the end 2023, higher than the N$71.7 billion of the depository corporations (Table B.4). This brought the total net foreign assets for the Financial Corporations Survey to N$189.6 billion at the end of 2023, a further indication of the significance of the non-banking financial institutions and of foreign asset holdings in the Namibian financial sector.

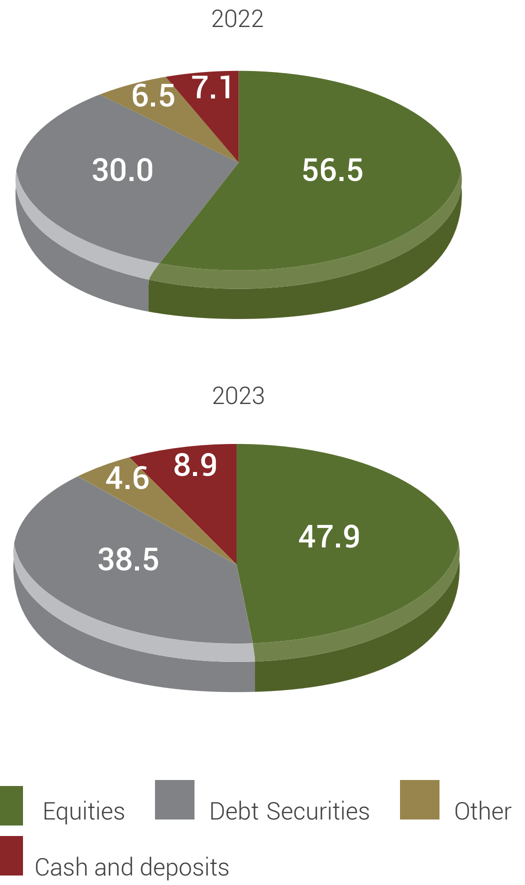
Notably, although equities remained the most preferred asset class, investments in interest bearing securities continued to increase during 2023. Figure B.21 shows that the largest share of OFC funds were invested in equities, though it declined from 2022, followed by interest bearing securities with an increased share of 38.5 percent, from 30.0 percent in 2022. Equities normally provide higher long-term growth despite being highly volatile at times and are therefore a preferred investment instrument for OFCs. The interest-bearing securities asset class was followed by cash and deposits and other[4] assets, with shares of 7.7 percent and 4.9 percent, respectively.

BANKING SECTOR LIQUIDITY

The Namibian banking industry cash balances increased to historically high levels during 2023. The initial driver of the high liquidity balances in the market was the healthy receipts from diamond sales and significant inflows from the acquisition of Namibia Breweries Limited by Heineken in April 2023. Moreover, higher government expenditure, including interest payments on local bonds, contributed to the heightened liquidity levels during the review period. The liquidity of the domestic banking sector thus averaged N$8.2 billion during 2023, amounting to twice the average position observed in 2022 (Figure B.18).

Figure B.21

Asset Holdings of Non-bank Financial Institutions at 31 December



4 The category "other" is comprised of non-financial assets, loans, receivables and financial derivatives.

MONEY MARKET DEVELOPMENTS

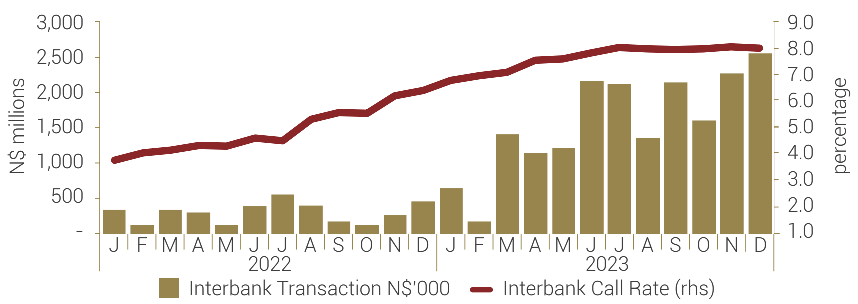
In an effort to anchor inflation expectations, the Bank of Namibia increased its policy rate by 100 basis points in 2023, leading to a rise in money market rates. The Monetary Policy Committee (MPC) of the Bank increased its key policy interest rate to 7.75 percent over the course of 2023 from 6.75 percent in 2022. These decisions were deemed appropriate to support domestic economic growth, while maintaining the one-to-one peg between the Namibia Dollar (NAD) and the ZAR anchoring inflation expectations. As a result, the prime lending rate of the commercial banks stood at 11.50 percent throughout 2023 from 10.50 percent in 2022. In line with the rising policy rates and the banks' prime lending rate, the average lending rate remained elevated at 11.19 percent at the end of 2023, up from 10.74 percent at the end of 2022. Similarly, the average deposit rate had risen to 5.33 percent by the end of 2023, from 4.98 percent at the end of 2022 (Figure B.19d).

Interbank Market Activities

Interbank overnight transactions increased during 2023 in contrast to the preceding year. As indicated in (Figure B.22), a total of N$18.9 billion was placed for interbank call transactions during 2023, significantly higher than the total of N$4.2 billion recorded in 2022. The increase in interbank transactions reflects the elevated liquidity levels in the banking industry during the review period, where this liquidity was mostly concentrated amongst a few banks. Aligned to the rise in the policy rate, the interbank call rate increased by 2.8 percentage points from the 2022 levels to an average of 7.7 percent in 2023.

Figure B.22

INTERBANK TRADING ACTIVITIES



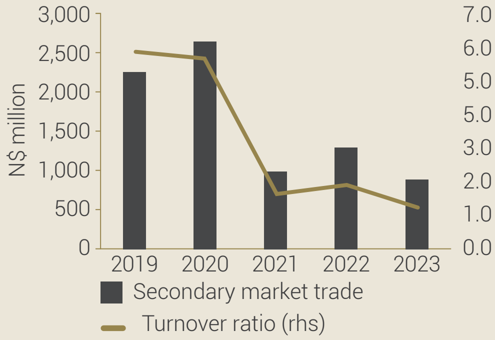
In an effort to anchor inflation expectations, the Bank of Namibia increased its policy rate by 100 basis points in 2023, leading to a rise in money market rates.

BOND MARKET DEVELOPMENTS

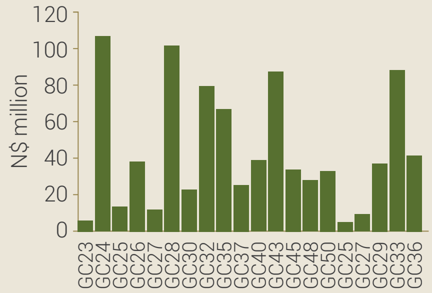
Figure B.23

BOND MARKET DEVELOPMENTS

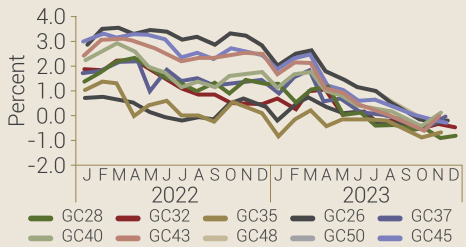
a. The nominal value of Government bonds traded in the secondary market dropped in 2023, resulting in a lower turnover ratio.



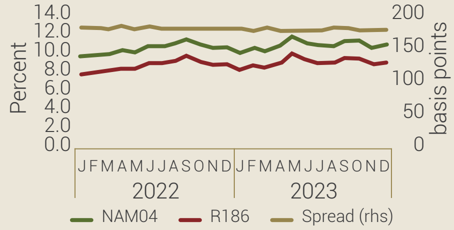
b. The GC24 and GC28 were the most traded bonds in 2023.



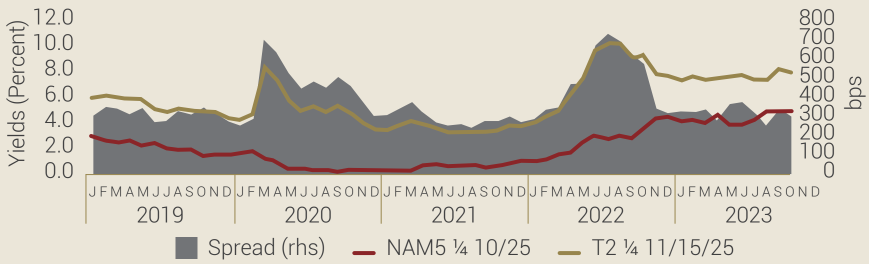
c. Government bonds yields dropped significantly during 2023, with the decline more pronounced on the longer end of the yield curve.



d. The yield on the NAM04 increased in line with the benchmark bond, while the spread remained largely unchanged.



e. The yield on the Namibian 2025 Eurobond increased slightly in 2023, while the yield on its US benchmark (T 2 ¼ 11/15/25) increased faster, resulting a narrower spread compared to 2022.



Source: Namibian Stock Exchange, Bloomberg

Government domestic bonds

In line with the 2023/24 fiscal year financing requirement, the stock of Government domestic bonds increased during 2023. The nominal value of domestic Government bonds increased from N$68.3 billion at the end of 2022 to N$74.0 billion by the end of December 2023 (Figure B.23). Of this amount, 90.0 percent was denominated in fixed-rate bonds, while the remainder was comprised of inflation-linked bonds.

The Government continues to adopt measures to manage the concentration and rollover risk of the debt portfolio. Investors are offered opportunities to move their holdings into longer-dated instruments. In this regard, the Government conducted several switch auctions for the GC23 during 2023 and commenced with switch auctions for the GC24, which matures on 15 October 2024. On the back of these switch auctions, the outstanding balance on the GC23 was reduced from the initial balance of N$5.1 billion to a total of N$2.0 billion at redemption on 15 October 2023. Additionally, the amount outstanding on the GC24 was reduced from N$4.2 billion to N$2.6 billion by 31 December 2023.

Nominal value of Government domestic bonds

2022
N$68.3 billion

2023
N$74.0 billion

Secondary market activities

The Namibian Stock Exchange (NSX) recorded lower secondary market trades during 2023 than during 2022. As depicted in Figure B.19a, nominal value traded on Government bonds amounted to N$882.5 million during the year under review, compared to N$1.3 billion recorded in 2022. This represents a turnover ratio of 1.2 percent from the ratio of 1.9 percent recorded in 2022. The GC24 and the GC28 were the most traded bonds during the year, accounting for 12.2 percent and 11.5 percent of total trades, respectively (Figure B.19b).

Government bond yields

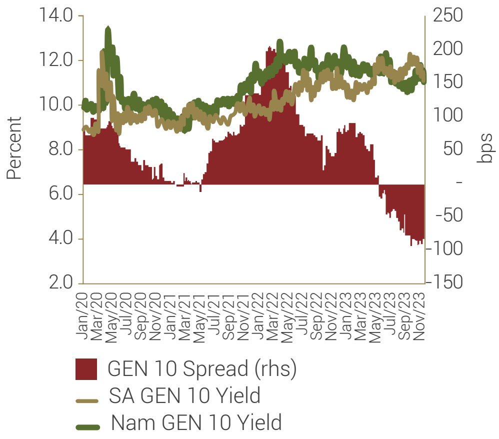
Despite the high interest rates environment, yields on Government bonds dropped during 2023. The previous two years were characterised by headwinds and market uncertainty, which saw government bond yields rise steeply. During 2023, the market repriced government debt instruments on the back of a positive macroeconomic outlook for the country and lower debt issuance in the primary market. The yield declines were mostly observed on the longer end of the curve, with the GC50 shedding up to 200 basis points. On the short end of the curve, yields dropped by up to 120 basis points (Figure B.23c).

Spreads

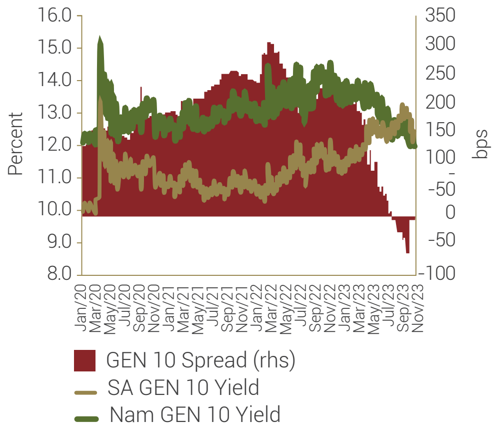
Spreads between the Namibian government bonds and their respective South African benchmarks narrowed in 2023. Spread compression occurred against a background of an improved macroeconomic climate and positive sentiment around seemingly promising oil discoveries, and traction achieved on the green hydrogen front, while the news flow from South Africa has not been as positive. Across the curve, spreads compressed by 140 basis points, on average, with the largest compression observed on the longer end of the yield curve. The generic 10-year Government bond spread compressed by 157 basis points, while the 20-year recorded a spread compression of 220 basis points (Figure B.23d).

Figure B.24

Spreads Between Namibian Government Bonds And South African Benchmark Bonds



Source: IJG, BoN



Source: IJG, BoN

Corporate bonds

The stock of corporate bonds outstanding declined in 2023 compared to the levels seen at the end of 2022. The stock of bonds issued by Namibian corporates listed on both the NSX and the Johannesburg Stock Exchange (JSE) amounted to N$7.2 billion at the end of 2023, representing a decline of N$932.0 million from the amount that was outstanding at the end of 2022. Of the N$7.2 billion, N$5.7 billion was listed on the NSX, while the remainder of N$1.5 billion was dual listed. The decline came as some banking institution debt instruments matured during the year under review.

Namibian Eurobonds

In line with the developments in the global markets, the yield on the Namibian 2025 Eurobond[5] increased in 2023, albeit only minimally. Yields on emerging market securities increased in line with the movement in the US treasury rates that were fuelled by sticky inflation and the resultant rate hikes. The yield on the 2025 Eurobond increased slightly by an average of 5.7 basis points to 7.3 percent during 2023, from an average of 7.2 percent observed during 2022. Similarly, the US benchmark note rate increased to an average of 4.5 percent in 2023 from the average rate of 3.2 percent seen in 2022. Moreover, the average spread between this bond against its US benchmark bond narrowed to 276 basis points from the levels of around 400 basis points seen in 2022.

Namibia's JSE-listed bonds

The yield on the NAM04, the JSE-listed Namibian Government bond, increased in 2023 in line with its South African benchmark. The yield on the NAM04 increased on average by 34 basis points to close the year at 10.6 percent, while the R186 closed at 8.9 percent. The NAM04 is currently the only Namibian government bond outstanding on the JSE, as the NAM03 matured in August 2023. The NAM04 spread against its benchmark remained around 170 basis points in 2023, only slightly lower than the levels observed in 2022.

EQUITY MARKET DEVELOPMENTS

Table B.5

NSX Summary Statistics

Category	2021	2022	2023	Percentage change
Overall				
Index (end of year)	1 572	1 631	1 633	0.1
Market capitalisation (N$ million) (end of year)	2 167 587	2 268 308	2 205 684	-2.8
Free-float market capitalisation (N$ million) (end of year)	1 813 654	1 921 206	1 308 265	-31.9
Volume traded ('000)	28 070	49 403	12 256	-75.2
Value traded (N$ million)	1 360	2 911	569	-80.5
Number of deals	430	427	395	-7.5
Number of new listings	1	0	0	0.0
Local				
Index (end of year)	529	672	234 396	32.5
Market capitalisation (N$ million) (end of year)	38 040	44 088	113 083	20.6
Volume traded ('000)	2 402	1 266	17 433	-21.1
Value traded (N$ '000)	33 923	15 010	197 534	-54
Number of deals	86	112	528 917	45.5
Number of new listings	1		184 796	0.0

Source: NSX and JSE

The NSX Overall Index slowed as stock markets globally edged lower, while the Local Index rose notably during 2023. The Overall Index declined by 0.1 percent to 1 633.32 index points at the end of 2023 (Figure B.20). The annual decline in the Overall Index was driven by decreases in all the indices consistent with the weak performance of the dual listed shares coupled with continued uncertainty within the global economy during the period under review. The decrease in the Overall Index was in line with the performance of the global stock market, which recorded major losses due to high interest rates, and an uncertain outlook for the global economy. The Local Index increased to close at 672.73 index points at the end of 2023. This represents an increase of 32.5 percent compared to a year earlier as the local stocks recovered on the back of improved share prices (Table B.6). The market capitalisation of the Overall Index decreased over the year to N$2.20 trillion at the end of 2023, compared to N$2.26 trillion at the end of 2022.

> **"The decrease in the Overall Index was in line with the performance of the global stock market, which recorded major losses due to high interest rates.**

BOX ARTICLE

Refocused Purpose Through Targeted Support For Small And Medium-Sized Enterprises

The revised SME Economic Recovery Loan Scheme, formerly known as the Covid-19 SME Loan Scheme, was relaunched during the first quarter of 2023. Initially, the scheme was designed to assist struggling small and medium-sized enterprises (SMEs) that were disproportionally affected by the COVID-19 pandemic as the Namibian economy saw various lockdowns and restrictions imposed in a bid to curb the spread of the virus and mitigate its impact on the Namibian healthcare system. A total of N$500 million was made available for the initiative, to be distributed to affected SMEs through participating commercial banks.

Despite being a commendable effort on the part of the Government, the Bank of Namibia, and the participating commercial banks, initial uptake of the scheme was slow and below the expectations of the Ministry of Finance and Public Enterprises (MFPE) and the Bank, with a total of only N$6.4 million being disbursed during the first round. Dissatisfied with the results of the scheme during the first year of its roll-out, the MFPE, the Bank and the participating commercial banks, through the Bankers Association of Namibia, engaged on a deeper level with key SME sector participants such as the Business Rescue Task Force, the Black Business Leadership Network of Namibia, and affected businesses to understand the shortcomings of the initial scheme. The input sourced from the sector served as the cornerstone for the redesign and relaunch of the scheme.

The redesign focused on expanding the qualifying criteria to include SMEs that experienced pre-pandemic economic challenges as the country faced dampened and even negative economic growth in the years leading up to the pandemic. Additional changes were geared towards relaxing some of the participation requirements that prevented SMEs from qualifying for the scheme, considering the unique challenges they face. The new scheme further aimed to reduce the cost of access to financing by 50 basis points, as this had been highlighted as another contributing factor to the low uptake following the initial launch. Rounding off the major amendments is the addition of another bank for the relaunched scheme, bringing the total number of participating banks to five, as the Developmental Bank of Namibia joined the list of four previous participating commercial banks (First National Bank of Namibia, Standard Bank Namibia, Nedbank Namibia, and Bank Windhoek). The combination of changes in design and the tireless work, both administrative and marketing-related, on the part of the participating banks, saw the uptake in the relaunched scheme increase from N$6.4 million, disbursed in the first rollout, to N$358.7 million by the end of 2023. Loan applicants included SMEs in the construction, retail and wholesale, business services, tourism, tours and transport, and energy, fuel and electricity sectors.

Much in line with the national slogan, "Land of Brave", the MFPE, the Bank and its participant partners did not shy away from adversity and less-than-desired outcomes. Instead, they regrouped, retried and ultimately helped to improve the lives of Namibians who are both directly and indirectly associated with the SMEs that have benefited from the SME Economic Recovery Scheme. This is a true testament to what is achievable when the Government, regulators and the private sector collaborate earnestly to make the lives of this great nation better.

SME Economic Recovery Loan facility - 31 December 2023

Total facility	NAD	500,000,000
Total loans distributed	NAD	358,690,086

> **The uptake in the relaunched scheme increased from N$ 6.4 million, disbursed in the first rollout to N$ 358.7 million by the end of 2023**

PUBLIC FINANCE

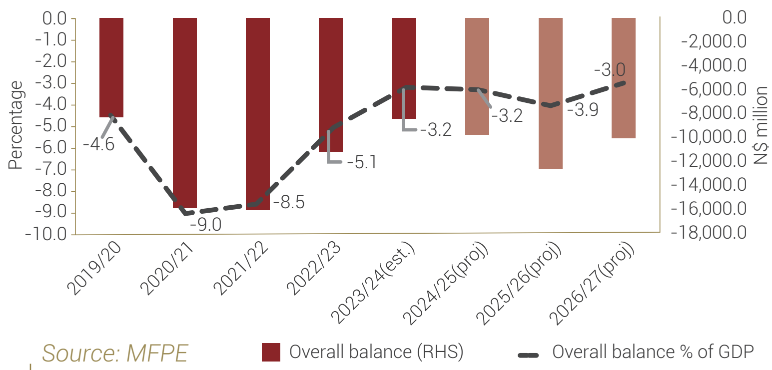
GOVERNMENT BUDGET DEFICIT

The Government's budget deficit is estimated to have narrowed during FY2023/24, compared to the previous fiscal year. The Government budget deficit for FY2023/24 narrowed to 3.2 percent of GDP, compared to 5.1 percent of GDP registered for the preceding fiscal year. The narrowing of the deficit was ascribed to a faster rise in revenue, which is estimated to have risen by 26.0 percent to N$81.1 billion during the period under review. Expenditure, on the other hand, is estimated to have risen by 18.6 percent to N$89.5 billion. Over the MTEF period, the budget deficit as a percentage of GDP is projected to narrow to 3.0 percent in FY2026/27, in line with the set threshold of 3.0 percent as the increase in revenue is projected to average 10.3 percent, outpacing the rise in expenditure which will averages 8.5 percent over the MTEF period.

The narrowing of the deficit is ascribed to an increase in revenue collection. Government revenue rose by 26.0 percent to N$81.1 billion during FY2023/24, owing to an increase in income tax on individuals, taxes on diamond mining, non-mining tax, value added taxes and SACU receipts (Table B.6). Going forward, total Government revenue is projected to rise to N$90.4 billion during FY2024/25 owing to higher SACU receipts, which are expected to rise by 15.2 percent to N$28.0 billion (Table B.6). Meanwhile, during the 2025/26 fiscal year, total Government revenue is projected to decline to N$87.5 billion as a result of a fall in diamond prices, before gradually recovering toward the end of the MTEF period.

Figure B.25

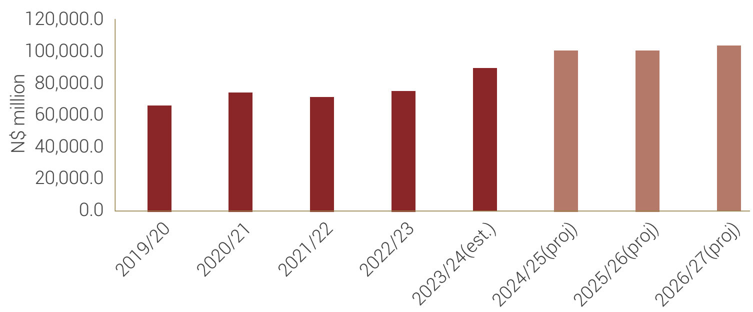
Government Budget Deficit



Source: MFPE

Figure B.26

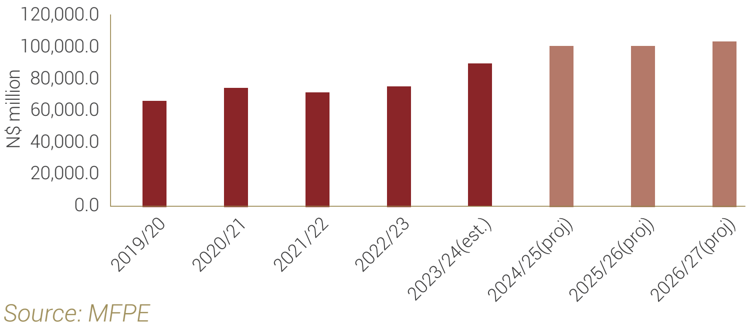
Revenue Grants



Source: MFPE

Figure B.27

Total Expenditure



Source: MFPE

Government expenditure rose during 2023/24 supported by an allocation for the general registration of voters, the SADC mission to the DRC as well as the Namibia Students Financial Assistance Fund (NSFAF). Government expenditure rose by 18.6 percent to N$89.5 billion owing to the inclusion of a N$2.0 billion direct project funding by multilateral and bilateral institutions into the budget, the back pay given to Government employees in October 2023, and a once-off expense provision for the population census. The allocation for the general registration of voters, the contribution to the SADC mission to the DRC, and the allocation to the NSFAF for student assistance also contributed to the rise in total expenditure. Over the MTEF period, Government expenditure is projected to rise moderately, on average by 5.4 percent, to N$103.6 billion between FY2023/24 and FY2026/27, as the Government strives to strike a balance between its fiscal consolidation efforts, the endeavour to reduce the deficit by maintaining a positive primary balance, and stabilising the debt stock.

Table B.6

Government Revenue and Expenditure (N$ Million)

	2021/22	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27
	Actual	Actual	Mid-year estimate	2024/25 Budget estimate	Estimate	Projection	Projection
Revenue	55 369	64 350	78 550	81 096	90 427	87 478	93 640
% of GDP	29.4%	29.8%	33.7%	32.9%	32.8%	28.8%	28.6%
Expenditure	71 309	75 401	88 965	89 457	100 101	100 000	103 628
% of GDP	38.1%	35.0%	38.2%	36.3%	36.3%	33.0%	31.6%
Budget balance	-15 940	-11 051	-9 717	-7 799	-8 944	-11 951	-9 680
% of GDP	-8.5%	-5.1%	-4.2%	-3.2%	-3.2%	-3.9%	-3.0%
Debt*	125 784	142 744	153 670	154 156	165 822	172 264	184 981
% of GDP	67.2%	66.2%	66.0%	62.5%	60.1%	56.8%	56.4%
Interest payments	7 672	9 429	11 765	11 843	12 834	13 312	13 971
% of revenue	13.9%	14.7%	15.0%	14.6%	14.2%	15.2%	14.9%
Guarantees	10 338	9 387	8 568	9 098	9 272	9 348	9 786
% of GDP	5.5%	4.4%	3.7%	3.7%	3.4%	3.1%	3.0%

Source: MFPE. Data have been amended throughout following enhancements to government finance statistics introduced in the 2023/24 Mid-year Budget.

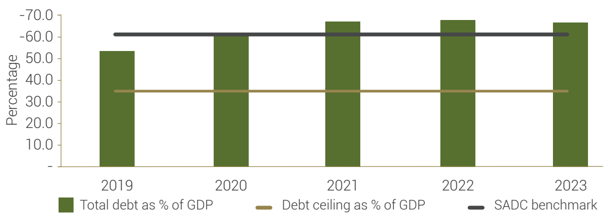
GOVERNMENT DEBT

The debt stock of the Government rose over the year to the end of December 2023, driven mainly by a rise in domestic debt. The total Government debt stock stood at N$148.8 billion at the end of December 2023, representing an increase of 8.1 percent during the year under review (Figure B.28). The increase in the domestic debt on a yearly basis was driven by a rise in the issuance of both treasury bills and Internal Registered Stock, coupled with a rise in external debt owing to exchange rate depreciation. Total debt as a percentage of GDP stood at 65.3 percent at the end of December 2023, representing a decline of 1.5 percentage points from a year earlier as the economy grew faster than the Government debt. Going forward, the total debt stock is anticipated to continue declining as a percentage of GDP, moderating to 56.4 percent of GDP at the end of 2026/27 (Table B.7).

"The debt stock of the Government rose over the year to the end of December 2023, driven mainly by a rise in domestic debt.

Figure B.28

Government Debt



Source: MFPE

Table B.7

Government Debt as at 31 December (N$ Million)

Value (N$ million) / %	2019	2020	2021	2022	2023
Fiscal year GDP	**181 211**	**174 242**	**183 292**	**205 549**	**227 831**
Foreign debt stock	**30 852**	**33 065**	**32 488**	**34 095**	**37 305**
Bilateral	2 723	2 804	2 792	2 504	4 220
As % of total	8.8	8.5	8.6	7.3	11.3
Multilateral	7 583	9 942	15 723	18 376	18 830
As % of total	24.6	30.1	48.4	53.9	50.5
Eurobond	17 654	18 277	11 930	12 722	13 921
As % of total	57.2	55.3	36.7	37.3	37.3
JSE Listed bond	2 892	2 042	2 042	492	335
As % of total	9.4	6.2	6.3	1.4	0.9
Total Debt service	**6 298**	**7 179**	**14 005**	**10 145**	**13 620**
Domestic debt service	3 519	3 443	3 119	6 077	6 912
Foreign debt service	2 779	3 736	10 886	4 068	3 666
Domestic debt stock	62 300	73 773	91 037	103 362	111 526
Treasury bills	24 247	27 330	31 704	35 109	37 483
As % of total	38.9	37.0	34.8	34.0	33.6
Internal registered stock	38 053	46 443	59 333	68 253	74 043
As % of total	61.1	63.0	65.2	66.0	66.4
Total Government debt	**93 151**	**106 838**	**123 525**	**137 457**	**148 831**
End of Period Exchange rate in NAD					
USD	14.1235	14.6218	15.9065	16.96245	18.5615
EUR	15.8247	17.9716	17.9917	18.0765	20.54085
RMB	2.0247	2.2391	2.4963	2.43935	2.61455
CHF	14.5985	16.5838	17.5747	18.36547	22.0264
JPY	0.1300	0.1418	0.1382	0.1280	0.1313
SDR	19.5313	21.0526	21.7392	22.5989	25.0000
KWD	46.0937	48.1454	50.5194	55.5558	60.1933
Proportion of total debt					
Foreign debt stock	33.1	30.9	26.3	24.8	25.1
Domestic debt stock	66.9	69.1	73.7	75.2	74.9
As % of GDP					
Foreign debt stock	17.0	19 .0	17.7	16.5	16.3
Domestic debt stock	34.4	42.3	49.7	50.3	49.0
Total debt	**51.4**	**61.3**	**67.4**	**66.8**	**65.3**

Sources: MFPE, BoN and NSA

EXTERNAL SECTOR DEVELOPMENTS

BALANCE OF PAYMENTS

Financial account inflows enabled the country to accumulate foreign reserves during 2023. Namibia's balance of payments on the current account registered a deficit during 2023 amounting to 15.0 percent of GDP, compared to a deficit of 12.8 percent registered in 2022. On the financial account, non-reserve-related inflows were strong enough to cover the current account deficit. Additionally, capital transfer inflows further contributed to Namibia's foreign receipts.

As a result, the overall balance of payments before reserve action registered a moderate surplus, amounting to N$4.7 billion in 2023, which the Bank absorbed from the market and added to its reserves. Adding up all financial flows including those related to reserves, Namibia was a net borrower from the rest of the world to the tune of N$31.0 billion in 2023 (Table B.8).

Balance of payments overview
Current account (deficit -), N$ billion

2022	2023
-26.4 Bill	-34.1 Bill

Table B.8

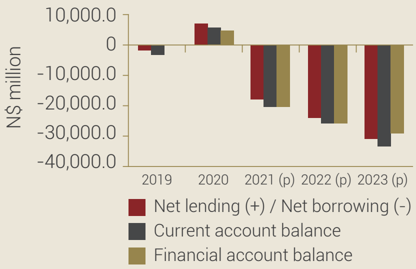
Balance of Payments Overview (N$ Million)

Balance of payments overview	2022	2023
1. Current account (deficit -)	-26 375	-34 115
2. Capital transfer (inflow +)	1 765	2 282
3. Financial account excluding reserve action (outflow -, inflow +)	27 156	35 684
4. Unidentified transactions (outflow -, inflow +)	-1 480	806
5. Balance of payments before reserve action = (1+2+3+4)	1 066	4 657
6. Reserve action: Foreign liabilities related to reserves	-	-
7. Gross reserves (increase +, decrease -) = (5+6)	1 066	4 657
8. Net borrowing (+) with reserve action = (3+6-7)	26 090	31 027

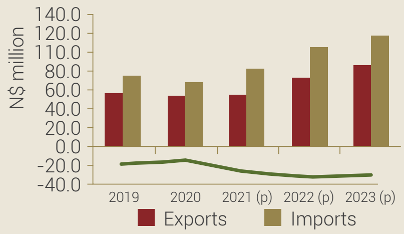
Figure B.29

EXTERNAL DEVELOPMENTS

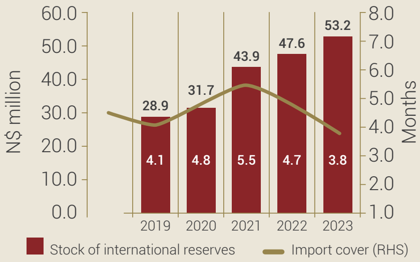
a. During 2023, Namibia recorded net borrowing from the rest of the world, largely reflecting the deficit recorded on the current account.



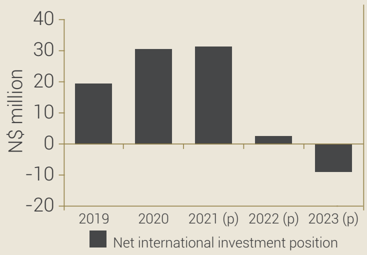
b. The merchandise trade deficit narrowed during 2023, driven particularly by higher export earnings from the mining sector.



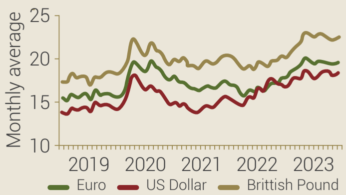
c. At the end of 2023, the stock of international reserves held by the Bank of Namibia rose on an annual basis, supported by higher SACU receipts and government foreign borrowing.



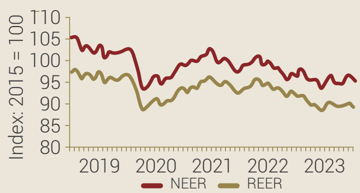
d. At the end of 2023, Namibia's external balance sheet switched from a net asset to a net liability position.



e. During 2023, the NAD/ZAR weakened against major trading currencies triggered by global recession fears and South Africa's subdued economic growth.



f. The nominal effective exchange rate (NEER) and real effective exchange rate (REER) both depreciated during 2023, due to global tightening of financial conditions and weaker growth in South Africa.



7 The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world.

Table B.9

External Vulnerability Indicators

	2019	2020	2021	2022	2023
N$ million					
i. Solvency (percentage)					
Gross external debt/GDP	63.1	68.0	73.1	74.2	76.3
External debt service/Exports of goods and services	39.2	34.1	45.4	36.3	43.6
Current account/GDP	-1.8	3.2	-11.2	-12.8	-15.0
ii. Reserves Adequacy					
Reserves/Imports of goods and services (months)	4.1	4.8	5.5	4.7	3.8
Reserves/Broad money liabilities (percent)	29.7	25.1	25.3	26.4	26.6
Reserves/Short-term external debt (ratio)	2.4	2.8	3.8	2.3	2.4

CURRENT ACCOUNT

Namibia's current account deficit deteriorated further, primarily due to increasing outflows on the services account at the back of oil and gas exploration activities. The deficit on the current account widened to N$34.1 billion during 2023, from N$26.4 billion recorded in the preceding year (Table B.8 and Figure B.29a). This was due to higher outflows from the services account at the back of higher payments for operating leases and technical and trade-related services for the ongoing oil and gas exploration and appraisal activities. The higher net outflows on the primary income account, mainly in the form of increased dividend payments to foreign direct investors, also contributed to the deterioration in the current account balance during 2023. As a ratio of GDP, the current account deficit stood at 15.0 percent during 2023, compared to a deficit of 12.8 percent recorded a year previously.

