Resource Manual

National High School Competition 2024

Bank of Namibia

UNDERGRADUATE BURSARIES SCHEME 2024

Bank of Namibia

Apply for an Undergraduate Bursary

In line with its commitment towards capacity development and fulfillment of its corporate social responsibility, the Bank of Namibia is proud to avail bursaries to Namibians who intend to pursue undergraduate studies at recognized universities in Namibia and other countries within the SADC region.

- Economics
- Econometrics
- Actuarial Science
- Accounting/Chartered Accountancy/ Forensic Accounting
- Information Technology
- Education: mathematics, Accounting & Science

Deserving Students complying with the following criteria may apply:

- Namibian Citizenship
- Current Grade 12 learners with an average C-symbol or better in the latest August results;
- Learners who have successfully completed Grade 12 with an average C-symbol or better

Please note that the awards of bursaries for those currently in Grade 12 will depend on final examination results.

No application form are available. Applicants should apply through the online undergraduate bursary portal on the Bank of Namibia's website (https://www.bon.com.na), under the section: **Online Services and Bursaries**. All relevant documents such as CV and certified copies of your latest examination results must be attached where possible.

ENQUIRIES:

For enquiries, please contact Ms. Leena Elago at tel; +264 61 283 5034; or email: leena.Elago@bon.com.na

THE CLOSING DATE FOR APPLICATIONS IS 30 SEPTEMBER 2024

Only shortlisted candidates will be contacted and no documents will be returned.

Bank of Namibia
National High School Competition
2024

This resource manual consists of information extracted from the following documents:

1. Bank of Namibia 20th Anniversary History Book
   Chapter 1 – Precursor to the Bank of Namibia
   Chapter 2 – Establishment of the Bank of Namibia
   Chapter 5 – International Cooperation

2. Bank of Namibia Annual Report 2023
   Part A – Operations and Affairs of the Bank
   Part C – Economic and Financial Developments
   Part E – Statistical Appendix

3. NDGA Annual Report
   Part A – Establishment and Governance of the NDGA

4. Namibian National Payment System Vision 2021 – 2025.

5. Animations of the new Acts (BIA, Payment Systems Management Act, Virtual Assets Act).

6. Monetary Policy Framework

7. Updated Namibian Notes & Security Features
   N$20 Banknote
   N$30 Commemorative Banknote
   N$100 Banknote
   N$200 Banknote

QUESTIONS
ANSWERS
QUIZ

8. Learners are expected to study all the chapters of the school handbooks listed below:
   a. Economics Learner's Book (Grade 12) by Robert Siyanga
   b. Economics Learner's Book (Grades 10 – 11) by Mike Engelbrecht

9. Financial Literacy Initiative Glossary of Financial Terms

Notes

- A footnote should be included for the new Bank of Namibia Act 1 of 2020.

THE BANK OF NAMIBIA

NATIONAL HIGH SCHOOL COMPETITION

2024

Bank of Namibia

Participate in the **Bank of Namibia National High School Competition** and walk away with **massive prizes** for you and your school!

All secondary schools registered with the Ministry of Education in Namibia, may participate in the Bank of Namibia National High School Competition 2024.

Schools that are interested in participating in the competition should register online by visiting the Bank of Namibia's website at www.bon.com.na before Friday, 31 May 2024. Alternatively, schools which do not have internet access should contact the regional liaison person at the respective regional education offices.

GENERAL COMPETITION INFORMATION:

All secondary schools registered with the Ministry of Education may register to take part in the Bank of Namibia National High School Competition 2024.

All learners from Grades 8 to Grade 12 may participate.

The deadline for intention to participate in the regional competition is 31 May 2024.

The regional competition will take place during July & August 2024 (exact dates will be communicated in due course).

The national competition will take place in September 2024 (exact dates will be communicated in due course).

Each learner participating in the national competition will receive a prestigious certificate of participation.

COMPETITION FORMAT

REGIONAL COMPETITION:

- Learners will form **four-member** teams that will gather at the selected venue together with their teacher.
- Teams will wait in a holding area whilst the competition is in progress.
- During the regional phase of the competition, only one team together with their teacher will be allowed to enter the questioning area to appear before judges and they will be required to answer a set of 10 questions orally within 30 seconds per question.
- Learners may work together within their teams to derive at the correct answer, but only one team captain may respond or present the answer to the judges.
- Points will be given for the number of questions answered correctly within the time limits.
- After questioning time, the learners will be kept in a separate holding area where they are not allowed to come into contact with learners that have not been questioned yet.
- The next team will then enter, and the same process will be continued.
- Once all the scores have been calculated and verified, if teams end up with equal scores, they will then compete in sudden death. A new set of questions will be used and the team with the highest total score will be declared the winner of the regional competition.

NATIONAL COMPETITION:

The thirteen regional winning teams will participate in the semi-final and final competition in Windhoek. The relevant teams will therefore travel to the capital (Windhoek), to partake in these events over two days.

Day 1 – Semi-Final:

The semi-final round of the competition will take place in the same format as the Regional Competition format at the Bank of Namibia.

The top four teams will go through to compete in the final round of the Competition the next day.

Day 2 – Finale:

- The Grand Finale will take place during a prestigious evening event and buzzers will be built into this event.
- The top four teams that emerged from the semi-final leg of this competition will compete for the winning position in the final round.
- The competition will commence in the form of a game show with typical quiz questions. Teams will be tested in front of a panel of judges and a live audience.
- During this phase of the competition, two teams will now compete at the same time for the same set of questions.
- The team that hits the buzzer first gets the question first.
- Other two teams will be in a holding area as the same questions will be posed to them.
- The time allocation to answer questions will be increased to 1 minute.
- Two teams with the same total number of points will have to go into sudden death; the same format will be used for sudden death until the tie is broken.
- Once the judges have calculated the points of each team, the top two teams will be identified, and the winners will be announced.

Participation Criteria

REGIONAL:

Schools that are interested in participating in the competition should contact the regional liaison person at the respective regional education offices in writing. Alternatively, they may also visit the Bank of Namibia website at www.bon.com.na and register online on or before 31 May 2024.

The participating school is responsible for its own selection of its top four learners to represent their school in this competition.

Learners from Grades 8 to 12 may participate.
The participating schools will be responsible for their own transport and accommodation fees to the regional competition venue.

NATIONAL:

- Only the regional winners will form part of the schools representing their respective regions.
- The Bank of Namibia will cover the travel, accommodation and meal expenses of all regional winners travelling to Windhoek;
- The teams must be accompanied by one teacher per school only;
- Learners are required to wear school uniforms at the semi-final and grand finale competition;
- Each learner participating in the national competition must submit an indemnity form signed by their parents/legal guardians and headmaster(s). The form will be provided by the Bank of Namibia.

GENERAL COMPETITION RULES

- Mobile phones and other electronic devices are not allowed in the competition venue.
- No learner will be allowed to leave the venue whilst the assessment is in progress.
- Only BoN officials and regional liaison persons will serve as judges.
- The Bank of Namibia may disqualify a team if it breaks any of the rules.
- The judges' decision is final.
- It is an oral competition, and all questions and answers will be posed in English.
- The Bank of Namibia reserves the right to adapt the rules and awards at any time.
- Notification of changes will be made in writing to the relevant parties and placed on the Bank of Namibia website, should it be necessary.

WINNING PRIZES!

REGIONAL COMPETITION WINNING PRIZES!

- First prize: **N$1000.00 Waltons Gift Vouchers**
- Second prize: **N$500.00 Waltons Gift Vouchers**
- Third prize: **N$250.00 Waltons Gift Vouchers**

NATIONAL COMPETITION WINNING PRIZES!

The top four schools for this year's Bank of Namibia National High School Competition will be contending for the following lucrative prizes!

- First prize: **N$50,000.00**
- Second prize: **N$30,000**
- Third prize: **N$10,000**
- Fourth runner-up: **Wifi Router**

All information pertaining to the Bank of Namibia National High School Competition 2024 including the resource materials are available on the Bank's **website at: www.bon.com.na.**

For more information or enquiries, please contact Strategic Communication & Financial Sector Development Department at **tel: (061) 283 5114 or email: info@bon.com.na**

1990-2010

BANK OF NAMIBIA

Celebrating **20 Years** in Central Banking

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Bank of Namibia 20th Anniversary History Book:

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Bank of Namibia 20th Anniversary History Book

Chapter 1

This chapter provides a historical perspective of banking during the period before independence, including monetary units used. An overview of central bank operations and functions exercised and the limited monetary and financial discretion allowed at the time is reflected.

Precursor to the Bank of Namibia

As the saying goes, money is what makes the world go round, but money was not always around. Looking back, history reveals that bartering was widely used for trading. This was no less true in the former South West Africa (SWA) - today Namibia. Most indigenous people in all parts of the country traded livestock, especially cattle, for other items they required. The population groups in the water-rich northern part of the country dabbled in agriculture and caught fish in the Okavango, Zambezi and Kunene rivers.

The people also traded amongst each other with barter

items such as mahangu (millet), salt, onyoka (shell necklaces), omba (a shell from east Africa), brass or copper bracelets and iron implements. The people of the south, including the San and Nama, bartered ostrich eggshell beads and feathers, pottery and hides.

Navigators initially ignored the south-west African coast because it looked so inhospitable. Gradually ports of call were established at Angra Pequena (today Lüderitz), Walvis Bay and Sandwich Harbour, where trade developed with the local nomadic groups.

When white hunters, adventurers, explorers and later the missionaries first entered the country, barter trade developed between them and the locals and they traded beads and ivory for cattle and hides. The locals then also traded their goods for other items such as soap, weapons (knives and guns) and cloth.

Subsequent to the arrival of the Europeans and the realisation that there were valuable minerals available, they started negotiating with various headmen to obtain land and mining rights.

With more human traffic along the coast, inland trade increased. The Europeans brought bartering commodities such as weapons, ammunition and brandy in exchange for food and these items became more sought-after by the indigenous population.

Currency

Imperialism and colonialism brought about a general change in the monetary approach in this country, when silver and gold coins began to be used as a method of payment. The British Pound Sterling was the first currency to be introduced.

As far as can be ascertained, British Pound Sterling was in circulation in the early 1800s when the Cape Colony was occupied by England and by 1825 it was recognised as legal tender there. By 1841, Sterling was the only legal tender in the Cape. When British traders opened a trading depot at Walvis Bay in the 1850s, Sterling was automatically circulated in SWA.

Due to mining operations in the then Transvaal, workers were recruited from the Caprivi as well as neighbouring countries, which were also British colonies, namely British Bechuanaland (Botswana), Northern Rhodesia (Zambia), Southern Rhodesia (Zimbabwe) and other parts of South Africa (SA). These mineworkers received their wages in Pound Sterling and brought this currency home with them and so Sterling was gradually circulated country-wide.

By the time Germany proclaimed SWA as its Protectorate in 1884, British Pound Sterling was already a legal tender in the country. All banks at that time issued their own notes, until 1891, when the Cape Bank Act started regulating the issuance of banknotes in the Cape Colony.

German Mark

The German Mark was introduced by proclamation in SWA in 1893. Advised by Berlin, Governor Theodor Leutwein decreed that after 2 July 1901, apart from the Mark, no other currency would be legal tender within German South West Africa. Despite this, throughout German occupation, Sterling continued to be used in cross-border trade.

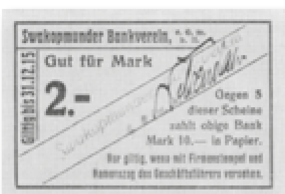
Generally, coins were used locally but during 1904 to 1906, paper money became popular and its preference increased dramatically. The cheque system was introduced and became an acceptable form of payment as well. The fact that banks were limited to only a few towns gave postal authorities, with their 104 post offices in the country, the opportunity to also cash in and postal money transfers became an important part of their business.

Further, in order to sustain sound business in the Protectorate, hotels and general dealers issued private emergency money by way of tokens/promissory notes, thus in-house 'money'. These tokens had no intrinsic or monetary value, but they were convenient for facilitating trading deals and could be exchanged for specific goods.

Seitz Notes

From the time that the First World War broke out in August 1914, until South African occupation in 1915, virtually no goods were imported. Provisions were depleted and paying cash for what was available was almost impossible. This resulted in huge credit balances with the German banks. For the financing of military activities, the German authority commandeered goods to the approximate value of £1 million and loaned £300 000 from the banks. To counter this, various types of promissory notes were issued by the government.

These notes were named after the Governor of South West Africa at that time - Dr Theodor Seitz. The German government apparently guaranteed the repayment of the Seitz notes which were in circulation amongst the Germans and were accepted by the German banks, but not by the Union Administration or the British banks.



The Germans regarded the Seitz notes as a weaker currency than the German Mark banknotes. People were anxious and started hoarding 5, 10 and 20 German Mark gold coins and for transactions mainly Seitz notes were used. This created a shortage of German Mark gold coins in circulation.

1914 - 1921

During the occupation, the Union of South Africa Administration estimated the German currency (notes and coins) in circulation in SWA (reflected below in Sterling) to be as follows:

German Mark and cash vouchers:	£200 000/250 000;
Silver	£30 000/50 000;
Gold	£20 000/25 000;
Seitz notes	£150 000.

Concurrently, the British banks kept their accounts in Sterling, but accepted German silver coins at the rate of one shilling for one Mark. They brought their own notes and British gold coins into circulation. In September 1915 Standard Bank and the National Bank already agreed to lend money to reliable and credit-worthy clients against German Mark banknotes with a 40% margin. These notes were sent to New York for realisation.

During the war years, food and other supplies were imported from SA and SWA found it difficult to pay for these goods in Sterling. The British banks - to a large extent - helped by advancing loans in Sterling, but it was just a vicious circle: supplies that were imported against Sterling, were sold for Mark, so banks had to advance more Sterling for new imports.

The community's funds were thus almost all deposited in the German banks which did not really want to get rid of their Mark notes and cash voucher notes seeing that they could be exchanged below par for Sterling. The banks only wanted to pay out in Seitz notes.

When the 'war' was over in SWA with the signing of the Peace Treaty of Khorab on 9 July 1915, people streamed to the three main centres - Windhoek, Swakopmund and Lüderitz - and merchants flourished. In the space of two years retailers and shopkeepers became wholesalers. Most of the German citizens were convinced that the war would be over within six months and so they kept spending money accordingly. Hotels, liquor stores and breweries especially, experienced a wave of prosperity in their liquor trade. The amount spent by consumers at these establishments during this period exceeded £1.5 million. This was, in fact, the total amount the people owed to the Standard Bank, the National Bank and the Land (Agricultural) Bank in the Territory collectively. People were not keen to pay off their debts but rather spent their money on purchasing motor vehicles, seemingly compensating themselves for the privation they suffered during the 'war'.

Civil courts closed after war broke out as during that time no property could be bought or sold. It meant that no debts could be recovered by means of judgment orders. The Deeds Register could not be accessed for the registration of conveyances, properties or mortgages. When the First World War ended in Europe in 1919, creditors in SWA demanded the reopening of the courts, but the government delayed this 'matter of debt' action pending a decision regarding the foreign exchange issue. The banks especially faced major problems in recovering debts. There were many varying legal opinions regarding the question of which monetary unit should be used for the repayment of debt. One group opined that all the debts - in Mark - which were incurred during the war and period of occupation, could only be repaid in the legal tender of the German Reich, namely German Mark banknotes. Others were of the opinion that the pre-war debts should be repaid in gold. Eventually - at the end of 1920 - a Council of Debt Settlement was instituted and it commenced with its activities in 1921. This council decided that pre-war debts should be repaid in gold and that other disputes with regard to money matters should be considered according to the merits of each case.

The banks had to be very cautious in the acceptance of securities and awarding advances and had to obtain the best possible legal counsel in this regard.

Pound Sterling

By virtue of the fact that British Pound Sterling was legal tender in SA even before the formation of the Union of South Africa in 1910, the banks in SWA also dealt in Pound Sterling. Subsequently that currency was made legal tender locally once again.

Salisbury Banknotes

Prior to 1931 both Standard and Barclays banks, on occasion when the need arose or when there was a shortage of Pound Sterling, circulated Rhodesia's Salisbury banknotes in SWA. However, history again played its part when in the late 1920s the economy was hit by the depression and the New York Stock Exchange crashed in 1929. When it was rumoured that Britain and Rhodesia were planning to abandon the gold standard, the South African government published the SWA Banks Proclamation in 1930, authorising registered banks to issue local banknotes. The banks took the necessary steps. The Salisbury notes had to be withdrawn because their value would have dropped by 25% as they were no longer gilt-edged. Britain and Rhodesia abandoned the gold standard on 21 September 1931 but SA did not.

Windhoek Banknotes

The banknotes referred to as Windhoek notes - on par with the SA Pound Sterling - were to be ready for circulation in October 1931. It can thus be presumed that the notes were available in Windhoek before that date. For some or other reason neither of the banks could decide on a suitable date for the launch in October. Barclays note issues were dated 1 October and those of the Standard were dated 31 October 1931.

As an emergency measure the Administration authorised that both issues could be released on 31 October 1931. Standard Bank's issues were allowed to circulate as legal tender even though its notes would only be payable to bearer on the 31st of that month. This was quite possibly a unique but ironic situation in the history of banking -

in that a financially sound institution had to be legally empowered to start circulating post-dated paper money for its requisitory (demand) obligations.

In SWA the last of the local Windhoek banknotes were issued in 1959 and also replaced with ZAR when that currency came into circulation.

South African Rand (ZAR)

British and SA Pound Sterling continued to be used in SA and here in SWA until SA withdrew from the Commonwealth and became a Republic on 31 May 1961.

The RSA introduced its own currency - the Rand - (named after the gold fields of the Witwatersrand) and the British Pound was eventually withdrawn from circulation.

Banks before Independence

German Banks

Early in the 1900s, banking in SWA naturally developed according to the German banking system because it was a German Protectorate. Smaller businessmen made use of a savings or cooperative bank and did not have commercial bank accounts. As in Germany, bank matters in SWA were limited to the accounts of a few traders in the larger centres. In the rest of the country the main trader or dealer in the district was also the farmer's and the retailer's banker.

The Nord Deutsche Bank, (Hamburg), together with the Deutsche-Afrika Bank (Berlin) opened a branch of the Deutsche-Afrika Bank in Lüderitz in 1907. The building that housed the bank was completed in that same year. The capital was provided by the Nord Deutsche Bank and Diskonto-Gesellschaft. This bank did not advance cash or grant mortgages to the community, but strictly did business with companies. By 1913 there were also branches in Windhoek and Swakopmund. (After the First World War the history of the Deutsche-Afrika Bank is linked to that of First National Bank - see page 13)

Some other banks were:

- Deutsche Südwestafrika Genossenschaftsbank (1908) (building society where money for mortgages was made available);
- Südwestafrikanische Bodenkreditgesellschaft (1912) with branches in Windhoek, Swakopmund and Lüderitzbucht;
- Banking division of the Deutsche Kolonial-Gesellschaft in Swakopmund and in Windhoek;
- Spar und Darlehenskasse at Gibeon; and the
- Landwirtschaftsbank (agricultural bank) established in 1913.

This latter bank was founded by a German Imperial Ordinance dated 9 June 1913. An extraordinary characteristic of this bank was that it could collect debts due to the government, accept and administer money deposited by State departments and keep the cash accounts of civil and military authorities. It was a predecessor of what is today known as the Agricultural Bank of Namibia.

In 1914 the First World War broke out and the face of banking was set to change.

The only German bank that remained functional after the First World War was a small local - ostensibly - mortgage bank in Swakopmund namely the Swakopmunder Bankverein. This bank was liquidated in 1931.

British Banks

Two British banks based in SA, namely Standard Bank and the African Banking Corporation entered the economic arena in SWA after the Union of South Africa occupied the German Protectorate in 1915. The British banks issued their own banknotes as well as British gold coins.

Standard Bank

The Standard Bank of British South Africa was established in SA in 1862, with the 'British' being dropped from the name in 1883. Locally Standard Bank opened its first branch in Lüderitz on 19 August; in Windhoek on 20 August and in Swakopmund on 23 August 1915.

In 1918 the first truly British bank namely the Standard Chartered Bank opened a branch in Lüderitz but conducted banking business as part of Standard Bank South Africa Limited until 1961.

The African Banking Corporation opened in Lüderitz but soon realised that it was not profitable and withdrew, only to reopen in Windhoek on 19 April 1920. It was taken over by Standard Bank in November that same year and the two branches merged on 31 December 1920.

Standard Bank South Africa became a subsidiary of Standard Bank Limited in 1962 and did business in both SA and SWA. The name Standard Bank Limited was adopted for the holding company in England subsequently to become Standard Chartered Bank PLC. A holding company in SA was established in 1969 as Standard Bank Investment Corporation (STANBIC) - now Standard Bank Group Limited - and listed on the JSE in 1970.

In 1973, following the merger of Standard Bank and Standard Chartered Bank to form Standard Chartered, the Standard Bank of South West Africa Limited (STANSWA) was established and continued to do business in SWA. The South African holding company indicated that the decision to incorporate STANSWA as a separate subsidiary of Standard Bank South Africa

was in order to prepare for the country's independence. Due to international pressure (economic and trade sanctions) being applied against the RSA as a result of the apartheid policy, Standard Chartered withdrew. Standard Chartered sold its 39% stake in Standard Bank Group in 1987, transferring complete ownership of the holding company to South Africa. As a result, the name of the local subsidiary STANSWA changed to Standard Bank Namibia.

South African Banks

National Bank / Barclays DCO / First National Bank

The Nationale Bank der Zuid-Afrikaansche Republiek Beperk (National Bank of the old South African (Boer) Republic Limited) was registered in Pretoria and opened on 5 April 1891. After the conclusion of the second Anglo-Boer War in 1902, the name of this bank was changed to the National Bank of South Africa Limited. This Bank opened in Windhoek within a month of German surrender in 1915. In 1920, the National Bank of South Africa (NBSA) obtained a majority shareholding of 75% in the struggling Deutsche-Afrika Bank for £70,000. The bank was in distress caused by post-war actions taken against German companies and the dramatic devaluation of the Reichsmark. Later that year, the shareholders in Hamburg put Deutsche-Afrika Bank into voluntary liquidation. This sale included Deutsche-Afrika Bank shares of 2 million Mark and dividends of 867,000 Mark. The deal included all assets but excluded any liabilities. After stripping the Deutsche-Afrika Bank of its assets, the NBSA sold this shell company to the Commercial Bank of South Africa for £1,275 in 1923. In the same year, Deutsche-Afrika Bank, having been officially put into liquidation by the Master of the High Court sold its buildings, including furniture and fittings, in Windhoek, Swakopmund and Lüderitz for an amount of £20,000.

In January/February 1925, the Master of the High Court accepted the final accounts in the liquidation of Deutsche-Afrika Bank and ruled that all books and accounts of the Deutsche-Afrika Bank should become the property of the NBSA. This ruling indicated that the NBSA was officially seen as the successor of the now dissolved Deutsche-Afrika Bank.

Later that year the National Bank of South Africa Ltd merged with the Anglo-Egyptian Bank and the Colonial Bank to form Barclays Bank [Dominion, Colonial and Overseas (DCO)]. In that same year the National Bank in SWA was integrated with Barclays Bank DCO.

It continued to do business until 1971, when Barclays Bank International took over the business of the DCO in SA and SWA. The banks in these two countries became part of the newly-established Barclays Bank Incorporated in the RSA.

In 1987, due to international sanctions, Barclays sold its share in Barclays Bank to the Anglo American Corporation and the bank's name was changed to First National Bank Ltd. The bank in SWA was converted into a wholly-owned subsidiary company named First National Bank of Namibia Ltd in 1988.

Bank Windhoek

Bank Windhoek's roots can be traced back to 1948 when Volkskas Bank opened its first branch in the then SWA. In 1982 when a group of local entrepreneurs decided to establish a local Namibian-owned bank, they took over eight local branches of Volkskas Bank and established Bank Windhoek on 1 April of that year.

In 1990 Bank Windhoek amalgamated with Trust Bank (SWA) Ltd (established in 1969) and Boland Bank Ltd both of which had local branches. Boland Bank had been established as a regional general bank in 1900 and was listed on the Johannesburg Stock Exchange (JSE) in 1969.

(See Chapter 3 Banking Supervision - Banks - Post Independence)

Commercial Bank of Namibia

The first branch of the Nederlandsche Bank en Kredietvereeniging (Netherlands Bank and Credit Society) in SWA was opened in 1955. It changed its name to Nedbank in 1971. However, in SWA the name of the local branch of this bank was changed to the Bank of South West Africa or Swabank on 12 April 1973. Business under that name commenced in Windhoek and Johannesburg on 1 July 1973. Three months later, branches opened in Keetmanshoop and Otjiwarongo. In the latter half of the 1970s branches were also opened

in Swakopmund and Cape Town. The year 1973 also saw the formation of the Nedbank Group.
During 1976 this group purchased a building in the centre of Windhoek in Bülow Street (now Dr Frans Indongo Street) on auction and since then this site has remained its head office.

During 1979 the name of the bank changed to the Bank of South West Africa/Namibia.

In 1980 Dresdner Bank AG acquired a majority share in Swabank and a new board of directors was appointed. Dresdner Bank AG of West Germany held the majority share while 49% of the shares were held by local investors. Commercial banking facilities were introduced and a new branch was opened in Johannesburg. In 1988, Swabank was converted from a Namibian savings bank into a fully-fledged financial institution. In 1989 Swabank, (part of the Nedcor group) obtained the shares of the Dresdner Bank AG and changed the name of the bank to Bank of Namibia. The bank was then requested by the incoming government of Namibia to change the name of the financial institution to the Commercial Bank of Namibia, which it did.

Namibian Banking Corporation Limited

In the meantime, the Permanent Building Society which had been firmly established in South West Africa since after the Second World War in circa 1945, merged with the Nedbank group in 1988. This merger resulted in the formation of the NedPerm Bank with its head office in the RSA. A branch was opened in Windhoek in the same year.

On 1 October 1990 (after independence) the Nedcor group transferred the assets and liabilities of the Windhoek branch of NedPerm Bank Limited to the Namibian Banking Corporation Limited which had been registered in Namibia as a Namibian banking institution.
(See Chapter 3 Banking Supervision - Banks - Post Independence)

Building Societies

Traditionally, building societies were financial institutions that accepted deposits which yielded interest and made loans available for the purchase of homes or home improvements secured by mortgages. They developed from the Friendly Society movement in England in the late 17th century to assist their members to buy or build a house. These were financial institutions which were owned by their members. The members in the cooperative savings groups or mutual societies pooled their money and when the last member had a house, the society dissolved. Building societies were therefore non-profit societies. They offered financial services and actively competed with banks for most personal banking services such as savings deposit accounts, but were particularly involved in mortgage lending.

Building societies evolved by taking on new members as earlier purchases were completed and thus continued on a rolling basis. These institutions were later established in the UK, Ireland, Australia, New Zealand, and also South Africa where they were firmly established by the late 1800s. After the Second World War in 1945 this concept was imported to SWA but only as branches of South African parent companies.

Building societies maintained that, as mutual societies, they only had to make a profit to cover their operational costs, and had no need to generate an additional profit to return to share-holders. They could supply better and cheaper home loans than the banks and demutualised societies. The building societies' approach to lending was that prospective home owners were required to put down deposits of 25% of the purchase price. Funds were drawn by means of a chain of branches and agencies with fixed interest rates. At that time, commercial banks were not in the long-term loan market.

Before the Second World War, the building societies had been increasing their assets at a faster rate than the commercial banks. In the post-war growth years of 1945 to 1960, their assets grew at about the same rate as those of commercial banks. The functions of the building societies had thus been perfected in a non-inflationary environment.

In the early 1960s, the South African government placed restrictions on the interest rates that societies could pay on their deposits or by capping their lending capacity. This meant that the flow of mortgage funds to building societies, made by the institutions and the people it was supposed to help, was restricted.

During the stock exchange boom of 1969 more and more money was being put into stocks and less into fixed deposits at building societies and their supply of new funds dwindled. In the period 1961-1970 the assets of the commercial banks which were not involved in long-term loans, grew by 14.6% per annum compared with building societies' assets which increased at a rate of 9.7% annually. Although personal savings continued, in real terms, building societies were in trouble.

In addition, building societies had a network of branches all over and their function was to take in deposits on which interest had to be paid, while the income-generating part of their business was confined to centralised home loan departments. For example in 1985, one of the building societies had 70 branches and over 300 agencies in the RSA. Not only was the up-keep of these branches expensive but they also did not earn money. To make the branches profitable the building societies needed to increase their range of functions and to convert them into income-generating units. Furthermore, associated with the rising costs of an extensive branch network, was the rising cost of modern technology.

Thus, several factors created a difficult environment for the building societies to thrive. These included the heavy intervention of and regulation by the government, the cost of maintaining a network of non-profitable branches and strong competition from commercial banks, which became actively involved in the mortgage market.

From 1945 until 1990, the following building societies opened and closed in Namibia:
- Allied Building Society
- Johannesburg Building Society
- Natal Building Society
- Permanent Building Society
- Provincial Building Society
- Saambou Building Society
- South African Permanent Building Society
- South African Permanent Mutual Building Society
- Southern Trident Building Society
- SWA Building Society (Swabou)
- Trust Building Society
- United Building Society

Initially the legal framework, in this country, by which building societies operated was contained in the South African Building Societies Act, 1934 (Act No. 62 of 1934) which was repealed by the Building Societies Act, 1965 (Act No. 22 of 1965). In 1986 that Act was replaced by the Building Societies Act, 1986 (Act No. 2 of 1986), which permitted building societies to be converted into equity-based joint stock institutions and compete with the banks on equal terms.

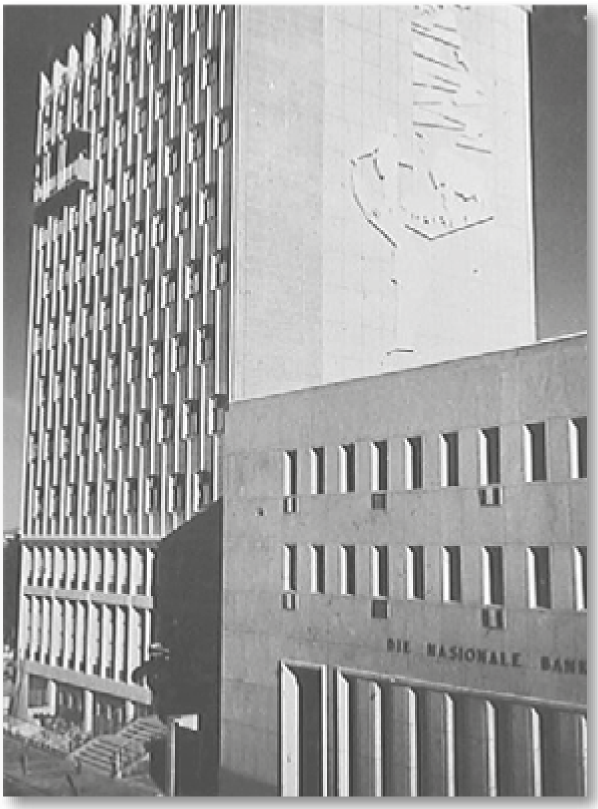
To make building societies more competitive, income earned from investments in building societies eg subscription shares, were declared tax-free.

With independence in 1990, there was only one building society in operation in Namibia namely Swabou. When the SA building societies namely United, Perm, Allied, Natal, Provincial, Southern Trident and Trust amalgamated, their assets in SWA were transferred to the SWA Building Society (Swabou) which was established in April 1979.

In 1981 Saambou Building Society transferred its South West African assets to Swabou.

Swabou's main purpose was to provide profitable and convenient avenues for savings and investments and to provide mortgage finance of property. Through its wholly-owned subsidiary companies, Swabou Insurance and Swabou Life it also provided short-term and life assurance cover.
(See Chapter 3 Banking Supervision - Banks - Post Independence)

The Banking Sector at Independence



With independence the Namibian banking sector consisted of five commercial banks, namely:
- Standard Bank Namibia Ltd;
- First National Bank of Namibia Ltd;
- Bank Windhoek Ltd;
- Commercial Bank of Namibia Ltd; and the
- Namibian Banking Corporation (see pg 122).

There was one building society namely the South West Africa Building Society.
(See Chapter 3 Banking Supervision - Banks - Post Independence)

South African Reserve Bank - Windhoek Branch

The SARB opened a branch in Windhoek in 1961 to perform the duties of the SARB in SWA. The branch was only responsible for distributing currency, providing clearing facilities to commercial banks and serving as banker to commercial banks and the South West African Administration (SWAA). It did not have the authority to formulate monetary policy for the Territory, as South Africa's policies were automatically applicable in SWA.

Bank Supervision
Initially supervision of all commercial banks in SA and SWA was undertaken by the Registrar of Financial

Institutions in the South African Department of Finance. The SARB Bank Supervision Department was created and began its work on 1 October 1986. The responsibility for the supervision of banks and building societies was officially transferred from the Department of Finance to the South African Reserve Bank on 24 April 1987. This included the supervision of all commercial banks in SWA/Namibia.

Banking and other Financial Services

SWA fell within the Rand Monetary Area and did not have a central bank or monetary policy of its own, save the branch of the SARB which opened in Windhoek in 1961. There was an unrestricted flow of funds between the Territory and the RSA. Interest rates and reserve requirements reflected the South African monetary policy applied by the SARB. In 1988 the banking sector in SWA/Namibia employed 1, 732 people.

Funds for private sector development were available from the Development Fund of SWA, the First National Development Corporation (FNDC), the National Building and Investment Corporation (NBIC) and the Land and Agricultural Bank.

Even before independence, the banking and financial services sector was described as being well-developed, but the local money market was underdeveloped. This was regarded as a shortcoming and received attention from the authorities in 1989. The local Building Society Act was already in force and the Namibian Bank Act was being prepared in 1989.

Total assets and liabilities of the commercial banking system amounted to R1 457,5 million at the end of 1988 - reflecting an expansionary phase of the economy. Total advances for the same period were R960,6 million, or R372,7 million more than a year before.

Public Finance during the South African Era 1915 - 1990

At this point it is necessary to briefly outline how public finance was managed during the South African era. The most important features were designed to regulate inter-governmental relationships between SA and SWA in general and financial relations in particular. The changes in these public finance arrangements were brought about by the need to accommodate the changing circumstances in SWA, and changes in South African policies.

Before 1969
Prior to 1969, with the exception of a number of public departments, the SWAA had been in charge of most public services. With the exclusion of the collection of customs and excise duties of which a transfer payment was received from SA, the SWAA developed and managed its own tax system and tax laws. It also administered the Territorial Revenue Fund and Reserve Fund and local authorities in the white areas. Funds for services in the so-called ‘native areas’ were directly appropriated by the South African government.

Surpluses created a false understanding of economic self-determination and this resulted in the provision of public services of a very high standard. However, the majority of the population did not share in these benefits. In urban areas there was steady progress in expanding the infrastructure which did not happen in the rural areas. This dual system was the main reason for the change in the basis of public finance organisation in SWA in 1969. International pressure on the RSA over its continued presence in the Territory intensified considerably during this time.

1969 - 1980
During this period the recommendations of the Commission of Enquiry into South West Africa Affairs (Odendaal Report) were implemented. This led to the government of the RSA assuming control of important administrative, fiscal and constitutional matters in terms of the implementation of the South West Africa Affairs Act, 1969 (Act No. 25 of 1969). The Act basically signified the political and economic integration of SWA with the RSA.

This curtailed the jurisdiction and responsibilities of the (White) Legislative Assembly and the Executive Committee of the SWAA, thus surrendering certain functions to the South African government. The authority of local government bodies was diminished, becoming largely similar or equivalent to that of a South African provincial administration.

Furthermore, the SWA/Namibia Account was administered as part of South Africa’s State Revenue Fund. All tax proceeds originating in SWA/Namibia were accounted for separately. Subsequently, the following instruments of government and financial institutions operated during this period:
- the Territorial Revenue Fund and the Territorial

Development and Reserve Fund, administered by the SWAA;
- the South African Bantu Trust, for the development of those homelands which had not yet received self-governing status;
- the Revenue Funds of the self-governing territories (Owambo, Kavango, Caprivi, Damaraland, Namaland and the Rehoboth Gebiet);
- South Africa's State Revenue Fund which also appropriated funds directly to SWA/Namibia for functions such as defence, police and foreign affairs.

This system was adjusted to the local situation but based on the public finance model used in the South African public service. As a consequence of these adjustments and the running of a dual system, public finance became complicated, awkward and uneconomical.

During the 1970s, massive capital expenditure programmes such as road and dam building projects were embarked upon, predominantly in areas which had previously received negligible public services. Government activities quickly began to expand and departments such as public works, water affairs and roads in particular made heavy demands on the national budget. For reasons of low profitability or heavy capital requirements, private initiative was lacking and public corporations such as the FNDC were established for certain sectors. The budget deficits that arose from this high level of government expenditure were charged to the SWA/Namibia Account. As expected, this growth in the government sector raised the standard of living for some sections of the population.

After 1980

By the late 1970s political developments in both SWA and RSA as well as in the international arena indicated that the Territory was moving towards independence. Subsequently, it was decided once more to adjust the dispensation of SWA/Namibia's public finance.

A Central Revenue Fund was created as well as the process of the consolidation of the 28 departments of the SWA/Namibia Account, the activities of the South African Development Trust (SADT) and the Post Office Fund into 11 departments initially. The various functions which had previously been controlled from Pretoria were transferred to Windhoek. These included the public service commission, public finance, police and defence. The number of government departments increased to 16.

A further modification concerned relations between the territorial authorities, the SWAA and the SADT. The Proclamation of Representative Authorities (AG 8 of 1980) was promulgated. Apart from serving as an interim constitution it allowed each of the eleven population groups to establish their own representative authority and fiscal arrangements were aligned with it. Regional revenues, such as personal income tax, were supplemented by contributions from central government.

Even though the RSA in the 75 years of its governance of SWA/Namibia derived revenue from fisheries, mining and agriculture, most if it was used for infrastructural development.

Customs and excise were paid by the South African government in acknowledgement of SWA/Namibia's participation in the Southern African Customs Union (SACU). Prior to 1981/82, in terms of the South West African Affairs Act, SWA/Namibia received a fixed 2.55% of the net receipts of the customs and excise pool after appropriation to other member states of SACU, namely Botswana, Lesotho and Swaziland.

Trade statistics could not be provided in the absence of border control between SWA/Namibia and the RSA, which prevented SWA/Namibia to share more in the customs pool. The former's contribution was arbitrarily determined, depending primarily on South Africa's ability to pay and on representations made by SWA/Namibia from time to time. Its share in the net customs and excise pool was estimated to be between 13% (1985/86) and 6% (1988/89) of total customs and excise collections in the Common Customs Area.

General sales tax, which was introduced at a rate of 4% in 1978/79, gradually rose to 9% in 1989 and to 15% (with effect from 1 December 2000), became the single most important source of tax and revenue for the central government. However, this 'own' revenue was insufficient to cover total current capital expenditure together with transfers to the lower levels of government.

By the time AG 8 was implemented, the RSA realised that there was no hope of SWA ever becoming a fifth province of that country, so the government then started recording debts incurred by SWA.
(See Chapter 2 - Pre-Independence Debt)

The Road to Independence

The League of Nations, which had been established after the First World War became defunct. After the Second World War the United Nations (UN) was instituted in San Francisco on 24 October 1945, with its headquarters in New York.

During 1945 the Prime Minister of the Union of South Africa, General J C Smuts, filed for the formal annexation of SWA with the UN, but the request was denied.

The next year, the UN ruled that former League of Nations mandated territories, including South West Africa, were to become trust territories and were to be granted independence under an agreed timetable. The Union rejected this ruling.

At the same time the Pan-African movement began and many African countries were spurred on to claim independence from their colonial masters.

SA repeated its request for the formal annexation of SWA in New York on 4 November 1946. General Smuts claimed that he had the support of traditional leaders, but Chief Hosea Kutako, leader of the Chief's Council of the Herero in SWA, refuted this.

After the National Party came to power in May 1948, the Union of South Africa followed a policy to progressively strengthen economic and political ties between the Union and SWA, to the extent that it would eventually be impossible not to consider SWA as part of the Union.

Locally, the Chief's Council increasingly made contact with other traditional leaders to further their cause with regard to independence. This stance gave rise to a 40-year long drawn-out dispute with SA. Chief Kutako appointed the Reverend Michael Scott to give oral evidence to the United Nations Fourth Committee on South Africa's administration of SWA. At his request Scott became a permanent representative for the SWA liberation movements at the UN in 1950.

