Bank of Namibia

2022 ANNUAL REPORT

The Bank of Namibia Annual Report and Financial Statements for the financial year ended 31 December 2022 are prepared pursuant to Section 67(1) of the Bank of Namibia Act, 2020 (Act No. 1 of 2020).

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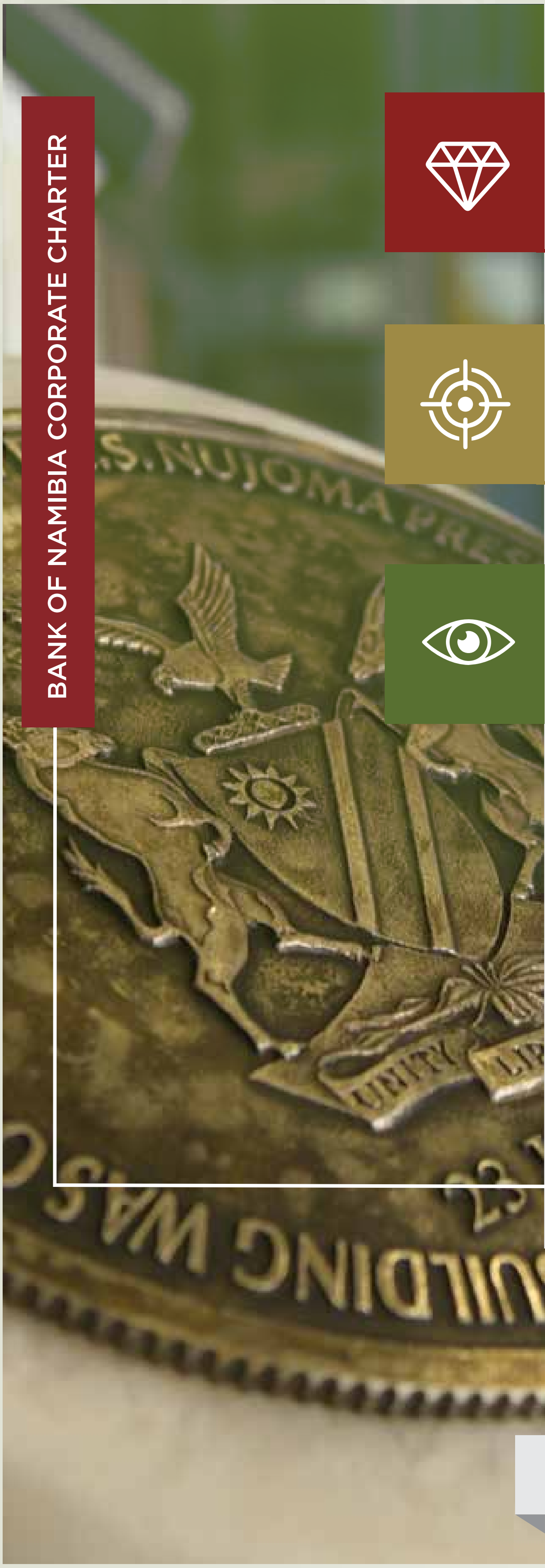
CONTENT

BANK OF NAMIBIA CORPORATE CHARTER



BANK OF NAMIBIA CORPORATE CHARTER

VISION

To be a leading central bank committed to a prosperous Namibia.

MISSION

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

VALUES

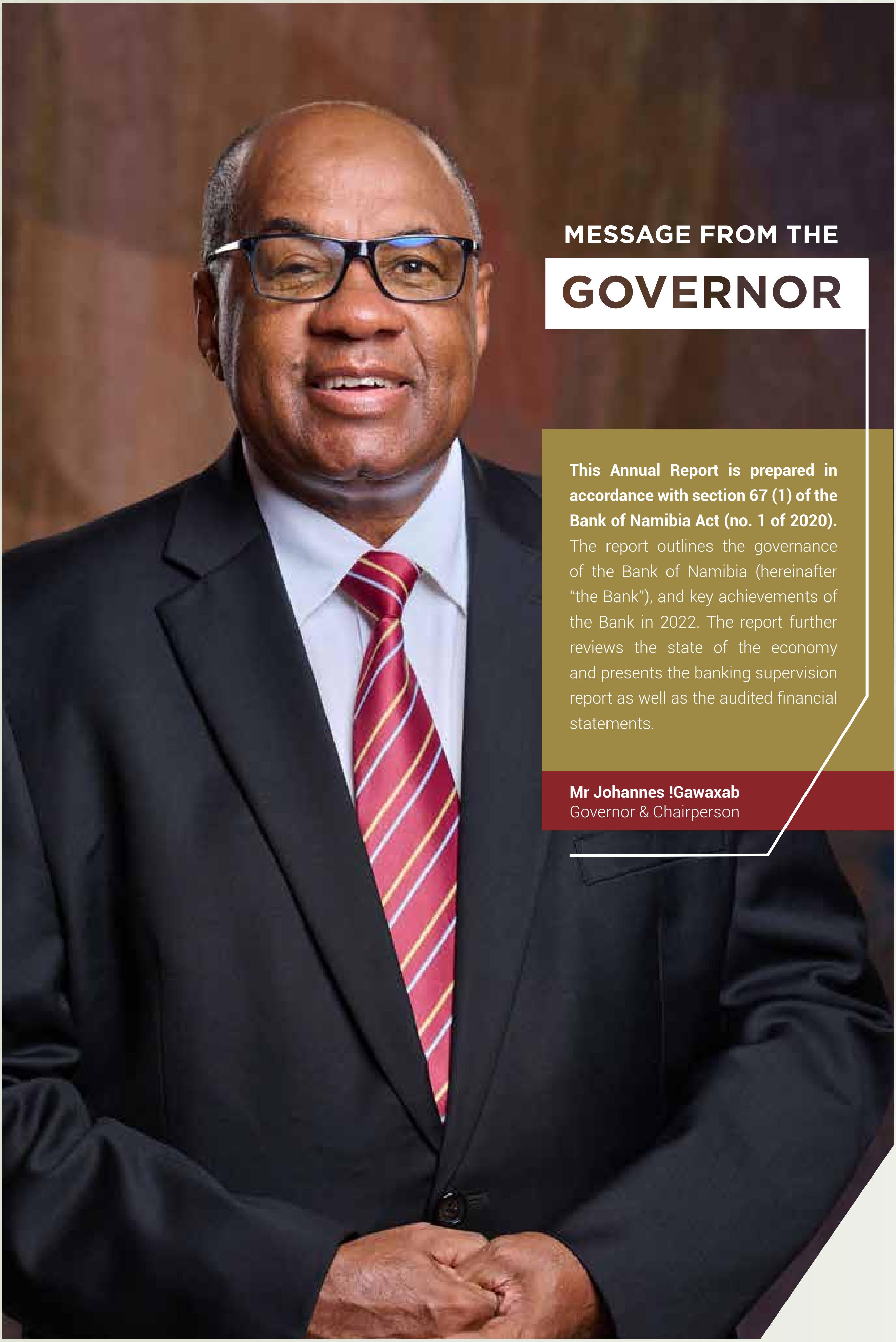
- Act with integrity
- Open engagement
- Lead through innovation
- Performance excellence
- We care
- Embrace diversity

CULTURE STATEMENT

ACT

- Agility
- Collaboration
- Trust


The Bank stands ready and is committed to delivering monetary, price and financial stability, while navigating through the elevated energy prices and continued supply disruptions from the global economy, now also complicated by increased geopolitical tensions.
JOHANNES !GAWAXAB - GOVERNOR



MESSAGE FROM THE

GOVERNOR

This Annual Report is prepared in accordance with section 67 (1) of the Bank of Namibia Act (no. 1 of 2020). The report outlines the governance of the Bank of Namibia (hereinafter "the Bank"), and key achievements of the Bank in 2022. The report further reviews the state of the economy and presents the banking supervision report as well as the audited financial statements.

Mr Johannes !Gawaxab
Governor & Chairperson

The theme of the 2022 Bank of Namibia Annual Report is "Global Economic Shocks: Rewiring Namibia to Bolster Resilience". Namibia is highly exposed to global risks and shocks as a resource-intensive and small open economy. Shocks can hit a small open economy like Namibia in different ways. They can reach Namibia through financial shocks, such as those emanating from global financial conditions or emerging as a result of the Covid-19 pandemic. On the other hand, real economic shocks that affect productivity and foreign demand can also impact investment and output, and through its trade linkages may filter into real sector developments in Namibia. Furthermore, global financial conditions can affect Namibia, mainly through the monetary and financial links to South Africa. It is therefore important for a small and open economy like Namibia to continue rewiring itself to bolster resilience. In the midst of a fragile global economic environment, the domestic economy demonstrated a degree of resilience during 2022. To boost the nation's socio-economic resilience to external and domestic shocks, the Bank was entrusted with running the country's newly established Sovereign Wealth Fund, known as the Welwitschia Fund. It is intended to promote intergenerational prosperity for all Namibians through the distribution of wealth generated from the country's natural resources whilst also serving as a stabilisation fund. The Bank has furthermore retained the Covid-19 relief measures in an effort to continue to assist households and corporates negatively impacted by the pandemic. In addition, the Bank has responded by increasing monetary policy interest rates to prevent inflation from becoming entrenched.

Regarding the performance of the global economy in 2022, global gross domestic product (GDP) growth slowed in comparison to 2021. Global GDP growth slowed from 6.2 percent in 2021 to 3.4 percent in 2022, partly because of the Russia-Ukraine war that resulted in supply disruptions and high inflation, along with the lingering Covid-19 pandemic also resulting in further lockdown-related supply disruptions in China. Inflation rose significantly in 2022, and this triggered the majority of monitored central banks to embark on an accelerated path of monetary policy tightening to tame rising inflation. The stock and commodity markets ended 2022 on a negative note, mainly due to skyrocketing inflation and aggressively rising interest rates. Slow growth in the global economy, underpinned by supply shortages and rapidly tightening monetary conditions across the globe, also contributed to the weak performance in the markets. Looking ahead, global growth is set to decelerate somewhat further in 2023, reflecting continued spill-overs from the Russia-Ukraine war and tighter monetary policy. Downside risks confronting global growth are a further prolonging of the war in Ukraine resulting in rising prices that could potentially intensify food insecurity and social unrest; and geopolitical fragmentation, which may impede global trade and economic cooperation. Tight labour markets in major advanced economies (AEs) are likely to keep inflation intractable, resulting in continued tight monetary policy stances and financial conditions. A number of regional banking institutions in the United States and a global systematically important bank based in Europe failed because of their huge exposure to the Treasury and mortgage bonds that lost market value following a steep increase in interest rates. Strains have also spread elsewhere in the world. This developing situation has necessitated bold action by the authorities to avert banking crises and stabilise the financial system.

Notwithstanding the challenging global environment, the domestic economy built up further growth momentum during 2022, on the back of improved economic activity across all three main industry groupings. Growth in the economy accelerated to 4.6 percent in 2022 from 3.5 percent in 2021. The higher economic growth mainly emanated from improved economic activity across all industries but was most pronounced within primary industry. During 2022, the primary industry was buoyant, chiefly supported by a significant increase in the production of diamonds due to additional production brought about by a new diamond recovery vessel. The improvement in economic growth for 2022 was further underpinned by higher consumption expenditure as well as private and government investment. The growth was facilitated by a range of factors, including the further relaxation of COVID-related travel restrictions, favourable prices of export commodities, mineral and oil exploration activity, and new marine mining capacity.

Namibia's headline inflation increased during 2022 compared to the previous year, exerting upward pressure on the cost of living. Overall inflation rose from 3.6 percent in 2021 to an average of 6.1 percent during 2022, thereby eroding consumers' purchasing power. The elevated inflation was predominantly driven by transport inflation brought about by high international oil prices, exacerbated by exchange rate depreciation. In addition, inflation for food and non-alcoholic beverages, housing, water, electricity, gas and other fuels accelerated in 2022, contributing to higher overall inflation. Elevated food prices, mostly basic food commodities, and high fuel prices strained the purchasing power of households and raised the cost of living, especially for the lower income segment consumers.

In 2022, the Bank pursued a tighter monetary policy stance, increasing its repo rate by a total of 300 basis points to close the year at 6.75 percent. These incremental increases were deemed to be necessary to strike a balance between anchoring inflation expectations and safeguarding the exchange rate peg, whilst supporting the domestic economic recovery. The repo rate is currently standing at 7.00 percent after it was increased at the Monetary Policy Committee (MPC) meeting in February 2023.

Growth in broad money supply (M2) and private sector credit extension (PSCE) remained subdued in 2022, falling below the current inflation rate, although growth in PSCE edged higher over the period. The relief measures that were introduced at the height of the pandemic in 2020 were extended in 2022 as they were deemed to be necessary to enable banking institutions to continue providing relief to economic sectors that were still in distress. Together with the Ministry of Finance and Public Enterprises, the Bank amended the SME Economic Recovery Loan Scheme, previously known as the SME Covid-19 Loan Scheme, with the objective of making it more affordable and accessible. The purpose of the revised scheme is to stimulate economic activity and growth, improve access to SME funding and credit extension, improve liquidity and business confidence for SMEs, and reduce unemployment and the level of poverty in the country, and thus indirectly reduce dependence on government grants.

With regard to Government finance, the budget deficit narrowed during the 2022/23 financial year (FY), while debt continued to rise over the same period. The narrowing of the deficit to an estimated 5.2 percent of GDP is ascribed to an increase in revenue collection. This resulted from increases in income tax on individuals, and diamond mining and non-mining companies, coupled with dividends declared by public enterprises. Government expenditure also rose, but at a slower pace in relation to revenue. As a result, the debt stock of the Government rose further and amounted to 65.9 percent of GDP at the end of December 2022. Looking ahead, the 2023/24 Government budget reveals a less restrictive fiscal environment on the back of improved revenue outturn and economic growth prospects.

On the external front, Namibia's current account deficit widened in 2022 compared to 2021, but financial account inflows were sufficient to offset it and enable the stock of international reserves to rise over the period. The current account deficit as a percentage of GDP widened to 12.3 percent in 2022 from 9.9 percent in 2021, mainly due to a significant increase in the merchandise trade deficit. The financial account inflows were sufficient to counter the deficit on the current account and allow the stock of international reserves to rise on an annual basis by 8.4 percent to settle at N$47.6 billion at the end of December 2022. The foreign reserves translated into import cover of 5.7 months, higher than the 5.6 months reported a year earlier. In terms of competitiveness, the Real Effective Exchange Rate (REER) depreciated slightly on an annual basis, signaling a moderate gain in the competitiveness of Namibia's products in international markets.

In terms of the banking sector, the banks remained profitable, liquid and well capitalised. Both the capital adequacy and the liquidity position of the banking industry improved and remained above the statutory minimum requirements. Moreover, profitability improved with both return on assets and return on equity edging upwards. Asset quality, as measured by the ratio of non-performing loans (NPLs) to total loans stood at 5.6 percent at the end of December 2022, lower than 6.4 percent recorded a year earlier. This was a welcome improvement, as the NPL ratio stood below the crisis trigger benchmark ratio of 6.0 percent, indicating that the quality of assets was satisfactory during 2022. Despite the improvement in this ratio during the latter part of 2022, the impact of inflationary pressures, interest rate adjustments and slow economic recovery is still filtering through and is expected to negatively affect the ratio. Overall, the banking sector remained sound, with no real threat to financial system stability.