Merchandise trade balance

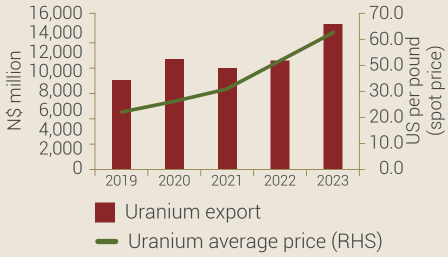
During the period under review, Namibia's merchandise trade deficit narrowed marginally due to merchandise exports rising at a faster pace than merchandise imports. The trade deficit improved by 3.7 percent to N$30.3 billion (Figure B.29b) relative to 2022. This was ascribed to higher export earnings, which rose by 18.6 percent to N$85.7 billion, supported by earnings from mining activity, particularly from gold, rough diamonds and uranium. Contributing further to the rise in export earnings during 2023 was an increase in export earnings from processed fish, coupled with depreciation of the local currency against major trading currencies. Meanwhile, merchandise import payments rose by a lower 11.8 percent to N$116.0 billion, mainly driven by imports of machinery, mechanical and electrical appliance; vehicles, aircrafts and vessels; consumer goods; and mineral fuels.

Figure B.30

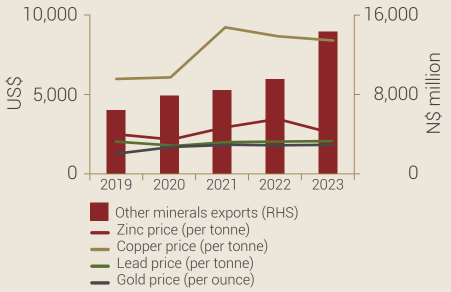
Export Commodities

a. Diamond export earnings rose during 2023, reflected in higher volumes exported as well as the depreciation of the local currency.

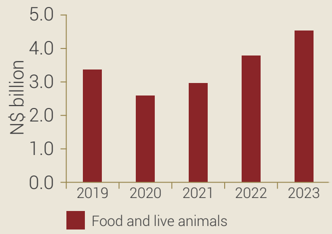
b. Export earnings from uranium rose during the period under review, which is attributable to higher volumes exported as well as the exchange rate depreciation.



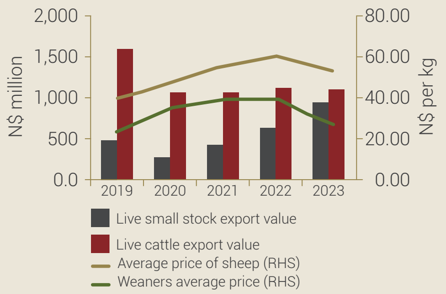
c. The value of other mineral exports rose notably as a result of higher gold volumes exported and the exchange rate depreciation during the review period.



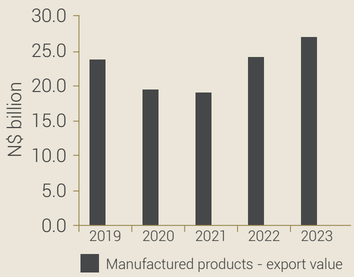
d. During 2023, export earnings from food and live animals rose on account of increased export earnings from unprocessed fish, small stock and vegetable products.



e. During the period under review, the average prices of sheep and weaner fell.



f. The value of manufactured exports rose in 2023, mainly on account of higher earnings from processed fish and beef.



Source: BoN surveys

7 The sum of the balances on the current and capital accounts represents the net lending (surplus) or net borrowing (deficit) by the economy with the rest of the world.

Mineral exports

Rough diamonds

Diamond export earnings rose during 2023, reflecting the higher volumes exported, as well as the depreciation of the local currency. The export receipts of rough diamonds increased by 28.5 percent to mark the highest export value of N$17.7 billion in five years (Figure B.30a). This was brought about by higher volumes exported and the depreciation of the NAD against the USD during the review period.

Uranium

Export earnings from uranium rose during the period under review, due to higher volumes exported, as well as the exchange rate depreciation. Uranium export earnings rose by 33.2 percent to N$15.0 billion during the year under review, supported mainly by higher volumes exported and the exchange rate depreciation (Figure B.30b). On the spot market, the average international price of uranium rose by 25.5 percent to reach US$62.51 per pound. The rise in the international prices of uranium is associated with the increased global demand for nuclear energy as an alternative to carbon-emitting energy sources.

Other mineral exports

The value of other mineral exports rose significantly as a result of higher gold volumes exported during the review period. Export earnings from other minerals increased by 39.9 percent to N$14.2 billion during 2023 (Figure B.30c). This rise was brought about by higher gold volumes exported from the high-grade ore mined, coupled with the higher international gold prices, as well as the depreciation of the local currency against the USD during the period under review. In this regard, export receipts from gold increased significantly, by 63.2 percent, to a record high of N$11.2 billion. Meanwhile, the average international price of gold rose by 7.9 percent to US$1 943 per ounce as a result of increased demand for safe-haven assets owing to weaker global economic prospects and heightened uncertainty induced by geopolitical tensions.

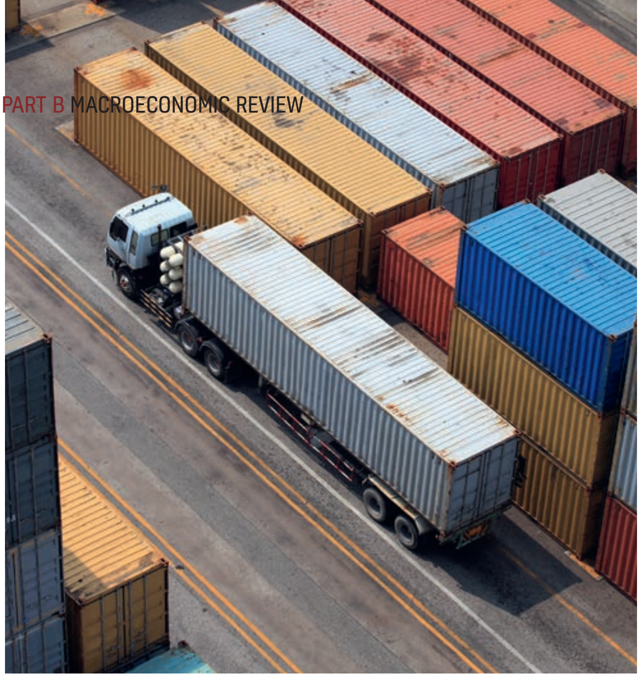
During 2023, export earnings from food and live animals rose on account of increased exports earnings from unprocessed fish, small stock and vegetable products.

Non-mineral exports

Food and live animals

During 2023, export earnings from food and live animals rose on account of increased exports earnings from unprocessed fish, small stock, and vegetable products. Foreign earnings from food and live animals increased by 18.7 percent to N$4.5 billion in 2023, when compared to the previous year. This was mainly due to higher foreign receipts from unprocessed fish, small stock, and vegetable products, which rose by N$114 million, N$37 million and N$35 million to N$724 million, N$869 and N$553 million, respectively. Improved marketing performance on the back of the improved herd levels contributed to the rise in small stock export earnings, while the exchange rate depreciation of the local currency contributed to the higher export receipts for unprocessed fish. Exports of vegetable products were mainly destined for South Africa in the form of tomatoes.

During the period under review, the average prices of weaners and sheep fell. During 2023, average prices of weaners and sheep decreased by 34.2 percent and 12.3 percent to N$26.25 and N$53.33 per kilogram, respectively, when compared to the previous year (Figure B.30e). The lower annual sheep and weaner prices were attributable to lower demand from South Africa which was further propelled by drought considerations during the last half of 2023.



Manufactured exports

The value of manufactured exports rose in 2023, mainly on account of increased earnings from processed fish and beef. During 2023, the value of manufactured exports increased by 6.7 percent to N$25.7 billion (Figure B.30f). The rise was mainly underpinned by increased receipts from processed fish and beef, which rose by 19.2 percent and 31.5 percent to N$14.1 billion and N$2.1 billion, respectively. Earnings from processed fish increased mainly due to the depreciation of the domestic currency, while those of beef rose mainly due to increased volumes exported.

Export by destination

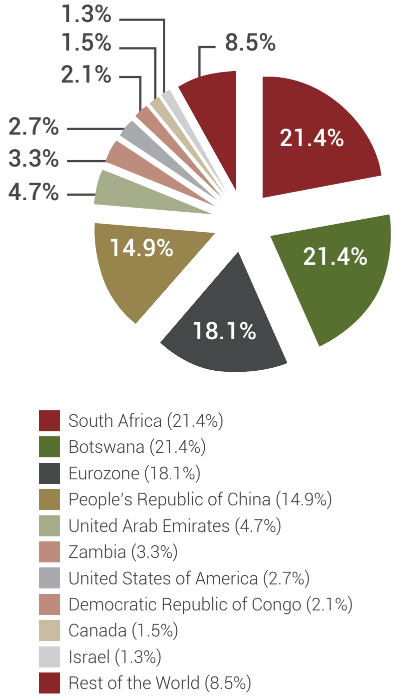
During the period under review, Botswana, South Africa, the Eurozone and China were the top four destinations for Namibia's merchandise exports. The largest share of Namibia's merchandise exports during 2023 was absorbed by Botswana with a share of 22.6 percent, mainly comprised of rough diamonds and mineral fuel re-exports. South Africa took the second position with a share of 22.1 percent of merchandise exports, mainly comprised of gold, livestock, and beverages. Meanwhile, the Eurozone and People's Republic of China's shares stood at 16.8 percent each, with exports to the Eurozone in the form of processed fish, while those to China mainly consisting of uranium oxide. The United Arab Emirates accounted for 5.0 percent of merchandise exports, mainly consisting of rough and polished diamonds, while exports to Zambia accounted for 3.6 percent, comprised primarily of fish products. Other export destinations during the review period included Canada (2.4 percent), the Democratic Republic of Congo (1.7 percent), the United States of America (1.2 percent), and Mozambique (1.1 percent) (Figure B.31).

Figure B.31

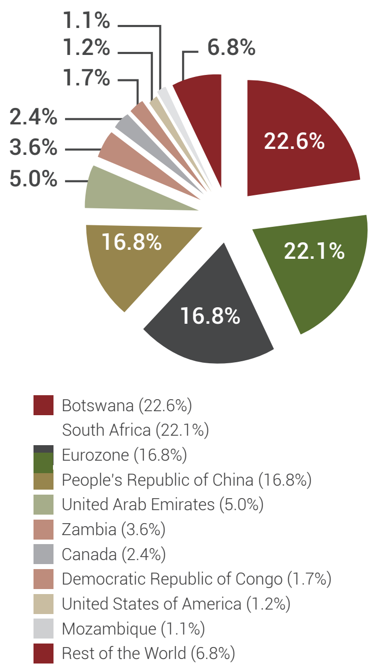
Exports by Destination

During the period under review, Botswana, South Africa, the Eurozone and China were the top four destinations for Namibia's merchandise exports.

2022



2023



Source: Namibia Statistics Agency

Imports

The value of merchandise imports rose during 2023, reflecting increments in major import categories. Expenditure on merchandise imports rose by 11.8 percent when compared to 2022, to N$116.0 billion in 2023. The increase in the value of imports reflected increments in major import categories such as machinery, mechanical, electrical appliances; vehicles, aircraft, vessels; consumer goods; and mineral fuels. The depreciation of the local currency against major trading currencies in part contributed to the rise in the import bill during 2023, coupled with the increased volume of vehicle imports, particularly by rental companies, as tourism activity picked up. The mineral fuels category also contributed to the rise in the import bill during 2023, mainly due to higher mineral fuel volumes imported.

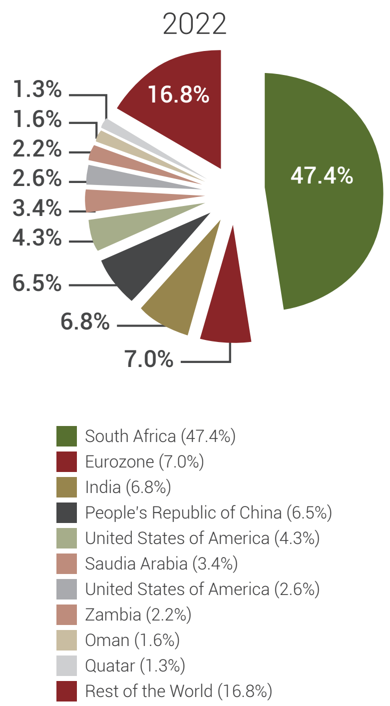
Imports by Origin

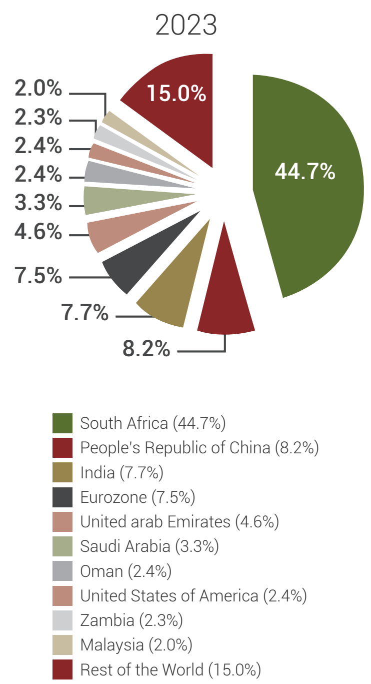
South Africa continued to be the leading source of imports during the 2023, followed by People's Republic of China, India, and the Eurozone. South Africa accounted for 44.7 percent of Namibia's merchandise imports, mainly made up of consumer goods and mineral fuels (Figure B.32). China and India accounted for 8.2 percent and 7.7 percent during 2023, respectively. Imports from China were mainly in the form of machinery, while those from India comprised of mineral fuels, vehicles, parts and accessories, pharmaceutical products, and cereals. The Eurozone's share of 7.5 percent was mainly in the form of machinery and mineral fuels. Import shares for the United Arab Emirates, Saudi Arabia, and Oman, mainly in the form mineral fuels, were 4.6 percent, 3.3 percent and 2.4 percent, respectively. Other notable suppliers of merchandise imports were the United States of America (2.4 percent), Zambia (2.3 percent) and Malaysia (2.0 percent).

Figure B.32

Imports by Origin

Namibia's imports were largely sourced from South Africa, China, Eurozone and India during 2023.





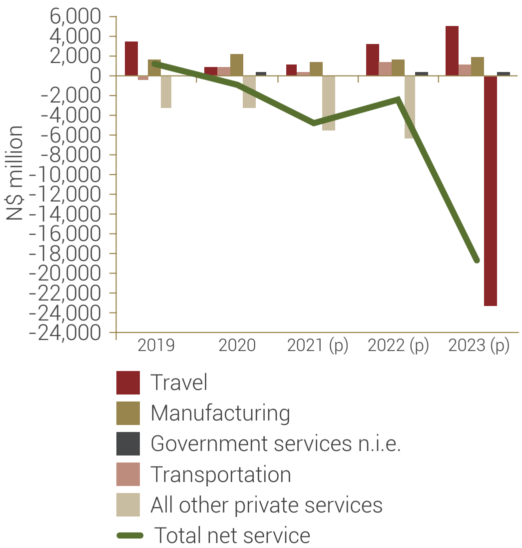
Source: Namibia Statistics Agency

Services, Investment Income and Current Transfers

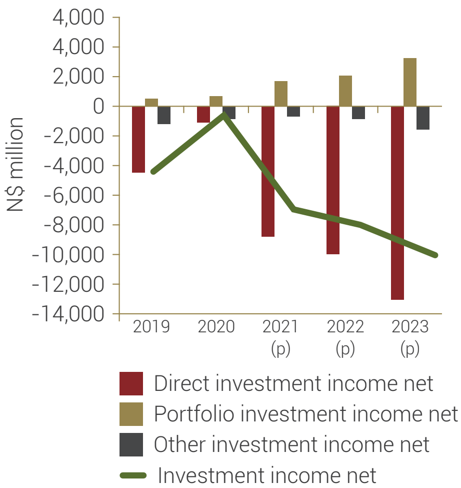
Figure B.33

Services, Primary and Secondary Income

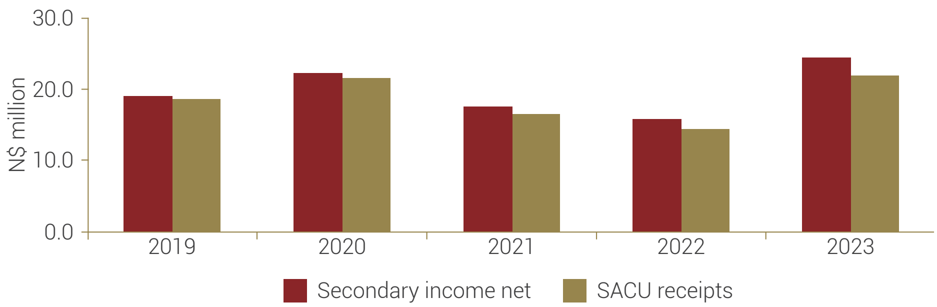
a. The services account registered significantly higher net outflows during 2023, mainly owing to higher net outflows in other private services as a result of the ongoing oil exploration and appraisals.



b. Net outflows on the primary income account rose during 2023, mainly supported by higher net investment income outflows.



c. Namibia's net secondary income receipts increased during 2023 compared to 2022, largely due to higher SACU receipts.



Source: Various companies and BoN surveys

Services balance

The services account registered higher net outflows on an annual basis, mainly owing to higher net outflows in other private services. The services account recorded a significantly higher net outflow of N$18.5 billion during 2023, compared to an outflow of N$2.7 billion recorded during 2022. The higher outflows on the services account were mainly ascribed to an increase in net payments for other private services, which rose by N$17.1 billion to N$22.3 billion on an annual basis. This rise was mainly attributable to increased payments for operating leases, and technical and trade-related services, chiefly in the mining sector, on the back of the ongoing oil and gas exploration and appraisal activities.

Net primary income

Net outflows on the primary income account rose during 2023, mainly supported by an increase in net investment income outflows. Net outflows on the primary income account rose on a yearly basis by 20.9 percent to N$9.6 billion in 2023. This was primarily ascribed to increased net investment income outflows due to higher outflows in direct investment income payments, particularly reinvestment of earnings by foreign direct investors in the mining sector, as well as higher dividend payments during 2023.

Net secondary income

Namibia's net secondary income receipts increased in 2023, largely due to higher SACU receipts. Inflows on the secondary income account rose by 54.5 percent to N$24.3 billion during 2023 (Figure B.33b). This was mainly due to higher SACU receipts, which increased by 52.2 percent to N$21.8 billion during the year under review.

CAPITAL ACCOUNT

Namibia's capital account surplus increased during 2023, largely due to higher capital transfers from non-residents. The capital account surplus rose by 29.3 percent to N$2.3 billion in 2023. The higher inflows reflected the increase in capital transfers from foreign governments and private institutions.

Net lending (+) and net borrowing (-)

Given the developments on the current account during 2023, Namibia registered net borrowing from the rest of the world. The country recorded net borrowing from the rest of the world of N$31.8 billion during 2022, compared to N$24.6 billion recorded in the previous year. The rise in the economy's net borrowing mainly resulted from the deficit recorded in the current account.

FINANCIAL ACCOUNT[8]

During 2023, the financial account balance with the rest of the world recorded a higher net borrowing than it did in 2022. The financial account balance recorded net borrowing from the rest of the world of N$31.0 billion, compared to N$26.1 billion recorded during 2022. Net financial inflows increased over the year, mainly on account of higher inflows observed in direct investments during 2023. Namibia's financial account balance as a percentage of GDP was 13.6 percent, compared to 12.7 percent recorded in 2022.

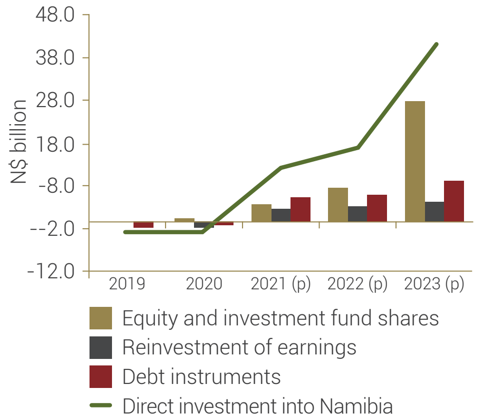
8 In BPM6, the interpretation of the financial account particularly on the assets, denotes an increase as positive and a decrease as negative. The interpretation of the liabilities remains unchanged from BPM5, where an increase or decrease implies just that. Furthermore, the net balances are interpreted in terms of net lending (if positive (denoting outflows)) or net borrowing (if negative (inflows)). The financial account balance is now presented inclusive of reserve assets according to BPM6 and implies that the financing of the net lending/borrowing position (current account) is fully accounted for above the line (i.e. above the financial account balance).

During 2023, the financial account balance with the rest of the world recorded a higher net borrowing than it did in 2022.

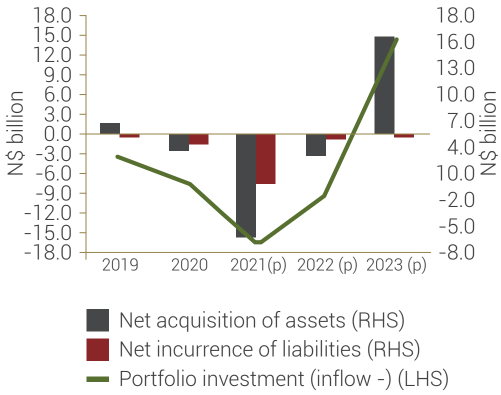
Figure B.34

Financial Account Functional Categories

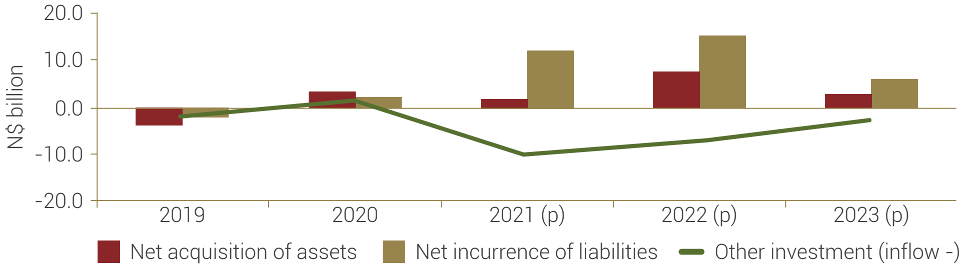
a. Namibia recorded a significantly higher inflow of direct investment compared to 2022, mainly due to higher equity injections for oil and gas exploration and appraisal activities during 2023.



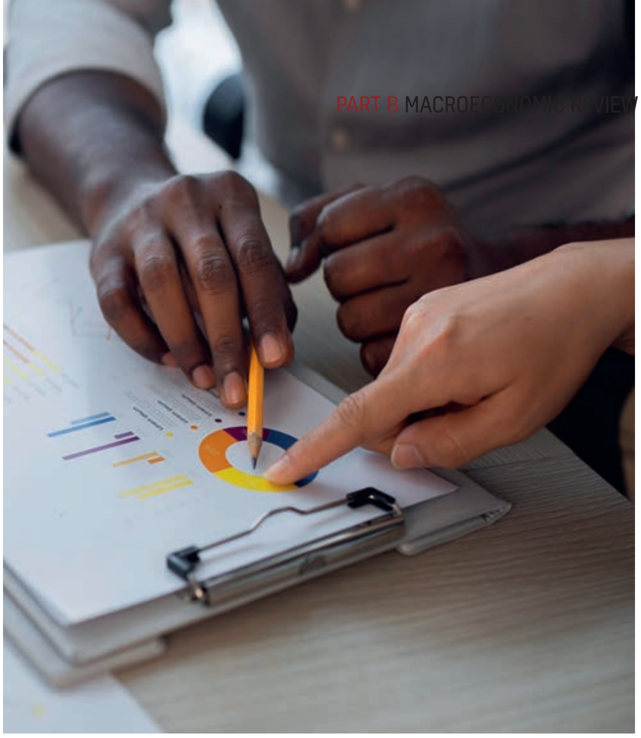
b. Namibia's portfolio investment registered a capital outflow over the year, which switched from an inflow when compared to 2022.



c. On a net basis, other investments recorded a lower inflow during 2023, due to a increase in foreign deposits by local commercial banks.



Source: BON surveys



Direct investment

During 2023, Namibia recorded a significantly higher inflow of foreign direct investment than it did in 2022, mainly due to equity injections for oil and gas exploration and appraisal activities. Net foreign direct investment (FDI) recorded an inflow of N$49.0 billion in 2023, compared to a lower inflow of N$17.3 billion registered a year previously. Namibia's direct investment liabilities rose mainly due to significant equity injections in the mining and quarrying sector for oil and gas exploration and appraisal activities. Additionally, the increase in Namibia's net FDI inflow was supported by the disposal of foreign direct investment equity by resident enterprises in the manufacturing sector, coupled with higher intercompany loans uptake.

Portfolio investment

Namibia's portfolio investment registered a capital outflow over the year which switched from an inflow when compared to 2022. Namibia's portfolio investment registered a net capital outflow of N$15.2 billion in 2023, compared to a net capital inflow of N$2.3 billion recorded a year earlier. The net outflow observed during the review period was mainly driven by an increase in the resident institutional investors' net purchases of equity and debt instruments abroad. This is in part attributable to ongoing interest rate differentials that provide resident institutional investors higher returns in South Africa, which at the moment has higher interest rates than Namibia. Additionally, the reduction in the issuance of domestic money market instruments by the Namibian Government during 2023 also supported the net outflow of funds.

During 2023, Namibia recorded a significantly higher inflow of direct investment than it did in 2022, mainly due to equity injections for oil and gas exploration and appraisal activities.

Other investment

On a net basis, other investments recorded a lower inflow during 2023 due to a reduction in foreign loans uptake and an increase in deposits abroad. On an annual basis, the net inflow in other investments decreased by N$5.6 billion to a net inflow of N$1.8 billion. The lower inflow in other investment was ascribed to a lower uptake of loans from non-affiliate entities coupled with an increase in foreign deposits held by the Namibian deposit-taking corporations abroad.

2023

Net liability position

N$9.9 billion

2022

Net asset position

N$2.8 billion

International reserves[9]

At the end of 2023, the stock of international reserves held by the Bank of Namibia rose on an annual basis, supported by SACU receipts and government foreign borrowing. The stock of international reserves increased on an annual basis by 11.9 percent to N$53.2 billion at the end of 2023. The increase was mainly due to the rise in SACU receipts, as well as foreign borrowing by the Government in the form a loan from Kreditanstalt für Wiederaufbau (KfW) and the increase observed under net customer foreign currency placements. Moreover, the depreciation of the NAD against the USD over the year supported the rise in the stock level. At this level, the stock of foreign reserves was estimated to be 10.2 times higher than the N$5.2 billion currency in circulation, remaining adequate to sustain the currency peg. The import coverage of goods and services stood at 3.8 months in 2023, compared to 4.7 months in 2022, remaining above the international benchmark of 3.0 months. Excluding oil and gas exploration related imports, the import cover was slightly higher and stood at 4.3 months in 2023.

INTERNATIONAL INVESTMENT POSITION

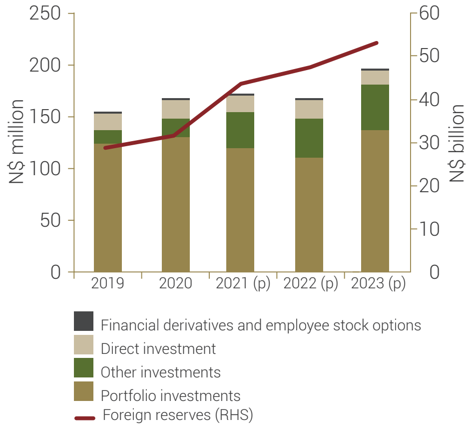
At the end of 2023, Namibia's external balance sheet switched from a net asset position to a net liability position. Namibia recorded a net liability position of N$9.9 billion, compared to a net asset position of N$2.8 billion position recorded at the end of 2022, on account of higher foreign liabilities in the direct investment and other investment categories.

9 The lower import cover largely reflects the oil and ga exploration and appraisal related imports of goods and services which are mainly financed through Foreign direct investments, therefore, the reserves are not significantly impacted by these activities. Consequently, the is import cover is understated due to this developments, which is not much of a concern to the bank at this point.

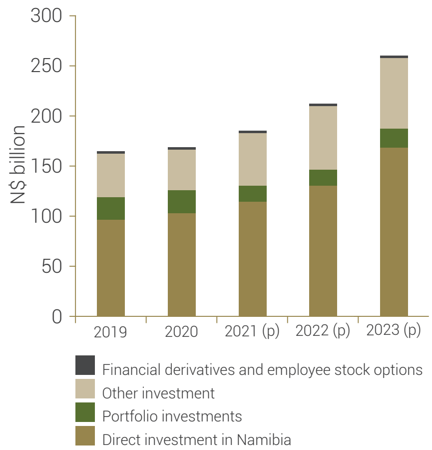
Figure B.35

International Investment Position – Foreign Assets and Liabilities

a. The value of Namibia's foreign assets rose on an annual basis during 2023, chiefly due to increases observed in portfolio investment and foreign reserve assets.



b. At the end of 2023, the market value of Namibia's gross foreign liabilities increased on a yearly basis, owing to increases in direct investment and other investment.



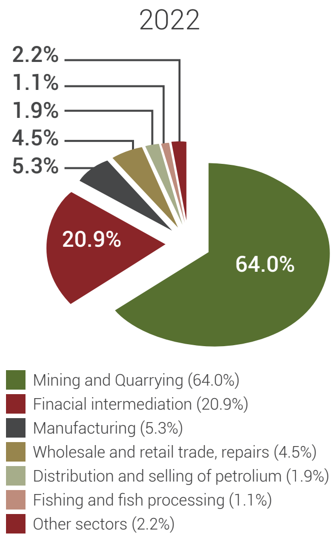
The value of Namibia's foreign assets rose on an annual basis during 2023, chiefly due to increases observed in portfolio investment and foreign reserve assets. On an annual basis, the market value of Namibia's foreign assets increased by 16.8 percent to N$248.4 billion. The rise in foreign assets was mostly enhanced by portfolio investments, other investments and foreign reserves assets, which increased by 24.8 percent, 19.5 percent and 11.9 percent to N$138.3 billion, N$43.8 billion and N$53.2 billion, respectively. Increased net purchases of foreign equity and debt securities, as well as significant revaluation gains on equity securities throughout the year, boosted portfolio investment. Additionally, the rise observed in deposits with non-resident banks supported the increase in other investments during 2023. The increase in the foreign reserve assets was primarily due to SACU receipts, as well as foreign borrowings by the government in the form of KfW loan worth N$1.4 billion.

At the end of 2023, the market value of Namibia's gross foreign liabilities rose on a yearly basis, owing to increases in direct investment and other investment. On an annual basis, the market value of Namibia's foreign liabilities increased by 23.1 percent, to N$258.3 billion. This increase was mostly ascribed to the rise in direct investment and other investment. The rise in direct investment inflows was on account of the ongoing oil and gas exploration and appraisal activities. Other investment liabilities increased due to a higher uptake of trade credit facilities as well as increased borrowings incurred by the Government in the form of a KfW loan. Additionally, a depreciation of the Namibia Dollar against major trading currencies supported the increase in gross foreign liabilities.

Namibia's foreign direct investment (FDI) liabilities disaggregated by sector registered a similar pattern at the end of 2023 compared to 2022, with mining and quarrying continuing to dominate. At the end of 2023, the stock of foreign direct investment liabilities by sector was dominated by the mining and quarrying sector with a share of 70.7 percent, followed by the financial intermediation with a share of 17.7 percent during 2023 (Figure B.36). The mining sector's share increased by 6.7 percent during 2023 compared to 2022 due to increased FDI for oil and gas exploration and appraisal activities. Meanwhile, the manufacturing sector and the wholesale, retail trade and repairs sector took up the third and fourth shares of 5.8 and 2.9 percent, respectively during 2023.

Figure B.36

Direct Investment Liabilities by Sector (Percentage Share)



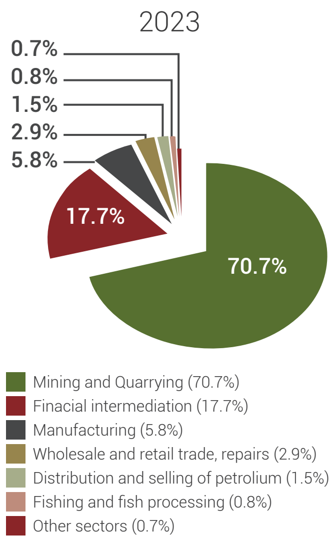
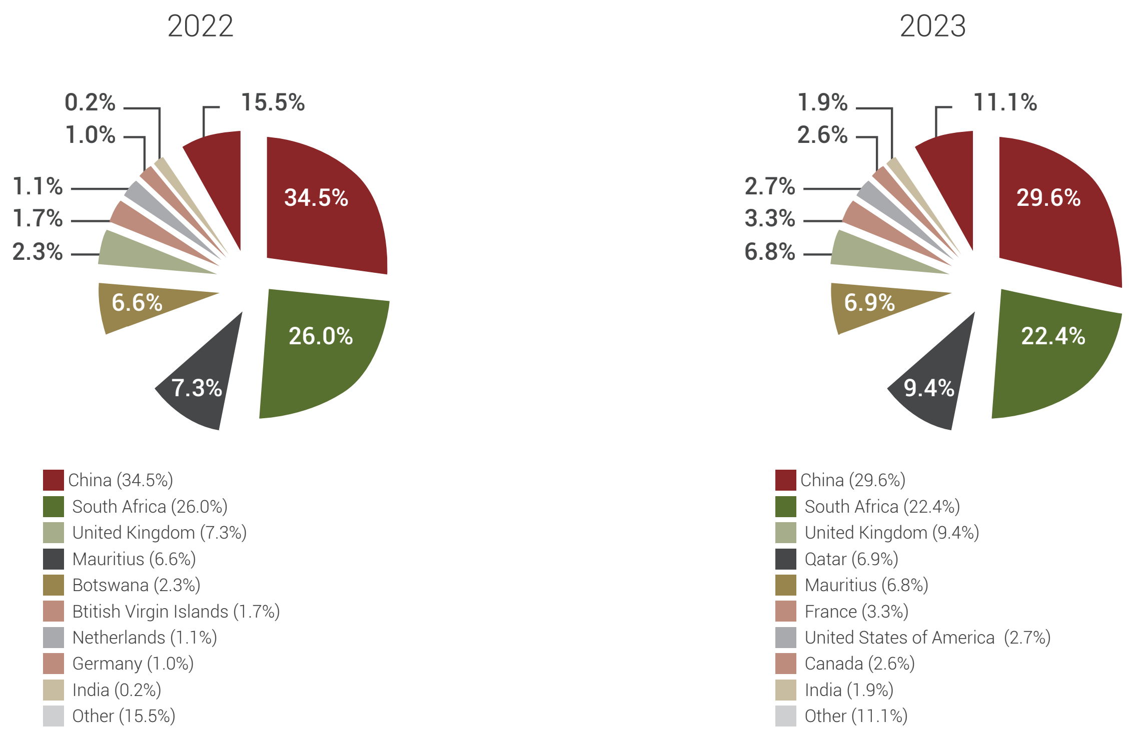


Figure B.37

Direct Investment by Country (Percentage Share)



At the end of 2023, the largest share of Namibia's Foreign Direct Investment (FDI) liabilities by country was sourced from China, followed by South Africa. The stock of FDI liabilities by country source was dominated by China, followed by South Africa, taking up a combined share of 52.0 percent, by the end of 2023. The FDI stock is mostly concentrated in the mining and financial intermediation sectors. The share of FDI from other countries has gone up by 8.6 percent point, which was partly attributed to the oil and gas exploration and appraisal activities in Namibia which are attracting new investors. As a result, the share of the United Kingdom and Qatar increased to 9.4 percent and 6.9 percent, respectively.

