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**BANK OF NAMIBIA DECLARE DIVIDENDS AMOUNTING TO N\$158.1 MILLION TO THE
STATE:
BANK OF NAMIBIA ANNUAL REPORT, 2014**

INTRODUCTION

1. **In line with Section 52(1) of the Bank of Namibia Act of 1997 (Act No. 15 of 1997), the Bank has prepared its Annual Report for 2014.** The Report, launched on 9 April 2015, includes the operations and affairs of the Bank, the unqualified annual accounts of the Bank certified by independent auditors, and a report on the state of the economy during 2014. The Report further includes a section on the activities of Banking Supervision, which focuses on the stability and soundness of Namibia's banking system. Finally, the report has a box article which aims at informing and educating the general public about pyramid schemes, with the intention of protecting themselves from falling victims to these illegal activities.

OPERATIONS AND AFFAIRS OF THE BANK

2. **The section on the Operations and Affairs of the Bank provides an extensive discussion on the Bank's pursuit of its strategic objectives as guided by the Bank's legal mandate and its five-year strategic plan.** Each of the Bank's eight strategic objectives is highlighted, along with the strategic outcomes that indicate the achievement and success of these strategies. The Bank continues to render advice to the Government on fiscal and other economic issues. In this regard, the Bank carried out a number of research projects and activities, including: a study titled "Financing Infrastructure for Sustainable Development in Namibia" which was also the theme of the Bank's 16th Annual Symposium, of which a summarised version is included in the report. In addition, the Bank's staff formed part of the Task Team, which investigated the appropriate model for establishing an independent Revenue Agency for Namibia. Moreover, the Bank has undertaken several other studies such as the viability of the credit guarantee schemes and of deposit insurance fund. With regard to enhancing access to financial services, the Bank issued a standard that has eliminated cash

deposit fees at commercial banks as from 31 March 2015. Further, the Bank has entered into agreement with the Central Bank of Angola that will facilitate the exchange of the Kwanza and Namibia dollar in the areas of Oshikango and Santa Clara. This arrangement will go along way in strengthening trade between the two countries.

BANK OF NAMIBIA's FINANCIAL STATEMENTS

3. **The Bank's unqualified audited Annual Financial Statements reflect the financial position of the Bank, its financial performance, and cash flows for the year.** The Annual Financial Statements fairly present in all material aspects the financial position of the Bank and also meet the International Financial Reporting Standards and the requirements of the Bank of Namibia Act, 1997. Although the global economy experienced another tough year, the financial performance of the Bank improved, in comparison with the previous financial year. This was complemented by prudent management of the Bank's operational expenditure and adjustment in its investment strategies. As such, the Bank declared dividends amounting to N\$158.1 million to the State for the 2014 financial year.

STATE OF THE ECONOMY IN 2014

4. **Global economic growth remained unchanged in 2014 compared to 2013, despite improvement in some key advanced economies.** Global growth is estimated at 3.3 percent in 2014, the same as in 2013. The key driver of growth was the recovery in some of the advanced economies, particularly the US. On the contrary, economic activities in Japan, the Euro Area as well as in emerging markets were restrained, which lessened their contribution to global growth. Persistent pre-crisis challenges such as high private and public debt continued to inhibit global growth. Going forward, global economic activity is expected to improve to 3.5 percent in 2015, on the back of firmer growth in the advanced economies and low crude oil prices.
5. **The Namibian economy continued to be relatively strong during 2014, driven mostly by robust construction and sustained growth in diamond mining and wholesale and retail trade activities.** The annual economic growth is estimated to have expanded by 5.3 percent in 2014 from 5.1 percent in 2013, primarily on account of robust construction activities, reflecting large private sector projects, including those in the mining sector, and public infrastructure investment. Similarly, activities in the wholesale and retail trade and transport sectors, as well as diamond mining continued to support growth, mainly due to strong demand. Contrary, uranium mining posted a weak performance during 2014, due to low international prices. Furthermore, the after effects of the drought and the response to the South African veterinary restrictions on

Namibian live animal exports imposed during the year, adversely affected livestock sales.