The apartheid policy implemented in SA was equally applied in SWA and caused even more strife. The forced removal of blacks from the Old Location in Windhoek to Katutura and the shooting of protesters on 10 December 1959 was the catalyst for the radicalisation of the oppressed people and intensified resistance against apartheid. Petitions to the UN were followed by the formation of the Owamboland People's Organisation - the forerunner of the South West African People's Organisation (SWAPO) which fought to free the country from South African rule.

When the South African government introduced and enforced more segregation policies in the early 1960s, the UN General Assembly decided to revoke South Africa's mandate over SWA.
The South African government however, rejected this resolution and SWAPO launched an armed struggle on 26 August 1966.

In October 1966, the UN General Assembly ended South Africa's mandate for the administration of SWA and assumed direct responsibility for the Territory until its independence.

In 1968 the United Nations Security Council passed a motion to change the name of the Territory to Namibia, but this was not recognised by the RSA.

Council for Namibia

The UN established a Council for Namibia and entrusted it with the task of securing indepen-dence for Namibia. In 1976 the UN's Council for Namibia established the United Nations Institute for Namibia as a training and applied research institute. The Institute aimed at making available the necessary documentation required when the country became independent. A new government would face enormous challenges in correcting the imbalances of the past during the illegal occupation of the country by SA. The white-controlled economy and the socio-economic structure and institutions had reduced the black people in the Territory to mere vassals. These structures and institutions needed to be identified and dismantled and in this context ten sectoral studies were undertaken and completed by the Institute. Furthermore, the Institute pointed out that there was a need to prepare a study on national development strategies for a post-independent Namibia.

After many years of international pressure on the RSA, including trade and financial sanctions, an Administrator-General was appointed on 1 September 1977, to prepare the country for independence. In July of the next year the UN Security Council appointed Martti Ahtisaari as UN Special Representative for Namibia. The election that was held in the country in December 1978 was won by the Democratic Turnhalle Alliance, after which a Constituent Assembly was formed. This was not recognised by SWAPO, which did not participate, nor by the UN.

In April 1978 the RSA accepted an independence plan proposed by the five Western Powers, as did the SWAPO party. The Security Council of the UN adopted Resolution 435 on 29 September 1978. The Administrator-General proceeded with his task and promulgated the Abolishment of Racial Discrimination - Urban Residential Areas and Public Amenities Act, 1979 (Act No. 3 of 1979).

On 20 December 1982, the UN General Assembly asked the Institute to prepare a comprehensive document on all aspects of socio-economic reconstruction and development planning. In cooperation with SWAPO, the Office of the United Nations Commissioner for Namibia and the United Nations Development Programme, the Institute produced the publication 'Namibia: Perspectives for National Reconstruction and Development' first published in 1986. This study was divided into 27 chapters which collectively provided a comprehensive view of the socio-economic conditions in the Territory at the time. It further identified the restrictions imposed by South African occupation and elaborated on the various options which could be applied to overcome those constraints to establishing a just society.

Chapter 19 of the said publication deals with the country's monetary system, financial institutions and public finance.

Following a protracted armed liberation struggle and numerous negotiations and meetings, all parties concerned finally came to an agreement on the independence of Namibia in 1988. The signing of the trilateral agreement between South Africa, Angola and Cuba and a bilateral agreement between Angola and Cuba on 22 December 1988 in New York set the wheels of transformation in motion. On 1 March 1989 the Transitional Government of National Unity

was dissolved. On 1 April 1989 Resolution 435 was implemented and the stage was set for Namibia to become an independent state.

An election for the Constituent Assembly took place on 8 and 9 November 1989. Over 97% of registered voters went to the polls. Martti Ahtisaari certified that this election was 'free and fair'.

The election results were as follows:

SWAPO	57.3%
DTA	28.6%
UDF	5.6%
ACN	3.5%
NPF	1.6%
FCN	1.6%
NNF	0.8%
SWAPO-D	0.5%
CDA	0.4%
NNDP	0.1%

Chapter 2

This chapter provides an account of the events leading to the establishment of the Bank of Namibia, immediately before and after independence. Furthermore, the legal framework within which the Bank operates is dealt with. It touches on areas such as the Constitution, Bank of Namibia Act and other relevant legislation being administered by the Bank. The developments that led to the introduction of the national currency in Namibia and how it changed the operations of the Bank are also covered. It explains and describes the functions of the Bank and its financial relationship with customers and stakeholders too.

Establishment of the Bank of Namibia

During the 1960s, 1970s and 1980s the development of South West Africa was overshadowed by politics. The rest of the world was hesitant to invest in a country whose future was uncertain. Historically too, when African countries gained their independence, often civil war and unrest followed and the economies of those countries collapsed.

On the one hand, the South African government in the 1960s was pumping money into SWA, wanting the world to believe that the country would not be able to support itself. On the other hand, SWAPO had gradually become ‘a government in waiting’. SWAPO’s mission was to liberate SWA from apartheid South Africa’s illegal occupation. As a liberation movement, SWAPO had adopted a strategy to educate and train the cadres who would eventually occupy important management and administrative positions after Namibia became independent. Thousands of young Namibians in exile were therefore trained in friendly countries to become doctors, nurses, economists, administrators and in other professions. The United Nations Institute for Namibia also played a significant role in preparing Namibia for independence.

Furthermore, SWAPO approached the UNO (today the UN) and other sympathetic organisations outside the country for assistance. They obliged and in cooperation assisted SWAPO in drawing up possible strategies in all aspects of government for when the country became independent.

Even before independence, the need for a central bank was identified as one of the priorities by SWAPO. A strategic decision was taken that there would not be any economic disruption after independence was attained. SWAPO also realised early enough that there could and would be no economic development if peace and stability were not maintained in the country.

As an organisation SWAPO knew the country’s natural resources, its fish stocks and its agricultural potential. SWAPO was also aware of the fact that the country would need its own currency, backed by sound economic management practices. Furthermore, no country could develop economically without a central bank to regulate the currency and administer monetary policy. SWAPO also knew that it was important to consult other countries within the southern African region. Namibia had to plan its own economic destiny.

In 1988 SWAPO approached Olof Palme of Sweden about the possibility of assistance specifically with the establishment of a central bank after independence. He offered the organisation the services of a specialist banker, Erik Lennart Karlsson, who had assisted many other African countries in the banking business. On a top secret mission the then President of SWAPO, Dr Sam Nujoma and SWAPO Secretary of Finance, Hifikepunye Pohamba, went to Rome, Italy and met with Karlsson. At this meeting, banking and economics for an independent Namibia were discussed and SWAPO referred to the publication of the Institute for Namibia namely ‘Namibia: Perspective for National Reconstruction and Development’ in which the various options for the currency system and central banking had been investigated.

Namibia’s de facto membership of the Rand Monetary Area (RMA) meant that it did not have an independent monetary policy and only had limited control and management of its national wealth. It was essential for the government of an independent Namibia to establish its own mo-netary system and governing authority as soon as the necessary arrangements could be made.

Four varying basic currency system options were offered for consideration and were:

- the fully autonomous currency board system or enclave without a central bank or a currency board system;

- a currency board or enclave with a limited discretionary monetary authority or central bank;
- a common currency union with a supra-national central bank; or
- an independent currency monetary system with a fully-fledged central bank.

These options are discussed briefly for the sake of clarity:

Currency board or enclave without a central bank or a currency board system

Namibia would be expected to continue using the ZAR as the sole currency and be guided by the RMA. There would thus be no central banking institution and functions which would otherwise be performed by a central bank, would be performed by the Minister of Finance in consultation with the SARB. The SARB would, in other words, be the principal authority on overall monetary and financial matters and be the custodian for the management of foreign exchange reserves. As before, there would be free movement of capital within the RMA although this flow would favour SA which had a much more developed capital and money market.

A currency enclave or board with limited discretionary monetary authority or central bank

This option was slightly more sophisticated and would have some influence over the domestic economy. Despite some control, this system had the same main disadvantages and others as the first option, for instance:

- every additional unit of its currency in circulation must be acquired for value;
- exchange rate policy is that of the dominant partner;
- interest rates must materially move in line with those of the dominant partner; and
- the country must suffer the cost of imported inflation without any effective monetary tool to counter it.

A common currency union with a supra-national central bank

Under this option, a joint central bank and a common currency is shared by a group of countries. An example of this system is the West African Monetary Union. To prevent any individual country from influencing monetary and financial policy for its sole interest, the responsibilities of the central bank are jointly managed within a framework of joint decision-making.

An independent monetary or currency system with a fully-fledged central bank

This last option was consistent with the policy objectives and fundamental aims of the new government, as an independent monetary system with a fully-fledged central bank would consolidate genuine independence and development.

It would further allow the country to issue its own independent currency backed by its own reserves. This system is found in most developed and developing countries. The central bank would, in respect of monetary and financial policy matters, have a wide range of discretionary powers. It would be able to initiate an expansion or contraction of its economic assets and liabilities and could exercise considerable influence over monetary and financial conditions in the country, over the various banks and the financial sector in general.

Given the country's limited experience in monetary policy management, the second option was considered the most favourable. This option would enable the new Namibian government to benefit from South Africa's experience while at the same time providing the country some scope for an independent monetary policy.

Namibian Constitution

The Constituent Assembly Proclamation was published on 6 November 1989 and dealt with preliminary issues such as the adoption of certain rules and regulations concerning their meetings. It also stipulated that the Constituent Assembly was to draw up the Namibian Constitution, which had to be adopted by a two-thirds majority of the said Assembly as well as the date on which the constitution would come into force. Furthermore and most importantly, the Constituent Assembly had to determine the date for the independence of Namibia. The UNTAG peacekeeping mission arrived and the first democratic UN supervised election was held in the country on 8 and 9 November 1989.

As if to affirm that the world was changing, the Berlin Wall came crashing down during this election. This event heralded the end of the cold war and the beginning of a new world order.

Over and above the many other important issues for which provision had to be made in the constitution, the establishment of a central bank in Namibia also had a place. The Bank of Namibia's legal foundation is enshrined in Article 128 (1) of the Republic of Namibia's Constitution which reads: 'There shall be established by Act of Parliament a Central Bank of the Republic of Namibia which shall serve as the State's principal instrument to control the money supply, the currency and the institutions of finance and to perform all other functions ordinarily performed by a central bank.'

The Namibian Constitution was accepted and approved by all parties on 9 February 1990.

After more than a century of colonial rule the country finally became an independent sovereign State - the Republic of Namibia - on 21 March 1990. His Excellency, President Dr Sam Nujoma, was sworn in as Namibia's first President on the same day.

The fight for self-determination had been won, but the battle for economic independence had just begun. Everything was lined up for the process of creating a central bank for Namibia and the introduction of Namibia's own currency.

International Support

After SWAPO had met with Karlsson in 1988, he called upon the Swedish government to assist with the establishment of a central bank for independent Namibia. Sweden, through the Swedish International Development Agency (SIDA) started preparing for the setting up of a central bank once the country became independent.

Before SIDA provided the necessary support, two fundamental questions were addressed namely:

- whether Namibia would need its own currency; and
- whether Namibia would be able to introduce such a currency instead of continuing to use the ZAR.

SIDA then embarked on an investigation into the modes for the establishment of a central bank, by, inter alia:

- undertaking study visits to other central banks in the region; and
- by holding a seminar with other central banks in the southern African region on their experiences of developing central bank activities in the shadow of the RSA.

SIDA's final report, setting out the arguments for having a central bank and detailing the steps to be taken to establish such a bank was completed in March 1989. It was found that Namibia could indeed establish its own central bank and introduce its own currency, but that the country at that time lacked the human resources and economic expertise to take on this enormous task. SIDA saw this as an opportunity to further assist an independent Namibia by proposing and offering a SIDA assistance package for the creation of a central bank to the government in Namibia.

Based on the recommendations in SIDA's final report, the new Namibian government entered into an agreement with SIDA in which the latter undertook to:

- provide Namibia with a fully-fledged, Namibian-staffed, self-sufficient and well-functioning central bank, with a proper race and gender balance;
- contribute to financing the introduction of the country's own currency. The intention was to strengthen the monetary independence of Namibia as well as to ensure an efficient and effective management of the country's financial resources. One key issue at stake was the strengthening of Namibia's autonomy in relation to the RSA, which had hegemonic control over Namibia's economy;
- assist the Bank of Namibia with training of staff in managerial and other positions and to improve their skills. The services of knowledgeable consultants were procured with the aim of establishing a uniquely Namibian institution that would be on par with central banks worldwide; and
- assist with the computerisation of the Bank of Namibia.

The services of the Swedish advisor Erik Karlsson were secured and he was commissioned to
assist with the creation of the central bank.

From the outset in July 1990, in cooperation with the International Monetary Fund (IMF)/United Nations Development Programme (UNDP) and SIDA, the Bank of Namibia worked toward becoming a fully-fledged institution. In this context, SIDA provided the Bank of Namibia with the services not only of the Deputy Governor (Karlsson - who later became Governor), but also of a training manager.

SIDA focussed on:

- a recruitment strategy for the Bank and an ambitious staff training programme, funded by SIDA to the amount of Swedish Krone (SEK) 4.04 million;
- a computerisation strategy developed by short-term consultants after which it was implemented and again funded by SIDA to the amount of SEK 19.1 million; and
- a new national currency.

Furthermore, on an ongoing basis, personnel would be trained to keep up with developments in the banking sector.

Banking Statutes

With independence and in terms of the Namibian Constitution, all existing legislation governing the country as well as the banking industry was inherited by the new Namibian government. Relevant to the banking industry were: the Currency and Exchanges Act, 1933 (Act No. 9 of 1933); the Prevention of Counterfeiting of Currency Act 1965, (Act No. 16 of 1965); the Banks Act,1965 (Act No. 23 of 1965); and the Building Societies Act, 1986 (Act No. 2 of 1986).

To change the status quo and establish its own central bank, the new government had to either draft new legislation or amend existing legislation. Subsequently, to fulfil its obligations, a new legislation for the establishment of a central bank for Namibia was drafted and passed by Parliament in 1990.

The Bank of Namibia Act, 1990 (Act No. 8 of 1990)

The Bank of Namibia Act, 1990 (Act No. 8 of 1990) provided a legal framework within which the establishment of a central bank could be carried out. With technical assistance from the IMF, UNDP and SIDA, the Bank of Namibia was founded on 16 July 1990.

Provision was made for the appointment of a Governor and the Board of the Bank with six members to serve on it. The Governor was designated as the Chairperson of the Board and also Chief Executive Officer.

Name of the Bank

In 1989 Swabank registered and changed its name to Bank of Namibia, but as the country was preparing to become an independent state the Minister of Finance-in-waiting, Dr Otto Herrigel, requested that the name be ceded to the new central bank of Namibia which was to be established a few months later. Dr Herrigel further suggested that Swabank rather use the name Commercial Bank of Namibia. The Namibian Banking Corporation was then established by the parent company Nedbank, after which the Commercial Bank of Namibia was registered in 1990. The central bank thus became the Bank of Namibia.

Staff and Offices

All SARB staff at the Windhoek branch had three options:

- to be transferred back to the RSA;
- to join the Bank of Namibia; or
- to resign/retire.

The majority chose to join the Bank of Namibia. A few, including the branch manager, returned to the RSA. The Bank of Namibia took up office in the building which previously housed the Windhoek branch of the SARB in Göring Street, (now Daniel Munamava Street) Windhoek. It primarily took over the functions already performed by the Windhoek branch of the SARB up until then. There was only one department (Operations) with a staff complement of approximately 63.

This Operations Department had three divisions, namely:

- the Currency Division (issuance of coins and notes);
- the Banking Division (clearing and payment of cheques); and
- the Accounting Division.

The SARB maintained its branch in Windhoek until the Bank of Namibia commenced its operations on 1 August 1990. With its creation, new employment opportunities were created at the Bank. Positions were advertised and, where possible, appropriately qualified personnel were appointed.

Given the difficulty of recruiting nationals experienced in central banking, by 31 January 1991, the Bank of Namibia in the first year had appointed 42 nationals in positions which were previously occupied by staff recruited by the UNDP, IMF and SIDA. In the meantime the training of recruited staff in the various disciplines started in earnest.

The ZAR remained legal tender in Namibia and the Bank became the agent of the SARB for issuing and receiving South African currency. The Bank of Namibia continued to provide a clearing house facility for cheques and interbank clearance settlements.
Besides the Governor's and the General Manager's offices, the Bank had seven departments by 1991. Four of these departments were housed in the former SARB building and two in the Capital Centre in central Windhoek. Subsequently one of these, the Supervision Division, moved from there to the Sanlam Centre the following year. The Exchange Control Division was housed in the CDM building.

The accommodation of staff in four separate and distant buildings had a number of disadvantages, of which internal communication was the most predominant.

The Inauguration of the Bank of Namibia 15 July 1990

Issuance of National Currency 1993

Preparations for the introduction of a national currency, named the Namibia Dollar, commenced soon after independence. The Technical Committee on the National Currency was formed in September 1990 and charged with performing this task. This committee consisted of representatives of the Ministry of Finance and the Bank of Namibia. Dr Johan Jones* (committee chairperson), Paul Hartmann (secretary) and Dr David Rush* were appointed from the Ministry of Finance. The other two members were Erik Karlsson* and Emanuel Lule* from the Bank of Namibia. (*now deceased).

According to the Bank of Namibia Act, the President had to decide on the monetary unit and its symbols on the one hand. On the other hand, approval of the Minister of Finance was required for the denominations, composition, form and design of the national currency.

The Technical Committee had to produce specifications and devise proposals for notes and coins and organise the tender process. When the tendering was concluded and the Cabinet had selected the winners of the designs and decided upon the printer and minter, the Committee had to follow up on the Cabinet's decision.

As described in the Bank of Namibia Act, the Bank issues the national currency and arranges for the printing of notes and the minting of coins.

Specifications and Tendering

On 7 October 1991, international tenders were called for the design and printing of currency notes, to reach the Bank of Namibia no later than 30 April 1992. Professional local artists checked and evaluated the received designs whereafter, in May 1992, all the designs were presented to the Cabinet. On the basis of quality, appearance and quoted price, the Cabinet decided to award the tender for the printing of the notes to AB Tumba Bruk, Sweden. In September 1992, the Bank of Namibia signed the contract with that company. According to the contract, one third of the currency notes were to be delivered to the Bank not later than August 1993; the residual amounts at a later stage, to be decided upon by the Bank.

All designs received for coins were rejected by the Cabinet, after which it was decided to announce a competition for coin designs in June 1992. The competition was launched in the same month with the closing date being 28 August 1992. More than 140 sets of designs were received. After scrutiny by professional artists and technical experts, the Cabinet decided to award the prize for the designs of the N$1 and N$5 to Bernard Sargent of the South African company Metal Image. The designs for 5c, 1Oc and 5Oc were awarded to the mint of Finland. Quotations for the minting of these coins had to be received by the Bank of Namibia by 9 October 1992.

Early in December 1992, the Cabinet awarded the tender contract for the minting of the entire series of the Namibian coinage to the mint of Finland. The contract between the Bank of Namibia and the mint of Finland was signed in January 1993.

The Swedish government agreed to provide the Bank of Namibia with part of the capital (SEK 20 million), needed to introduce a new national currency to be used to pay for the production costs of the banknotes.

Awareness Campaign

In order to inform and educate the Namibian people on the implications and practical details of the national currency, an awareness campaign was launched. A National Currency Committee was established with the Deputy Governor as Chairperson and the Public Relations Officer as Vice-Chairperson in order, amongst other things, to oversee the campaign. The Committee held its first meeting on 4 February 1993, after which meetings were held on a regular basis until the notes were issued.

To ensure that the entire population of Namibia would accept the new currency with pride, the Committee, with the assistance of a local advertising agency, formulated a mass communication strategy to launch the new currency.

Under the auspices of the training coordinator, staff training sessions were undertaken to inform and educate the staff about the requirements and implications for them and the Bank, on the introduction of the national currency.

At the ordinary meetings with the commercial banks, information was given about the introduction of the national currency. The banks were requested to present to the Bank all possible questions that could be raised in connection with the introduction of the currency. Cooperation between the top management of the Bank and the commercial banks via a technical committee was very fruitful, especially when it came to clarifying and making public the payment techniques to be used for money transactions between Namibia and the RSA.

Special meetings were also held with commercial banks to which representatives of the business community were invited. The campaign was stepped up with television and radio commercials. The theme was: 'There's a new sun rising over Namibia'. All commercial banks, building societies, municipalities, post offices and major retailers were supplied with stands, leaflets, and promotional badges which were displayed and distributed at point of sale stations. A documentary on the Bank of Namibia was produced and screened on local television.

A comprehensive rural road information programme was launched, where teams from the Bank of Namibia, in local languages, informed and educated the Namibians in those parts of the country.

On Monday 30 August 1993 the first consignment of Namibian banknotes arrived at the Windhoek International Airport. Under Police escort, the banknotes were transported to the Bank of Namibia where they were unloaded, unpacked and stored in the vaults. In subsequent weeks the Bank of Namibia delivered smaller consignments of banknotes to the commercial banks in Windhoek. From these banks, sufficient quantities of banknotes were distributed to the various commercial bank branches throughout the country, in anticipation of the official launch date.

Official Launch of the Namibia Dollar

The Namibia Dollar was officially launched by His Excellency the President, Dr Sam Nujoma on 14 September 1993. A ceremony was arranged by the Bank of Namibia and took place at the garden restaurant outside the Parliament building. The ceremony commenced with the signing of a new Bilateral Monetary Agreement (BMA) between Namibia and the RSA by the respective ministers of finance and as from 15 September 1993 the Namibia Dollar became legal tender in Namibia.

Namibia Dollar as Legal Tender

A proclamation on the determination of the monetary units and symbols of the currency of Namibia, as well as a general notice on the characteristics of notes and coins to be issued by the Bank, were gazetted. Specimen notes were sent to foreign central banks. All the arrangements with the IMF, necessary for a country introducing its own currency, were completed.
(IMF: refer to Chapter 5)

Before the Namibian coins could be fully utilised, coin-operated machines (parking meters, public telephones, etc), which only accepted South African coins, had to be converted and calibrated to accept Namibian coins.

The first consignment of Namibian coins arrived at Walvis Bay on 13 November 1993. From there they were transported by road under Police escort and delivered to the Bank's premises in Windhoek and from there to commercial banks. Issuing of the coins started on 8 December 1993.

Design and Symbolism of Namibia Dollar Banknotes

The primary function of banknotes is to serve as a safe, secure and generally accepted payment medium. However, banknotes also serve as a national symbol of any country - almost on par with the national flag and the coat of arms. In a way banknotes act as the 'business card' of the country, conveying a message to the holder.

The first design of the banknotes dates back to 1993, when N$10, N$50 and N$100 banknotes were officially introduced. In 1996, the N$20 and N$200 notes were put into circulation. These latter two notes were redesigns of the original notes and contained a number of trademarked security features, including anti-copier and anti-scanner features. The original banknotes were subsequently upgraded to include the same security features as the N$20 and N$200.

Themes

Each banknote conveys a message about the country in which it is used. In Namibia's case the message contains four main themes:

The armed struggle for the achievement of independence is symbolised by Kaptein Hendrik Witbooi; the Sovereignty of the country is symbolised by the Namibian Parliament; while Nationalism is symbolised by the national flag and the coat of arms. The Natural Diversity of the land is symbolised by the Namibian antelopes.

Design features on the obverse side

The main motif of the note is the portrait of Kaptein Hendrik Witbooi, with other visible features on the obverse side being:

- the vignette of the Namibian Parliament building;
- guilloche borders - an ornamental border formed by two or more interlaced bands around a series of interlocking circles around parts of the note;
- the name, number and value of the denomination;
- the Governor's signature and the name 'Bank of Namibia';
- the Namibian coat of arms;
- Braille dots (each note has a different number of dots);
- a see-through (perfect) register (each note has a different pattern);
- the serial number of the note on the left and right hand side of the note;
- a silver windowed metallic thread; and
- a silver foil patch on the N$100 and a gold foil patch on the N$200 banknotes.

Design features on the reverse side

The main motifs of each of the denominations of the banknotes are depictions of common Namibian antelopes: N$10: Springbok; N$20: Red Hartebeest; N$50: Kudu; N$100: Oryx; and N$200: Roan Antelope. The other visible features on the reverse side of the note are:

- guilloche borders around parts of the note;
- the name and value of the denomination;
- the name 'Bank of Namibia' and the name of the antelope;

- an outline of the Namibian flag; and
- the reverse side of the see-through register.

Raw material specifications

In the design of the new banknotes, the Bank paid particular attention to the raw material specification, i.e. paper, ink, thread, watermark, foil and varnish.

Security features

Security features found on the different denominations of the banknotes are quite standard across the different denominations. The only major difference is that the N$100 has a silver foil and the N$200 banknote a gold foil, while the lower denominations have none.

Know Your Currency
Inspect security features

WHAT DO I LOOK OUT FOR IN BANKNOTES ?

Follow these three easy steps :

Step 1 : LOOK

Hold the banknote at an angle to see the colour shift in the thread. The word "BON" should also appear.
Hold the banknote up against the light until you see the watermark image. It should match the main portrait (Kaptein Witbooi or Dr Sam Nujoma) on the banknote.

Step 2 : INSPECT

Inspect the numbers carefully to ensure that both left and right match.
Inspect the image of the SPARK' to see the rolling bar from one end to the other on the N$50, N$100 and N$ 200.
Inspect the diamond sign of the OVI on the N$ 10 and N$ 20 to see the colour change from magenta to green in the N$ 20 and gold to green in the N$ 10.

Step 3 : FEEL

Run your fingers across the words "Bank of Namibia" on top of the note and also the denomination on the left edge, to feel the raised ink.
Feel the blind recognition dots for visually impaired people, which appear on each banknote.

KNOW YOUR CURRENCY

The 2021 Modified N$10 Banknote

2015 VERSION

2021 VERSION

What are the significant visual changes on the modified N$10 banknote?

The Governor of the Bank of Namibia, Mr. Johannes !Gawaxab's signature is printed in raised ink on the front side of the banknote. The rest of the security features on the 2021 modified N$10 banknote will remain. The 2021 modified N$10 banknote is legal tender and will co-circulate with the existing N$10 banknote series.

- The signature of the Governor is classified as a Public Recognition (Level 1) security feature on the Namibian banknotes in circulation.
- In terms of section 40(1) of the Bank of Namibia Act, Act 1 of 2020 as amended, the Bank of Namibia updated the security features on the modified 2021 N$10 banknote to effect the change of the Governor's signature.
- This is the first reprint of the N$10 banknote signed by Governor Johannes !Gawaxab.

Bank of Namibia

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Find us on: www.bon.com.na

KNOW YOUR CURRENCY

The Modified **N$20, N$100** and **N$200** banknotes

2015 version

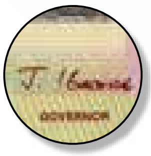
2022 version

2018 version

2022 version

2018 version

2023 version



The Governor of the Bank of Namibia, Johannes !Gawaxab's signature is printed in raised ink on the front side of the banknote. The rest of the security features on the 2023 modified N$100 banknote will remain. The 2022 modified banknotes are legal tender and will co-circulate with the existing N$20 and N$200 banknote series. The 2023 modified N$100 banknote is legal tender and will co-circulate with existing N$100 banknote series.

- The signature of the Governor is classified as a Public Recognition (Level 1) security feature on the Namibian banknotes in circulation.
- In terms of section 40 (1) of the Bank of Namibia Act, Act 1 of 2020 as amended, the Bank of Namibia updated the security features on the modified 2022 N$20, N$200 and 2023 N$100 banknote to effect the change of the Governor's signature.
- This is the first reprint of the modified N$20, N$200 and N$100 banknote signed by Governor Johannes !Gawaxab.

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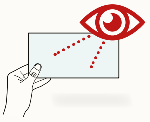
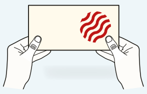
BANK OF NAMIBIA IN CELEBRATION OF 3 DECADES OF INDEPENDENCE, SMOOTH TRANSITION OF POWER BETWEEN 3 PRESIDENTS – PEACE, STABILITY AND PROGRESS – PRESENTS THE NEW N$ 30 COMMEMORATIVE POLYMER BANKNOTE

KNOW THE SECURITY FEATURES



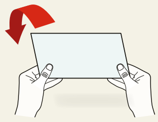
LOOK

Take a careful look at the overall colours. Lift the banknote up to the light and discover see-through feature and shadow image.



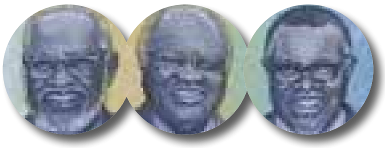
FEEL

Feel the tactility of raised print in the text and portrait.



TILT

Tilt the banknote to check the colour changing and dynamic features in the clear windows and glossy prints.

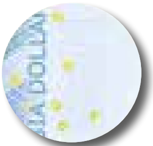


1

Feel the raised print on the portraits of the three presidents:
H.E Dr Sam Nujoma,
H.E Dr Hifikepunye Pohamba and
H.E Dr Hage G. Geingob.

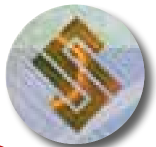
2

Feel the braille dots for the visually impaired.



3

Look at the acronym BoN on the obverse of the note.



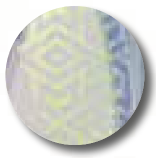
6

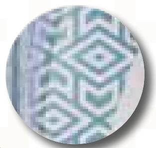
Tilt and observe the green to gold colour change effect in the BoN logo.

Obverse

4

Look at the dynamic effect between the diamond-shaped window and the value 30 with gold ink, (obverse and reverse).





7

Tilt the banknote and see the colour change from gold to blue in the patterns inside the large window, (obverse and reverse).

Reverse

5

Look at the image of the Black Rhino printed on the window, (obverse and reverse).

8

Tilt the gold band containing the BoN logo and the value 30.

THE NEW BANKNOTE IS PRINTED ON A SMOOTH, SECURE AND DURABLE MATERIAL KNOWN AS POLYMER

Bank of Namibia

For more information, contact: Strategic Communications and Financial Sector Development Department. Tel: (061) 283 5114, Fax: (061) 283 5834, E-mail: info@bon.com.na or Website: www.bon.com.na

IMF/UNDP

From the beginning, experts were required to come to Namibia to assist - initially in setting up the Bank to be able to carry out its functions - and also to train Namibian understudies.

While they were here, their remuneration was borne by the IMF/UNDP in conjunction with SIDA.

Given that the IMF/UNDP presence at the Bank of Namibia would only be available for a certain period, it was envisaged that the Bank would need to be staffed by Namibians at almost all levels by mid-1994. By then, with the exception of two portfolios, all staff and management positions in the Bank of Namibia had been filled by Namibian citizens.

SIDA Withdrawal

In addition to the support provided by SIDA, from the outset the main source of revenue was share capital from the Namibian government. Since the NAD was introduced in September 1993, the Bank of Namibia was in a better position to generate income through its issue of the national currency and with its foreign exchange reserves.

In this light, SIDA in 1994 decided that the time had come to cease financing the further development of the Bank of Namibia with grant aid. It judged that the Bank had grown sufficiently and was able to continue its own development using own financial means and managerial expertise. However, the services of the advisor on Capital Investment and the manager for Banking Supervision were retained for another year. SIDA then informed the Namibian government that its support would be phased out and cease on 30 June 1995.

From October 1990 to June 1995 the following amounts in SEK millions had been spent by
Sweden to assist with the development of the Bank of Namibia:

Technical assistance	12.390
Computerisation	19.080
Training	4.040
Financing of the currency	20.000
Total Sek	55.410 million

The contribution made by the IMF/UNDP and SIDA was invaluable and highly appreciated by both the fledgling Bank and the Government of the Republic of Namibia. This assistance enabled the Bank to grow from a young nestling into the soaring eagle it is today - a Centre of Excellence.

New Statutes

In the meantime, as the Bank continued to grow, new laws were enacted. These inter alia include:

- Bank of Namibia Act, 1997 (Act No. 15 of 1997)
- The Banking Institutions Act, 1998 (Act No. 2 of 1998)
- The Payment System Management Act, 2003 (Act No. 18 of 2003)
- Bank of Namibia Amendment Act, 2004 (Act No. 11 of 2004)
- Financial Intelligence Act, 2007 (Act No. 3 of 2007)

Bank of Namibia Act, 1997 (Act No. 15 of 1997)

Whilst the Bank of Namibia Act, 1990 (Act No. 8 of 1990) provided the legal framework which made it possible for the Bank to start its operations over the course of time, it was found that in order for the Bank to fulfil its duties, the Bank of Namibia Act, at the time, needed to be revised to extend the powers of the Bank. As a result, a new consolidated Act was promulgated.

The new Act, the Bank of Namibia Act, 1997 (Act No. 15 of 1997) was passed by Parliament and came into effect on 16 February 1998. The substitution of the old Act for the new one (Act No. 15 of 1997) in essence enhanced the Bank's effectiveness as an institution, and increased its autonomy allowing the Bank to discharge its monetary functions professionally and objectively.

The new Act consolidated certain provisions particularly to:

- modify the composition of, and arrangements for the Board;
- provide more flexibility for the purpose that the General Reserves may be used;
- provide for a reserve balance to be held with the Bank by commercial banking institutions;
- provide for more flexible lending conditions to the government;
- change the end of the financial year from 31 January to 31 December; and
- provide for a developmental role in the financial sector of the Bank.

The new Act provided a better legal framework for the Bank to render central banking services. In terms of both Acts, the functions of the Bank are to:

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

The Bank of Namibia Act, 1997 is the charter and constitution of the Central Bank of the Republic of Namibia. Under the Act, Namibia's parliament ceded the monetary authority to the Bank of Namibia.

Finally, the Bank of Namibia Amendment Act, 2004 (Act No. 11 of 2004) amended the Bank of Namibia Act, 1997, so as to enhance transparency, accountability and efficiency in the policies and operations of the Bank of Namibia. Further, it provides for the clarification of the financial relationship between the government and the Bank; and for incidental matters.

Core Functions of the Bank of Namibia

The core functions of the Bank of Namibia are outlined in the Bank of Namibia Act. Apart from this Act several other laws have imposed duties and conferred powers to the Bank to carry out certain activities.

The combination of these laws has given the Bank the following functions:

- ensuring low and stable inflation (price stability);
- banking supervision;
- payment system oversight;
- issuance of notes and coins;
- banker and economic advisor to government;
- banker to commercial banks;
- foreign reserves management;
- administration of exchange control on behalf of the Ministry of Finance; and
- assisting in the combating of money laundering activities.

Ensuring Low and Stable Inflation

Rising inflation is not conducive to economic growth and development. This is so because inflation erodes the purchasing power of consumers and the value of the nation's savings. The result is that more money is required to buy the same quantity of goods and services. This makes people poorer and economic growth and development is hampered. Given the negative effect of inflation on the economy, central banks all over the world, including the Bank of Namibia, are given responsibilities to manage inflation. The Bank, therefore, uses its monetary policy tools such as interest rates and minimum reserve requirements, etc. to ensure that Namibia's inflation does not hinder or curtail economic growth and development.

Banking Supervision

In the broader economic system, commercial banks are analogous to the circulatory system in the human body. The banks keep a large part of the nation's wealth in a form of savings and provide funds to finance investments necessary for economic growth and development. It is therefore important that the banking system remains sound and stable for the nation's savings to be protected and for the country to prosper. To achieve this objective, banks are regulated with a view to minimising disruptions to the economy. In Namibia, the duties to regulate commercial banks are entrusted to the Bank of Namibia by the Banking Institutions Act, 1998 (Act No. 2 of 1998).

Payment System Oversight

An efficient, cost-effective and stable payment system is vital for commercial activities to take place in any modern economy. This ensures that the sellers of goods and services receive their money from buyers in a fast and secure way. For example, if a debit card is used as a means of payment by the buyer, the system should ensure that the seller receives his/her money in the shortest possible time. In this regard, the Payment System Management Act, 2003 (Act No. 18 of 2003) has given powers to the Bank of Namibia to manage the country's payment system to make sure that commercial activities are conducted efficiently and in a safe environment.

Issuance of Notes and Coins

In terms of the Bank of Namibia Act, the Bank has the responsibility to issue and manage the country's money. The Bank therefore ensures that the country is supplied with quality notes and coins at all times.

Banker and Economic Advisor to Government

The Bank of Namibia

- is the administrator of the government's financial accounts;
- advises government on monetary and financial policies; and
- handles the periodic issue and redemption of Treasury Bills and government bonds.

Services Rendered by the Bank to the Government

As banker of the government, the Bank maintains the State Account. If there is a surplus at any given time, the majority of surplus funds of government is kept in the State Account and no charges are made for any services rendered in line with the Memorandum of Understanding (MoU) between the Ministry of Finance and the Bank of Namibia. There is an interest-free balance on the State Account, while interest is paid on balances above the interest-free balance.

Economic and Financial Advisor

As economic advisor, the Bank of Namibia advises government with a view to achieving high economic growth with low inflation. Issues such as monetary-fiscal alignment are regularly discussed by the Bank of Namibia and the Ministry of Finance.

Advice is given on any economic or financial matter which the Minister of Finance may refer to the Bank for investigation. This includes advice on any matter which the Bank believes may affect the achievement of the Bank's objectives or the performance of its functions under this Act. Furthermore, the Bank may express an opinion on the preparation of the government's budget. The Bank serves as a depository and fiscal agent through which transactions may be conducted with any international financial organisation, such as the IMF, World Bank, foreign lenders or donor agencies.

Public Debt Management

The Bank is entrusted with the issue and management of government debt instruments which include marketing, registering bond holders, receipt of funds, paying interest and capital redemption.

Both the parties jointly agree on the annual borrowing requirement and the issue calendar, as well as the implementation of measures and strategies necessary to further develop the market for government debt instruments.

In May 1991, less than a year after the Bank of Namibia commenced operations, it started with the issuance of Treasury Bills, thus functioning as an agent for government. Initially, only small amounts of government securities were issued, but as the domestic money market developed, the volumes increased. In October 1992 a further step was taken when the issuing of government bonds was introduced. To start with they had a maturity of two years. In December 1992, three-year bonds were issued. Since then, many new government bonds, which are regularly sold at auctions, have been created to attract investors.

Lending to Government

The Bank is only allowed to lend (money) to the government under specific circumstances, such as that loans may not exceed 25% of government's average annual ordinary revenue for the last three financial years. In exceptional circumstances, this percentage may be increased to 35%. All loans must be repaid to the Bank of Namibia within six months and if percentages are exceeded, the Bank must recommend a remedy for the situation to the Minister.

Foreign Borrowing

Before entering into foreign loan agreements, the government and all State Owned Enterprises (SOEs) must consult the Bank regarding the timing, terms and conditions and financial expediency of such loans. If it so happens that the Bank is not in favour of a certain loan, it must report the matter to the Minister and make recommendations on how the situation can be remedied. In the same vein, if the Bank wants to enter into foreign loans the approval of the Minister must be obtained first.

Banker to Commercial Banks
Commercial banks keep accounts with the Bank of Namibia. These accounts are mainly used to buy coins and notes from the Bank and to facilitate payments between banks on behalf of their customers. Banks can also place their surplus funds in the call account offered by the Bank of Namibia.

Foreign Reserves Management
In managing foreign exchange reserves, the Bank of Namibia ensures that the country meets all its foreign liabilities. This includes the maintenance and supply of foreign currencies to pay for government and the private sector's imports and foreign services. Foreign exchange is also crucial to the Namibian economy in that it serves as a formal backing for the domestic currency to support the current monetary arrangement (the one-to-one pegging of the NAD to the ZAR).

Administration of Exchange Control on behalf of the Ministry of Finance
Exchange control involves regulatory measures to directly control or influence the in- and outflow of capital over the country's borders. Exchange control is used to regulate the local demand for foreign currency in order to protect the official foreign currency of the country and to apportion available foreign currency in the best interest of the country as a whole.

For the aim of regulating foreign exchange flows, the Minister of Finance delegated virtually all responsibilities assigned to and imposed on the Treasury, to the Bank of Namibia by way of the Currency and Exchange Act of 1933.

In turn, the Bank of Namibia has delegated several of the exchange control functions to autho-rised dealers such as commercial banks and bureaux de change.

Combating of Money Laundering Activities
With the passing of the Financial Intelligence Act in 2007, (Act No. 3 of 2007) the Bank was given power to serve as the national centre for the collection, analysis and dissemination of information on money laundering to law enforcement agencies. Typically, this is not a function of central banks. However, during the enactment of the law, it was considered appropriate to house this function within the Bank of Namibia. This model was seen as the most cost effective way, given that expertise in this highly specialised field is extremely limited in this country.