EXTERNAL DEBT

Table B.10

Namibia's External Debt

	2019	2020	2021	2022	2023
N$ million					
GROSS EXTERNAL DEBT POSITION	**114 322**	**118 414**	**133 974**	**152 480**	**173 885**
1. Central Government	30 852	33 065	32 488	34 095	37 305
2. State-owned enterprises/parastatals	9 598	10 068	9 470	9 636	8 373
3. Bank of Namibia [1]	2 814	2 914	6 815	6 714	7 892
4. Deposit-taking corporations, except the Central Bank	7 844	7 391	7 380	14 962	14 719
5. Other sectors [2]	11 152	7 448	10 434	11 939	18 631
6. Direct investment: intercompany lending [3]	52 063	57 529	67 387	75 134	86 964
GROSS EXTERNAL DEBT PAYMENTS	**26 000**	**21 668**	**29 211**	**31 776**	**41 306**
1. Central Government	2 779	3 736	10 886	4 068	3 666
2. State-owned enterprises/parastatals	1 421	1 237	1 399	1 808	1 919
3. Bank of Namibia	157	81	111	140	112
4. Deposit-taking corporations, except BoN	3 471	3 547	2 260	2 779	1 844
5. Other sectors	4 988	2 542	1 733	8 937	17 245
6. Direct investment: intercompany lending	13 185	10 525	12 823	14 044	16 519
Outstanding debt Y-on-Y (percentage change)	3.8	3.6	13.1	13.8	14.0
Debt servicing Y-on-Y (percentage change)	28.6	16.7	34.8	8.8	30.0
Debt servicing to exports FoB	39.2	34.1	45.4	36.3	43.6
Short-term debt as a ratio of official reserves	2.4	2.8	3.8	2.3	2.4
EXPORTS OF GOODS AND SERVICES	**66 244**	**63 589**	**64 317**	**87 483**	**94 653**
OFFICIAL RESERVES	**28 941**	**31 752**	**43 871**	**47 558**	**53 229**
Exchange rate (end of period) USD	14.1235	14.6218	15.9065	16.9625	18.5615

[1] The central bank debt comprises special drawing rights (SDRs) allocations received from the IMF.
[2] The category other sectors consist of Enterprises, Namibian owned companies and EPZ's.
[3] Intercompany lending includes loan transaction (and transactions in other debt securities) between parent company and their subsidiaries or investee companies and between subsidiaries of the same group, unless the latter are financial intermediaries (except for insurance corporations and pension funds).

Namibia's stock of external borrowing increased over the year, mainly on account of a higher direct investment through intercompany borrowing, as well as an increased Government borrowing. The stock of external borrowing increased by 14.0 percent to a level of N$173.9 billion during 2023. This was mainly due to direct investment intercompany lending which rose by 15.7 percent to N$87.0 billion as result of foreign direct investor long-term loans extended to subsidiaries within the mining sector. Similarly, the disbursement of the N$1.4 billion KfW loan led to the Government's external borrowing rising to N$37.3 billion over the year.

At the end of 2023, Namibia's ratio of official reserves to short-term debt increased compared to 2022. The ratio of official reserves to short-term debt increased from 2.3 : 1 to 2.4 : 1. The increase was as a result of an increase in the stock of international reserves.

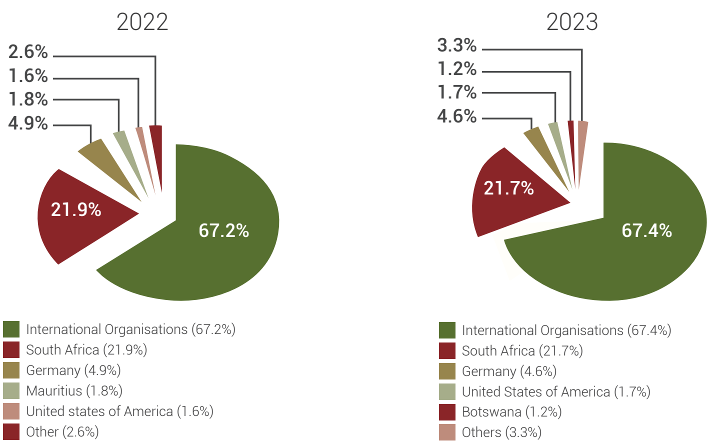
Namibia's foreign debt servicing increased on a yearly basis, as reflected in the direct investment intercompany lending and Government categories. The total value of repayments on Namibia's foreign debt increased to N$41.3 billion in 2023, 30.0 percent higher than in 2022. This was mainly due to repayments made by enterprises in the mining sector through intercompany lending coupled with higher repayments of trade credits.

In 2023, the ratio of debt servicing to exports[9] increased in comparison with 2022. The ratio increased to 43.6 percent in 2023 from 36.3 percent in 2022. The rise was due to an increase in debt servicing over the year compared to 2022. The current ratio of 43.6 percent was above the international benchmark[10] of 15–25 percent. It is important to note that since approximately half of external debt is sourced from direct investment intercompany lending, the risk of debt distress is minimised.

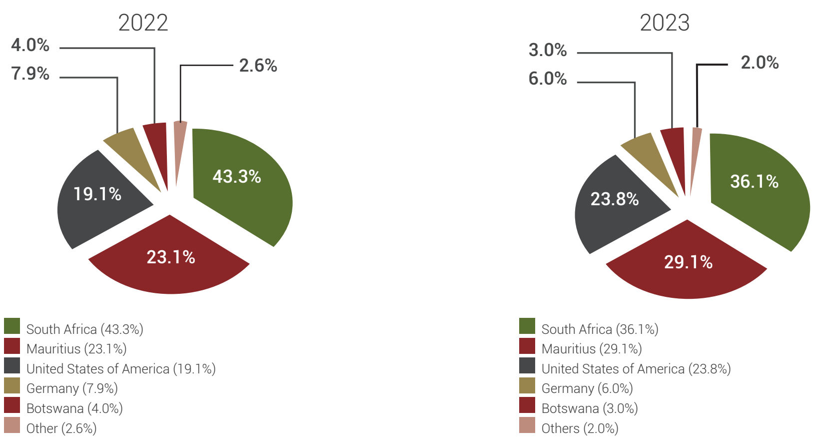
Figure B.38

External Long and short-Term Loans by Country, Percentage Share

a. During 2023, international organisations continued to dominate Namibia's long-term loans ...



b. ...while short-term loans remained dominated by South Africa



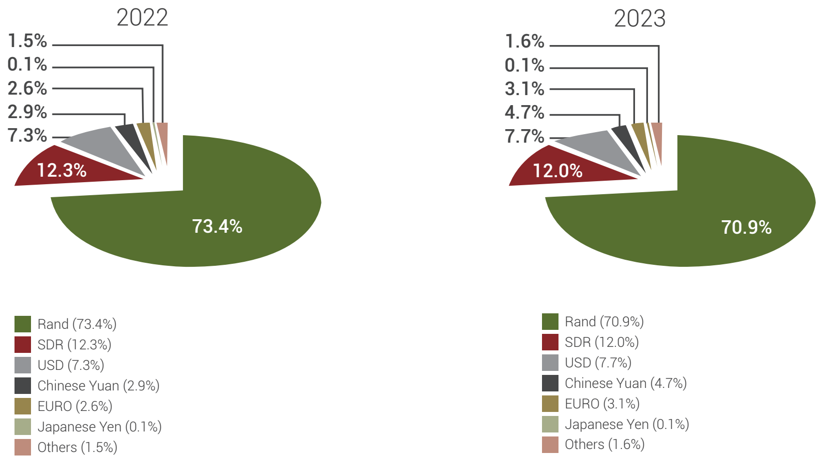
9 Debt servicing as a percentage of merchandise exports is a good measure of serviceable debt. This is due to the fact that higher growth rates in exports build up international reserves, which in turn are used to service foreign debt. Therefore, the lower the percentage, the better.

10 The international benchmark values provide an assessment of the country's risk of debt distress. If the ratio falls below the threshold of 15–25 percent, then the country is seen to meet its debt service obligations and is at low risk. Should the country's debt burden fall within the threshold, but stress tests indicate a possible breach in the presence of external shocks or abrupt changes in macroeconomic policies, then it would be at a moderate risk. Finally, if the country's debt burden falls outside the threshold, then the country would be considered to be in debt distress and stringent policy interventions would need to be taken.

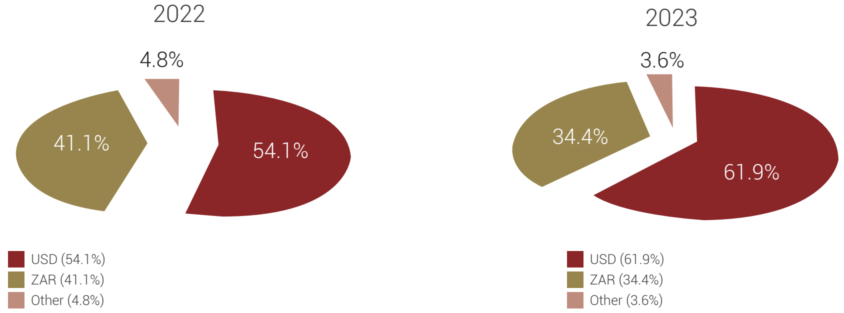
Figure B.39

External Long- and Short-Term Loans By Currency, Percentage Share

a) During 2023, the largest currency of denomination for Namibia's long-term loans continued to be the Rand, followed by SDR.



b) During 2023, short-term loans were mainly dominated in US Dollar, followed by the Rand.



“Namibia's external debt maturity structure was largely concentrated in the long run, indicating the ability to mitigate the impact of external shocks.

11 This includes borrowing from multilateral organisations.

At the end of 2023, Namibia's long-term debts were mainly sourced from International Organisations and South Africa, taking up a combined share of 80.1 percent. During 2023 Namibia's long-term loans were sourced mostly from international organisations, whose share was 67.4 percent, mainly reflecting multilateral loans of the Central Government (Figure B.38). This share increased because of the disbursement of supplemental financing from the KfW. South Africa and Germany were the second and third largest sources of Namibia's long-term loans, with shares of 21.7 and 4.6 percent, respectively. The share of South Africa remained relatively unchanged, while the decline in Germany was due to repayment of long-term loans. Namibia's short-term loans remained broadly similar when compared to a year ago, with South Africa dominating with a share of 36.1 percent. Mauritius was the second largest contributor to Namibia's short-term loans, with a share of 29.1 percent.

Namibia's long-term loans were mainly dominated in Rand during 2023, while the short-term loans were denominated in US Dollar. During 2023, long-term loans were mainly denominated in Rand, with the currency accounting for 70.9 percent of the total, followed by SDR, with a share of 12.0 percent (Figure B.39a). The share of the Rand was sustained by supplemental financing from the KfW, while the share of SDR was mainly a result of the IMF's RFI. The US Dollar dominated the short-term loans with its share increasing to 61.9 percent during 2023 due to increased uptake of short-term loans denominated in US Dollar. Meanwhile, the Rand's share declined to 34.4 percent, reflecting higher repayments made of short-term loans denominated in Rand during 2023.

Table B.11

External Debt by Remaining Maturity (End Of 2023)

N$ Millions as at the end of December 2023	Total	Short term[11]	2025	2026	2027	2028	2029	2030 plus
1. Central Government	37 305	4 380	13 921	566	268	88	15 488	2 594
2. State-owned enterprises/ parastatals	8 373	576	379	-	-	-	535	6 883
3. BoN	7 892							7 892
4. Deposit-taking corporations, except BoN	14 719	12 804	330	937	110	-	538	-
5. Other sectors	18 631	10 767	204	-	-	-	-	7 661
6. Direct investment: Intercompany lending	86 964	3 909	1 310	2 067	17 499	-	-	62 179
GROSS EXTERNAL DEBT BY REMAINING MATURITY	**173 885**	**32 434**	**16 144**	**3 570**	**17 878**	**88**	**16 561**	**87 210**

11 This includes borrowing from multilateral organisations.

At the end of 2023, Namibia's external debt maturity structure was largely concentrated in the long run, indicating the ability to mitigate the impact of external shocks. External debt with maturity beyond five years constituted 50.2 percent of the total debt, indicating that the country's external debt is primarily long-term. The longer the average term to maturity, the more time there is to repay debt obligations, thus mitigating the impact of external shocks. Namibia's external debt due in less than one year amounts to N$32.4 billion, reflecting 18.7 percent of the total external debt, and is mostly attributed to deposit-taking corporations' debt obligations due in 2024 in the form of currency and deposits of non-residents. External debt maturing from 2025 to 2029 occupied a share of 31.2 percent, with the main debt obligations being the Eurobond on the part of the Government, due in 2025, and the direct investment: intercompany lending due in 2027 in the mining sector.

EXCHANGE RATE DEVELOPMENTS[12]

During 2023, the NAD/ZAR weakened against major trading currencies triggered by global recession fears and South Africa's subdued economic growth. The NAD depreciated against the USD, British Pound and Euro by 12.8 percent, 14.2 percent, and 16.7 percent, respectively (Figure B.29e). This was primarily due to South Africa's slow economic growth and negative investor sentiment resulting from widespread and prolonged power outages (load shedding), logistical constraints at South African ports and railway operations, and doubts over the government's ability to cut its spending to restore fiscal sustainability. In addition, the weaker NAD/ZAR was attributed to South Africa's current account and fiscal deficits, coupled with concerns about global growth resulting from an escalation in global risk aversion following the rises in global interest rates, geopolitical tensions, the lustreless Chinese economy, and falling commodity prices.

2023

NAD/ZAR depreciated against:

12.8% USD

14.2% Pound

16.7% Euro

Trade-weighted effective exchange rates[13]

The NEER and REER both depreciated during 2023 due to global tightening of financial conditions and weaker domestic growth. The NEER depreciated by 4.0 percent to an index level of 89.8 during 2023 (Figure B.29f), reflecting South Africa's weaker domestic growth in line with its widening budget deficit, slower-than-expected growth in the country's private sector, higher levels of load shedding, and the widening current account deficit. Furthermore, the NEER was negatively influenced by external factors characterised by interest rate increases in AEs combined with ongoing concerns about the Chinese economy resulting in risk aversion. The REER likewise exhibited a depreciation of 3.4 percent, signalling an improvement in the competitiveness of Namibian products in international markets.

12 The NAD trades one-to-one against the ZAR, so the two currencies are therefore referred to interchangeably. This section uses middle exchange rates against foreign currency units, unless mentioned otherwise; the exchange rates are period averages.

13 The NEER is a trade-weighted index of the nominal exchange rate of the NAD against the currencies of Namibia's major trading partners: the ZAR, Pula, Euro, USD, Yuan, Dirham and Rupee. The REER, on the other hand, takes the NEER and deflates it with the relative consumer price indices of Namibia and those of its major trading partners. An increase in the index represents an effective appreciation of the national currency, whereas a decline in the index represents an effective depreciation.

THEME CHAPTER

The Impact Of Climate Change On The Economy: Adaptive Strategies And Policy Options for Namibia

Contents

Figures

INTRODUCTION

Climate change refers to long-term shifts in temperatures and weather patterns. Such shifts can be natural, due to changes in the sun's activity or large volcanic eruptions. Since the 1800s, however, human activities have been the main driver of climate change by adding extra heat to the climate system due to the release of greenhouse gases (GHGs) into the atmosphere.[1] These additional GHGs are primarily the result of activities such as the burning of fossil fuels (oil, coal, and natural gas), deforestation, agriculture, and land-use changes. Burning fossil fuels generates GHG emissions that act like a blanket wrapped around the Earth, trapping the sun's heat and raising temperatures.

Global temperatures have been persistently on the rise and extreme weather events are becoming more frequent and severe. Over the last five decades, there has been a considerable rise in average global temperatures, which has led to an increase in the frequency and severity of natural disasters, as well as extreme changes in weather patterns, characterised by heat waves, droughts, and floods.[2]

Unmitigated climate change will lead to increasing economic and financial costs, with long-term macroeconomic effects that will ultimately hinder development. Sub-Saharan African countries' heavy reliance on rain-fed agriculture increases social, humanitarian and macroeconomic vulnerabilities due to rising temperatures and extreme weather shocks. This heavily affects the poorest segments of the region's growing population. Some of the channels through which this happens are through an increase in the frequency of natural disasters, widespread vector borne diseases, and rising food prices.[3]

The impact of climate change on food insecurity in Namibia is expected to be aggravated and extend even further in the future, increasing food prices and reducing food production. The frequency of droughts already appears to be increasing, with one year of drought conditions recorded in the 1980s, three recorded in the 1990s, two in the 2000s, and three in the 2010s. The most recent of these involved the near failure of the 2018/19 rains, when most of Namibia experienced severe drought conditions (measured as a combination of negligible rainfall, poor vegetation conditions, high surface temperatures and low soil moisture). An estimated one third of Namibians suffered food shortages, 90 000 livestock died between October 2018 and June 2019, and the City of Windhoek declared a water crisis. In 2023, it is estimated that around 700 000 Namibians were food insecure, which necessitated the allocation of N$643 million to the Office of the Prime Minister for drought relief in the Mid-term Budget Review in October 2023.

Climate change does not only become a problem for food security and food systems, but also has enormous implications for developmental outcomes.

Climate change does not only become a problem for food security and food systems, but also has enormous implications for developmental outcomes. Climate change has implications for whether or not a country's development outcomes are realistic and attainable. It can make it difficult for a country to address the root causes of poverty and food insecurity. Thus, the impacts of climate change make it more challenging to attain the Sustainable Developmental Goals. There is therefore a need to act and take measures to mitigate climate change and reduce its adverse effects on society. Namibia is a net carbon sink, as it absorbs more GHGs than it emits. There should thus be more emphasis on adaptation measures than mitigation measures. There are two ways of reducing the effects of climate change: the first is by mitigating climate change itself, which entails reducing GHG emissions; and the other is by adapting to climate change.

1 https://climateknowledgeportal.worldbank.org/overview#:~:text=These%20changes%20are%20caused%20by,%2C%20and%20land%2Duse%20changes
2 Intergovernmental Panel on Climate Change. (2021). *Climate Change 2021: The Physical Science Basis.* https://www.ipcc.ch/report/ar6/wg1/
3 https://www.elibrary.imf.org/downloadpdf/book/9781513536835/ch02.xml

The aim of this Theme Chapter is to evaluate the empirical work undertaken on the impact of climate change on the economy. Understanding the economic impacts of climate change is necessary for informing long-term planning and policy making. The following are pertinent questions that need to be answered:

- What do we know? What are the economic impacts of climate change? What are the key direct and indirect paths through which climate change impacts the economy (which sectors are the most severely impacted)?
- What is the impact of climate change on the banking and financial sector?
- How should we adapt to the impact of climate change on the Namibian economy? What financing options are available for countries to adapt to climate effects? What are the opportunities to be leveraged?

The Theme Chapter is presented in six sections. Following this introductory section, section two presents the Namibian climatology; section three summarises the macroeconomic impacts of climate change and assesses the role of the financial sector in the context of climate change; section four highlights the expected impact of climate change on key sectors in Namibia; section five looks at adaptive strategies and policy options; and the final section concludes and makes several policy recommendations.

2018

90 000

livestock died between October 2018 and June 2019

2023

Drought relief

N$643 million

from Office of the Prime Minister

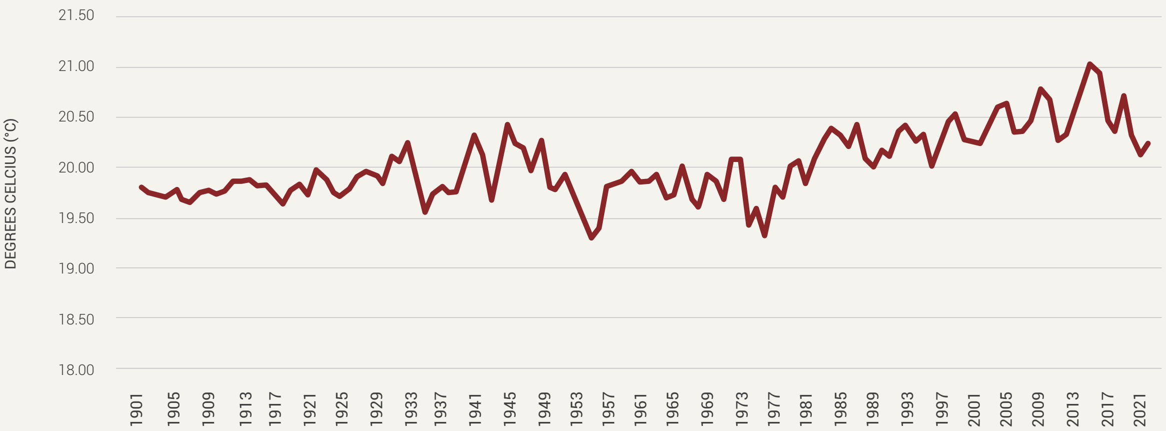
NAMIBIAN CLIMATOLOGY

Namibia is one of the largest and driest countries in sub-Saharan Africa. It is characterised by high climatic variability in the forms of persistent droughts, unpredictable and variable rainfall patterns, variability in temperatures, and water scarcity. The climate is generally hot and dry, with sparse and erratic rainfall. Ninety-two percent of the land area is defined as very-arid, arid or semi-arid.

Temperature and rainfall

Figure TC.1

Observed Annual Mean Surface Air Temperature For Namibia 1901–2022



Source: World Bank Climate Change Knowledge Portal

Figure TC.1 above shows that average temperatures have been on the rise in Namibia over the period 1901 to 2022. The highest annual mean surface temperature of 21.04°C was recorded in 2015.

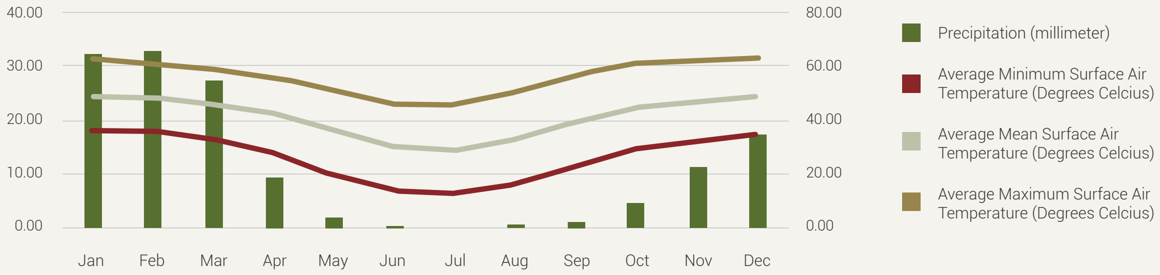
Rainfall in Namibia is extremely variable. Mean annual rainfall is only 278 mm, with a variation from 650 mm in the northeast to less than 50 mm in the southwest and along the coastal areas. In the Namib Desert, rainfall is extremely scarce. Rainfall peaks in January, February, and March where mean monthly rainfall averages approximately 62 mm, 66 mm, and 55 mm, respectively. From a hydrological point of view, Namibia is an arid, water-deficient country (see Figure TC.2). High solar radiation, low humidity, and high temperatures lead to very high evaporation rates, which vary from 3 800 mm per annum in the south to 2 600 mm per annum in the north. Over most of the country, potential evaporation is at least five times greater than average rainfall.[4]

> **Namibia's mean annual rainfall was recorded at 278 mm with variation from 650 mm in the north east to less than 50 mm in the southwest**

4 https://climateknowledgeportal.worldbank.org/country/namibia/climate-data-historical#:~:text=Mean%20annual%20temperature%20for%20Namibia,annual%20precipitation%20is%20269.2%20mm

Figure TC.2

Monthly Climatology 1901–2020



Source: World Bank Climate Change Knowledge Portal

Greenhouse gas emissions

Namibia is a net carbon sink – the country absorbs more GHGs than it emits. In 2019 Namibia was ranked as the 137th largest emitter, accounting for just 0.01 percent of global emissions (Institute for Public Policy Research, 2022). Namibia's GHG emissions for 2020 were estimated at 13.56 million metric tonnes, a 25.7 percent increase over 2019. As stated in *Namibia's Green Transition: A summary of the Issues*, "Namibia's negligible contribution to GHG emissions and the fact that the country absorbs more carbon than it emits suggests that devoting scarce resources to GHG mitigation is not optimal from a global perspective, as mitigation resources are likely to make a far greater impact in other countries in terms of emissions abated per dollar spent. The focus should rather be on maintaining or enhancing its characteristic of being a net carbon sink."[5]

The main sectors in terms of GHG emissions and energy consumption in Namibia are the transport, mining, commercial, agriculture and residential sectors. The sector that emits the most GHGs is the transport sector, with 62.2 percent of total GHG emissions;[6] these arise primarily from burning fossil fuel for cars, trucks, ships, trains, and planes. Namibia imports electricity to meet the major share of its demand, which explains the very low emissions associated with this industry.

Transport Sector has the highest GHG emissions

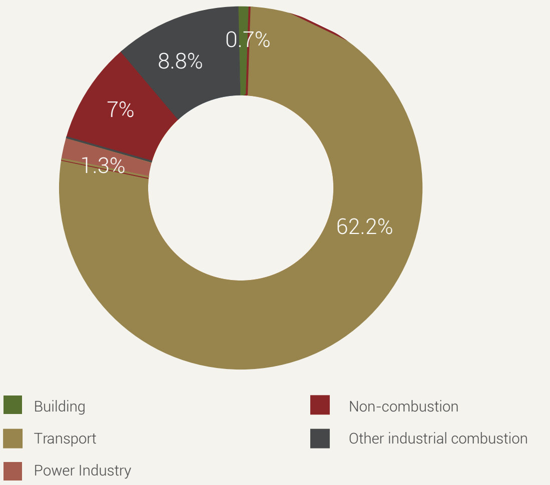
62%

of total GHG emissions

5 https://ippr.org.na/wp-content/uploads/2022/12/Namibias-Green-Transition-web.pdf (p. 2)
6 https://www.worldometers.info/co2-emissions/namibia-co2-emissions/#:~:text=CO2%20emissions%20per%20capita%20in,in%20CO2%20emissions%20per%20capita

Figure TC.3

Greenhouse Gas Emitters By Sector In Namibia



Source: Worldometers

MACROECONOMIC IMPACT OF CLIMATE CHANGE

Climate change has the potential to impact the macroeconomy in numerous ways, influencing key economic variables such as output and inflation. The impacts of climate change stem from the increased frequency and severity of acute weather events like flooding, extreme temperatures and windstorms, on the one hand, and gradual or chronic changes in the climate, such as those associated with gradually rising temperatures and sea levels, on the other. The impacts associated with both acute and chronic changes transmit through many channels, affecting both the supply and demand sides of the macroeconomy.

Effects of extreme weather on economic growth

The economic literature shows that extreme weather events tend to have a negative effect on economic growth, and that in some cases this effect lasts for up to several years. Reasons include damage to the economy's stock of physical and infrastructural capital, the impact on the labour force (including through displacement or migration), and losses in productivity (for example, due to breakdowns in supply

> **Climate change has the potential to impact the macroeconomy in numerous ways, influencing key economic variables such as output and inflation.**

linkages).[7] A study by Wade and Jennings (2023)[8] found that global growth will be hindered by rising operational costs as global temperatures rise. The authors reviewed various studies in their paper and found that a worst-case impact of a 1 percent reduction in GDP growth per year could be realised. Research also suggests that only a collective effort to enact strict carbon emissions policies has the potential to reduce the long-term financial repercussions of climate change, and that the impact will be disproportionately damaging to developing economies.[9] This is evident in the prediction of the World Bank Climate Change Portal (2021) that, in the absence of mitigation and adaptation measures, Namibia's GDP could be reduced by 6.5 percent annually.

Effects of extreme weather on inflation

Extreme weather events can also affect inflation, at least temporarily. In The price impact of extreme weather in developing countries, Heinen et al. (2019) studied the impact of hurricanes and floods on the monthly inflation rates of 15 Caribbean islands.[10] They concluded that although the average inflation impact of hurricanes is small, it can be greater for more severe events. Similarly, Cavallo et al. (2014)[11] have found that even with the severe supply disruptions that major earthquakes can bring, prices remain stable.[12] They attribute this to retailers avoiding perceptions of price-gouging, i.e. preferring to run out of stock in response to a supply disruption, rather than to increase prices. Peersman[13] (2022) shows that weather-driven food price shocks have a strong impact on consumer prices in the Euro Area, suggesting that inflation volatility in advanced economies may rise with an increased global frequency of extreme weather events. Taken together, these factors suggest that it is likely that inflation may become more volatile, particularly in geographies subject to more frequent extreme weather events.

Several studies have found that droughts increase headline inflation for a prolonged period. Parker (2018)[14] finds that droughts seem to be the only type of natural disaster with an impact on headline inflation which persists for several years, with food prices being a key channel. This is also supported by Cevik and Jalles (2023) in *Eye of the Storm: The Impact of Climate Shocks on Inflation and Growth*, who found that a drought shock results in an immediate increase in headline inflation above its initial level which lasts over the long term and amounts to an increase of about 1.5 percentage points over what inflation would have been if the shock had not occurred.[15]

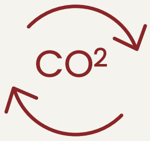
While physical impacts of climate change have been shown to temporarily raise inflation, in particular in terms of food prices, such effects have tended to dissipate in the medium term. As noted above, however, the impacts of such events may be greater in the future if extreme weather events are more frequent and more severe.[16]

2019

Namibia was ranked as the 137th largest emitter

= 0.01%

of global emissions



2020

Namibia's GHG emissions =

13.56 million

metric tonnes

25.7% increase over 2019

7 https://www.bankofengland.co.uk/quarterly-bulletin/2022/2022-q4/climate-change-possible-macroeconomic-implications
8 https://mybrand.schroders.com/m/01053abe732aa4a1/original/The-impact-of-climate-change.pdf
9 Ibid.
10 https://pure-oai.bham.ac.uk/ws/files/47132988/ecoj12581.pdf
11 Cavallo, A., Cavallo, E. & Rigobon, R. (2014). Prices and supply disruptions during natural disasters. Rev Income Wealth 60(S2) (pp. 449–471).
12 https://www.hbs.edu/ris/Publication%20Files/Cavallo_Alberto_J12_Prices%20and%20Supply%20Disruptions%20during%20Natural%20Disasters_5f46211e-eb20-4d53-b5f5-90e70f8f17b0.pdf
13 https://www.ecb.europa.eu/pub/conferences/shared/pdf/20190923_inflation_conference/S6_Peersman.pdf
14 Parker, M. (2018). The Impact of Disasters on Inflation. *Economics of Disasters and Climate Change*, 2, pp. 21–48.
15 https://www.imf.org/-/media/Files/Publications/WP/2023/English/wpiea2023087-print-pdf.ashx
16 Ibid.

"Climate change could further diminish the space for conventional monetary policy by lowering the equilibrium real rate of interest, which balances savings and investment.

Effects of extreme weather on public finance

Extreme weather events may place a direct and indirect burden on public finances. The budgetary impact can be direct, both through higher public expenditure associated with relief measures, repairs and maintenance of infrastructure and also prevention measures, or indirect, through an eroding revenue base resulting from output loss or higher public expenditure on social payments owing to lowered incomes.

Governments may take action to limit the negative effects of climate change, mainly through mitigation and adaptation policies. Mitigation policies, embedded primarily in emissions trading schemes, carbon taxes and other charges on pollution externalities, are deployed to decrease GHG emissions. Adaptation policies, which are intended to increase the resilience of the economy (for example by erecting safer and more resilient buildings and infrastructure), require temporary increases in public expenditure. As long as the revenue derived from mitigation policies is not sufficient to finance this expenditure, government actions designed to fight climate change and improve fiscal sustainability in the long run may have adverse effects on budget balances in the short to medium term.

Climate change and the financial sector

Macroeconomic effects of climate change on the economy have negative implications for the financial system, increasing financial risks through physical and transition risks. The financial system's role in helping people rebuild (by honouring claims after disasters) highlights its importance to improving resilience to climate change. The negative effects of climate change on the economy also materialise through consumers honouring their debt obligations. Climate change affects the financial system through two main channels. The first is the physical risks which arise from damage to property, infrastructure, and land. The second, the transition risk, results from changes in climate policy, technology, and consumer and market sentiment during the adjustment to a lower-carbon economy.[17] Exposures can vary significantly from country to country. Lower- and middle-income economies are typically more vulnerable to physical risks.

Physical risks for financial institutions can materialise either directly, through their exposures, or indirectly, through the economy-wide effects of climate change. For financial institutions, physical risks can materialise directly, through their exposures to corporations, households, and countries that experience climate shocks, or indirectly, through the effects of climate change on the wider economy and feedback effects within the financial system.[18] Exposures manifest themselves through increased default risks of loan portfolios or lower values of assets. Corporate credit portfolios are also at risk, as highlighted by the bankruptcy of California's largest utility, Pacific Gas and Electric. Tighter financial conditions might follow if banks reduce lending, in particular when climate shocks affect many institutions simultaneously.

17 https://www.imf.org/en/Publications/fandd/issues/2019/12/climate-change-central-banks-and-financial-risk-grippa#:~:text=The%20first%20involves%20physical%20risks,significantly%20from%20country%20to%20country

19 https://www.imf.org/en/Publications/fandd/issues/2019/12/climate-change-central-banks-and-financial-risk-grippa

20 Ibid.

Namibia mean annual rainfall

278 mm

with a variation from 650 mm in the northeast to less than 50 mm in the southwest and along the coastal areas.

Transition risks materialise on the asset side of financial institutions, which could incur losses through exposure to firms with business models not built around the economics of low carbon emissions. Fossil fuel companies could find themselves saddled with reserves that are "unburnable" in a world moving toward a low-carbon global economy. These firms could see their earnings decline, businesses disrupted, and funding costs increase because of policy action, technological change, and consumer and investor demands for alignment with policies to tackle climate change.[19]

Risks can also materialise through the economy at large, especially if the shift to a low-carbon economy proves to be abrupt (following previous inaction), poorly designed, or difficult to coordinate globally. Financial stability concerns arise when asset prices adjust rapidly to reflect unexpected realisations of transition or physical risks.[20] According to the IMF (2019), there is some evidence that markets are partly pricing in climate change risks, but asset prices may not fully reflect the extent of potential damage and policy action required to limit global warming to 2˚C or less.

Effects of climate change on financial stability and price stability

Financial instability can occur due to the frequent occurrence of climate extremes that can reduce production efficiency, affect business profitability, and increase the credit cost of firms.[21] Central banks and financial regulators increasingly acknowledge the financial stability implications of climate change. For example, the Network of Central Banks and Supervisors for Greening the Financial System (usually referred to as the Network for Greening the Financial System (NGFS)), an expanding group that by the end of 2023 comprised 134 members, has embarked on the task of integrating climate-related risks into supervision and financial stability monitoring.

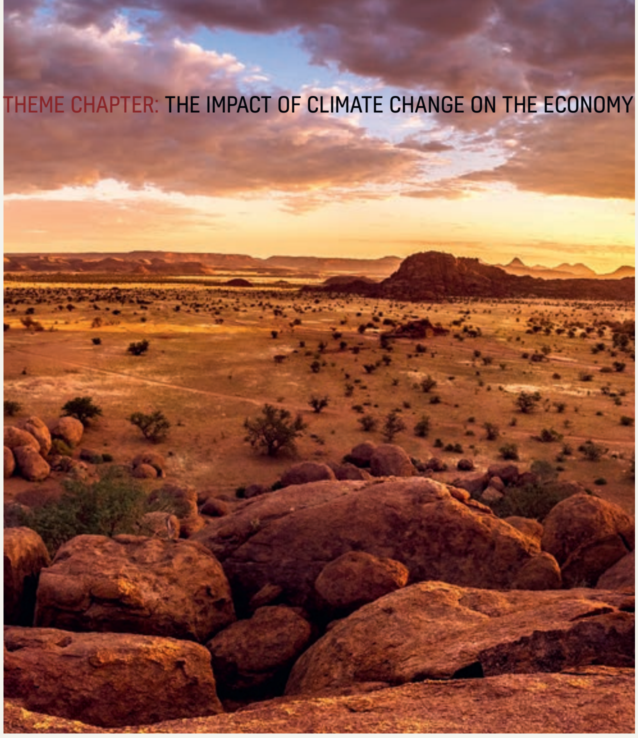
The International Monetary Fund[22] has argued that there are three channels through which climate change might affect price stability. Firstly, climate change might impair the transmission of central banks' monetary policy measures to the financing conditions faced by households and firms, and hence to consumption and investment. The IMF argues that losses from materialising physical risks or stranded assets (for example oil reserves that may not be tapped as the world embraces renewable sources of energy) could weigh on financial institutions' balance sheets, reducing the flow of credit to the real economy.