The overall financial system remained stable, sound and resilient enough to withstand elevated risks and vulnerabilities emanating from the global and domestic economic and financial environment. Both the banking and non-bank financial institutions continued to perform adequately and remained profitable for most of 2022. The Non-bank Financial Institutions (NBFI) sector remained profitable and sufficiently capitalised. Their profitable returns were, however, impacted by high inflation, recessionary pressures, and the geopolitical tension in Eastern Europe which led to unfavourable developments in the financial markets. Nevertheless, the pension funds sub-sector remained well funded, coupled with stable performance in the long-term insurance and collective investment schemes sub-sectors, despite lower returns on investments. Given the large income-earning asset base and sufficient reserves held by pension funds, the shortfall of benefits paid in excess of contributions received could therefore be covered, thus posing no real risk to financial stability. The Macroprudential Oversight Committee of the Bank will continue to closely monitor these developments going forward.

The Bank's Strategic Plan is linked to its mission and functional priorities. Since the launching of the Bank's new three-year Strategic Plan (2022–2024) in 2021, the focus of the Bank has been on the execution of the plan, which sets the direction to be followed and establishes clear priorities to align departments towards a common goal. It envisages a digitally transformed Bank with a fully modernised financial system that can help restore economic growth and sustain economic development. It is particularly pleasing to note that the Bank delivered on the promises made for the first year of the 2022–2024 Strategic Plan with an overall achievement rate of more than 80 percent. The Plan has also provided a compelling reason for the Bank to reflect on its current culture to enable the execution of the strategy. In this regard, the Bank launched its Culture Statement defined as ACT: Embracing "Agility, Collaboration and Trust" on 28 October 2022. All employees are encouraged to align their behaviour with the defined culture of the Bank to ensure the achievement of the goals established in the Bank's strategy and to contribute to a prosperous Namibia.

Digital Transformation has been identified as a key enabler for the Bank's Strategic Plan. During 2022, the Bank invested in systems and platforms to support digitisation for increased operational efficiency. Platforms for data analytics and Robotic Process Automation capabilities were successfully deployed within the Bank. Some business units have already started to realise the benefits in terms of time and efficiency gains due to end-to-end digitalisation and automation of some business processes, and the use of data-driven insights. These new platforms enabled the development of bots, including the chatbot which is integrated with the Bank's newly revamped interactive website. Furthermore, the Bank started exploring opportunities offered by central bank digital currencies to achieve financial inclusion objectives. Consultations with relevant stakeholders in this regard are expected to commence in 2023.

The Bank's financial results demonstrated further resilience in 2022. Year-on-year increases of N$4.0 billion in deposits from the issuance of Bank of Namibia bills and commercial banks' deposits fueled an increase in investment levels from N$40.0 billion in 2021 to N$44.0 billion in 2022. Coupled with higher average interest rates during 2022, the operating profit increased by 11.5 percent from N$584.2 million in 2021 to N$651.2 million in 2022. Therefore, the reserves available for distribution increased year-on-year from N$672.7 million in 2021 to N$772.6 million in 2022. The Bank, will therefore, declare a consistent dividend of N$413.7 million (2021: N$413.7 million) to the Government and still be able to set aside N$100 million in the Development Fund Reserve.

Going forward, for Namibia to mitigate the economic impact of global shocks and protect vulnerable groups, the prioritisation of the building of fiscal buffers will be required as an immediate policy action. In the medium term, policies should focus on structural reforms and the modernisation of policy frameworks to boost growth, support the vulnerable, strengthen governance and tackle rising levels of debt. To support private sector-led growth that is underpinned by exports and investments, structural reforms should focus on improving governance, diversifying exports, increasing productivity and building climate resilience to lift the economy's growth potential. This will enhance diversification efforts, which will help the country to manage volatility and provide a more stable path for equitable growth and development. The country should enhance its food production capacity and resilience to climate change through access to water, resilient seeds and fertilizers, amongst other things.

Looking to the future, it is important for Namibia to preserve the integrity of its financial system by remedying the gaps identified in the Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation Framework. We are making the necessary efforts to meet deadlines of the outcomes of the mutual evaluation exercise in order to keep the country from being greylisted after the current 12-month monitoring period expires. This is where our strong institutions must play a decisive role in delivering on their respective mandates to contribute to the continued stability of our financial system.

The Bank stands ready and is committed to delivering monetary, price and financial stability, while navigating the elevated energy prices and continued supply disruptions from the global economy, now complicated by increased geopolitical tensions. As fiscal advisor, the Bank is committed to providing practical advice on implementing structural reforms, improving fiscal sustainability and accelerating Namibia's recovery to sustainable growth.

The Board, the staff and our other stakeholders played invaluable roles in the Bank's ability to deliver on its mandate. I want to thank the Board of the Bank for their meaningful insight, stewardship and support. I am equally grateful to the staff and our other stakeholders for productive engagement in 2022, despite it being another difficult year. We must never let our guard down.

I look forward to working with the Board, my colleagues at the Bank, and all our stakeholders in pursuance of the Bank's Vision and Mission. Namibia's resource-intensive and open economy is highly exposed to global economic shocks, and this will require us to strengthen our resilience and commitment to maintaining and enhancing financial stability for sustainable economic development in Namibia.

Governor
29 March 2022

PART A

Operations and Affairs of the Bank

CONTENT

ORGANISATIONAL STRUCTURE OF THE BANK OF NAMIBIA

GOVERNANCE

THE YEAR UNDER REVIEW

ORGANISATIONAL STRUCTURE OF THE BANK OF NAMIBIA

MEMBERS OF THE BOARD (31 DECEMBER 2022)

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

YEARS OF EXPERIENCE
45

EXPERTISE
- Financial Economics
- Central Banking
- Governance
- Strategic Leadership
- Risk Management

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 (AAU))
- Bachelor of Economics (University of Namibia (UNAM))
- Advanced Management Program (Harvard Business School)
- Senior Executive Fellow (Harvard-KSG)
- Senior Management Programme (University of Stellenbosch (US))
- Project Management Programme (US)

YEARS OF EXPERIENCE
26

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 2022
- Current term ends 31 December 2026

QUALIFICATIONS
- LLM (cum laude) Cardiff University, Wales (UK)
- 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 (WBS/ LBS)
- International Leaders Programme (Her Majesty's Foreign and Commonwealth Office, UK)

YEARS OF EXPERIENCE
24

EXPERTISE
- Financial market integrity
- Policy, legislative development and implementation
- Anti-money laundering / counter-terrorism financing / counter-proliferation financing leadership
- Financial intelligence executive leadership
- Central Banking Executive Leadership
- Commercial law
- Criminal law
- Civil law

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)
- MEFMI graduate fellow in Debt Markets
- Bachelor of Economics (UNAM)
- International Executive Development Programme (WBS/LBS)
- Cutting Edge of development thinking (Harvard Kennedy School)
- Financial Programming and Policy (IMF)

YEARS OF EXPERIENCE
25

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

MR EHRENFRIED ITAMUNUA 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
- Current term ends 31 December 2023

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

YEARS OF EXPERIENCE
31

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

MS ELINA SHANGEELAO TUYAKULA HAIPINGE

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

TERM
- Incumbent since 18 July 2014
- Current term ends 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-KSG)
- Leadership, Innovation, and Change Management (US/ NIPAM)
- Commonwealth Advanced Online Training Programme in Government Performance Management System (Obtained Award for Excellence)

YEARS OF EXPERIENCE
30

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

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
- Current term ends 31 December 2023

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

YEARS OF EXPERIENCE
28

EXPERTISE
- Leadership
- Information technology

MS RIKA PRETORIUS

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

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

QUALIFICATIONS
- MCom: Forensic Accounting (NWU)
- Honours in BCom Accounting (UNISA)
- CA (Nam)
- CA (SA)

YEARS OF EXPERIENCE
16

EXPERTISE
- Financial management
- Management accounting
- Financial reporting
- Procurement
- Risk management
- 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
- Current term ends 31 December 2023

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

YEARS OF EXPERIENCE
19

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

MEMBERS OF THE BOARD OVERVIEW

9
Number of board members

5 male board members

4 female board members

27 Average years of experience

THE BANK'S SENIOR MANAGEMENT TEAM AS AT 31 DECEMBER 2022

MR JOHANNES !GAWAXAB

POSITION HELD
- Governor of the Bank of Namibia
- Monetary Policy Committee (MPC) Member

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

YEARS OF EXPERIENCE
45

EXPERTISE
- Financial Economics
- Central Banking
- Governance
- Strategic Leadership
- Risk Management

MR EBSON UANGUTA

POSITION HELD
- Deputy Governor of the Bank of Namibia
- MPC Member

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

YEARS OF EXPERIENCE
26

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

MS LEONIE DUNN

POSITION HELD
- Deputy Governor of the Bank of Namibia
- MPC Member

QUALIFICATIONS
- LLM (cum laude) Cardiff University, Wales (UK)
- 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 (WBS/ LBS)
- International Leaders Programme (Her Majesty's Foreign and Commonwealth Office, UK)

YEARS OF EXPERIENCE
24

EXPERTISE
- Financial market integrity
- Policy, legislative development and implementation
- Anti-money laundering / counter-terrorism financing / counter-proliferation financing leadership
- Financial intelligence executive leadership
- Central Banking Executive Leadership
- Commercial law
- Criminal law
- Civil law

MS FLORETTE NAKUSERA

POSITION HELD
- Director: Financial Stability and Macroprudential Oversight

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

YEARS OF EXPERIENCE
24

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

DR LEA NAMOLOH

POSITION HELD
- Director: Human Resources

QUALIFICATIONS
- PhD (Management) SMC University (Switzerland)
- MBA (Maastricht University, Netherlands)
- MEd (UNAM)
- BEd (Honours) (Bristol, 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
29

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

MR ROMEO NEL

POSITION HELD
- Director: Banking Supervision

QUALIFICATIONS
- LLB (UNISA)
- M Banking (UL)
- BEcon (UNAM)
- P/G Intermediate Certificate Accountancy (University of KwaZulu-Natal)
- International Executive Development Programme (WBS/ LBS)

YEARS OF EXPERIENCE
30

EXPERTISE
- Customs and excise
- Finance
- Financial Analysis
- Compliance Management
- Banking regulation
- Risk management
- Strategy and Corporate Governance

MEMBERS OF THE SENIOR MANAGEMENT TEAM OVERVIEW

16
Total number of senior management

9 male

7 female

27
Average years of experience

MR KAZEMBIRE ZEMBURUKA

POSITION HELD
- Director: Strategic Communications and International Relations

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

YEARS OF EXPERIENCE
21

EXPERTISE
- Stakeholder Management
- International Relations
- Strategic Communications
- Journalism
- Development Policy

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 Central Bank Governance (Deutsche Bundesbank)
- Certificate Digital Leadership (Deloitte Leadership)
- Certificate Leadership in Corporate Legal Counsel (Harvard Law School)

YEARS OF EXPERIENCE
32

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

MS BARBARA DREYER

POSITION HELD
- Director: National Payment System

QUALIFICATIONS
- MBA (SMC University)
- MEd (State University of New York – Buffalo)
- BA Hons and BEd (UWC)
- P/G Diploma Social Science Research Methods (US)
- P/G Diploma 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
31

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 PC Support (Boston City Campus, SA)
- Diploma Business Computing (SA)
- Management Development Programme (US)
- International Executive Development Programme (WBS/LBS)

YEARS OF EXPERIENCE
20

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

DR EMMA HAIYAMBO

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

QUALIFICATIONS
- PhD Development Finance (US)
- MSc Financial Economics (University of London)
- M International Business (PoN/NUST)
- P/G 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)
- Certificate in Leading Economic Growth (Harvard Kennedy School)
- Certificate: Stanford LEAD Programme (Stanford Graduate School of Business, University of Stanford)
- International Executive Development Programme (WBS/LBS)
- Management Development Programme (US)

YEARS OF EXPERIENCE
26

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

MS SENCIA KAIZEMI-RUKATA

POSITION HELD
- Director: Banking Services

QUALIFICATIONS
- MComm Business Management (cum laude) (UNISA)
- Hons BComm Business Management (UNISA)
- BComm with specialisation in Human Resources Management (UNISA)
- National Diploma Commerce (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
25

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)
- CA (SA)(NAM); professional member of ICAN and SAICA.
- B Accounting (Honours) (Rhodes University)

YEARS OF EXPERIENCE
16

EXPERTISE
- International Financial Reporting Standards
- Business management
- Financial reporting, Management reporting and annual report writing
- Financial management and management accounting
- Basic behavioural and emotional finance analysis
- Communication
- Facilitation and training
- Auditing

MR NICHOLAS MUKASA

POSITION HELD
- Director: Financial Markets
- MPC member

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

YEARS OF EXPERIENCE
21

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

MS MAGRETH TJONGARERO

POSITION HELD
- Head: Risk Management and Assurance

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

YEARS OF EXPERIENCE
22

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

MR GERRIT EIMAN

POSITION HELD
- Acting Director: Financial Intelligence Centre

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

YEARS OF EXPERIENCE
32

EXPERTISE
- Law Enforcement
- Legal Practitioner of High Court of Namibia
- Financial Investigations and Analysis
- Prosecutorial Support

MANAGEMENT STRUCTURE AS AT DECEMBER 2022

GOVERNOR:
Johannes !Gawaxab

DEPUTY GOVERNOR
Ebson Uanguta

HEAD RISK MANAGEMENT AND ASSURANCE
Margreth Tjongarero

DIRECTOR: FINANCE AND ADMINISTRATION
Lloyd Londt

DIRECTOR: RESEARCH AND FINANCIAL SECTOR DEVELOPMENT
Emma Haiyambo

DIRECTOR: FINANCIAL MARKETS
Nicholas Mukasa

DIRECTOR: HUMAN RESOURCES
Lea Namoloh

DIRECTOR: BANKING SERVICES
Sencia Kaizemi- Rukata

SENIOR TECHNICAL ADVISOR
VACANT

DEPUTY DIRECTOR: FINANCE AND ADMINISTRATION
John Amakali

DEPUTY DIRECTOR: POLICY RESEARCH AND INTERNATIONAL AFFAIRS
Erwin Naimhwaka

DEPUTY DIRECTOR: INVESTMENTS & DOMESTIC MARKETS
Helvi Fillipus

DEPUTY DIRECTOR: HR ADMIN AND ER
Theopoltine Veii

DEPUTY DIRECTOR: CURRENCY AND BANKING
Cindy Fillipus

DIRECTOR: STRATEGIC COMMUNICATIONS & INTERNAL RELATIONS
Israel Zemburuka

DEPUTY DIRECTOR: PROCUREMENT & FACILITIES MANAGEMENT
David Kambinda

DEPUTY DIRECTOR: MACROECONOMIC STATISTICS AND ANALYSIS
Sanette Schulze Struchtrup

DEPUTY DIRECTOR: COMPLIANCE & RISK ANALYTICS
Vernon Louw

DEPUTY DIRECTOR: OD AND TRAINING
Shirene Bampton

DEPUTY DIRECTOR: PROTECTION SERVICES
Johannes Asino

DEPUTY DIRECTOR: STRATEGY, PROJECTS & TRANSFORMATION
Valeria Mbango

DEPUTY DIRECTOR: TREASURY
Avril Muzengua

DEPUTY DIRECTOR: MACRO MODELS AND FINANCIAL SECTOR DEVELOPMENT
Postrick Mushendami