Chapter 5

Considering that the success of the Bank of Namibia depends on the partnerships it has forged with different central banks and countries, this chapter explains the Bank's regional and international cooperation and agreements. It focuses on the partnerships among African central banks and the Common Monetary Area Agreement.

International Cooperation

The Bank of Namibia maintains external relations with regional and international financial institutions aimed at financial and monetary cooperation, thus enhancing cooperation and financial integration. Further, the ever-increasing interdependence between different economies and the complexities of the financial systems require greater interaction with different financial institutions so as to ensure that the Bank remains relevant and abreast of key development in the area of economics and finance.

At regional level the Bank cooperates with other central banks through the following institutions:
- the Common Monetary Area (CMA);
- the Committee of Central Bank Governors (CCGB) in the Southern African Development Community (SADC); and
- the Association of African Central Banks (AACB).

Broadly, these institutions have as their objective, cooperation among central banks within the context of deeper regional economic integration underpinned by membership of the Southern African Customs Union (SACU), SADC and the African Union (AU).

On global level, the Bank interacts with international financial institutions, the most notable being the IMF and the World Bank. Foreign central banks, amongst others, include the Bank of England; Bank of Malysia; Sveriges Riksbank (Bank of Sweden); European Central Bank; Bundesbank and the Central Bank of India.

The Bank, through its FICs has applied for membership and filed its intention to be associated with the Egmont Group, which is a network of FIUs. These FIUs meet regularly to find ways to cooperate, especially in the areas of information exchange, training and the sharing of expertise. Details on the nature of interactions between the Bank and the above-mentioned institutions over the past 20 years are documented in the following sections.

Common Monetary Area

Namibia signed a Bilateral Monetary Agreement with the RSA in April 1990 and the CMA's Multilateral Monetary Agreement in April 1992. By doing so, Namibia became a member of the CMA, which allows for the free flow of capital among members which are Lesotho, Swaziland and the RSA.

As a member of the CMA, Namibia has to adhere to the exchange control rules of the CMA Agreement. With the abolition of the Financial Rand on 13 March 1995 and the subsequent relaxation of other restrictions, Namibia virtually abolished all controls on the current account and acceded to Article VIII of the IMF Articles of Agreements in 1996.

As opposed to the big-bang approach where all restrictions are lifted at once, CMA, in principle, took a decision to rather approach the liberalisation of the remaining exchange controls gradually. So far significant progress towards the abolition of exchange controls has been made within the confines of the legislative framework governing exchange controls in the CMA. In 1995 the controls on current account transactions were effectively abolished and in the same year, the control over the movements of capital owned by non-residents were repealed. The control on the capital account transactions of residents have been quantitatively maintained.

In line with this approach, the Bank developed a new reporting system to capture essential foreign transactions data from the commercial banks, in order to ensure greater accuracy of information on cross-border foreign exchange transactions reported to the Bank of Namibia. This system is based on the IMF Balance of Payments classification of foreign transactions and is known as the Cross Border Foreign Exchange Transactions Reporting System. It became operational on
3 March 2003.

Mainly because of its membership of the CMA Agreement, the scope for independent monetary policy in Namibia is limited. However, it does not mean that the monetary policy of the Bank of Namibia has to be the same as that of the RSA at all times. CMA membership was meant to ensure stability and confidence in the economic and financial system of independent Namibia.

The CMA has the following dominant features:

- The NAD (and the currencies of Lesotho and Swaziland) are fixed to the ZAR on a one-to-one basis.
- An explicit requirement that at least a proportion of its monetary liabilities be backed by the reserve currency or other foreign assets.
- Contracting parties have the right to issue own currency and may also introduce measures for domestic savings mobilisation in the interest of developing their respective countries.
- Free flow of capital in the CMA.
- Harmonised exchange control provisions.

Notwithstanding the limited monetary policy scope imposed by the CMA Agreement, the arrangement has worked fairly well in ensuring stable and lower inflation rates in Namibia. Indeed, inflation in Namibia has been a single digit for most of the past five years.

For consultation purposes, the Governors of the CMA central banks meet regularly, usually before the meeting of the Monetary Policy Committee (MPC) of the SARB. At these occasions, Governors exchange information on the quarterly economic developments in their respective country's economies.

The CMA's Multilateral Monetary Agreement makes provision for the establishment of the CMA Commission. The Commission is tasked with facilitating and ensuring that CMA member states comply with the provisions of the Agreement. A key function of the Commission is to make sure that the formulation, modification and implementation of monetary and exchange rate policies are well coordinated within the CMA. Under normal circumstances, the CMA Commission should meet once a year. Furthermore, there are also quarterly CMA exchange control meetings.

Southern African Customs Union

The Bank of Namibia has been providing advice to the Ministry of Finance on revenue-sharing within the framework of SACU of which the members are Botswana, Lesotho, Namibia, the RSA and Swaziland. In this regard, the Bank attends meetings of SACU's Finance Technical Liaison Committee (FTLC) which is tasked to deal with the trade data reconciliation among the SACU member states and eventual revenue calculation on an annual basis. The FTLC then makes recommendations for approval to the SACU Commission and Council of Ministers on the allocation of revenue shares to SACU member states each financial year.

Due to this role in providing the advice on issues of SACU revenue, officials from the Research Department of the Bank of Namibia, in most instances, attend meetings of the Commission and Council of Ministers during which various issues such as regional integration, revenue-sharing, trade and industrial policy in the context of SACU are discussed. Apart from providing advice to government on revenue, the Bank's participation in the SACU forum is important because of the implication of the revenue from the SACU pool on Namibia's international reserves.

Southern African Development Community

Besides membership of the CMA, the Bank is also a member of the CCBG in SADC. SADC is made up of fifteen countries and includes Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar (membership pending), Malawi, Mauritius, Mozambique, Namibia, Seychelles, the RSA, Swaziland, Tanzania, Zambia and Zimbabwe. This Committee was established in 1995 specifically to facilitate and enhance regional cooperation in the area of central banking and related issues. The Committee reports regularly to the SADC Committee of Ministers of Finance and works very closely with the Committee of Senior Treasury Officials in SADC.

Since its inception, the CCBG has made good progress in implementing some of its programmes for enhanced financial cooperation in the region. The CCBG meets twice annually and through a number of technical subcommittees of central bank officials, has undertaken several initiatives aimed at enhancing monetary cooperation.

These are:

- the development of money and capital markets;
- the development of payment, clearing and settlement systems, exchange controls;
- information technology;
- bank supervision; and
- anti-money laundering.

Macroeconomic Convergence

One of the important initiatives of the CCBG was the drafting and signing of an MoU on Macro-economic Convergence, which outlined certain macroeconomic convergence criteria that had to be met by individual SADC countries from 2008 onward. The MoU is aimed at ensuring that all SADC member states pursue economic policies that ensure macroeconomic stability.

For example, the MoU has been annexed to the SADC Finance and Investment Protocol and in 2008, SADC member countries were required to:

- have single digit inflation rates;
- ensure that nominal value of public and publicly guaranteed debt as a ratio of the Gross
- Domestic Product (GDP) does not exceed 60 %; and
- ensure that the public budget deficit as a ratio of the GDP does not exceed 5%.

A key achievement of the CCBG was the development of a comprehensive macroeconomic statistical data base for all the participating SADC countries.

This information is issued in book form. It is updated regularly and has recently been published on the internet with a view to enable policy makers, including central bank governors, to gain a better understanding of the regional economic environment.

Further, a databank with information on issues such as legislation, central banks' relationships with governments, policy objectives, procedures and instruments of monetary policy, and internal administrative structures for each central bank in SADC, has been compiled.

Another notable initiative was the development and adoption of a model central bank law that aims at the standardisation and harmonisation of the legal and operational frameworks of SADC central banks. Essentially, the model law will serve as a guide for central banking legislation in the SADC region. The expectation is that all countries in SADC should align their central bank legislations with the model law as the region moves towards deeper financial and monetary integration.

Coordination of Exchange Control Policies

In the area of exchange controls, a Subcommittee on Exchange Control was established by the CCBG during March 1997 to facilitate the implementation of the SADC Regional Indicative Strategic Development Plan (RISDP). The RISDP is essentially a blueprint for deeper economic integration in SADC with specific targets and timelines.

At that stage, the SADC Exchange Control Committee did not exist. Therefore an MoU on Cooperation and Coordination of Exchange Control Policies in SADC was compiled by the subcommittee in 2004 and was signed by all 14 member states in 2006. The Bank of Namibia became a member as well as chair of the Subcommittee on Exchange Control in SADC in April 2005.

In the absence of the SADC Exchange Control Committee and pursuant to the implementation of Annexure 4 of the Finance and Investment Protocol (FIP), the Subcommittee on Exchange Control, under the chairmanship of Namibia finalised the draft policy framework for the liberalisation of exchange control in SADC during 2007.

It is worth noting that the CCBG Subcommittee on Exchange Control has been driving the liberalisation process from the CCBG point of view. From time to time, this subcommittee also takes on ad hoc projects as assigned by the CCBG with the view to ensuring that the work on the harmonisation of exchange control in the region in terms of the RISDP does not fall behind schedule.

Anti-Money Laundering and Combating the Financing of Terrorism

Apart from the activities discussed, the Bank of Namibia also provided input on the SADC Memorandum of Understanding on Anti-Money Laundering and Combating the Financing of Terrorism (AMLCFT). This MoU establishes a framework to facilitate sufficient convergence of the relevant policies, laws and regulatory practices to ensure that:

- state parties to the MoU act effectively and proportionately against money laundering and financing of terrorism; and
- the policies, laws and regulatory practices in the region meet and support the objectives of the SADC on the FIP.

Information Technology

The Bank of Namibia has been an active participant in the Information Technology Forum (ITF) of the CCBG which was established in 1997.
The objectives of this forum are two-fold:

- to support the projects and initiatives of the CCBG with information systems solutions; and
- to improve the Information and Communications Technology (ICT) function in each SADC central bank.

The key activities that the ITF engages in to achieve its objectives are divided into three areas namely: Business Continuity Management (BCM), regional ICT licensing strategy and information technology governance. The main aim of BCM is to prevent the various threats that can result in the disruption of business operations in SADC central banks. On the other hand, the aim of the ICT licensing strategy is to establish a group licence for SADC central banks to leverage support of common applications and obtain group volume discounts. The purpose of the information technology governance project is to address the needs of the CCBG and its subcommittees by means of improving information-gathering and sharing facilities, improving the facilities for effective communication between central banks, and providing various on-line business applications for central bank activities.

Banking Association

During the process of capacity building in the SADC region, the need was identified for a representative body for the banking industry within the region, hence the establishment of the Southern African Development Community Banking Association (SADCBA) in 1998 as a platform where private sector banks can interact with one another and with their respective authorities. The Bankers' Association of Namibia belongs to the SADCBA which has a close and constructive relationship with the CCBG. The SADCBA is usually invited to the annual meeting of the CCBG, where it briefs the Governors on progress and solicits their views and support on relevant issues.

Committee of SADC Stock Exchanges

The Namibian Stock Exchange (NSX) is a member of the Committee of SADC Stock Exchanges (COSSE) which was established in 1997. The main purpose of the COSSE was to pave the way for cross-border listings and therefore trading and investments among the different member exchanges, in order to facilitate the process of financial integration within the SADC region. COSSE reports to and holds regular meetings and discussions with the CCBG.

All these initiatives are in support of SADC objectives of regional economic integration and represent intermediate steps towards the goal of monetary cooperation and eventually a monetary union. Given that SADC has now explicitly stated its intention to establish a monetary union, it is clear that the various initiatives of the CCBG will underpin and facilitate that process.

Association of African Central Banks

The Bank of Namibia is a member of the Association of African Central Banks (AACB). This Association was established in 1965 with the purpose of monetary cooperation at the continental level. In addition, it was also intended to contribute towards the realisation of the goals of economic integration within the African continent.

The Association has an Assembly of Governors, the governing body comprising all member African Central Banks' Governors (ACBG); a Bureau (composed of the Chairperson and the Vice-Chairperson of the Association and Chairpersons of Subregional Committees); Subregional Committees (composed of Governors of Central Banks of the five subregions as defined by the AU). In addition to these organs, Governors decided to set up a Secretariat which is hosted by the Banque Centrale des Etats de l'Afrique de l'Ouest in Dakar, Senegal.

The Bank of Namibia acceded to the Article of the Association after independence. Since then, the Bank has been an active participant in the activities of the Association including participation in its annual meetings and seminars. The Bank hosted the meeting of the Assembly of Governors in August 2006 in Windhoek. In 2006/2007, Tom K Alweendo, the Governor of the Bank of Namibia, served as the Chairman of the Association. As Chairman, he assisted in setting the agenda of the Association including deliberations on the most suitable route to establish a continental central bank.

An important initiative and programme of the Assembly of Governors has been the adoption of the programme for monetary cooperation that identifies the successive stages for the establishment of a single monetary zone and a single currency for the continent. This programme envisages the harmonisation of the monetary cooperation programmes of the various subregional groupings as building blocks with the ultimate aim of evolving into a single monetary zone by the year 2021 with a common currency and a common central bank. In other words, it is a roadmap in which a step-by-step approach to the creation of monetary union was adopted. Generally activities planned during the first four stages spanning 2003 - 2016, include the establishment of subregional committees of the AACB, adoption by each subregion of a formal monetary integration programme, gradual interconnection of payments and clearing systems and observance of the macroeconomic indicators, amongst others. The final stage, 2016 - 2020, will see the finalisation of administrative and institutional arrangements required for the launching of the African Monetary Union, which will culminate in the launching of the common central bank and currency in 2021.

Although the five regions have reported good progress towards the achievement and establishment of the monetary union, a lot still has to be done. In addition, the AU has proposed a goal of achieving and establishing a monetary union earlier than the time proposed by the Governors. At the time of writing, this issue was still being debated.

Obviously, for a meaningful monetary integration process to take place, it is necessary that there should be sufficient macroeconomic convergence in the regions. Macroeconomic convergence refers to the converging of macroeconomic indicators including the rate of inflation, budget deficit and public debt, amongst others. If these indicators are moving in the same direction in the concerned countries, it is said that these countries are converging and as such are best candidates for monetary integration. In so far as the African continent is concerned, there is a great degree of economic divergence; thus the realisation of a continental bank may not be achieved soon, based purely on these criteria.

Microeconomic and Financial Management Institute

Cooperation between the Microeconomic and Financial Management Institute (MEFMI) and the Bank of Namibia largely revolves around capacity-building through training and technical assistance. In this regard, staff members of the Bank of Namibia participate in courses, workshops and the fellowship development programme offered by MEFMI. The training programmes entail key areas of intervention which are of relevance to the operations of the Bank of Namibia, namely macroeconomic management; financial sector management; debt management; and reserve management, amongst others. Apart from the provision of training to staff members, the Bank of Namibia also benefits from MEFMI in terms of technical assistance in some areas of its operations, such as inflation forecasting.

Eastern and South African Anti-Money Laundering Groups

The Bank also cooperates with Eastern and South African Anti-Money Laundering Groups (ESAAMLG) which is a financial action task force consisting of 14 member countries in eastern and southern Africa, committed to combat money laundering and the financing of terrorism within the ESAAMLG region.

International Financial Cooperation

Beyond the African continent, the Bank continues to interact with various international financial institutions, most notably the IMF, Bank for International Settlements (BIS) and the World Bank, amongst others.

International Monetary Fund

The IMF was conceived in 1944 with the primary objectives of promoting international financial co-optation including facilitation of growth in international trade, promotion of exchange rate stability and provision of funding for countries that experience temporary balance of payment difficulties. Further, the IMF monitors economic and financial developments and provides policy advice with the intention of preventing financial crises. It also provides countries with technical assistance and training in its areas of expertise. Currently the IMF has a global membership of 186 countries.

As the fiscal agent of the government, the Bank keeps records of the transactions between the IMF and the Government of Namibia. These transactions emanate from the country's shareholding at the Fund. In terms of the governance structure, the Namibian Minister of Finance is regarded by the IMF as the Governor with his alternate being the Governor of the Bank of Namibia. The Governor, in his capacity as alternative Governor attends the regular meetings of the IMF where policy issues are generally discussed.

Cooperation with the IMF has been largely limited to Article IV Consultations (Article IV Consultations are the medium through which the IMF consults annually with each member government and attempts to assess each country's economic health to forestall future financial problems) and technical assistance needs. The Bank has been a beneficiary of IMF technical assistance.

This assistance includes:
- the General Data Dissemination Standard Project which was created in 1997 to guide countries in the provision of comprehensive, timely, accessible and reliable economic, financial, and socio-demographic data; and
- more recently, the Financial System Assessment Programme - a joint initiative between the World Bank and the IMF.

The aims of this programme are to increase the effectiveness of efforts to promote the soundness of financial systems in member countries.
Work under the programme seeks to:

- identify the strengths and vulnerabilities of a country's financial system;
- determine how key sources of risk are being managed;
- ascertain the financial sector's development and technical assistance needs; and
- help prioritise policy responses.

The programme also forms the basis of Financial System Stability Assessments in which IMF staff address issues of relevance to IMF surveillance, including risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks. Other assistance received from the IMF relates to issues of risk-based supervision and the payment system.

World Bank

As with the IMF, the interaction between the Bank of Namibia and the World Bank has been generally limited to issues of technical cooperation and capacity building. In this regard, the Bank has been a beneficiary of technical assistance from the World Bank in the areas of macroeconomic modelling and forecasting, policy research, and the prevention, detection and deterrence of anti-money laundering activities, amongst others.

In the area of economic modelling and forecasting, the World Bank and the Bank of Namibia organised a course in macroeconomic modelling in 2009. The course was attended by officials from the Bank of Namibia, the Ministry of Finance, the National Planning Commission (NPC), University of Namibia (UNAM) and the Development Bank of Namibia (DBN). The key objective was to build capacity of the above-mentioned institutions in the area of economic modelling. The World Bank sponsored four resource persons who conducted the training. A further course focusing on the Computable General Equilibrium Model was conducted in the second half of 2009. This assistance was critical as it will lead to the eventual development and setting up of a Computable General Equilibrium Model for Namibia, which can be used for wide economy impact analysis.

World Bank and the Impact of HIV/AIDS

In general economic research, the World Bank funded the technical assistance for the study undertaken by the Bank of Namibia on the impact of HIV/AIDS on the financial sector. The technical assistance was to assist the Bank in measuring the impact of HIV and AIDS on the banking as well as non-banking financial sector of Namibia. The World Bank funded the cost of the consultants who worked with the Research Department in carrying out an actuarial assessment of HIV/AIDS and the modelling of the impact of HIV and AIDS on the banking and non-banking financial sector.

World Bank and the United Nations

Both the World Bank and the United Nations Office against Drugs and Crime assisted and mentored the Bank's officials with the development of Namibia's AMLCFT legislative framework as far as it relates to the Regulations under Namibia's Financial Intelligence Act, 2007. Further, the World Bank assisted the Bank of Namibia with the development of organisational activities of the FIC, including establishing operational procedures, developing financial analysis capability, advising on issues relating to operational independence of the FIC and its security aspects and related data. Further assistance on the operational aspects of the reporting and management of suspicious transactions from reporting institutions as well as support capacity building were also provided.

With the exception of cooperation in the areas of economic research and anti-money laundering, the Bank of Namibia also cooperates with the World Bank in terms of capacity building for reserve management. In this regard, the Financial Markets Department of the Bank of Namibia has been participating in the Reserves Advisory and Management Programme from the Treasury Department of the World Bank. This programme has enabled the Bank of Namibia to enhance its strategic assets allocation, capacity building and portfolio management processes.

Bank for International Settlements

The Bank of Namibia aligns its supervisory standards with the standards of the Basel Committee on Banking Supervision - an initiative spearheaded by the Bank for International Settlements. The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches, and techniques, with a view to promoting common understanding. The Committee uses this common understanding to develop guidelines and supervisory standards in areas where they are considered desirable. In this regard, the Committee is best known for its international standards on capital adequacy and the Core Principles for Effective Banking Supervision to which Namibia adheres.

Cooperation with other Institutions

The Bank of Namibia maintains cooperation arrangements with other international institutions such as the World Trade Organisation (WTO), the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, the ESAAMLG and several central banks.

With regard to the WTO, the Bank of Namibia provides the relevant information within its mandate through the Trade Policy Review Mechanism (TPRM). The TPRM generally involves the surveillance of national trade policies and is a fundamentally important activity running throughout the work of the WTO. The objectives of the TPRM as expressed in Annexure 3 of the Marrakesh Agreement include facilitating the smooth functioning of the multilateral trading system by enhancing the transparency of members' trade policies.

The TPRM also contributes to improved adherence by all members to rules, disciplines and commitments made under the Multilateral Trade Agreements and, where applicable, the Plurilateral Trade Agreements, and hence to the smoother functioning of the multilateral trading system, by achie-ving greater transparency in and understanding of the trade policies and practices of members.

All WTO members are subject to review under the TPRM. In general, the four members with the largest shares of world trade (currently the EU, the United States, Japan and China) are reviewed every two years, the next 16 are reviewed every four years, and others are reviewed every six years. A longer period may be fixed for least-developed member countries.

The review mechanism enables the regular collective appreciation and evaluation of the full range of trade policies and practices of individual members and their impact on the functioning of the multilateral trading system. It is not, however, intended to serve as a basis for the enforcement of specific obligations under the Agreements or for dispute settlement procedures, or to impose new policy commitments on members.

In the area of cooperation with other central banks, a delegation of seven senior officials from the People's Bank of China (i.e. China's Central Bank) led by their Deputy Governor Su Ning visited the Bank of Namibia during October 2006. This was a reciprocal visit because Governor Tom K Alweendo had earlier visited that Bank. The purpose of the visit was to further strengthen ties between the two central banks in the area of economic policy management and more specifically central banking matters. During the visit critical issues pertaining to the conduct of monetary policy in Namibia and China, payment systems reform and the country's economic performance were discussed.

The Bank of Namibia also hosted a seminar on inflation forecasting in collaboration with the Centre for Central Banking Studies of the Bank of England in September 2009. This workshop built and strengthened modelling and forecasting capacity, especially in the area of inflation forecasting.

At the operational level, the Bank maintains foreign exchange and money market accounts with a number of institutions abroad such as the Bank for International Settlements, Bank of England, the Federal Reserve Bank of New York, Bank of Tokyo Mitsubishi Ltd, Westpac Banking Corporation, Union Bank of Switzerland, Nordea Bank Sweden and the SARB. It also has correspondent status relationships with Dresdner Bank Frankfurt, Citi Bank New York and First National Bank of South Africa.

The Bank of Namibia has established and maintains strong relations with many regional and international organisations as detailed above. Besides the institutions mentioned, the Bank also interacts with individual central banks, especially in SADC. With the intensification of regional integration and globalisation processes, it is given that the Bank will continue to pursue cooperation with both regional and international institutions so as to influence the relevant agenda.

PART A

Operations and Affairs of the Bank

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Part A
Operations and Affairs of the Bank

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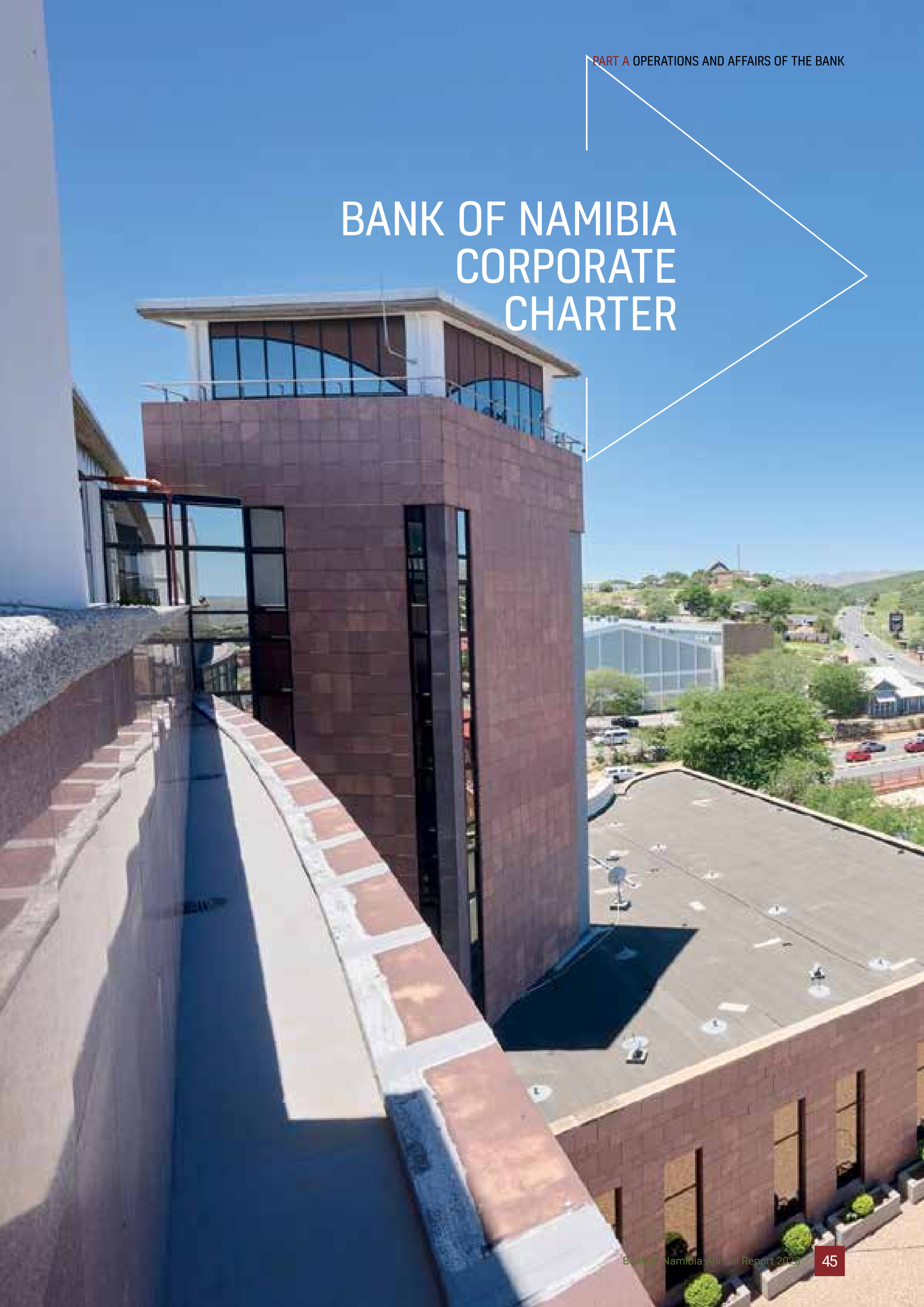


BANK OF NAMIBIA CORPORATE CHARTER

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

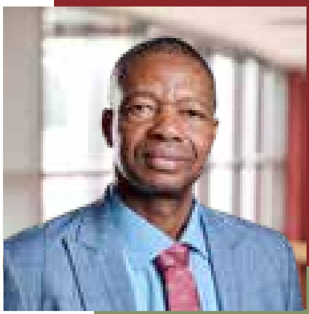
TERM
- Incumbent since 18 July 2014
- Term ended 31 December 2023

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

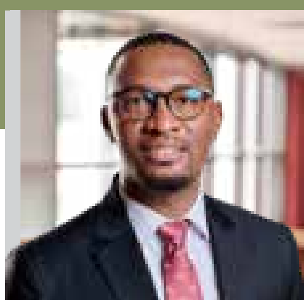
POSITION HELD
- Non-executive Member of the Board

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

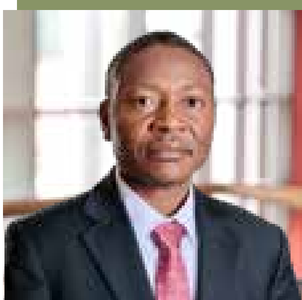
MR MARSORRY ICKUA

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

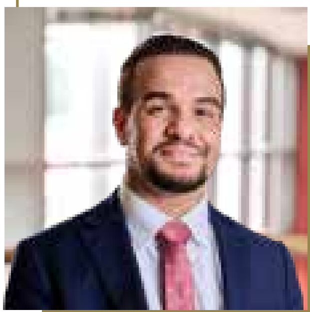
MR LLOYD LONDT

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

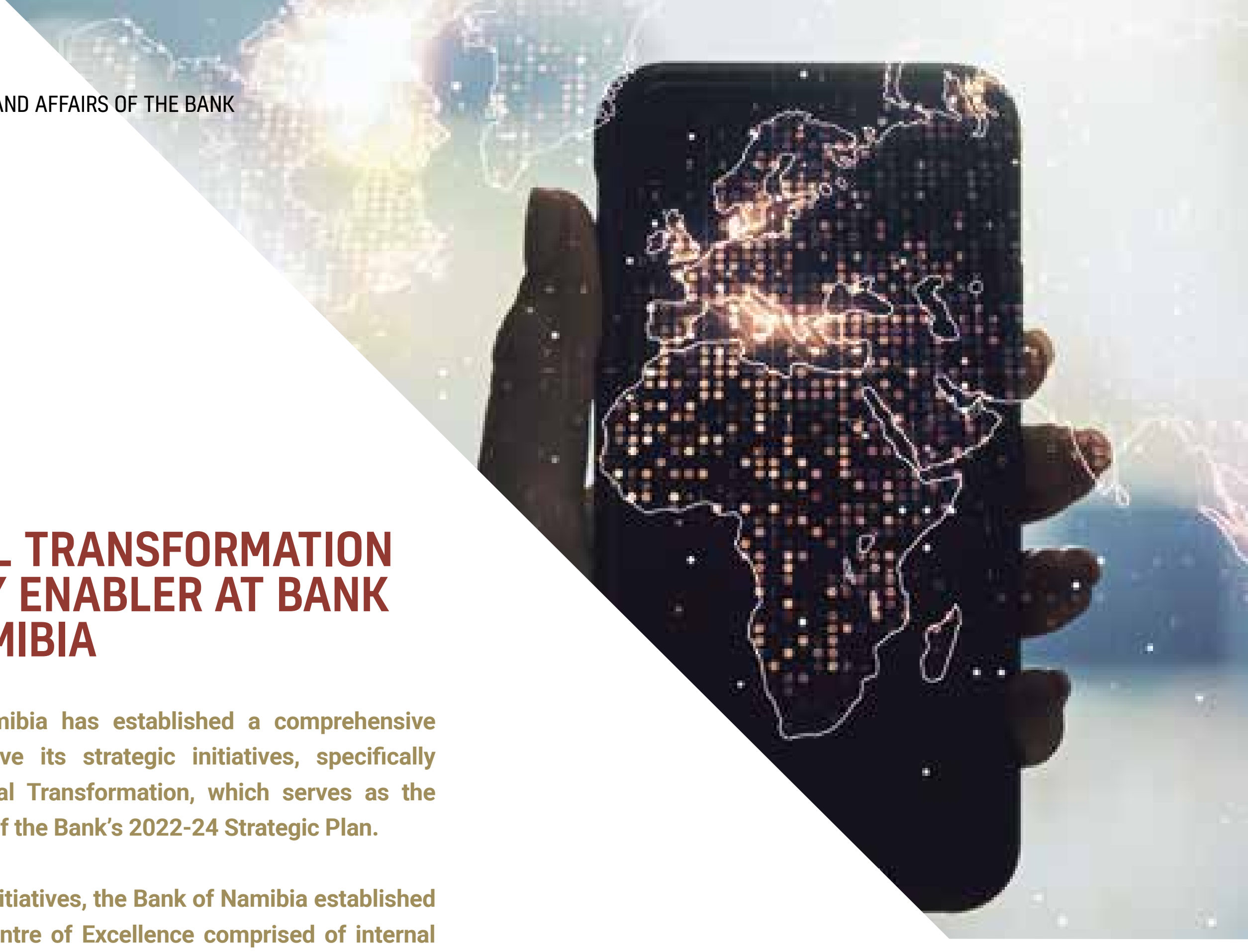
In this section, the High-Level Strategic Objectives are presented in a tabular format with performance measures expressed in terms of the completion rate percentage. These performance outcomes are complemented and further substantiated by a summary of key actual outcomes and achievements during the 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

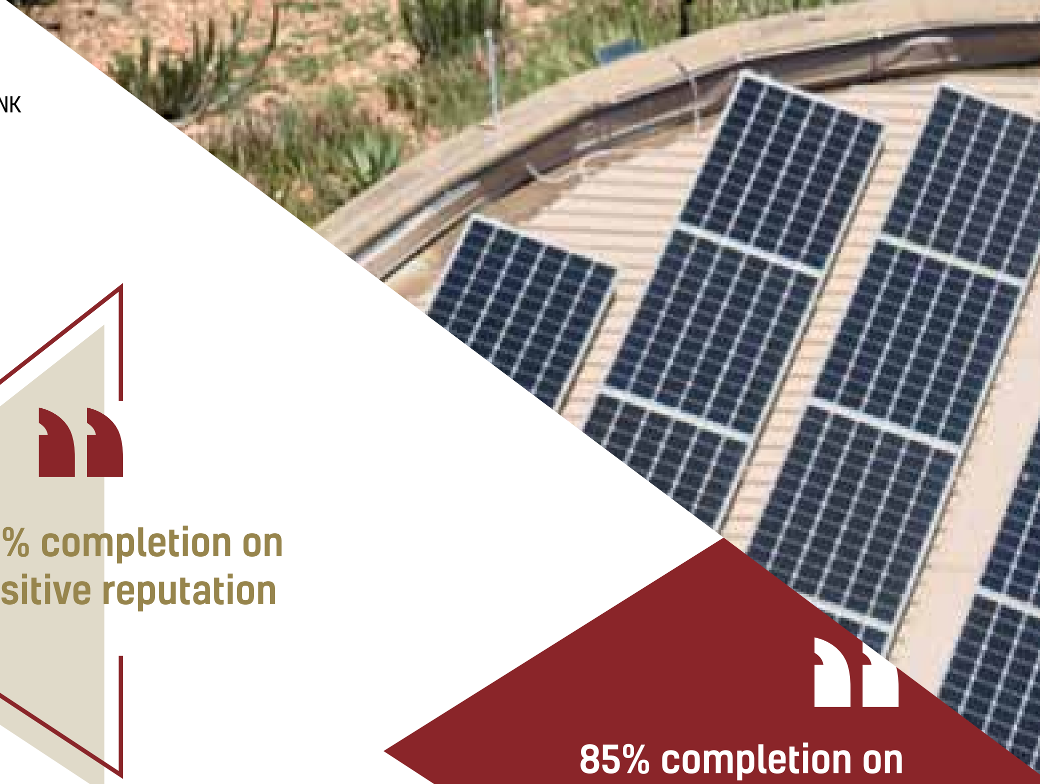


DIGITAL TRANSFORMATION AS KEY ENABLER AT BANK OF NAMIBIA

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

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

STRATEGIC OBJECTIVE 1: MAINTAIN A STABLE AND INCLUSIVE FINANCIAL SYSTEM

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.

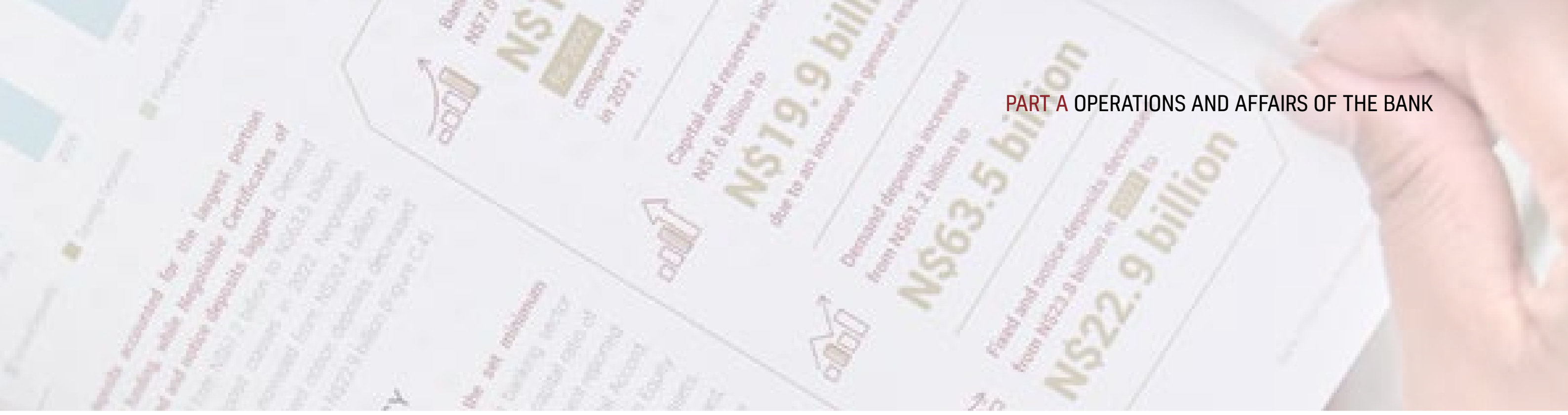
Payment card intrabank transactions in 2023 increased over the transactions reported in 2022. Card transactions processed between merchants and customers of the same banking institution amounted to 766 million, valued at N$57 billion, which is a moderate decrease from the N$66 billion reported in 2022.

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

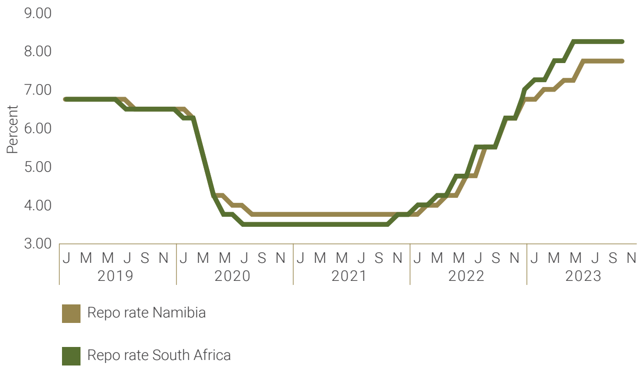
Monetary policy stance during 2023

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

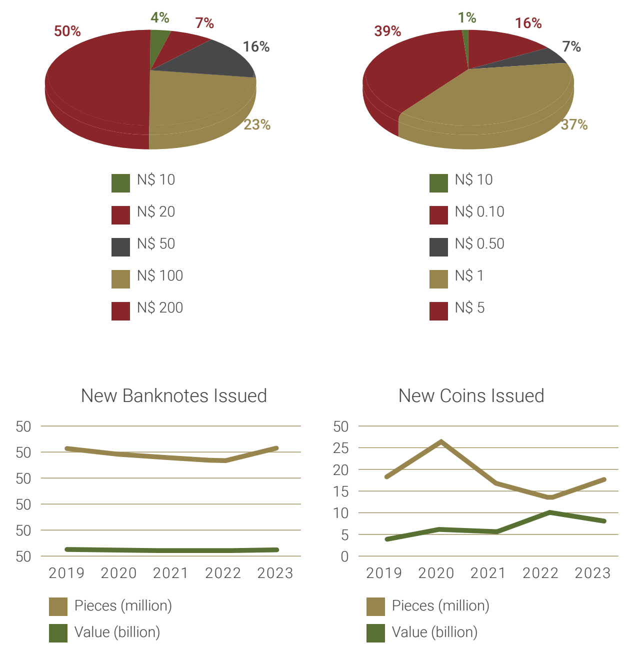
Denomination	2022		2023		Change in value percent
	Value (N$ million)	Volume (million)	Value (N$ million)	Volume (million)	
5c coin	14.5	290.0	14.5	290.7	0.0
10c coin	23.8	237.9	25.1	250.8	5.5
50c coin	17.0	34.0	17.5	35.1	2.9
N$1 coin	119.8	119.8	122.8	122.8	2.5
N$5 coin	75.9	15.2	79.0	15.8	4.1
N$10 coin	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

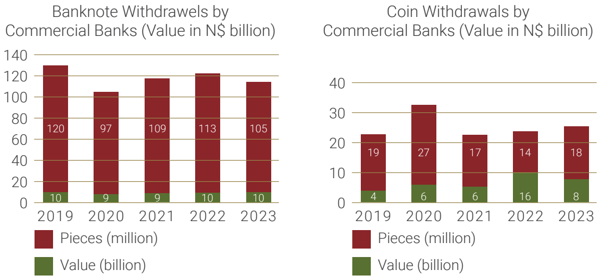
VALUE OF NEW BANKNOTES AND COINS



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

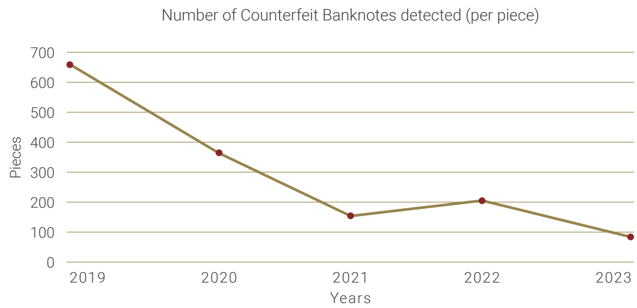


Table A.9

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.