Secondly, it argues that climate change could further diminish the space for conventional monetary policy by lowering the equilibrium real rate of interest, which balances savings and investment. For example, higher temperatures might impair labour productivity or increase rates of sickness and mortality. Moreover, productive resources might be reallocated to support adaptation measures, while climate-related uncertainty may increase precautionary savings and reduce incentives to invest. Jointly, these factors may reduce the real equilibrium interest rate, thereby increasing the likelihood that a central bank's policy rate will be constrained. Thirdly, the IMF argues that both climate change and policies to mitigate its effects can have a direct impact on inflation dynamics. According to the IMF (2021), recent history confirms that a greater incidence of physical risk can cause short-term fluctuations in output and inflation that amplify longer-term macroeconomic volatility. If mitigation policies are not forceful, the risk of even larger climate shocks grows, with more persistent consequences for prices and wages. Additionally, mitigation policies such as carbon pricing programmes can affect price stability, potentially precipitating large and long-lasting trends in relative prices and driving a wedge between headline and core measures of inflation.[23]

Similarly, the NGFS (2020) recognised that climate change can affect the transmission channels of monetary policy and thus the ability of central banks to achieve their inflation targets. For instance, physical and transition risks can affect asset prices, exchange rates, expectations and bank lending, which constitute significant channels by which changes in policy rates influence price developments. This makes it clear that climate change can undermine the effectiveness of the inflation targeting framework, which is nowadays at the core of central banks' operations.

21 https://www.mdpi.com/2071-1050/15/15/11744#:~:text=Potential%20economic%20costs%20and%20financial,the%20credit%20cost%20of%20firms
22 https://www.imf.org/en/Publications/fandd/issues/2021/09/isabel-schnabel-ECB-climate-change

23 https://www.imf.org/en/Publications/fandd/issues/2021/09/isabel-schnabel-ECB-climate-change



Namibia is a semi-arid country, but the last decade has witnessed the occurrence of extreme climatic events on a more frequent and severe basis.

The establishment of the NGFS, which was launched in December 2017, has played a key role in achieving consensus in the central bank community about the need for central banks to address climate challenges. As noted by Yanis Dafermos in *Climate change, central banking and financial supervision: beyond the risk exposure approach,* "[a] growing number of academic studies and reports have also emphasised the need for central banks and financial supervisors to start taking climate change explicitly into account in their decision-making process."[24] The Bank of Namibia became a member of the NGFS in December 2023. As of 27 December 2023, the Bank has been appointed as a plenary member, joining the ranks of 134 members and 21 observers within the network.

24 https://www.soas.ac.uk/sites/default/files/2022-10/economics-wp243.pdf

Although monetary policy clearly cannot solve climate change, the macroeconomic implications caused by climate change are relevant for monetary policy makers. This implies that the greatest contribution monetary policy can make to facilitate the transition to the green economy is to secure price stability and maintain the credibility of the monetary regime through the transition.

THE IMPLICATIONS OF CLIMATE CHANGE IN NAMIBIA

Namibia is a semi-arid country, but the last decade has witnessed the occurrence of extreme climatic events on a more frequent and severe basis.[25] Namibia is classified as one of the countries that is most vulnerable to climate change and natural hazards, such as droughts and floods. These tend to cause huge environmental and socioeconomic damage and losses. For example, the 2009 and 2011 floods and the intractable drought of 2019 are some of the disasters the country has faced in recent years. The country is currently bracing for the anticipated drought of 2023/2024.

Using projected climate variability and climate change trends for Namibia, the World Bank report simulated significant impacts that are expected on key sectors. Several sectors have been identified as being at higher risk due to climate change. These include the agricultural sector, the tourism sector, the energy sector and the infrastructure sector.

Impact on the agricultural sector

The Namibian agricultural sector is under threat from projected climate variability and climate change trends for Namibia, such as rising temperatures, changing seasonal rainfall patterns, increased duration of dry spells, and increased aridity and drought. The agricultural sector (crop production, livestock rearing, and fisheries) in Namibia is highly sensitive to climate conditions. According to the World Bank, temperatures are projected to increase across the country by an average of as much as 3.8°C–5.1°C. The number of extremely hot days is also likely to increase. While rainfall projections are uncertain about the direction and magnitude of change, there are projections of changes in seasonality and intensity of rainfall. The combination of these

25 The analysis is based on the Climate Risk country profile of Namibia report conducted by the World bank (2021).

conditions will have significant impacts on crops, livestock, and fisheries. Climate change could have significant impacts on agriculture, and by extension GDP, and it is likely that climate change will negatively affect cereal crop production, livestock production, and fisheries.

Agriculture in Namibia plays a critical role in the formal and informal economies, supporting 70 percent of the population directly or indirectly through employment and income generation. Rain-fed crops such as pearl millet, sorghum and maize are the most important crops grown in Namibia. The dependence on rain-fed agriculture increases the vulnerability of farming systems and predisposes rural households to food insecurity and poverty.

Temperature increase across Namibia

3.8°C–5.1°C.

Climate change is a long-term threat to food security and nutrition in Namibia. It has negative implications for rural livelihoods, ecosystems, and biodiversity, with direct consequences across all dimensions of the food system. The relationship between climate change and food systems moves in two directions based on mutually reinforcing feedback loops. Food systems contribute to changing the climate through greenhouse gas emissions. In turn, climate change impacts food systems, leading to food insecurity and malnutrition.

Impact on the energy sector

Namibia imports more than 50 percent of its electricity from neighbouring countries (South Africa, Zambia and Zimbabwe). The country also imports electricity from the Southern African Power Pool. A special arrangement between the Namibian power utility, NamPower, and Eskom, the South African power utility, enables Namibia to buy and utilise surplus energy from South Africa at affordable rates, with Zambia providing most of the remaining balance. NamPower also imports on a smaller scale from Zambia for supply to Zambezi Region and exports on a small scale to Angola and Botswana. It is estimated that less than 10 percent of rural households have access to electricity, either through the electrical grid or via local power generation.[26]

Namibia is at risk of power disruptions and/or limited power availability due to climate change trends of reduced precipitation and river flow, and thus decreased hydropower generation. Given that the country is still highly dependent on energy supply from southern Africa, regional trends can be highly impactful. A projected reduction in rainfall may lead to reduced runoff and surface water availability.[27] According to the World Bank Climate Portal (2021), increased evaporation rates for water storage facilities will affect production costs and increase prices for consumers. Increasing temperatures are likely to increase demand for energy for cooling, with increased peak loads during hotter periods, and an overall net increase in electricity usage.[28]

The increased variability of river flow will impact hydropower generation plants, with the potential for a reduction in expected energy outputs. Increased temperatures are likely to increase energy demand, especially during peak heat periods.[29] The relationship between daily heat and the demand for electricity can be estimated through Cooling Degree Days.[30] This method accumulates the temperatures above the 18°C threshold, which broadly represents a comfortable living environment. Cooling Degree Days captures the amount of heat that society would like to get rid of through some form of active cooling, be it through air conditioning or through evaporative processes that generally require pumps for water. The monthly changes provide insight into potentially extended seasons of power demand for cooling, or highlighting when during the year likely power demand increases might occur. Sharp increases in temperature are expected during the country's typical hot seasons across all Representative Concentration Pathway scenarios.

499 344 hectares

of land consumed by uncontrolled fires between January and April 2023.

Impact on the tourism sector

Climate change can have an impact on the viability of the tourism industry in the country. Although only limited studies have been carried out on climate and tourism in Namibia, they indicate that the projection of impacts for the tourism sector is largely still uncertain and based on an assumptions regarding how climate change will affect biodiversity in the country. Overall, considering exposure to climate hazards, the sensitivity and adaptive capacity of tourism resources in Namibia, it is tourism in the rural areas in the northern regions of the country that is most vulnerable to climate change. The most vulnerable regions include Kavango East, Kavango West, Kunene, Zambezi, Omaheke, and Omusati. Kavango East, Kavango West and Kunene are likely to experience a marked increase in the vulnerability of tourism to climate change.

According to the World Bank projections of the impacts of climate change on biodiversity, there will be a reduction in vegetation cover over the central highlands by the 2050s, with further reductions towards the 2080s.[31] Overall, the projections show species loss of between 40–50 percent by 2050 and a further 50–60 percent by the 2080s. The patterns of loss will vary considerably spatially. The greatest absolute plant biodiversity cover reductions are projected for the extreme north-west and in the Kalahari basin in the south-east, with less significant reductions recorded at higher altitudes in the central highlands.

26 https://www.trade.gov/country-commercial-guides/namibia-energy
27 https://climateknowledgeportal.worldbank.org/sites/default/files/country-profiles/15931-WB_Namibia%20Country%20Profile-WEB.pdf
28 Ibid.
29 Ibid.
30 https://www.degreedays.net/#:~:text=%22Cooling%20degree%20days%22%2C%20or,consumption%20required%20to%20cool%20buildings

31 https://climateknowledgeportal.worldbank.org/sites/default/files/country-profiles/15931-WB_Namibia%20Country%20Profile-WEB.pdf

Projections also indicate that some portions of non-arid lands in Namibia could become more arid. Desert and arid-land shrubs or grasslands are likely to take over parts of the grassy and mixed savannah areas in the country. Under non-CO^2 fertilisation scenarios, arid vegetation is projected to increase by almost 20 percent by 2050, and by up to 43 percent by 2080. However, with a CO^2 fertilisation effect, the expansion will only be a little less than 30 percent by 2080. The reductions in the savannah grasslands of the arid grasslands are likely to be more prevalent in the central highlands and north-east plains of Namibia.

The frequency of forest and veldfires is likely to increase in Namibia owing to rising average and extreme temperatures, thereby affecting biodiversity. According to the Ministry of Environment, Forestry and Tourism, the country witnessed a staggering 499 344 hectares of land consumed by uncontrolled fires between January and April 2023. This comes after 2021, when Namibia experienced a total of 3 million hectares burned, while in 2022, the number stood at 2.4 million hectares. As climate change increases air temperatures and the periods between rainfall events, it is likely to increase the periods of high to extreme danger of fires.

Impact on infrastructure

Although most flooding in Namibia occurs in the northern regions, in December of 2022 the capital city, Windhoek, flooded after receiving heavy rainfall (95mm) in one day, causing extreme damage to buildings, houses and cars. Flooding damaged buildings and swept away vehicles in the city of Windhoek on the 15th of December 2022, after three months' worth of rain fell in 24 hours.[32] Several buildings were damaged, including a Police Station in Otjomuise and the Wernhil Park shopping centre. Dozens of cars parked in the shopping centre were flooded.[33]

32 https://floodlist.com/africa/namibia-floods-windhoek-december-2022
33 https://www.eaglefm.com.na/news/namibia/windhoek-heavy-rain-damages-flats-floods-businesses/

ADAPTIVE STRATEGIES AND POLICY OPTIONS FOR NAMIBIA

Through the Paris Agreement, an international treaty that enjoys the support of 191 countries (and the European Union), nations have pledged to take a host of measures and enact policies that reduce GHG emissions and adopt low-carbon economies.[34]

Adapting to climate change is critical for safeguarding and further advancing hard-earned improvements in incomes, education and health outcomes in Namibia. However, such adaptation will be especially challenging given the country's limited capacity and financial resources. Namibia has prioritised key adaptation efforts around food security, water resources, human health, infrastructure, tourism, coastal zones, urban development, biodiversity, energy, and the sustainable management of the resource base.[35] Adaptation to climate change requires strategies to build both physical resilience, such as climate resilient infrastructure, and financial resilience, such as safeguarding the financial capacity to deal with disasters and to rebuild.

Institutional frameworks to cope with natural disasters

Namibia's second Nationally Determined Contribution (NDC) in terms of Article 4 of the Paris Agreement reflects its continued adherence to the overarching goal of the agreement, to keep the rise in average global temperature well below 2°C above pre-industrial levels. Namibia's second NDC (updated in 2023) paves the way for more resilient, green growth. In the update, all emissions and removals are expressed in Mt CO^2 e (million metric tonnes of CO^2 equivalent). Namibia intends to contribute to the global efforts towards meeting the objectives of the Paris Agreement by reducing its projected national emissions by 7.669 Mt CO^2 e, while concurrently increasing its removals by 4.213 Mt CO^2 e. This includes 10 percent unconditional contributions (i.e. without external financing), together with plans to scale-up renewable energy and an elaborated adaptation component.

34 https://www.un.org/en/climatechange/paris-agreement
35 https://climateknowledgeportal.worldbank.org/country/namibia

Namibia has already embarked on a low-carbon development strategy, particularly with respect to electricity generation. Namibia's internal resources are geared towards maintaining an appropriate balance between socioeconomic development and the environment. However, the ambitious targets set by the country have conditionality implications in terms of financing and technology transfer.[36] Since Namibia is and will remain a carbon sink up to the year 2030 (based on official simulations), and the vulnerability of the country to climate change is high, the Government regards adaptation as a priority, particularly in the agriculture and food security, and water resources sectors (NDC, 2023).

Namibia's National Climate Change Policy (2011) is complemented by other relevant policies, including those for water management and disaster risk reduction. In order to measure and monitor the impacts of climate change, the Namibian Government enacted the Disaster Risk Management Act (No.10 of 2012). The Act provides for the establishment of institutions for disaster risk management in Namibia, and for an integrated and coordinated disaster management approach that focuses on the prevention of disasters or the reduction of the risk of their occurrence, the mitigation of their severity, emergency preparedness, the capacity for rapid and effective response to disasters, and post-disaster recovery. The country's National Climate Change Strategy and Action Plan was developed in 2014 to implement the National Policy on Climate Change. The strategy addresses the growing concerns focusing on climate variability and climate change risks, as well as on impacts affecting Namibia's social, environmental, and economic development potential.

36 See Namibia's second updated NDC 2023 for full adaptation and mitigation measures.

Adaptation challenges in Namibia

Namibia has limited financial and technological resources, one consequence of which is a lack of investment in education and skills development. Namibia's limited financial and technological transfer capacity could hinder adaptation efforts. Moreover, the transport and communications infrastructure in the rural areas of the country is poor, and access to basic services like sanitation, healthcare, electricity and potable water is insufficient.[37]

Another adaptation challenge is the lack of infrastructure that caters to climate change. Major infrastructural deficits include a lack of roads and bridges; hospitals; stormwater drainage systems (in informal settlements); grain storage facilities; tractors; water pumps; and government vehicles.[38] There is also insufficient access to technologies such as drought resistant seeds and rainwater harvesting tanks, and limited access to climate change data and adaptation options. Most rural farming communities are not aware of initiatives that are meant to assist them with information. Many of these barriers are linked to financial resource and capacity deficits.

The majority of the adaptation strategies reflected in the NDC are not well captured in current medium-term fiscal planning and budgeting in Namibia. On its own, the Government will not be able to carry out and fund all activities. Nevertheless, all government ministries and agencies can use their current budgets and seek to integrate climate adaptation actions into their current budget items.

climate disasters

2009 & 2011

floods

2019

drought

"

Adapting to climate change is critical for safeguarding and further advancing hard-earned improvements in incomes, education and health outcomes in Namibia.

37 https://www.tandfonline.com/doi/pdf/10.1080/17565529.2019.1613952
38 Ibid.

Building resilience to climate change with adaptation policies

a) Increasing the use of renewable energy

Namibia's Green Hydrogen Council launched its green hydrogen strategy at COP27 in Sharm El-Sheikh, Egypt. The strategy supports the country's commitment to the Paris Agreement on climate change, with the ultimate goal of reducing emissions to net zero by 2050. Namibia is aiming to become a green hydrogen superpower in the coming decade by positioning itself as a leader in the emerging markets and an international exporter of green hydrogen. Green hydrogen will be important for the country's energy security and transition. The government plans to use it extensively to decarbonise its own economy.[39]

b) Building the resilience of agricultural systems

Growing crops that are more resistant to temperature and precipitation extremes can help farmers mitigate the impact of global warming on crop production. As agricultural expansion into unfavourable locations and formerly unsuitable terrain becomes the norm, the need to cultivate climate-resilient crops will become more urgent. Improving yield stability and minimising susceptibility to climatic hazards can be achieved through climate-smart agricultural practices like the selective breeding of crop varieties with features appropriate to the local environment.

c) Building community resilience

The inability of communities to cope with the adverse effects of environmental events can lead to forced migration and disrupt socioeconomic activities. These negative effects pertain to food security (flooded crop fields and food storage facilities, or loss of livestock due to drought), education (closed schools), and health (an absence of health facilities in the relocation areas), amongst others. As a result, there is a need to build community resilience and develop capacities to mitigate and withstand such impacts, in order to prevent forced migration.

d) Adapting the stress testing framework to climate change

There is growing perception that central banks have a significant role to play in addressing climate challenges. Through their regulatory oversight over money, credit, and the financial system, central banks are in a position to support the development of green finance models and enforce affordable pricing by financial institutions of initiatives aimed at mitigating environmental and carbon risks. Attention should be given to public financial governance policies through which central banks, as well as other relevant financial regulatory agencies, can address environmental risk and promote sustainable finance.[40]

To help accurately measure risks, the Bank of Namibia and financial sector supervisors need to build capacity to adapt their stress-testing frameworks. These frameworks should incorporate the channels through which climate risks amplify and transmit to the financial sector. Where possible, the Basel Committee on Banking Supervision Principles for the Effective Management and Supervision of Climate-related Financial Risks should be implemented by supervisors through adapted guidance and monitoring. This should consider the specific risk profile of each jurisdiction regarding the impact of climate change, as well as the principle of proportionality. Bridging data gaps for supervisory reporting and financial disclosure is a pre-condition for effective supervision of climate-related financial risks.

e) Exploring climate financing options

While investment in initiatives aimed at adaptation would benefit communities, some African countries, including Namibia, would simply not be able to afford them. It is essential to receive adequate support in accessing international finance through bilateral and multilateral sources, to mobilise domestic public and private sources, to explore opportunities from additional private sector sources, and to employ innovative financial mechanisms. Namibia, together with technical and financial partners,

39 https://gh2.org/countries/namibia

40 https://www.adb.org/publications/central-banking-climate-change-and-green-finance

needs to actively promote renewable energy and energy efficiency through investment incentives for the development of low-carbon economies.

There are various green and climate funds available for the country to explore in the fight against climate change. Green and climate equity and debt funds and facilities are alternative financing instruments. There are various types of green and climate funds, including multilateral funds such as the Global Environment Facility and the Green Climate Fund, to assist developing countries in meeting financial needs related to the pursuit of low-carbon and climate-resilient development pathways. Other options are the national financing vehicles, which are broadly defined as public or public-private fund entities set up within, or in some cases outside, governments that invest strategically in areas of national green and climate importance. National financing vehicles can play a crucial role in connecting financiers with suitable projects. When combined with the appropriate policies, they can contribute to creating the required institutional and financial framework for channelling investment flows into sustainable green growth.[42]

Innovative financing solutions such as blended finance and securitisation instruments should be employed as part of the policy mix to broaden the range of private-sector investors. Blended finance works if both development and financial objectives can be achieved, with appropriate allocation and sharing of risk between parties, whether commercial or developmental. Development finance should leverage the complementary motivation of commercial actors, while not compromising on the prevailing standards for development finance deployment.

CONCLUSION AND POLICY RECOMMENDATIONS

Conclusion

Meteorological evidence suggests that climate change is continuing to have an impact on Namibia. There is clear evidence that the country's average temperatures have been on the rise, and that droughts and veldfires have become more frequent over the past few years. Rising temperatures and extreme weather events are increasingly affecting food security, because they have a negative impact on the productivity of crops, livestock, forestry, fisheries and aquaculture. This disruption affects food supplies, industry supply chains and financial markets, damages infrastructure and cities, and harms human health and global development. The country's reliance on rain-fed agricultural and livestock rearing increases its vulnerability to climate change. It further limits the capacity of poor households and communities to manage climate risk, increasing their vulnerability to climate-related shocks. Therefore, adapting to climate change is critical for safeguarding and further advancing hard-earned improvements in incomes, education, and health outcomes in Namibia.

42 Ibid.

Climate change may threaten financial and macroeconomic stability. Climate change may threaten systemic financial stability if a number of key financial institutions or markets are simultaneously affected by shocks. Such impacts may cause losses at financial institutions to spill over into the real economy, causing damage to businesses and households in the form of restricted credit, lower asset values, and reduced trade. Similarly, climate change can directly affect fiscal positions through their impact on tax bases and spending programmes.

Namibia is a net carbon sink and absorbs more GHGs than it emits. It needs to undertake adaptive measures to cope with the adverse effects of climate change, which have significant fiscal cost implications. Adaptation policies which are intended to increase the resilience of the economy (such as the erection of safer, more sustainable buildings and infrastructure) require temporary increases in public expenditure. As long as the revenues from mitigation policies are not sufficient to finance this expenditure, government actions designed to fight climate change and improve fiscal sustainability in the long run may have adverse effects on budget balances in the short to medium term.

"The financial sector regulators will need to be at the fore of climate change policies by integrating climate-related risks into supervision and financial stability monitoring.

Recommendations

1) **The financial sector regulators will need to be at the fore of climate change policies by integrating climate-related risks into supervision and financial stability monitoring.** Macro- and micro-prudential policies should recognise systemic climate risk – for example, by requiring financial institutions to incorporate climate risk scenarios into their stress tests.
2) **The Bank of Namibia can support the development of green bonds in the economy.** By providing credit facilities and (partial) guarantees, the development financing institutions could support targeted financing mechanisms to encourage smallholder farmers and agricultural enterprises to engage in smart agriculture that mitigates climate change. The Bank of Namibia can also leverage technological financial developments (FinTechs) to support climate change-related funding.
3) **From the fiscal side it is important for the government to strengthen resilience by investing in adaptation and building fiscal buffers.** This would involve investing in climate resilience and weather-proofing economic activities to minimise rises and falls associated with the business cycle. Such actions would include the building of dams to harness water, and the installation of boreholes for irrigation and solar and wind power to avoid overreliance on hydro- and coal-powered energy systems.
4) **There is also need for prioritising public investments that mitigate climate risks.** The Government should ensure that these investments address climate change by fully integrating climate risks at each and every stage of the public-investment cycle. It is also important to deliberately put in place fiscal buffers and other ways to pool risks at the national and regional levels, which can be called upon in the face of climate-related disasters such as floods and drought.

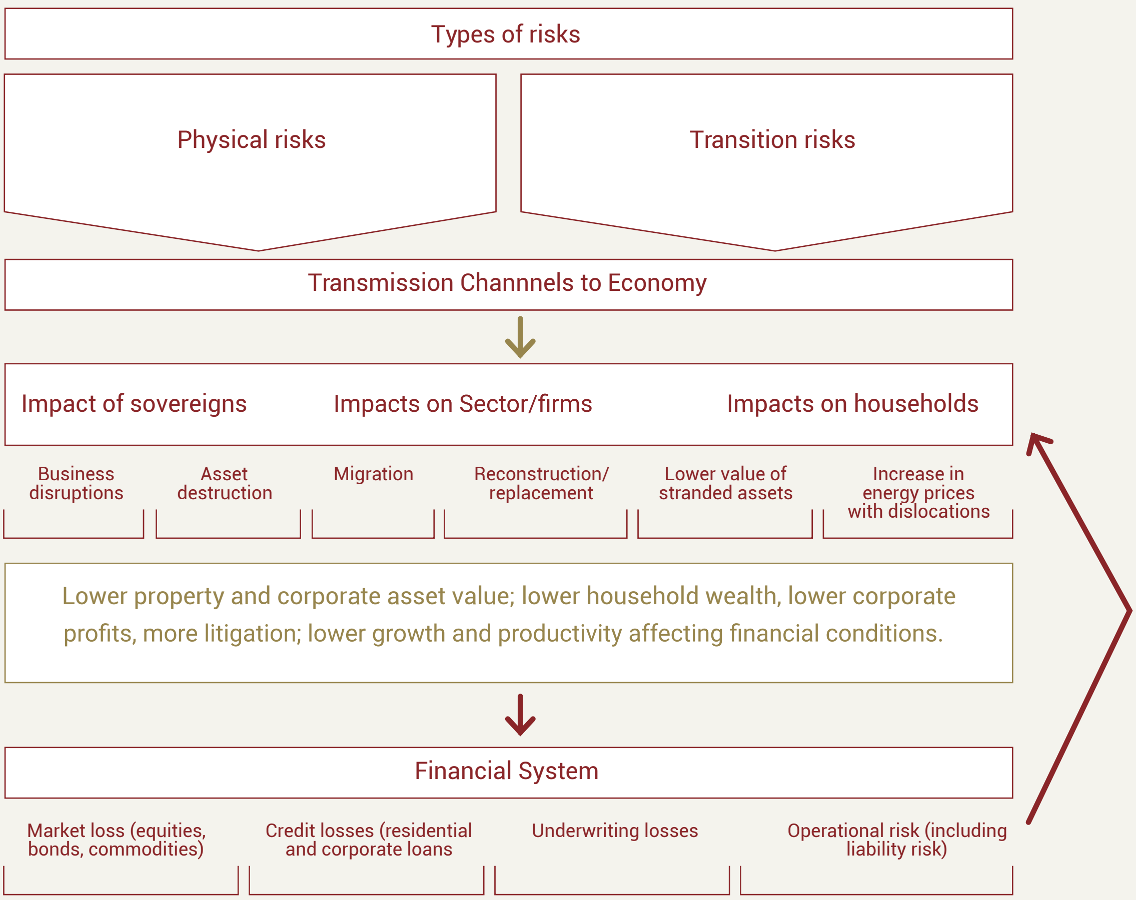
5) **Namibia needs to scale up the use of renewable energy, which has a lower impact on the environment.** Renewable energy minimises carbon pollution and has a much lower impact on our environment. The country will therefore need to increase the use of renewable energy. The green hydrogen project should be used to increase clean energy supply to the African and international regions.

6) **The country needs to improve agricultural resilience by installing irrigation systems.** Improved irrigation systems and broader access to drinking water, electricity, and finance would support higher economic growth and poverty reduction during prolonged dry spells and water shortages. These factors work hand in hand – electricity powers irrigation systems and deep tube-well pumps, and access to finance facilitates the building and maintenance of all three.

7) **There is need for capacity building in the Ministry of Finance and Public Enterprises and the Bank of Namibia through training of staff on climate change and its related impact on macroeconomic policy-making.** In addition, there is also a need for training to properly compile and analyse climatic data and embed the same in macroeconomic models and forecasting.

Figure TC.4

Climate Change Transmission Channels



Source: Authors' compilation from various sources

PART C

Banking Supervision

Contents

Table and Figures

INTRODUCTION

The number of regulated institutions under the purview of Banking Supervision remained unchanged; no new licenses were approved during 2023, but an application was under consideration. The Bank of Namibia is responsible for regulating and supervising banks, of which four are Domestic Systemically Important Banking Institutions (DSIBs);[1] the remaining institutions were four second-tier banks, one of which is a branch of a foreign banking institution, and one a representative office.

Despite a strained economic environment, Namibia's banking sector remained profitable, liquid, and adequately capitalised in 2023. Although the economic environment remained subdued, banking institutions continued to bounce back in 2023, as evidenced by the rise in liquidity holdings and growth in the balance sheet, albeit at a lower rate than the growth reported in 2022. The core risk indicators that underpinned banking activities, particularly credit risk, deteriorated in line with the challenging credit environment. However, capital and liquidity levels remained predominantly resilient. Earnings improved during the period under review due to higher net interest income and non-interest income, although higher non-interest expenses curtailed this growth. The banking sector's capital adequacy remained robust, and the capital base continued to grow during 2023. It is noteworthy that the Bank introduced credit relief measures in 2020 to assist struggling individuals and businesses in recovering financially; due to the long-lasting fallout from the COVID pandemic, these measures were extended and will remain in place until 1 April 2024.

PERFORMANCE OF THE BANKING SECTOR

The banking sector experienced higher profitability levels coupled with robust capital levels above prudential limits, while credit risk remained a key financial risk. The banking sector recorded a solid capital base for DSIBs under the Basel III framework, indicated by a Total Eligible Capital ratio of 16.6 percent in 2023, which declined from 16.9 percent in the previous year. The industry's common equity Tier 1 capital ratio increased from 13.0 percent to 15.0 percent and stood significantly above the required 7.0 percent limit, while at 9.7 percent, the leverage ratio stood above the 6.0 percent regulatory limit. The non-performing loan (NPL) ratio picked up from 5.6 percent to 5.9 percent year-on-year, and is bordering the trigger ratio of 6.0 percent due to the high inflation and interest rate environment that prevailed. The deterioration was mainly driven by the public's continued financial difficulties in servicing their loans due to the subdued economic environment. This level of elevated credit risk has the potential to negatively impact income through higher provisions which ultimately reduce capital levels.

BALANCE SHEET STRUCTURE

The banking industry experienced lower growth in its balance sheet during 2023 than it did during 2022. The balance sheet stood at N$174.4 billion, an increase of 6.1 percent, which was positive, but significantly lower than the 11.0 percent growth recorded in 2022 (Figure C.1) and only marginally above the concurrent inflation rate of 5.9 percent. Investments in short-term negotiable securities and cash holdings improved the banking sector's asset position. Similarly, credit extension improved, as evidenced by the increase in net loans and advances.

Figure C.1

Aggregated Balance Sheet

During 2023, the balance sheet size of the banking sector progressed on account of net loans and advances, cash holdings, and short-term negotiable securities.

1 "DSIBs" are banks whose distress or failure could cause considerable disruption to the domestic financial system and the wider economy. These are banks that are domestically "too big to fail".

"Despite a strained economic environment, Namibia's banking sector remained profitable, liquid, and adequately capitalised in 2023."

ASSET STRUCTURE

The significant increase in foreign currency holdings led to an expansion in the balance sheet size. Cash and balances with banks increased from N$26.5 billion to N$31.2 billion owing to higher foreign currency holdings following the diamond sales that occurred during the year. Similarly, net loans and advances increased from N$105.8 billion to N$107.9 billion as a result of the utilisation of overdraft facilities coupled with instalment sales and finance leases. Driven by investments in treasury bills, short-term negotiable securities which increased from N$20.6 billion to N$22.8 billion. The total investment portfolio increased from N$5.9 billion to N$6.9 billion driven by trading and investment securities which further contributed to the growth of the balance sheet as the category increased from N$3.1 billion to N$3.5 billion, driven by investments in fixed-income securities. Banking institutions opted to invest a large portion of their funds in investment securities rather than extending loans and advances. The high interest rate environment also contributed to the reduced credit uptake.

Net loans and advances remained a key asset class for banks. In terms of the composition of assets, net loans and advances held the majority share at 61.9 percent (68.5 percent in 2022), followed by cash and balances with banks at 17.9 percent (16.1 percent in 2022) and short-term negotiable securities at 13.1 percent (12.5 percent in 2022). Both trading and investment securities, and property, plant and equipment occupied negligible portions of total assets at 4.0 percent (3.6 percent in 2022) and 1.6 percent (1.7 percent in 2022), respectively. Lastly, other assets remained unchanged from the previous year at 1.6 percent. The composition of the banking sector's balance sheet was a good reflection of banking activities, as seen in the large portions held by net loans and advances, and cash holdings.

cash balances with banks

26.5 Bill to **31.2 Bill**

net loans and advances

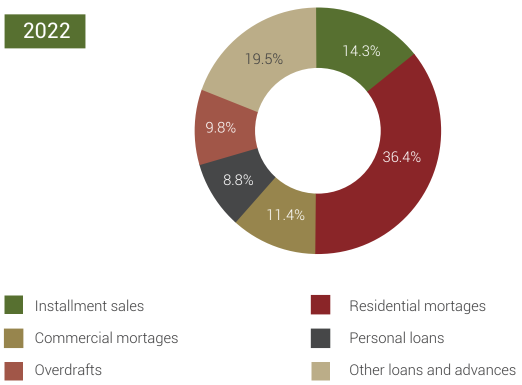
105.8 Bill to **107.9 Bill**

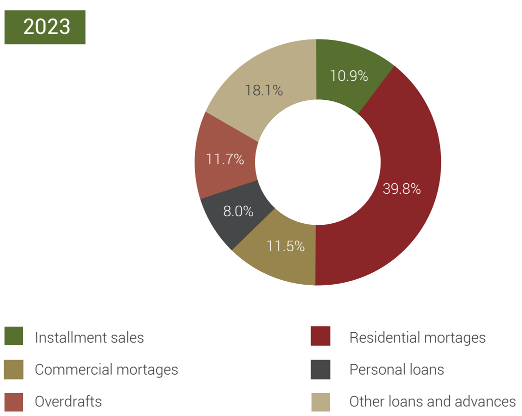
During the 2023 financial year, the banking sector saw an improvement in credit uptake. Total loans and advances stood at N$112.6 billion, growing by 2.6 percent in contrast to the 1.4 percent recorded in 2022. Residential mortgages constituted 39.8 percent of the loan book, followed by other loans and advances (18.1 percent). Overdrafts accounted for 11.7 percent of total loans, whereas commercial mortgage loans accounted for 11.5 percent. Instalment sales and finance leases took up 10.9 percent of the loan book and personal loans took up 8.0 percent (Figure C.2).

Figure C.2

Composition of Loans and Advances

Residential mortgages continue to dominate the loans and advances portfolio.





FUNDING STRUCTURE

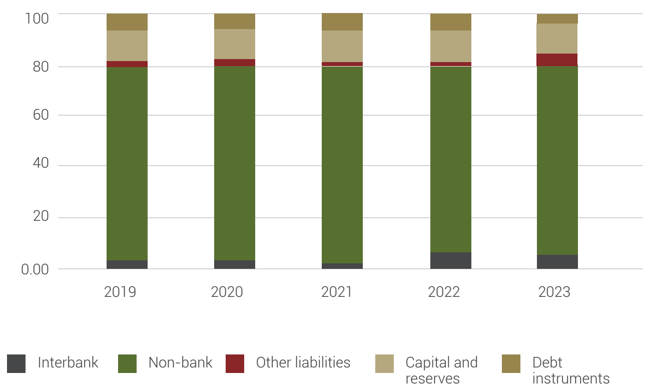
The total funding mix of the banking industry consisted of bank funding, non-bank funding, and capital and reserves, with non-bank funding remaining the dominant source. Non-bank funding increased by N$11.1 billion to N$130.8 billion, led by commercial deposits. Bank funding decreased by N$1.1 billion to N$9.7 billion by the end of 2023 due to a drop in intergroup deposit holdings. Capital and reserves increased by N$809.3 million to N$20.7 billion due to an increase in general reserves (Figure C.3). Non-bank funding continued to dominate, accounting for 75.0 percent of total funding, an improvement over the 73.0 percent registered in 2022. It was followed by capital and reserves at 11.9 percent, bank funding at 5.6 percent, and other liabilities at 7.5 percent.