DEPUTY DIRECTOR: INVESTMENTS
Anthea Angermund

OSHAKATI BRANCH MANAGER
VACANT

DEPUTY GOVERNOR
Leonie Dunn

DIRECTOR: FINANCIAL INTELLIGENCE CENTER
VACANT

- DEPUTY DIRECTOR: INVESTIGATIONS & ANALYSIS — Gerrit Eiman
- DEPUTY DIRECTOR: LEGAL, POLICY & ENFORCEMENT — Zenobia Barry
- DEPUTY DIRECTOR: COMPLIANCE MONITORING & STRATEGIC ANALYSIS — Kristian Hamutenya

DIRECTOR: BANKING SUPERVISION
Romeo Nel

- DEPUTY DIRECTOR: ON-SITE EXAMINATIONS — Ancois Plaatje
- DEPUTY DIRECTOR: POLICY & REGULATION — Elifas Kamati
- DEPUTY DIRECTOR: OFF- SITE ANALYSIS — Imanuel Hawanga

DIRECTOR: FINANCIAL STABILITY & MACRO PRUDENTIAL OVERSIGHT
Florette Nakusera

- DEPUTY DIRECTOR: RESOLUTION & NDGA — Petrus Shifotoka

DIRECTOR: NATIONAL PAYMENT SYSTEM
Barbara Dreyer

- DEPUTY DIRECTOR: NISS OPERATIONS AND PROJECTS — Peter Nghinyotwa
- DEPUTY DIRECTOR: OVERSIGHT, POLICY AND RESEARCH — Candy Ngula

DIRECTOR: EXCHANGE CONTROL AND LEGAL SERVICES
Bryan Eiseb

- DEPUTY DIRECTOR: LEGAL SERVICES & CONTRACT MGMT — Tulonga Nakamhela
- 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") to control 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) ("the Act") 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 fulfills other key functions as defined in other Acts, including:

- the Banking Institutions Act (No. 2 of 1998), as amended, which empowers the Bank to regulate and supervise banking institutions;
- the Payment System Management Act (No. 18 of 2003), as amended, which provides for the management, administration, operation, regulation, oversight and supervision of payment, clearing and settlement systems in Namibia, as well as for incidental matters;
- the Financial Intelligence Act (No. 13 of 2012), as amended, which obliges the Bank to provide administrative services to the Financial Intelligence Centre of the Republic of Namibia;
- the Currency and Exchanges Act (No.9 of 1933), as amended, which regulates exchange control in Namibia; and
- 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.

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. 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 between the Ministry of Finance 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 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 up-to-date central banking. The 2020 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 Act, the Bank is explicitly entrusted with responsibility for macro-prudential oversight, including the establishment of a Financial System Stability Committee.

CORPORATE CHARTER

Apart from its statutory mandate, the Bank's actions and the manner it carries out its mandate are guided by its Mission Statement and Vision Statement, as detailed in its Corporate Charter. 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, describing why it exists and 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.

STRATEGIC PLAN 2022–2024

The Bank's Strategic plan is linked to its mission and functional priorities. Following the launch of the Bank's new three-year Strategic Plan (the Plan), the focus for the Bank has been on the execution of the Plan which has continued to set direction and clear priorities to align departments towards a common goal which in turn, clarifies and simplifies decision-making. Through the Bank's bi-annual semester strategic performance reviews held in May and November 2022, respectively, great strides towards the achievement of the 2022-2024 Strategic Plan was revealed. Through the Banks' three-year strategy, the Bank aims to recalibrate, repurpose, reprioritise and future-proof itself. To achieve this, the Bank is envisaged to become a digitally transformed institution with a fully modernised financial system that can help restore economic growth and sustain economic development.

At the core of the plan lies a shared Vision for the Bank, incorporating a new 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 that is 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 by 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 meet 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 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 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 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 Ministry of Finance is the ex officio member.

The Board meets regularly (at least four times a year) with the main purpose of overseeing and monitoring the Bank's mandated operations, finances and policies. During 2022, four ordinary and four special Board meetings were held. Table A.1 below sets out the dates of Board meetings and the attendance of members during 2022.

Table A.1
Frequency and Attendance of Board Meetings, 2022

Board	11 March	24 May (special)	3 June	28 June (special)	18 July (special)	5 September	19 October (special)	25 November
Mr J. !Gawaxab (Chairperson)	•	X	•	•	•	•	•	•
Mr E. Uanguta	•	•	•	•	•	•	•	•
Ms L. Dunn	•	•	•	•	•	•	•	•
Mr T. Ndove	•	•	•	X	•	X	X	•
Ms E. Haipinge	•	•	•	•	•	•	•	•
Adv C. van der Westhuizen	•	•	•	•	X	•	•	•
Mr A. Baisako	•	•	•	•	•	•	•	•
Mr E. Meroro	•	•	•	•	•	•	•	•
Ms R. Pretorius	N/A	•	•	•	•	•	•	•

● = attended X = apology N/A = not a member

The Information Technology Governance and Projects Committee (ITGPC), the Audit Committee, and the Remuneration Committee are important elements of the Bank's sound corporate governance structure. The Board delegates certain functions to these sub-committees, which have all been established through formal terms of reference, and which 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 resources assessments. 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 2022 are set out in Table A.2.

Table A.2
Dates and attendance of ITGPC meetings, 2022

IT Governance and Projects Committee	08 March	19 May	18 August	10 November
Mr. C. Baisako (Chairperson)	•	•	•	•
Mr E. Meroro (Member)	•	•	•	X
Ms R. Pretorius (Member)	N/A	•	•	•

● = attended X = apology N/A = not a member

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, the Director: Finance and Administration, and Head of Risk Management and Assurance; the external auditors; and relevant staff members. The Audit Committee is generally 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 sets out the dates of the Audit Committee meetings and the attendance of the audit committee members during 2022.

Table A.3
Dates and attendance of Audit Committee meetings, 2022

Audit Committee	04 March	09 March	20 May	20 August	12 November
Ms. R. Pretorius (Chairperson from 1 April 2022)	N/A	N/A	•	•	•
Mr E. Meroro	•	•	•	•	•
Adv C. van der Westhuizen (Acting Chairperson until 31 March 2022)	•	•	•	X	X

● = attended X = apology N/A = not a member

The Remuneration Committee is responsible for overseeing and coordinating the Bank's remuneration policy and strategy to ensure its competitiveness and comprehensiveness, so that it is able 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 2022 are set out in Table A.4.

Table A.4
Dates and attendance of Remuneration Committee meetings, 2022

Remuneration Committee	28 February	11 August	7 November
Mr E. Meroro (Chairperson)	•	•	•
Ms T. Haipinge	•	•	•
Adv. C. van der Westhuizen	•	•	•

● = attended

MANAGEMENT STRUCTURE

The Bank's Senior Management Team as at the end of 2022 consisted of the Governor, two Deputy Governors, and the Directors of the Bank's various departments, as outlined above. To ensure that the Bank implements its policies effectively, in addition to the sub-committees already mentioned (the ITGPC, the Audit Committee and the Remuneration Committtee), various committees are in place. These are the Monetary Policy Committee (MPC), the Financial System Stability Committee (FSSC), 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 2022 consisted of the Governor (Chairperson); the two Deputy Governors; the Director of the Research and Financial Sector Development Department; the Director of the Financial Markets Department; and the Technical Expert in the Research and Financial Sector Development Department. 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. Decision-making in the MPC is by consensus. The monetary policy decision is communicated to the public through a media statement delivered at a media conference.

The FSSC 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 Ministry of Finance as an observer. The FSSC members are the Governor (Chairperson); the Deputy Governors; the CEO of NAMFISA (Deputy Chairperson); and a representative of the Ministry of Finance nominated by the Minister. In addition, the Bank nominates the Director: Banking Supervision and the Director: Financial Stability and Macroprudential Oversight to the FSSC, while the CEO of NAMFISA nominates the two Deputy CEOs and the General Manager responsible for Research, Policy and Statistics. The FSSC 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 MOC supports the Governor in the execution of the Bank's macroprudential mandate. The mandate involves the assessment of risks and vulnerabilities in the financial system and the design of appropriate policy responses to mitigate their impact. It is comprised of the Governor as the Chairperson; the two Deputy Governors (with the Deputy Governor responsible for Financial Stability as the Deputy Chairperson); the Advisors to the Governor; and the Directors of Financial Stability and Macroprudential Oversight, Research and Financial Sector Development, National Payment System, Banking Supervision, Financial Markets and, Strategic Communications & 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 FSSC may be approved at this platform. Macroprudential decision-making powers in Namibia are vested in the Governor of the Bank, and the MOC provides him or her with the necessary support.

To ensure that the Bank implements its policies effectively, in addition to the sub-committees already mentioned (the ITGPC, the Audit Committee and the Remuneration Committtee), various committees are in place.

The Management Committee is responsible for reviewing the Bank's policies on financial and other administrative matters. The Management Committee is comprised of the Governor (Chairperson); the Deputy Governors; the 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 is comprised of the Governor (Chairperson); the Deputy Governors; Advisor(s) to the Governor; the Director of the Financial Markets Department; the Director of the Research and Financial Sector Development Department; the Director of the Strategic Communications and International Relations Department; and the Director of the 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, thereby enhancing the Bank's ability to achieve its Strategic Objectives and ensure that disclosure regarding risks is comprehensive, timely and relevant. The Committee is comprised of all members of the Management Committee and is chaired by the Governor or a Deputy Governor. 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 members are 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. One representative each from the Employee Liaison Forum (ELF) and the employees' bargaining union are permitted to attend and participate in the budget deliberations to ensure transparency.

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

- quality of the product/service;
- cost/price;
- reliability of suppliers;
- delivery time and after-sales service support; and
- 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 DTMC members are the Governor (Chairperson); 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 DTMC meets at least four times per calendar year.

REPORTING OBLIGATIONS

The 2020 Bank of Namibia Act requires the Bank to submit various reports to the Minister of Finance. The requirement includes the obligation to submit a copy of the Bank's Annual Report to the Minister of Finance within three months after 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 has four main strategic focus areas, namely: the Purpose Pillar, the Stakeholder Engagement Pillar, the Talent and Transformation Pillar, and the Future-fit Organisational Efficiency and Effectiveness Pillar. Each of these pillars consists of 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. Below is an overview of the Bank's Strategic Pillars and their corresponding High-level Strategic Objectives.

In order to ensure the successful implementation of the Strategic Plan, the Strategic Objectives have been dissected into strategic initiatives, with clear and measurable targets. On a biannual basis, the Directors of the various departments report on progress made with their strategic initiatives and the attainment of their targets. The entire Strategic Plan is reviewed and refreshed annually. It is therefore important not only to design strategies that can be engaged in pursuit of these objectives, but also to clearly describe the strategic outcomes that would reveal whether a particular objective has been met.

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.

Rating:

★ between 0 to 49%

★★ between 50% to 79%

★★★ between 80% to 100%

PILLAR: PURPOSE

Maintain a stable and inclusive financial system	★★★
Maintain price and monetary stability	★★★
Ensure the sufficiency of supply and the integrity of currency	★★
Operate as fiscal advisor to and banker for the Namibian Government	★★★
Manage reserves prudently	★★★
Promote financial sector growth and economic development	★★

PILLAR: STAKEHOLDER ENGAGEMENT

Promote a positive reputation	★★★
Enhance stakeholder awareness and confidence	★★★
Maintain pro-active public engagement	★★★

PILLAR: TALENT AND TRANSFORMATION

Promote potential through talent transformation	★★★
Employer of choice	★★★
Future-fit capacity building	★★★
Promote a staff culture of integrity, agility, excellence and high performance	★★★

PILLAR: FUTURE-FIT ORGANISATIONAL EFFICIENCY & EFFECTIVENESS

Effective and pro-active risk management	★★★
Deliver responsive and innovative solutions	★★★
Develop a sustainable and green organisation	★★★
Effective financial management	★★★
Enhance operational capability and value maximization	★★★
Strengthen resilience through good governance and compliance	★★★
Adopt data-driven solutions and decision making	★★★

PILLAR 1

PURPOSE PILLAR

STRATEGIC OBJECTIVE 1: MAINTAIN A STABLE AND INCLUSIVE FINANCIAL SYSTEM

SFA1 ✓

Ensure a stable financial System.

- The Financial Stability and Macroprudential Oversight Framework was revised and updated.
- Stress-test results reveals that the Namibia Financial System remain sound, stable and resilient.

SFA2 ✓

Ensure an effective Resolution Framework.

- The Namibia Resolution Framework was Developed.

SFA3 ✓

Administer the Namibia Deposit Guarantee Authority.

- The Namibia Deposit Guarantee Authority administered in line with the Service Level Agreement and approved Plan.

SFA4 ✓

License, regulate and supervise deposit taking institutions and credit bureaus

- Timely supervisory actions as per the Prompt Corrective Action(PCA) procedures when the Early Warning Indicator tolerance levels for Capital, Liquidity , Asset Quality and Earnings ratios are contravened.
- Timely completion of onsite inspections and identified risks resolved.
- Timely assessment of license applications and Investigate all detected illegal financial schemes.

SFA5 ☐

Implementation of Enhanced Regulatory Framework that is robust agile, proportionate.

- Banking Institutions Bill finalised and due for submission to Parliament.
- Basel III liquidity Framework draft finalised.
- Establishment of Cybersecurity Council finalised and launched.

SFA6 ✓

Cost-effective provision of payment systems services in line with set cost standards.

- The Namibia Interbank Settlement System (NISS) cost-effectiveness for 2022 was 98 percent. This was well within the set cost effectiveness range of 75 percent to 125 percent.
- The NISS fee per transaction for 2022 was US$0.59. This is much lower than the US$1 transaction fee for at least eight economies in SADC.

SFA7 ☐

99 percent availability of retail payment system, and participants' systems 99.9 percent availability of the Namibia Interbank Settlement System (NISS)

- The retail payment systems were available 99 percent of the time. The NISS front-end availability stood at 99.88 percent, which was below the target availability threshold of 99.90 percent.

SFA8 ☐

Recovery time objective (RTO) of 2 hours met for retail and large-value systems when Disaster Recovery (DR) tests are conducted.

- The NISS Disaster Recovery (DR) test which was performed during 2022 was successful as the two-hour recovery time objective (RTO) was met.
- Two Business Continuity Management (BCM) exercises were conducted during the review period and only one was successful, while the other did not meet the two-hour RTO.
- The Namclear DR exercise performed for the period under review achieved the RTO of two-hours.

✓ = target met ☐ = target partially met

FINANCIAL STABILITY ASSESSMENT AND SURVEILLANCE

The Bank assesses risks and vulnerabilities that could threaten financial sector stability to determine the sector's ability to withstand internal and external shocks. Such assessments are published in April each year in the Financial Stability Report (FSR), followed by a review in September. Threats to financial stability in Namibia were and will be continuously monitored in accordance with the advisory guidance of the FSSC and direction of the MOC. The Financial Stability and Macroprudential Oversight Framework was successfully completed in 2022; completion of the Resolution Framework, Options and Strategies is, however, contingent upon the promulgation of the new Banking Institutions Act, which is expected in 2023. All high-level strategic initiatives pertaining to the assessment of risks and vulnerabilities in the financial system were successfully completed in 2022.