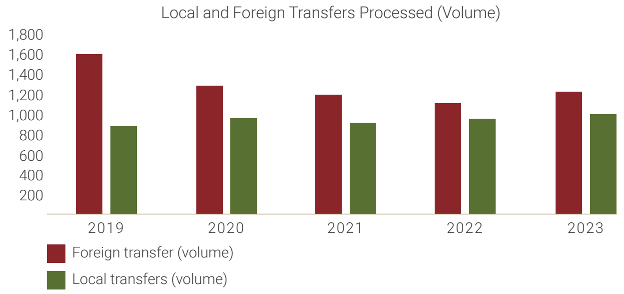
The management of Government accounts remained a key responsibility for the Bank and included the collection and processing of ministerial cash deposits into the respective accounts. In its pursuit of automation of its key business processes, the Bank has identified the public teller function as an area 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

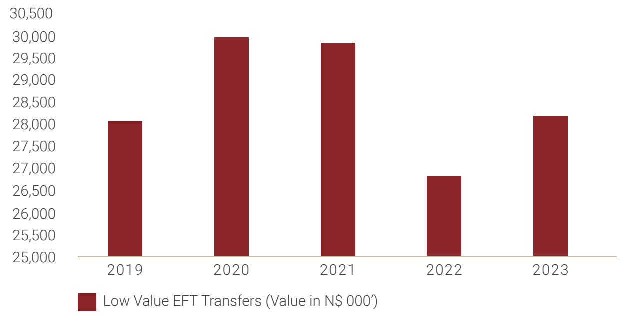
LOCAL HIGH-VALUE AND FOREIGN GOVERNMENT PAYMENTS



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).

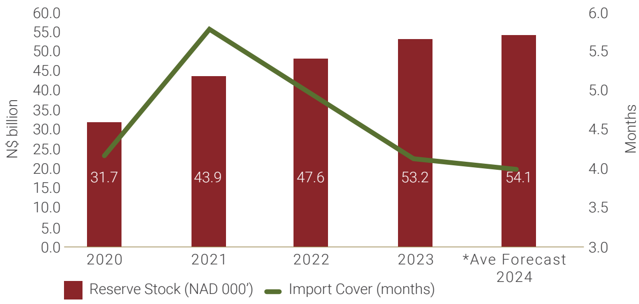
The weakening of the local currency favourably affected the valuation position of the Bank's foreign portfolios when reported in NAD terms. The ZAR, to which the NAD is pegged, faced considerable headwinds in 2023, largely stemming from factors such as China's growth performance, the US Dollar strength, 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.

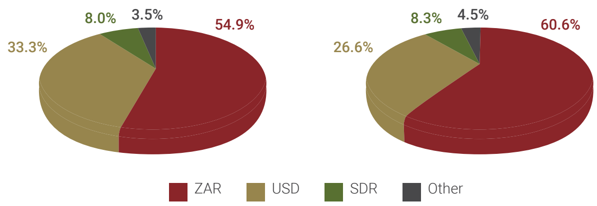


The ZAR and US Dollar (USD) currencies continued to constitute the biggest share of the Bank's overall foreign exchange reserves, as at 31 December 2023 accounting for 54.9 percent and 33.3 percent, respectively. The remaining portion of 11.7 percent was made up of the IMF Special Drawing Rights allocation (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

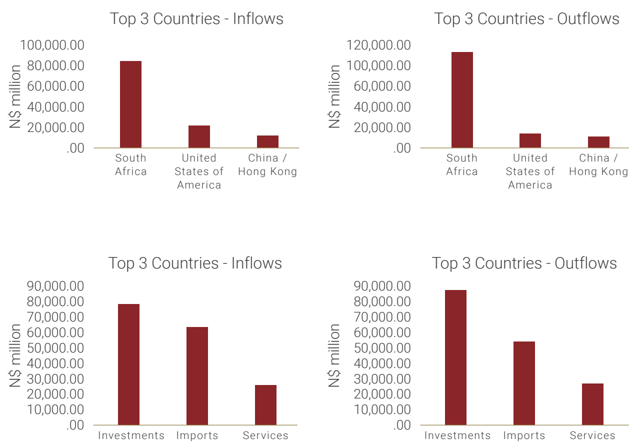
Cross-border transactions (flows of funds) are reported to the Bank via the Cross-Border Reporting System by the Authorised Dealers (ADs) and Authorised Dealers with Limited Authority (ADLAs) within two business days from the value date of the transactions. During 2023, the country experienced substantial 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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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.

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

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

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.

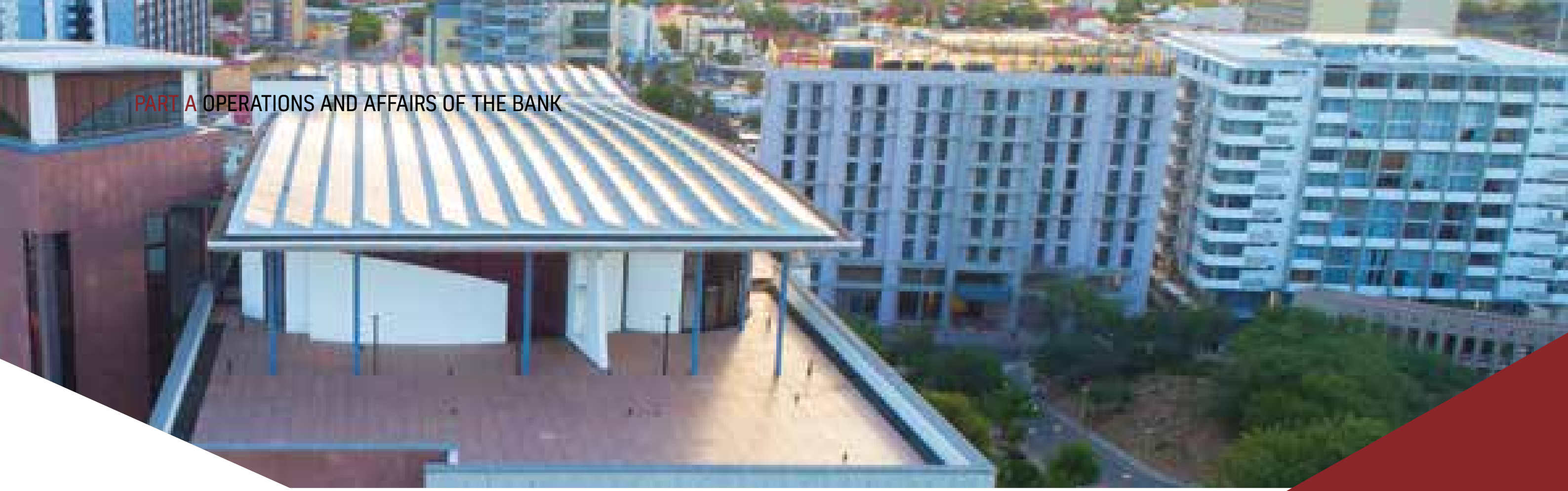
Participating banks in this scheme included FNB Namibia, Bank Windhoek, Nedbank Namibia and Standard Bank Namibia. The applications and disbursements as of December 2023 were as follows:

- 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

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.

Visitors to the exhibition admiring historical artifacts

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

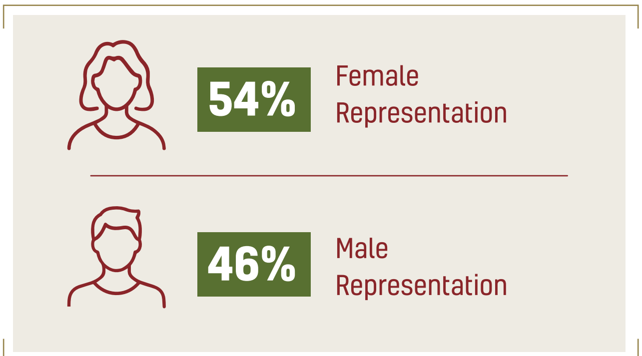
EMPLOYMENT EQUITY

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.



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.

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

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).

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Theme 2: Alignment to Bank business

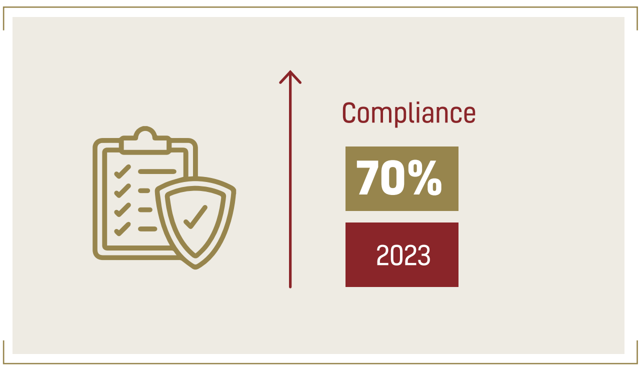
The Bank has taken significant steps to align its technology strategy with the Bank's broader business goals, focusing on assessing and upgrading key areas of its infrastructure and operations. In an effort to achieve this alignment, the Bank engaged a consulting firm to evaluate it's enterprise architecture 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.

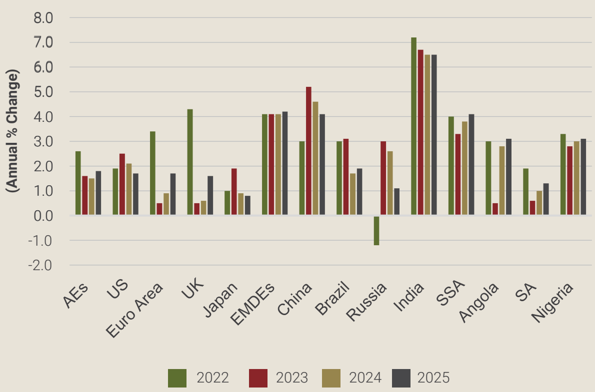
GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

GLOBAL GROWTH AND OUTLOOK

Figure B.1

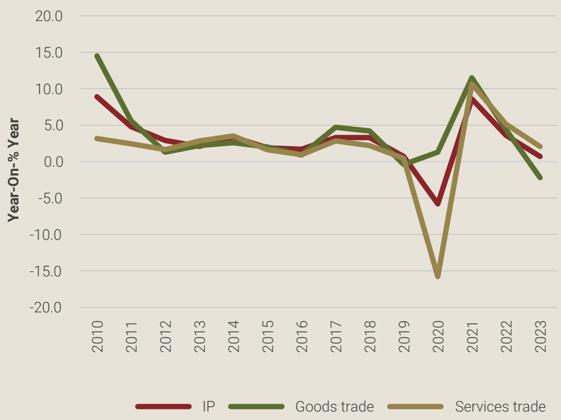
World Economic Output (Annual Percentage Change)

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

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.

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.

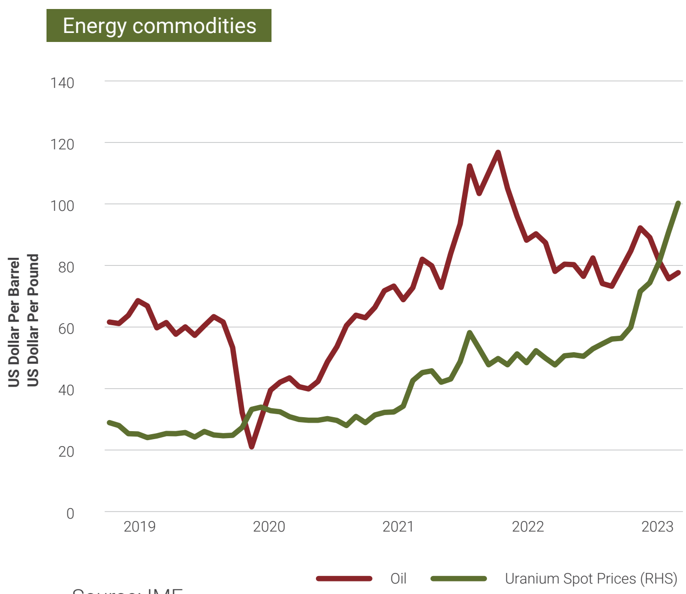
The prices of copper and zinc declined, while that of gold increased in 2023 over 2022. The average price of copper dropped by 3.8 percent to U$8 490 per metric tonne in 2023 (Figure B.2). This was on the back of declining demand, especially from China. Meanwhile, zinc prices dropped by 23.8 percent 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

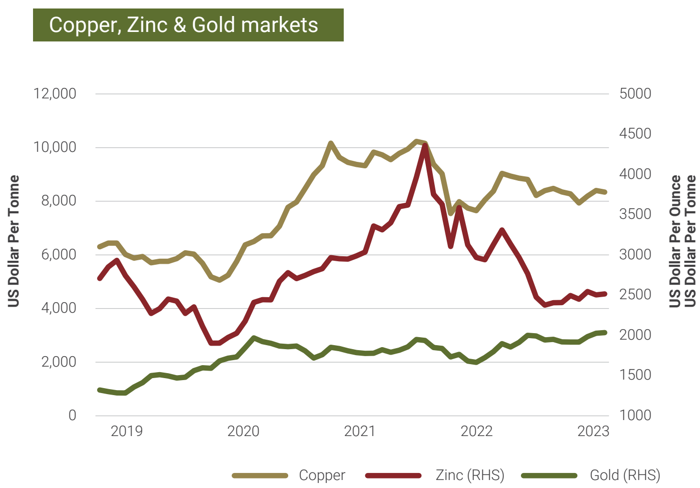
Uranium And Brent Crude Oil



Source: IMF

Figure B.3

Other Commodity Prices

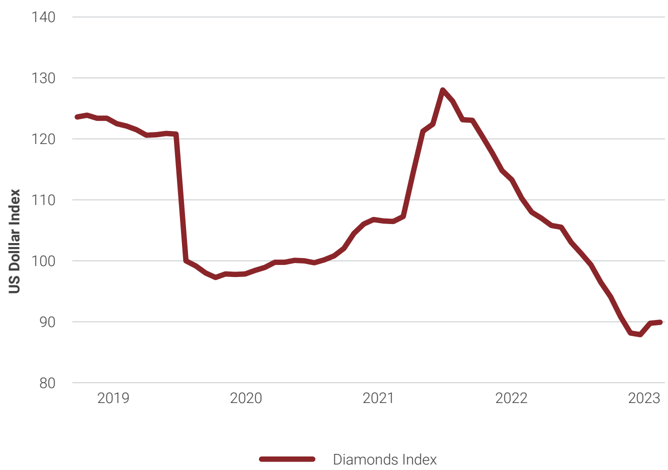


Source: IMF

Figure B.4

Diamonds Market

Unpolished Diamonds Price Index

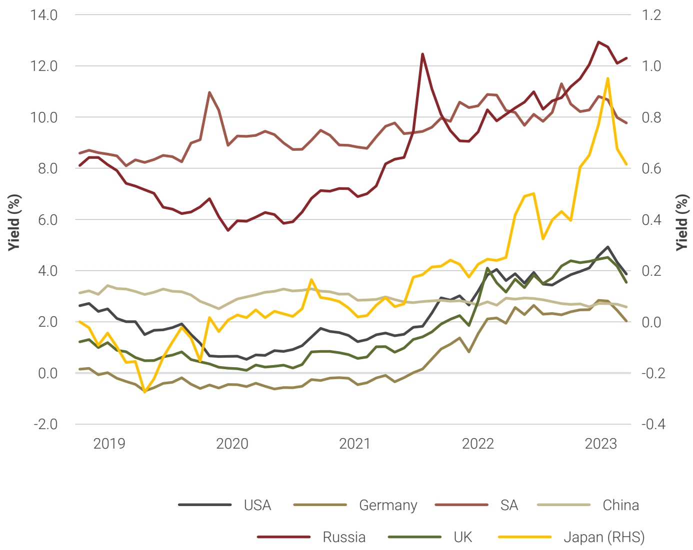


Source: Idexonline.com

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

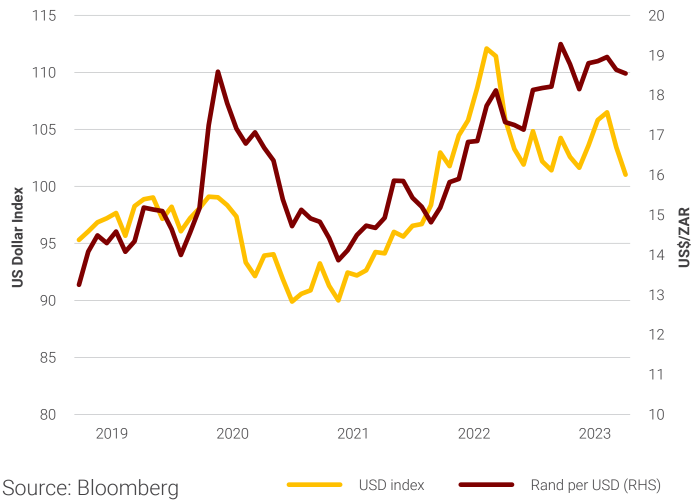
Bond Market



Source: Bloomberg

Figure B.6

Foreign Currency Markets



Source: Bloomberg

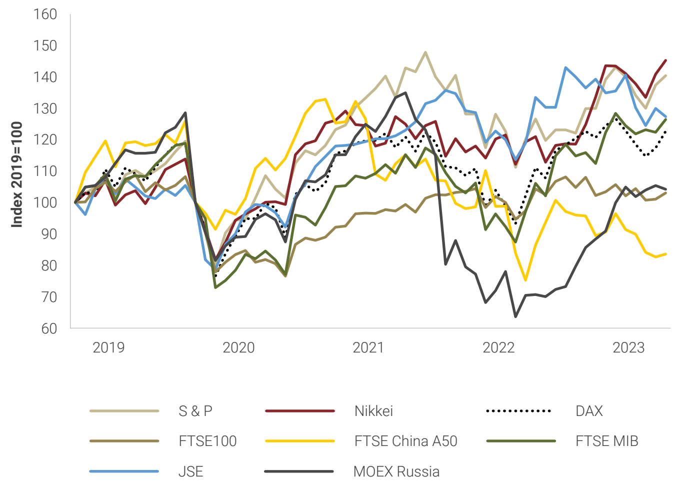
The USD appreciated during 2023, in contrast to the ZAR, which depreciated against major currencies. The USD appreciated against a basket of six major currencies in 2023 (Figure B.6), mainly due to the increased demand for safe-haven assets as political tensions escalated in the Middle East. The stronger 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.

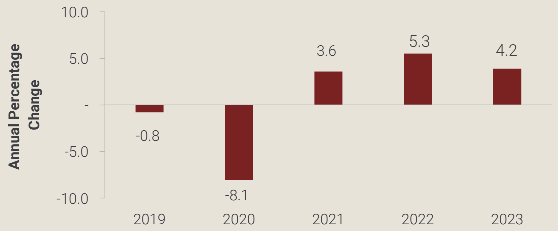
Headline inflation has decreased in several monitored economies, although it remains relatively high overall. Despite this downward trend, most central banks have chosen to maintain their current policy rates. The IMF predicts that global headline and core inflation will slow down in 2023 and 2024, mainly 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

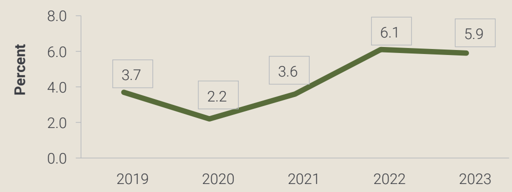
The Namibian economy continued its recovery in 2023, but at a moderately slower pace.

GDP Growth

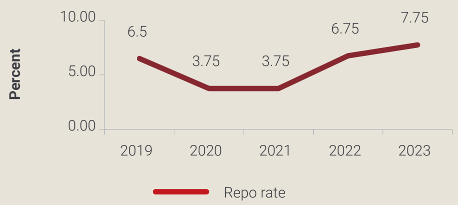


The annual inflation rate decelerated somewhat during 2023.

Overall inflation (%)

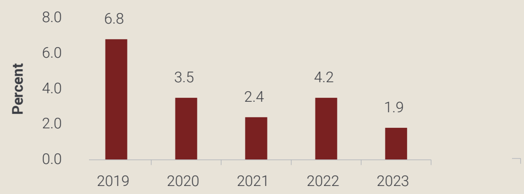


Monetary policy was tightened further throughout 2023.



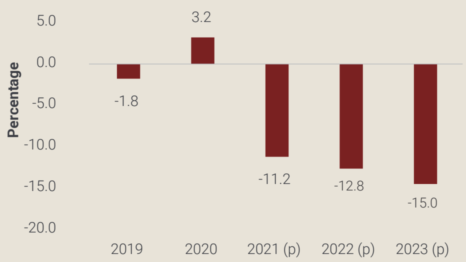
Growth in PSCE weakened during 2023.

PSCE (%)



The current account deficit deteriorated further during 2023.

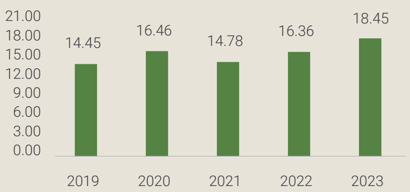
Current account % of GDP



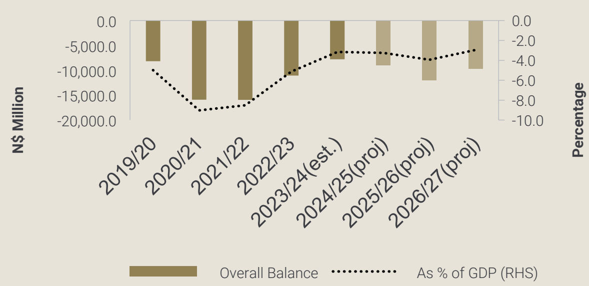
Official reserves remained adequate and above the statutory requirements.

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.

Namibia economic growth

2022

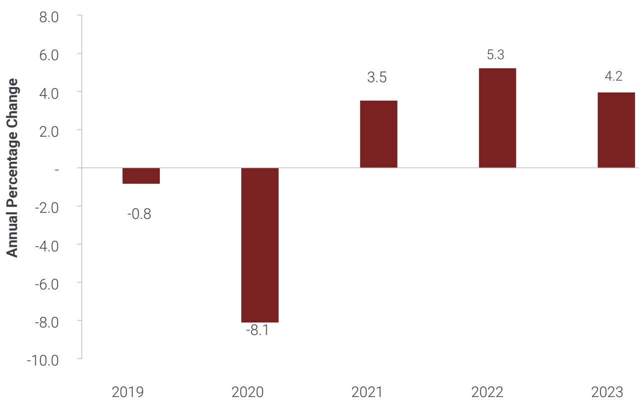
5.3%

2023

4.2%

Figure B.8

GDP Growth



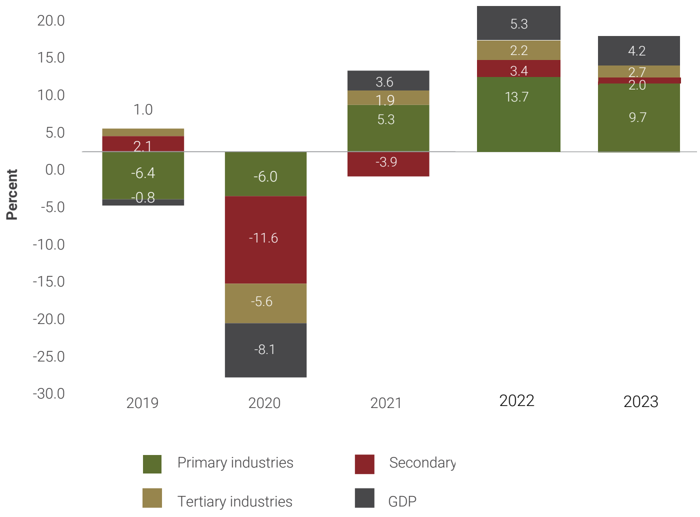
Source: NSA

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

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

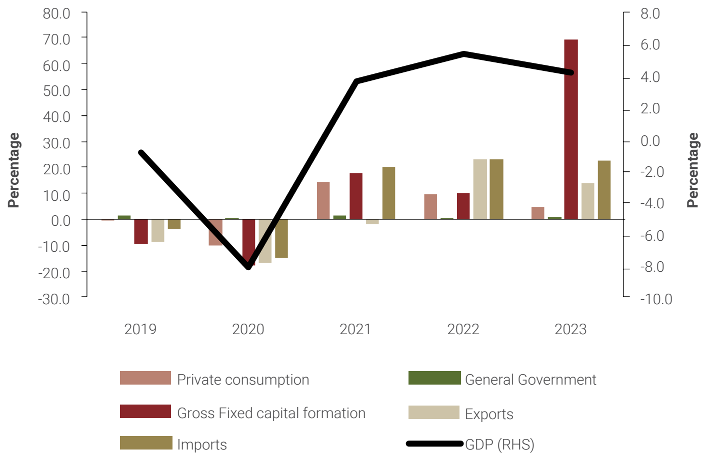


Figure B.11

Primary Industry

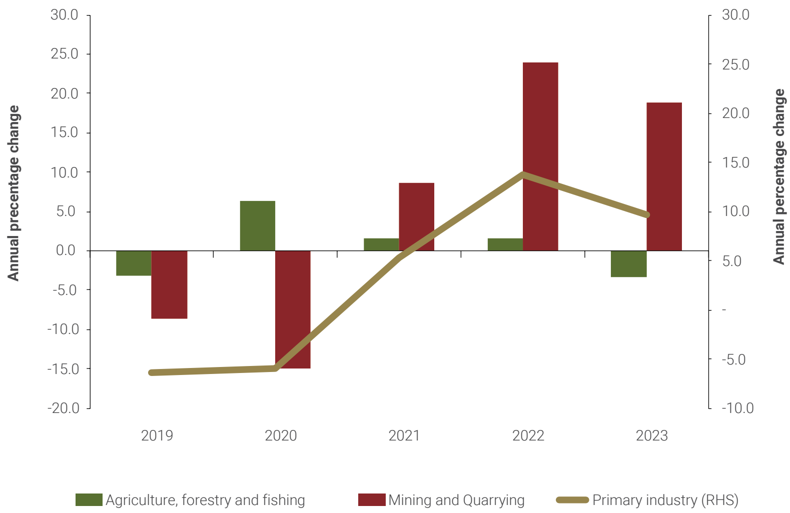
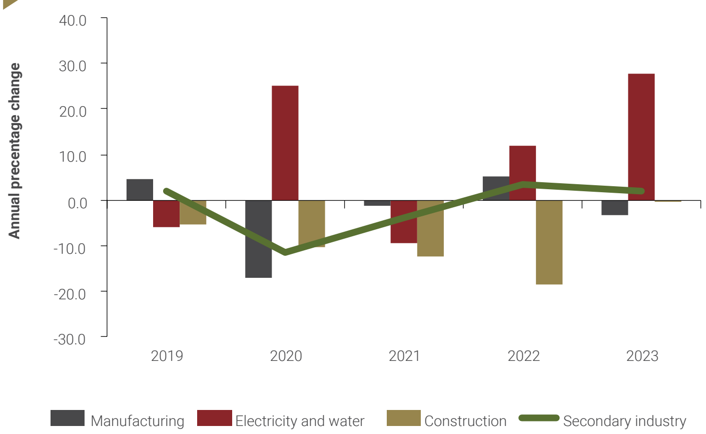


Figure B.12

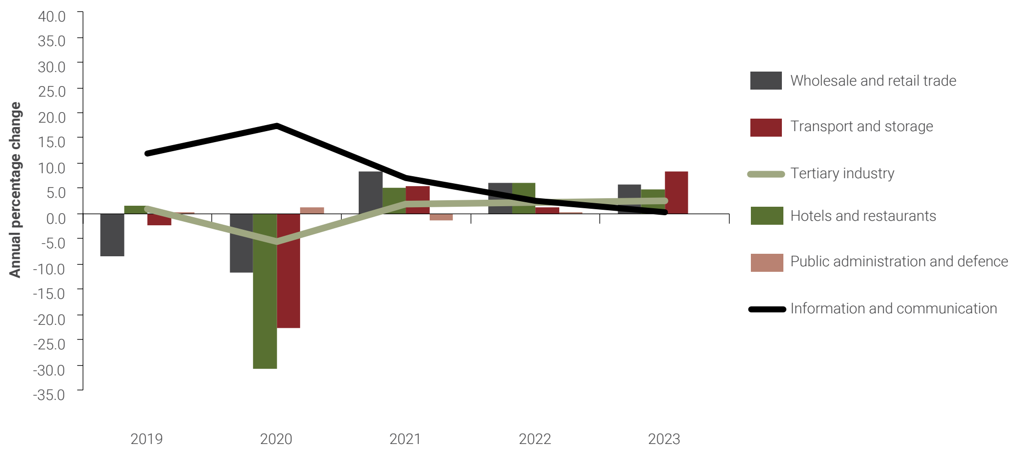
Secondary Industry



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

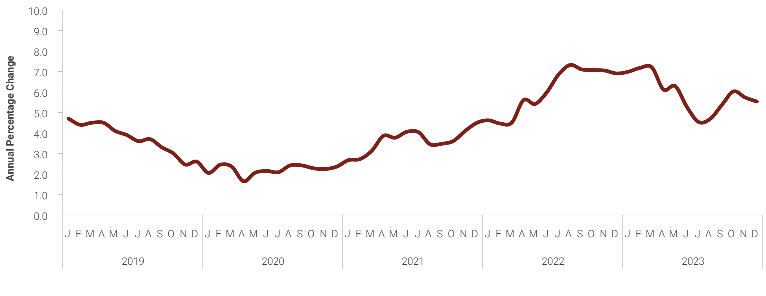
Namibia's inflation rate eased during 2023 compared to the previous year, bringing some relief to consumers. Overall inflation for Namibia declined from 6.1 percent to an average of 5.9 percent during the period under review, as the effect of the tight monetary policy stance penetrated through the economy, 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

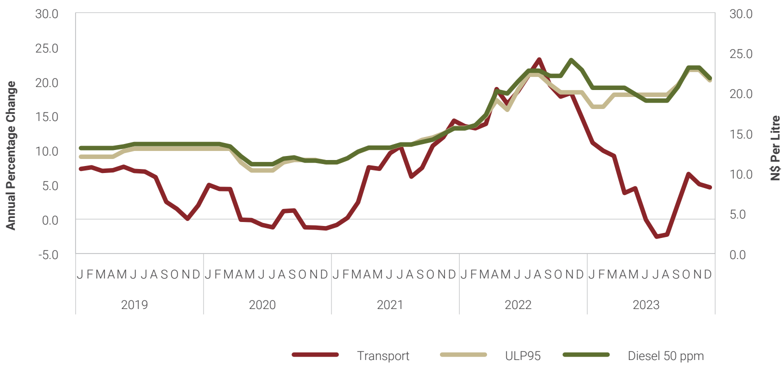
Overall Inflation



Source: NSA

Figure B.15

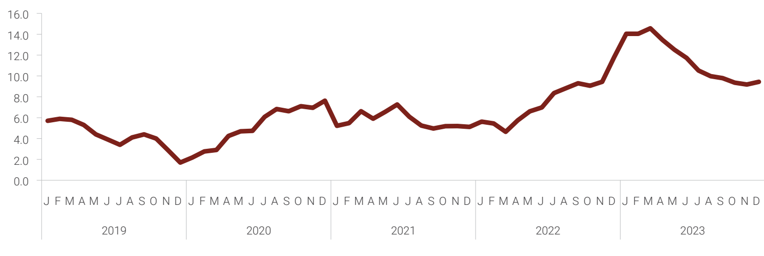
Transport Inflation



Source: NSA and Ministry of Mines and Energy

Figure B.16

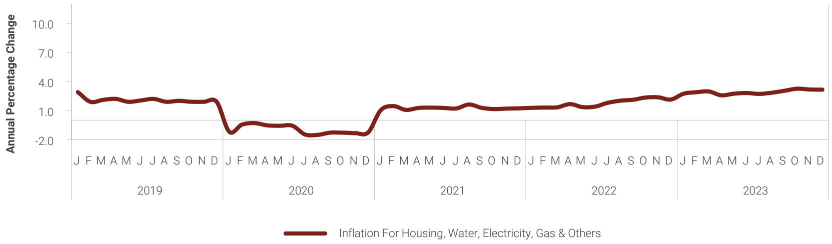
Food Inflation



Source: NSA

Figure B.17

Housing Inflation



Source: NSA

2023

Inflation for food

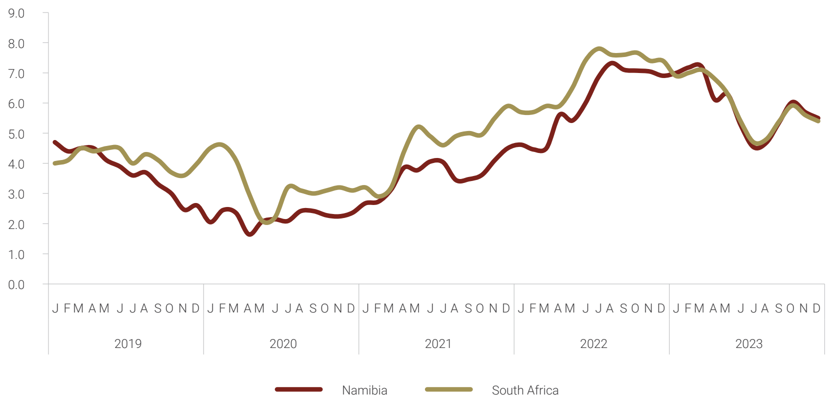
11.4%

Inflation for housing

2.9%

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.

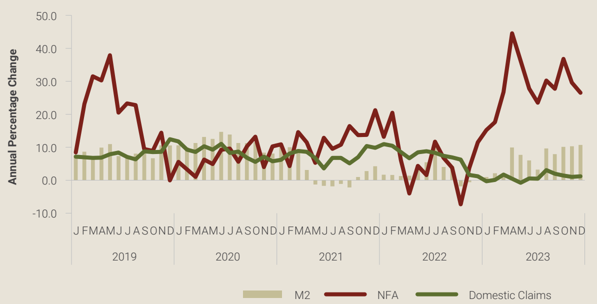
A comparison of the developments in inflation for Namibia and South Africa shows similar trends, especially in 2023. South Africa's inflation rate declined by 0.9 percentage point to average 5.9 percent during the year under review, well congruent with that of Namibia (Figure B.18). The inflation gap 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

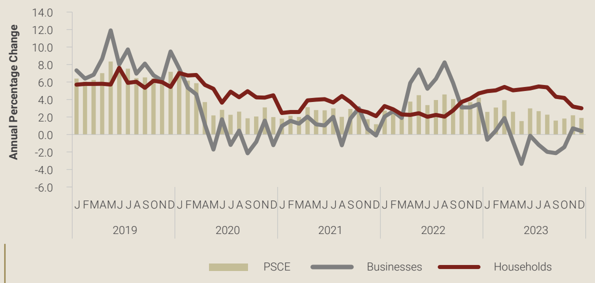
Figure B.19

Monetary and Financial Development

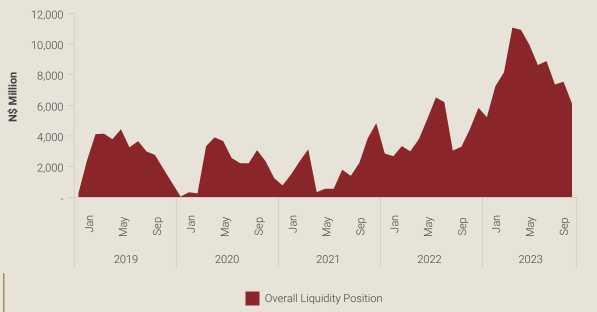
(a) The annual growth in broad money supply (M2) rose in 2023 relative to 2022 amid a rise in transactions demand for money and rising NFA



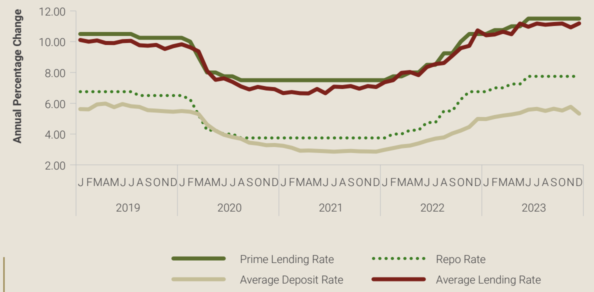
(b) Growth in PSCE slowed in 2023 due to lower demand from both the household and corporate sectors, coupled with higher net repayments.



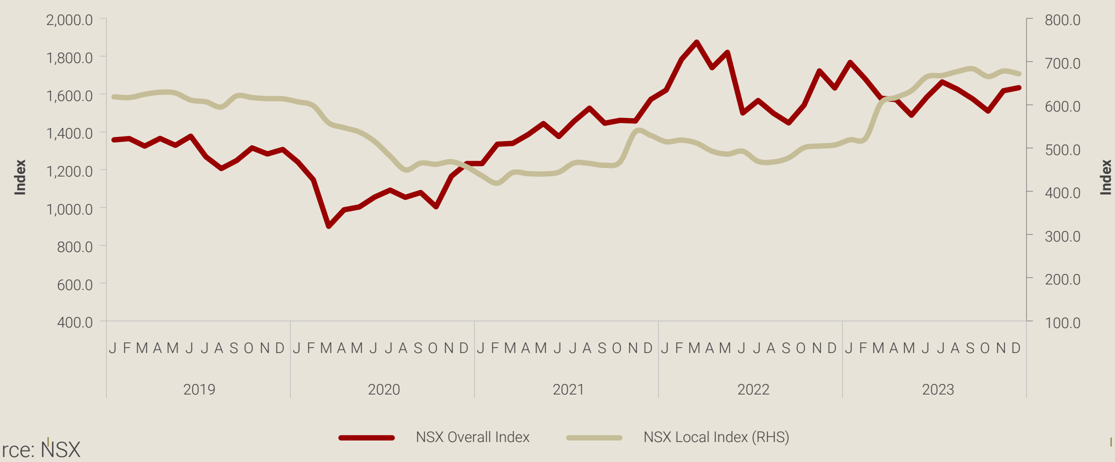
(c) The Namibian banking industry cash balances increased significantly during 2023.



(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.**

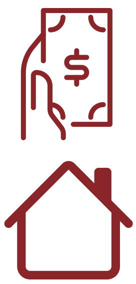
Money supply

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.

Private sector credit extension



2022

4.2%

2023

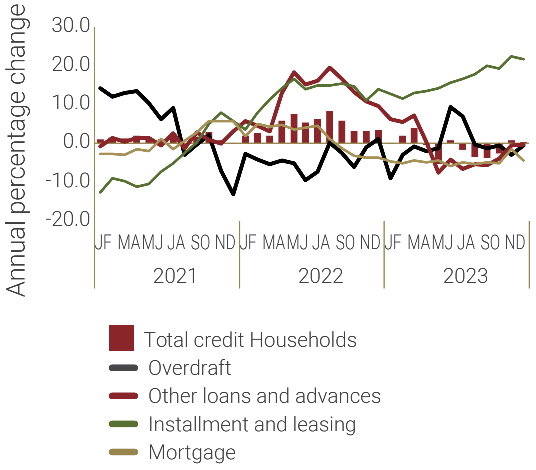
1.9%

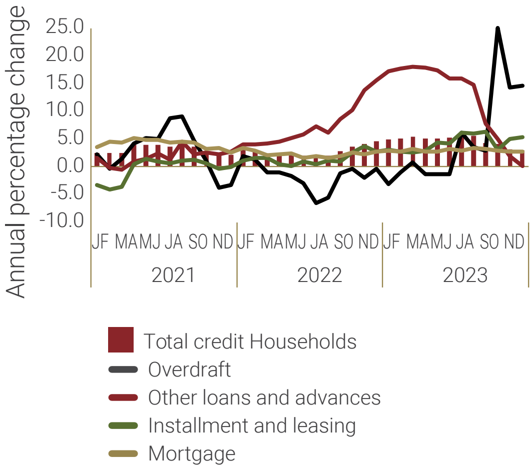
Figure B.20

CREDIT DEVELOPMENTS BY CATEGORY

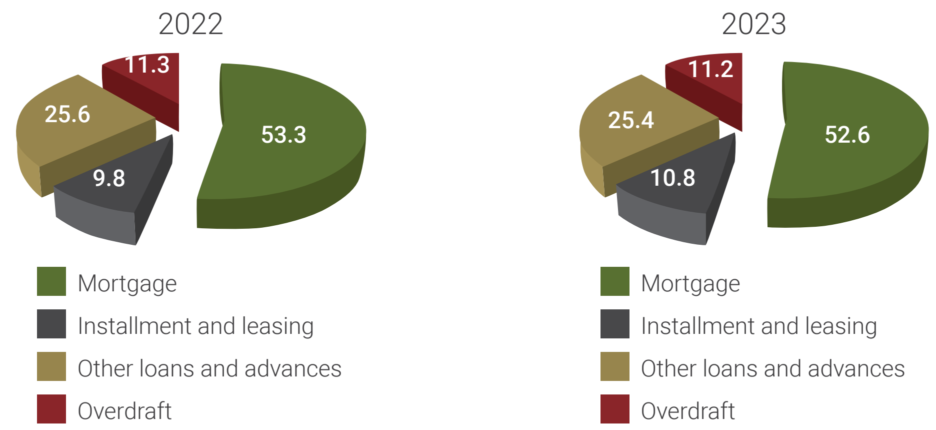
a. Growth in credit extended to individuals slowed in 2023.