Figure C.3

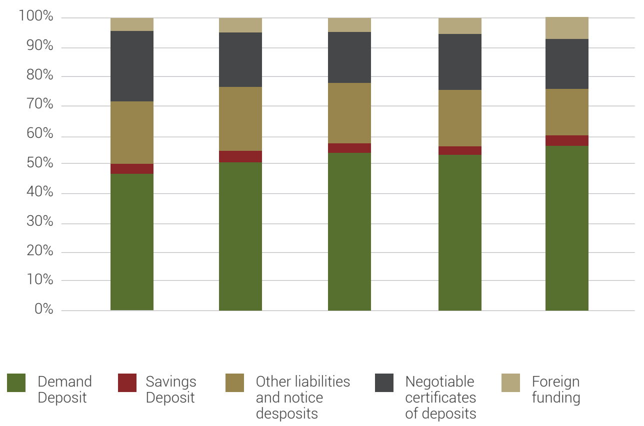
Funding Structure

Non-bank funding and capital and reserves were the primary sources of funding.

(a) Composition of funding



(b) Composition of non-bank deposits



The principal source of non-bank funding was demand deposits, followed by negotiable certificates of deposits. Demand deposits increased by N$10.5 billion to N$73.9 billion, due to the rise in commercial deposits, whereas foreign funding expanded by N$3.2 billion and stood at N$9.6 billion, as a result of the diamond sales that occurred during the year. Fixed and notice term deposits decreased by N$2.2 billion to N$20.7 billion, a similar trend to that in negotiable certificates of deposits, which decreased by N$ 807.7 million to N$22.5 billion.

CAPITAL ADEQUACY

The banking sector's capital adequacy remained robust, and the capital base continued to grow during 2023. The DSIBs displayed a solid capital base under the Basel III framework, indicated by a Total Eligible Capital ratio of 16.6 percent (Fig C.4 a). The capital ratio stood at 16.6 percent in 2023, declining from the 16.9 percent recorded in 2022 due to a decrease in Tier 2 capital, but remained significantly above the prudential minimum of 11.0 percent. The capital ratio above the prudential minima indicates the banking institutions' ability to sustain operations and support future growth initiatives. Furthermore, DSIBs' Common Equity Tier 1 capital stood at 14.9 percent in 2023, up from the 14.7 percent recorded in 2022. With the increase in Common Equity Tier 1 capital, capital levels remained sound, as the ratio remained well above the statutory minimum of 7.0 percent. Lastly, the Tier 1 leverage ratio increased from 9.5 percent to 9.7 percent, well above the regulatory minimum of 6.0 percent, which indicates sufficient capital buffers to withstand financial shocks. Additionally, the capital conservation buffer was reinstated following the revised Determination on Policy Changes in Response to Economic and Financial Stability Challenges (BID-33) in April 2023 because of the COVID-19 pandemic.

The total funding mix of the banking industry consisted of bank funding, non-bank funding, and capital and reserves, with non-bank funding remaining the dominant source.

The Total Eligible Capital increased in tandem with banking institutions' growth and resilience to withstand financial risks. The Total Eligible Capital stood at N$19.0 billion, an increase from N$18.6 billion recorded in the previous year (Figure C.4). The expansion in Total Eligible Capital was driven by Common Equity Tier 1 capital growth of 10.2 percent to N$17.2 billion, mainly reflected in current interim profits as well as an increase in general reserves. Similarly, Tier 2 capital decreased by 27.4 percent to N$1.8 billion, mainly due to a significant decrease in unaudited term profits and regulatory adjustments (other deductible items).

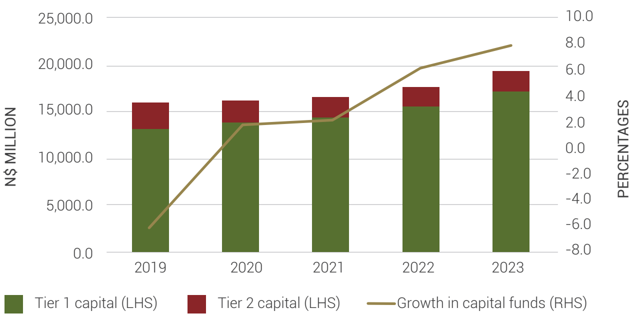
Despite a strained economic environment, Namibia's banking sector remained profitable, liquid, and adequately capitalised in 2023.

Figure C.4

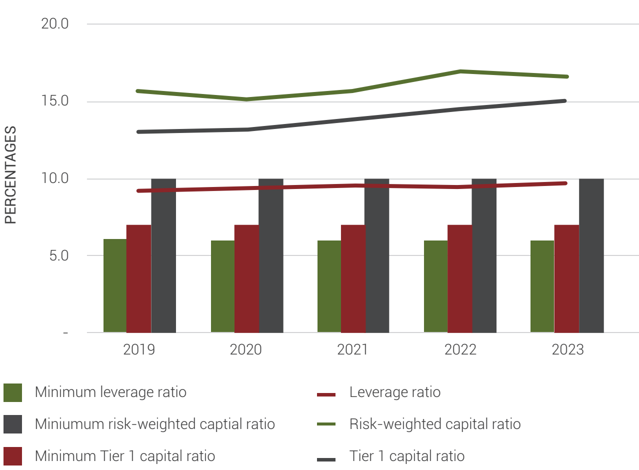
Capital Adequacy Elements and Ratios

The overall capital levels improved, making the banking sector resilient to risks.

a. Elements of Capital Funds



b. Capital Adequacy Ratios



The total qualifying capital of the non-DSIBs[2] remained sufficient despite the operational losses reported during the year. Total qualifying capital declined by N$91.0 million year-on-year to N$1.1 billion in 2023 (Figure C.5). The contraction was primarily reflected under Tier 1 capital, which stood at N$1.0 billion, compared to N$1.2 billion recorded in 2022. The contraction was observed in paid-up ordinary shares and general reserves due to the suspension of Trusco Bank. Therefore, paid-up ordinary shares declined by 32.1 percent to N$544.6 million, while the general reserves declined by 95.6 percent to N$2.3 million. Nevertheless, the second-tier banks' capital position was adequate, as indicated by the sound capital ratio above the prudential minima.

Figure C.5

Constituents of Capital Funds

2 "Non-DSIBs" means banks whose distress or failure could not cause considerable disruption to the domestic financial system and the wider economy.

CREDIT RISK

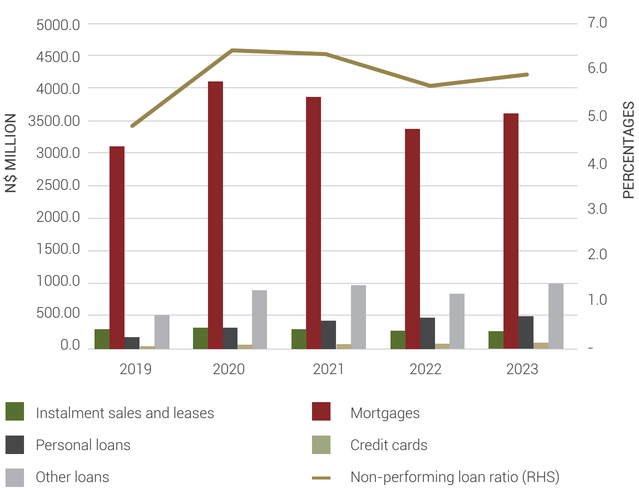
Analysis of non-performing loans

During the period under review, non-performing loans (NPLs) deteriorated, unlike during 2022, when an improvement was registered over the previous year. The NPLs increased by N$456.0 million to N$6.5 billion due to unfavourable economic conditions impacting the ability of households and businesses to service their debt. This position was underscored by a deterioration observed in non-performing categories of mortgages and other loans and advances, which increased by N$221.5 million and N$159.9 million, respectively. The deterioration in NPLs was due to the unfavourable economic conditions, the slow recovery in certain sectors, higher than normal inflation, and the interest rate environment experienced during the year. As a result, the NPL ratio inched marginally higher from 5.6 percent to 5.9 percent year-on-year. Despite the slight increase in NPLs, the NPL ratio remained well contained, as it stood below the trigger benchmark ratio of 6.0 percent applied during a crisis (Figure C.6). In fact, the overdue loans decreased by N$2.3 billion to N$10.8 billion. The decrease was observed under the 1-2 month time bucket used for the analysis of overdue loans, indicating a recovery in the economy experienced later in the year, and if this position is maintained, the trajectory of NPLs is expected to improve.

Figure C.6

Non-Performing Loans

Mortgages and other loans and advances contributed to the higher NPLs position.



In terms of sectors, NPLs mainly emanated from individuals and the real estate and business services sectors. The NPLs in the individuals sector and the real estate and business services sectors contributed 51.1 percent and 11.8 percent, respectively. Meanwhile, NPLs in the agriculture sector and construction sector registered increases and held 8.4 percent and 8.3 percent shares, respectively. The manufacturing, transport, fishing, mining, electricity, gas and water, trade and accommodation, government services, and finance sectors were responsible for the rest of NPL's share, collectively accounting for 20.4 percent.

ADEQUACY OF PROVISIONS

The total provisioning increased marginally, parallel with the increase observed in the NPL portfolio. Total provisions increased from N$3.4 billion to N$3.5 billion due to increased NPLs. Specific provisions[3] increased from N$1.8 billion to N$2.1 billion following the deterioration in NPLs. The general provisions grew from N$1.5 billion to N$1.6 billion, as total loans and advances increased from N$110.0 billion to N$112.6 billion year-on-year. The specific and general provisions complied with the Determination on Asset Classification, Suspension of Interest, and Provisioning (BID-2) requirements.[4]

Loan diversification and statutory large exposures

The loan distribution grew, mainly driven by new facilities granted to individuals, and to the mining, real estate and business sectors. Overall, total loans and advances increased by N$2.6 billion to N$112.6 billion. The growth in sectoral distribution was depicted primarily by the increase in loan extensions to individuals, which increased by N$4.7 billion to stand at N$49.4 billion and constituted most of the total loans disbursed. Loan disbursements to the mining sector increased significantly by N$700.3 million to N$2.6 billion, while real estate and business sectors increased by N$463.8 million to stand at N$18.0 billion. On the other hand, significantly fewer disbursements were noted year-on-year

3 Specific provisions apply to loans graded as substandard, doubtful and loss, namely that the net realisable value of collateral shall be deducted from the loan balance before applying provisioning percentages.

4 BID-2 requires banks to report, at a minimum, provisions equal to 10.0 percent, 50.0 percent and 100.0 percent of loans classified as sub-standard, doubtful and loss, respectively.

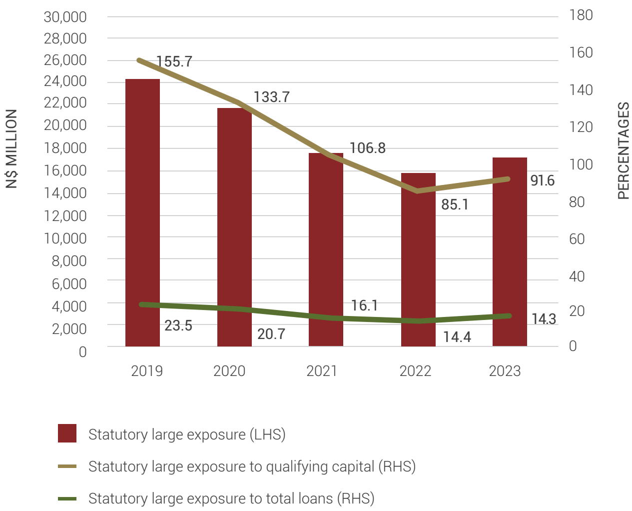
in the finance and insurance sector, resulting in a decrease of N$2.9 billion, while manufacturing, construction, trade, accommodation, and other sectors recorded a decline in disbursements of N$1.4 billion.

The banking industry's large exposures increased during the year but remained within the prescribed capital limits. Large entities' appetite for credit decreased as large exposures grew by 1.7 percent to N$16.1 billion year-on-year. The increase is primarily a result of the growing need for working capital, guarantees, hedging, and capital expenditure purposes. The large exposures to total loans ratio decreased from 14.4 percent to 14.3 percent, thus remaining well within regulatory limits, which require that the total of all exposures outstanding at any time to a single person shall not exceed 30.0 percent of the banks' capital.[5] Large exposures in relation to qualifying capital increased from 85.1 percent to 91.6 percent. On aggregate, this ratio stood well within the permissible limit of 800.0 percent of capital funds, the regulatorily desired target (Figure C.7). The limitation is intended to mitigate the borrowing of excessive amounts of a bank's funds by one person or a group of related persons or group of counterparties whose performance is determined by the common or correlated underlying factors. It is also intended to safeguard a bank's depositors and creditors by diversifying risks among several persons engaged in different lines of business.

Figure C.7

Statutory Large Exposures Relative To Total Loans and Capital Funds

Corporates applied for more working capital funds in 2023, which increased large exposures.



5 The large exposure limit will reduce to 25.0 percent from April 2024 onwards as BID 33 relief for commercial banks will end.

Earnings registered an increase during the period under review driven by growth in both interest income and non-interest income. The total income amounted to N$12.8 billion, representing growth of 15.0 percent.

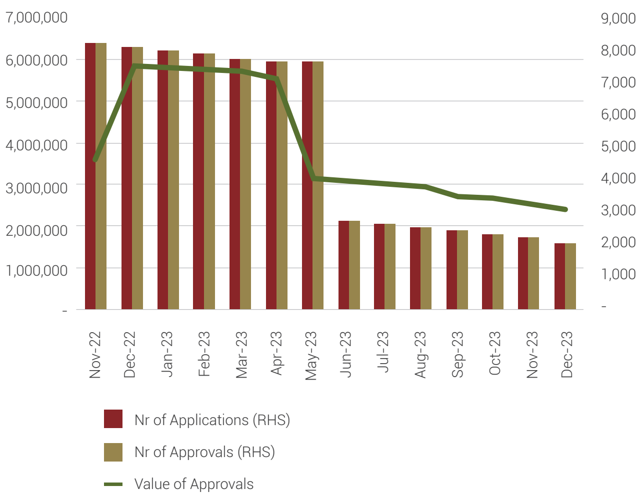
LOAN MORATORIUM DURING THE COVID-19 PANDEMIC

The value of loan moratoriums granted declined during the period under review as the economy showed mild levels of recovery. The total value of the loans decreased from N$7.4 billion in 2022 to N$2.4 billion in 2023. Similarly, the total number of loan applications declined from 9 438 to 2 066. With the relief measures determination expiring in April 2024, most banks have reduced their loan moratorium exposures. Distressed clients are assisted under the Determination on Asset Classification and Provisioning (BID-2), primarily by restructuring exposures.

Figure C.8

Covid Relief Statistics

The aggregate loans under relief are declining as the relief measures are winding down.



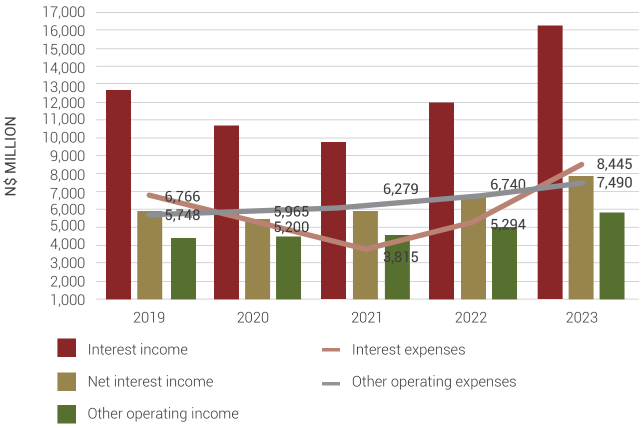
PROFITABILITY AND EARNINGS

Earnings registered an increase during the period under review driven by growth in both interest income and non-interest income. The total income amounted to N$12.8 billion, representing growth of 15.0 percent. Net interest income expanded by 17.4 percent to N$7.9 billion, driven by higher interest income earned on the back of rising interest rates in 2022 which continued into the first half of 2023. Furthermore, operating income increased by 13.9 percent to N$5.8 billion owing to higher transaction volumes.

Net interest income continued to be the banking sector's principal income source. The net interest income stood at N$7.9 billion in 2023 and constituted 61.8 percent of the total income. The net interest income was primarily attributable to the interest income from both residential and commercial mortgages, fixed-term loans, and other interest-related income.

Figure C.9

Key Income Statement Indicators

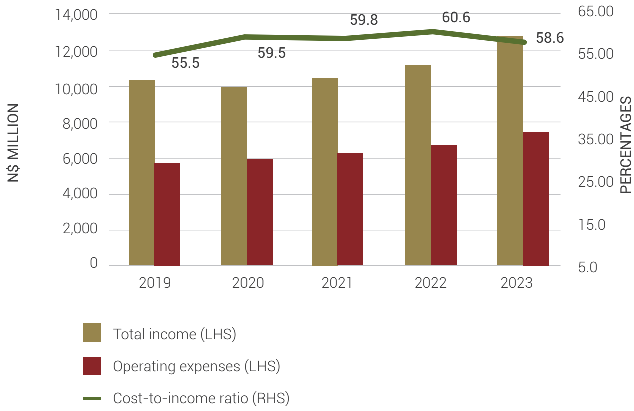


The cost-to-income ratio, which measures the operational efficiency of the banking sector, improved during the review period. Operating expenses grew by 11.1 percent to N$7.5 billion in 2023 because of increased staff, administration, overheads, and other operating costs. Nevertheless, the strong income growth resulted in an improvement in the cost-to-income ratio, which declined from 60.7 percent to 58.6 percent (Figure C.10), well below the Bank's internal regulatory maximum of 65.0 percent.

Figure C.10

Efficiency Indicators of the Banking Sector

The cost-to-income ratio improved following the rise in revenue.



The banking sector continued to record profits mainly due to an increase in net interest income. Net income after tax increased by 24.5 percent year-on-year to N$3.7 billion in 2023, compared to an increase of 33.5 percent in 2022. The growth in net income after tax was primarily due to the higher interest earned on loans following the increases in the repo rate during 2022 and the first half of 2023, coupled with the growth in loans advanced to customers. Banks' advances reprice more quickly than deposits following repo rate changes, due to the large quantum of fixed and notice deposits and Negotiable Certificates of Deposits (NCDs), which only reprice upon maturity. Consequently, the ROA (Return on Assets) improved from 1.9 percent to 2.1 percent following the improvement in earnings. Similarly, the ROE (Return on Equity) increased from 15.7 percent to 18.4 percent (Table C.1).

Table C.1

ROA and ROE

Description	2018	2019	2020	2021	2022	2023
Return on Assets (%)	2.0	2.0	1.3	1.7	1.9	2.1
Return on Equity (%)	18.5	17.3	10.9	13.9	15.7	18.4

The banking sector extended its branch network in 2023, giving consumers better access to banking institutions' products and services. The banking industry saw nine new branches being established. However, the number of agencies decreased from 82 points to 53, which aligns with the digitisation strategy, which entails reducing banks' points of presence (Table C.2).

Table C.2

Bank and Branch Network

Description	2019	2020	2021	2022	2023
Branches	149	145	135	134	143
Agencies	82	84	85	82	53
Total	231	229	220	216	196

The banking sector also witnessed an increase in the staff complement on account of increases in both temporary staff members and the permanent headcount. The number of employees grew from 6 127 to 6 420, mainly due to the digitisation strategy that the industry embarked on. Permanent personnel increased from 5 693 to 5 857, and the temporary personnel count increased from 434 to 563 staff members, mainly for project-related reasons (Table C.3).

Staff Complement in the industry

Temporary & permanent staff increase

6 127 < 6 420

Permanent personnel increase

5 693 < 5 857

Table C.3

Bank Staff Level

Description	2019	2020	2021	2022	2023
Permanent personnel	6 268	6 144	5 915	5 693	5 857
Temporary personnel	200	215	310	434	563
Total	**6 468**	**6 359**	**6 225**	**6 127**	**6 420**

FRAUD AND OTHER ECONOMIC CRIME

The banking sector observed a decrease in the number of fraud and related economic crimes during 2023 in comparison to the previous reporting period. A total of 357 fraud cases were reported during 2023, a decrease of 3.5 percent against the 370 cases reported in 2022. The categories of fraud experienced by banking institutions in 2023 included ATM (Automated Teller Machine) fraud, EFT (Electronic Fund Transfer) fraud, credit and debit card fraud, mobile application fraud, and theft of cash.

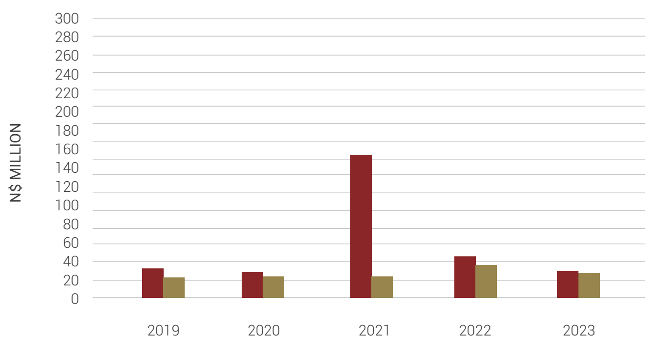
Along with the decrease in the number of fraud incidents and economic crimes, the total value of fraud incidents also decreased. The total value of fraud incidents reported in 2023 decreased to N$27.2 million, down from N$41.6 million in 2022 (Figure C.11). This substantial decrease in the current year is attributed to low value fraud incidents noted in comparison to the previous year. Banking institutions continue to maintain and enhance control measures aimed at combating high-value fraud incidents and reducing overall fraud. The actual amount of financial loss (after recovery of funds) suffered by the industry (banks and clients) decreased from N$32.6 million in 2022 to N$26.3 million in 2023. Of the amount lost, the banking sector recovered N$4.8 million during 2023.

LIQUIDITY

Figure C.11

Fraud and Economic Crimes

Financial losses decreased in correlation to decreased fraud cases



	2019	2020	2021	2022	2023
Amounts involved (000)	29,398	25,710	144,228	42,582	27,191
Amounts lost (000)	19,829	20,485	22,574	32,596	26,309

The liquid asset base of banking institutions improved year-on-year, driven by continued investment in short-term government securities coupled with a slowdown in the demand for credit. The stock of liquid assets stood at N$26.4 billion in 2023, representing an increase of 4.7 percent from N$25.3 billion reported in the previous year. Investment in the Government's treasury bills and securities of the Bank of Namibia drove the expansion in liquid assets. The higher ratio is primarily due to newer banking institutions' relatively high liquid assets levels coupled with lower total assets due to their early stage of operation.

The liquid assets ratio also decreased year-on-year and exceeded the statutory minimum requirement. Although the average total liabilities to the public increased by 6.8 percent, the stock of liquid assets also increased by 4.2 percent year-on-year, causing the liquidity ratio to decrease from 17.8 percent to 17.3 percent, as the coverage of liabilities owed to the public ultimately increased. The liquidity ratio stood well above the statutory minimum of 10.0 percent, with a surplus position of N$13.1 billion (Figure C.12). The upward movements in actual liquidity holdings occurred in treasury bills, clearing and call account balances with the Bank of Namibia, and stocks, securities, bills and bonds of the Government. This was due to the increasing of rates offered on the central bank accounts to ensure that capital outflows were contained, while the Bank also issued BoN Bills, which most banks subscribed to, to also mop up some of the excess liquidity in the banking sector.

The loan-to-asset ratio declined during 2023 and remained below the international benchmark. A high ratio indicates an asset base dominated by loans and advances, thus exposing the banking institutions to higher liquidity risks due to the generally illiquid nature of loans and advances. The ratio decreased from 64.4 percent to 61.0 percent in 2023, remaining within the international benchmark of 75.0 percent. The decrease in the ratio resulted from slower growth in the loans and advances, which increased by N$1.6 billion and stood at N$106.2 billion, coupled with higher growth in short-term negotiable securities, which increased by N$4.3 billion to N$24.9 billion, and cash and balances, which increased by N$3.6 billion to N$30.1 billion.

The industry reported commendable growth in total deposits, which exceeded growth in net loans and advances. The loan-to-deposit ratio came in at 72.8 percent, a notable decline from the 80.1 percent reported in 2022. The decrease indicates the banking sector's efforts to mobilise deposits and source cheaper funding, while managing the risks associated with excessive growth in loans and advances. The current position suggests an improvement in the industry's liquidity risk profile. A loan-to-deposit ratio in this range is in alignment with international best practice from a banking perspective and reflects a balanced lending and liquidity management approach. It indicates that the banking institutions are using a reasonable portion of their deposits to extend loans to borrowers.

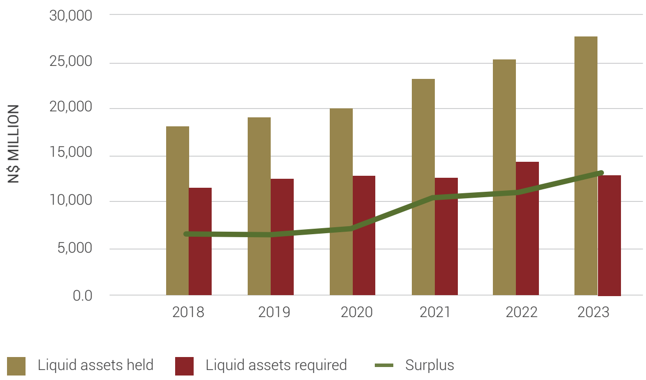
Treasury bills remained the most significant component of the industry's qualifying liquid assets. At 60.0 percent of the total, treasury bills are the most important component of qualifying liquid assets, followed in second place by stocks, securities, bills and bonds, accounting for 25.8 percent of qualifying liquid assets, and by balances with the Bank of Namibia in third place, at 7.2 percent. Notes and coins constituted 5.7 percent; Bank of Namibia call accounts, other securities which include STRIPS[6] bonds and securities issued by public sector entities, and foreign currency deposits with the Bank of Namibia collectively accounted for 1.3 percent.

Figure C.12

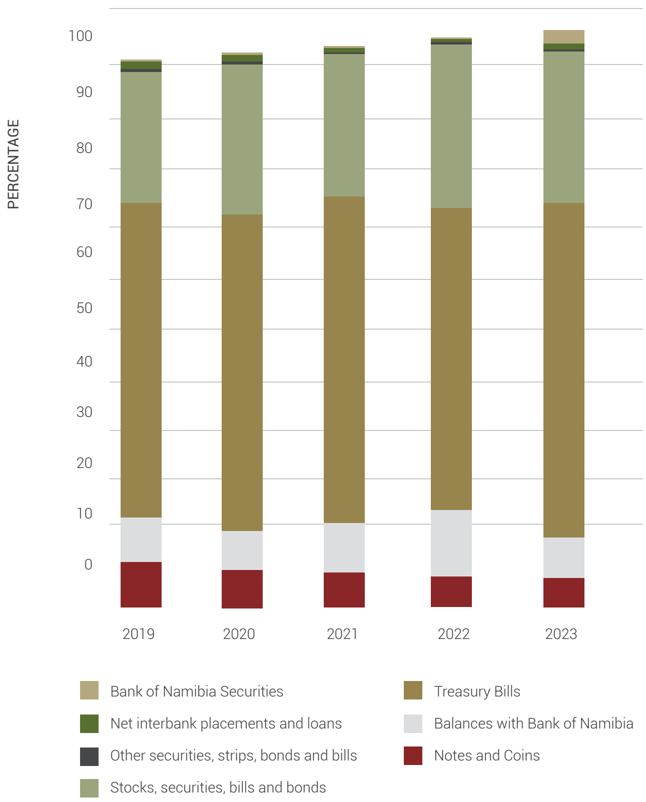
Liquidity

Over the reporting period, liquid assets grew and remained well above the statutory prudential requirements.

a. Statutory liquid assets



b. Liquid assets composition



6 STRIPS = Separate Trading of Registered Interest and Principal of Securities of Namibian Government Securities

INTEREST RATE RISK

The banking industry reported a positive net-pricing gap, positioning itself to profit through the interest rate increase. The industry repricing gap within the 30-day time bucket was positive in the amount of N$30.3 billion, an increase from N$28.3 billion reported in December 2022. The positive repricing gap was a result of an increase in total assets, which stood at N$132.9 billion, of which 94.0 percent was made up of interest rate-sensitive assets. The total liabilities within the 30-day time bucket also increased from N$91.2 billion reported in December 2022 to stand at N$98.0 billion. Interest-sensitive liabilities dominated with an 82.0 percent share of these liabilities, amounting to N$80.3 billion. The increase in interest rates during the year had a positive impact on the banking industry's interest income. It is worth noting, however, that high interest rates also erode affordability for clients, which negatively affected the industry's ability to maximize returns from the entire interest rate-sensitive asset book.

The industry viewed a reduction in interest rates to be most likely in the long term, indicated by the negative repricing gap. The industry recorded negative repricing gaps under the time brackets of more than one month to three months; more than three months to six months; more than nine months to twelve months; and more than one year. The highest negative repricing gap was recorded under the more than one month to three months, and more than one year brackets, which stood at N$13.7 billion and N$11.5 billion, respectively. Nevertheless, the total repricing gap for the year was positive, indicating that the banking sector has gained from the high-interest rate environment faced during the year.

Industry repricing gap

2022
N$28.3 billion

2023
N$30.3 billion

The dominance of interest rate sensitive assets and liabilities resulted in highly sensitive interest-earning margins upon fluctuations in interest rates. The variable interest rate liabilities occupied a major share of total liabilities, accounting for 82.5 percent, a slight decrease from the 83.3 percent recorded in 2022. Consequently, a fall in interest rates would lower the banks' earnings, whereas an increase in interest rates would raise earnings and indirectly affect economic capital. The remaining percentage was allocated to managing earning rate and fixed rate liabilities, which occupied 13.3 percent and 4.2 percent, respectively.

Stress testing was conducted to determine the impact of a parallel rate shock on banks' earnings and capital, which was found to be insignificant. A parallel upward shock of 200

basis points in interest rates would result in a cumulative gain of N$367.9 million in earnings for 12 months. Symmetrically, a similar downward shock in interest rates would result in a negative cumulative total for 12 months in the economic value perspective of N$367.9 million. The impact of interest rate movements on capital was insignificant, amounting to 0.6 percent.

LICENSING OF BANKING INSTITUTIONS

The Bank received one application from a local company partnering with other investors seeking authorisation to establish a banking institution in terms of section 11 of the Banking Institutions Act (No. 13 of 2023). The application is being assessed in terms of section 12 of the Act to determine whether the applicants meet the requirements for authorisation to conduct a banking business.

> **The dominance of interest rate sensitive assets and liabilities resulted in highly sensitive interest-earning margins upon fluctuations in interest rates.**

ILLEGAL FINANCIAL SCHEMES

Sections 6 and 77 of the Banking Institutions Act (No 13 of 2023) prohibit illegal financial schemes. In 2023, in accordance with its mandate, the Bank continued to create awareness of illegal financial schemes to educate the public, and to investigate the business activities of persons suspected of promoting or participating in them. During the year under review, 18 cases involving suspected illegal financial schemes were reported; they are being assessed by the Bank to determine whether they contravene the Act.

DEVELOPMENTS RELATING TO BANKING AND OTHER LEGISLATION ADMINISTERED BY THE BANK

Primary legislation

The new Banking Institutions Act took effect on 8 August 2023. The Act enhances the regulatory powers of the Bank and introduces, among others, the regulatory framework for microfinance banking institutions, the requirements relating to recovery plans, the requirements relating to foreign ownership in banking institutions, and the regulations relating to fees and charges imposed by banking institutions on their customers.

Secondary legislation

The Banking Institutions Act of 2023 makes provision for the Bank to issue determinations on any matter that is required to be determined in terms of the Act.

Determination on Policy Changes in Response to Economic and Financial Stability Challenges (BID-33)

During the period under review, the Bank revised BID-33 to extend the COVID-19 relief measures such as credit repayment holidays until 1 April 2024. The purpose of extending the relief measures is to encourage economic recovery and protect individuals and businesses from the repercussions of the COVID-19 pandemic, which are still manifest in some sectors of the economy.

Complaints lodged

2022	2023
2023	2232

Regulations Relating to Restrictions on Loan-to-Value Ratios

The 2023 Banking Institutions Act empowers the Minister of Finance and Public Enterprises, after consultation with the Bank, to make regulations relating to any matter which the Minister considers necessary to achieve the objectives and purposes of the Act. In this regard, the Minister issued the new Regulations Relating to Restrictions on Loan-to-Value Ratios, which adjusted the loan-to-value ratios. In terms of the new regulations, a person who intends to acquire a home loan to purchase a second residential property is no longer required to pay a deposit, as was the case in the past. This intervention brings some relief to the public and stimulates the property market that has been subdued over the past few years.

Regulations related to fees and charges

The Bank has been receiving complaints about high fees and charges levied by banking institutions on their customers. The new Act makes provision for the Minister of Finance and Public Enterprises to make regulations relating to fees and charges imposed by banking institutions on their customers. The draft regulations have been developed and shared with the banking industry for their inputs. Once the consultation with the industry has been completed, the Minister of Finance and Public Enterprises will issue the regulations.

ON-SITE EXAMINATIONS

The Bank's examination activities were directed towards assessing banks' governance practices and risk culture environments. Governance and risk culture were identified as the primary focus areas for on-site examinations as they play a critical role in the stability and integrity of the banking sector. The assessments were conducted to evaluate the effectiveness of the boards and senior management of banks in setting the tone at the top and promoting a sound risk culture to protect the interests of depositors and meet stakeholders' expectations. The examination looked at governance standards and structures, key decision-making processes, and risk management frameworks in line with the Banking Institutions Act of 2023; BID-1 (the Determination on the Appointment, Duties and Responsibilities of Directors, Principal Officers, and Executive Officers of Banking Institutions and Controlling Companies); and the NamCode and Basel Corporate Governance Principles for Banks. The Bank completed governance and risk culture examinations at three DSIBs. The assessment highlighted best practices and areas for improvement that will help strengthen governance regulation in some areas. The assessment outcomes were communicated to the banks, and remediation is an area of priority for the Bank.

The Bank also conducted assessments of cybersecurity risk management at banks in response to the escalating cyber threat landscape. Cyber risk remains a top risk for the banking sector and a threat to its safe and secure functioning. Cybersecurity assessments were conducted with technical support from the International Monetary Fund (IMF) at DSIBs. The assessment will be completed on all DSIBs and finalised in 2024. The assessment aimed to establish the adequacy and effectiveness of cyber controls at banks and their ability to respond effectively to cyber events. This was done with due consideration of the requirements in BID-30 (the Determination on Information Security) and BID-34 (the Determination on the Outsourcing in Banking Institutions and Cloud Computing). The outcomes showed that banks have strengthened their cyber controls and capabilities, but that more work is needed to strengthen cyber resilience. Notably, the increased use of third-party service providers needs to be carefully managed as it will continue to present cyber and operational risks to banks. The nature of cyber risk requires that the outcomes communicated to the banks receive immediate attention to implement the necessary corrective measures.

The types of complaints that stood out during the reporting period were fraud against customers, home loan arrears, sales in execution, and poor customer service.

Supervising cross-border banking groups and prudential engagements remained a focal point for the year. The Bank hosted a supervisory college as the host regulator for one of the DSIBs and participated in one supervisory college. These engagements foster coordination, collaboration and information exchange while enhancing the effectiveness of supervision of various elements of cross-border banking groups. These forums served as vital platforms for meaningful interaction between banking institutions and regulators, enabling the Bank to formulate a holistic approach to consolidated supervision. This approach underscores the importance of collaborative efforts in promoting a robust and comprehensive regulatory framework.