Namibia's financial system remained stable, sound and resilient. During the year under review, the domestic financial system remained stable, robust, and resilient enough to withstand elevated risks and vulnerabilities emanating from the global and domestic economic and financial environment. Both the banking and non-bank financial institutions continued to perform adequately and remained profitable for most of 2022. Moreover, the banking sector remained liquid and well capitalised, while the non-bank financial institutions reported funding and solvency positions above the prudential limits.

The Banking sector remained 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. Moreover, profitability improved with both return on assets and return on equity edging upwards. A key challenge for the banking sector during 2022 was the management of asset quality, as measured by the non-performing loans (NPLs) to total loans ratio. Despite the improvement in this ratio during the latter part of 2022, the impact of inflationary pressures, interest rate adjustments and a slow economic recovery is still filtering through and is expected to have a negative impact on the ratio. Overall, the banking sector remained sound, with no real threat to financial systems stability.

The Non-bank Financial Institutions (NBFI) sector remained profitable and sufficiently capitalised. The profitable returns were impacted by high inflation, recessionary pressures, and the geopolitical tension in Eastern Europe which led to unfavourable developments in the financial markets. Given the large income-earning asset base and sufficient reserves held by pension funds, the shortfall of benefits paid in excess of contributions received can therefore be covered, thus posing no real risk to financial stability. As such, the pension funds sub-sector remained well funded, coupled with stable performance in the long-term insurance and collective investment schemes sub-sectors, despite lower returns on investments.

During the review period, the Bank continued to support the operationalisation of the Namibia Deposit Guarantee Authority (NDGA). The NDGA is mandated to manage the Deposit Guarantee Scheme, which aims to protect depositors in the event of bank failures. This is done through 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 will provide confidence in the system and reduce the risk of a financial system crisis. The Bank will continue to support this institution as it plays a significant role in ensuring a stable and inclusive financial system.

PAYMENT SYSTEMS OVERSIGHT

The Bank continued to fulfill its regulatory mandate as the overseer of the National Payment System (NPS) in 2021, in line with the Payment Systems Management Act (No. 18 of 2003), as amended. 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. No on-site inspections were conducted during the period under review. 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 period under review, the Bank revised the Determination on the Conduct of Card Transactions within the National Payment System (PSD-4) and gazetted the revised version on 25 July 2022. Due to the ever-evolving payments landscape, the Bank conducts periodic reviews of its regulatory framework to ensure that it remains relevant and robust. PSD 4, which provides guidance on how domestic, regional and international card transactions should be routed and defines specific preventive provisions on the acquisition and routing of e commerce transactions, was updated to respond to the changes in the card payments ecosystem.

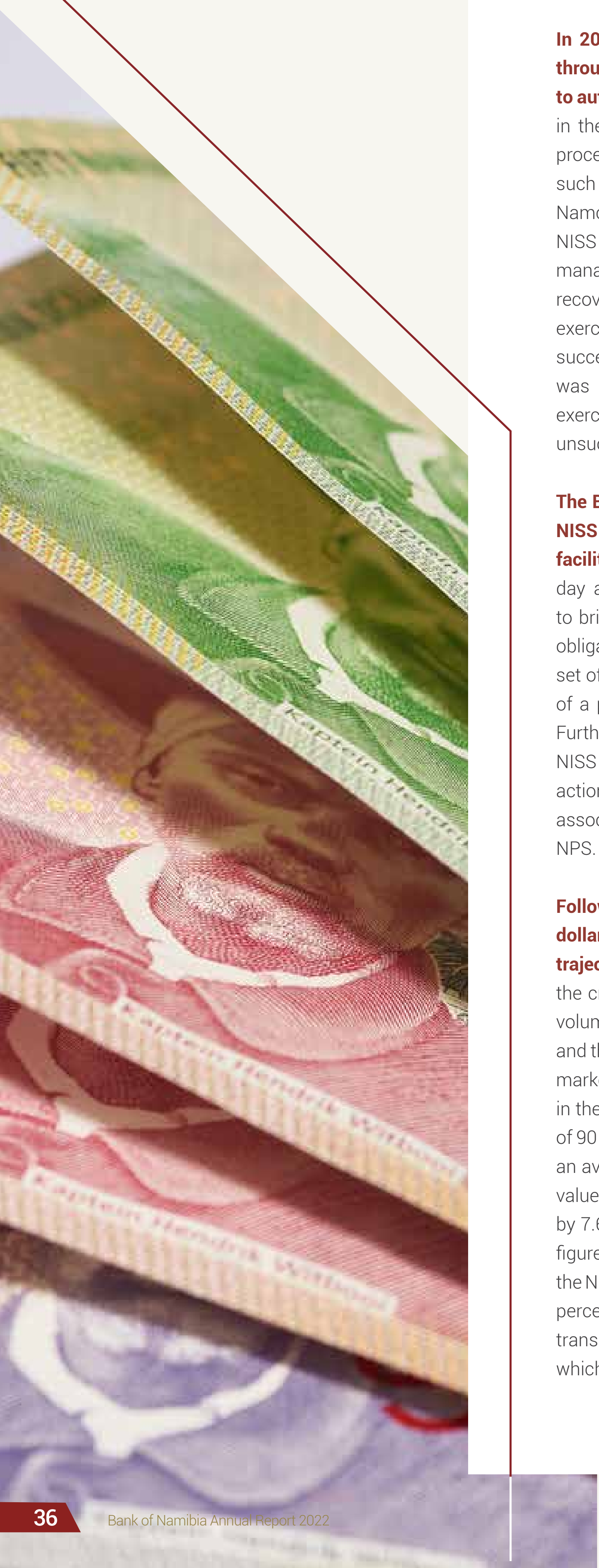
As part of its efforts to strengthen regulatory oversight of Electronic Funds Transfers (EFTs) at domestic, regional and international levels, the Bank introduced the Determination on the Conduct of Electronic Funds Transfer Transactions in the National Payment System (PSD-9). PSD-9 seeks to ensure that all EFT transactions are processed and facilitated through the appropriate structures within the applicable financial systems. Hence, this determination will replace the Directive on the Conduct of EFT transactions within the National Payment System No.183 (dated 29 June 2007) and will come into force on 14 April 2023.

To strengthen operational excellence and enhance security in the NPS, the Bank issued the Determination of the Operational and Cybersecurity Standards within the National Payment System (PSD-12). The determination's functional aspects relate to key risk indicators for the operation of important systems in the payments ecosystem (availability, Recovery Time Objectives (RTOs), types of disaster recovery, etc.). The security aspects relate to, among others, the safety of payment data to curb data breaches and reduce cyber fraud in general.

In fulfilment of the guidance provided in the Bank's Guidance Note on Interchange Determination in the National Payment System, dated 26 November 2020, the Bank issued the Determination on Card Interchange and ATM Surcharging (PSD-11). The determination came into effect on 22 August 2022 (in respect of Card Interchange for Fuel Transactions) and on 1 October 2022 (in respect of the remainder of the Determination). PSD-11 provides the revised rates for card interchange and determines the ATM surcharging fees for off-us ATM withdrawals and balance enquiries. All card participants and payment service providers must ensure compliance with the prescriptions of PSD-11.

A position paper on The Feasibility of Open Banking within the Namibian Financial Sector was published by the Bank on 31 October 2022. The position paper was issued in line with the Bank of Namibia's Strategic Plan for 2022 to 2024, as well as the NPS Vision 2025, which identified Open Banking as one of the global payment systems megatrends and opportunities for industry to explore over the 5-year term of the NPS Vision, with the objective of promoting innovation and transformative payment solutions. Overall, Open Banking is aligned with the Bank's commitment to drive greater digital transformation and financial inclusion and lead through innovation.

As part of its public education efforts, the Bank issued a newsletter addressing components of the NPS. In this regard, the Bank issued a newsletter with the title Understanding E-Commerce and the Treatment of FinTechs in the National Payment System. Its purpose was to inform and educate the public on the electronic commerce ecosystem, regulated products and services and their related fees and charges, as well as on the Bank's Financial Technology (FinTech) Innovations Regulatory Framework, which provides direction on how FinTech innovations that are not presently subject to the Bank's existing regulations will be treated.



NAMIBIA INTERBANK SETTLEMENT SYSTEM

In 2022, the Bank provided interbank settlement services through the Namibian Interbank Settlement System (NISS) to authorised institutions. The interbank transactions settled in the NISS comprise single-item time-critical transactions processed by the participants in the NISS, and retail payments such as EFTs and card transactions that are cleared through Namclear. During 2022, the Bank conducted one unannounced NISS disaster recovery exercise and two business continuity management exercises. The unannounced NISS disaster recovery exercise and the business continuity management exercise conducted during the second quarter of 2022 were successful as the two-hour Recovery Time Objective (RTO) was met. However, the business continuity management exercise conducted during the third quarter of 2022 was unsuccessful due to IT-related issues experienced.

The Bank continued to provide collateralised lending to the NISS participants through overnight and intra-day lending facilities. During 2022, the NISS participants utilised the intra-day and overnight credit facilities on numerous occasions to bridge liquidity shortages in order to fulfill the settlement obligations within the NISS. In addition, the Bank developed a set of procedures to guide the NISS participants, in the event of a payment clearing house batch (or batches) defaulting. Furthermore, the procedures are intended to ensure that the NISS as a financial market infrastructure can take timely action to contain losses and liquidity pressures and reduce associated risks which may cause systemic risks within the NPS.

Following the settlement value milestone of a trillion Namibia dollars recorded during 2021, the NISS has continued this trajectory during 2022. This is attributable to the usage of the credit lending facilities, particularly the 7-day Repo, high volumes of the new domestic EFT system streams (NamPay), and the buying/selling of government securities through open market operations. The aggregate settlement value recorded in the NISS during 2022 was N$1,131.0 billion, with a volume of 90 434 transactions settled in the NISS, which translates to an average of 299 transactions per settlement day. The total value and volume settled through the NISS in 2022 increased by 7.68 percent and 0.75 percent, respectively, over the 2021 figures. Moreover, the share of single transactions settled in the NISS amounted to N$766.3 billion, which translates to 67.8 percent of the total value settled. The value of retail payment transactions cleared through Namclear was N$364.70 billion, which represents 32.2 percent of the aggregate value settled.

Table A.5
NISS Transaction Values and Volumes

Values settled in N$ billion

Year	Number of settlement days	Total value settled	Real-time transactions	Retail payment transactions	Total number of settlement transactions
2018	301	913.1	618.7	294.4	60 189
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

CLEARING SYSTEM

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

The value of EFT transactions processed by Namclear increased in 2022 to N$349.7 billion. This represents a 12 percent increase in value and a 9 percent increase in volume over the 2021 figures. The increase in EFT usage can be attributed to increased economic activity after the Covid-19 lockdown restrictions ended during 2021.

2022 figures

12% ↑ IN VALUE

9% ↑ IN VOLUME

Card payment transactions continue to increase year-on-year. In 2022, Namclear processed card transactions with a total value of N$38.2 billion. The value and volume processed by Namclear increased by 17 percent and 19 percent, respectively, over the 2021 figures.

INTRABANK AND ELECTRONIC-MONEY SCHEMES

The value of EFT intrabank transactions settled in commercial bank money increased to N$922.7 billion in 2022, from the N$666.6 billion reported in 2021. EFT intrabank transactions have been increasing steadily over the past 2 years (2021–2022), after the sharp economic downturn caused by Covid-19 restrictions and job losses during 2020.

2021		2022
N$666.6 billion	<	**N$922.7 billion**

Payment card intrabank transactions in 2022 increased over the transactions reported in 2021. Ninety-four million card transactions were processed between merchants and customers of the same banking institution, amounting to N$66 billion, which is a moderate increase from the N$58 billion reported in 2021.

The use of electronic-money (e-money) schemes, which are currently close-loop, i.e., only operating within the same banking institution's systems, continued to increase in 2022. The Bank observed an increase in the use of e-money as a payment instrument, which shows a shift in the payments behaviour of users of the domestic payment system. In 2022, the value and volume of e-money transactions increased to N$34 billion and 64 million, respectively. This increase can be attributed to changing consumer behaviour in general due to the ease of use and access to particularly the wallets.

Table A.6
Namclear transaction values and volumes

Namclear transactions 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)
2018	5	583	250 045	16 944	17 844	33 731	23 781	37 366	1 466 393
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
Annual percent change									
2018	-50	-40	-8	-8	26	25	19	21	34
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

REGIONAL PAYMENT SYSTEMS

The Bank remained a participant in the Southern African Development Community 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 2022 reporting period, there were 89 participants (i.e., registered banking institutions, as well as central banks within the respective SADC jurisdictions) of which five, including the Bank, were Namibian. During 2022, the total value of payments processed in the SADC-RTGS amounted to N$1.7 trillion. Namibian banks accounted for R558 billion, which is 33 percent of the SADC-RTGS total. This reflects the optimal usage of Namibian banks of the SADC-RTGS in support of regional payments integration in accordance with the Finance and Investment Protocol.

Total value of payments processed in the SADC-RTGS

N$1.7 trillion

Namibian banks accounted for:

N$558 billion

The SADC Payment System Oversight Committee amended the SADC-RTGS access and participation criteria to be inclusive of non-bank financial institutions. This amendment serves to enhance the SADC payment system platform by including non-bank financial institutions on the current platform. The amended criteria were presented to the Committee of Central Bank Governors during 2022 and approved.

Total Fraud Values

CARD
N$7.4 million

EFT
N$14.5 million

E-MONEY STREAMS
N$9.6 million

In support of the adoption of ISO 20022 messaging standards for cross-border payments, the SADC-RTGS Operator, in collaboration with the SADC Bankers Association, has logged an ISO 20022 Migration Project, with the proposed implementation date for the SADC region being October 2023. The Society for Worldwide Interbank Financial Telecommunications (SWIFT) instructed financial institutions across the globe to migrate from the current MT (message text) messaging standards to ISO 20022 messaging standards by November 2025. To ensure compliance with SWIFT's deadline, the relevant engagements are currently underway at both regional and domestic levels. The Bank will, as part of its oversight efforts, continue to ensure compliance with international standards within the NPS.

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 2021. The industry recorded increases of N$638 000, N$11.5 million and N$5.9 million for the card, EFT, and e-money streams, respectively, compared to 2021. Payment card fraud increased by 9 percent, EFT by 80 percent, and e-money payments fraud by 62 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. The EFT fraud was perpetrated primarily via phishing, whilst that in e-money payments resulted from incidents that were perpetrated via phone scams on especially the wallets. The total value of fraud attributable to card, EFT, and e-money streams for the period under review amounted to N$7.4 million, N$14.5 million and N$9.6 million, respectively. 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 0.00223 percent being recorded.

Table A.7

Industry Fraud Statistics (NPS)

Year	Card fraud	EFT fraud	Cheque fraud	E-money fraud	Total fraud
	Value (N$'000)	Value (N$'000)	Value (N$'000)	Value (N$'000)	Value (N$'000)
2018	5 216	194	677	1 466	7 553
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

PILLAR 1

PURPOSE PILLAR

STRATEGIC OBJECTIVE 2: MAINTAIN PRICE AND MONETARY STABILITY

SFA1 ✓

Maintain headline inflation below 7 percent without compromising economic growth.