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

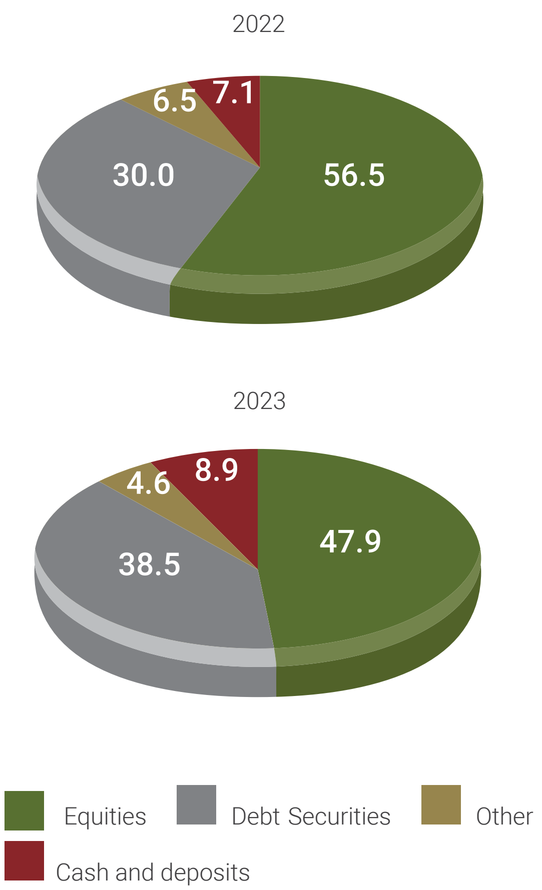
2 The OFC sub-sector reported herein consists of a sample of resident pension funds, insurance corporations and development finance institutions.
3 The values in Table B.4 are as at the end of the period and not year averages, and are thus are not directly

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.

Figure B.21

Asset Holdings of Non-bank Financial Institutions at 31 December



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).

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

MONEY MARKET DEVELOPMENTS

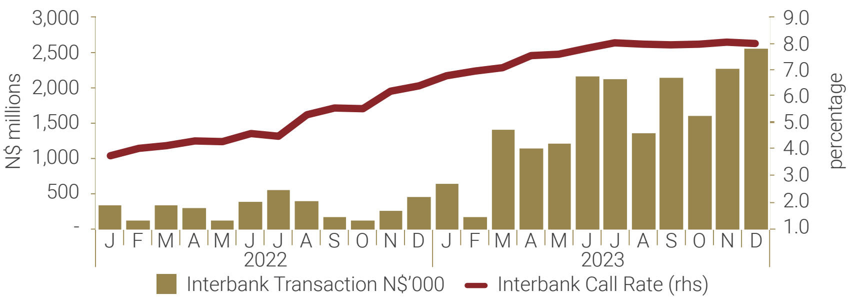
In an effort to anchor inflation expectations, the Bank of Namibia increased its policy rate by 100 basis points in 2023, leading to a rise in money market rates. The Monetary Policy Committee (MPC) of the Bank increased its key policy interest rate to 7.75 percent over the course of 2023 from 6.75 percent 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



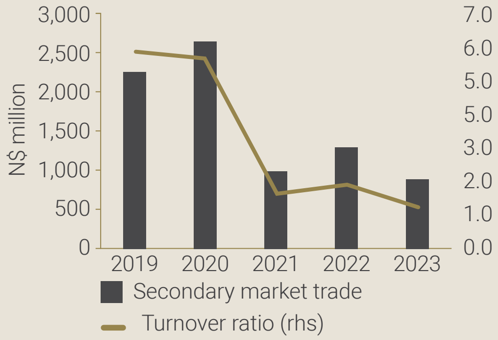
In an effort to anchor inflation expectations, the Bank of Namibia increased its policy rate by 100 basis points in 2023, leading to a rise in money market rates.

BOND MARKET DEVELOPMENTS

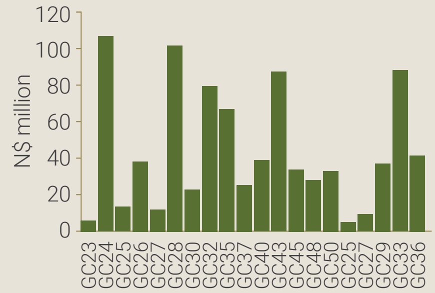
Figure B.23

BOND MARKET DEVELOPMENTS

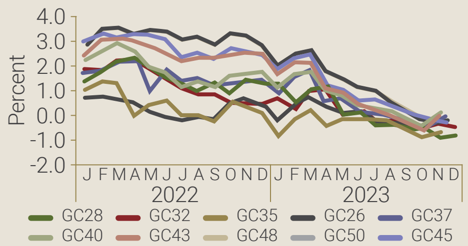
a. The nominal value of Government bonds traded in the secondary market dropped in 2023, resulting in a lower turnover ratio.



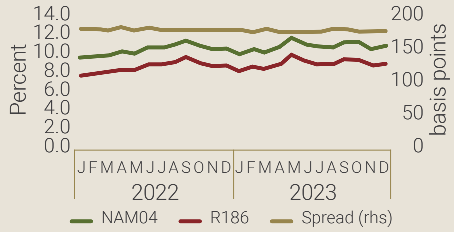
b. The GC24 and GC28 were the most traded bonds in 2023.



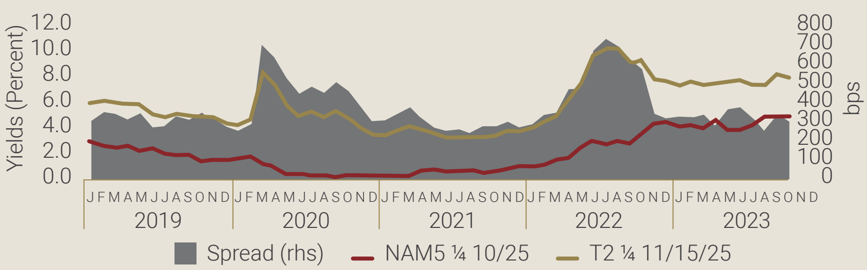
c. Government bonds yields dropped significantly during 2023, with the decline more pronounced on the longer end of the yield curve.



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

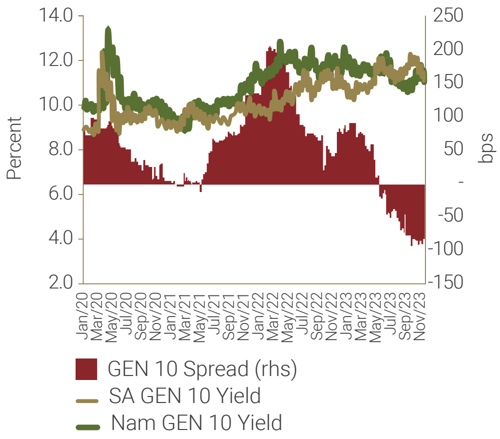
Despite the high interest rates environment, yields on Government bonds dropped during 2023. The previous two years were characterised by headwinds and market uncertainty, which saw government bond yields rise steeply. During 2023, the market repriced government debt instruments on the back of a positive 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

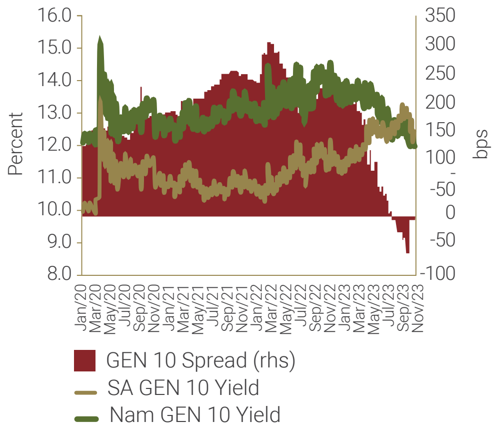
Spreads between the Namibian government bonds and their respective South African benchmarks narrowed in 2023. Spread compression occurred against a background of an improved macroeconomic climate and positive sentiment around seemingly promising oil discoveries, and traction achieved on the green hydrogen 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.

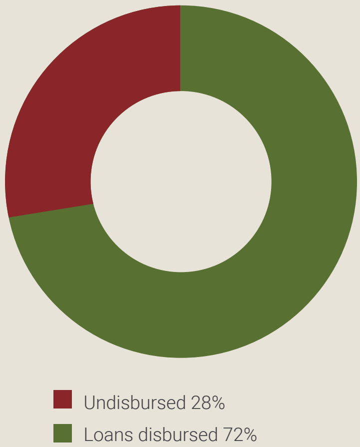
Despite being a commendable effort on the part of the Government, the Bank of Namibia, and the participating commercial banks, initial uptake of the scheme was slow and below the expectations of the Ministry of Finance and Public Enterprises (MFPE) and the Bank, with a total of only N$6.4 million being 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

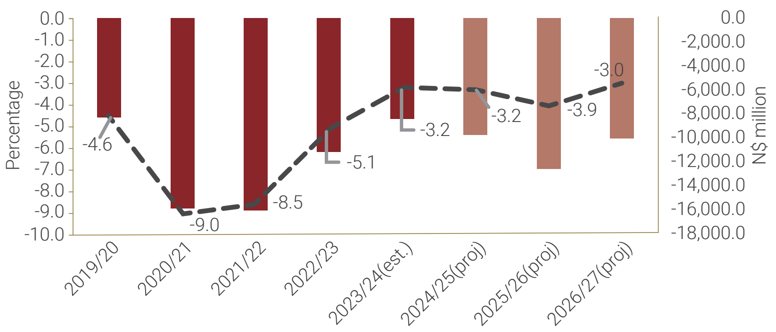
GOVERNMENT BUDGET DEFICIT

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

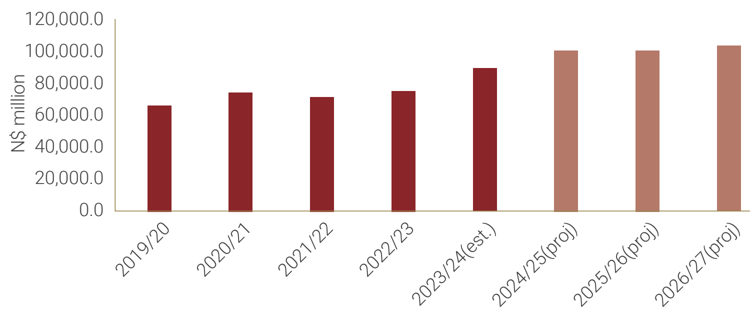
Government Budget Deficit



Source: MFPE

Figure B.26

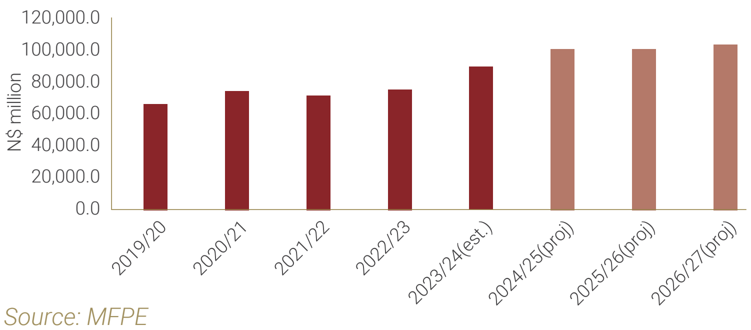
Revenue Grants



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.

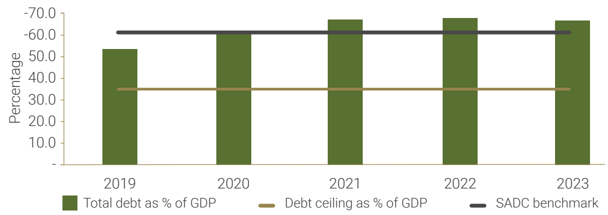
GOVERNMENT DEBT

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 **-26.4 Bill**

2023 **-34.1 Bill**

Table B.8

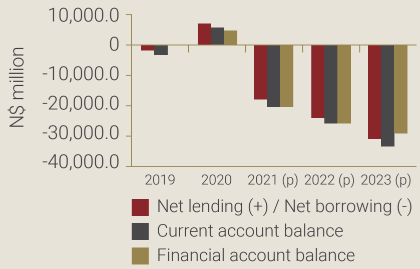
Balance of Payments Overview (N$ Million)

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

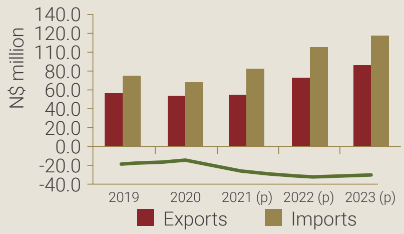
Figure B.29

EXTERNAL DEVELOPMENTS

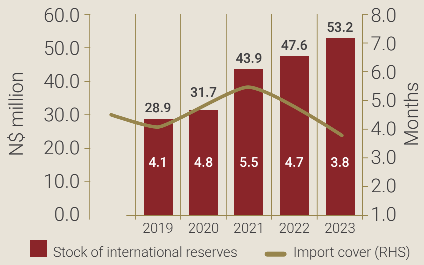
a. During 2023, Namibia recorded net borrowing from the rest of the world, largely reflecting the deficit recorded on the current account.



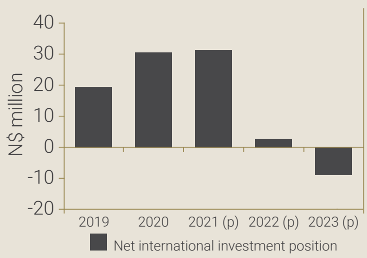
b. The merchandise trade deficit narrowed during 2023, driven particularly by higher export earnings from the mining sector.



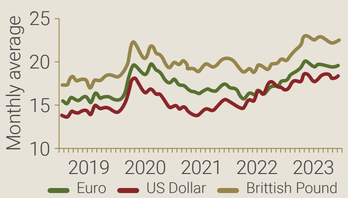
c. At the end of 2023, the stock of international reserves held by the Bank of Namibia rose on an annual basis, supported by higher SACU receipts and government foreign borrowing.



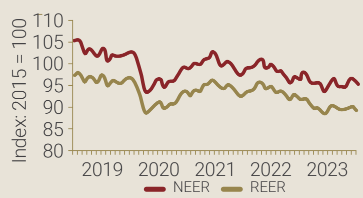
d. At the end of 2023, Namibia's external balance sheet switched from a net asset to a net liability position.



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

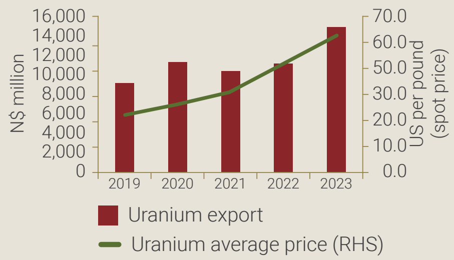
During the period under review, Namibia's merchandise trade deficit narrowed marginally due to merchandise exports rising at a faster pace than merchandise imports. The trade deficit improved by 3.7 percent to N$30.3 billion (Figure B.29b) relative to 2022. This was ascribed to higher export earnings, 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

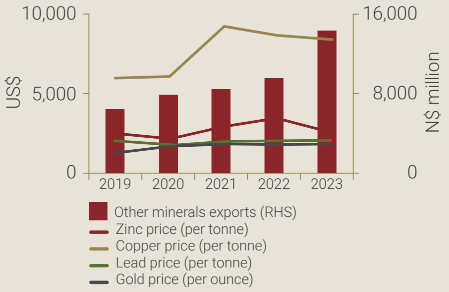
Export Commodities

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

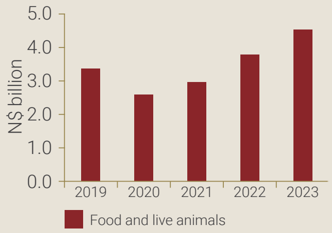
b. Export earnings from uranium rose during the period under review, which is attributable to higher volumes exported as well as the exchange rate depreciation.



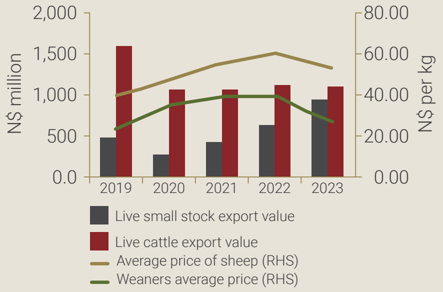
c. The value of other mineral exports rose notably as a result of higher gold volumes exported and the exchange rate depreciation during the review period.



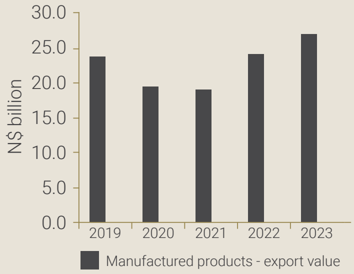
d. During 2023, export earnings from food and live animals rose on account of increased export earnings from unprocessed fish, small stock and vegetable products.



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.

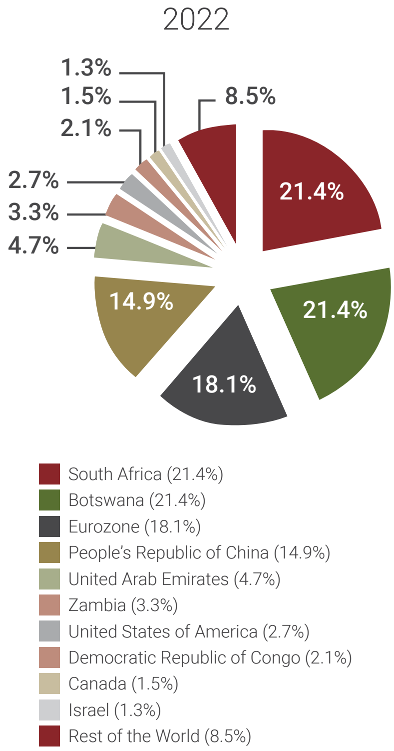
Export by destination

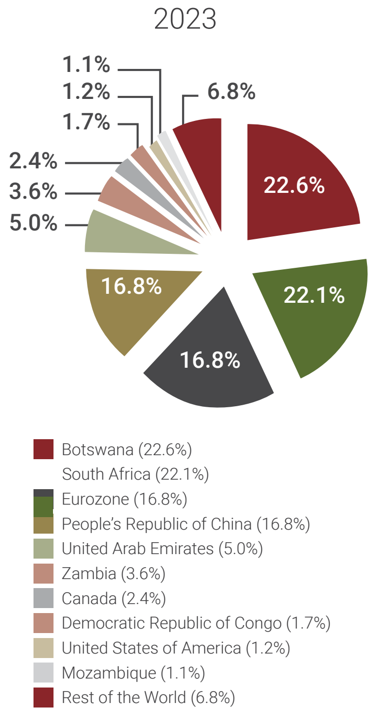
During the period under review, Botswana, South Africa, the Eurozone and China were the top four destinations for Namibia's merchandise exports. The largest share of Namibia's merchandise exports during 2023 was absorbed by Botswana with a share of 22.6 percent, mainly comprised of rough diamonds and 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.





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.

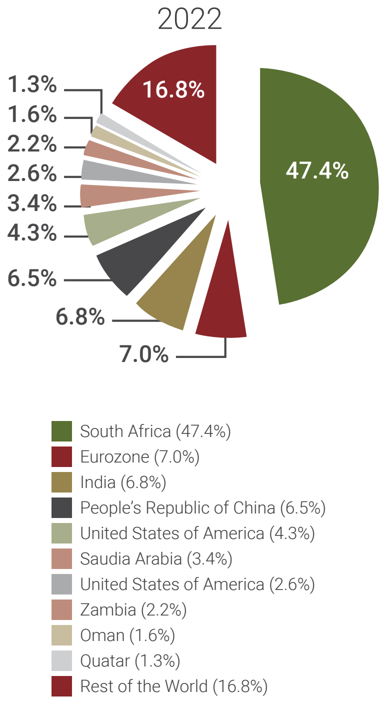
Imports by Origin

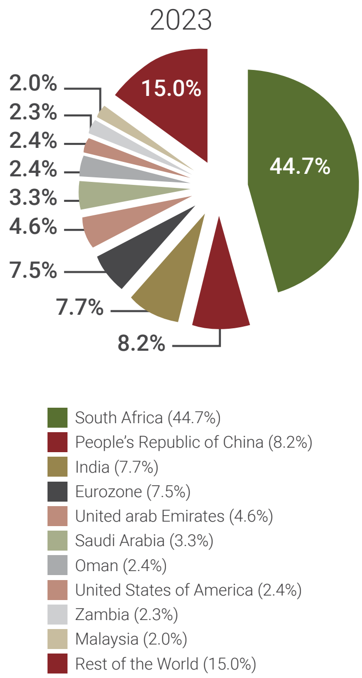
South Africa continued to be the leading source of imports during the 2023, followed by People's Republic of China, India, and the Eurozone. South Africa accounted for 44.7 percent of Namibia's merchandise imports, mainly made up of consumer goods and mineral fuels (Figure B.32). China and India accounted 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

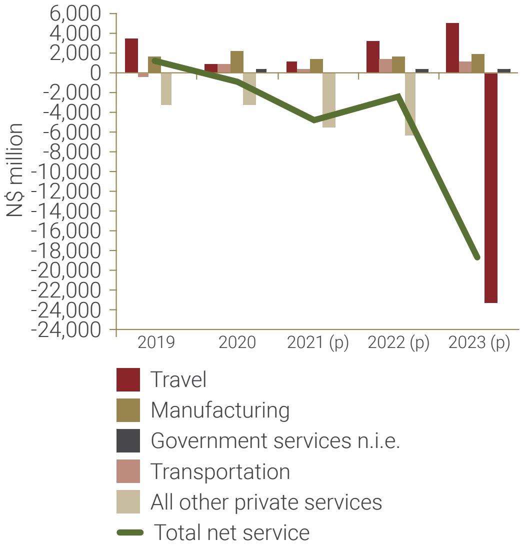
Services, Investment Income and Current Transfers

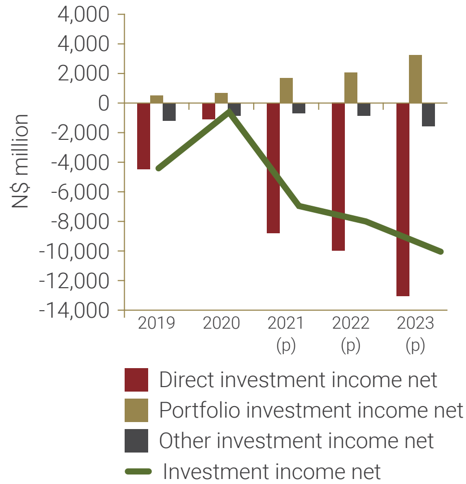
Figure B.33

Services, Primary and Secondary Income

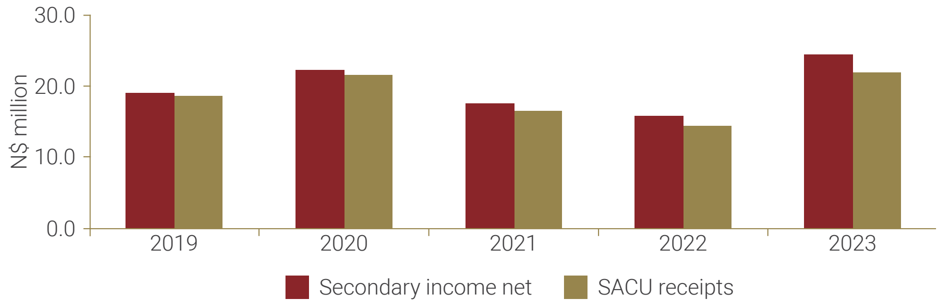
a. The services account registered significantly higher net outflows during 2023, mainly owing to higher net outflows in other private services as a result of the ongoing oil exploration and appraisals.

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.

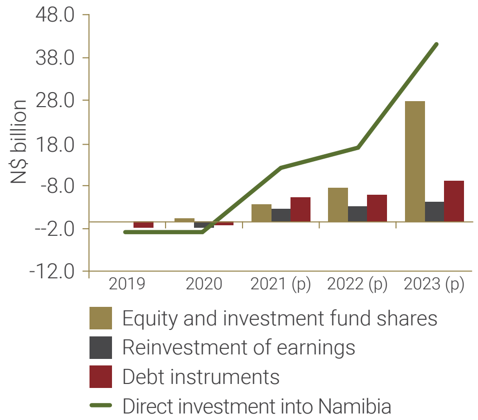
8 In BPM6, the interpretation of the financial account particularly on the assets, denotes an increase as positive and a decrease as negative. The interpretation of the liabilities remains unchanged from BPM5, where an increase or decrease implies just that. Furthermore, the net balances are interpreted 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.

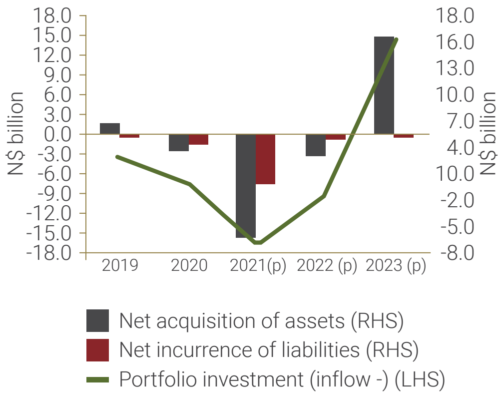
Figure B.34

Financial Account Functional Categories

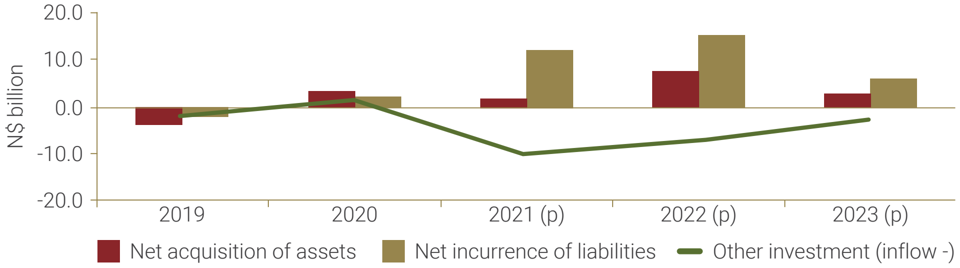
a. Namibia recorded a significantly higher inflow of direct investment compared to 2022, mainly due to higher equity injections for oil and gas exploration and appraisal activities during 2023.



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

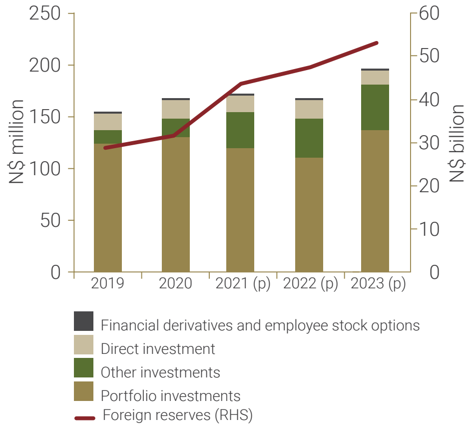
At the end of 2023, Namibia's external balance sheet switched from a net asset position to a net liability position. Namibia recorded a net liability position of N$9.9 billion, compared to a net asset position of N$2.8 billion position recorded at the end of 2022, on account of higher foreign liabilities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

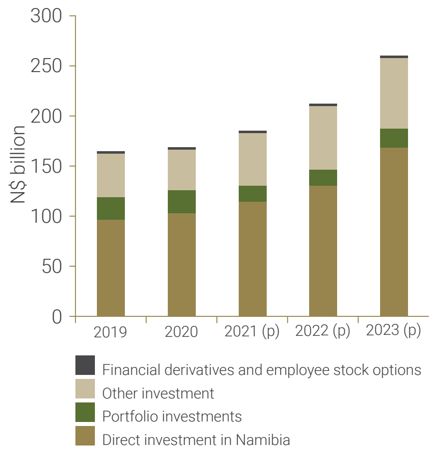
Figure B.35

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)

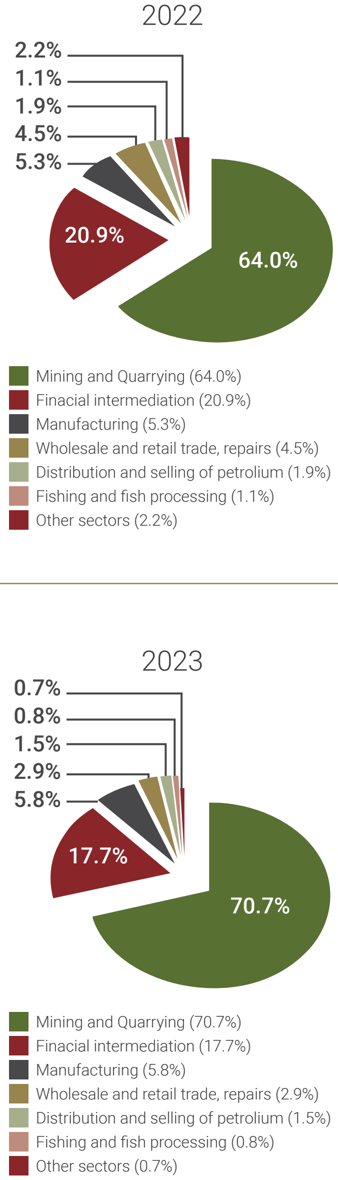
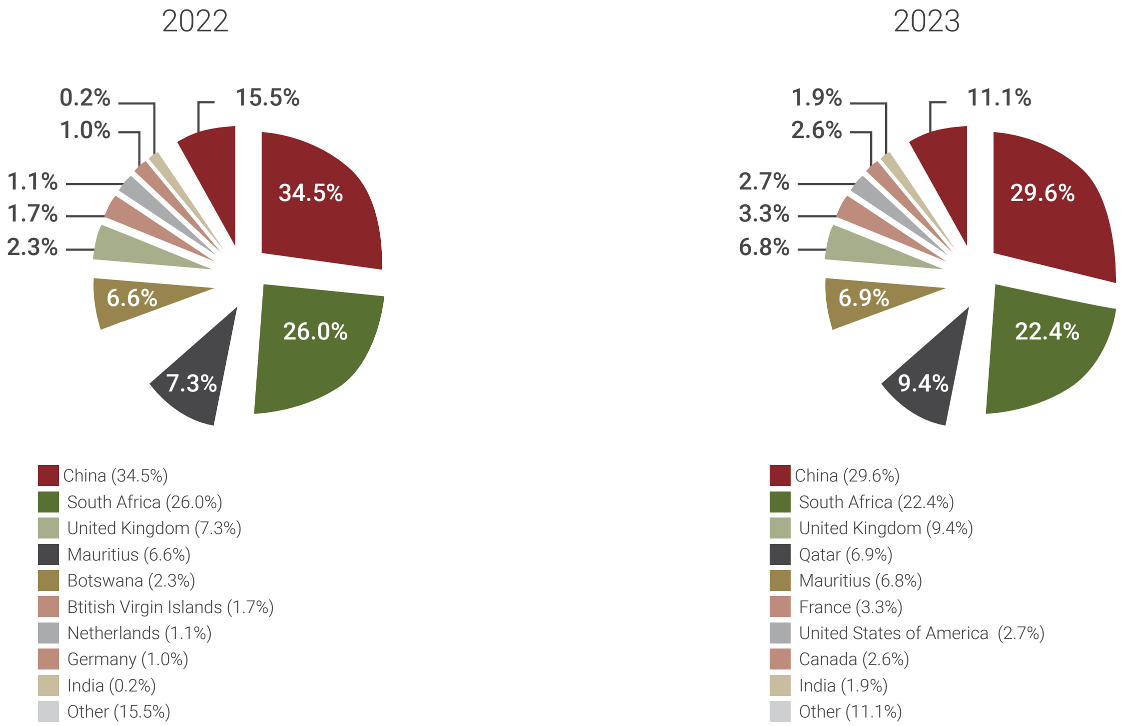


Figure B.37

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.

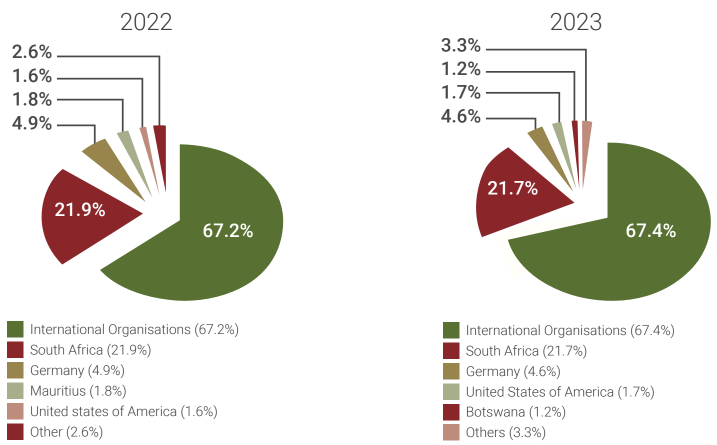
Namibia's foreign debt servicing increased on a yearly basis, as reflected in the direct investment intercompany lending and Government categories. The total value of repayments on Namibia's foreign debt increased to N$41.3 billion in 2023, 30.0 percent higher than in 2022. This was mainly due to repayments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

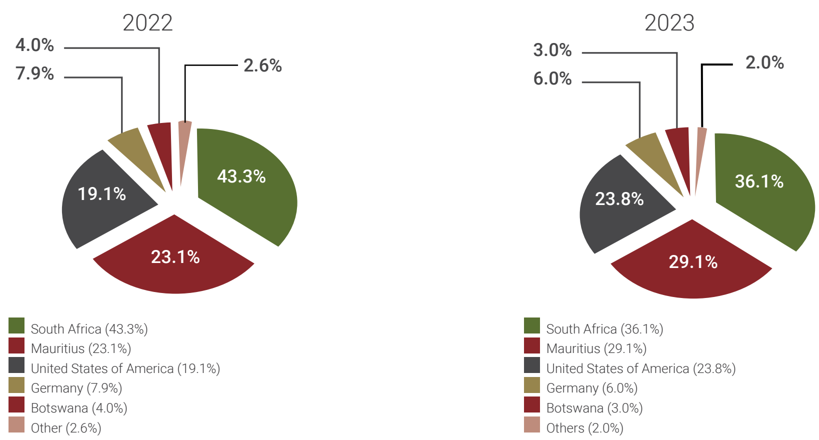
Figure B.38

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



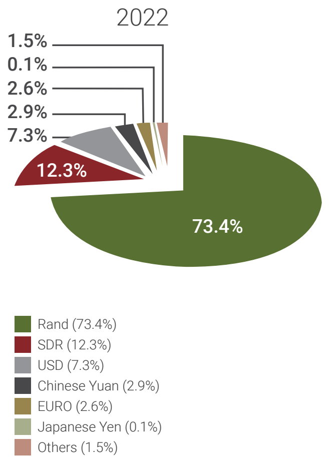
9 Debt servicing as a percentage of merchandise exports is a good measure of serviceable debt. This is due to the fact that higher growth rates in exports build up international reserves, which in turn are used to service foreign debt. Therefore, the lower the percentage, the better.

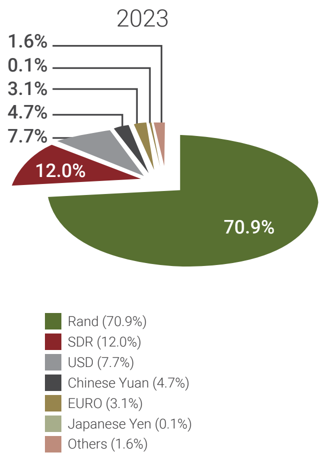
10 The international benchmark values provide an assessment of the country's risk of debt distress. If the ratio falls below the threshold of 15–25 percent, then the country is seen to meet its debt service obligations and is at low risk. Should the country's debt burden fall within the threshold, but 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

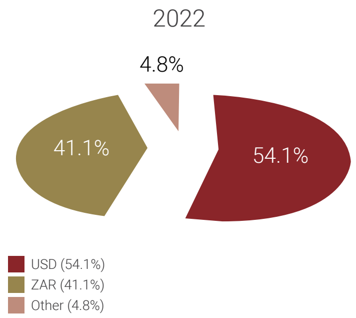
External Long- and Short-Term Loans By Currency, Percentage Share

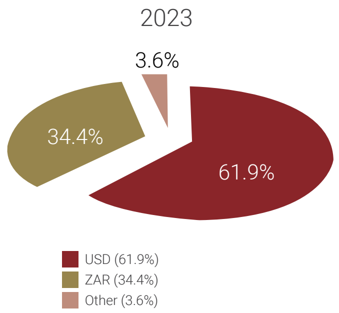
a) During 2023, the largest currency of denomination for Namibia's long-term loans continued to be the Rand, followed by SDR.





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.

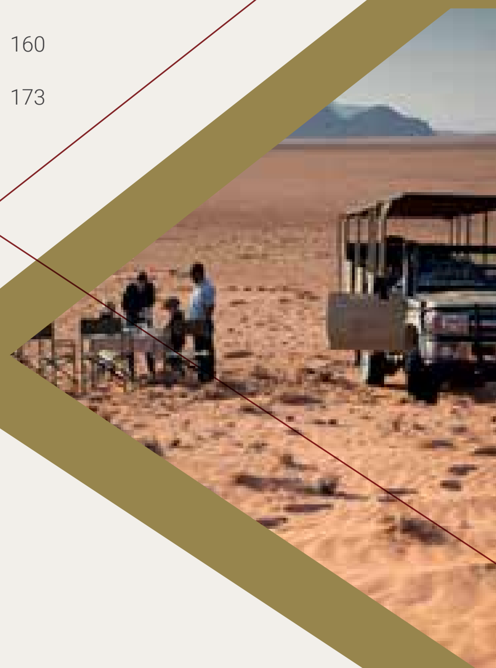
13 The NEER is a trade-weighted index of the nominal exchange rate of the NAD against the currencies of Namibia's major trading partners: the ZAR, Pula, Euro, USD, Yuan, Dirham and Rupee. The REER, on the other hand, takes the NEER and deflates it with the relative consumer price indices of Namibia and 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

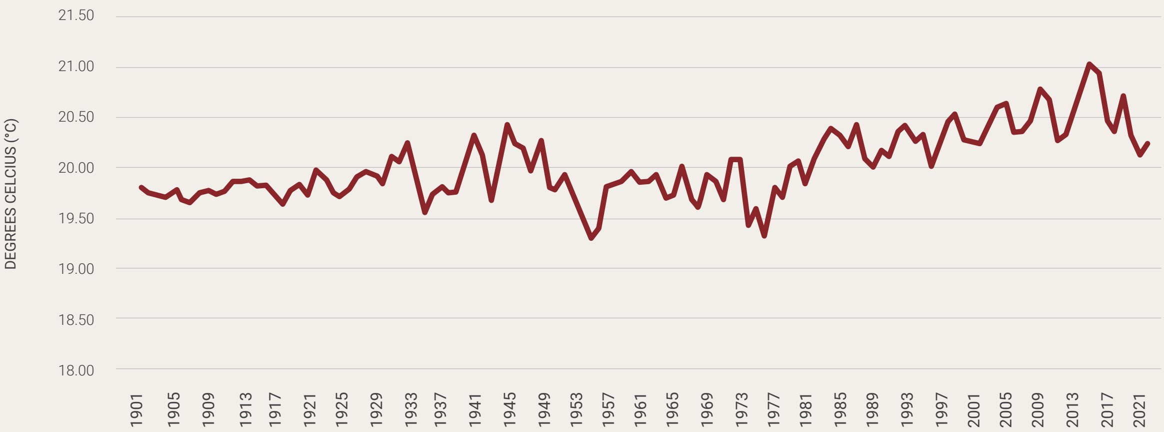
NAMIBIAN CLIMATOLOGY

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.