The supervisory priorities set out high-level focus areas for the year ahead. From an on-site examination perspective, the Bank will continue its cybersecurity, governance, and risk culture assessments in 2024, given the importance of these areas to the banking sector. Furthermore, the Bank will contract a third party to assist in conducting comprehensive digital maturity assessments at the DSIBs throughout 2024 to evaluate their digital capabilities and the potential of the banking sector. The Bank will continue to adopt a proactive risk-based approach to address emerging challenges and ensure a robust banking sector.

CUSTOMER COMPLAINTS

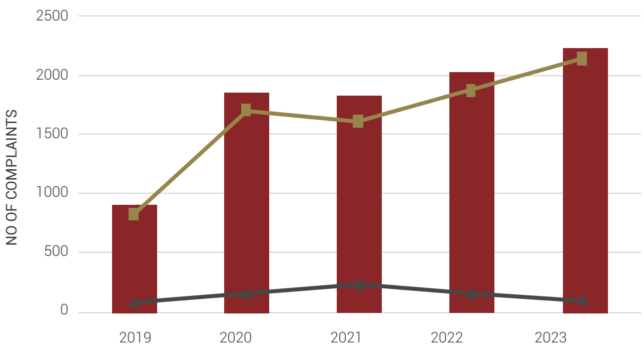
The Bank serves as a mediator in resolving disputes related to products or services offered by banking institutions and credit bureaus. The primary goal in addressing customer complaints is to uphold the Bank's role as a mediator, aligning with the principles outlined in the 2013 Guidelines for Lodging Customer Complaints at the Bank of Namibia.

There was an increase in complaints lodged in the banking sector in terms of the number of customer complaints handled and resolved at the Bank during 2023. The total number of complaints increased from 2 023 in 2022 to a total of 2 231 during 2023. Of the 2 231 cases registered, 96.4 percent represented complaints that were directly lodged at the respective banking institutions, while 3.6 percent were complaints that were lodged at the Bank for recourse. In terms of resolution, 95.4 percent of the complaints were resolved, whilst work on the remaining 4.6 percent remained in progress (Figure C.13). The types of complaints that stood out during the reporting period were fraud against customers, home loan arrears, sales in execution, and poor customer service. In addition to the complaints received, the Bank also attended to 288 customer enquiries during the year emanating from telephone calls, email platforms, and in-person visits at the Bank's premises.

Cyber risk remains a top risk for the banking sector and a threat to its safe and secure functioning.

Figure C.13

Total Number of Complaints



	2019	2020	2021	2022	2023
Total Complaints	904	1,853	1,834	2,023	2,231
Closed	819	1,696	1,596	1,861	2,129
Pending	85	157	238	162	102

In handling customer complaints, the Bank's mediation between the banking institutions and the customers in some instances resulted in monetary refunds. The issues for which such refunds were warranted originated from penalty fees, interest reversals, bond cancellation fees that were waived, and fraud on current accounts and credit cards. The total refunds for the year under review amounted to N$943 721.41 for a total of 22 complaints and enquiries, an increase over the N$786 638.09 refunded in 2022 for 11 complaints and enquiries.

The Bank addressed complaints specifically related to the SME Economic Recovery Loan Scheme. In ongoing efforts to mediate complaints specifically related to SMEs, the Bank handled a total of 10 complaints and seven enquiries linked to the SME Economic Recovery Loan Scheme. These complaints primarily revolved around credit decisions, where applications were declined, limiting SMEs' opportunities to participate in the scheme. However, none of the logged complaints were resolved in favour of the complainants, as the eligibility criteria for approval require that the applicants meet the participating bank's credit terms and conditions before the application can be approved.

PART D

Annual Financial Statements

Contents

FINANCIAL STATEMENTS OVERVIEW AS AT 31 DECEMBER 2023

		2023 N$'000	2022 N$'000
KEY POINTS			
Net interest income increased from N$554.55 million in 2022 to N$990.52 million in 2023 due to higher interest rates and higher average investment balances.	Net interest income	990 520	554 546
Total operating expenses increased by N$70.01 million from N$522.50 million in 2022 to N$592.51 million in 2023.	Operating expenses	592 513	522 504
Amount available for distribution increased by N$184.25 million from N$772.64 million in 2022 to N$956.89 million in 2023.	Amount available for distribution	956 889	772 637
An amount of N$511.47 million will be paid to the Government as dividend for the 2023 financial year compared to N$413.70 million paid in 2022.	Distribution to the State	511 470	413 700
The Bank's assets increased from N$52.36 billion in 2022 to N$61.92 billion in 2023.	Total assets	61 923 798	52 359 135
Notes and coins in circulation increased from N$4.87 billion in 2022 to N$5.24 billion in 2023.	Notes and coins in circulation	5 244 027	4 873 869

STATEMENT OF BOARD'S RESPONSIBILITIES

The main statutory provisions relating to the role and duties of members of the Board are covered under Section 9 and 10 of the Bank of Namibia Act no.1 of 2020. We confirm that:

1. The Board members are responsible for the preparation of the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Bank of Namibia Act no. 1 of 2020 and for the judgements used therein.

2. The Board has overall responsibility for the system of internal financial control in the Bank which is designed to safeguard the assets of the Bank prevent and detect fraud and other irregularities. To discharge this responsibility an appropriate organizational structure has been established. In this regard the Audit Committee of the Board meets periodically with Internal and External Auditors and members of Management of the Bank to discuss control issues, financial reporting and related matters. The Internal and External Auditors have full access to the Audit Committee. Further, the Bank has a comprehensive Risk Management Strategy in place.

3. The Board is satisfied that the annual financial statements complies with IFRS and requirements of the Bank of Namibia Act no. 1 of 2020.

4. The Board members confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future.
   For this reason they continue to adopt the going concern basis in preparing the financial statements.

5. The Audit Committee is composed of members who are neither officers nor employees of the Bank and who have the required mix of skills with at least one member being a financial expert. The Committee is therefore qualified to review the Bank's annual financial statements and recommend the annual financial statement for the approval by the Board Members. The Committee has a duty to review the adoption of and changes in accounting principles including risk management issues and makes recommendations on the same for approval. The Board considers and where necessary approves the Board Audit Committee recommendations.

The annual financial statements on pages 200 to 255 were approved by the Board and are signed on its behalf by:

CHAIRMAN:
J. !Gawaxab
28 March 2024

BOARD MEMBER:
R. Pretorius
28 March 2024

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF THE BANK OF NAMIBIA

Opinion

We have audited the financial statements of Bank of Namibia ("the Bank") set out on pages 200 to 255 which comprise the statement of financial position as at 31 December 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the notes to the financial statements including material accounting policies.

In our opinion the financial statements present fairly in all material respects the financial position of Bank of Namibia as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Bank of Namibia Act 2020.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and other independence requirements applicable to performing audits of financial statements in Namibia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Board members are responsible for the other information. The other information comprises the information included in the Bank of Namibia Annual Report which includes the Message from the Governor, Annual Report Dashboard 2023, Part A (Operations and Affairs of the Bank), Part B (Macroeconomic Review), Theme Chapter, Part C (Banking Supervision), Financial Statement Overview, Statement of Board's Responsibilities, Statement of profit or loss and other comprehensive income in compliance with the Bank of Namibia Act 2020 and Five Year Historical Financial Overview, which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not, and will not, express an audit opinion or any form of assurance conclusion thereon. In connection with our audit of the financial statements our responsibility is to read the other information and in doing so consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board members for the Financial Statements

The Board members are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Namibia Act 2020 and for such internal control as the Board members determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

In preparing the financial statements the Board members are responsible for assessing the Bank's ability to continue as a going concern disclosing as applicable matters related to going concern and using the going concern basis of accounting unless the Board members either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error and to

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF THE BANK OF NAMIBIA

issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion forgery intentional omissions misrepresentations or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board members.
- Conclude on the appropriateness of the Board of directors' use of the going concern basis of accounting and based on the audit evidence obtained whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation structure and content of the financial statements including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding among other matters the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Deloitte Building, Maerua Mall Complex, Jan Jonker Road, Windhoek, Namibia
PO Box 47, Windhoek ICAN Practice number 9407
Per: P Parry (Partner)

Directors: M Harrison, G Brand
Partners: J Cronjé, H De Bruin, J Nghikevali, P Parry

Associate of Deloitte Africa a member of Deloitte Touche Tohmatsu Limited.

28 March 2024

Grand Namibia

Grand Namibia
Registered Accountants and Auditors Chartered Accountants (Namibia)
09 Axali Doeseb Street Windhoek;
PO Box 24304, Windhoek
ICAN Practice number 9424 Per: RN Beukes (Partner)

Partners:
RN Beukes (Managing Partner), R Theron, P Nghipandulwa

28 March 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 N$'000	2022 N$'000
Net interest income		**990 520**	**554 546**
Interest income	2	1 607 243	740 023
Interest expense	2	(616 723)	(185 477)
Net other interest income		-	-
Interest from rand investments exchanged	2	1 003 493	715 500
Interest paid on BON bills - NamPower and GIPF	2	(1 003 493)	(715 500)
Non-interest revenue		**627 130**	**619 187**
Rand compensation income	2	585 689	578 000
Dividend income	2	13 713	5 025
Other income	2	27 728	36 162
TOTAL INCOME		**1 617 650**	**1 173 733**
Total operating expenses	2	**(592 513)**	**(522 504)**
Operating expenses	2	(593 304)	(518 077)
Allowance for credit losses - amortised cost instruments	2	791	(4 427)
Operating profit		**1 025 137**	**651 229**
Foreign exchange and fair value gains		812 912	670 953
Net foreign exchange gains	20	778 241	629 477
Unrealised gains/(losses) on rand investments exchanged		464 653	(496 899)
Unrealised (losses)/gains on BON Bills – NamPower and GIPF		(464 653)	496 899
Unrealised gains/(losses) on equity instruments	24	87 614	(15 123)
Realised foreign exchange (losses)/gains on sale of instruments and FEC's		(52 943)	56 599
PROFIT FOR THE YEAR		**1 838 049**	**1 322 182**
Items that will be reclassified subsequently to profit or loss:		**305 350**	**(572 358)**
Unrealised gains/(losses) - FVTOCI instruments	24	305 350	(572 358)
Items that will not be reclassified subsequently to profit or loss:		**(15 305)**	**27 930**
Allowance for credit loss (losses)/reversal - FVTOCI instruments	4.1	(1 586)	24 631
Actuarial (losses)/gains on post - employment benefits	17	(13 719)	3 299
TOTAL COMPREHENSIVE INCOME		**2 128 094**	**777 754**
Profits attributable to:			
Foreign currency revaluation reserve	20	778 241	629 477
Investment revaluation reserve	24	392 964	(587 481)
Distribution adjustment - unrealised losses	24	-	(36 879)
Amount available for distribution	3	956 889	772 637
TOTAL COMPREHENSIVE INCOME		**2 128 094**	**777 754**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Notes	2023 N$'000	2022 N$'000
ASSETS			
Investments	4	50 582 528	43 771 048
Loans and advances - local banks	5	850 329	6 093
Currency inventory	6	72 780	81 038
Rand deposits	7	104 496	159 704
Other receivables	8	9 824 780	7 913 980
Loans and advances - other	9	140 315	115 423
Investment in associate	10	-	-
Other inventory - stationery and spares	11	4 979	4 806
Property and equipment	12	300 606	268 638
Intangible assets - computer software	13	42 985	38 405
TOTAL ASSETS		**61 923 798**	**52 359 135**
LIABILITIES			
Deposits	14	43 985 974	36 591 583
Trade and other payables	15	129 176	88 761
Notes and coins in circulation	16	5 244 027	4 873 869
Provision for post-retirement medical aid benefits	17	114 760	71 041
TOTAL LIABILITIES		**49 473 937**	**41 625 254**
CAPITAL AND RESERVES			
Share capital	18	40 000	40 000
General reserve	19	3 347 175	3 010 484
Foreign currency revaluation reserve	20	8 409 926	7 631 685
Training fund reserve	21	28 007	19 279
State revenue fund	3	511 470	413 700
Development fund reserve	22	284 424	184 424
Building fund reserve	23	83 300	83 300
Investment revaluation reserve	24	(254 441)	(648 991)
TOTAL CAPITAL AND RESERVES		**12 449 861**	**10 733 881**
TOTAL LIABILITIES, CAPITAL AND RESERVES		**61 923 798**	**52 359 135**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

N$'000	Accumulated Profit & Loss Account	Share Capital	General Reserve	Foreign Currency Revaluation Reserve	Training Fund Reserve	State Revenue Fund	Development Fund Reserve	Building Fund Reserve	Investment Revaluation Reserve	Total
Balance at 01 January 2022	**-**	**40 000**	**2 741 385**	**7 002 208**	**16 179**	**413 700**	**95 986**	**85 000**	**-**	**10 394 458**
Profit for the year	1 322 182	-	-	-	-	-	-	-	-	1 322 182
Other Comprehensive Income for the year	27 930	-	-	-	-	-	-	-	(572 358)	(544 428)
Transfer to Revaluation reserve	(629 477)	-	-	629 477	-	-	-	-	-	-
Transfers	-	-	15 162	-	(1 900)	-	(11 562)	(1 700)	-	-
Allowance for credit losses - FVTOCI	-	-	-	-	-	-	-	-	(24 631)	(24 631)
Transfer of unrealised loss on equity investments to investment revaluation reserve	15 123	-	-	-	-	-	-	-	(15 123)	-
Distribution adjustment - unrealised losses	36 879	-	-	-	-	-	-	-	(36 879)	-
Dividend distribution	-	-	-	-	-	(413 700)	-	-	-	(413 700)
Appropriation of net profit for the year	(772 637)	-	253 937	-	5 000	413 700	100 000	-	-	-
Balance at 31 December 2022	**-**	**40 000**	**3 010 484**	**7 631 685**	**19 279**	**413 700**	**184 424**	**83 300**	**(648 991)**	**10 733 881**
Profit for the year	1 838 049	-	-	-	-	-	-	-	-	1 838 049
Other comprehensive loss for the year	(15 305)	-	-	-	-	-	-	-	305 350	290 045
Transfer to revaluation reserve	(778 241)	-	-	778 241	-	-	-	-	-	-
Transfers	-	-	1 272	-	(1 272)	-	-	-	-	-
Allowance for credit losses - FVTOCI	-	-	-	-	-	-	-	-	1 586	1 586
Transfer of unrealised gains on equity investments to investment revaluation reserve	(87 614)	-	-	-	-	-	-	-	87 614	-
Dividend distribution	-	-	-	-	-	(413 700)	-	-	-	(413 700)
Appropriation of net profit for the year	(956 889)	-	335 419	-	10 000	511 470	100 000	-	-	-
Balance at 31 December 2023	**-**	**40 000**	**3 347 175**	**8 409 926**	**28 007**	**511 470**	**284 424**	**83 300**	**(254 441)**	**12 449 861**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 N$'000	2022 N$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	A	109 570	322 551
CASH FLOWS FROM INVESTING ACTIVITIES		**(66 028)**	**(23 284)**
Interest acquired in associate	10	(257)	(290)
Purchase of property and equipment	12	(37 700)	(8 972)
Disposal of property and equipment		702	-
Purchase of intangible assets – computer software	13	(3 881)	(11 117)
Increase in loans and advances – other	9	(24 892)	(2 905)
CASH FLOWS FROM FINANCING ACTIVITIES		**(43 542)**	**(299 267)**
Distribution to the State Revenue Fund	B	(413 700)	(413 700)
Increase in notes and coins in circulation	16	370 158	114 433
Net cash flow	1.16	-	-

NOTE:

A. Reconciliation of profit for the year to cash generated by operations

Operating Profit	1 025 137	651 229
Adjusted for:		
Interest from rand investments exchanged	(1 003 493)	(715 500)
Interest paid on BON bills - NamPower and GIPF	1 003 493	715 000
Depreciation	5 030	18 574
Provision for post-retirement medical aid benefits	30 000	5 242
Amortisation of computer software	(699)	13 273
Currency inventory amortisation costs	45 563	36 017
Expected credit allowance (gains)/losses IFRS 9	(791)	4 427
Impairment of investment in associate	257	290
Operating cash flows before movements in working capital	**1 104 497**	**729 052**
Increase in Investments	(5 692 427)	(3 805 052)
Increase in Loans and advances - local banks	(844 236)	(4 637)
Increase in Currency inventory	(37 305)	(26 955)
Decrease/(Increase) in Rand deposits	55 208	(89 690)
Increase in Other receivables	(1 910 800)	(260 535)
Increase in Other inventory-stationery and spares	(173)	(64)
Increase in Deposits	7 394 391	3 790 748
Increase/(Decrease) in Trade and other payables	40 415	(10 316)
	109 570	**322 551**

B. Distribution To State Revenue Fund

Opening balances	(413 700)	(413 700)
Appropriations of net profit for the year	(511 470)	(413 700)
Closing balance	511 470	413 700
Paid for the year	**(413 700)**	**(413 700)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES

The Bank's annual financial statements are prepared in accordance with the going concern principle under the historical cost basis except for financial assets and liabilities where the fair value and amortised cost basis of accounting is adopted. The principal accounting policies which have been consistently applied in all material respects are set out below. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.3. The annual financial statements have been prepared to comply with the requirements of the Bank of Namibia Act 2020, the Namibian Companies Act and with the requirements of International Financial Reporting Standards (IFRSs).

1.1. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards and amendments issued and effective for 31 December 2023 year-end; the standards listed below did not have a material impact on the financial statements of the Bank. We have only disclosed relevant standards that have become effective during the current year.

Standards	Effective Date	Executive Summary
IAS 8 Accounting Policies. Change in Accounting Estimates and Errors	1 January 2023	**Definition of Accounting Estimates:** The amendments clarify how entities should distinguish changes in accounting policies from changes in accounting estimates with a new definition of accounting estimates. Under the new definition accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirement for recognising the effect of change in accounting prospectively remain unchanged. The International Accounting Standards Board (IASB) retained the concept of changes in accounting estimates in the Standard with the following clarifications: • A change in accounting estimate that results from new information or new developments is not the correction of an error; and • The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The Bank adopted the change with no impact for the financial year under review.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.2 NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards and amendments issued but not effective for 31 December 2023 year-end. Management is in the process of reviewing the impact that the Standards listed below will have on the financial statements of the Bank in future periods:

Standards	Effective Date	Executive Summary
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	1 January 2024	The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity.
IFRS S2 Climate -related Disclosures	1 January 2024	The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity.
IFRS 16 Leases	1 January 2024	Amendments to IFRS 16 will clarify how a seller-lessee subsequently measures sale and leaseback transactions.
IAS 1 Presentation of Financial Statements	1 January 2024	Classification of liabilities as Non-current: The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses or the information disclosed about those items.
IAS 7 Statement of Cash Flows	1 January 2024	IAS 7 was amended to add disclosure requirements and 'signposts' within existing disclosure requirements that would ask entities to provide qualitative and quantitative information about supplier finance arrangements.
IFRS 7 Financial Instruments: Disclosures	1 January 2024	IFRS 7 was amended to add disclosure requirements and 'signposts' within existing disclosure requirements that would ask entities to provide qualitative and quantitative information about supplier finance arrangements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The major areas where management has used its judgement and accounting estimates are set out below:

1. Impairment of financial assets

IFRS 9 requires that financial instruments be tested for impairments on a forward-looking basis. The main aim is to determine whether the credit risk of an instrument has changed materially since the previous reporting period. To make this calculation the IASB requires entities to develop and use an Expected Credit Loss (ECL) model. Generally, it can be summarised that the ECL model aims to anticipate shortfalls of contractual cash flows of financial instruments in the event of a default. Refer to note 1.5 and 4.1 for the ECL accounting policy and disclosure.

2. Provision for post-retirement benefits disclosed under note 17

An actuarial valuation is performed annually to determine the Bank's obligation in this regard. The assumptions and judgments used by the actuary were considered by the Bank and were deemed reasonable considering the prevailing and anticipated future economic conditions.

3. Evaluation of useful lives and residual values

The residual value and useful life evaluation exercise is performed by internal staff members who have technical knowledge of specific classes of assets. Market information with regards to pricing is also obtained to ensure the required level of objectivity is maintained in the whole evaluation process.

4. Accounting for off-market loans as disclosed under note 9

Management judgement was applied to determine the average repayment period on the various classes of loans granted by the Bank. Prevailing interest rates at year-end were however applied to determine the impairment charge for the year on new off-market loans.

5. Sovereign Wealth Fund

The cabinet through cabinet decision no. 8th/23.06.20/005 approved in principle the establishment of the Sovereign Wealth Fund of Namibia (SWF) also known as the Welwitschia Fund as a reserve account that shall be managed in terms of the sections (72)(2) and (73)(1)(a) of the Bank of Namibia Act 2020 (Act. No.1 of 2020). On 12 May 2022 the Minister of Finance Honourable Ipumbu Shiimi and the Governor of the Bank of Namibia, Mr. Johannes !Gawaxab, signed a Memorandum of Understanding (MoU) to appoint the Bank as the manager of the Sovereign Wealth Fund. The Bank has no equity interest in the Fund and effectively has no voting rights in the governance structures of the SWF. The Bank manages the Fund on behalf of the Ministry of Finance. The funds under management at 31 December 2023 were N$334.62 million (2022: N$320.79 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

6. Rand Compensation Income

Rand compensation income is computed per the formula prescribed in article 8 of the Multilateral Monetary Agreement (MMA) which requires the South African government to make compensatory payments for the Rand currency circulating in Namibia. The compensation income (seigniorage) is calculated using the currency in circulation and yields being:

- Averages of Rand currency in circulation in South Africa and NAD currency in circulation in Namibia for the measured year;
- South African government ten-year bond yield (average of the last 3 months – October/November/December of the measured year).

The compensation is calculated by taking two thirds (2/3) of the last three months' average of the South African government ten-year bond yield: 11.90% (2023) (2022: 11.44%) multiplied by the calculated stock of the Rand currency in circulation in Namibia as per the agreed formula. The actual Rand compensation income realised amounted to N$586 million (2022: N$578 million).

7. Acquisition of ZAR portfolios from GIPF and NamPower and issuance of BON bills

The Bank of Namibia entered into asset swaps with the GIPF and NamPower in November 2015 and February 2016, respectively, to bolster the country's foreign exchange reserves pursuant to its powers in sections 4, 62 and 63 of the Bank of Namibia Act, No.1 of 2020. The swapped portfolios are comanaged by South Africa and Namibian registered investment managers and are denominated in the ZAR currency with a weighted overall duration of 14.03 years.

The benchmarks of the mandates swapped with the GIPF predominantly constitute 75 percent SA Inflation Linked Bond Index and 25 percent SA Government Bond 12+ year Index. Accordingly, as at 31 December 2023, the corresponding portfolios comprised of a 74 percent allocation to South African Government Inflation Linked Bonds, with the rest of the holdings spread across South African short- duration floating rate securities, negotiable certificates of deposits and private placements. These mandates swapped with GIPF are managed by Momentum, Trialpha, M&G and Sanlam Investment Managers. The portfolio swapped with NamPower is invested in Stanlib unit trusts with a tilt towards short-term fixed interest corporate paper and benchmarked against the Stefi Composite.

In exchange of the swapped mandates, the Bank of Namibia has issued a Namibian Dollar instrument to each of the institutions to the tune of the nominal capital exchanged. The value of this instrument is aligned to the investment earnings of the swapped portfolios. In the event that the Bank of Namibia requires to liquidate the asset swaps to enable financing of the country's foreign obligations/trade balance, the agreements together with the issued certificates necessitates that the NAD instrument will continue to accrue the benchmarks that are applicable to the GIPF swapped portfolios at the time of liquidation, while the Nampower instrument will continue to accrue the performance of the IJGMM index+150bps.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

7. Acquisition of ZAR portfolios from GIPF and NamPower and issuance of BON bills (Continued)

The Bank has not only taken legal ownership of the bills but also has substantive control over the ZAR investments premised on the following substantive factors:

- GIPF and NamPower can liquidate these investments at any time. In return they have no claim to the ZAR investments but can receive compensation in NAD, SDR, foreign currency gold and loan funding from e.g. the IMF without liquidating the ZAR investments. Effectively the Bank has the discretion to decide on the form of the Bank of Namibia bills settlement. The Bank of Namibia bills and the ZAR investments are therefore not tied but can be sold/ exchanged/ transferred independently. Furthermore, the Bank manages the ZAR portfolios as part of its foreign currency reserves.

- The initial ZAR portfolio comprised of debt instruments mainly SA government inflation-linked bonds and collective investment scheme instruments acquired from the counterparties changed significantly since inception. The investment choices strategy and risk appetite were subject to the Bank's policies guidance and strategy without any involvement of the counterparties.

- The Bank of Namibia will only liquidate the ZAR investments upon a balance of payments crisis confirming that the duration is long, and the investment is not working capital. In the event of a balance of payments crisis the returns shall link to an index plus a pre-agreed margin. The returns of the Bank of Namibia bills will not be required to return immediately.

1.4 REVENUE RECOGNITION

Interest income is recognised on a time proportioned basis taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate considers all directly attributable external costs discounts or premiums on the financial assets.

Dividends on equity instruments are recognised in profit or loss in accordance with IFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment.

Rand compensation income is received from the South African Government as compensation for the Rand currency in circulation in Namibia. The Bank accounts for this income on an accrual basis.

Other income consists of rental received, bank supervision fees and charges as well as sundry income. Other income is recognised to the extent that it is probable that the economic benefit will flow to the Bank and revenue can be reliably measured.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.5 FINANCIAL INSTRUMENTS

Financial instruments as reflected on the Bank's statement of financial position include all financial assets and financial liabilities. Management determines the appropriate classification at initial recognition of the financial instrument. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In inactive markets the most recent arm's length transactions are the basis of current fair values. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

It is to be noted that the Bank does not invest in financial instruments which are not quoted in an active market. However, should our investment philosophy change, valuation techniques such as cash flows models and consideration of financial data of the investees will be used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures will be made in the financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs do not include debt premiums or discounts financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments plus accrued interest and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense including both accrued coupon and amortised discount or premium are not presented separately and are included in the carrying values of related statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate on the carrying amount). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a short period if appropriate to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.5 FINANCIAL INSTRUMENTS (CONTINUED)

Recognition

The Bank recognises financial instruments including "regular way" purchases and sales on settlement date and thus applies settlement date accounting to these transactions.

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Loans and advances, other receivables and other financial liabilities are recognised on the day they are transferred to the Bank or on the day the funds are advanced.

Measurement

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities as appropriate on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Subsequent to initial measurement financial instruments are measured at fair value or amortised cost depending on their classification.

Reclassification

It is a requirement that institutions disclose when it has reclassified a financial asset between one measured at amortised cost FVTOCI or FVTPL. The Bank has not reclassified any of its financial assets during the year under review.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value depending on the classification of the financial assets.

1. *Classification of financial assets*

   Debt instruments that meet the following conditions are measured subsequently at amortised cost:

   - The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
   - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.5 FINANCIAL INSTRUMENTS (CONTINUED)

1. *Classification of financial assets (Continued)*

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Investment in equity instruments is classified at FVTPL unless designated as equity investment that is not held for trading.

Despite the foregoing the Bank may make the following irrevocable elections/designations at initial recognition of a financial asset:

- The Bank may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. *Impairment of financial assets*

The Bank recognises a loss allowance for expected credit losses on investments in financial assets that are measured at amortised cost or at FVTOCI and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank's historical credit loss experience adjusted for factors that are specific to the debtors general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date including time value of money where appropriate.

For all other financial instruments the Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.5 FINANCIAL INSTRUMENTS (CONTINUED)

2.1. Definitions

I. Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment the Bank considers both quantitative and qualitative information that is reasonable and supportable including historical experience and forward-looking information that is available without undue cost or effort.

In particular the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating.
- Significant deterioration in external market indicators of credit risk for a particular financial instrument e.g. a significant increase in the credit spread the credit default swap prices for the debtor or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost.
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations.
- An actual or expected significant deterioration in the operating results of the debtor.
- Significant increases in credit risk on other financial instruments of the same debtor.
- An actual or expected significant adverse change in the regulatory economic or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

a. The financial instrument has a low risk of default
b. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term and
c. Adverse changes in economic and business conditions in the longer term may but will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has an external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amount.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.5 FINANCIAL INSTRUMENTS (CONTINUED)

2.1. Definitions (Continued)

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria can identify a significant increase in credit risk before the amount becomes past due.

II. Definition of default

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors including the Bank in full (without considering any collateral held by the Bank).

Irrespective of the above analysis the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

III. Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a. Significant financial difficulty of the issuer or the borrower.
b. A breach of contract such as a default or past due event (see (ii) above).
c. The lender(s) of the borrower for economic or contractual reasons relating to the borrower's financial difficulty having granted the borrower a concession(s) that the lender(s) would not otherwise consider.
d. It is becoming probable that the borrower will enter bankruptcy or another financial re-organization; or;
e. the disappearance of an active market for that financial asset because of financial difficulties.

3. Write-off policy

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g. when the debtor has been placed under liquidation or has entered bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Banks's recovery procedures considering legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.5 FINANCIAL INSTRUMENTS (CONTINUED)

4. *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default for financial assets this is represented by the assets' gross carrying amount at the reporting date.

For financial assets the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive discounted at the original effective interest rate.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Bank recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account except for investments in financial assets that are measured at FVTOCI for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve and does not reduce the carrying amount of the financial asset in the statement of financial position.

5. *Derecognition of financial assets*

The Bank derecognises a financial asset only when the contractual rights to the cash flow from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset the Bank continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset measured at amortised cost the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on de-recognition of an investment in a debt instrument classified as at FVTOCI the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.5 FINANCIAL INSTRUMENTS (CONTINUED)

The Bank did not transfer financial assets in such a way that part of the assets did not qualify for de- recognition.

Financial liabilities

These are measured at amortised cost. Amounts due to the Government bankers' reserve and current accounts are stated at cost as these accounts do not have fixed maturity dates.

Notes and coins issued are measured at face value as this liability does not have a fixed maturity date.

Accounts payable are stated at cost as this approximates fair value due to the short-term nature of such obligations.

1.6 GENERAL RESERVE

The general reserve is established in terms of Section 72 of the Bank of Namibia Act no.1 of 2020 and may only be used for the purpose specified below:

- Increase the paid-up capital of the bank.
- Offset losses sustained by the bank during a financial year.
- Fund a development reserve account; and
- Redeem any securities issued by the bank.

The amount maintained in this account relates to the annual appropriation of distributable profits determined by Section 71 of the Bank of Namibia Act no.1 of 2020. The Act prescribes that not less than 25% of the net profits of the Bank for a financial year be transferred to the General Reserve Account.

1.7. FOREIGN CURRENCY ACTIVITIES AND REVALUATION RESERVE

The Revaluation Reserve has been created in accordance with Section 64 of the Bank of Namibia Act no.1 of 2020 and is used to accommodate any net gains or losses in any financial year of the Bank arising from any change in the book value or realised/unrealised value of the Bank's assets or liabilities denominated in currencies or units of account other than the Domestic Currency such as gold special drawing rights and foreign currencies. Any change in the value of such currencies or units of account in terms of the currency of Namibia shall be credited to the Revaluation Reserve Account before any appropriation to any other reserve.

Assets and liabilities in foreign currencies are translated to Namibia Dollars at year-end exchange rates. In terms of Section 64 of the Bank of Namibia Act no.1 of 2020 exchange gains and losses of the Bank are for the account of the Government and are consequently transferred to the Revaluation Reserve Account before appropriation of profits.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.8. BUILDING FUND RESERVE

This reserve was reactivated in the 2016 financial year to set aside funds for the construction of a Currency Museum and to extend the parking facilities at the Bank's premises. Annual profits appropriated will be credited to the reserve and on completion of the construction the reserve so created will be released to the General Reserve.

1.9. DEVELOPMENT FUND RESERVE

This reserve was established under section 73(1)(a) of the Bank of Namibia Act no.1 of 2020 for the purpose of promoting or financing economic development in Namibia. The reserve will be released to the General Reserve.

1.10. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairments losses and are depreciated on the straight-line method over their estimated useful lives. The estimated useful lives residual values and depreciation methods are reviewed regularly with the effect of any changes in estimate accounted for on a prospective basis. The revised useful life in years is as detailed below:

Freehold buildings	50 years
Computer hardware	4-10 years
Motor vehicles	6-16 years
Furniture fittings and equipment	1-37 years
Note sorting machines	9-22 years

The residual value on the building is benchmarked to similar structures in the country and did not call for any adjustment in residual value both in the previous year and the current year. Subsequent costs are included in the assets carrying value only when it is probable that future economic benefits associated with the assets will accrue to the Bank. All other repairs and maintenance costs are charged to the Statement of Profit or Loss and Other Comprehensive income during the financial period in which they are incurred.

1.11. INTANGIBLE ASSETS – COMPUTER SOFTWARE

On acquisition the software is capitalised at purchase price and amortised on a straight-line basis with zero residual value. The estimated useful lives residual values and amortisation methods are reviewed at each year end with the effect of any changes in the estimate accounted for on a prospective basis. The Bank reassesses the residual value and useful life of Computer software on an annual basis and the useful life has been set to range between 1 and 8 years. Refer to note 13 for disclosure.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.12. INVENTORY

Currency Costs

The costs of new Namibia bank notes and coins are capitalised and amortised on the earlier of issue of the currency or over five years. Cost comprises of printing and minting costs carriage insurance and freight landed at the Bank's premises or designated port of consignment arrival. Currency is issued using the weighted average cost.

Stationery and spares

Stationery and spares inventory are capitalised and stated at the lower of cost and net realisable value. Cost comprises of purchase price as well as applicable freight for imported spare parts. Inventory is issued using the weighted average cost.

1.13. PENSION FUND

It is the policy of the Bank to contribute to the retirement benefits for employees. The Bank operates a defined contribution pension fund. Contributions to the Bank of Namibia Provident Fund are charged against income in the year in which they become payable.

1.14. IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amount of the assets of the Bank are reviewed at each statement of financial position date to determine whether there is any indication of impairment in which case their recoverable amounts are estimated.

An impairment loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income whenever the carrying amount of an asset exceeds its recoverable amount. A previously expensed impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

1.15. EMPLOYEE BENEFITS

a) *Post- retirement medical benefits*

The Bank provides post-retirement medical benefits in the form of a medical aid scheme for eligible employees and pensioners. The cost of providing benefits is determined using the projected unit credit method. The liability for the Bank's contribution to the scheme is in respect of current and future pensioners provided for by means of a financial liability. The magnitude of the liability is based on an actuarial valuation. Actuarial gains and losses on the post-retirement medical benefits are accounted for in the year in which they arise.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.15. EMPLOYEE BENEFITS (CONTINUED)

b) *Annual leave*

Liabilities for wages and salaries including non-monetary benefits annual leave and accumulated sick leave that are expected to be settled wholly within 12 months are recognised and measured at the amounts expected to be paid when the liabilities are settled.

c) *Severance pay*

Severance pay is an amount paid to an employee on the early termination of a contract. Severance pay is equal to 1 week's remuneration for every 12 months of continuous employment with the same employer. The Bank makes provision for severance pay for employees in terms of section 35 (1) of the Labour Act.

1.16. STATEMENT OF CASH FLOWS

Cash as defined in IAS 7 is not wholly appropriate to the Bank due to its role in the creation and withdrawal of currency. The Bank has no cash balances on its statement of financial position.