- The average annual consumer price inflation was 6.1 percent in 2022.

SFA2 ☐

Successful development and implementation of the Forecasting and Policy Analysis System (FPAS) and Nowcasting model.

- A centralized database and Nowcasting Model were successfully created.

✓ = target met ☐ = target partially met

MONETARY POLICY STANCE DURING 2022

The Bank's Monetary Policy Committee tightened its monetary policy stepwise throughout 2022, mainly aimed at anchoring inflation expectations and safeguarding the one-to-one link to the South African Rand, while providing support to the domestic economy to the extent possible. While the domestic economy performed comparatively better during 2022, the level of output continued to fall short of its potential, with subdued growth in private sector credit extension and further contraction in the construction sector. Inflationary pressure abated towards the end of the year, but remained elevated, mainly emanating from recurring geopolitical tension and global supply chain disruptions. In this regard, the domestic inflation rate rose much higher than that recorded in 2021, mainly due to high international energy and food prices and currency depreciation in most EMDEs (emerging market and developing economies) during the year. The Bank tightened its monetary policy by raising the repo rate by a cumulative 300 basis points in 2022 to end the year at 6.75 percent. This direction of monetary policy adopted by the Bank was consistent with that of most central banks globally, in response to increased inflationary pressure.

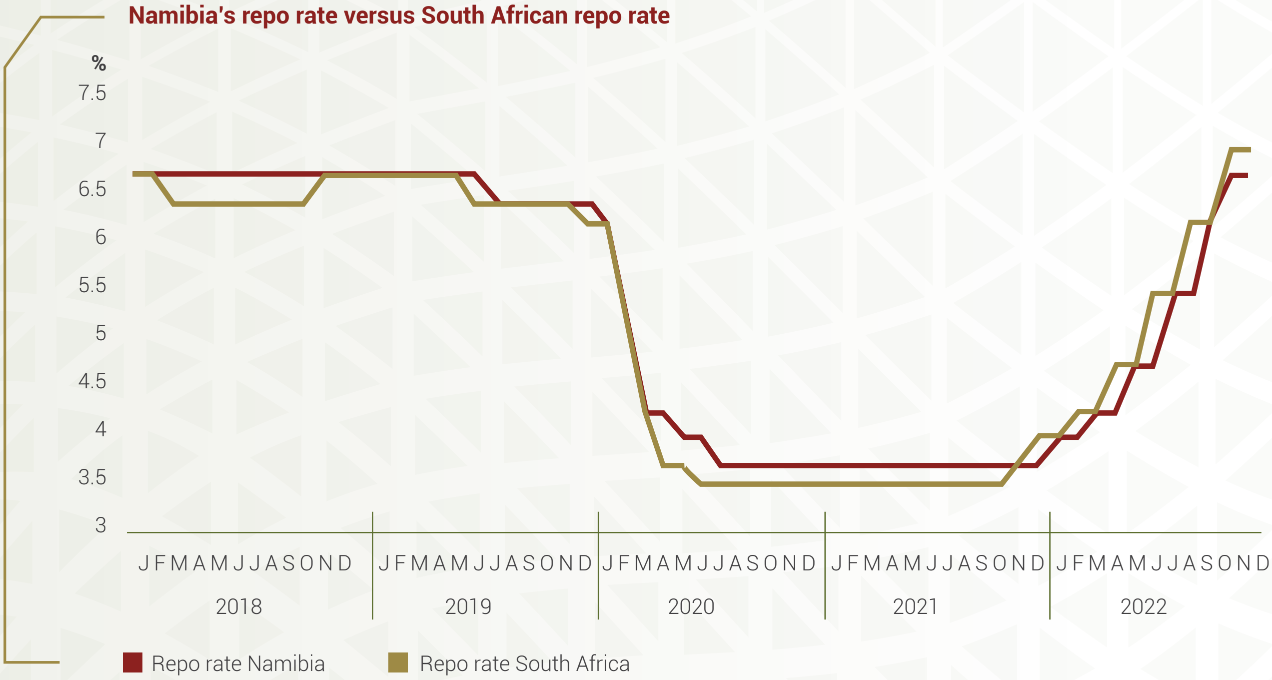
The monetary policy stance adopted in 2022 succeeded in ensuring that foreign reserve levels remained adequate to maintain the fixed exchange rate between the Namibia Dollar and the South African Rand. In pursuit of the containment of inflation and the maintenance of the exchange rate peg, the Bank also raised its policy rate in reasonable alignment with the policy rate of the anchor currency, the South African Rand. As shown in Figure A.1, the Namibian policy rate moved from being slightly above the South African rate in 2021 to slightly below it by the end of 2022, in the interest of supporting the domestic economic recovery. Amidst these developments, the Bank consistently ensured that the reserves remained sufficient to maintain the peg and meet the country's international financial obligations.

Repo rate

2021
3.75%

2022
6.75%

Figure A.1



Source: Bank of Namibia and the South African Reserve Bank

In light of the need to continue supporting the domestic economy, the Bank of Namibia retained the Covid-19 relief measures in order to assist both households and the corporate sector negatively impacted by the Covid pandemic. The relief measures that were introduced at the height of the pandemic in 2020 were extended further in 2022 as they were deemed necessary to enable the banking institutions to continue providing relief to economic sectors that were still in distress. The following relief measures were extended for another 12 months until 1 April 2023:

i) The loan repayment moratorium in the form of "repayment holidays" on pandemic-stricken loans, providing relief on loans amounting to N$7.4 billion as at December 2022, mostly consisting of roll-over facilities;

ii) Relaxed regulations in terms of write-offs and provisioning by commercial banks;

iii) Liquidity relief measures for commercial banks;

iv) Relaxed capital conservation buffers; as well as;

v) Relaxed concentration limits allowing a bank to maintain a larger exposure to a single entity.

The loan repayment moratorium in the form of "repayment holidays" on pandemic-stricken loans:

N$7.4 billion

2022

PILLAR
1

PURPOSE PILLAR

STRATEGIC OBJECTIVE 3: ENSURE THE SUFFICIENCY OF SUPPLY AND THE INTEGRITY OF CURRENCY

SFA1 ✓ **Currency production.**
- 100% delivery of currency, meeting the Bank's specifications.

SFA2 ✓ **Improve surveillance system.**
- Surveillance systems were effectively enhanced with artificial Intelligence and video analytic cameras.

✓ = target met

The Bank continuously strives to enhance customer service delivery and overall operational efficiency, to which end the cash management system is being enhanced. The Bank conducted extensive research on an Integrated Cash Management System, which is set to be implemented in 2023. The aforesaid solution will enhance service delivery to the commercial banks and improve the Bank's currency operations. In the same vein, research was conducted on a Currency Digital Public Awareness Tool which aims to enhance the way the Bank communicates with the public and serves as an educational tool to increase awareness. The development and deployment of the said solution forms part of the 2023 Strategic Focus Areas for the Bank.

In accordance with the Bank's currency procurement policy, the modified N$10 banknote was launched on 4 February 2022. The modified banknote featured the current Governor's signature as a key noticeable security feature. However, all other security features remained the same. The depiction of the signature of an incumbent Governor of a central bank on a banknote printed during his or her tenure is an industry practice that mainly assists the public to easily identify the banknotes and their validity.

Increase in the currency in circulation in 2022 compared to 2021. **>2.4%**

N$30 banknote **↑7.9%**

10-cent coin **↑3.5%**

CURRENCY MANAGEMENT

The Bank of Namibia Act (No. 1 of 2020) gives the Bank the sole mandate to produce and issue the Namibian currency. The Banking Services Department has ensured that all activities related to the currency function were executed effectively and in the best interests of the Namibian public.

As the world returned to a semblance of normalcy, the Bank noted a 2.4 percent increase in the currency in circulation in 2022 compared to 2021. This increase is evident in the distribution of the banknotes and coins, with the most notable being the increase of 15.7 percent for the N$10 banknote. Equally, a significant increase of 7.9 percent was noted on the N$30 commemorative banknote. The increase of 3.5 percent for the 10-cent coin is attributed to the discontinuation of the minting of the 5-cent coin in 2018.

Left-to-right: Deputy Governor Leonie Dunn, Director of Banking Services Ms. Sencia Kaizemi-Rukata, Governor Johannes !Gawaxab and Deputy Governor Ebson Uanguta unveiling the modified N$10 banknote bearing the signature of Governor !Gawaxab.

Governor Johannes !Gawaxab placing the modified N$10 banknote into circulation.

Table A.8

Composition of currency in circulation

Denomination	2021		2022		Change in value (%)
	Value (N$ million)	Volume ('000)	Value (N$ million)	Volume ('000)	Volume ('000)
5c coin	14.5	290.0	14.5	290.0	0.0
10c coin	23.0	230.0	23.8	237.9	3.5
50c coin	16.8	33.6	17.0	34.0	1.2
N$1 coin	115.0	115.0	119.8	119.8	4.2
N$5 coin	71.6	14.3	75.9	15.2	6.0
N$10 coin	16.9	1.7	17.0	1.7	0.6
Total -Coins	**257.8**	**684.6**	**267.9**	**698.5**	**3.9**
N$10 notes	101.8	10.2	117.8	11.8	15.7
N$20 notes	201.1	10.1	149.3	7.5	-25.8
N$30 notes	136.5	4.6	147.3	4.9	7.9
N$50 notes	336.5	6.7	352.2	7.0	4.7
N$100 notes	858.1	8.6	846.1	8.5	-1.4
N$200 notes	2 867.4	14.3	2 993.2	15.0	4.4
Total-Notes	**4 501.4**	**54.4**	**4 605.9**	**54.6**	**2.3**
Grand Total	**4 759.2**	**739.0**	**4 873.8**	**753.2**	**2.4**

Over the past five years, the Bank has managed to effectively control the issuance of new currency into the market. The N$10 and N$200 denominations remained the most distributed denominations, whereas the highest value change with regards to banknotes in circulation was observed with the N$10 banknote at 15.7 percent, as shown in table A.8.

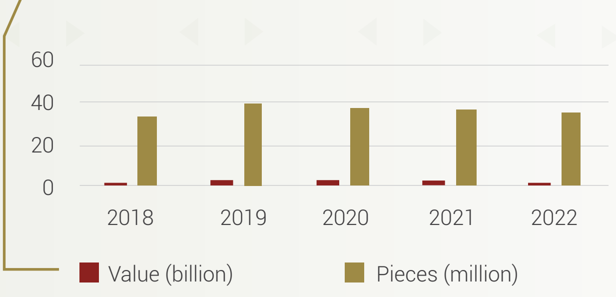
highest bank note distribution

N$10 banknote

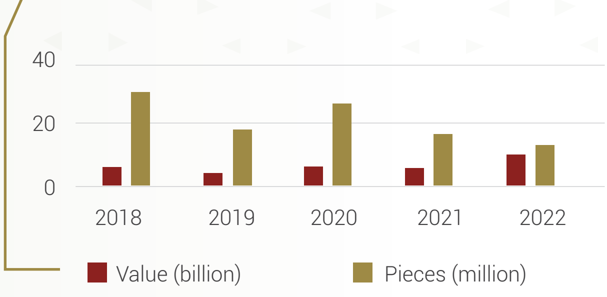
> 15.7%

Figure A.2

New Banknotes issued



New Coins Issued



During 2022, an increase of 32.9 percent was registered regarding counterfeits compared to the decrease of 57.4 percent noted for 2021. Two-hundred-and-six (206) counterfeits were recorded in 2022, more than the 155 recorded in the previous year. However, the counterfeits remained of poor quality and below the Bank's threshold of 10 pieces per million in circulation, as well as the industry standard of 70 pieces per million in circulation. The N$200 banknote denomination was the most counterfeited at 55.8 percent, whereas no counterfeits were recorded for the N$30 commemorative banknote. The Bank has noted a steady decline in the volume of counterfeited banknote pieces over the past five years.

counterfeits

N$200 banknote

= 55.8%

N$30 banknote

= 0%

Table A.9
Counterfeit Namibia Dollar Banknotes

Counterfeit Namibia Dollar Banknotes

Denomination	Number of counterfeit Banknotes detected per denomination					Counterfeits per single denomination per million notes in 2021	Counterfeits per single denomination per million notes in 2022
	2018	2019	2020	2021	2022		
N$10	5	2	23	1	1	0	0
N$20	64	42	29	6	7	1	1
N$30	0	0	0	0	0	0	0
N$50	214	189	59	37	28	6	4
N$100	130	180	54	33	54	4	7
N$200	189	247	199	78	115	5	9
Total Counterfeits per million notes for all denominations	602	660	364	155	206	3.03	3.97

PILLAR
1

PURPOSE PILLAR

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

SFA1 ✓

Modernization of GRN Payment Operations and Efficient and automated Public Teller Operations

- Implement Phase 1 of the Payment Portal and deploy e-robot into production.
- Completion of a feasibility study for the automation of the Public Teller operations

SFA2 ✓

Integrated digital bond platform and excute Government borrowing plan

- Digital bond platform was created and Retail Bonds were captured on CSD

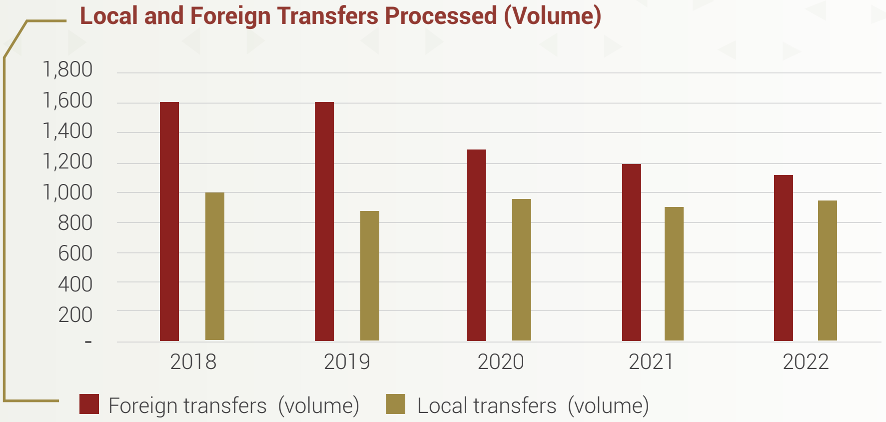
✓ = target met

In its drive toward digitisation and customer service enhancement, the Bank embarked upon a project to automate the processing of high-value local and foreign payments that are processed by the Bank on behalf of the Namibian Government. Phase 1 of the project entailed the development of a payment portal to eliminate the manual submission of foreign payment instructions by the Ministry of Finance. The aforesaid applications, together with the required documentation, will now be submitted to the Bank online through a web-based platform. This will provide a holistic view of all applications submitted, enhance the tracking of payments, and improve the query management process. The payment portal is set to be operationalised during the first quarter of 2023.

PROVISION OF BANKING SERVICES

The Bank observed an overall reduction in high value local and foreign payments processed on behalf of the Government of Namibia by 3.9 percent and 7.1 percent, respectively. A declining trend has been observed in the foreign transfer payment stream over the past five years. By way of providing banking services to the Government of Namibia, the Bank is responsible for the processing of high value local and foreign payments (Figure A.3). The high-value local payments are processed on the Namibian Interbank Settlement System, while the foreign payments are processed using the SWIFT system.

