Bank of Namibia

Media Release

Annual Report 2006

and

Quarterly Bulletin March 2007

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MEDIA RELEASE

In terms of the provisions of the Bank of Namibia Act, 1997 (Act No 15 of 1997), the Bank of Namibia is required to finalise its Annual Report at or before the end of March of each year. In view of this requirement, the Bank of Namibia has prepared its Annual Report for the year ended 31st December 2006. The report provides an overview of the state of the economy in 2006, and assessment of the Namibian financial system, and the operations and affairs of the Bank.

The Domestic Economy

Notwithstanding inflationary pressures and tighter monetary conditions, real gross domestic product (GDP) growth in Namibia is estimated to have improved moderately to 4.6 percent in 2006 when compared to the rate of growth of 4.2 percent in 2005. Growth in 2006 was broad-based, with all key sectors performing relatively well. However, the primary industry, particularly the mining sector, performed better in response to improved commodity prices. Going forward, the economy is projected to continue growing at around 4 percent in the medium term, driven by increased mining output, while the contribution of tourism to total output is also expected to increase significantly. This growth rate, however, will not be sufficient to attain the goals of Vision 2030 and significantly reduce poverty. More would be required to put the country on a sustained accelerated growth trajectory.

Despite rising international oil prices, inflationary pressures remained relatively contained during 2006, with the average rate of inflation recording a low single digit of 5.1 percent. Nevertheless, in order to prevent second round effects of oil price inflation, the Bank of Namibia, in line with its mandate to promote price stability, acted cautiously and raised interest rates by 200 basis points during the year under review to anchor inflation expectations and to sustain the currency peg to the South African Rand. Although international oil prices declined significantly in the last quarter of 2006, an increase in the price of oil remains a key risk factor to the outlook for prices.

Over the past three fiscal years, there has been a conscious effort to consolidate the country's fiscal position. As a result, the fiscal balance as a ratio of GDP moved from a deficit of close to 7 percent in 2003/04 to a deficit of less than 1 percent in 2005/06, while a small surplus is projected for 2006/07. Consequently, the country's overall debt position in relation to GDP is projected to stabilise in the medium term. Much of the fiscal consolidation, however, came from the revenue side. It would, therefore, also be important to continue reviewing expenditure patterns to bring expenditure as a ratio of GDP closer to Government's fiscal target of 30 percent of GDP, while freeing up more resources for growth critical areas.

A significant improvement in the overall balance of the balance of payments was recorded during 2006. Due to a record high mineral export earnings and a surge in SACU receipts, the surplus on the external current account, as a ratio of GDP, increased to 18.0 percent from 7.1 percent in 2005. The capital and financial account, on the other hand, recorded a deficit, which was mainly a result of outflows in the category portfolio investments. While this characteristic on the external sector may help to diversify the holdings of institutional investors, it also underscores the importance of deepening the domestic financial sector to retain excess savings for much-needed developmental purposes.

Banking Supervision Issues

The supervisory activities carried out during the year, were in the form of the normal on-site examinations and off-site surveillance of banking institutions. Through the examinations, the Bank was able to establish that the banking institutions maintained adequate internal control systems, complied with prudential standards and adhered to internal policies and procedures. On the other hand, the Bank made an on-going analysis of the statutory returns, monitoring the financial soundness of individual banking institutions and therefore the stability of the industry as a whole. The analysis performed on the financial data for the period ended 31 December 2006 revealed a stable and sound banking sector.

Financial Stability Review

The chapter on Financial Stability Review for Namibia is published for the first time ever. The aim of the review is to assess the degree of stability in the financial system of Namibia, particularly its role in financing economic activities and the ability to mitigate adverse shocks. The findings of the review are that the Namibian financial system is sound and in a position to withstand shocks. However, there are possible risks, including the possibility of a slowdown in the US economy, which could prove a risk to trigger a broader, global deceleration and heighten the danger of inflationary pressures from more increases in oil prices. A higher South African current account deficit could further weaken the currency and fuel inflation, putting pressure on interest rates to rise. Given the economic and financial ties between the two economies, these effects could also spill over to Namibia. The review, however, did not identify any immediate threats to the financial system.

Operations and Affairs of the Bank

Part D of the report deals with the operations and affairs of the Bank. It covers amongst others issues such as corporate governance and accountability; international financial cooperation; services provided by the Bank; management of the Bank of Namibia; risk management; and the social responsibility role of the Bank.

The Bank continued to provide a number of key services to the Government, banking institutions and the general public during the year under review, including the operation of Namibia's real-time gross settlement system, as well as oversight of the national payment system. It is worth mentioning that the net profit of the Bank for 2006 rose to N$118 million of which N$52 million or 44 percent was distributed to the Government.

Regarding the Bank's social responsibility role, the Bank during the year under review, continued to support the establishment of computer centres at two Namibian schools, as well as donating computer equipment to the Namibian Police among others.

March 2007 Quarterly Bulletin

Together with the Annual Report 2006, the Quarterly Bulletin for the fourth quarter of 2006 is also launched today. The Namibian economy experienced a recovery in certain sectors during the fourth quarter of 2006, following slower progress in the preceding three quarters of 2006. Increased growth was observed in the agriculture, electricity and water, and construction sectors, while growth in all other sectors slowed down.

Conclusion

From the above, it is clear that the fundamentals of the Namibian economy remain sound overall, and prospects are favourable. This was also acknowledged by the International Monetary Fund (IMF) in their 2006 Article IV Report for Namibia, as well as by the Fitch Rating Agency, who reaffirmed Namibia's sovereign credit rating at investment grade level. Nevertheless, the challenges remain difficult, including the need to accelerate the process of economic diversification and to put the country on a higher sustainable growth path so as to enhance faster and deeper poverty reduction. The Bank of Namibia believes that macroeconomic and financial stability are key ingredients towards achieving these ultimate objectives, and remains fully committed to the implementation of prudent monetary and financial policies in the interest of the welfare of all Namibians.

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