1.17. PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

1.18. TRANSACTIONS ON BEHALF OF GOVERNMENT

The Bank undertakes numerous transactions on behalf of the Government which include among others payments and receipts opening and maintenance of accounts for donor funded projects and the maintenance of accounts for line ministries. All such accounts opened are pre-funded with the funds received invested and the corresponding liability recorded in the books of the Bank. The transactions where the Bank only acts as an agent as well as the assets and liabilities arising from such transactions are not reflected in the annual financial statements of the Bank. Refer to note 31 for disclosure.

1.19. BORROWING COSTS

Borrowing costs are primarily interest and other costs incurred by the Bank in connection with the borrowing of funds. Borrowing costs are recognised on a time proportioned basis taking account of the principal outstanding and the effective interest rate over the period of the loan and are expensed accordingly.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

1. ACCOUNTING POLICIES (CONTINUED)

1.20. ACCOUNTING FOR IMF – SPECIAL DRAWING RIGHTS (SDR)

The SDR is an international reserve asset created by the International Monetary Fund (IMF) in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organisations. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of the five major currencies (Euro, Japanese yen, Pound sterling, US dollar and Chinese renminbi). In as far as Namibia is concerned the total allocation of SDR by the IMF is classified in the books of the Bank as an asset under "Other Receivables" and as a liability under "Deposits" classification.

1.21. NOTES AND COINS IN CIRCULATION

One of the primary functions of the Bank is the printing and minting of Namibia Dollar currency and issuance thereof into circulation. The costs of printing and minting the currency are capitalised and amortised based on issuance of the currency into circulation. New currency notes and coins are issued to the Commercial Banks at face value which then flows into circulation through the monetary and financial systems operational in the country. Once issued into circulation the notes and coins are reflected in the books of the Bank as a liability and the liability is only extinguished when the currency is no longer in circulation.

1.22. LENT-OUT SECURITIES

The Bank derives income from securities lending activity. The counterparties involved in these transactions are highly rated institutions and cash collateral is deposited by the counterparty with the custodians as a guarantee for the lent-out securities. Our custodians are responsible for the administration and management of this activity. The income generated from the lent-out securities activities are recorded in the books of the Bank accordingly.

1.23. INVESTMENT REVALUATION RESERVE

The Reserve has been created to retain unrealised gains and losses on the Bank's portfolio investments that are measured at fair value through other comprehensive income (FVTOCI) and fair value through profit and loss as per IFRS 9 until they are realised. Unrealised gains when realised become available for distribution and unrealised losses when realised are charged to the Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

2. RESULTS FOR THE YEAR

	2023 N$'000	2022 N$'000
Profit for the year is arrived at after taking the following items into account:		
Interest Income		
Namibia Dollar & Rand Currency	**906 536**	**521 167**
Debt securities and money market instruments	906 536	521 167
Other currencies	**694 955**	**213 958**
Debt securities	603 305	207 610
Money market instruments	91 650	6 348
Unwinding of present value adjustments (staff loans)	5 752	4 898
	1 607 243	**740 023**
Interest Paid		
Government	-	-
SDR	303 806	76 263
Commercial banks	238 574	91 426
Other	74 343	17 788
	616 723	**185 477**
Rand Currency		
Interest income from rand investments exchanged	1 003 493	715 500
Namibia Dollar Currency		
Interest paid on liabilities to NamPower and GIPF	1 003 493	715 500
Rand compensation income	585 689	578 000
Other Income		
Profit on disposal of property, equipment and intangible assets	15	-
Dividend income on equity instruments	13 713	5 025
Sundry income	27 713	36 162
	41 441	**41 187**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

2. RESULTS FOR THE YEAR (CONTINUED)

	2023 N$'000	2022 N$'000
Operating Expenses		
Depreciation	5 030	18 574
Amortisation of computer software	(699)	13 273
Currency inventory amortisation costs	45 563	36 017
Salaries and related personnel costs	328 459	307 690
Post-retirement medical benefit expenses	30 000	5 242
Staff training and development	8 445	5 482
Social responsibility	1 628	1 605
Board members' fees - for services as board members	1 299	1 211
Auditors' remuneration - audit fees	2 233	2 290
Membership fees	1 650	1 105
Building, Information Technology and other maintenance costs	24 627	22 114
Amortisation of pre-paid long-term employee benefits	5 752	4 898
Expected credit allowance losses - IFRS 9	(791)	4 427
Share of loss from associate	257	290
Asset management fees	13 575	8 940
Municipal accounts	11 413	10 761
Subscription	8 541	6 614
Research expenses: growth strategy	12 710	20 586
Other expenditure	92 821	51 385
Total operational expenditure	**592 513**	**522 504**
Number of employees	**339**	**337**

Interest income relates to interest earned on investments which are invested in the Rand, Euro and USD money and capital markets as well as interest earned in NAD on the commercial banks' settlement accounts repurchase agreements and staff loans.

Interest expense mainly relates to interest expense incurred on Bank of Namibia bills issued to commercial banks, interest expense incurred on commercial banks' settlement accounts, Special Drawing Rights allocations by the IMF and interest on bills issued to GIPF and NamPower.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

3. APPROPRIATION OF PROFITS IN TERMS OF THE BANK OF NAMIBIA ACT NO.1 OF 2020

	Notes	2023 N$'000	2022 N$'000
Total Comprehensive Income for the Year		**2 128 094**	**777 754**
Unrealised (gains)/losses transferred to the investment revaluation reserve	24	(392 964)	587 481
Distribution adjustment - unrealised losses	24	-	36 879
Exchange rate gains transferred to the revaluation reserve	20	(778 241)	(629 477)
Amount available for distribution		**956 889**	**772 637**
Appropriation of Profits		**956 889**	**772 637**
General reserve	19	335 419	253 937
Training fund reserve	21	10 000	5 000
Development fund reserve	22	100 000	100 000
Distribution to state revenue fund		511 470	413 700

The net foreign exchange gain reflected on the Statement of Profit or Loss and Other Comprehensive Income includes the translation gain for the year that has been charged to the Statement of Profit or Loss and Other Comprehensive Income to comply with the requirements of IAS 21 – Effect of changes in Foreign Exchange Rates. In terms of section 64 of the Bank of Namibia Act 2020 gains and losses arising based on changes in the book or realised value of assets or liabilities denominated in currencies other than the domestic currency are to be transferred to the revaluation reserve. The net profit for the year in line with the compliance requirements of the Bank of Namibia Act 2020 would therefore amount to N$956.89 million (2022: N$772.64 million). Appropriations of profits are based on this net profit figure.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

4. INVESTMENTS

	2023 N$'000	2022 N$'000
RAND CURRENCY		
Fair value through profit or loss		
Debt securities and money market investments	20 783 886	18 580 025
Fair value through other comprehensive income		
Debt securities	2 977 005	2 963 687
Amortised cost		
Money market instruments	6 597 679	7 828 367
	30 358 570	**29 372 079**
OTHER CURRENCIES		
Fair value through profit and loss		
Equity instruments	651 418	554 009
Debt securities & money market investments	906 142	-
Fair value through other comprehensive income		
Debt securities & money market investments	9 030 578	7 600 979
Amortised cost		
Money market instruments	9 643 719	6 252 690
	20 231 857	**14 407 678**
Total Gross investments	**50 590 427**	**43 779 757**
Less: Rand currency allowance for credit losses - amortised cost (refer to 4.1)	(7 236)	(8 431)
Less: Other currency allowance for credit losses - amortised cost (refer to 4.1)	(663)	(278)
Total Net investments	**50 582 528**	**43 771 048**

The fair value of the certificates of deposits within the Rand currency instruments class, accounted for at amortized cost, was ascertained by referencing the prices provided in the custodian report. The fair value is determined to be N$ 950.246 million (2022: N$1.092 billion). All other instruments are considered short term therefore the carrying amount approximates fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

4. INVESTMENTS (CONTINUED)

4.1 MOVEMENT IN EXPECTED CREDIT LOSSES

The following table shows the movement in expected credit losses that has been recognised for the respective investments.

Classification	Measured At FVTOCI			Measured At Amortised Cost	
	Internally Managed bonds	Externally Managed bonds	Allowance for credit losses – FVTOCI instruments	Internally managed money market instruments	TOTAL
	N$'000	N$'000	N$'000	N$'000	N$'000
Balance at 1 January 2023	17 180	1 822	19 002	8 709	**27 711**
Net increase/(decrease) in ECL	**1 642**	**(56)**	**1 586**	**(810)**	**776**
(Decrease)/increase: 12-month ECL	(685)	169	(516)	385	**(131)**
Increase/(decrease): Lifetime ECL	2 327	(225)	2 102	(1 195)	**907**
Balance at 31 December 2023	**18 822**	**1 766**	**20 588***	**7 899**	**28 487**

Classification	Measured At FVTOCI			Measured At Amortised Cost	
	Internally Managed bonds	Externally Managed bonds	Allowance for credit losses – FVTOCI instruments	Internally managed money market instruments	TOTAL
	N$'000	N$'000	N$'000	N$'000	N$'000
Balance at 1 January 2022	41 559	2 075	43 634	4 282	**47 916**
Net increase/(decrease) in ECL	**(24 379)**	**(253)**	**(24 632)**	**4 427**	**(20 205)**
(Decrease)/increase: 12-month ECL	700	(120)	580	16	**596**
Increase/(decrease): Lifetime ECL	(25 079)	(133)	(25 212)	4 411	**(20 801)**
Balance at 31 December 2022	**17 180**	**1 822**	**19 003***	**8 709**	**27 711**

IFRS 9.5.5.2 prescribes that the allowance for credit losses for financial assets measured at FVTOCI of N$20.6 million (2022: N$19.0 million) shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The movement in the loss allowance is included in the investment revaluation reserve.

*The total allowance for credit losses at FVTOCI is presented in the Investment revaluation reserve under equity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

4. INVESTMENTS (CONTINUED)

4.2 LENT - OUT SECURITIES

At 31 December 2023 the value of lent-out securities from our investment portfolio managed by our custodians amounted to USD 28.9 million; NAD equivalent 535.63 million (2022: USD 3.41 million; NAD equivalent 57.81 million). The counterparties involved in these transactions are rated institutions and cash collateral has been deposited with the custodians as a guarantee for the lent-out securities. The income generated from the lent-out securities activity has been recorded in the books of the Bank accordingly.

4.3 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The levels of hierarchy used to determine the fair value of financial instruments is as detailed below:

Fair value of instruments that fall in the Level 1 category would be based on the unadjusted quoted prices in an active market for identical assets or liabilities. Level 2 category would be based on quoted prices that are observable for the asset or liability either directly as prices or indirectly as derived from prices. Level 3 category would be based on inputs for the asset or liability that are not based on observable market data.

Level 1

The fair value of the Bank's financial instruments traded in active markets are based on the quoted prices obtained from the custodian at the statement of the financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange dealer, broker or pricing services and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments not traded in an active market is determined using available observable market data and rely as little as possible on entity specific estimates. Some of the techniques used include market prices for similar instruments and discounted cash flows where future cash flows are discounted using a market related interest rate.

At 31 December 2023 the fair value of financial instruments that were classified under the various hierarchies is detailed in the tables below:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

4. INVESTMENTS (CONTINUED)

4.3 FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

At 31 December 2023

	Level 1	Level 2	Level 3	TOTAL
	N$'000	**N$'000**	**N$'000**	**N$'000**
Rand and other currency investments at fair value through other comprehensive income	3 565 921	30 131 690	-	33 697 611
Other currencies - equity investments at fair value through profit or loss	651 418	-	-	651 418
	4 217 339	**30 131 690**	**-**	**34 349 029**

At 31 December 2022

	Level 1	Level 2	Level 3	TOTAL
	N$'000	**N$'000**	**N$'000**	**N$'000**
Rand and other currency investments at fair value through other comprehensive income	3 082 790	26 061 901	-	29 144 691
Other currencies - equity investments at fair value through profit or loss	554 009	-	-	554 009
	3 636 799	**26 061 901**	**-**	**29 698 700**

The value of the amortised cost instruments not included above amounts to N$16 241 399 000 excluding the allowance for credit losses of N$ 7 899 000 (2022: N$14 081 057 000 excluding the allowance for credit losses of N$8 709 000).

5. LOANS AND ADVANCES - LOCAL BANKS

	2023 N$'000	2022 N$'000
Loans to local banks	351 543	6 093
Less: Allowance for credit losses	(19)	-
Repurchase Agreements - Local banks	498 805	-
Closing balance	**850 329**	**6 093**

The loans to local banks are for the COVID-19 SME Loan Scheme where the commercial banks further on-lent the funds to eligible SME's as COVID-19 Loans. These loans are unsecured and accrue interest at the repo rate of which the obligation to pay interest and capital is deferred for the first six months after the first drawdown.

The loans to the local banks have a fair value of N$299.885 million (2022: N$4.272 million). The fair value was determined by discounting the loans using the prevailing prime rate (11.50%) plus 300bp over a 5-year period.

Repurchase agreements-local banks are overnight and seven-day loans (Repo's) to commercial banks to cover temporary liquidity shortages offered by the bank at repo rate. The loans are short-term in nature and fair value approximates the carrying amount.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

6. CURRENCY INVENTORY

	2023 N$'000	2022 N$'000
Opening balance	81 038	90 100
Purchases current year	44 509	26 929
Currency revaluation	(7 204)	26
Currency amortisation	(45 563)	(36 017)
Closing balance	**72 780**	**81 038**

7. RAND DEPOSITS

Closing balance	**104 496**	**159 704**

Rand deposits is the value of Rand bank notes held by the Bank of Namibia. Commercial banks deposit the Rand bank notes collected at their various branches at the Bank of Namibia. The Bank of Namibia in turn repatriates the Rand bank notes to the South African Reserve Bank based on predetermined currency values. Upon repatriation the South African Reserve Bank then credits the Namibian reserves on deposit with an amount equal to the value of the Rand bank notes repatriated. The carrying amount of Rand deposits or cash is a reasonable approximation of its fair value.

8. OTHER RECEIVABLES

	2023 N$'000	2022 N$'000
Other receivables	86 942	75 909
Less: Allowance for credit losses	-	-
Net other receivables	**86 942**	**75 909**
Rand compensation receivable	585 049	578 000
IMF - Quota	4 700 035	3 436 443
Receivable - Financial Intelligence Centre (FIC)	29 000	4 738
IMF - Special Drawing Rights (SDR) holdings	4 423 754	3 818 890
Total other receivables	**9 824 780**	**7 913 980**

The SDR is an international reserve asset created by the International Monetary Fund (IMF) to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR comprises of 177 866 792 (2022: 178 355 551) units of SDR currency.

Other receivables balances consist mainly of prepayments and VAT receivables which are non-financial instruments. No allowance for credit losses has been recognised on any of the Other receivables as the counterparties predominantly include the IMF South African Government's Treasury and the FIC which are public corporations and government agencies which have high ratings and/ or creditworthiness.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

8. OTHER RECEIVABLES (CONTINUED)

The SDR holdings account is additional reserves for the Bank that are accessible immediately. The cost approximates the fair value due to its liquid nature. All other receivables are short term in nature and their cost approximate their fair value.

9. LOANS AND ADVANCES - OTHER

	2023 N$'000	2022 N$'000
Staff loans	142 011	117 072
Less: Present value adjustment for off - market loans	**(56 502)**	**(45 084)**
Opening balance - 1 January	(40 186)	(37 773)
Current year fair value adjustment of new loans	(10 564)	(2 413)
Amortised to income statement	(5 752)	(4 898)
Add: Staff long-term fringe benefits	**56 502**	**45 084**
Opening balance - 1 January	40 186	37 773
Current year fair value adjustment of new loans	10 564	2 413
Amortised to income statement	5 752	4 898
Net staff loans	**142 011**	**117 072**
Lifetime expected credit loss allowance	(1 696)	(1 649)
Closing balance	**140 315**	**115 423**

Loans and advances - other constitute loans to staff members. The loans are issued at discounted rates (3%) which is below the market rates as a condition of employment.

The fair value of the staff loans as at 31 December 2023 is determined by discounting the loans and advances using the prevailing prime rate (11.50%) plus 300bp over the loan term. The loans have a fair value of N$81.573 million (2022: N$66.488 million).

10. INVESTMENT IN ASSOCIATE

	2023 N$'000	2022 N$'000
Carrying value of investment - 1 January	-	-
Increase in investment	257	290
Share of loss in associate	(257)	(290)
Total investment in associate - 31 December	**-**	**-**

The Bank holds a 49% interest in the Central Securities Depository (Pty) Ltd (CSD). The company is incorporated in Namibia and the interest is equity - accounted for. The principal activity of the CSD is to provide central securities depository services to the Namibian market.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

10. INVESTMENT IN ASSOCIATE (CONTINUED)

Below is a summary of the financial information:

	2023 N$'000	2022 N$'000
Total Income	-	-
Total Expenses	(1 369)	(1 072)
Net loss for the year	**(1 369)**	**(1 072)**

	2023 N$'000	2022 N$'000
Total Assets	2	3
Total Liabilities	(8 478)	(7 110)
Equity	**(8 476)**	**(7 107)**
Share of Loss in Associate recognised	257	290
Cumulative unrecognised share of loss	990	577

The Bank has subordinated its debt of N$3.8million (2022: N$3.1 million) in favour of other creditors of the CSD both present and future and the Bank will not call its claims against the CSD before 1 January 2025. The debt has been fully impaired in the books of the Bank.

11. OTHER INVENTORY – STATIONERY AND SPARES

	2023 N$'000	2022 N$'000
Opening balance	4 806	4 742
Purchases current year	811	556
Issues current year	(638)	(492)
Closing balance	**4 979**	**4 806**

The cost of inventories recognised as an expense during the year was N$ 2.08 million (2022: N$ 1.04 million). There was no write-down of inventory to net realisable value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

12. PROPERTY AND EQUIPMENT

2023 Cost	Freehold Land and Buildings	Computer Hardware	Furniture Fittings & Equipment	Motor Vehicles	Total
	N$'000	N$'000	N$'000	N$'000	N$'000
At 1 January 2023	350 107	35 989	124 504	12 954	523 554
Additions	20 848	8 518	2 917	5 417	37 700
Disposals	(1 473)	(19 713)	(22 214)	(1 298)	(44 698)
At 31 December 2023	**369 482**	**24 794**	**105 207**	**17 073**	**516 556**
Accumulated depreciation					
At 1 January 2023	102 399	33 175	106 898	12 444	254 916
Current year charge	8 645	5 693	7 371	1 020	22 729
Disposals	(1 248)	(19 341)	(22 109)	(1 298)	(43 996)
Useful life change adjustment	-	(2 374)	(292)	(337)	(3 003)
Writeback Adjustment*	(633)	(3 638)	(8 047)	(2 378)	(14 696)
At 31 December 2023	**109 163**	**13 515**	**83 821**	**9 451**	**215 950**
Carrying value					
At 1 January 2023	**247 708**	**2 814**	**17 606**	**510**	**268 638**
At 31 December 2023	**260 319**	**11 279**	**21 386**	**7 622**	**300 606**

2022 Cost	Freehold Land and Buildings	Computer Hardware	Furniture Fittings & Equipment	Motor Vehicles	Total
	N$'000	N$'000	N$'000	N$'000	N$'000
At 1 January 2022	344 234	35 240	122 154	12 954	514 582
Additions	5 873	749	2 350	-	8 972
At 31 December 2022	**350 107**	**35 989**	**124 504**	**12 954**	**523 554**
Accumulated depreciation					
At 1 January 2022	95 030	28 455	101 540	11 317	236 342
Current year charge	7 369	4 720	5 358	1 127	18 574
At 31 December 2022	**102 399**	**33 175**	**106 898**	**12 444**	**254 916**
Carrying value					
At 1 January 2022	**249 204**	**6 785**	**20 614**	**1 637**	**278 240**
At 31 December 2022	**247 708**	**2 814**	**17 606**	**510**	**268 638**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

12. PROPERTY AND EQUIPMENT (CONTINUED)

A register containing details of land and buildings is available for inspection at the registered office of the Bank.

The Bank conducted a useful life assessment in the current year, resulting in the extension of the useful life of assets. This extension decreased depreciation for the year by N$980,000. The effect on future periods is an increase in the total depreciation expense of N$980,000.

Impact of change in Accounting Estimates	N$'000
Depreciation based on new useful life estimates	10 234
Depreciation based on previous estimates	11 214
Net effect of change on current year depreciation	980

*During the useful life assessment, the Bank identified assets with nil book value that are still in use. A writeback of depreciation totaling N$ 14.696 million was performed on these identified assets. The writeback indicates an immaterial error, the impact of which was recorded in the current financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

13. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2023 N$'000	2022 N$'000
Cost		
Opening balance	110 300	99 183
Additions	3 881	11 117
Disposal	(35 665)	-
Closing balance	**78 516**	**110 300**
Accumulated amortisation		
Opening balance	71 895	58 622
Current year charge	13 419	13 273
Disposals	(35 665)	-
Useful life change adjustment	(8 122)	-
Asset Writeback Adjustment*	(5 996)	-
Closing balance	**35 531**	**71 895**
Carrying value:		
Closing balance	**38 405**	**40 562**
Closing balance	**42 985**	**38 405**

A register containing details of land and buildings is available for inspection at the registered office of the Bank.

The Bank conducted a useful life assessment in the current year, resulting in the extension of the useful life of the intangible assets. This extension decreased amortisation for the year by N$7.087 million. The effect on future periods is an increase in the total amortisation expense of N$7.087 million.

Impact of change in Accounting Estimates	N$'000
Amortisation based on new useful life estimates	2 085
Amortisation based on previous estimates	9 172
Net effect of change on current year amortisation	7 087

*During the useful life assessment, the Bank identified intangible assets with nil book value that are still in use. A writeback of amortisation totaling N$ 5.996 million was performed on these identified assets. The writeback indicates an immaterial error, the impact of which was recorded in the current financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

14. DEPOSITS

	2023 N$'000	2022 N$'000
Government of the Republic of Namibia	2 917 212	908 444
Domestic bankers' reserve account	1 526 443	1 428 663
Domestic bankers' settlement account	2 693 781	3 304 649
SDR allocation account	7 838 702	6 713 588
IMF securities account	4 700 035	3 436 443
BON Bill	368 477	-
Bank of Namibia Bill - GIPF	18 783 126	17 760 352
Bank of Namibia Bill - NamPower	847 997	819 042
Foreign currency placements	4 179 965	2 138 892
Other - pre-funded donor funds at cost	130 236	81 510
Total Deposits	**43 985 974**	**36 591 583**

Bankers' reserve account balances have no fixed maturity and attract no interest. The settlement account, however, attracts interest at the prevailing rate as determined by the Bank of Namibia.

Pursuant to sections 45 and 47 of the Bank of Namibia Act no.1 of 2020 the Government may take up short-term loans from the Bank which shall have a maturity of less than six months. The Government may without prior notification utilise an overdraft facility from the Bank not exceeding N$2.5 billion. The Government shall pay interest to the Bank on debit balances at a rate equivalent to the 91–day treasury bill rate plus 50 basis points. Any request by Government for credit from the Bank exceeding N$2.5 billion shall be referred to the Board of Directors of the Bank for consideration and approval or not.

The IMF securities account represents long - term Government deposits.

The Government Institutions Pension Fund (GIPF) and Namibia Power Corporation (Proprietary) Limited (NamPower) purchase agreements were concluded in November 2015 and February 2016 respectively to enhance Namibia's foreign reserve stocks. NamPower and GIPF transferred their ZAR investments to the Bank in exchange for an investment in NAD Instruments issued by the Bank. The Bank has created and issued Bank of Namibia Bills to the two corporate investors in terms of Section 7(2) of the Bank of Namibia Act 2020.

Other deposits are mainly made up of foreign currency denominated call deposit facilities provided to commercial banks and call account facilities extended to specific local institutions.

The pre - funded donor funds at cost are monies received on behalf of the Government for various donor funded projects being undertaken in Namibia. These funds have no maturity dates and attract no interest.

SDR allocation liability has no fixed repayment terms its cost approximates its fair value.

All other deposits are available on demand thus classified as short-term deposits. Short-term deposits are deemed to approximate fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

15. TRADE AND OTHER PAYABLES

	2023 N$'000	2022 N$'000
Sundry creditors	88 478	71 781
Payable - Financial Intelligence Centre (FIC)	17 118	-
Payable - Namibia Deposit Guarantee Authority (NDGA)	23 580	16 980
Total trade and other payables	**129 176**	**88 761**

Due to the short-term nature of the sundry creditors their carrying amount is considered to approximate fair value.

Namibia Deposit Guarantee Authority (NDGA) and Financial Intelligence Centre (FIC) payable consist of funds invested in money market instrument and call accounts. The interest received on the money market instruments and CPD investments are capitalized to the balance. The fair value of the NDGA and FIC payable at year end is determined to be N$ 23.58 million (2022: N$ 16.98 million) and N$ 17.12 million (2022: N$ 0).

16. NOTES AND COINS IN CIRCULATION

	2023 N$'000	2022 N$'000
Namibian notes in circulation	4 968 085	4 605 914
Namibian coins in circulation	275 942	267 955
Total notes and coins in circulation	**5 244 027**	**4 873 869**

Issued notes and coins go into circulation and are recorded as a liability. The liability is extinguished when the notes and coins are removed from circulation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

17. PROVISION FOR POST-RETIREMENT MEDICAL AID BENEFITS

The Bank provides post-retirement medical aid benefits to retired staff members. A provision for the liability has been determined based on the Projected Unit Credit Method. The independent actuarial valuation was performed for the year ended 31 December 2023.The actuarial valuation was performed by ARCH Actuarial consulting a member of the Actuarial Society of South Africa ("ASSA") with more than 20 years of experience in performing similar valuations.

	2023 N$'000	2022 N$'000
Opening liability	71 041	69 098
Interest cost	7 999	7 092
Current service cost	1 145	1 214
Benefit payments	(3 540)	(3 064)
Estimate adjustment*	24 396	-
Actuarial losses/(gains)	13 719	(3 299)
Closing liability	**114 760**	**71 041**

Number of members	**172**	**173**
Key Assumptions	**2023**	**2022**
Discount rate	12.02% p.a.	11.54% p.a.
Medical inflation	7.77% p. a.	7.72% p. a.
Valuation date	31.12.2023	31.12.2022
The effect of a 1% movement in the assumed medical cost trend rate is as follows:	**Increase N$'000**	**Decrease N$'000**
Effect on the aggregate of the current service cost and interest cost	10 453	8 062
Effect on the defined benefit obligation	164 003	129 757

At 31 December	2023 N$'000	2022 N$'000	2021 N$'000	2020 N$'000	2019 N$'000
Present value of post-retirement benefit obligation	**114 760**	**71 041**	**69 098**	**64 957**	**60 569**

The Bank's post- retirement medical aid plan is unfunded.

The discount rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market closed at year end.

A health care cost inflation rate of 7.77% (2022: 7.72%) has been assumed. This is 1.50% (2022:1.50%) in excess of expected CPI inflation over the expected term of the liability namely 6.27% (2022: 6.22%).

*The estimate adjustment is a result of the change in the medical aid premium subsidy rate from 60% to 100% for all members.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

18. SHARE CAPITAL

	2023 N$'000	2022 N$'000
Authorised share capital		
100 000 000 ordinary shares of N$1 each	100 000	100 000
Issued share capital		
40 000 000 ordinary shares of N$1 each	40 000	40 000

The share capital is the amount subscribed by the Government in accordance with Section 8 of the Bank of Namibia Act 2020. The Bank is not subject to any externally imposed capital requirements however annually appropriation of profits is approved by the Government which requires that a minimum percentage of the annual profits is transferred to the general reserve which forms part of the Bank's capital.

19. GENERAL RESERVE

	2023 N$'000	2022 N$'000
Opening balance	3 010 484	2 741 385
Transfer from training fund reserve/development fund reserve	1 272	15 162
Appropriation of net profit for the year	335 419	253 937
Closing balance	**3 347 175**	**3 010 484**

The General Reserve is a Statutory Reserve that can be utilised for increasing the paid-up capital of the Bank, offset losses incurred, fund the Development Reserve and redeem any securities issued by the Bank.

20. FOREIGN CURRENCY REVALUATION RESERVE

	2023 N$'000	2022 N$'000
Opening balance	7 631 685	7 002 208
Net foreign exchange gains	778 241	629 477
Closing balance	**8 409 926**	**7 631 685**

The foreign currency revaluation reserve has been created in accordance with Section 64 of the Bank of Namibia Act 2020. The Act requires that both realised and unrealised gains and losses be transferred to the revaluation reserve account.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

21. TRAINING FUND RESERVE

	2023 N$'000	2022 N$'000
Opening balance	19 279	16 179
Transfer to general reserve	(1 272)	(1 900)
Appropriation of net profit for the year	10 000	5 000
Closing balance	**28 007**	**19 279**

The training fund reserve has been created to provide funds to up-skill the Bank's human capacity in order to meet challenges of the rapidly changing and complex financial environment in which the Bank operates.

22. DEVELOPMENT FUND RESERVE

	2023 N$'000	2022 N$'000
Opening balance	184 424	95 986
Transfer to general reserve	-	(11 562)
Appropriation of net profit for the year	100 000	100 000
Closing balance	**284 424**	**184 424**

This reserve was established under section 73(1)(a) of the Bank of Namibia Act 2020 for the purpose of promoting or financing economic development in Namibia.

23. BUILDING FUND RESERVE

	2023 N$'000	2022 N$'000
Opening balance	83 300	85 000
Transfer to general reserve	-	(1 700)
Closing balance	**83 300**	**83 300**

This reserve was established under section 73(1)(a) of the Bank of Namibia Act 2020 for the purpose of accumulating funds for building projects that the Bank intends to embark upon in the future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

24. INVESTMENT REVALUATION RESERVE

Opening balance	(648 991)	-
Transfers to investment revaluation reserve for the year (FVTPL)	87 614	(15 123)
Transfers to investment revaluation reserve for the year (FVTOCI)	305 350	(572 358)
Allowance for expected credit losses	1 586	(24 631)
	(254 441)	**(612 112)**
Distribution adjustment - unrealised losses	-	(36 879)
Closing balance	**(254 441)**	**(648 991)**

The reserve has been created to retain unrealised gains and losses on the Bank's portfolio investments that are measured at fair value through other comprehensive income (FVTOCI) and fair value through profit and loss per IFRS 9 until they are realised. Unrealised gains when realised become available for distribution and unrealised losses when realised are charged to the Statement of Profit or Loss and Other Comprehensive Income.

25. RETIREMENT FUND

Retirement benefits are provided for employees by a separate provident fund known as the Bank of Namibia Provident Fund to which the Bank contributes. The provident fund is administered under the Pension Fund Act 1956 (No. 24 of 1956). The Fund was converted from a defined benefit pension fund to a defined contribution provident fund as at 1 March 2000. All employees contribute to the fund. The total Bank's contributions for the year 2023 amounted to N$29 908 837 (31 December 2022: N$27 666 111).

26. TAXATION

No provision for taxation has been made in the annual financial statements as the Bank is exempted from taxation in terms of Section 74 of the Bank of Namibia Act 2020.

27. FINANCIAL INTELLIGENCE CENTRE (FIC)

The Bank continues to render administrative support to the Financial Intelligence Centre (FIC). The FIC was established in terms of the Financial Intelligence Act 2007 (No 3 of 2007). This Act was repealed in 2012 and replaced by the Financial Intelligence Act of 2012 which came into effect in December 2012. The Act prescribes that the Bank of Namibia shall host the FIC and will be responsible and accountable for all its operational and administrative activities. During 2016 the FIC financials were separated from those of the Bank. The intercompany accounts are used to determine and settle transactions between the FIC and the Bank. As at 31 December 2023 the Bank owes the FIC N$17 117 804 (2022: Receivable: N$ 4 738 015) and a loan receivable from the FIC of N$ 29 000 000 (2022: N$ nil) which is reflected on the intercompany account in Notes 8,15 and 31.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

28. NAMIBIA DEPOSIT GUARANTEE AUTHORITY (NDGA)

The Bank renders administrative support to the Namibia Deposit Guarantee Authority (NDGA). The NDGA was established in terms of the Deposit Guarantee Act (No. 16 of 2018). The Act prescribes that the Bank of Namibia shall host the NDGA and will be responsible and accountable for all its operational and administrative activities. The intercompany accounts are used to determine and settle transactions between the NDGA and the Bank. As at 31 December 2023 the Bank owes the NDGA N$ 23 579 366 (2022: N$16 979 512) which is reflected on the intercompany account in Note 15 and 31.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The foreign exchange reserve activities of the Bank of Namibia are exposed to various types of risks. These include financial risks in the form of market, credit, currency and liquidity risk. The Bank views risk management as an integral part of the reserves management process and an essential element of good corporate governance. Due to its unique role and functions, the Bank's risk management and control is not only based on the institutional risk and return considerations, but also takes into account the national interest, in line with its statutory responsibilities prescribed in the Bank of Namibia (2020) Act.

To support the effective and efficient risk management system, foreign exchange reserves are managed in a three-tier governance structure consisting of the Board of Directors, the Investment Committee (IC) and the Financial Markets Department (FMD). To further strengthen the role of managing foreign reserves, a Credit Risk Committee was established acting as a function of the FMD and consists of members from outside the department with financial risk expertise.

The highest hierarchy, namely the Board defines the investment policy of the Bank, which guides the management and risk appetite of the foreign exchange reserves. The Board authority is delegated to the IC to ensure compliance with the investment mandate. The FMD is responsible for managing the reserves and within the FMD, there is a Risk & Analytics section that proactively monitors compliance of investments to assigned risk parameters daily.

In order to best achieve the multiple investment objectives, the Bank divides the reserves into three tranches namely: working capital liquidity and investment tranche.

Tranche	Horizon	Objective
Working capital	0-3 Months	Provide liquidity. No negative returns allowed on any period (100% Cash).
Liquidity	1 Year	Maximise returns subject to avoiding negative returns at 99% confidence (as measured on an annual basis).
Investment	1 Year	Maximise returns subject to a negative return of 100 bps with 95% probability (as measured on an annual basis).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

The different types of risks that the foreign exchange reserves are exposed to and the Bank's risk management approaches are stated below:

29.1 MARKET RISK

Market risk is the potential for adverse changes in the fair value or future cash flows of the Bank's foreign reserve assets due to changes in the level of volatility of market variables such as interest rates and foreign exchanges rates. The Bank employs duration management, diversification, hedging, correlation analysis and risk budgeting to manage market risk. In managing the foreign exchange reserves, the Bank follows an enhanced indexation approach which aims to outperform traditional passive portfolio management techniques by investing in a defined benchmark as well as employing an active management strategy to enhance investment returns on appropriate portfolios.

Sensitivity analysis on currency risk

The Bank of Namibia follows an Asset-Liability Management Approach to determine its currency composition (an exercise which is undertaken annually during the Strategic Asset Allocation review). To manage the Bank's exposure to foreign-denominated liabilities the foreign reserve assets are matched to these liabilities yet some exposure to currency risk remains. Refer to note 29.3.

To demonstrate the sensitivity of our foreign currency investments to foreign exchange market changes we elected to stress the foreign currency investments with a reasonably possible variable of 10% in line with the requirements of IFRS 7 Financial Instruments: Disclosures.