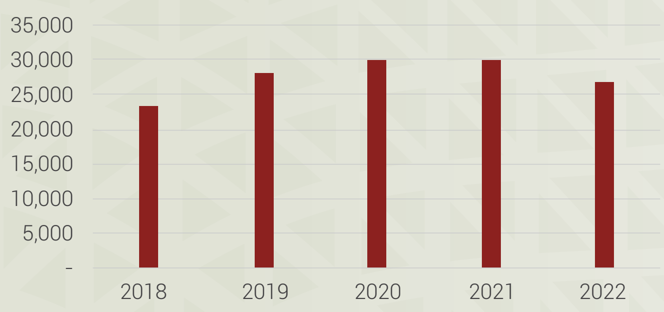
Figure A.3
High-value local and foreign government payments



The low-value payments (below N$5 million each) shown in Figure A.4 are made using ordinary electronic fund transfers and their aggregate value declined somewhat in 2022.

Figure A.4

Low Value EFT Transfers (Value in N$ million)



MANAGEMENT OF GOVERNMENT SECURITIES

As an agent to Government, the Bank continues to facilitate issuances of Government debt securities. This is intended to assist the Government in its efforts and commitment towards the financing of the national budget. During 2022, the Bank of Namibia held several auctions for both short-term discount instruments and bonds as per the 2022/23 Borrowing Plan, which saw an increase in the total value of the Government's outstanding domestic debt compared to the preceding year. The Bank facilitated the successful redemption of the GI22, a local bond, and the JSE-listed bond, NAM01, that matured on 15 October 2022 and 19 November 2022, respectively.

PURPOSE PILLAR

PILLAR 1

STRATEGIC OBJECTIVE 5: MANAGE RESERVES PRUDENTLY

SFA1 ✓

Manage Reserves Prudently and establish and manage Sovereign Wealth Fund

- Reserve management functions were successfully executed in line with benchmark and risk tolerance set by the board and investments were within approved IP
- Operationalized the SWF

SFA2 ☐

Digital tranformation and capital flows management regulations

- Modernized Capital Flow Measures and Regulatory framework
- Achieved automated regulatory processes

✓ = target met ☐ = target partially met

RESERVE MANAGEMENT

The year has experienced a challenging economic and market environment characterised by high inflation and rising interest rates globally. Therefore, the Bank has maintained defensive tactical investment strategies that largely achieved positive performance relative to benchmarks while containing risks and confining them to the thresholds approved by the Board. The Bank has also in recent months implemented new asset classes, namely equities and corporate bonds, at a level of 5 percent of the externally managed US Dollar tranche in order to enhance the risk-adjusted returns of the portfolios. Furthermore, foreign reserves increased in 2022, translating to an import cover of 5.7 months.

The Bank has been tasked with the management of the Welwitschia Fund and obtained approval to operationalise the strategic asset allocation through exchange traded funds. In order to bring the public on board, the Bank secured funding to run an educational campaign. Along with the management of the reserves, the Bank has executed both functions prudently and in line with the respective mandates.

The Bank is planning to expand the portfolios being managed internally by recalling some of the currently externally managed portfolios. To enable this, the Bank has embarked on a journey to train and capacitate the internal teams. Training has so far been received from the World Bank, University of the Witwatersrand in collaboration with Allianz and GIZ, and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) in collaboration with industry experts.

ADMINISTRATION OF EXCHANGE CONTROL

During the period under review, the Bank continued to execute its mandate as Agent for the Administration of Exchange Control as provided for in the Bank of Namibia Act (No.1 of 2020). The Bank's activities in respect of the administration of Exchange Control, were underpinned by the following Strategic Focus Areas:

i) Digital transformation
ii) Modernisation of the regulatory framework
iii) Enforcement of regulatory compliance and supervision
iv) Mitigation of the risks of Illicit Financial Flows
v) Data Analytics and output

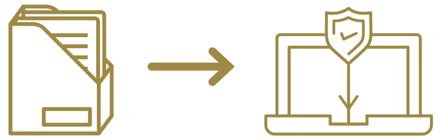
The Administration of Exchange Control supports the foreign reserves management of the country. In accordance with the powers provided for in the Currency and Exchanges Act (No.9 of 1933) and the Exchange Control Regulations of 1961, as amended, the Minister has delegated the function of Exchange Control to the Bank and tasked it with the responsibility for fostering stable foreign exchange operations in the country. To this effect, the Bank also contributes to a sound foreign exchange market in the Common Monetary Area (CMA). During 2022 the key activities detailed below were carried out as part of the Bank's mandate to administer Exchange Controls.

As part of its digital transformation strategy, the Bank, in close collaboration with NamRA, has embarked on a project to implement the Trade Verification System (TVS), scheduled to Go-live during October 2023. The trade verification system will significantly enhance operational efficiencies in the vetting and verification of the financial transactions through the Authorised Dealers viz-a-viz the movements of goods cleared through the Asycuda World system by the Namibia Revenue Agency (NAMRA). Broadly, the Bank anticipates that the Trade Verification System shall assist to close the loopholes used by some traders to over-invoice and/or under-declare the values of goods, and thus contribute to the fight against illicit financial flows.

Furthermore, the Bank achieved a significant milestone: three key processes were successfully automated. The process automation provides a seamless and efficient interface with the regulated industry through electronic exchange of information and statistical data, a move away from the tedious and paper-based processes.

In the quest to create a robust business friendly regulatory environment, and in line with international best practice, modernised Capital Flows Regulations have been drafted and are planned for implementation as soon as the relevant consultations and approvals have been concluded. The purpose of the Capital Flows Regulations is to modernise the regulatory framework by addressing the rigidities embedded in the current Exchange Control Regulations and to provide for the legal basis for licensing and regulation of the emerging digitally transmitted financial transactions and services.

Furthermore, during the period under review, the Bank dispensed with the 180-days conversion rule for the retention of the foreign currency on a Customer Foreign Currency (CFC) account.



The Bank achieved a significant milestone: three key processes were successfully automated.

Consequently, business entities involved in import and export related transactions are allowed to retain foreign currency on such accounts maintained with Authorised Dealers, indefinitely.

The Bank of Namibia, in collaboration with other state agencies, successfully executed a pilot project on defining, estimating, and disseminating statistics on illicit financial flows in Africa. The project was highly relevant to the needs of countries and the United Nations, as it came to fill a gap in the Sustainable Development Goals (SDG) indicator framework led jointly by the UNECA, UNCTAD and UNODC. The project complemented the work of other international actors in this domain and contributed to a greater level of coherence among them through the establishment of a Task Force on IFFs Measurement. The project made significant progress towards its three expected achievements. Namibia stands out as one of the most successful countries on the project in Africa. The estimation resulted in calculations of potential losses suffered by the public finances, including uncollected VAT, customs duties, and corporate taxes. Following approval by the Minister of Finance, The Bank of Namibia has already taken the steps needed to set up a temporary IFFs National Project Office to administer and execute the remaining project tasks under the SDG 16.4.1 and monitor the implementation National Action Plan Recommendations to tackle IFFs.

The Bank continued to shape the compliance environment of the regulated populace consisting of six (6) Authorised Dealers (ADs) and four (4) Authorised Dealers with Limited Authority (ADLAs) through onsite and offsite inspections and regular industry meetings. The Bank noted a satisfactory level of compliance with the Exchange Control rules and regulations for the period under review.

PILLAR 1

PURPOSE PILLAR

STRATEGIC OBJECTIVE 6: PROMOTE FINANCIAL SECTOR GROWTH AND ECONOMIC DEVELOPMENT

SFA1 ✓

Deliver and assist with implementation of relevant & quality policy research.

- Conducted policy research on monetary and fiscal policy and on economic growth and development
- Conducted financial sector research and provided evidence-based advice on fiscal policy, economic growth, development, and regional and continental integration

SFA2 ☐

Develop a new Financial Sector Transformation Strategy (FSTS)

- Coordinated the formulation and implementation of the new NFSTS 2023/2027
- Conducted research with clear recommendations on transforming the financial sector

SFA3 ☐

SME financing

- Availed funds to banks for SME financing and about 5% of the loan scheme was utilised

✓ = target met ☐ = target partially met

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 specific policy direction and actions. The following is a summary of activities and research carried out in 2022:

In line with its mandate, the Bank continued to provide the Ministry of Finance with technical advice on public debt sustainability. Debt Sustainability Analysis (DSA) is an important facet of debt management and an avenue by 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 Ministry of Finance (MoF) during 2022. This is in line with best practice. After a careful analysis of Namibia's macroeconomic and fiscal indicators, the DSA confirmed that Namibia's public debt is projected to remain elevated with a slight moderation expected in the last years of the Medium-Term Expenditure Framework (MTEF) period (2022 – 2025), on the back of improved nominal gross domestic product (GDP) prospects. In light thereof, the debt sustainability analysis recognised a need for a bolder and more disciplined execution of medium-term policies, which should result in the re-orientation of fiscal policy towards debt stabilisation. To this effect, the MoF, in conjunction with NamRA, were encouraged to continue intensifying the 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 Government to improve the execution and moderately raise the Development Budget to support economic growth, while continuing to create a conducive and enabling environment that promotes private sector-led growth. The reports also highlighted the need to augment efforts aimed at capitalising the Welwitschia Fund, the country's sovereign wealth fund launched in 2022.

In 2022, the Bank published a working paper that evaluated the monetary policy transmission mechanism in Namibia with the aim of providing policy advice to the MPC and informing the public about its research activities. The paper empirically tested the effectiveness of monetary policy through the key channels of the monetary policy transmission mechanism, namely the interest rate, credit, asset price and exchange rate channels. The findings indicated that the interest rate and credit channels are the most effective channels of the monetary policy transmission mechanism for achieving the ultimate goals of price stability and sustainable economic growth. The study further found the effect of a change in policy concerning rates made by the monetary authorities on inflation and real gross domestic product is felt immediately from the first quarter, with the effects lasting into the twelfth quarter. This translates into a monetary policy transmission mechanism of between three to 36 months. The implication is that the effects of monetary policy decisions occur much faster in the short-term and last longer in the long-term. The key policy finding reaffirmed that despite Namibia being in a fixed exchange rate regime, the monetary policy decisions enacted by the monetary authorities, given some level of discretion, have a meaningful impact on the aggregate economy.

FINANCIAL SECTOR DEVELOPMENT

During the year under review, the Bank coordinated the evaluation exercise of the implementation of the Namibia Financial Sector Strategy (NFSS) 2011–2021. This Strategy was launched in 2011 and was implemented over a 10-year period. The key focus areas were: financial markets deepening and development; the financial safety net; financial inclusion; localisation of the Namibian financial sector; and skills development. The Bank similarly began coordinating the development of the new Financial Sector Transformation Strategy. It is envisaged that the evaluation report will be made available to the NFSS governance structures, along with the new strategy which will be launched in the first half of 2023.

The Bank further continued to provide technical assistance for ongoing projects under the NFSS 2011–2021. In this regard, assistance was provided on improving key elements of the SME Financing Strategy housed at the Development Bank of Namibia, namely the Credit Guarantee Scheme, the Venture Capital Fund and the Mentoring and Coaching Scheme. The implementation of the skills development programme for the financial sector, aimed at narrowing skills gaps, commenced, with notable progress being made in 2022. Pilot courses were offered by training institutions during the year under review and more courses will be provided in the course of 2023.

Together with the MoF, the Bank amended the SME Economic Recovery Loan Scheme, previously known as the SME Covid-19 Loan Scheme. This initiative was introduced in 2020 following the Covid-19 outbreak to help SMEs that were hard-hit by the pandemic. Uptake on the Covid-19 loan facility has been notably low, with commercial banks citing several challenges related to the qualifying criteria. After a thorough review of the scheme's terms and conditions, the Bank, together with the MoF, revised the scheme's terms and conditions with the objective of making it more affordable and accessible. The purpose of the revised scheme is to stimulate economic activity and growth, improve access to SME funding and credit extension, improve liquidity and business confidence for SMEs, and reduce unemployment and the level of poverty in the country, and thus indirectly reduce dependency on government grants.[1]

1 The revised scheme, worth N$500 million, was launched in the first quarter of 2023.

BOX ARTICLE 1:

POLICY ISSUES EMANATING FROM THE BANK OF NAMIBIA'S 23RD ANNUAL SYMPOSIUM

INTRODUCTION AND BACKGROUND

The Bank of Namibia held its 23rd Annual Symposium on the 3rd of November 2022 at the Safari Hotel and Conference Centre under the theme: Maximising economic growth from renewable and non-renewable energy sources in Namibia. The symposium theme focused on the recent discoveries of oil and gas in the country, and the planned production of green hydrogen using renewable energy resources. The Symposium hoped to find ways in which the country can maximise the benefits from these developments and use them to uplift especially the vulnerable and less fortunate members of the society.

Many of the world's wealthiest countries have benefited greatly from mineral extraction. For example, Australia, Canada, Finland, Sweden, Botswana and the United States have all had extensive mineral industries and used them as platforms for broad-based industrial development. Moreover, in these countries, minerals exploitation seems to have benefited regions with mines in at least some measure. In the nineteenth-century, mineral exploitation in Australia, for instance, brought development to the states of Victoria and Western Australia. In sub-Saharan Africa, Botswana is one of the few countries that has truly benefited from its mineral wealth. Revenues from diamond mines, combined with sound economic policies, have helped build infrastructure and kept the economy stable.

A major conclusion that emanated from the 23rd Annual Symposium was that the country has an adequate petroleum regulatory framework that can ensure appropriate derivation from the resources, although a few elementary things still need to be addressed. The key policy recommendations made were the need to:

- build accountable resource governance institutions to avoid the resource curse;
- address the fiscal regime in the extraction industry;
- ensure that appropriation of exploration licences is done in an open and transparent auction system;
- promote the use of local inputs to target employment, and industrial and technological development; and
- improve the ease of doing business, leveraging opportunities offered through regional integration initiatives.

KEY POLICY ISSUES EMANATING FROM THE SYMPOSIUM

The papers and discussions at the Symposium made some key recommendations. These included that from the outset, the country should ensure that economic benefits from the new discoveries trickle down to the most vulnerable communities, while ensuring that certain regulations are in place to avoid rent-seeking behaviours. The following is a summary of the key policy issues that emerged from the Symposium:

Build accountable resource governance institutions to avoid the resource curse

Accountable institutions allow for transparency and accountability in allocating resources. Accountable institutions ensure that access to resources is granted in such a way that prevents mismanagement and other abuses and that the benefits trickle down. The quality of the institutional setting, the prevention of corruption, the maintenance of law and order, and the limiting of bureaucratic inefficiencies are all important. A robust institutional setting could diminish rent seeking activities and ensure the security of property and contractual rights. In turn, this would encourage investment.

Address the fiscal regime in the extraction industry

Namibia will need to review current mineral royalties and taxes to ensure a balance between attracting investors and safeguarding optimal benefits for the country from the resources. This balance is important for facilitating investment while at the same time addressing the notion that Namibians are not participating meaningfully in these sectors or that the Government is comfortable with the current royalties and tax rates, which are perceived as being inadequate.

Appropriation of exploration licenses should be done in an open and transparent auction system

The current open-door licensing system for resource allocation should be substituted with an open and transparent bidding process, wherein different agents bid with extra royalties, income taxes, or the Government's portion in a profit-sharing agreement. The winner would commit to a certain minimum investment within a specified timeframe to minimise the possibility of daring offers. More specifically, such a system could be implemented by establishing exclusive prospecting licenses that are auctioned and, in the event of success, are subsequently upgraded to the next stage licenses.