6. **Namibia's average consumer price inflation rate decreased in 2014, compared to 2013, mainly due to a reduction in the inflation rate of the housing category.** The inflation rate averaged around 5.4 percent in 2014, having fallen from 5.6 percent in 2013. The reduction in overall inflation reflected a decrease mainly in the inflation rate of the housing category, particularly rental payments for dwelling and electricity, gas and other fuels.
7. **During 2014, the Bank tightened its monetary policy stance in response to increased household credit.** The Bank raised its repo rate by 50 basis points to 6.0 percent during 2014. Annual growth in private sector credit rose to 16.4 percent in 2014, driven by both businesses and individuals. The upward repo rate increases in 2014 were triggered by concerns about the widening trade deficit, which was partially financed by instalment credit; thus putting increased pressure on international reserves.
8. **On the fiscal front, the government recorded a wider budget deficit in 2014/15, compared to a smaller deficit during the preceding fiscal year.** The estimated deficit of 5.4 percent of GDP is due to increased government spending. While government debt is expected to have increased by end of fiscal year 2014/15 in line with the widening deficit, debt as a percentage of GDP, amounted to 22.9 percent, as at the end of December 2014, from 23.6 percent at the end of 2013. This ratio therefore remained within the government debt ceiling of 35 percent. Similarly, total loan guarantees as a ratio of GDP declined to 5.3 percent at the end of 2014 from 6.0 percent at the end of 2013 and remained within the government ceiling of 10 percent.
9. **During 2014, Namibia's external balance recorded a deficit, mainly as a result of the widening current account deficit, while the capital and financial account recorded a higher surplus.** Large increases in private spending, fuelled by rapid credit growth, have contributed to the widening of the current account, despite the depreciated exchange rate. The capital and financial account, however, recorded a higher surplus due to increased capital inflows from other long-term investments. Furthermore, the net foreign asset position of the country, as reflected in the International Investment Position (IIP) decreased in 2014, relative to the previous year, due to foreign liabilities which grew faster than foreign assets.

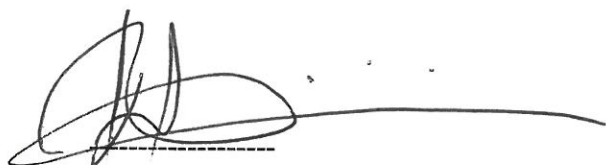
10. **The stock of international reserves held by the Bank declined, as higher imports continued to exert pressure on the reserves.** Increased import payments for goods and services lowered the level of international reserves to N\$13.5 billion at the end of December 2014, from N\$15.7 billion recorded in the previous year. It is, however, notable that the overall international reserves remained more than sufficient to support the fixed exchange rate arrangement and to meet the international obligations.
11. **The Namibia Dollar/Rand weakened against the US Dollar, British Pound and Euro, in 2014, mainly due to capital outflows from emerging markets as a result of the US Federal Reserve ending its bond-buying program.** The currency depreciated by 12.4 percent against the US Dollar, 18.2 percent against the Pound and 12.3 percent against the Euro, during 2014. Other contributors to the Rand's depreciation included weak developments in the South African economy as a result of labour market disruptions in the mining sector, widening current account deficit and the downgrade of South Africa's four largest banks by the Moody's Credit Rating Agency.

ASSESSMENT OF THE BANKING SECTOR

12. **Namibia's financial system, in particular, the banking sector, remained sound during 2014.** The banking industry posted strong quality capital holdings, high profitability, low levels of non-performing loans and satisfactory levels of liquid assets. The banking industry reported capital and liquidity levels that are well in excess of the minimum prescribed limits, which provide reasonable assurance with respect to its financial health.

CONCLUSION

The media and the public at large are encouraged to read the entire report, which summarises the macroeconomic developments in 2014 and the general operations of the Bank. The Report is available upon request and can also be accessed at <https://www.bon.com.na/Publications/AnnualReports>.



Ipumbu Shiimi

GOVERNOR