	2023		2022	
	Total Assets NAD'000	(Increase)/ decrease 10%change	Total Assets NAD'000	(Increase)/ decrease 10%change
Assets				
USD	18 289 820	(1 828 982)	12 622 461	(1 262 246)
EURO	1 099 846	(109 985)	923 096	(92 310)
SDR	9 123 791	(912 379)	7 255 333	(725 533)
OTHER CURRENCIES	914 119	(91 412)	861 843	(86 184)
Balance at 31 December	**29 427 576**	**(2 942 758)**	**21 662 733**	**(2 166 273)**
% Impact on assets		5%		4%
Liabilities				
USD	(4 210 102)	421 010	(2 220 402)	222 040
EUROS	(100 099)	10 010	-	-
SDR	(12 538 736)	1 253 874	(10 150 031)	1 015 003
Balance at 31 December	**(16 848 937)**	**1 684 894**	**(12 370 433)**	**1 237 043**
% Impact on assets		4%		3%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.1 MARKET RISK (CONTINUED)

Excluded from the above table is the rand and Namibian currency denominated assets and liabilities totaling N$ 32.075 billion (2022: N$30.304 billion) and N$27.266 billion (2022: N$24.310 billion) respectively.

29.2 INTEREST RATES RISK

Interest rate risk is the risk arising from changes in market interest rates that adversely affect the value of foreign exchange reserve assets. The Bank's exposure to fair-value interest rate risk arises mainly through its investment in foreign exchange reserves. A substantial portion of the foreign exchange reserves are invested in global sovereign bonds. Hence, the value of these instruments is affected by changes in interest rates in these countries, which in turn affects earnings. To analyse this impact, the Dollar Duration measure (DV01) is a commonly used measure which considers the interest rate sensitivity of investments.

The following table summarises the Bank's interest rate exposure using this methodology and applies a 1 percent interest rate shock. The table can therefore be used as a basis for an assessment of the sensitivity of the Bank's income to interest rate movements.

Sensitivity analysis on interest rate risk

To demonstrate the sensitivity of our investments to interest rate changes we elected to stress the investments with a reasonably possible variable of 100 bps i.e. 1%. This variable is supported by the spate of interest rate changes in financial markets over the last two years. The elected variable is in line with the requirements of IFRS 7 Financial Instruments: Disclosures.

IMPACT OF INTEREST RATE CHANGE ON EUR PORTFOLIO – 2023

Instrument	Amount invested €'000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	763	100	3.40	-	-	15 671	-
Liquidity tranche	-	-	-	-	-	-	-
Investment tranche	-	-	-	-	-	-	-
	763	**100**			**-**	**15 671**	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.2 INTEREST RATES RISK (CONTINUED)

IMPACT OF INTEREST RATE CHANGE ON USD PORTFOLIO – 2023

Instrument	Amount invested US$'000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	15 905	2	5.28	0.00	0	295 225	8
Liquidity tranche	68 787	8	5.70	0.12	80	1 276 781	1 479
Investment Tranche	72 186	9	1.90	2.62	1 894	1 339 886	35 161
Externally Managed Portfolios	447 224	53	2.50	3.38	15 127	8 301 148	280 785
Customer Foreign Currency	234 015	28	5.29	0.10	230	4 343 672	4 271
	838 117	**100**			**17 331**	**15 556 712**	**321 704**

IMPACT OF INTEREST RATE CHANGE ON ZAR PORTFOLIO – 2023

Instrument	Amount invested R'000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	3 922 144	41	8.25	0.00	0	3 922 144	0
Liquidity tranche	1 726 807	18	8.44	0.16	3 186	1 726 807	3 186
Investment Tranche	3 561 432	37	8.64	0.43	15 374	3 561 432	15 374
BoN Bill	401 065	4	8.25	0.00	0	401 065	0
	9 611 448	**100**			**18 560**	**9 611 448**	**18 560**

IMPACT OF INTEREST RATE CHANGE ON SDR PORTFOLIO – 2023

Instrument	Amount invested '000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
SDR	176 336	55	0.00	0.00	-	4 408 398	-
CNY	163 736	5	2.30	0.18	296	428 181	774
EUR	55 648	13	4.10	0.54	300	1 143 063	6168
GBP	12 614	4	5.47	0.42	53	298 230	1251
JPY	1 600 220	2	0.00	0.00	-	210 040	-
USD	85 636	21	5.88	0.36	312	1 589 540	5794
	2 094 190	**100**			**961**	**8 077 452**	**13 987**

Exchange Rates source www.imf.org

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.2 INTEREST RATES RISK (CONTINUED)

IMPACT OF INTEREST RATE CHANGE ON EUR PORTFOLIO - 2022

Instrument	Amount invested €'000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	-	-	-	-	-	-	-
Liquidity tranche	-	-	-	-	-	-	-
Investment tranche	-	-	-	-	-	-	-
	-	**-**			**-**	**-**	**-**

IMPACT OF INTEREST RATE CHANGE ON USD PORTFOLIO – 2022

Instrument	Amount invested US$'000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	16 966	3	4.29	0.00	0	287 785	8
Liquidity tranche	28 396	4	4.26	0.14	41	481 665	693
Investment Tranche	61 878	9	1.48	2.29	1 417	1 049 600	24 033
Externally Managed Portfolios	418 642	64	2.34	3.17	13 274	7 101 202	225 168
Customer Foreign Currency	126 627	20	4.30	0.00	4	2 147 904	60
	652 509	**100**			**14 736**	**11 068 156**	**249 962**

IMPACT OF INTEREST RATE CHANGE ON ZAR PORTFOLIO – 2022

Instrument	Amount invested R'000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Workin capital	2 178 815	21	7.15	0.00	60	2 178 815	60
Liquidi tranche	3 525 682	33	6.88	0.20	6 906	3 525 682	6 906
Investment Tranche	4 859 943	46	7.17	0.24	11 807	4 859 943	11 807
	10 564 440	**100**			**18 773**	**10 564 440**	**18 773**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.2 INTEREST RATES RISK (CONTINUED)

IMPACT OF INTEREST RATE CHANGE ON SDR PORTFOLIO – 2022

Instrument	Amount invested '000	Actual Portfolio Weight (%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1% Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
SDR	143 503	9	0.00	-	-	4 030 685	-
CNY	154 518	7	1.97	0.10	150	1 074 549	1 046
EUR	49 108	2	1.68	0.32	159	887 708	2 868
GBP	12 041	1	3.95	0.24	29	246 145	590
JPY	1 600 660	77	0.00	-	-	204 932	-
USD	91 304	4	3.62	0.11	101	1 548 743	1 719
	2 051 134	**100**			**439**	**7 992 762**	**6 223**

Exchange Rates source www.imf.org

INTEREST RATE REPRICING PROFILE

The following table summarizes the Bank's interest rate exposure in the form of an interest rate re-pricing table. This shows when the interest rate earned or charged on assets and liabilities are expected to change based on the various maturities. The table can therefore be used as the basis for an assessment of the sensitivity of the Bank's net income to interest rate movements.

AS AT YEAR ENDED 31 DECEMBER 2023

N$'000	0 – 3 Months	3 – 12 Months	1 – 5 Years	More than 5 years	Non- Interest bearing	Total
Assets						
Investments	14 160 789	8 934 785	6 092 298	21 184 399	210 257	50 582 528
Loans and advances - local banks	498 805	-	351 524	-	-	850 329
Rand deposits	104 496	-	-	-	-	104 496
Other receivables	4 423 754	-	-	-	5 401 026	9 824 780
Loans and advances - other	-	-	140 315	-	-	140 315
Total Financial Assets	**19 187 844**	**8 934 785**	**6 584 137**	**21 184 399**	**5 611 283**	**61 502 448**
Liabilities						
Deposits	15 181 023	-	-	19 631 123	9 173 828	43 985 974
Trade and other payables	-	-	-	-	129 176	129 176
Total Financial Liabilities	**15 181 023**	**-**	**-**	**19 631 123**	**9 303 004**	**44 115 150**
Interest rate repricing gap	**4 006 821**	**8 934 785**	**6 584 137**	**1 553 276**	**(3 691 721)**	**17 387 298**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.2 INTEREST RATES RISK (CONTINUED)

AS AT YEAR ENDED 31 DECEMBER 2022

N$'000	0 – 3 Months	3 – 12 Months	1 – 5 Years	More than 5 years	Non- Interest bearing	Total
Assets						
Investments	14 085 285	5 689 355	22 623 864	1 007 709	364 835	43 771 048
Loans and advances - local banks	298	1 027	4 768	-	-	6 093
Rand deposits	159 704	-	-	-	-	159 704
Other receivables	3 894 799	-	-	-	4 019 181	7 913 980
Loans and advances - other	-	115 423	-	-	-	115 423
Total Financial Assets	**18 140 086**	**5 805 805**	**22 628 632**	**1 007 709**	**4 384 016**	**51 966 248**
Liabilities						
Deposits	31 644 967	-	-	-	4 946 616	36 591 583
Trade and other payables	88 761	-	-	-	-	88 761
Total Financial Liabilities	**31 733 728**	**-**	**-**	**-**	**4 946 616**	**36 680 344**
Interest rate repricing gap	**(13 593 642)**	**5 805 805**	**22 628 632**	**1 007 709**	**(562 600)**	**15 285 904**

29.3 CURRENCY RISK

In terms of the Investment Policy and Guidelines foreign exchange risk is managed on a risk neutral basis through a currency composition (benchmark) that provides a natural hedge against potential liabilities. The currency composition of the foreign exchange reserves reflects the currency distribution of the country's short-term external debt imports and other contingent liabilities. The Bank's foreign reserve tranches are further composed of its various reserve currencies. The currency composition of reserves is determined using an Asset Liability approach whereby the potential calls on the reserves form the basis for the respective currency allocations. For the year 2023 the foreign reserves tranches were managed in-line with the currency exposure limits as shown below.

Instruments	ZAR Portfolio	USD Portfolio
Working capital	500mil – 2.5bn	10mil – 20mil
Liquidity tranche	1.0 bn – 4.5bn	20mil – 125mil
Investment tranche (%)	70	30

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.3 CURRENCY RISK (CONTINUED)

Risk - return preferences per tranche

Instruments	Horizon	Objective
Working capital	0-3 Months	Provide Liquidity. No negative returns allowed on any period (100% Cash).
Liquidity	1 Year	Maximise returns subject to avoiding negative returns at 99% confidence (as measured on an annual basis).
Investment	1 Year	Maximise returns subject to a negative return of 100 bps with 95% probability (as measured on an annual basis).

The effect of the Namibia dollar exchange rates against the foreign currencies can have an impact on the level of foreign currency reserves when reported in local currency (NAD). The weakening of the NAD against the USD as well as other major currencies will favourably affect the reserve position when reported in NAD. The opposite effect holds when the NAD appreciates against these currencies. The NAD is pegged to the ZAR at a one-to-one parity and hence there is no currency risk on the portion of foreign reserves invested in that currency.

AT 31 DECEMBER 2023 THE BANK HAD THE FOLLOWING CURRENCY POSITION EXPOSURES

N$'000	N$ '000	ZAR '000	Euro '000	US$ '000	Other '000	Total N$'000
Assets						
Investments	154 489	30 124 254	1 099 846	18 289 820	914 119	50 582 528
Loans and advances - local banks	850 329	-	-	-	-	850 329
Rand deposits	-	104 496	-	-	-	104 496
Other receivables	115 940	585 049	-	-	9 123 791	9 824 780
Loans and advances - other	140 315	-	-	-	-	140 315
Total Financial Assets	**1 261 073**	**30 813 799**	**1 099 846**	**18 289 820**	**10 037 910**	**61 502 448**
Liabilities						
Deposits	7 505 914	19 631 123	100 099	4 210 102	12 538 736	43 985 974
Trade and other payables	129 176	-	-	-	-	129 176
Total Financial Liabilities	**7 635 090**	**19 631 123**	**100 099**	**4 210 102**	**12 538 736**	**44 115 150**
Net Statement of financial position	**(6 374 017)**	**11 182 676**	**999 747**	**14 079 718**	**(2 500 826)**	**17 387 298**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.3 CURRENCY RISK (CONTINUED)

AT 31 DECEMBER 2022 THE BANK HAD THE FOLLOWING CURRENCY POSITION EXPOSURES

N$'000	N$ '000	ZAR '000	Euro '000	US$ '000	Other '000	Total N$'000
Assets						
Investments	-	29 363 648	923 096	12 622 461	861 843	43 771 048
Loans and advances - local banks	6 093	-	-	-	-	6 093
Rand deposits	-	159 704	-	-	-	159 704
Other receivables	80 647	578 000	-	-	7 255 333	7 913 980
Loans and advances - other	115 423	-	-	-	-	115 423
Total Financial Assets	**202 163**	**30 101 352**	**923 096**	**12 622 461**	**8 117 176**	**51 966 248**
Liabilities						
Deposits	24 221 150	-	-	2 220 402	10 150 031	36 591 583
Trade and other payables	88 761	-	-	-	-	88 761
Total Financial Liabilities	**24 309 911**	**-**	**-**	**2 220 402**	**10 150 031**	**36 680 344**
Net Statement of financial position	**(24 107 748)**	**30 101 352**	**923 096**	**10 402 059**	**(2 032 855)**	**15 285 904**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.4 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its financial obligations as they fall due or the possibility that the Bank will incur substantial capital losses when it disposes its securities in the secondary market. Liquidity is the second most important foreign exchange reserves management objective after capital preservation. The Bank seeks to maintain sufficient liquidity by investing in money market instruments and securities with an active secondary market. At 31 December 2023 47.3% (2022:54.3%) of total assets could be liquidated at no cost within two working days reflecting the high liquidity nature of the portfolio. The remaining 52.7% remains highly liquid with varying minimal cost of liquidation. The Bank seeks to maintain sufficient liquidity by investing in money market instruments and securities with an active secondary market.

LIQUIDITY/OBLIGATIONS RISK ANALYSIS STATEMENT AS AT YEAR ENDED 31 DECEMBER 2023

N$'000	0 – 3 Months	3 – 12 Months	1 – 5 Years	5 + Years	Total
Assets					
Investments	18 792 667	8 936 917	6 092 298	16 760 646	50 582 528
Loans and advances - local banks	498 805	40 085	311 439	-	850 329
Rand deposits	104 496	-	-	-	104 496
Other receivables	672 991	28 000	-	-	700 991
Loans and advances - other	-	-	140 315	-	140 315
SDR Quota	-	-	-	4 700 035	4 700 035
SDR Holdings - IMF	-	-	-	4 423 754	4 423 754
Total Financial Assets	**20 068 959**	**9 005 002**	**6 544 052**	**25 884 435**	**61 502 448**
Equity and liabilities					
Deposits	27 003 580	4 443 657	-	-	31 447 237
Trade and other payables	129 176	-	-	-	129 176
SDR Allocation - IMF*	7 838 702	-	-	-	7 838 702
IMF securities account*	4 700 035	-	-	-	4 700 035
Total Equity and Liabilities	**39 671 493**	**4 443 657**	**-**	**-**	**44 115 150**
Liquidity sensitivity gap	**(19 602 534)**	**4 561 345**	**6 544 052**	**25 884 435**	**17 387 298**
Cumulative liquidity sensitivity gap	**(19 602 534)**	**(15 041 189)**	**(8 497 137)**	**17 387 298**	**17 387 298**

*Relates to reserves that are held as a result of the Bank's IMF membership. Refer to Note 1.20.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.4 LIQUIDITY RISK (CONTINUED)

LIQUIDITY/OBLIGATIONS RISK ANALYSIS STATEMENT AS AT YEAR ENDED 31 DECEMBER 2022

N$'000	0 – 3 Months	3 – 12 Months	1 – 5 Years	5 + Years	Total
Assets					
Investments	14 450 120	5 695 448	22 617 771	1 007 709	43 771 048
Loans and advances - local banks	298	1 027	4 768	-	6 093
Rand deposits	159 704	-	-	-	159 704
Other receivables	658 647	-	-	-	658 647
Loans and advances - other	-	16 854	98 569	-	115 423
SDR Quota	3 436 443	-	-	-	3 436 443
SDR Holdings - IMF	3 818 890	-	-	-	3 818 890
Total Financial Assets	**22 524 102**	**5 713 329**	**22 721 108**	**1 007 709**	**51 966 248**
Equity and liabilities					
Deposits	24 104 444	2 337 108	-	-	26 441 552
Trade and other payables	88 761	-	-	-	88 761
SDR Allocation - IMF*	6 713 588	-	-	-	6 713 588
IMF securities account*	3 436 443	-	-	-	3 436 443
Total Equity and Liabilities	**34 343 236**	**2 337 108**	**-**	**-**	**36 680 344**
Liquidity sensitivity gap	**(11 819 134)**	**3 376 221**	**22 721 108**	**1 007 709**	**15 285 904**
Cumulative liquidity sensitivity gap	**(11 819 134)**	**(8 442 913)**	**14 278 195**	**15 285 904**	**15 285 904**

*Relates to reserves that are held as a result of the Bank's IMF membership. Refer to Note 1.20.

29.5 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. In order to control the credit risk of the Bank's foreign exchange assets, the Investment Policy and Guidelines as well as the Credit Risk Framework limits exposure to eligible countries, counterparties, issuers, credit ratings and off-benchmark investments.

In terms of the Bank's credit appetite and threshold the Bank is exposed to credit risk through money market instruments issued by counterparts with a minimum short-term credit rating of upper medium grade. Longer-dated fixed income instruments are limited to issuances by countries holding a lower medium credit rating according to the IMF country classification list. South Africa's credit rating is presently below investment grade however exposure to this market is inevitable due to the historic economic relationship between Namibia and South Africa.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.5 CREDIT RISK (CONTINUED)

Accordingly, a special provision has been made to allow for short-term exposure (minimum one year) to liquid instruments issuedby the South African Government as well as by the top five commercial banks in South Africa. This is of strategic importance given the peg of the Namibian Dollar to the South African Rand.

Detailed below is a table which presents the Bank's total foreign asset exposure over various regions as well as their credit rating grading:

CREDIT RISK RATING ANALYSIS AS AT 31 DECEMBER 2023

REGIONAL EXPOSURE	CREDIT RATING GRADING 2023*	N$ '000
United States	High grade	11 551 468
North America (excl. USA)	High grade	661 297
Euro Area	High grade	4 029 141
United Kingdom	High grade	324 360
Japan	Upper medium grade	2 209 291
Other Advanced Economies**	High grade	672 825
China	Upper medium grade	2 013 858
South Africa	Non-investment grade speculative	30 811 354
Other Emerging Market **	Lower medium grade	1 712 645
Multilaterals**	Prime	6 152 771
Namibia	Non-investment grade speculative	1 363 438
TOTAL ASSETS		**61 502 448**

**Lowest weighted average credit rating applied*
***Other Advanced Economies Other Emerging Market and Multilaterals represents countries classified as such as per the International Monetary Fund (IMF) country classification list and these have been grouped together to represent one regional risk exposure.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.5 CREDIT RISK (CONTINUED)

CREDIT RISK RATING ANALYSIS AS AT 31 DECEMBER 2022

REGIONAL EXPOSURE	CREDIT RATING GRADING 2023*	N$ '000
United States	High grade	6 409 663
North America (excl. USA)	High grade	596 164
Euro Area	High grade	3 316 078
United Kingdom	High grade	174 523
Japan	Upper medium grade	924 562
Other Advanced Economies**	High grade	237 826
China	Upper medium grade	1 400 006
South Africa	Non-investment grade speculative	29 283 733
Other Emerging Market **	Lower medium grade	607 437
Multilaterals**	Prime	8 850 262
Namibia	Non-investment grade speculative	165 994
TOTAL ASSETS		**51 966 248**

**Lowest weighted average credit rating applied*
***Other Advanced Economies Other Emerging Market & Developing Economies and Multilaterals represents countries classified as such as per the International Monetary Fund (IMF) country classification list and these have been grouped together to represent one regional risk exposure.*

The Bank invests/buys securities in reputable institutions who are rated by rating agencies. The Bank's credit risk exposure has remained static and movements in the fair values of our external portfolio investments were as a result of movements in interest rate risk and foreign exchange risk.

29.6 SETTLEMENT RISK

The Bank is exposed to settlement risk when settling or clearing transactions. This type of risk occurs in an event that the Bank or the counterparty in the dealing contract fails to settle or clear transactions where the exchange of cash securities is not instantaneous. This risk is of particular significance as this could result in penalties interest foregone and consequently affecting the reputation of the Bank. To control this risk the Bank has imposed counterparty and dealer limits so as to limit the bank's exposure to a counterparty at any given time in the deal cycle.

29.7 OPERATIONAL RISK

Like any other institution the Bank is exposed to operational risk which is the risk of financial losses or damage to the Bank's reputation resulting from one or more risk factors such as human factors failed or inadequate processes failed or inadequate systems and external events.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29.7 OPERATIONAL RISK (CONTINUED)

These factors are defined in detail as follows:

29.7.1 Human Factors:

Insufficient personnel lack of knowledge skills or experience inadequate training and development inadequate supervision loss of key personnel inadequate succession planning or lack of integrity or ethical standards.

29.7.2 Failed or inadequate systems and system:

A process is poorly designed or unsuitable or not properly documented understood implemented followed or enforced. A system is poorly designed, unsuitable or unavailable or does not operate as intended.

29.7.3 External events:

The occurrence of an event having an adverse impact on the Bank but outside its control.

The operational risk at the Bank is managed by having a suitable operational organisational structure with clear segregation of duties as well as defined built-in systematic controls. Bank-wide operations manuals are in place to be followed by staff. The Bank - wide business continuity plans which clearly states effective disaster recovery plans are currently being developed.

For the treasury operations the Bank ensures that dealers and analysts are well trained in the instruments in which they are trading and that the systems they need to operate on are in place. The Bank also makes sure that all investment officers are aware of procedures in place and have access to relevant documents. The Financial Markets Department Director reviews all procedures documentation requirements and the operational practices.

29.8 LEGAL RISK

Legal risk is the risk arising from failure to comply with statutory or regulatory obligations. Legal risk also comes about if the rights and obligations of parties involved in a payment are subject to significant uncertainty, for example if a payment participant declares bankruptcy. Legal disputes that delay or prevent the resolution of payment settlement can cause credit liquidity or reputational risks at individual institutions. Legal risk also results from a financial institution's failure to comply with the bylaws and contractual agreements established with the counterparties with which it participates in processing, clearing and settling payment transactions. The Bank therefore manages this risk by having appropriate documentation and using the market - customary standard master - agreements where possible.

29. 9 COLLATERAL

The Bank provides overnight and seven-day loans (Repo's) to commercial banks to cover for temporary liquidity shortages. The commercial banks pledge eligible securities in the form of Government bonds, treasury bills, etc. as collateral for this facility. The Bank is not permitted to sell or re-pledge these securities in the absence of default from the said commercial banks. As at 31 December 2023 the Repo's to commercial banks were N$ 498 million (2022: N$ nil).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

29. FINANCIAL INSTRUMENTS & RISK MANAGEMENT (CONTINUED)

29. 10 CREDIT LOSSES

No expected credit losses have been recognised for the Bank's financial assets other than investments at FVTOCI and investments held at amortised cost (refer to note 4.1). However, when expected credit losses are recognised the Bank records the impairment in a separate impairment account rather than directly reducing the carrying amount of the concerned assets (refer to note 4.1).

29. 11 DEFAULTS AND BREACHES

The bank did not default on any of its loan commitments during the current and previous financial year.

30. CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments

	2023 N$'000	2022 N$'000
Approved and contracted	-	-
Approved and not contracted	243 406	128 534

The capital commitments were approved by the board for the 2024 financial year capital spending.

31. RELATED PARTY INFORMATION

During the year the Bank in its ordinary course of business entered into various transactions. These transactions were undertaken on commercial terms and conditions. The Bank of Namibia Act 2020 prescribes that the emoluments of the Governor Deputy Governors and Board members be determined by the Minister of Finance. The emoluments of the Board members are primarily sitting fees and the annual stipend. The Governor and the Deputy Governors` emoluments are all inclusive packages which comprises of salaries, pension contributions, medical aid and leave pay. The gross emoluments of executive, senior management and Board members are detailed below. Transactions with the Namibian Government, sole shareholder of the institution, are detailed in note 1.18 of this report. Notes 25, 27 and 28 provide more information on the Retirement Fund, Financial Intelligence Centre, and Namibia Deposit Guarantee Authority, respectively.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

31. RELATED PARTY INFORMATION (CONTINUED)

Gross Emoluments	Salaries N$'000	Retirement Benefit N$'000	Medical Aid Benefit N$'000	Total 2023 N$' 000	Total 2022 N$'000
Executive Management					
Governors	8 878	803	189	9 870	9 300
Senior Management	26 468	3 353	1 148	30 969	25 668
Non-Executive Board					
Ms S T Haipinge				197	209
Ms C v/d Westhuizen				252	255
Mr E I Meroro				332	340
Mr C A Baisako				231	230
Ms R Pretorius				287	177
Total				**1 299**	**1 211**

Mr. Titus Ndove is an ex-officio director and is therefore not entitled to any directors' remuneration.

	2023 N$'000	2022 N$'000
Assets - Government Investments	2 098 188	632
Liabilities - Government Deposits	2 917 212	908 444
Interest paid to Government	-	-
Interest received from Government	11 773	15 262
Payable/(Receivable) - Financial Intelligence Centre (FIC)	17 118	(4 738)
Receivable: Loan to Financial Intelligence Centre (FIC)	(29 000)	-
Payable - Namibia Deposit Guarantee Authority (NDGA)	23 580	16 980
Investment in Central Securities Depository (CSD)	257	290
Impairment (I/S) - Investment in Central Securities Depository (CSD)	(257)	(290)
Loan to Central Securities Depository (CSD)	3 848	3 100
Impairment (SFP) - Investment in Central Securities Depository (CSD)	(3 848)	(3 100)

There were no other related party transactions with either the executive management or non-executive Board members.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2023

32. APPROVAL OF FINANCIAL STATEMENTS

The Annual Financial Statements have been approved by the Board of Directors at the Board meeting held on 28 March 2024.

33. SUBSEQUENT EVENTS

There were no other material events post the reporting date other than the declaration of Dividends to the State of N$511.47 million (2022: N$413.7 million).

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023 (IN COMPLIANCE WITH THE BANK OF NAMIBIA ACT 2020)

	Notes	2023 N$'000	2022 N$'000
Net interest income		**990 520**	**554 546**
Interest income	2	1 607 243	740 023
Interest expense	2	(616 723)	(185 477)
Net other interest income		-	-
Interest from rand investments exchanged	2	1 003 493	715 500
Interest paid on BON bills - NamPower and GIPF	2	(1 003 493)	(715 500)
Non-interest revenue		**627 130**	**619 187**
Rand compensation income	2	585 689	578 000
Dividend income	2	13 713	5 025
Other income	2	27 728	36 162
TOTAL INCOME		**1 617 650**	**1 173 733**
Total operating expenses	2	**(592 513)**	**(522 504)**
Operating expenses	2	(593 304)	(518 077)
Allowance for credit losses - amortised cost instruments	2	791	(4 427)
Operating profit		**1 025 137**	**651 229**
Foreign exchange and fair value gains		812 912	670 953
Net foreign exchange gains	20	778 241	629 477
Unrealised gains/(losses) on rand investments exchanged		464 653	(496 899)
Unrealised (losses)/gains on BON Bills – NamPower and GIPF		(464 653)	496 899
Unrealised gains/(losses) on equity instruments	24	87 614	(15 123)
Realised foreign exchange (losses)/gains on sale of instruments and FEC's		(52 943)	56 599
PROFIT FOR THE YEAR		**1 838 049**	**1 322 182**
Items that will be reclassified subsequently to profit or loss:		**305 350**	**(572 358)**
Unrealised gains/(losses) - FVTOCI instruments	24	305 350	(572 358)
Items that will not be reclassified subsequently to profit or loss:		**(15 305)**	**27 930**
Allowance for credit loss (losses)/reversal - FVTOCI instruments	4.1	(1 586)	24 631
Actuarial (losses)/gains on post - employment benefits	17	(13 719)	3 299
TOTAL COMPREHENSIVE INCOME		**2 128 094**	**777 754**
Profits attributable to:			
Foreign currency revaluation reserve	20	778 241	629 477
Investment revaluation reserve	24	392 964	(587 481)
Distribution adjustment - unrealised losses	24	-	(36 879)
Amount available for distribution	3	956 889	772 637
TOTAL COMPREHENSIVE INCOME		**2 128 094**	**777 754**

FIVE YEAR HISTORICAL FINANCIAL OVERVIEW

STATEMENT OF FINANCIAL POSITION COMPARISONS 2023-2019 - N$'000

	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19
ASSETS					
Investments	50 582 528	43 771 048	39 871 827	31 654 662	28 905 678
Loans and advances - local banks	850 329	6 093	1 456	1 040 782	1 746 376
Currency inventory	72 780	81 038	90 100	84 895	98 646
Rand deposits	104 496	159 704	70 014	45 337	89 727
Other receivables	9 824 780	7 913 980	7 653 445	5 288 750	4 265 239
Loans and advances - other	140 315	115 423	112 518	99 582	151 130
Investment in associate	-	-	-	-	-
Other inventory - stationery and spares	4 979	4 806	4 742	4 881	4 584
Property and equipment	300 606	268 638	278 240	284 287	288 584
Intangible assets	42 985	38 405	40 562	21 483	10 177
TOTAL ASSETS	**61 923 798**	**52 359 135**	**48 122 904**	**38 524 659**	**35 560 141**
LIABILITIES					
Deposits	43 985 974	36 591 583	32 800 835	24 147 300	21 822 910
Trade and other payables	129 176	88 761	99 077	110 901	128 189
Notes and coins in circulation	5 244 027	4 873 869	4 759 436	4 711 567	4 518 207
Provision for post - retirement medical aid benefits	114 760	71 041	69 098	64 957	60 569
TOTAL LIABILITIES	**49 473 937**	**41 625 254**	**37 728 446**	**29 034 725**	**26 529 875**
CAPITAL AND RESERVES					
Share capital	40 000	40 000	40 000	40 000	40 000
General reserve	3 347 175	3 010 484	2 741 385	2 463 986	2 160 111
Foreign currency revaluation reserve	8 409 926	7 631 685	7 002 208	6 200 558	6 112 300
Training fund reserve	28 007	19 279	16 179	16 179	13 479
State revenue fund	511 470	413 700	413 700	278 198	399 941
Development fund reserve	284 424	184 424	95 986	114 402	166 702
Building fund reserve	83 300	83 300	85 000	85 000	85 000
Investment revaluation reserve	(254 441)	(648 991)	-	291 611	52 733
TOTAL CAPITAL AND RESERVES	**12 449 861**	**10 733 881**	**10 394 458**	**9 489 934**	**9 030 266**
TOTAL LIABILITIES, CAPITAL AND RESERVES	**61 923 798**	**52 359 135**	**48 122 904**	**38 524 659**	**35 560 141**

FIVE YEAR HISTORICAL FINANCIAL OVERVIEW (CONTINUED)

INCOME STATEMENT COMPARISONS 2023–2019 – N$'000

	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19
Interest income	1 607 243	740 023	547 330	638 676	850 862
Interest expense	(616 723)	(185 477)	(79 063)	(105 011)	(208 193)
NET INTEREST INCOME	**990 520**	**554 546**	**468 267**	**533 665**	**642 669**
Rand compensation income	585 689	578 000	505 628	499 787	407 594
Dividend income	13 713	5 025	-	-	-
Other income	27 728	36 162	43 237	18 294	37 849
TOTAL INCOME	**1 617 650**	**1 173 733**	**1 017 132**	**1 051 746**	**1 088 112**
Operating expenses	(592 513)	(522 504)	(432 933)	(514 928)	(359 023)
OPERATING PROFIT	**1 025 137**	**651 229**	**584 199**	**536 818**	**729 089**
Net foreign exchange translation gains/(losses)	778 241	629 477	801 650	88 258	(159 390)
Unrealised gains/(losses) on equity instruments	87 614	(15 123)	-	-	-
Realised foreign exchange (losses)/gains on FEC's	(52 943)	56 599	151 656	(4 345)	106 174
PROFIT FOR THE YEAR	**1 838 049**	**1 322 182**	**1 537 505**	**620 731**	**675 873**
OTHER COMPREHENSIVE INCOME/(LOSSES)	**290 045**	**(544 428)**	**(392 450)**	**238 878**	**134 459**
Unrealised gains/(losses) on investment portfolio	305 350	(572 358)	(366 157)	238 878	115 836
Allowance for credit loss (losses)/reversals- FVTOCI instruments	(1 586)	24 631	(20 009)	-	4 325
Actuarial (losses)/gains on post - employment benefits	(13 719)	3 299	(6 284)	-	14 298
TOTAL COMPREHENSIVE INCOME/LOSSES	**2 128 094**	**777 754**	**1 145 055**	**859 609**	**810 322**
Foreign currency revaluation reserve	(778 241)	(629 477)	(801 650)	(88 258)	159 390
Investment revaluation reserve	(392 964)	587 481	366 157	(238 878)	(115 836)
Allowance for credit losses	-	-	-	-	(4 325)
Distribution adj. on unrealised losses	-	36 879	(36 879)	-	-
NET INCOME AVAILABLE FOR DISTRIBUTION	**956 889**	**772 637**	**672 683**	**532 473**	**849 561**
APPROPRIATIONS:	**956 889**	**772 637**	**672 683**	**532 473**	**849 561**
General reserve	335 419	253 937	258 983	251 575	357 463
Building fund reserve	-	-	-	-	20 000
Training fund reserve	10 000	5 000	-	2 700	2 157
Development fund reserve	100 000	100 000	-	-	70 000
State revenue fund	511 470	413 700	413 700	278 198	399 941

Acronyms and initialisms

AD	Authorised Dealer
ADLA	Authorised Dealer with Limited Authority
AEs	Advanced Economies
AFI	Alliance for Financial Inclusion
BA	Bachelor of Arts
BSc	Bachelor of Science
CEO	Chief Executive Officer
CMA	Common Monetary Area
DSIB	Domestic Systemically Important Bank
EFT	Electronic funds transfer
EMDEs	Emerging Market and Developing Economies
GDP	Gross domestic product
GHG	Greenhouse gas
IFFs	Illicit financial flows
IMF	International Monetary Fund
IT	Information technology
ITGPC	Information Technology Governance and Projects Committee
ITMC	Information Technology Management Committee
IVS	Import Verification System
LBS	London Business School
LLB	Bachelor of Laws
LLM	Master of Laws
MA	Master of Arts
MBA	Master of Business Administration
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MOC	Macroprudential Oversight Committee
MFPE	Ministry of Finance and Public Enterprises
MPC	Monetary Policy Committee
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFIs	Non-bank Financial Institutions
NamRA	Namibia Revenue Agency
NCD	Negotiable Certificate of Deposits
NDC	Nationally Determined Contribution
NEER	Nominal Effective Exchange Rate

Acronyms and initialisms

NFSS	Namibia Financial Sector Strategy
NFSTS	Namibia Financial Sector Transformation Strategy
NIPAM	Namibia Institute of Public Administration and Management
NISS	Namibia Inter-Bank Settlement System
NPL	Non-performing loan
NPS	National Payment System
NDGA	Namibia Deposit Guarantee Authority
NFSS	Namibia Financial Sector Strategy
NFSTS	New Financial Sector Transformation Strategy
NGFS	Network for Greening the Financial System
NSA	Namibia Statistics Agency
PoN/NUST	Polytechnic of Namibia / Namibia University of Science and Technology
ODC	Other Depository Corporation
PAN	Payments Association of Namibia
PSCE	Private Sector Credit Extension
QR	Quick Response
REER	Real Effective Exchange Rate
RMAD	Risk Management and Assurance Department
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADC-RTGS	SADC Real-Time Gross Settlement System
SDRs	Special Drawing Rights
SFA	Strategic Focus Area
SMEs	Small and Medium-sized Enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TVS	Trade Verification System
UNAM	University of Namibia
UNISA	University of South Africa
US	University of Stellenbosch
USA	United States of America
USD	US Dollar
UWC	University of the Western Cape
WBG	World Bank Group
WBS	Wits Business School
ZAR	South African Rand

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