Promote the use of local inputs to target employment, and industrial and technological development

The Government should promote the use of local inputs to target employment, and industrial and technological development. The current draft of the local content policy should specifically aim to maximise the benefit delivered to Namibian citizens. This will occur via the enhancement and development of strategies that will target the phased participation of Namibian labour, goods and services, companies, ownership, and financing along the value chain. The Government should provide a clear and stable regulatory framework for local content requirements by reforming the current legal framework to attract investors and maximise the participation of local suppliers along the value chain. Diversification of the local economy will prevent reliance on a single commodity. This can be achieved by developing national competency and capacity. It would therefore be prudent to identify specific sectors for the development of local capacity. Ensuring optimal local content in the exploitation of resources should be prioritised, and specific sectors should be identified for the development of local capacity. It is of vital importance that Namibia's policy reflects its own special circumstances, as there are no external models to lean on. However, it would be beneficial for the country to learn from other countries' successes and failures.

Improve the ease of doing business

To facilitate development, the Government needs to ensure that regulations and requirements strike an appropriate balance between fairness and effectiveness, while maintaining an acceptable level of consistency. There are clear parallels between the rules and regulations influencing business development and overall socioeconomic development. Clear requirements and straightforward compliance allow businesses and entrepreneurs to focus on innovation, problem-solving, and employment – all factors that contribute to development. And once set, rules should be stable – at least for periods that broadly coincide with the lifetime of relevant projects in the extractive industries.

Have targeted incentive packages to reduce investment risks

There should be targeted incentive packages to reduce the investment risks faced by early adopters in the green hydrogen initiatives. These could include a mix of financial incentives (subject to improvement of the country's fiscal position), fast-tracking access to land, assistance in meeting or exceeding legal and regulatory provisions, and utility connections and related matters of immediate relevance to lower the barriers to targeted investments.

Develop an energy transition timeline

The Government should develop a clear energy transition timeline that will boost investor confidence in the country. As a small country that faces the triple challenge of inequality, poverty and unemployment, Namibia is well within its rights to take advantage of all the resources available in the country. However, as the world continues to move towards decarbonisation, it is imperative that the country develop an energy transition timeline.

Leveraging on opportunities offered through regional integration initiatives

Regional infrastructure development should be at the forefront of the developmental agenda. Regional infrastructure development creates a larger market and greater economic opportunities. Such infrastructural development is critical for the sustained promotion of the regional economic development, trade, and investment which will contribute to poverty eradication and improved social conditions.

Cooperation on energy infrastructure development at the regional SADC level should be prioritised. Collaboration within the SADC should be a priority for Namibia. For example, South Africa is working on its own green hydro initiatives, which is likely to create competition between the two countries. There should be scope for collaboration and joint projects for investors.

POLICY RECOMMENDATIONS

- growth-enhancing policies, which are focused on ensuring that the discoveries contribute to sustainable economic growth in the country;
- investment-related recommendations, which are targeted at broad-based investment that will facilitate the exploitation of the resources to the benefit of the economy; and
- environmental and climate-related recommendations, which entail appropriate management of the environment while exploiting the resources, and due consideration for the impact of the use of the resources.

The recommendations are clustered into three groups:

1. Growth-enhancing policies

Build competent and accountable institutions: As custodians of the oil and gas sector, the Ministry of Mines and Energy must develop a legal framework and policies that underpin mechanisms to ensure accountability.

Ensure that the national oil company is potentially useful instrument: The national petroleum company must be held to the highest standards of accountability and transparency that prevent it from becoming a state within a state. These will include the following:

- implementing well-functioning legal and regulatory systems;
- ensuring transparency and accountability for all stakeholders.
- controlling petroleum revenues and their spending; and
- developing national competence and capacity with respect to the management of the resources.

Manage petroleum revenue: Through assurance of accountability and transparency, the Ministry of Finance and NamRA must ensure the collection of due revenues and avoid leakages.

Maximise local value creation and industrialisation: Through the local content policy, the Ministry of Mines and Energy must prioritise strategies to enhance local content. This will ensure that the share and capacity of local content within the oil and gas value chain grows to adequate levels.

Develop a clear framework for renewable energy: The Ministry of Mines and Energy must prioritise and develop the regulatory framework for the renewable gas sector. This will facilitate transparency and promote confidence among investors who are interested in the sector.

2. Investment-related recommendations

Invest in interconnectors and transmission (grid-stability): The exploitation of the resources should result in investment in growth-enhancing infrastructure that will be able to benefit communities even when the resources are exhausted. Similarly, investment in infrastructure will be able to facilitate diversification of the economy.

Make incentives and support structures time- and results-bound: This is advised as an approach that strikes a balance between providing adequate inducement to investors and raising revenues from the resources in a reasonable time.

Ensure that benefits trickle down to the local population by scaling up local content and local employment rules over time.

3. Environmental and climate-related recommendations

Maintain a high standard of health and safety: The Ministry of Mines and Energy must ensure that regulations pertaining to occupational health and safety in high-risk environments are reinforced, and that enforcement capacity is enhanced. Similarly, education and awareness raising on environmental impacts must be mandatory and enforced.

Control of emissions to the air, discharges to soil and sea, chemical waste, and prudent handling of wastewater: This should include aspects such as the prohibition of flaring and venting of gas except for safety reasons stipulated by law.

Develop and prepare a national decarbonisation strategy and framework: In order to ensure transparency and a clear path on the energy mix and transition to clean energy, it is of paramount importance to develop such policy and strategy.

PILLAR 2

STAKEHOLDER ENGAGEMENT PILLAR

KEY STRATEGY 1 ✓

MAINTAIN PROACTIVE PUBLIC ENGAGEMENT

Implemented the Annual Bank-wide Stakeholder Engagement Plan

KEY STRATEGY 2 ✓

PROMOTE A POSITIVE REPUTATION

The Bank recorded 84.4% positive media tonality based on a systematic media analysis of news articles

KEY STRATEGY 3 ✓

ENHANCE STAKEHOLDER AWARENESS AND CONFIDENCE

The Bank successfully held various stakeholders engagements, including courtesy visits to the President, key regional and local authority leaders, business communities, commercial banks and civil societies

✓ = target met

COMMUNICATIONS AND STAKEHOLDER RELATIONS

The Bank believes that proactive public engagement through effective stakeholder management is fundamental to safeguarding the public's interests and responding to the evolving needs of the Namibian people. To this end, stakeholder management is a key pillar of the Bank's Strategy (2022-2024). During the year under review, particular emphasis was placed on facilitating dialogue and discourse, which would contribute towards placing Namibia firmly on the path towards sustainable economic growth and recovery in line with the Bank's governing mandate.

In accordance with this objective, the Bank continued to uphold the values of transparency and open engagement by creating platforms to engage stakeholders in active and open dialogue. This was done through the development and implementation of the Annual Bank-wide Stakeholder Engagement Plan derived from the Banks' Stakeholder Identification and Engagement Procedures. These engagements with the Banks mapped stakeholders continued to be championed by the Governor, Deputy Governors and Senior Management of the Bank as outlined by the Stakeholder Matrix guide.

TYPES OF STAKEHOLDERS

Statutory / Government stakeholders

ENGAGEMENT

Courtesy Visit to the President of the Republic of Namibia

PURPOSE

The purpose of the visit was to brief the President on matters related to the Bank's monetary and financial stability mandate.

- The executive leadership reported on the Bank's exceptional performance and discussed the expected improvement in the global and domestic economy during 2022 despite the lingering effects of the Covid-19 pandemic and other headwinds.
- An update was provided on the measures being adopted by the organisation to drive the Bank's strategic vision of becoming a leading central bank committed to a prosperous Namibia.

ENGAGEMENT

President of the Republic of Namibia's visit to the Central Bank

PURPOSE

The one-day engagement in October 2022 served as an opportunity to update the President on the central bank's operations and functions, and to provide insight into key global and domestic economic developments.

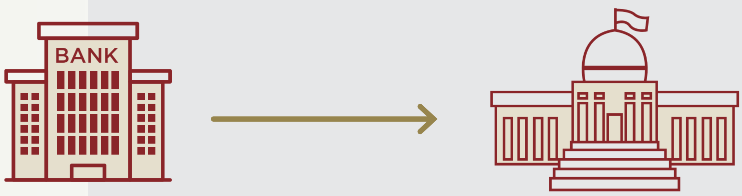
- Outlining the collective intent to ensure Namibia's economic prosperity, the President commended the Bank's management and staff for their ongoing efforts towards fulfilling the Bank's mandate and meeting their obligations to the country. He reiterated that the harmony and dedication to duty embodied by the Bank is an example worth emulating in line with "Harambee" philosophy which all Namibians must aspire to, by working together for the prosperity of the nation.

ENGAGEMENT

Parliamentary stakeholder engagement

PURPOSE

As per the statutory requirement in terms of section 68 of the Bank of Namibia Act (2020), the Bank is required to report to the Parliamentary Standing Committee on Economics and Public Administration on an annual basis at the behest of the Committee or the Governor of the Bank on matters pertaining to the state of the economy, the conduct of monetary policy and the operations and affairs of the Bank.



ENGAGEMENT

Launch of the Bank's 2021 Annual Report

PURPOSE

The Bank launched its 2021 Annual Report, which also served as an occasion to hand over a dividend payment of N$413.7 million to the Government of the Republic of Namibia.

- A portion of this dividend was allocated towards the establishment of the newly formed sovereign wealth fund, known as the Welwitschia Fund which intends to contribute towards inclusive growth and poverty reduction.

ENGAGEMENT

Engagement with the diplomatic corps and development partners

PURPOSE

The Governor hosted members of the diplomatic corps and development partners to exchange views on relevant social and economic issues. The diplomatic stakeholder event is a platform intended to build, strengthen and maintain sound relations between the Bank, the diplomatic corps and development partners. The key issues that emanated from this year's engagement centered around the need for public sector reform, the Government's limited fiscal space and the need for all sectors to intensify their efforts towards supporting the domestic economic recovery.

- Emphasis was placed on the importance of Namibia generating wealth from its natural resource endowments as a means of tackling the country's economic challenges. The agricultural sector's enormous potential for contributing towards economic growth and job creation, especially for the youth, and the need to increase investment in this sector was highlighted.

TYPES OF STAKEHOLDERS

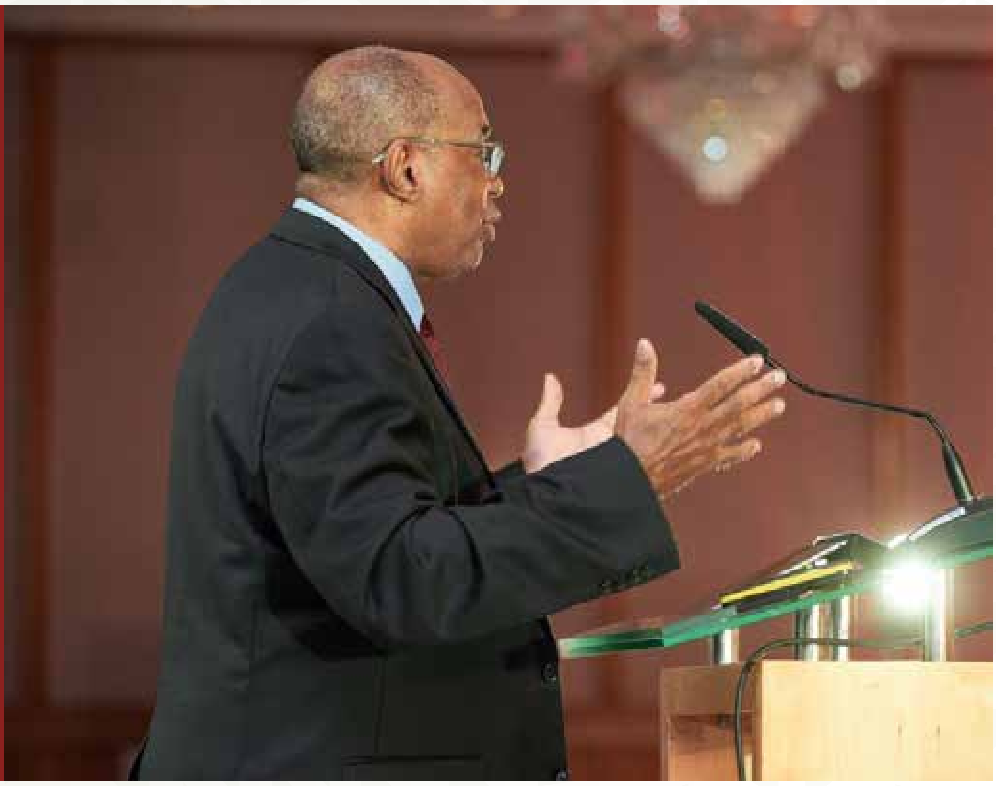
Industry and sector stakeholder engagements

ENGAGEMENT

Banking institution engagements

PURPOSE

The Bank regularly hosts and engages industry representatives across various sectors to discuss areas of economic interest. These bilateral stakeholder engagements addressed, amongst other topics, economic recovery, industry concerns, the green hydrogen agenda, Namibia's agricultural productivity and food security, investment promotion, and the contribution of commercial banks in driving economic growth.



Governor of Bank of Namibia, Mr Johannes !Gawaxab addressing stakeholders at a bank event.

TYPES OF STAKEHOLDERS

Community and key interest groups

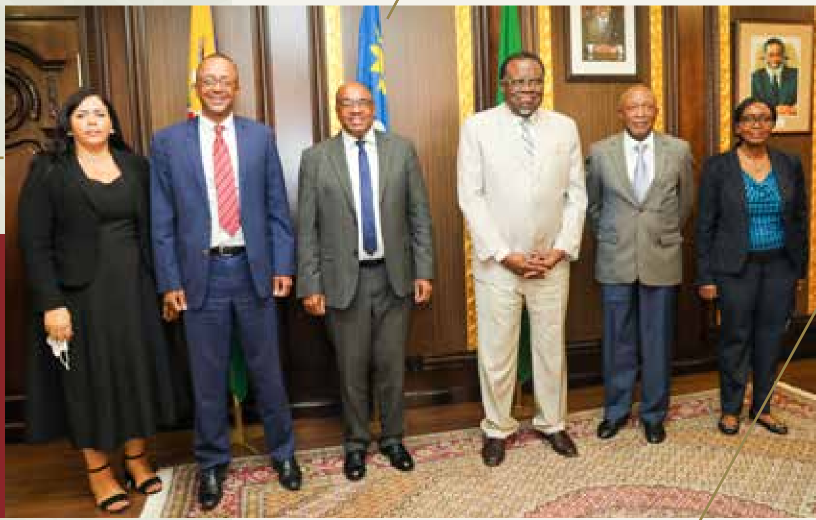
ENGAGEMENT

Regional engagements in Kavango East, Kavango West, and Oshana regions

PURPOSE

Regional stakeholder engagements with key regional and local authority leaders, as well as representatives from the business community, commercial banks and civil society organisations, were held. At these meetings, as part of a broader objective to take the Bank closer to the citizens of the country, discussions were held on the country's economic recovery and sustainable growth efforts.