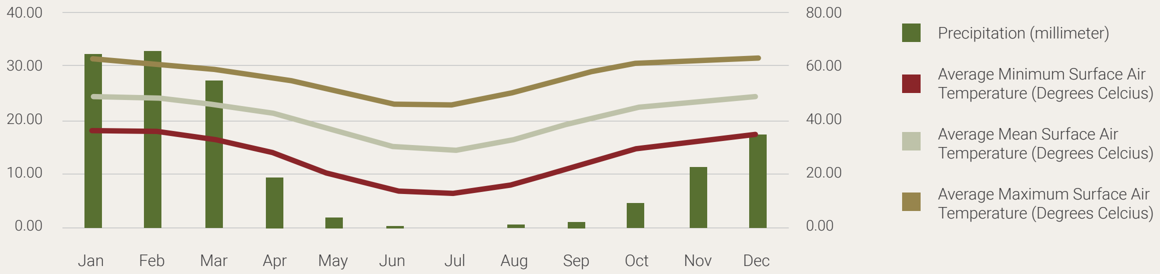
Rainfall in Namibia is extremely variable. Mean annual rainfall is only 278 mm, with a variation from 650 mm in the northeast to less than 50 mm in the southwest and along the coastal areas. In the Namib Desert, rainfall is extremely scarce. Rainfall peaks in January, February, and March where mean monthly 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%

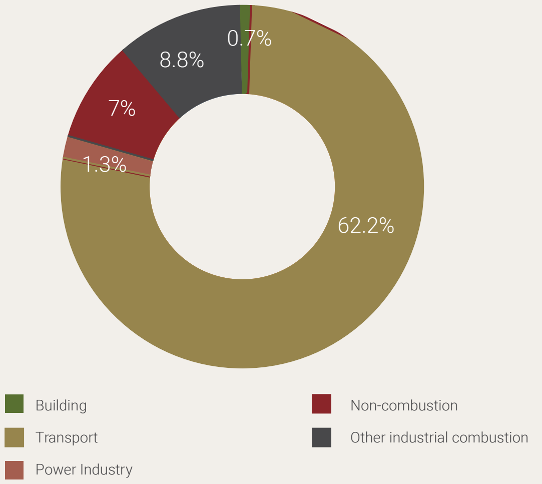
of total GHG emissions

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.

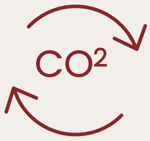
linkages).[7] A study by Wade and Jennings (2023)[8] found that global growth will be hindered by rising operational costs as global temperatures rise. The authors reviewed various studies in their paper and found that a worst-case impact of a 1 percent reduction in GDP growth per year could be realised. 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.

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

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]

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.

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

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.

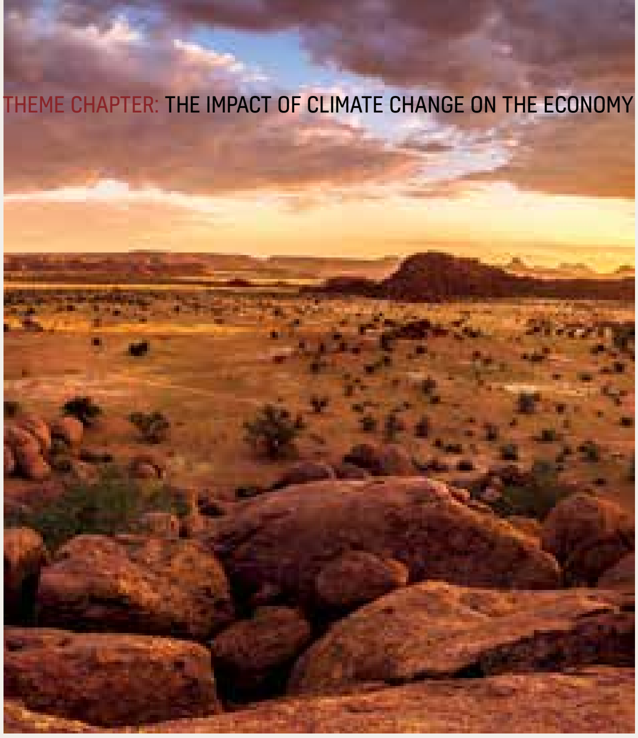
on financial institutions' balance sheets, reducing the flow of credit to the real economy.

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



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.

> **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.

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

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

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.

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

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.

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.

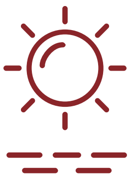
The majority of the adaptation strategies reflected in the NDC are not well captured in current medium-term fiscal planning and budgeting in Namibia. On its own, the Government will not be able to carry out and fund all activities. Nevertheless, all government ministries and agencies can use their current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

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

climate disasters

2009 & 2011

floods



2019

drought

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.

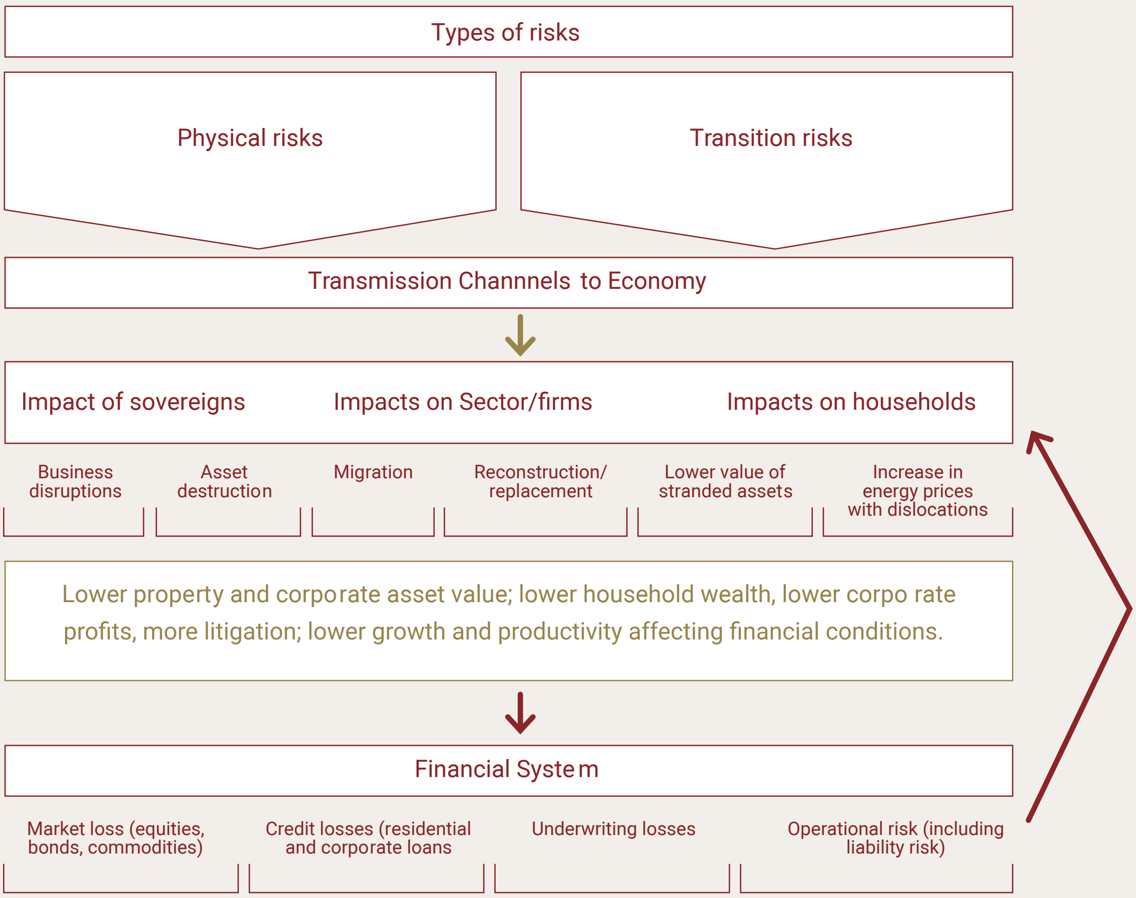
5) **Namibia needs to scale up the use of renewable energy, which has a lower impact on the environment.** Renewable energy minimises carbon pollution and has a much lower impact on our environment. The country will therefore need to increase the use of renewable energy. The green hydrogen project should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

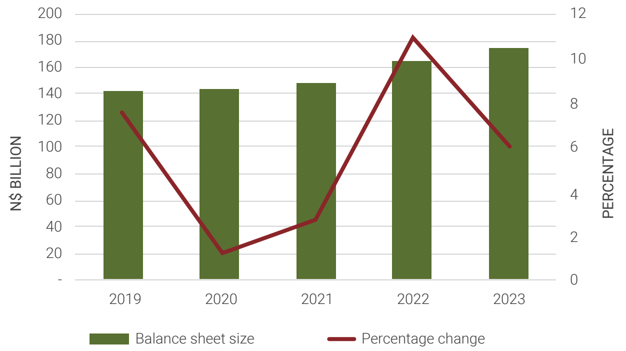
BALANCE SHEET STRUCTURE

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

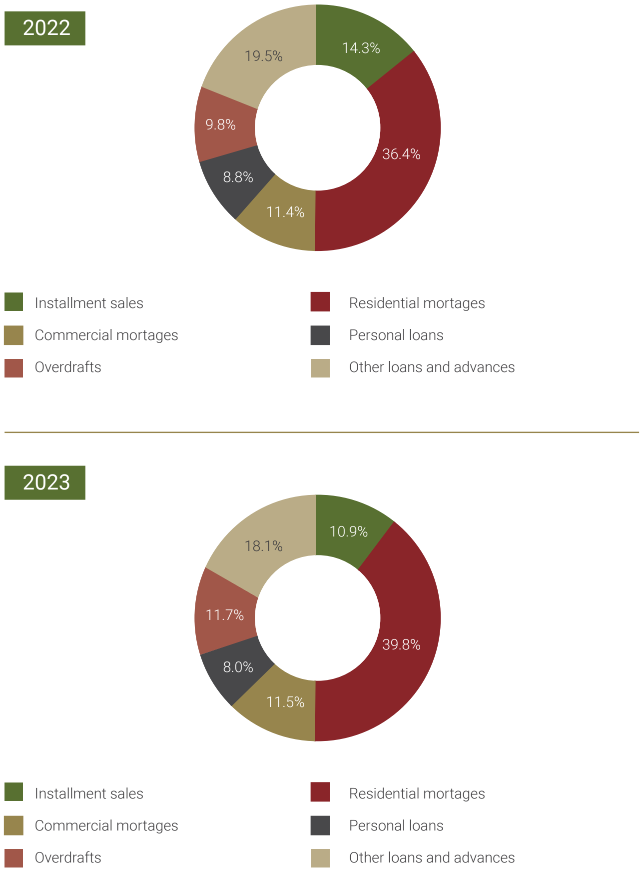
105.8 Bill to **107.9 Bill**

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.

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 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).

"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.

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

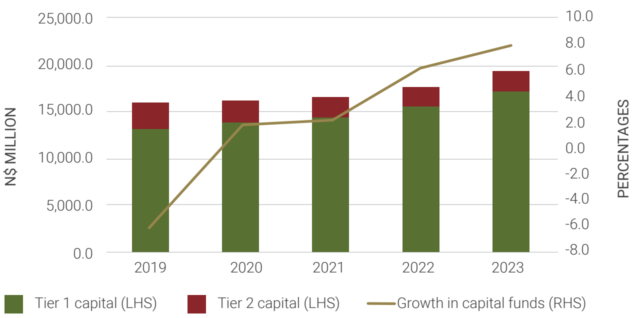
The total qualifying capital of the non-DSIBs[2] remained sufficient despite the operational losses reported during the year. Total qualifying capital declined by N$91.0 million year-on-year to N$1.1 billion in 2023 (Figure C.5). The contraction was primarily reflected under Tier 1 capital, which stood 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.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

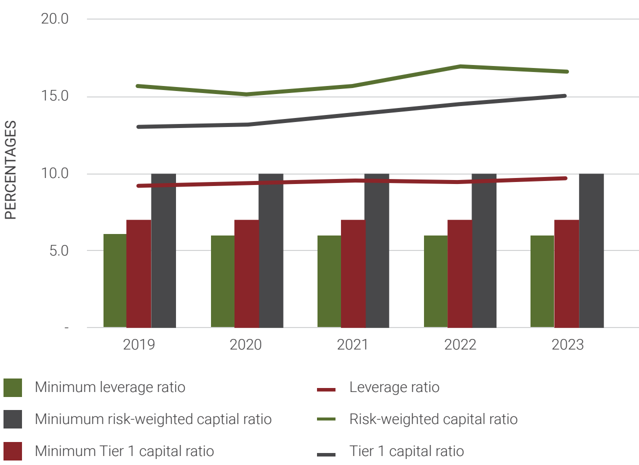
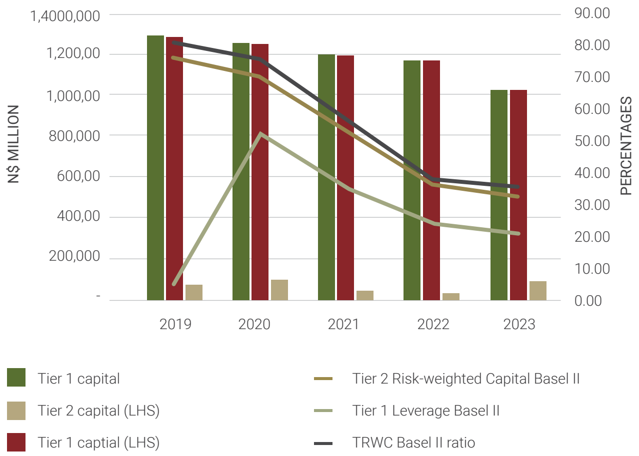


Figure C.5

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

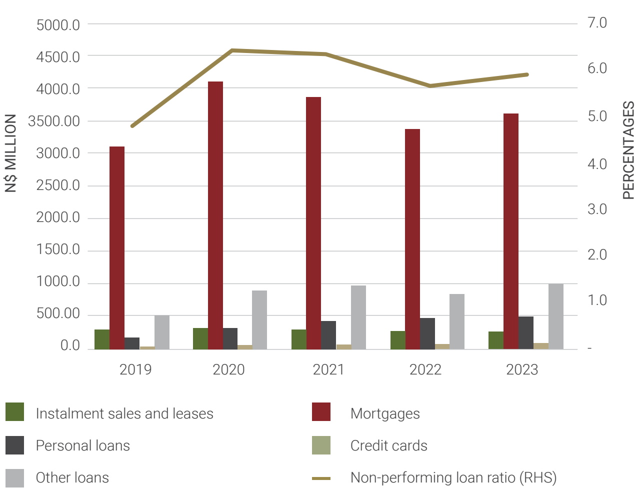
Analysis of non-performing loans

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.

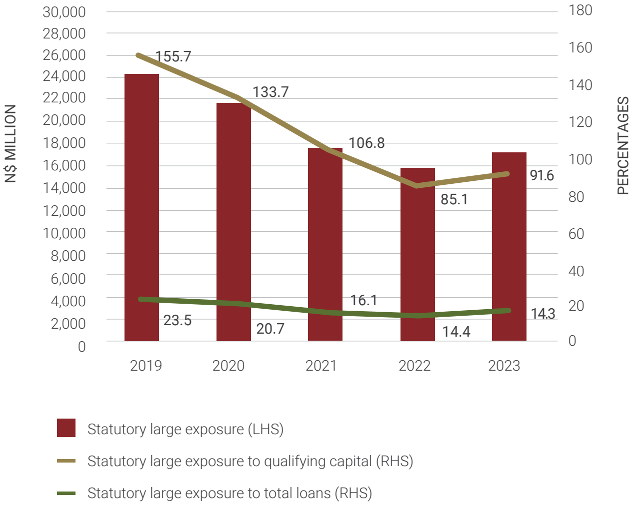
in the finance and insurance sector, resulting in a decrease of N$2.9 billion, while manufacturing, construction, trade, accommodation, and other sectors recorded a decline in disbursements of N$1.4 billion.

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.

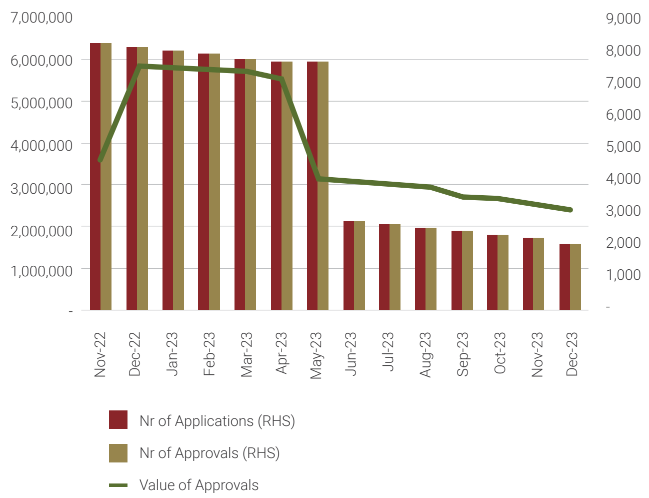
LOAN MORATORIUM DURING THE COVID-19 PANDEMIC

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.



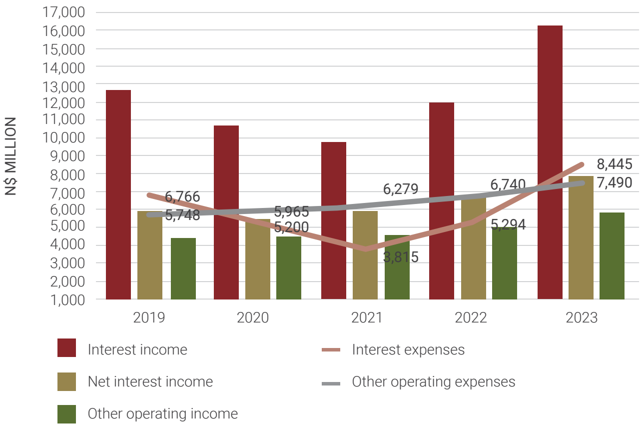
PROFITABILITY AND EARNINGS

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

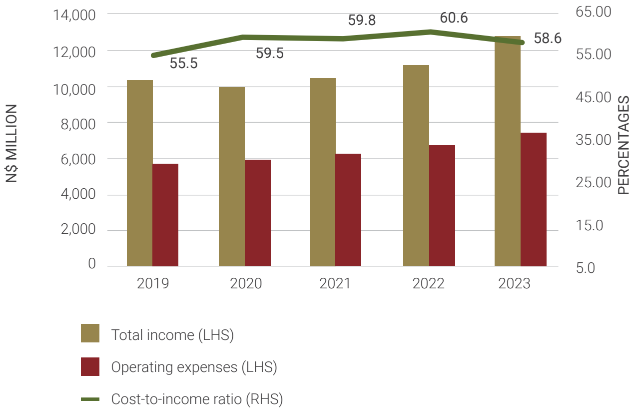


The cost-to-income ratio, which measures the operational efficiency of the banking sector, improved during the review period. Operating expenses grew by 11.1 percent to N$7.5 billion in 2023 because of increased staff, administration, overheads, and other operating costs. Nevertheless, the strong income 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

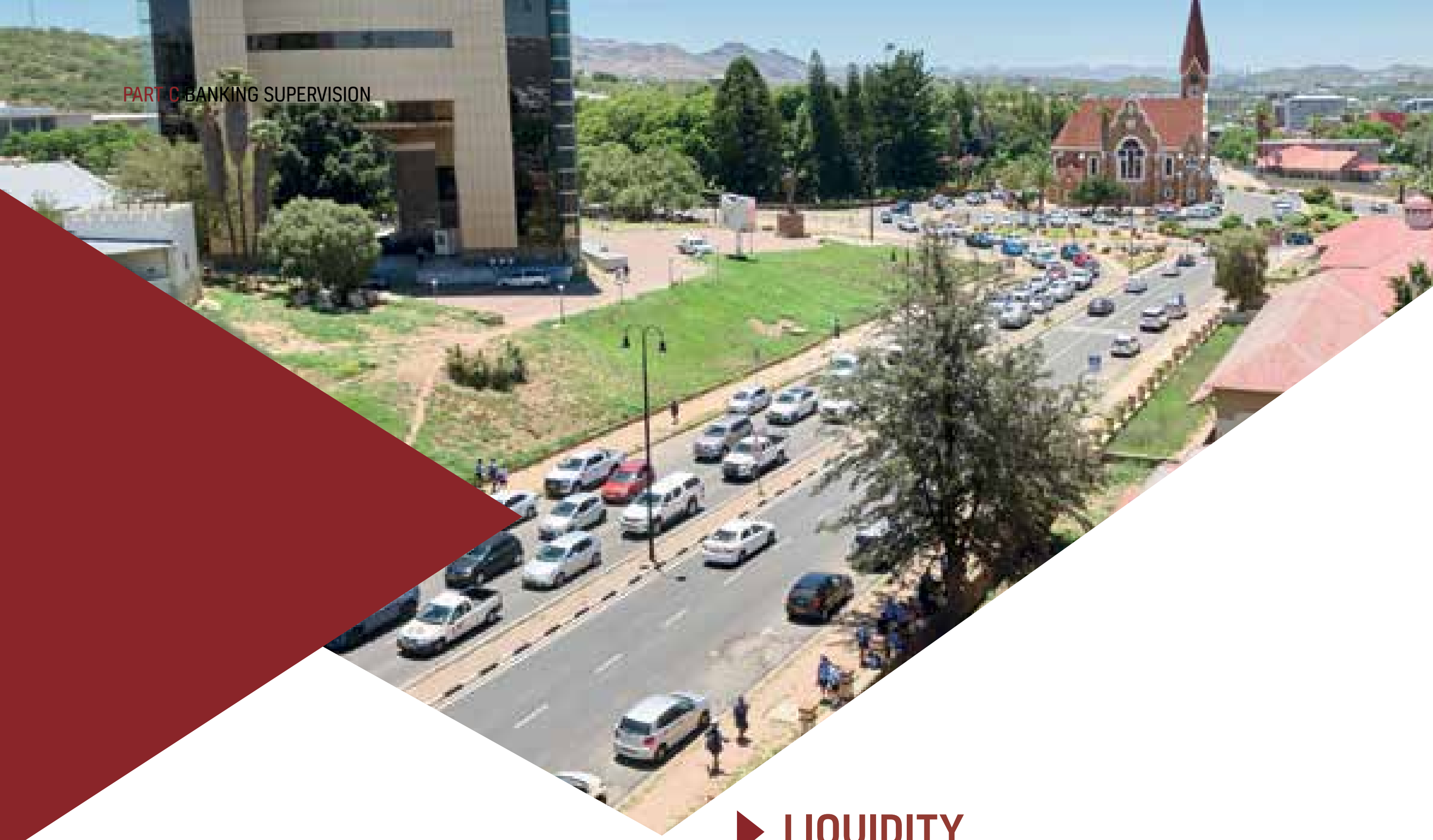
Bank Staff Level

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

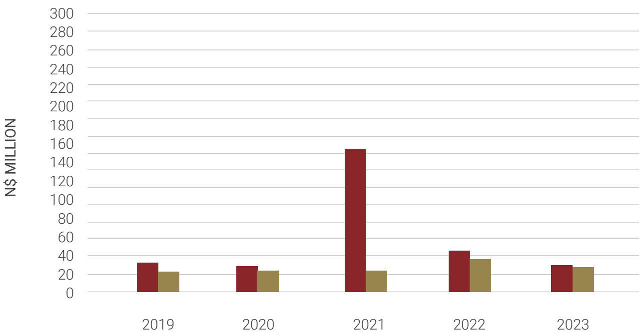
The liquid asset base of banking institutions improved year-on-year, driven by continued investment in short-term government securities coupled with a slowdown in the demand for credit. The stock of liquid assets stood at N$26.4 billion in 2023, representing an increase of 4.7 percent from N$25.3 billion 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.

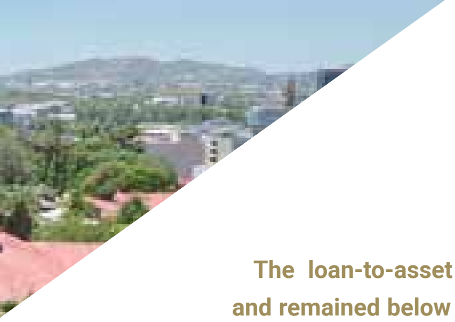
Figure C.11

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 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.

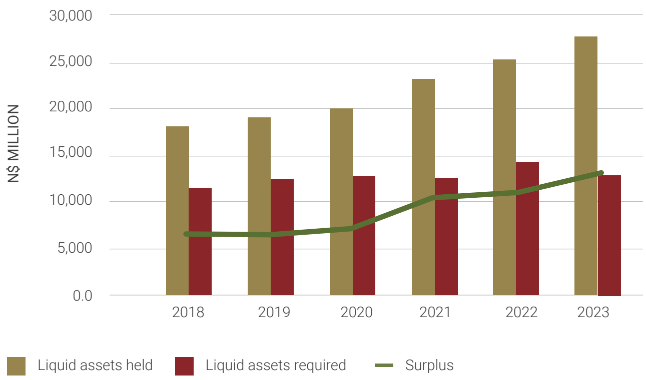
Treasury bills remained the most significant component of the industry's qualifying liquid assets. At 60.0 percent of the total, treasury bills are the most important component of qualifying liquid assets, followed in second place by stocks, securities, bills and bonds, accounting for 25.8 percent of 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

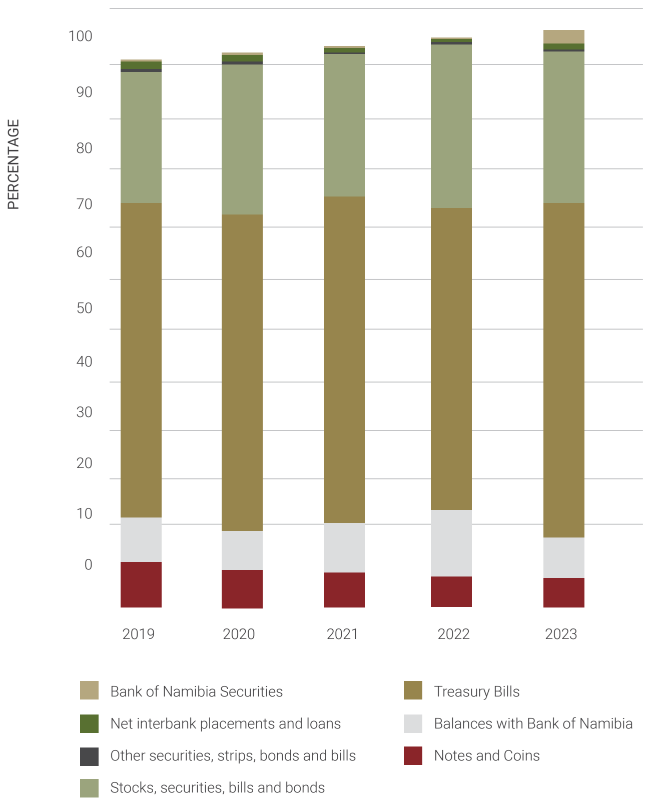
Liquidity

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.

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

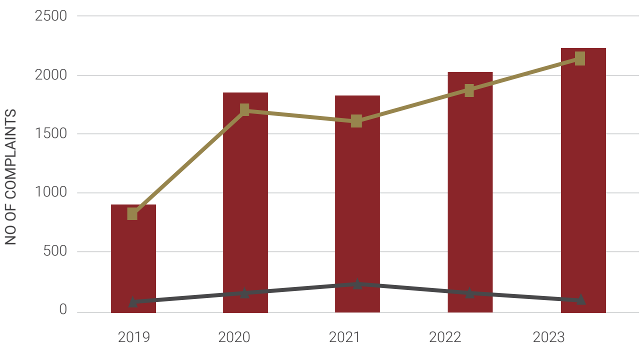
The Bank serves as a mediator in resolving disputes related to products or services offered by banking institutions and credit bureaus. The primary goal in addressing customer complaints is to uphold the Bank's role as a mediator, aligning with the principles outlined in the 2013 Guidelines for Lodging 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

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

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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

PART A:
MANDATE AND GOVERNANCE OF THE NDGA

Mandate of the NDGA

The existence of a deposit guarantee or deposit insurance scheme is a crucial consideration for any regulatory structure aimed at protecting bank depositors while safeguarding financial stability. Deposit insurance schemes have grown in popularity following the aftermath of the 2008 global financial crisis. Such schemes have been implemented in many countries to protect depositors either fully or in part from losses caused by a bank or other type of financial institution's failure.

Deposit insurance schemes aid in promoting consumer protection and safeguarding financial stability as a component of a wider financial system safety net.

Deposit Insurance schemes are also intended to prevent panic withdrawals by assuring depositors that their deposits are safe in the event of a bank or similar type of institution's failure, thereby reducing the likelihood and scale of a systemic crisis.

The Namibia Financial Sector Strategy (NFSS) 2011–2021, which was developed by the country's financial authorities and stakeholders, advocated for a safety net to be put in place to protect small depositors. In this regard, a comprehensive study was conducted, as called for by the NFSS. The study recommended that, in line with international best practice and in consideration of the country's growing banking industry, Namibia should establish a deposit guarantee scheme. This led to the establishment of the NDGA and its eventual operationalisation in 2020. In line with its mandate, the NDGA now maintains and manages a Deposit Guarantee Scheme.

The main objectives of this Scheme are:

1. to protect a high percentage of depositors against loss by compensating them if a member institution should fail, and
2. to enhance financial stability in both the financial sector and the country by insuring a portion of the total deposits held by banks and building societies in Namibia.

Globally, deposit protection schemes are primarily intended to protect small depositors from losing their money when a bank or similar institution fails.

Therefore, the coverage limits of most of these schemes aim to ensure that a significant proportion of small depositors are fully protected. In Namibia, the current coverage limit is set at N$25,000 per depositor.

This limit ensures that over 90 percent of depositors receive their deposits back in full, while only about 4.5 percent of the total value of insurable deposits is covered in full. This, too, is in line with international practice, as the primary objective of establishing deposit guarantee schemes is always to ensure the protection of a significant proportion of small depositors.

POWERS OF THE NDGA

The Deposit Guarantee Act provides the NDGA with its mandate and the power to execute its functions. Although the NDGA is an independent juristic entity, it is currently administered within the existing structures of the Bank of Namibia. This was considered the most cost-effective way of running the Authority for the first few years. In pursuit of its strategic objectives and mandate, the NDGA possesses specified powers which enable it to:

- provide insurance, in accordance with the provisions of the law, against the loss of deposits
- collect premiums from member institutions in accordance with the provisions of the law
- administer the Deposit Guarantee Fund
- assess claims made against the Fund by depositors and determine the eligibility and entitlement of claimants in accordance with the provisions of the law
- keep the public informed of the benefits and limitations of the Deposit Guarantee Scheme, and
- engage in public awareness programmes aimed at increasing financial literacy to ensure depositors are always well informed.

MEMBERSHIP AND COVERAGE OF THE DEPOSIT GUARANTEE SCHEME

Many deposit insurance schemes around the world have made it obligatory for deposit-taking institutions to become members of such schemes. In Namibia's case, section 23 of the Deposit Guarantee Act defines three categories of membership for the country's Deposit Guarantee Scheme, as follows:

- A banking institution authorised under section 11 of the Banking Institutions Act, 2023 (No. 13 of 2023) to carry on banking business in Namibia
- A branch of a foreign banking institution authorised under section 26 of the Banking Institutions Act to carry on banking business in Namibia, and
- A building society registered to conduct the business of a building society under section 4 of the Building Societies Act, 1986 (No. 2 of 1986).

At the end of 2023, the Deposit Guarantee Scheme members comprised seven banking institutions and one foreign branch of a banking institution operating in Namibia. All members pay annual premiums to the Scheme which are credited to the Deposit Guarantee Fund.

Member Institutions

The Scheme covers only those deposits stipulated in section 39 of the Deposit Guarantee Act. Most types of deposits received by a bank or building society in Namibia in its usual course of business, such as savings and call or other term investments, are covered by the Scheme.

Notable exclusions are foreign currency accounts and tradeable debt and deposit instruments, negotiable certificates of deposit, and deposits at institutions regulated and overseen by the Namibia Financial Institutions Supervisory Authority (NAMFISA). Deposits from institutions in which the Namibian Government is a shareholder are also not covered.

The Scheme adopts a predetermined coverage limit per depositor in respect of the total of that individual's deposits at a member institution that has failed. Therefore, where a depositor holds more than one deposit in a failed bank or building society, the value of all deposit accounts held there by that depositor will be consolidated and the claimant will be compensated up to the maximum coverage limit. The coverage limit is determined per depositor, therefore, and not per deposit. The Board regularly reviews this guaranteed coverage threshold, which is currently set at N$25,000. This threshold ensures that a significant number of small depositors are covered in the event of a bank or building society's failure. By the end of 2023, the Deposit Guarantee Fund fully covered 91.2 percent of total depositors at the set threshold, which is a marginal increase in comparison with the 90.9 percent recorded for the end of the previous reporting year.

The Scheme also provides partial coverage for depositors with deposit values above the coverage limit, i.e. above N$25,000 in total deposits. These partially covered depositors are also eligible to receive a reimbursement up to the threshold value. By the end of the review period, partially covered depositors constituted 8.8 percent of total depositors, a slight decrease from 9.1 percent recorded by the end of 2022. For deposits above N$25,000, the depositors would typically be concurrent creditors of the member institution involved. Notably, any additional increases in the maximum amount per depositor covered will be minimal from a depositor-coverage point of view. This is because such increases will have a limited impact on the number of additional depositors that are fully covered, while the costs would increase exponentially.

Table 1: Summary estimates of deposits and depositor coverage, 31 December 2023

At N$25,000 coverage	Fully covered	Partially covered	Total
Value of qualifying deposits (N$)	3,203,401,977.19	67,712,144,220.41	70,915,546,197.60
Share of total qualifying deposits	4.5%	95.1%	100.0%
Number of depositors	1,449,703	139,570	1,589,273
Share of total depositors	91.2%	8.8%	100.0%

FUNDING

It is important that an appropriate funding model is adopted for any deposit guarantee authority to ensure there are adequate funds with which to compensate depositors. In most countries with deposit guarantee schemes, banking institutions bear the primary responsibility for paying the cost of such a scheme because they and their clients benefit directly from it. The funding of a deposit guarantee scheme can take an ex-ante, ex-post or hybrid form. Ex-ante funding of such schemes refers to funds being accumulated and maintained to cover deposit guarantee claims prior to the failure of a bank or other similar deposit-taking institution. This form of funding primarily involves member premiums. In the ex-post funding model, funds to cover deposit guarantee claims are only collected from members when a bank or other similar deposit-taking institution fails. The hybrid funding system involves the collection of funds through the ex-ante approach but, when there is a shortfall, provision is made for a mechanism to obtain further funds ex-post from members and/or to borrow from the government or the market.

The NDGA's Deposit Guarantee Scheme has adopted an ex-ante approach with borrowing powers. This is regarded as a more equitable strategy for the NDGA as the cost of the deposit guarantee is spread over time, which prevents it from becoming too expensive. All member institutions contribute premiums to the Deposit Guarantee Fund. The NDGA's main source of income for the Fund, which also covers the Fund's associated expenses, comprises premium contributions collected from member institutions once a year by the Scheme's administrators.

Premiums are calculated with reference to the size of each member institution's deposit base, as well as its risk score determined by the Bank of Namibia. The Bank of Namibia's Determination which deals with premiums payable per risk category (DGD-6, gazetted on 1 April 2020) established that all Scheme members were regarded as Category 1 until the end of 2021. This allowed members to prepare themselves for the differentiated risk-based premium structure implemented in 2022.

The new structure penalises bad and rewards good risk management. Annual premiums thus differ significantly between member institutions according to their risks. Member premiums to the Fund are based on two principles, as follows:

- **Premiums are based on four risk categories:**

CATEGORY	POINTS
Category 1:	8 basis points
Category 2:	16 basis points
Category 3:	32 basis points
Category 4:	64 basis points

- Premiums are determined according to the 'double-up principle', i.e. premiums for the highest-risk member institutions are eight times higher than those for their lowest-risk counterparts.

These two principles are designed to ensure that the NDGA is fair in setting its annual premiums, that it remains sustainable, and that it can respond to a member institution's failure in a timely and effective manner. Premiums for higher-risk member institutions are higher than those with lower risks since the likelihood of higher-risk institutions failing is higher than it is for their lower-risk counterparts.

GOVERNANCE OF NDGA

GOVERNANCE OF THE NDGA

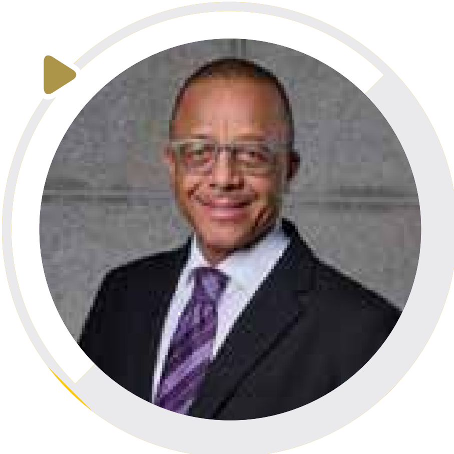
It is important that a proper governance structure comprised of effective management and oversight is put in place for any institution to carry out its mandate effectively. Thus, adopting principles of good governance is crucial for the NDGA to operate optimally. Although the NDGA falls under the Bank of Namibia for its day-to-day administrative functions, an independent Board of Directors is responsible for overseeing the Authority and formulating its policies. Section 32(1) of the Deposit Guarantee Act requires the Authority to prepare and submit to the Minister of Finance and Public Enterprises a copy of its annual report for the review period in question, containing annual accounts certified by its auditors, a report on its activities, and a report on the operations of its Deposit Guarantee Fund. The Deposit Guarantee Act further stipulates that the Minister table a copy of the said report in the National Assembly.

BOARD OF DIRECTORS

Oversight for the Authority is the responsibility of a competent Board of Directors appointed in terms of section 6 of the Deposit Guarantee Act. The Board is responsible for formulating general policy for the Authority as well as for exercising control over its affairs. In addition, the Board is responsible for adopting rules for the Authority's proper administration and functioning, for fulfilling the functions and exercising the powers assigned to it in the said Act, and for advising the Minister on any relevant and related matters. In accordance with section 6(2) of the said Act, the Board consists of the following persons who are appointed by the Bank of Namibia subject to the Minister's approval:

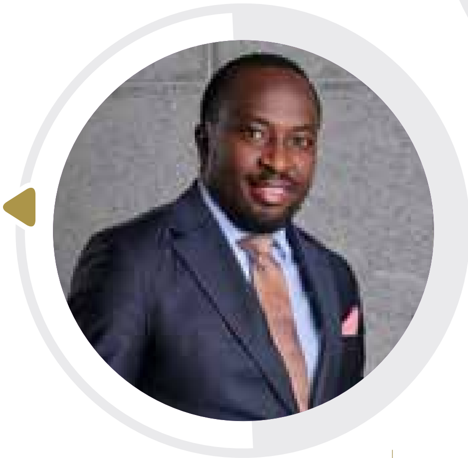
- The Deputy Governor of the Bank of Namibia, as referred to in Article 128(2) of the Namibian Constitution and as appointed in terms of section 9(1)(b) of the Bank of Namibia Act, 2020 (No.1 of 2020), who then serves as the Board Chairperson
- A representative from the Ministry of Finance, who is nominated by the Minister
- Two persons with relevant qualifications and experience in the fields of law, banking, finance, accounting or any other field relevant to the functions of the Board
- A person representing the interests of consumers, and
- A Head of the Authority, who is an ex officio member of the Board with no voting rights.

The NDGA Board of Directors was comprised as follows during the year under review in respect of the portfolios specified:



Ebson Uanguta
Chairperson
Non-executive Director (Macroeconomics, Regulation and Monetary Policy)

Linda Dumba Chicalu
Deputy Chairperson
Non-executive Director
Member: Audit, Risk and Investment Committee
(Legal and Consumer protection expert)



Herman Shilongo
Non-executive Director
Chairperson: Audit, Risk and Investment Committee
(Accounting and Finance)

Kenneth S. Matomola
Non-executive Director
(Finance and Banking, Regulation)

Festus Nghifenwa
Non-Executive Director
Member: Audit, Risk and Investment Committee
(Macroeconomic and Fiscal policy expert)

Florette Nakusera
Executive Director (Ex officio)
(Macroeconomic Policy, Central Banking and Financial Stability, Strategic Leadership

The Board meets regularly to oversee and monitor the Authority's finances, operations and policies. An important element of the governance structure is that the Board establishes and delegates certain functions to committees. Since the first year of the Authority's existence and considering its administrative set-up, the creation of only one Committee was deemed adequate. Thus, the establishment of the Audit, Risk and Investment Committee (ARIC) is in line with section 14 of the Deposit Guarantee Act. This section states that the Board may establish one or more committees consisting of Directors to assist and advise it in exercising its powers and performing its functions or duties.

AUDIT, RISK AND INVESTMENT COMMITTEE

The ARIC assists the Board of Directors in implementing effective policy and planning for risk management and internal control to enhance the Authority's ability to achieve its strategic objectives and ensure its sustainability. The Committee is specifically responsible for matters related to financial reporting, internal control systems, risk assessment, oversight of external audit functions, and the review of investment policies and functions, in addition to executing all other powers and functions delegated or assigned to it by the Board. As such, the Committee is required to deliver regular reports to the Board in respect of matters for which it is responsible, since the Board remains the overall custodian of the Authority's good corporate governance.

BOARD AND COMMITTEE MEETINGS

As provided for under section 6 of the Deposit Guarantee Act, the NDGA is managed by a Board of Directors. The Board's main function is to provide policy direction and guidance to the Authority and to advise the Minister of Finance and Public Enterprises accordingly. The Act also provides for the Board to establish committees such as the ARIC to assist it in carrying out its functions. The ARIC reviews related policies and advises the Board on issues pertaining to audit, risk and investment per the Corporate Governance Code for Namibia (NamCode) principles.

During the review period, all scheduled Board meetings were held. The Board meets at least four times a year with the main purpose of overseeing and monitoring the Authority's policies, operations and finances, as well as the performance of the Deposit Guarantee Fund. During 2023, four ordinary Board meetings were held. Table 2 sets out the dates and attendance of these meetings.

Table 2: Attendance of Board meetings, 2023

BOARD MEMBER	16 MAR	23 JUN	15 SEP	17 NOV
Mr Ebson Uanguta (Chairperson)	✓	✓	✓	✓
Ms Linda Dumba Chicalu	✓	✓	✓	✓
Mr Festus Nghifenwa	✓	✓	✓	✓
Mr Kenneth S Matomola	✓	✓	✓	✓
Mr Herman Shilongo	✓	✓	✓	✓
Ms Florette Nakusera (Ex officio)	✓	✓	✓	✓

Similarly, the ARIC ordinarily meets four times a year. This Committee assists the Board in implementing effective policy and planning for risk management and internal control models that enhance the Authority's ability to achieve its strategic objectives and ensure its sustainability. During the year under review, five Committee meetings were held. Table 3 sets out the dates and attendance of these meetings.

Table 3: Attendance of Audit, Risk and Investment Committee meetings, 2023

COMMITTEE MEMBER	10 MAR	02 JUN	07 SEP	06 NOV
Mr Herman Shilongo (Chairperson)	✓	✓	✓	✓
Ms Linda Dumba Chicalu	✓	✓	✓	✓
Mr Festus Nghifenwa	✓	✓	✓	✓

MANAGEMENT AND ADMINISTRATION

Effective management is crucial for any institution, and this is true for the NDGA as well. Through a Service Level Agreement signed between the NDGA and the Bank of Namibia, the Bank continued to provide the human, financial and other resources required for the Authority's proper functioning. Mr Rakotoka Zaire, a Senior Financial Analyst at the Bank's Financial Stability and Macroprudential Oversight Department, was seconded to the NDGA in June 2023, as the Authority's Senior Financial Analyst. This is in addition to the Head of the NDGA and the Manager of Operations who were seconded in previous years. The NDGA's seconded staff during the year under review were therefore as follows:

Florette Nakusera
Head of the NDGA

Petrus Shifotoka
Manager of Operations

Rakotoka Zaire
Senior Financial Analyst

INFORMATION BOX

Key considerations for an effective deposit insurance system

1. Introduction

The evolving financial landscape and recently experienced financial turbulence presents several issues and challenges related to the design of explicit deposit insurance systems (Santomero 1997). One of the lessons from the 2008 global financial crisis and from the recent US banking turmoil is that, due to interconnectedness and complexities of financial markets, banks do fail, both in advanced and developing economies. It thus become important that authorities are well prepared to manage such calamities when they happen.

The ability of any jurisdiction to handle a banking crisis is a recipe for enhancing consumer confidence and trust in the financial system (Clarke 1988). In recent years, an increasing number of countries have introduced deposit guarantee or insurance schemes. Since 2018, the International Association of Deposit Insurers (IADI) has recorded 143 countries and regions worldwide with deposit guarantee or insurance schemes. In addition, the IADI has seen its membership grow from 25 founding members in 2002 to well over 109 participants 20 years later. Thus, several jurisdictions now have mechanisms to ensure that depositors are compensated in the event of failures by banks and similar deposit-taking institutions. There are, however, key considerations in designing such safety-nets and ensuring an effective deposit insurance system.

This article will limit itself to key considerations related to mandate, funding design, coverage limit and premium setting necessary for establishing an effective deposit insurance system.

2. Mandate and collaboration with other authorities

It is important to be clear on the statutory mandate of a deposit insurance scheme put in place. Ideally, a clear legislative framework or tailor-made law that establishes such a scheme should provide clarity on its mandate and objectives. Such mandates vary across jurisdictions, depending on the context and institutional set-up and the prevailing regulatory architecture. Schemes in some jurisdictions have expanded powers and mandates over and above the mere compensation of depositors. Where such schemes take on supervisory and/or resolution powers, they may require more complex systems and processes in executing their mandates. Therefore, deposit insurance systems can have different mandates.

These are as follows:

- A 'pay box' mandate: Here, the deposit insurer is only responsible for the reimbursement of insured deposits.
- A 'pay box plus' mandate: This mandate includes additional responsibilities for the deposit insurer, such as certain resolution functions (e.g. financial support).
- A 'loss minimiser' mandate: This is where the insurer actively engages in least-cost resolution strategies selected from a range of such strategies, and
- A 'risk minimiser' mandate: Here, the insurer has comprehensive risk minimisation functions that include risk assessment/management; a full suite of early intervention and resolution powers; and, in some cases, prudential oversight responsibilities.

Ensuring a fit-for-purpose role and mandate, as well as putting in place mechanisms for close cooperation among deposit insurers, the resolution authority and the prudential authority, is crucial for an effective deposit insurance system. The challenge for many deposit insurers, particularly those with a pay-box mandate, has been limited or no collaboration with relevant bodies such as prudential and resolution authorities. The sharing of information among these three parties is vital for effective deposit insurance.

Furthermore, it is important that deposit insurers have access to information regarding the soundness of deposit-taking institutions to ensure they are properly prepared for crises and are always ready to discharge their mandate. Participation in platforms such as financial stability forums/committees, concluding memoranda of understanding on sharing information with relevant authorities, and holding regular briefings and updates are therefore central considerations.

3. Design of funding arrangements for deposit insurers

The IADI Core Principle 9 advocates that a deposit insurer should have readily available funds as well as all the necessary funding mechanisms for ensuring depositors' claims are promptly reimbursed, including assured liquidity funding arrangements.

The following are essential criteria for Core Principle 9:

- Funding of the deposit insurer is provided on an ex-ante basis.
- Funding arrangements are clearly defined and established in law or regulation.
- Funding the deposit insurer is the responsibility of its member deposit-taking institutions.
- Initial seed funding (via government or international donor organisations) is permitted to help establish a country's deposit insurer.
- Emergency funding arrangements for the deposit insurance system, including prearranged and assured sources of liquidity funding, are explicitly set out (or permitted) in law or regulation.
- The deposit insurer bears responsibility for the sound investment and management of its funds in accordance with the following:
  - A defined investment policy that aims at preserving capital and maintaining liquidity, and
  - Adequate risk management policies and procedures as well as internal controls and reporting systems.

A well-designed deposit insurance system can make a meaningful contribution to the integrity of a country's financial system, thereby promoting financial and economic growth and stability. However, such a contribution can only be actualised via a credible funding mechanism. It is vital, therefore, that deposit insurers find ways within the ambit of the law to source funding to meet their obligations. Some funding avenues to explore include establishing emergency liquidity facilities, sourcing seed capital, and investing premiums received.

4. Coverage limit

Deciding on an appropriate coverage limit for a deposit insurance system is crucial for its effectiveness. IADI principles advocate that such a limit should ensure that a significant percentage of depositors can be compensated in full if a bank or similar deposit-taking institution fails. The challenge for many deposit insurers, therefore, is to determine an appropriate coverage limit that balances the following two perspectives:

- High coverage: The higher the extent of guarantee, the greater the risk of moral hazard on the part of depositors and deposit-taking institutions. The view is that the amount of deposit insurance coverage for retail depositors should not be set so high as to encourage irresponsible behaviour by either the depositor or the deposit-taking institution.

- Low coverage: If coverage is too low, it tends to be less effective in instilling confidence on the part of depositors. Low coverage also runs the risk of undermining the credibility of the deposit insurance arrangement, thus increasing the likelihood of a bank run.

5. Funding and premium setting

IADI Core Principle 9 advocates that a deposit insurer should have readily available funds and all the funding mechanisms it needs so that depositors can be reimbursed promptly. Core Principle 9 further emphasises that the primary source of funding for deposit insurance should be member institutions' premiums. The challenge for many deposit insurers, therefore, is setting an appropriate premium calculation formula that ensures not only that their deposit insurance scheme is sustainable, but also that they can meet their obligations and exact fair contributions from their member institutions. In this regard, many jurisdictions charge flat-rate premiums applied on eligible deposits. Others again charge risk-adjusted premiums, where premiums vary according to the degree of risk the member institution poses to the deposit insurance scheme. The principal aim of the risk-based-premium approach is to discourage insured banks and other deposit-taking institution from taking excessive risks; those that do, face a higher premium.

6. Member institutions

The primary source of income for many Deposit Insurance Schemes around the world is the contribution, in the form of premiums, from member institutions. The IADI principle 7 on membership indicates that membership in a deposit insurance system should be compulsory for all banks, including state-owned banks (with or without explicit guarantees), and all banks should be subject to sound prudential regulation and supervision. It is this important that the governing legal framework establishing a deposit insurance scheme is clear on member institutions and the criteria for selecting such members. Further, the framework should clearly articulate the roles and obligations of member institutions as well as the benefits that they derive from being members of the scheme.

7. Depositors engagement

Depositors engagement is a crucial element for the success of any Deposit Insurance Scheme. The IADI Core Principle 10 on public awareness stipulates that in order to protect depositors and contribute to financial stability, it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.
Deposit Insurers should therefore proactively and continuously engage and collaborate with stakeholders for mutual understanding and to create awarenesss. This can be done through the adoption of a comprehensive, consistent, and inclusive stakeholder engagement approach and strategy.

Depositors are the most important stakeholders of any deposit insurers and thus should be engaged proactively by providing information on important aspects such as coverage limit and procedures around submission of claims. When depositors are aware of the deposit insurance that has been put in place, this fosters consumer confidence in the financial systemm and enhances financial stability.

8. Conclusion

Bank failures seem to have increased in recent history on the back of the complexity, interconnectedness and technological evolution of the global financial landscape. This article highlights that a jurisdiction capable of handling a deposit-taking institution's failure as well as of maintaining a comprehensive crisis preparedness framework, offers a means of enhancing consumer confidence and trust in the financial system. In recent years, an increasing number of countries have introduced deposit guarantee or insurance schemes.

There are, however, important considerations for establishing an effective deposit insurance system that must be considered. Such considerations relate to mandate, funding design, coverage limit and premium setting necessary for establishing an effective deposit insurance system.

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Namibia National Payment System Vision and Strategy 2021 - 2025

Acronyms

2D	Two Dimensional
API	Aplication Programming Interface
BAN	Bankers Association of Namibia
BON	Bank of Namibia
CBDC	Central Bank Digital Currency
CMA	Common Monetary Area
Digital ID	Digital Identification
DLT	Distributed Ledger Technology
EFT	Electronic Funds Transfer
FIC	Financial Intelligence Centre
G2P	Government to Person Payments
ICT	Information and Communication Technology
ISO	International Organization for Standardization
MICT	Ministry of Information and Communication and Technology
NAMFISA	Namibia Financial Institutions Supervisory Authority
NFC	Near Field Communication
P2G	Person to Government Payments
PAN	Payments Association of Namibia
PMC	Payments Association Of Namibia Management Council
QR	Quick Response
RCSO	Regional Clearing and Settlement Operator
RegTech	Regulatory Technology
RPO	Recovery Point Objective
RTO	Recovery Time Objective
SADC RTGS	Southern Africa Development Community Real Time Gross Settlement
TCIB	Transfers Cleared on an Immediate Basis

Deputy Governor's Foreword

The National Payment System (NPS) is paramount in supporting Namibia's economic growth and development. The modernisation of a NPS is a continuous process and we continue to witness rapid accelerations in fundamental reforms in national payment systems worldwide, and Namibia is no exception. Continually re-forming Namibia's payments ecosystem is crucial to ensuring that the country is aligned to best practice and positions itself as a world-class NPS.

The NPS Vision 2020 five-year (2016 -2020) strategic period included a number of activities and events of a novel and pioneering nature. We have also witnessed the growth of the NPS through the access and participation of new players such as banks, non-banks and payment service providers, further advancing competition and altering the payments landscape.

Other key strategic milestones achieved in the past five-year period are listed below:

- The successful phasing out of cheques and the complete decommissioning of the cheque infrastructure. The phasing out of cheques further supports the move towards digital payments;
- The issuance of the *Position Paper on Interoperability in the National Payment System by the Bank of Namibia*;
- The establishment of the PAN Electronic Money (e-money) Forum to enhance the inclusiveness and access to the NPS as well as to enhance interoperability in the NPS;

- The adoption and ongoing improvements of payments security standards such as EuroPay, MasterCard and Visa (EMV), Payment Card Industry Data Security Standards (PCI DSS) and the Society for Worldwide Interbank Financial Telecommunications (SWIFT) Customer Security Programme (CSP) to enhance the security and safety of payments infrastructure and products;

- The revision of Namclear's governance, funding and ownership model and the adoption thereof, to enable fair representation and access for all system participants;

- Advancements in the regulatory environment through the issuance of regulations and position papers such as the ***Guidelines for Payments Intermediation Service Providers in the National Payment System***; the ***Determination on Issuing of Electronic Money in Namibia (PSD-3);*** the ***Determination on the Standards for a Basic Bank Account and Cash Deposit Fees within the National Payment System (PSD-5);*** the ***Determination on Standards for Fees and Charges for Payment System Services within the National Payment System (PSD-10);*** the ***Position on Distributed Ledger Technologies and Virtual Currencies in Namibia*** and the ***Starterpack for Participation in SADC Low Value Credit Transfers Cleared on an Immediate Basis (TCIB) Scheme for Namibian Participants.***

For the previous vision's five-year period, 2020 stands out in dramatic contrast to the years before it. With the global COVID-19 pandemic, 2020 certainly had a significant and widespread effect on both domestic and global payments. The pandemic's striking and lasting impact accelerated the pace of change and existing trends in the payments industry. For Namibia, despite the challenges presented in this regard, the payments industry demonstrated resilience and unwavering focus to ensure continuation in the provision of payments services through an unprecedent and very trying time. This is a true testament to not only the robustness of the payments infrastructure and operations of the NPS , but also the determination of the hard working individuals behind the scenes.

Another cause for celebration is the delivery of the flagship project, NamPay, by the banking industry which is set to be fully functional in 2021. NamPay is a new domestic EFT system introduced by the Namibian payments industry in collaboration with the Payments Association of Namibia (PAN) and payment service providers to enhance the efficiency of EFT transactions in Namibia across the debit and credit payment streams. The project was introduced in response to the Bank of Namibia's (BON) regulation, the ***Determination on the Efficiency of the National Payment System (PSD-7).***

The revolutionary NamPay system brings about major enhancements to how EFT transactions are conducted in Namibia. NamPay will replace the existing EFT system with a system that uses an internationally recognised messaging standard, ISO 20022. A system based on such a standard is harmonious and can be enhanced with emerging and future technologies on a global scale, thus making NamPay scalable for future development.

The field of payments is a fascinating one, not just for the industry, but also for the central bank. Digitalisation and the proliferation of mobile internet services continue to transform the way we trade and transfer value. New applications and technologies promise ever faster and more accessible payment options via mobile devices. As such, as we look forward to the future, the entire payments ecosystem is set to undergo profound change.

The newly formulated National Payment System Vision and Strategy 2021-2025 (the Vision) seeks to embrace these changes and to continue to advance our ecosystem to be an internationally reputable NPS, safeguarding the interests of all stakeholders in support of Vision 2030 and beyond.

Mr Ebson Uanguta
Deputy Governor
Bank of Namibia

1. Executive Summary

The NPS mandate is derived from the Payment System Management Act, 2003 (Act No. 18 of 2003), as amended: "to ensure the safe, secure, efficient and cost-effective operation of the National Payment System."

To execute this broad mandate, collaboration, participation and investment from all stakeholders are required. Through the efforts of the core stakeholders, which include the banking institutions, non-bank financial institutions, payment service providers, and non-bank e-money issuers, the NPS has developed and improved significantly.

The aspirational and positioning statements have been revised to encompass the Vision, as underpinned by the National Vision 2030. Payment systems are undergoing significant changes, driven by technological advancements and the evolution of customer needs as highlighted under the Payment System Megatrends section of this report. The list of the identified guiding principles, derived from the global megatrends are in support of an enabling NPS. The said principles serve as the foundation of the Vision so that the appropriate outcomes can be achieved in the payments ecosystem.

The industry derived four strategic themes from the contextual and operating environment of the NPS, which include Funding and Governance, Collaboration for Ecosystem Resilience, Consumer-Centric Innovation and Human Resource Capacity Development.

These strategic themes are underscored by Financial, Stakeholder, Process and Resource Perspectives. Building on the strategic themes, the industry constructed supporting strategic goals, which are expanded to key success indicators and strategic initiatives for the Vision.

The collective effort and commitment towards the atainment of the Vision by all relevant stakeholders sets the country in a position where it can accommodate a rapidly evolving payment ecosystem for the benefit of the Namibian nation.

2. Payment System Megatrends

Consideration was given to global payment systems megatrends and their relevance to Namibia. These are summarised below:

01	**Digital Acceleration** Accelerated pace of digitisation of economies.
02	**Open Banking** Open banking and sharing of infrastructure for joint access to consumer information through APIs.
03	**Stakeholder Collaboration** Increased collaboration between banks and non-banks / Fintechs in the payments ecosystem.
04	**Financial Inclusion** Financial inclusion and the increased inclusion of non and underbanked consumers into the NPS.
05	**Regulatory Technology** The adoption of RegTech.
06	**Common Standards** The adoption of common standards for payment solutions.
07	**Value-added Services** Value-added services for consumers, and the increase in rewards and incentives as part of the evolution of the payments ecosystem.
08	**Payments Fraud** The proliferation of cybercrime and payments fraud.

3. NPS Aspirational and Positioning Statements

Mandate	To ensure the safe, secure, efficient and effective operation of the National Payment System.
Vision	A world-class National Payment System at the forefront of digital innovation and transformation, facilitating economic activity in support of Vision 2030.
Mission	To ensure an accessible, efficient and secure National Payment System through stakeholder collaboration and the adherence to appropriate payments system standards.

Core Values

01	**Collaboration** We embrace multiple perspectives from diverse stakeholder voices to achieve synergy.
02	**Integrity** We uphold sound business ethics that safeguard the National Payment System at all times.
03	**Respect** We value and treasure the contribution from all stakeholders.
04	**Transparency** We share relevant information freely and accept responsibility for our actions.
05	**Fairness** We are consistent and even-handed in our application of policies, procedures, regulations and rules.
06	**Innovation** We are proactive in sourcing ideas and solutions that propel the National Payment System.
07	**Excellence** We pursue perfection in everything we do.

4. Strategic Themes

The strategic themes constructed below stem from the contextual and operating environment of the NPS:

Theme 1: Funding and Governance

1. Influence and contribute towards the development and maintenance of legislation, regulations and appropriate standards for the NPS.
2. Ensure appropriate funding and management of NPS projects.
3. Enhance risk management practices concerning cyber security, payments fraud and crime.

Theme 2: Collaboration

4. Facilitate and promote collabotation between NPS stakeholders.
5. Leverage Vision 2030 and other national development priorities to enhance the NPS.
6. Enhance cross-border collaboration.

Theme 3: Consumer-Centric Innovation

7 Deepen understanding of changing consumer needs for payment system priorities.

8 Support and promote innovative and transformative payment solutions.

Theme 4: Human Resource Capacity Development

9 Ensure appropriate human resource capability.

5. Principles in Support of an Enabling National Payment System

The list below identifies guiding principles derived from the global megatrends in support of an enabling NPS. The principles are formulated at an industry level reflecting a higher intent.

These principles are the foundation for the Vision and for achieving the appropriate outcomes in the next five years. Furthermore, these principles will guide the behaviour of all stakeholders and the overall operation and functioning of the NPS.

Principle 1: Consumer Education and Financial Inclusion

This principle is concerned with driving digital technology adoption rates and unlocking the potential of the informal sector, which in turn will propel broad-based economic advancement for Namibia.

Principle 2: Access, Transparency and Inclusivity

This principle is concerned with the governing processes that allow for the efficient access to and participation in the NPS, which should be open through accurate interpretation and application of rules and regulations. This ultimately creates inclusivity, equality and a level playing field for current and future participants in the payments ecosystem.

Principle 3: Digitised Economy

National digitised strategies and efforts are essential for the adoption and growth of the digital payments ecosystem.

Principle 4: Stakeholder Collaboration

Collaboration between payment service providers, non-banks, banks, financial market infrastructures and regulators to influence legislation, regulations, industry policy and rules, is paramount for an effective NPS.

Principle 5: Interoperability

This principle speaks to the importance of integrating payment solutions to achieve high levels of interoperability within and across payment products and streams. This in turn supports the growth of the payment ecosystem and promotes financial inclusion.

Principle 6: Digital Payments

This principle is concerned with the proliferation of the concept of cash-lite societies, targeted towards efficient and affordable digital payments.

Principle 7: Consumer Trust

Consumer trust is driven by a combination of the following elements of the NPS: safety, security, reliability and stability. This trust is further maintained by proactively and appropriately adhering to regulations, standards and international best practices.

Principle 8: Cross-Border Collaboration

Payments ecosystem collaboration beyond the borders of Namibia among banks, non-banks and FinTech's are enabled through relevant legislation and regulations.

Principle 9: Innovation

Consumer-centric payment systems innovations are essential for a viable future for the NPS.

Principle 10: Skills and Capabilities

The continuous development of local knowledge, capabilities and skills in the payments ecosystem is essential for the sustainability of the NPS.

Principle 11: Efficiency of Payment Systems

Consumer needs drive the deployment of real-time payment systems capabilities and other payment solutions, rather than a technology push approach.

6. Situation Analysis: SWOT

The NPS stakeholders conducted an in-depth strategic analysis of the internal and external environments pertaining to the NPS, which analysis provides baseline data for the crafting of the strategic objectives for the next five years.

Internal Resource Strengths
1. Modern payment clearing and settlement systems. 2. Sound legal foundation for the NPS. 3. High level of compliance to NPS laws and regulations by the stakeholders. 4. Positive stakeholder collaboration, co-opetition and consultation in the payments ecosystem. 5. Recognition of and inclusive decision making with the non-banking sector. 6. Strong self-regulatory environment and equal access to NPS. 7. Real-time clearing for the current interbank streams. 8. Strong local knowledge base and experience in payments.
Internal Resource Weakness
1. Inadequate funding of industry projects and initiatives. 2. Local payment switch not adequately aligned with global standards. 3. Limited number of individuals with appropriate industry knowledge and experience to participate in the numerous industry forums and technical projects. 4. Inefficient industry project management practices in terms of governance processes and transparency.

5. Pockets of low interoperability: fleet products, e-money etc.

6. Lack of incubation hubs for innovation in the NPS.

7. Minimal collaboration between global payments leaders and local industry for new offerings.

8. Challenges pertaining to the interdependencies of NPS projects on other legislation, systems and policies.

9. Lack of balance between independence and conflict of interest in the PMC and industry forums.

External Market and Industry Opportunities

1. Digital innovation opportunities in the payments ecosystem (e.g e-money, QR, 2D, Tap-and-Go, NFC, biometric, cash-out with and without purchase etc.).

2. Availability of a digital ID for all people based on global best practices.

3. Changing needs of payment system users (e.g. accessibility, affordability, convenience, safety etc.).

4. Convergence of various elements of the NPS.

5. Proliferation of cryptocurrency opportunities (e.g. Blockchain, DLT, CBDC etc.).

6. National Development Plan (NDP) ICT rollout and infrastructure development opportunities.

7. Political and economic stability for sound financial sector services.

8. SADC regional payment systems collaboration (e.g. SADC RTGS, RCSO etc.).

9. Open payment systems (e.g. open banking, APIs).

10. International partnerships with institutions that offer payment systems education and exchange programs with best-in-class payment system organisations.

11. Utilisation of big data in the payments ecosystem.
External Market and Industry Threats
1. Increase in cyber security threats. 2. Effects of global pandemics (e.g. Covid-19). 3. Over-regulation of financial sector impacting on the NPS, with the need for fit-for-purpose guidelines for different stakeholders. 4. Social media's ability to influence consumer patterns and perspectives. 5. Emergence of unregulated crypto currencies (e.g. Bitcoin) impacting the clearing and settlement value chain. 6. Big Data's invasion on consumer privacy. 7. Scale of the economy which limits the benefits to NPS participants due to a small consumer base. 8. Unregulated access to NPS threatens the stability of the banking infrastructure. 9. Namibia not prioritised by payment system multinationals as a development partner. 10. Impact of negative developments in other SADC countries. 11. Drought and weather patterns which drive consumer sentiment.

7. Strategy Map, National Payment System Strategic Themes and Strategic Goals

Strategy Map	Financial Perspective	Stakeholder Perspective	Process Perspective	Resource Perspective
Strategic Themes	**Funding and Governance**	**Collaboration for Ecosystem Resilience**	**Consumer - Centric Innovation**	**Human Resource Capacity Development**
Strategic Goals to Support NPS Viability	1. Influence and contribute towards the development and maintenance of legislation, regulations and appropriate standards for the NPS. 2. Ensure appropriate funding and management of NPS projects. 3. Enhance risk management practices concerning cybersecurity, payments fraud and crime.	4. Facilitate and promote collaboration between NPS stakeholders. 5. Leverage Vision 2030 and other national development priorities to enhance the NPS. 6. Enhance cross-border collaboration.	7. Deepen understanding of changing consumer needs for payment system priorities. 8. Support and promote innovative and transformative payment solutions.	9. Ensure appropriate human resource capability.

8. Strategic Positioning and Strategy Execution

Below are the strategic themes and goals, key success indicators and strategic initiatives that will serve as focus areas for the NPS industry and stakeholders:

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Funding and Governance		
1. Influence and contribute towards the development and maintenance of legislation, regulations and appropriate standards for the NPS.	1. Enabling legislative and regulatory environment. 2. Fair and transparent policies. 3. Change to a new governance model by mid-year 2021. 4. Majority of Namibians substantially increasing the use of a digital alternative to cash, year on year. 5. 100% interoperability across the payment streams by 2025.	1. Implementat an approved governance model for the NPS. 2. Revision or introduction of legislation and regulations to enable new NPS services and products. 3. Adopt appropriate payment industry standards based on international best practices. 4. Ensure progress in the implementation of the BON position paper on interoperability in the NPS. 5. PAN to influence policy that affects the NPS.

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Funding and Governance		
2. Ensure appropriate funding and management of NPS projects.	1. Conversion of PAN's and the NPS projects' current funding models to one that is fee-based by 2025. 2. Adherence to the NPS Project Management Framework. 3. Percentage, on an annual basis, of projects that are completed (a) on-time; and (b) within budget.	1. Implement a new funding model for the NPS and PAN. 2. Improve the performance around the management of NPS projects. 3. Obtain CEO-level and regulatory support for the prioritisation of NPS projects.

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Funding and Governance		
3. Enhance risk management practices concerning cyber security, payments fraud and crime.	1. Reduction in the payments fraud to turnover ratio of less than 0.05%. 2. Increased prosecutions against perpetrators. 3. The number of successful and unsuccessful cyber-attacks detected. 4. Performance against RTO. 5. Level of compliance to the security standards set. 6. Maturity of cyber security posture of the NPS stakeholders.	1. Implement appropriate standards and desired maturity levels for cyber security, payments fraud and crime prevention for all participants in the NPS. 2. PAN to leverage representation on BAN IT Sub-Committee and BON Cyber Security Forum for capacity development purposes of all PAN members. 3. Establish a benchmark for improving operational performance for business continuity and disaster recovery e.g. RPO, RTO.

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Collaboration		
4. Facilitate and promote collaboration between NPS stakeholders.	1. Depth and breadth of participation in the NPS through the PAN Stakeholder Forum. 2. Percentage, on an annual basis, of projects that are completed (a) on-time; and (b) in budget. 3. Zero disputes over the five-year period.	1. Implement an approved governance model for the NPS. 2. Expand inclusivity in terms of stakeholders' representative bodies e.g. consumers and retailers on PAN Stakeholder Forum. 3. Promote a culture of compliance to NPS standards, rules and project objectives based on a risk-based approach.

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Collaboration **5. Leverage Vision 2030 and other national development priorities to enhance the NPS.**	1. NPS accessibility indicators. 2. Progress on NPS inclusion in Vision 2030 ICT rollout and digitisation action plans. 3. Influence on the enablement of digital ID rollout.	1. Engage and collaborate on industry platforms to define and set targets for accessibility indicators in the NPS in support of financial inclusion. 2. Participate in appropriate regulatory and stakeholder forums to collaborate on the achievement of national goals so as to enable appropriate infrastructure in support of the NPS e.g. ICT rollout and digital ID. 3. Participate in appropriate regulatory and stakeholder forums to collaborate on the streamlining of legislation impacting the NPS domain e.g. FIC, NAMFISA, MICT, Home Affairs legislation and regulations etc. 4. BON to collaborate with NPS stakeholders to assist and support digital payments to and from government through the NPS e.g. G2P, P2G payments etc.

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Collaboration		
6. Enhance cross border collaboration.	1. Influence and contribution to the agenda of the SADC regional and international streams. 2. Participation in regional and international projects. 3. Alignment of the NPS interoperability to regional and international payment standards. 4. Affordable and efficient regional payment systems.	1. Foster relationships for regional participation and integration pertaining to cross-border, regional and continental payments for bank and non-banks. 2. Implement appropriate standards to address gaps in the NPS on cross-border payments in the CMA, in order to align to global best practices.

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Consumer-Centric Innovation		
7. Deepen understanding of changing consumer needs for payment system priorities.	1. The adoption rate by consumers of new interoperable innovations. 2. Seamless consumer experience agnostic to the payment stream. 3. Enabling legislative and regulatory environment. 4. Achievement of real-time clearing. 5. Availabitlity of payment stream options for consumers. 6. 100% interoperability across the payment streams by 2025.	1. Use big data to gain knowledge of consumer behaviour so as to drive NPS innovation (all data used are open source and from multiple platforms). 2. Select NPS developments based on information from regular surveys that reflect consumer attitudes, needs, experiences and expectations of the NPS. 3. Participate in the development of the Consumer Protection Bill to create NPS consumer protection features.

Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Consumer-Centric Innovation		
8. Support and promote innovative and transformative payment solutions.	1. The adoption rate by consumers of new interoperable innovations. 2. Seamless consumer experience agnostic to the payment stream. 3. Enabling legislative and regulatory environment. 4. Achievement of real-time clearing. 5. Availabitlity of payment stream options for consumers. 6. 100% interoperability across the payment streams by 2025.	1. Adopt appropriate payment industry standards based on international best practices. 2. Ensure progress in the implementation on the BON position paper on interoperability in the NPS. 3. Improve the performance on the management of industry projects. 4. Investigate open banking, data sharing and the use of APIs to strengthen relationships between banks and non-banks to improve the customer experience. 5. Determine the scope for data sharing and data security within the current regulatory regime.

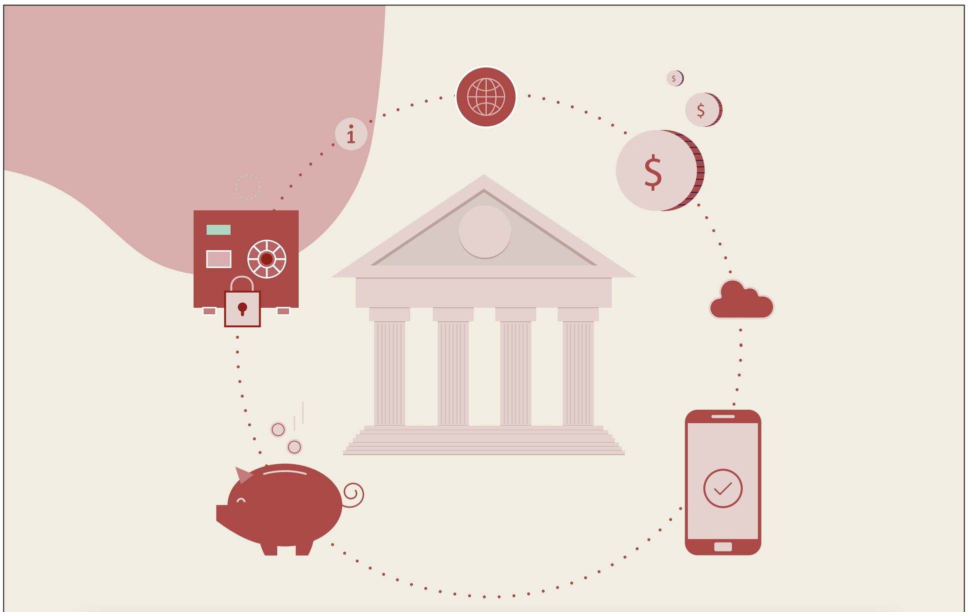
Strategic Theme and Goal	Key Success Indicators	Key Strategic Initiatives
NPS Human Resource Capacity Development		
9. Ensure appropriate human resource capability.	1. High-level consumer knowledge and awareness around payment system products. 2. High-level of consumer vigilance i.e. knowledge and awareness, around the avoidance of payment system crimes. 3. Index score on payment systems knowledge and skills.	1. Continue consumer awareness education pertaining to payment system crimes. 2. Collaborate with relevant bodies to tailor payments courses for Namibia.

We would like to thank the following stakeholders for their active participation and input during the deliberations that culminated in this document.

- ATM Solutions
- Banco ATLANTICO Europa Namibia Branch
- Bank BIC
- Bank of Namibia
- Bank Windhoek
- Collexia
- Direct Pay Online
- Easypay
- Ecentric Payment Services Namibia
- First National Bank
- Hyphen Namibia
- Letshego Bank
- Magnet Payment Solutions
- Mobipay
- Mobitek
- Namclear
- Nam-mic Payment Solutions
- Namibia Post Limited
- National Payment Solutions
- Nedbank Namibia
- Payat Payment Services
- PayM8
- Payments Association of Namibia
- PayToday
- Real Pay
- Standard Bank
- Trustco Bank
- Virtual Technology Services
- VIVO Energy Namibia

Mr Ebson Uanguta
Deputy Governor
Bank of Namibia

Dr Koos Keyser
Chairperson
Payments Association of Namibia



What is the purpose of this Act?

The purpose of this Act is to strengthen the rules and oversight for banking institutions to ensure that the country's financial system remains stable.

The Act also aims to promote and ensure that banks operate in a responsible manner, for the well-being of all Namibians.

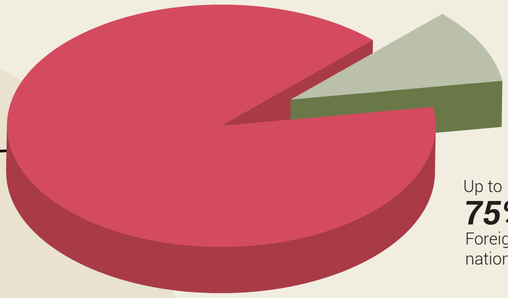
What has changed?

The following key provisions introduced in the new law relate to the following aspects:

Beneficial owner:

- The new Act introduces a new term, 'beneficial owner,' not in the current law
- It will help the Bank of Namibia identify and asses the persons who have applied, especially before licencing to check if they are suitable to own shares in a bank.

Goal:
To Make sure only honest people with integrity can own banks in Namibia.

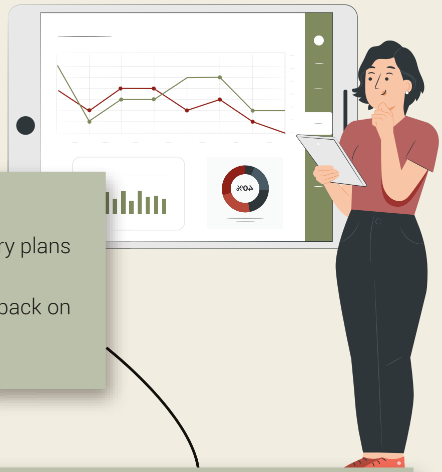


Restriction on foreign shareholding:

Foreign Ownership Limit:

- Foreign nationals can own a maximum of 75% of a bank's shares.
- The remaining 25% must be kept for Namibian citizens.

Why this is important:
This Act encourages local people to promote local participation in line with the national aspirations of the country.



Recovery plans:

- New law mandates banks to have recovery plans or "living wills."
- These plans explain how a bank can get back on track if it faces big financial problems.

Why Do Banks Need Recovery plans?

- Regulators use these plans to understand how a bank can be restructured during financial distress.
- This helps avoid financial chaos and safeguards the entire financial system.
- The law aligns with international best practice to ensure that banks can recover quickly without harming the financial system.

Rest easy, your money is secure!

The Role of the Appeal Board

What is the Appeal Board?

- The Appeal Board is a platform established under the new Act to hear appeals against decisions made by the Bank of Namibia.
- The new Act provides explicit details on how the Appeal Board should be composed and operate.

This way, we ensure the financial system stays strong and safe.

Fair Banking Fees and charges!

- As the supervisor of banks, the Bank of Namibia has a responsibility to make sure that the fees and charges you pay for banking services are fair.
- The new Act gives the Minister of Finance the power to make rules about the fees and charges.
- These rules are designed to make sure that the fees you pay are fair and match the cost of the services you get from the bank.

Unlocking Financial Stability: Bank of Namibia's Resolution Powers

The Bank of Namibia Resolution Powers:

When banks face trouble, the Bank of Namibia steps in keeping the financial system strong and secure.

Bank of Namibia's Vital Role

- The Bank of Namibia has the Mandate as the Resolution Authority to handle failing banks, microfinance institutions, and their related companies to safeguarding financial stability and resolve issues without causing chaos or risks;
- Working together with the Namibia Deposit Guarantee Scheme which provides a safety net for people's deposits.

Cracking Down on Illegal Financial Schemes

- Over the years, the Bank of Namibia has noticed an increase in illegal financial schemes, despite our efforts, people still get involved in and promote these schemes.

Contravention of the Law

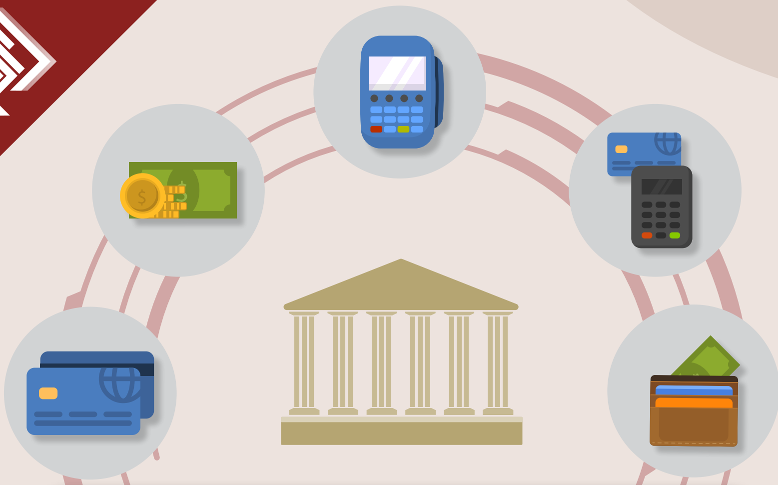
- The new Act makes it crystal clear: participating in or promoting illegal financial schemes is against the law.
- Penalties include fines up to N$2,000,000 and imprisonment for up to 10 years.
- The new Act give the Bank of Namibia power to issue public warnings against illegal financial schemes.

Goal:
Guard against falling victim to illegal financial schemes

Where can the Act be found?

The full Act can be found on the Bank of Namibia's website at:

https://www.bon.com.na/Regulations.aspx

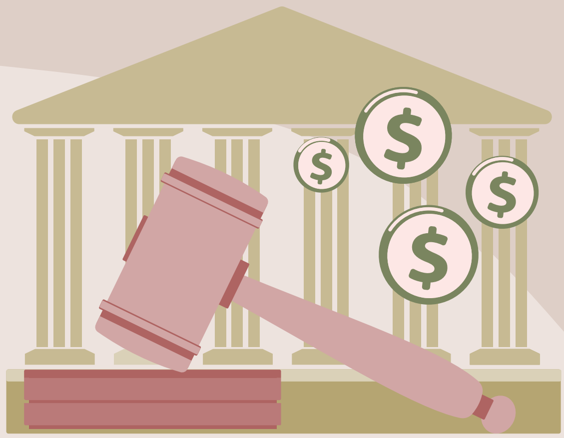


PAYMENT SYSTEMS MANAGEMENT ACT
(ACT NO.14 OF 2023)

What is the Payment Systems Management Act?

The Payment Systems Management Act, Act 14 of 2023 (PSM Act), gives the Bank the authority to establish rules regarding the fees that users are charged for payment services.

It also grants the Bank the ability to impose fines for not following the rules outlined in the PSM Act.



What is the purpose of this amended Act?

The constantly changing world of payments calls for adaptable and strong laws that encourage new ideas, foster healthy competition, and handle potential risks within the system.

The recently introduced Payment Systems Management Act is designed to strengthen the Bank of Namibia's rules and oversight system.

What are the most important aspects of the PSM Act 2023 that I should know about?

OVERSIGHT

The Bank of Namibia's authority and responsibilities are expanding to oversee payment service providers that were previously regulated by the Payment Systems Management Body.

This means the Bank is now the main regulator for all participants in the country's payment system.

PAYMENT SYSTEM MANAGEMENT BODY

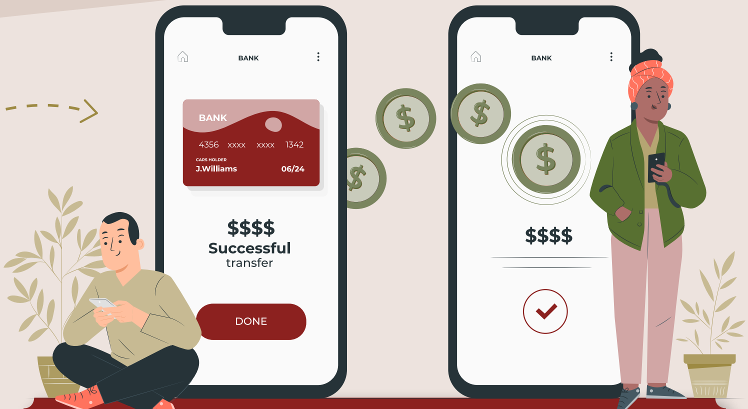
The Payment Systems Management Body is being transformed into the Payments Association of Namibia.

This new organisation will work together with its members and establish technical standards for the national payment system.

INSPECTION

The Bank of Namibia can now perform inspections and access necessary information.

This helps the Bank effectively carry out its role of overseeing the secure and efficient operation of the national payment system.



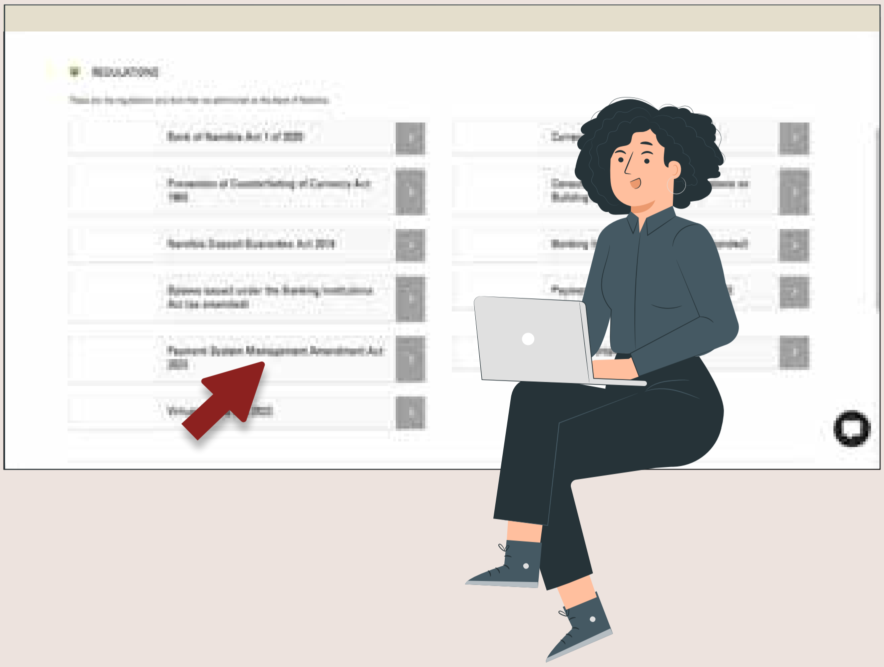
How does this Act affect me?

The Bank of Namibia now has the power to set technical standards and enforce conditions to ensure that the fees users pay for payment services are clear and beneficial for the public.

As a result of these new amendments, more diverse and innovative payment services will become available, including new forms of payment methods that will be considered legitimate forms of currency in Namibia.

Where can the act be found?

The full Act can be found on the Bank of Namibia's website at:
https://www.bon.com.na/Regulations.aspx



ALL YOU NEED TO KNOW ABOUT THE

VIRTUAL ASSETS ACT, 2023
(ACT NO. 10 OF 2023)

Namibia enacted the country's first legislation to license and regulate Virtual Asset Service Providers (VASPs) and Initial Token-Offering Service Providers (ITOSPs).

The Virtual Assets Act, 2023 (Act No. 10 of 2023) (VAA) became operational on 25 July 2023.

WHAT ARE VIRTUAL ASSETS?

- Virtual Assets refer to a digital representation of value that can be digitally transferred, stored or traded;
- That uses a distribution ledger technology or similar technology; and that can be used for payment or investment purposes.

WHY WAS THIS NEW LAW INTRODUCED?

This law will ensure:

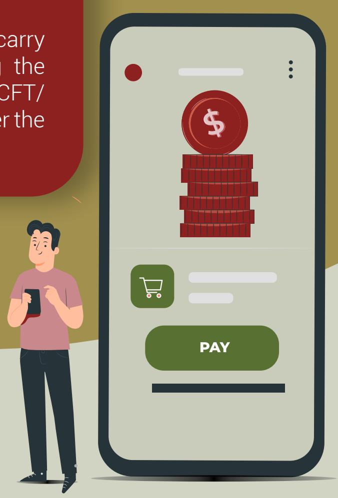
- *Before the landmark law was passed, Namibia recognised that virtual assets were being used for illegal activities, including money laundering, especially targeting the banking sector.*
- *The Act aims to reduce the risks of investing in virtual assets, which the Bank of Namibia (BoN) had already warned the public about.*

ARE VIRTUAL ASSETS/ CURRENCIES LEGAL TENDER IN NAMIBIA?

- Virtual Currencies do not enjoy legal tender status on par with the Namibia Dollar.
- Their acceptance of the payment of goods and services will be at the discretion of any merchant and buyer willing to participate in such an exchange or trade.

WHO WILL ADMINISTER THIS ACT?

- The Minister of Finance and Public Enterprises, in terms of section 5 of the VAA, has designated the Bank as the prudential Regulating Authority of the industry.
- In this role, the Bank shall prudentially license, regulate and supervise virtual asset service providers and initial coin offering service providers.
- The Financial Intelligence Centre (FIC) will still carry out the Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation (AML/CFT/CPF) registration, licensing, and supervision role over the industry.

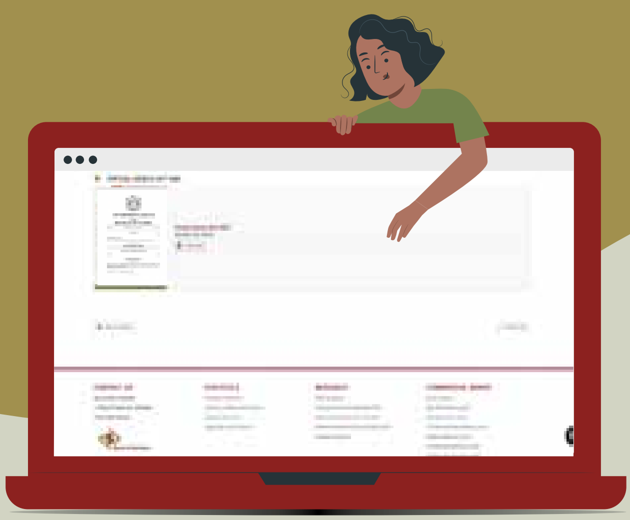


WHAT ARE LICENSING REQUIREMENTS AND APPLICATION FOR A VIRTUAL ASSET LICENSE?

1. It is necessary for Virtual Asset Service Providers (VASPs) to be registered and incorporated in the country where they are created, like in Namibia.
2. If a VASP is an individual person, they must also be licensed or registered in the country where their business is located.
3. If someone operates as a VASP without being properly registered, they commit a crime and can be fined up to **N$10,000,000** or imprisoned for up to **10 years, or both.**
4. Since VASPs are businesses, anyone who wants to be a virtual asset service provider or a company that wants to issue tokens must apply for a license following the procedure in the Act.
5. The Bank of Namibia, as the regulator, is responsible for keeping a record of all licensed VASPs for control purposes.

WHERE CAN THE ACT BE FOUND?

The full Act can be found on the Bank of Namibia's website at:
https://www.bon.com.na/Regulations.aspx



Namibia's Monetary Policy Framework

Bank of Namibia

CONTENTS

FOREWORD

This document describes Namibia's current monetary policy and exchange rate framework. Much of what is contained in the document has been described in other Bank of Namibia policy papers. However, it was necessary to bring all aspects of the Bank's monetary and exchange rate management[1] practices together in a single referencing document, in line with international best practices.

Monetary policy in Namibia aims to ensure price stability in the interest of sustainable economic growth. Namibia's monetary policy framework is underpinned by the exchange rate system linked to the South African Rand at a ratio of one-to-one. This link, which requires that Namibia's currency in circulation is 100 percent backed by international reserves, ensures that Namibia imports price stability from the anchor country. Under a fixed exchange rate regime, monetary policy remains submissive to the fixed peg arrangement. Maintenance of the fixed peg, which is the intermediate target, ensures that the goal of price stability is achieved by importing stable inflation from the anchor country. As a member of the Common Monetary Area, Namibia has ceded its right to have an independent monetary policy. Nevertheless, the country has some monetary policy discretion because of stickiness in capital movements, capital controls and other prudential requirements. These discretionary powers confer liberty upon the Bank of Namibia to maintain its Repo rate at a somewhat different level from the Repo rate of the South African Reserve Bank, when required.

An important aspect of a monetary policy framework is the legal and institutional framework for policy formulation. In Namibia, the composition of the Monetary Policy Committee is prescribed by the Bank of Namibia Act 2020 (Act No.1 of 2020), and it consists of the Governor and Deputy Governors who are *ex officio* members, and a minimum of three and maximum of six members appointed by the Governor with the approval of the Board of the Bank. The composition may be a mix of bank staff members and other persons[2]. The MPC members are appointed for three years and are eligible for re-appointment.

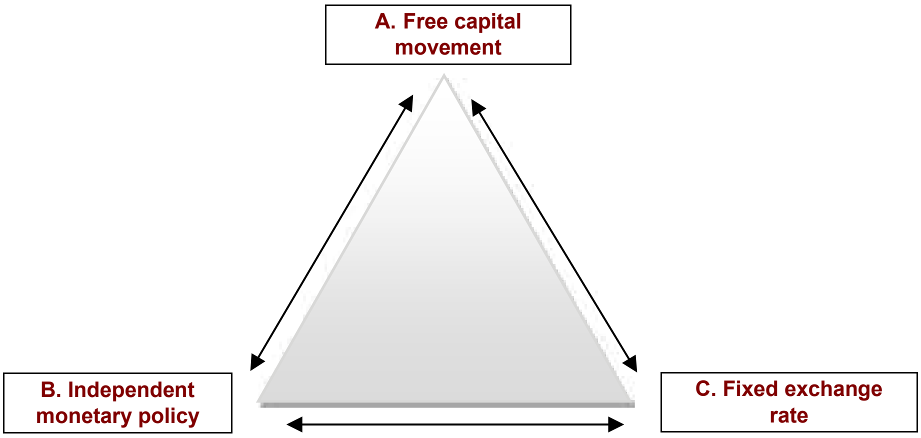
An increasingly important topic in monetary frameworks is communication, as it plays an important role in managing market expectations such that the market is not caught off-guard with respect to key decisions. In this regard, the Bank of Namibia uses an array of channels to communicate monetary policy decisions, of which this document is one example. Others include a press statement after each Monetary Policy Committee meeting, the publication of the monetary policy statement and the minutes of the committee meetings on the Bank's website, and the publication of a monetary policy review two times a year in the June and December Quarterly Bulletins and the Annual Report of the Bank.

[1] See the BoN Working Paper on "Monetary Policy Transmission Mechanism in Namibia"
[2] Section 28(2) of the Bank of Namibia, 2020. (Act No. 1 of 2020).

I. THE MONETARY POLICY FRAMEWORK OF NAMIBIA

The goal of monetary policy in Namibia is to ensure price stability in the interest of sustainable economic development of the country. Namibia's monetary policy framework is underpinned by the fixed currency peg of the Namibia Dollar to the South African Rand. Under a fixed exchange rate regime, monetary policy is submissive to the fixed peg. Maintenance of the fixed peg, which is the intermediate target, ensures that the goal of price stability is achieved by importing stable inflation from the anchor country (Figure 2). The relationship between monetary policy and the exchange rate policy in an open economy operating under a fixed exchange rate regime is underpinned by the "trilemma" or "impossible trinity" concept (Al-Raisi *et al*. 2007:2), depicted in Figure 1.

Figure 1: The Impossible Trinity of Capital, Monetary Policy and Exchange Rate.



The impossible trinity postulates that a country cannot simultaneously enjoy three policy positions: a fixed exchange rate, monetary policy independence, and an open capital account. Consequently, under a fixed exchange rate arrangement, a country cannot operate monetary policy independently from the anchor country, as this will eventually disturb the fixed peg through the workings of the capital account. For instance, if interest rates in the country fall below those in the anchor country, funds will move immediately and on a massive scale to the anchor country, forcing interest rates to be raised again to where they match those in the anchor country. The impossible trinity implies that Namibia has limited monetary policy independence due to the fixed exchange rate arrangement.

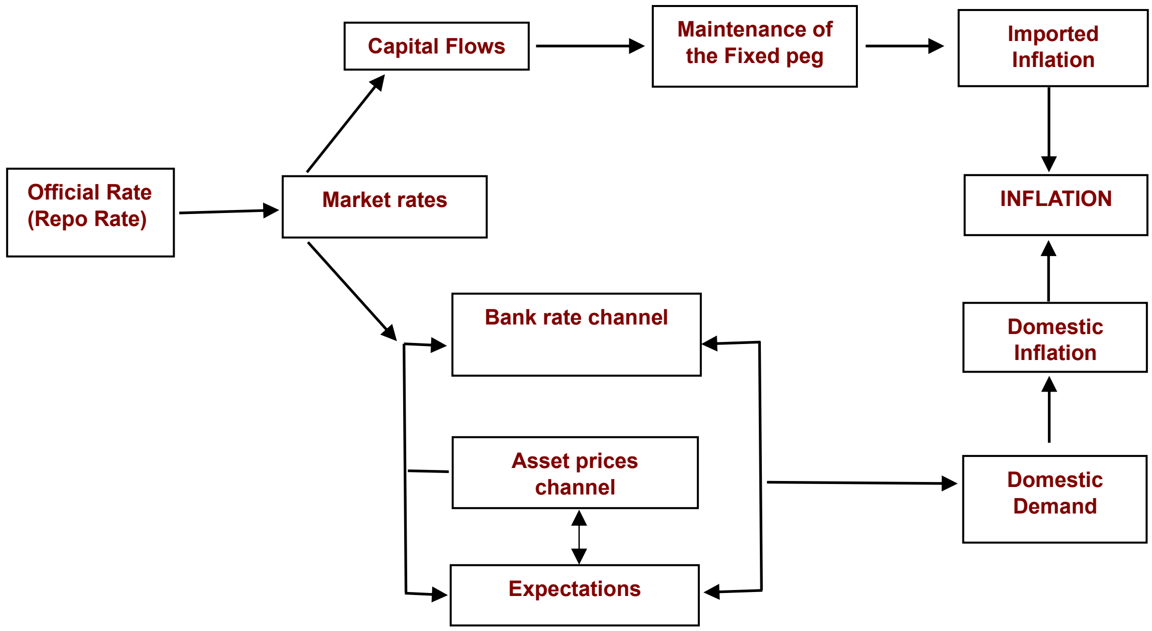
However, the impossible trinity concept assumes perfectly functioning financial markets, where even the slightest interest rate differential between countries causes immediate, massive arbitrage as long as the differential holds. In real life, capital movements are not instantaneous, costless or frictionless. There are transaction costs, convenience considerations and inertia in moving funds from one country to another. There are also lags; for instance, money deposited in fixed deposit accounts cannot be moved before the deposit reaches its maturity date.

A country with a fixed exchange rate policy could also use capital controls and regulatory barriers to influence capital movements. Therefore, to a certain degree, domestic short-term interest rates can be adjusted away from but in reasonable proximity to interest rates in the anchor country, influencing money supply and credit extension to the private sector to control domestically induced inflation through expectations and aggregate demand.

Consequently, Namibia's monetary policy stance can deviate to some extent from that of South Africa, relying on the transaction costs, other frictions, capital controls and prudential requirements imposed on banking and other financial institutions to moderate capital movements in response to small differences in interest rates. These make it possible for the Bank of Namibia to maintain a Repo rate that is somewhat different from the

Repo rate of the South African Reserve Bank (SARB), when required, thus allowing some discretion to control the domestic credit extension and money supply. "Constrained discretion" is therefore a key characteristic of monetary policy formulation in Namibia This discretion enables the Bank of Namibia to control domestically induced inflation, which is estimated to contribute about 35 percent to the overall inflation in Namibia (Gaomab II 1998). The transmission mechanism of such monetary policy discretion is presented in Figure 2.

Figure 2: Schematic illustration of the Monetary Policy Transmission Mechanism for Namibia



The Bank rate channel (Figure 2) influences the pricing of retail financial products. In the case of Namibia, almost immediately after the official rate/ repo rate is changed, commercial banks accordingly adjust their lending rates. Theoretically, firms and individuals respond to the change in commercial bank lending rates by altering their spending and investment decisions. In Namibia's case, changes in the borrowing behaviour of individuals in response to interest rate changes are usually more pronounced than those of businesses. Thus, the credit/repo rate channel is important in Namibia in terms of influencing domestic inflation. The expectation of changes in the interest rate (repo rate) in Namibia also influences consumer behaviour, which will trickle down to domestic demand. Changes in household demand patterns eventually filter through to output and domestic inflation.

The asset price channel is also effective in Namibia primarily through physical assets, in particular, real estate. For example, if the central bank tightens monetary policy, it results in a rise in mortgage rates. Any rise in the mortgage rate reduces the disposable income after debt servicing of those affected, consequently reducing the flow of funds available for spending on goods and services in respect of any given income. The rise in interest rates also tends to reduce the value of assets, and lower wealth leads to lower spending. The resulting lower spending will ultimately filter through to domestic inflation developments.

Changes in interest rates should theoretically have an impact on equity and bond prices. Movements in interest rates therefore, among other factors, directly impact the profitability of companies and as a consequence, the share price valuations are also affected, whether it is through changes in the cost of debt or in the behaviour of customers. However, structural issues constrain the strength of this impact in Namibia. Given that investments in locally listed equity are dominated by institutional investors and some strategic investors, markets are quite illiquid as there is a relatively short supply of domestic assets for this investor segment. Consequentially, locally listed equity prices do not always respond to changes in interest rates as one would have expected. In the case of bonds, the changes in prices are, however, more prevalent, as they are not only affected by factors such as market sentiment, risk appetite, demand and supply, and market yields of comparable investment products but also inflation expectations. As central banks use interest rates as a tool to control inflation expectations, changes in the Repo rate, to control inflation or otherwise, will have some impact on bond prices. Any changes in the South African Repo rate will have an impact on South African bond prices. While Namibian bonds are benchmarked against South African bonds, the valuation of Namibian bonds will also change accordingly, even before there is any change in the Namibian Repo rate.

In addition, changes in the official rate (Repo rate) affect market interest rates. This consequently affects the flow of capital between Namibia and the anchor country (South Africa). Lower interest rates in Namibia could precipitate capital outflows to South Africa, which could also put additional pressure on the level of international reserves and hence threaten the peg. This is due to the requirement of the Common Monetary Area (CMA) that each Namibia Dollar currency in circulation in Namibia should be backed by an equivalent amount of international reserves. To prevent the above scenario, the Bank of Namibia usually keeps its Repo rate in line with the South African Reserve Bank repo rate. Moreover, the Bank of Namibia at all times keeps equivalent or higher international reserves than currency in circulation to safeguard the current peg – in practice the reserves held are always a multiple of the currency in circulation.

Countries that adopt flexible or managed exchange rate systems can rely on other transmission channels, such as the exchange rate and credit and expectations channels to implement monetary policy. In contrast, due to its fixed exchange rate system and the characteristics of the Namibian securities market, Namibia mainly relies on the interest rate/repo rate channel and, to some extent, on the asset price channel to influence domestically induced inflation. Under a fixed exchange rate regime, monetary policy remains submissive to the fixed peg. The maintenance of the peg ensures that Namibia imports stable prices. However, due to transaction costs, frictions, capital controls and prudential measures that limit the outflow of capital as outlined above, Namibia can deviate, albeit to a limited extent, from the policies of the anchor country (i.e., South Africa) to affect domestically induced inflation. The decision of the central bank ultimately affects inflation through the repo rate/credit and asset price channels. A higher repo rate tends to slow credit extension, reduce asset prices, moderate domestic expenditure and rein in inflation. Conversely, a lower repo rate tends to boost credit extension, raise asset prices, increase domestic expenditure and accommodate higher inflation.

II. LEGAL AND INSTITUTIONAL FRAMEWORK

Board of Directors

The Bank of Namibia is governed by a Board of Directors, consisting of the Governor of the Bank, who is also the Chairperson of the Board. Other Board Members include the Deputy Governors, the Executive Director of the Ministry of Finance and Public Enterprises and six Non-Executive Directors[3]. In terms of its functions and powers, the Board is responsible for general policies, internal controls, risk management, the general administration of the Bank and any other functions as may be assigned to or conferred on the Board (section 10(1) of the Bank of Namibia Act, 2020). The Board plays no role in monetary policy formulation, although it is regularly informed about monetary developments and the reasons for the prevailing stance of monetary policy.

Monetary Policy Formulation

Institutional framework

The Bank of Namibia's Monetary Policy Committee (MPC) is responsible for the formulation of monetary policy, the policies for the conduct of monetary policy operation of Namibia, and the rules of procedure to be followed at its meetings. The MPC is a committee that consists of the Governor who serves as the MPC Chairperson, Deputy Governors who are *ex officio* members, and a minimum of three and maximum of six members appointed by the Governor with the approval of the Board. The composition may be a combination of Bank staff members and other persons[4]. The MPC members are appointed for three years and are eligible for re-appointment. The MPC's Terms of Reference and Code of Good Conduct are attached as Annexures 1 and 2, respectively.

Major mandates in relation to monetary policy

The MPC's key mandate in relation to monetary policy matters is derived from the Bank of Namibia Act, 2020 (Act No.1 of 2020). According to the Act, the main object of the Bank of Namibia is to promote monetary

[3] Section 9(1) of the Bank of Namibia, 2020 (Act No. 1 of 2020).
[4] Section 28(1) of the Bank of Namibia, 2020 (Act No. 1 of 2020).

stability and contribute towards financial stability conducive to the sustainable development of Namibia. Moreover, in terms of Article 4 of the Common Monetary Area (CMA) Bilateral Monetary Agreement between Namibia and South Africa, it is stipulated that "the Bank of Namibia shall maintain reserves equivalent thereto in the form of Rand assets and freely usable foreign currencies in such proportion as the Bank of Namibia considers appropriate".

Monetary policy target

In terms of section 5(1) of the Bank of Namibia Act, the Bank enjoys independence in the pursuit of its object and the performance of its powers. In other words, no individual, group or institution – government or otherwise – is permitted to interfere with the Bank on monetary policy matters. The immediate objective that the MPC focuses on is to maintain the parity of the Namibia Dollar to the South African Rand. However, since the ultimate objective of monetary policy is stable prices, the MPC keeps a close watch on the inflation rate, defined domestically as the rate of increase over twelve months in the Namibia Consumer Price Index (NCPI). The NCPI is produced and disseminated by the Namibia Statistics Agency (NSA) on a monthly basis.

Frequency of meetings

The MPC meets six times a year to deliberate on monetary policy matters. At each such meeting, the MPC decides on the appropriate stance of monetary policy for the next two months. The Governor may also call for extraordinary MPC meetings at his/her discretion.

Process of decision-making and voting rights

During an MPC meeting, members from relevant departments in the Bank are invited to make presentations to the MPC on recent global and domestic economic developments, and on the inflation outlook. In terms of domestic economic developments, performance indicators of the four macro-economic accounts - the real, monetary, external and fiscal sectors - are considered. From time to time, the MPC may also request additional presentations relating to monetary policy. At times, certain invited persons may sit in on MPC deliberations in order to provide clarification on issues raised in their reports. However, only the views of MPC members are taken into consideration when a decision on the stance of monetary policy is taken. 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 reason(s) for such view.

Monitoring economic and financial trends

As a routine activity of the Bank, all major economic and financial indicators are monitored and presented to the MPC. The said indicators include the liquidity of the banking system, inflation and exchange rate trends, monetary, credit and financial market developments, the foreign exchange reserve position, real sector indicators, the balance of payments, and fiscal trends. In addition, the Bank makes use of monthly and quarterly internal inflation forecasts. The forecasts are based on econometric methods, which inter alia incorporate actual and projected price developments in selected commodities and exchange rates. The Bank captures the medium-term inflation forecasts in its monetary policy statements, with more detail provided in an inflation forecast document that is simultaneously released on the Bank's website.

III. POLICY IMPLEMENTATION

Ultimate objective and intermediate target

The ultimate objective of monetary policy in Namibia is to promote price stability. In achieving this objective, the Bank of Namibia has an intermediate target to promote an economic and financial environment that ensures that the parity between the Namibia Dollar and the South African Rand is not threatened in any way. The parity between the two currencies may be threatened when, amongst others, interest rates move away significantly from each other, which may lead to undue capital inflows or outflows, and/or divergent macro-economic developments between the two countries.

Operational target

The operational target is an economic variable that the central bank wants to influence, largely on a day-to-day basis, through its monetary policy instruments. Although there is no formal operational target in Namibia, the Bank of Namibia monitors the level of official reserves, as the fixed currency peg requires the country to fully back its currency in circulation with international reserves in order to import stable prices from South Africa.

The Bank endeavours to maintain the international reserves at a level which, in the view of the Board, is adequate to cover Namibia's external obligations and retain confidence among its investors and rating agencies (section 62(1)). In this regard, there is a minimum threshold below which foreign reserves are considered inadequate. The minimum threshold, currently set by the board, is defined as the currency in circulation plus a buffer of three times the monthly commercial bank net foreign transfers. If international reserves are initially at a level that the Board considers inadequate, it should determine measures to grow the international reserves. Should the initial measures require Government support, the Board must submit the measures to the Minister of Finance on the reserve position, together with recommendations that the Board considers necessary to contain or otherwise remedy the situation. Section 62(3) (4) (5) and (6).

Key policy rate

The main policy tool that the Bank of Namibia uses to influence monetary conditions in the country is the Repo rate, which is aligned with the South African Reserve Bank's repo rate. The Repo rate is the interest rate at which commercial banks borrow money from the Bank of Namibia, and this, in turn, affects other interest rates in the economy. Changes to the Repo rate usually consider the SARB's decision, prevailing domestic economic conditions, international economic conditions including foreign reserve adequacy, and future economic prospects.

IV. MARKET OPERATIONS

Monetary policy instruments are tools that central banks use to achieve their operational targets such as inflation, money supply and exchange rates. Central banks use various measures, broadly referred to as market operations tools, to meet such targets. In the case of the Bank of Namibia, the following key operational tools are employed to meet the Bank's monetary policy objectives.

Settlement account

Banking institutions place funds in the settlement account with the Bank of Namibia on a daily basis, at an interest rate determined by the Bank. As the interest rate on this account is changed at the discretion of the Bank, it may be used as a prime intervention instrument to control short-term capital outflows. Generally, adjustments in the settlement account rate are dictated mainly by the monetary policy stance, changes in liquidity conditions of the Namibian banking system as well as the general movement in money market rates.

Repurchase transactions

This instrument is key, providing the conduit through which the main policy tool – the Repo rate – works. The Bank has three systems of accommodation, namely the seven-day repo, the overnight repo, and the intraday repo. All three facilities are available to assist participants in the Namibia Interbank Settlement System (NISS) to meet their settlement obligations. As such, the facilities are not meant to aid in funding banking institutions' credit extension, but rather to assist them in meeting their short-term liquidity requirements.

The seven-day refinancing facility was introduced by the Bank of Namibia in 2008 as its main system of accommodating banking institutions. The Bank has the discretion to determine the size of the amount to be allotted at any seven-day repo auction, depending on the banking institutions' liquidity situation and needs. Lending on this facility is fully collateralised, which means funds are provided only when eligible collateral has been submitted and applicable haircuts are applied. The rate charged on the 7-day lending facility is the prevailing Repo rate which is set by the Bank's MPC. This facility is availed on demand and on a weekly basis subject to the liquidity conditions in the banking industry.

The intraday and overnight repos are used to square-off daily positions in the event that a certain bank does not have sufficient funds in the settlement account to meet its daily settlement obligations. Both intraday and overnight repos require the institution to have enough eligible securities pledged for collateral pre-lodged on the NISS system before utilising any of the facilities. The intraday repo facility is interest-free while a penalty over the Repo rate is charged on the overnight repos. This penalty is periodically reviewed by the Bank and the prevailing rate is announced in the Operational Notice on Money Market Operations. The Bank reserves the right to change the penalty if borrowing under the overnight facility becomes so large and persistent that it implies permanent lending to banking institutions.

Bank of Namibia bills

Bank of Namibia bills (BoN bills) were first introduced in 2007. Initially, BoN bills were used to assist banking institutions to meet their statutory liquidity requirements, due to a shortage of Government securities in the primary and secondary markets. Nonetheless, over time, the BoN bills were extended for general industry liquidity management. The purpose of this extension is to prevent short-term capital outflows which have adverse effects on the level of foreign exchange reserves. As such, the Bank issues BoN Bills of various maturities to mop up liquidity in the event of excess cash in the market. The rates offered on the BoN bills are determined based on the monetary policy stance and on the general trend in money market rates. Currently, the Bank of Namibia bills are only available to banking institutions and are offered when warranted by prevailing liquidity conditions in the banking industry. The Bank of Namibia bills are offered in maturities of 7-day, 14-day, 21-day, 28-day and 56-day. BoN bills are availed on demand on a weekly basis subject to the liquidity conditions in the banking industry. The maturities on offer may vary based on demand.

Other operational tools

The Bank of Namibia may utilise other tools to withdraw surplus liquidity from the market or inject liquidity into the market in the case of a shortage. These include engaging in open market operations by buying or selling debt securities in the market to influence the market liquidity levels.

V. MONETARY POLICY COMMUNICATION

Principles of monetary policy communication

The Bank's monetary policy communication strategy is aimed at communicating its monetary policy stance transparently. The commitment serves several pivotal purposes including the management of market expectations, rectification of public misconceptions, establishment and reinforcement of credibility, cultivation of trust and fundamentally, the enhancement of the overall effectiveness of monetary policy. Through clear and open communication, the Bank endeavours to ensure that stakeholders, including the general public, are well-informed, contributing to a more robust and trusted monetary policy framework.

Announcement of policy decisions

The MPC meetings are held every two months. After each meeting, MPC decisions are announced to external stakeholders by the Governor or a Deputy Governor to promote monetary policy aims and objectives in line with the Monetary Policy Framework of the Bank. On the day of the announcement, the monetary policy statement is extensively disseminated through various media platforms. The minutes of the preceding MPC meeting are made available on the Bank's website the following day.

Additionally, the MPC is obligated by the Bank of Namibia Act, 2020 (Act No.1 of 2020) to publish the Monetary Policy Review of Namibia two times a year in June and December- respectively. This forms part of the Quarterly Bulletin and the Annual Report features the summarised version of Monetary Policy developments of the year under review. This comprehensive approach ensures the transparent and timely sharing of monetary policy decisions and insights with stakeholders and the public.

To enhance understanding of the monetary policy framework and decision-making in Namibia, the Bank has launched a Monetary Policy Dialogue series. These meetings are held at least once a year to engage local economists, analysts, researchers, and industry players, serving as a platform that unpacks monetary policy decisions and promotes dialogue and transparency in the decision-making process. The Governor accompanied by all MPC members holds transparent discussions with stakeholders to announce and interrogate the Bank's interest rate decision and the broad direction of monetary policy.

To reach a broader audience, the Bank makes use of various multimedia tools as well as translation of the decision into local languages. This is augmented by educational videos and public lectures facilitated by the Governor to inform stakeholders in different regions regarding aspects of monetary policy.

Inflation and economic forecasts

Monetary policy decisions are based on data, professional forecasts, and expert judgement. Thus, six times a year, the MPC receives inflation and private sector credit forecasts to facilitate monetary policy decisions. The inflation forecast is published on the Bank of Namibia website after each monetary policy announcement. Furthermore, the Bank publishes economic outlook projections three times a year, usually in February, August and December.

VI. REFERENCES

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ANNEX 1: TERMS OF REFERENCE OF THE BANK OF NAMIBIA MONETARY POLICY COMMITTEE

Background

The Governor of the Bank of Namibia has the right to appoint committees to assist in the implementation of the Bank's policies. In this connection, the Act provides the Governor with the mandate to establish a Monetary Policy Committee, responsible for the formulation of monetary policy of Namibia. **This committee shall be formally known as the Monetary Policy Committee.**

The Monetary Policy Committee shall have the power and responsibility to formulate the monetary policy of Namibia. However, in terms of accountability, the Governor of the Bank of Namibia remains ultimately responsible for the soundness and effectiveness of monetary policy.

This document outlines the composition and terms of reference of the Monetary Policy Committee of the Bank of Namibia with respect to monetary policy matters.

Composition of the Monetary Policy Committee

The Monetary Policy Committee shall consist of:

(a) the Governor, who shall be the Chairperson;
(b) the Deputy Governors;
(c) a minimum of three and a maximum of six members appointed by the Governor with the approval of the Board based on their expertise.

Terms of office

The Committee members, with the exception of the Governor and Deputy Governors, shall hold office for three years and are eligible for reappointment as may be determined by the Governor of the Bank of Namibia with the approval of the Board. It is expected that in addition to the normal line responsibilities, the MPC members will devote a significant portion of their time to monetary policy matters.

Members of the Monetary Policy Committee shall at all times adhere to the Monetary Policy Committee Code of Good Conduct set out in Annex 2 of this document.

Members of the Monetary Policy Committee shall, before commencing to perform monetary policy functions, take an oath or affirmation.

Frequency of meetings

The Monetary Policy Committee shall meet six times a year to deliberate on monetary policy matters and take a decision on an appropriate stance of monetary policy for the next two months.

The dates of the monetary policy meetings shall be communicated in advance to all MPC members and the public at large.

The Governor may call for extraordinary meetings of the Monetary Policy Committee related to monetary policy matters.

A minimum of five members present shall be required to constitute a quorum.

Manner of decision-making

All decisions related to monetary policy matters shall be taken by consensus. The Chairman shall have a casting vote in case consensus does not emerge. It is expected of each member to clearly state his/her view and reasons for taking such a view.

Publication of statement of decisions

After each monetary policy meeting, the Monetary Policy Committee shall publish a statement of its decision in a manner which the Bank deems fit.

In addition to the statement referred to in the prior sentence, the Monetary Policy Committee shall publish a Monetary Policy Review three times a year, conveying information about macro-economic, monetary, inflation and financial developments in Namibia and globally.

ANNEX 2: MONETARY POLICY COMMITTEE CODE OF GOOD CONDUCT

1. Fundamental principles and core values

Monetary Policy Committee (MPC) members shall act with loyalty to the Bank, be honest, objective, and impartial and subscribe to the highest standards of professional ethics, diligence, good faith and integrity. They shall avoid any action, or inaction, which could in any way impair the Bank's capacity to carry out its duties or compromise its standing in the community and its reputation for integrity, fairness, honesty and independence.

2. Conflict of interest

(1) In the performance of their duties, MPC members shall avoid any situation that may give rise to a conflict of interest. No discrepancies may exist between a member's official responsibilities and any kind of personal or external interests which could jeopardise his or her impartiality and integrity in performing his or her responsibilities. Acceptance of gifts and favours that have the appearance of influencing their performance should be avoided.

(2) MPC members may not undertake remunerated activities outside the Bank, without the consent of the Chairperson of the MPC and in accordance with the general rules and procedures of the Bank on extra-mural activities. Remunerated activities that have a bearing on monetary policy matters must be avoided at all times. More especially, an MPC member shall not become a shareholder, director, manager, or officer in any banking or other financial institution.

3. Declaration of interests

(1) To assist in the fulfilment of obligations in relation to conflicts of interests, MPC members shall upon appointment make a full written disclosure of the nature of their direct or indirect interests which may give rise to conflict of interest.

(2) The matters to be covered by the member's statement shall include but not be limited to the disclosure of:

  (a) any financial or business interest of the member and that of his or her immediate family members; and/or

  (b) investments in companies, partnerships or joint ventures.

(3) An update of such a statement on an annual basis shall be provided to the Chairperson of the MPC.

4. Immunity from personal liability

The MPC members shall not be personally liable for any civil or criminal proceedings, arrest, imprisonment or damages for anything done in the discharge of their duties unless it is established that it was done in bad faith.

5. Compliance

(1) Compliance with this Code of Conduct will be monitored by the Chairperson of the MPC. Any violation of the provisions of the Code must be dealt with in accordance with the disciplinary policy of the Bank. An external member of the MPC is by virtue of his/her MPC membership is subject to the Disciplinary Policy of the Bank.

(2) For the duration of any investigation into any allegation of a contravention of this Code, the Chairperson of the MPC reserves the right to suspend the member concerned from carrying out duties for the MPC and the Bank.

(3) Any investigation into a suspected or possible contravention of this Code shall be kept confidential.

6. Independence

(1) MPC members shall be independent from any political influence in the performance of their duties.

(2) The MPC members shall not act as delegates or representatives of any interest groups or industry in the discharge of their duties.

7. Confidentiality

Members of the MPC and invited guests, are required to maintain strict confidentiality of the information discussed at MPC meetings and not to divulge any confidential information obtained by members in the performance of their duties: provided that such confidentiality shall be lifted one year after they have ceased to be members of the MPC. Members shall also avoid any situation where they might be perceived as having acted with the benefit of knowledge not available to the general market, for their own interests.