- The Bank's Governor hosted public lectures under the theme "Navigating Current Economic Shocks: Policy Options" in Kavango East and Kavango West regions. The lectures provided an overview of the key structural challenges facing the Namibian economy with respect to high inflation and rising interest rates.
- The presentation also provided a view of policy options available to spur economic growth and recovery as a means of insulating the country from external shocks, including volatile food and fuel prices.
- The Governor, accompanied by the executive leadership of the Bank, also held a stakeholder engagement in Oshana Region which coincided with a meeting of the Board of Directors at the Oshakati Branch in a historic first. At the engagement with local leaders, the Governor gave an overview of the state of the global and domestic economy.



From left to right: Ms Leonie Dunn, BoN Deputy Governor; Mr. Ebson Uanguta, BoN Deputy Governor; Mr. Johannes !Gawaxab, BoN Governor; H.E. Dr Hage G. Geingob, President of Namibia; H.E. Nangolo Mbumba, Vice President of Namibia; Right Hon. Saara Kuugongelwa-Amadhila, Prime Minister

H.E President Dr. Hage G. Geingob and the senior management of the Bank during his visit and engagement with the Bank's staff

Pictured at the first ever Board meeting hosted at the Oshakati Branch of the Bank are members of the Board (fltr): Mr. Titus Ndove; Ms Elina Haipinge; Mr. Ebson Uanguta, Deputy Governor; Mr. Johannes !Gawaxab, Governor; Ms. Leonie Dunn, Deputy Governor; Mr. Apollus Baisako; Ms Rika Pretorius

THOUGHT LEADERSHIP AND POLICY INTERVENTION EVENTS AND ENGAGEMENTS

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

EVENT/ENGAGEMENT

Thought leadership event: "Central Banking Digital Currencies and Virtual Assets"

PURPOSE

The Bank hosted a thought leadership event under the theme "Central Banking Digital Currencies and Virtual Assets". The discussions centered on the adoption of financial innovations within the central banking framework and examined the digital payment landscape through presentations given by leading central banks on the continent and beyond.

EVENT/ENGAGEMENT

Seminar: "Mapping Namibia's Post-COVID Economic Recovery"

PURPOSE

As part of its efforts to contribute towards crafting Namibia's economic recovery plan aimed at promoting sustainable economic growth and development, on 22 February 2022 the Bank of Namibia hosted a half-day seminar on "Mapping Namibia's Post-COVID Economic Recovery". The seminar addressed key strategies required to tackle the challenges impeding Namibia's economic recovery. It did so by bringing local and international policymakers, business leaders, experts, professionals, and academics together to provide policy recommendations on issues relevant to the country's development agenda. The seminar provided a diverse set of evidence-based solutions to revive the Namibian economy in the short to medium term. The recommendations were shared with various ministries and the Office of the President for consideration and action.

EVENT/ENGAGEMENT

Hosting of the 23rd Annual Symposium

PURPOSE

The Bank of Namibia held its 23rd Annual Symposium on 3 November 2022, under the theme: "Maximising Economic Growth from Renewable and Non-Renewable Energy Sources in Namibia".
The Annual Symposium is one of the Bank's flagship events. It brings together distinguished speakers from local and international organisations, think tanks, academic institutions, and a variety of other bodies to engage with each other and make recommendations on various topics of national interest which are in line with the country's development agenda and aspirations.

The recent oil & gas discoveries and green hydrogen considerations served as a timely backdrop for the discussion. Industry experts discussed and addressed critical challenges, benefits, and new initiatives that could boost the economic viability of these non-renewable and renewable energy resources

EVENT/ENGAGEMENT

Monetary policy announcement and dialogue

PURPOSE

The Bank of Namibia held its first monetary policy dialogue with local economists, analysts and industry experts to discuss global and domestic economic and financial trends following the monetary policy announcement in October 2022. The stakeholders joined physically and virtually to ask the Governor and members of the MPC questions related to the monetary policy decision. The discussion aimed to increase transparency and openness by improving understanding of monetary policy choices.

In addition to the dialogue, the Bank determined that the monetary policy announcement should be available in local languages to adequately serve all stakeholders. The translations, aired on the Bank's social media platforms and NBC radio stations, will enable all Namibians to understand the Bank's rationale for the decisions it makes in setting monetary policy.

EVENT/ENGAGEMENT

Launch of the Welwitschia Sovereign Wealth Fund of Namibia

PURPOSE

In a historic moment, the President of the Republic of Namibia, H.E. Dr Hage G. Geingob, launched the Welwitschia Fund on 12 May 2022. The Welwitschia Fund, Africa's newest sovereign wealth fund, was established to strengthen the nation's socioeconomic resilience to external and domestic shocks whilst promoting intergenerational prosperity for all Namibians through the distribution of wealth generated from the country's natural resource endowments. The management and administration of the Fund has been delegated to the Bank of Namibia as the Fund's primary custodian. A total of N$260 million consisting of direct seed capital from the Government and a contribution from the dividends declared by the Bank has been injected into the Welwitschia Fund. The Fund originated from seminal research conducted by the Bank which proved its feasibility, and which was accepted and approved by the Cabinet of the Republic of Namibia. The Bank is proud to be associated with the establishment of this legacy project which will benefit Namibians in years to come.

The Governor of the Bank of Namibia, Mr. Johannes !Gawaxab, the Bank's management team, Hon. Tom Alweendo, Minister of Mines and Energy, and industry experts served as panelists during the 23rd Annual Symposium.

Fltr: Ms. Leonie Dunn, BoN Deputy Governor; Ms. Valeria Mbango, BoN Deputy Director: Strategy, Projects and Transformation; Ms. Lyle Horsley, Divisional Head of the FinTech Unit at the South African Reserve Bank; Mr. Johannes !Gawaxab, BoN Governor; Ms Ancois Plaatje, Head: BoN Innovation Hub and Deputy Director of On-site Examinations; Mr. Ebson Uanguta, BoN Deputy Governor; Ms Daisy Mbazima-Lando, BoN Principal Economist: Policy Research; Mr. Kazembire Zemburuka, BoN Director: Strategic Communications and International Relations

REGIONAL AND INTERNATIONAL COOPERATION

Courtesy visit from the Governor of the National Bank of Angola

The Bank of Namibia values good bilateral relations with sister central banks to promote and solidify bilateral stakeholder cooperation and mutual learning. To this end, the Governor of the National Bank of Angola (Banco Nacional de Angola), Mr. Jose de Lima Massano, paid a visit to the Bank of Namibia between 28 and 30 June 2022. The two institutions revised their joint Memorandum of Understanding which will be signed to usher in a period of sustained cooperation between the central banks. Mr. Johannes !Gawaxab and his Angolan counterpart paid a courtesy visit to H.E. President Dr. Hage G. Geingob to brief him on the practical ways in which the renewed cooperation between the two central banks would facilitate trade and promote economic development in the two countries.

Left-to-right: Mr. Johannes !Gawaxab, Governor of the Bank of Namibia (2nd from right), Mr José de Lima Massano, Governor of Banco Nacional de Angola (centre-left) accompanied by their senior delegations, together with the President of the Republic of Namibia, H.E. President Dr. Hage G. Geingob (centre-right), and the Prime Minister of the Republic of Namibia, Right Hon. Saara Kuugongelwa-Amadhila (right)

Working Visit from the Deutsche Bundesbank

A Deutsche Bundesbank delegation led by Mr. Burkhard Balz, a member of the Deutsche Bundesbank Executive Board, undertook a working visit to the Bank of Namibia. The engagement aimed to review the cooperation framework in place between the two organisations and allow for stakeholders to exchange perspectives on issues of common interest, such as the modernisation of payment systems, digital transformation and innovation, macroeconomic research and forecasting, financial stability, and financial regulation. The central banks signed a new Memorandum of Agreement which covers training, technical assistance, and benchmarking in areas relevant to providing upskilling in core central bank competencies.

Mr. Burkhard Balz, a member of the Deutsche Bundesbank Executive Board, and Mr. Johannes !Gawaxab, Governor of the Bank of Namibia, signing the Memorandum of Agreement

Regional courtesy visits to the Bank of Ghana, the Bank of Botswana and the South African Reserve Bank

As part of building capacity and competence in central banking on the African continent, the Bank of Namibia this year explored opportunities for collaboration with sister central banks. Firstly, the Governor Johannes !Gawaxab, paid a benchmarking visit to his Ghanaian counterpart, Dr Ernest Addison, on 17 June 2022 to further strengthen ties between the two central banks and explore areas of mutual interest and cooperation. Topical issues related to financial inclusion, the modernisation of the financial system, and sovereign wealth funds featured prominently in the deliberations. A Memorandum of Understanding was signed between the Bank of Namibia and the Bank of Ghana establishing an arrangement for the exchange of information, capacity-building, and co-operation in key areas of central banking in the wake of this important visit. The Governor also paid courtesy visits to the Bank of Botswana and the South African Reserve Bank with the same objective of pursuing mutual collaboration. The discussions centered around areas of economic development and cooperation between the two sister Central Banks.

Courtesy visits to the Bank of Malta and the Bank of Switzerland

Noteworthy visits to other central banks included courtesy visits to Malta and Switzerland by the executive leadership of the Bank. These engagements are expected to yield collaboration in the areas of central bank digital currencies and banking operations, amongst others.

Mr Ebson Uanguta, BoN Deputy Governor, Prof. Edwar Scicluna, Governor of the Bank of Malta, Mr Oliver Bonello, Deputy Governor of the Bank of Malta together with their senior teams

Representing Namibia at the World Economic Forum in Davos, Switzerland

The Governor of the Bank of Namibia, Mr. Johannes !Gawaxab, attended the 2022 World Economic Forum in Davos, Switzerland. This was the first invitation the country had received to attend this prestigious event. The Namibian delegation was led by H.E. President Dr. Hage Geingob under the theme “History at a Turning Point”. The occasion was used as an opportunity for the delegates to showcase Namibia’s green hydrogen potential, attract foreign direct investment, and harness collaborative opportunities.

Cooperation with the International Monetary Fund, the World Bank Group and the Alliance for Financial Inclusion

The Bank participated in the annual meetings of the boards of governors of the International Monetary Fund (IMF) and the World Bank Group (WBG) in 2022. The Governor and senior staff members attended and actively participated in the annual meetings of the IMF and WBG that were held from 10 to 16 October 2022 in Washington D.C. 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. Specifically, the Bank attended meetings of the IMF Africa Group 1 Constituency and the African Caucus with the IMF Managing Director, the World Bank Executive Forum for Policy Makers and Senior Officials, and Commonwealth central bank governors. At its request, the Bank attended bilateral meetings with relevant departments at the IMF and WBG to discuss specific technical assistance. The key discussions centred around the challenges poorer nations face accessing capital to overcome economic crises, tackling climate change, food insecurity in sub-Saharan Africa, the Asia-Pacific's pandemic scarring, and how corruption is fuelling fragility. Furthermore, the IMF's latest World Economic Outlook was presented. This cut the 2023 growth forecast, highlighted risks to global financial stability, and dealt with topics such as debt restructuring, Europe's energy crunch and inflation expectations. In addition, the increased risk of fiscal crises amid turbulent bond markets, policies that can protect people from the cost-of-living crisis, the importance of strong state institutions for resilience, and central bank digital currencies for financial inclusion were discussed.

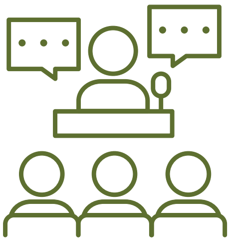
The IMF Article IV Consultation and a safeguards assessment of Namibia were carried out in 2022. The Article IV mission visited Namibia from 20 September to 4 October 2022 to discuss recent economic developments and the economic outlook for 2022 and 2023 in the context of the IMF's regular surveillance activities. In its concluding report, the Executive Directors of the IMF commended the Namibian authorities for their swift response to the Covid-19 pandemic, which helped to mitigate its impact. They however, highlighted the risks posed by deteriorating global economic conditions, although they noted that Namibia is expected to continue its gradual recovery. They emphasised the need for the continued focus of macroeconomic policies on preserving macroeconomic stability, while fostering inclusive growth to reduce high unemployment and inequality. Furthermore, the Bank underwent a safeguards assessment with respect to the drawings under the Rapid Financing Instrument approved by the IMF Executive Board in March 2021.

The Regional Technical Assistance Centre in Southern Africa offered specialised training to the Bank in 2022. The IMF offers training through the Centre, and Bank staff members attended training programmes 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. There was also ongoing technical assistance on payment systems from which the Bank is benefiting.

The key discussions centred around the challenges poorer nations face accessing capital to overcome economic crises, tackling climate change, food insecurity in sub-Saharan Africa, the Asia-Pacific's pandemic scarring, and how corruption is fuelling fragility.

As part of the World Bank's Reserves Advisory and Management Program, the Bank received specialised training in the areas of asset and risk management. For 2022, staff members of the Bank received training on applying International Financial Reporting Standards to investment portfolios, strategic asset allocation, internal audits and supervision of a central bank's foreign exchange reserves management process, and on advanced Excel techniques in applied finance. These courses aimed to equip participants with practical understanding of accounting for high-grade fixed income investment securities and derivatives, fair value measurement and internal controls, and practical knowledge with respect to International Financial Reporting Standards 9 implementation. In addition, new recruits within the reserves management function of the Bank were empowered with quantitative and technical knowledge on how to perform strategic asset allocation analyses that include a broad array of investment-grade fixed-income asset classes in multiple currencies.

The Bank further participated in the activities and programmes of the Alliance for Financial Inclusion (AFI) during the year under review. The Bank serves as a member in the various working groups of AFI, which leverages progress and lessons from AFI members and practitioners around the world, such as the Consumer Empowerment Market Conduct, Digital Financial Services, the Financial Inclusion Data Working Group, Global Standard Proportionality, Inclusive Green Finance, and SME Finance. Working group members from the Research Department, the Banking Supervisions Department, the National Payment Systems Department



The Bank continued its active participation in activities of the Association of African Central Banks, MEFMI, SADC, CMA & SACU.

and the Financial Intelligence Centre participated in the AFI working group meetings held between April and May 2022. The AFI global network through its working groups aim at shaping policies and strategies geared towards enhancing financial inclusion at global, regional and member-country levels. The Bank further attended the Annual Global Policy Forum and the 6th Annual General Meeting of the AFI co-hosted by the Central Bank of Jordan and the AFI from 5 to 8 September 2022 at the Dead Sea in Jordan.

Cooperation with the Association of African Central Banks, the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), SADC, CMA and the Southern African Customs Union.

The Bank actively participated in the activities of the Association of African Central Banks in 2022. Together with 32 central banks from Africa, Deputy Governor Leonie Dunn and officials of the Bank attended the 44th Assembly of Governors on 5 August 2022, in Banjul, The Gambia. The Governors reviewed the status of the African Monetary Cooperation Programme implementation in 2021 and discussed the revised draft Statutes and Structure of the African Monetary Institute. The Assembly of Governors session was preceded by a symposium of governors under the theme: "Digital innovations and the future of the financial sector: Opportunities and challenges for central bank digital currencies". The governors also approved the theme for the Symposium of Governors for 2023: "Recurrence of shocks and macroeconomic implications for African economies: Challenges and prospects for central banks". The Bank also took part in the activities of the Community of African Banking Supervisors and attended meetings of the their Working Group on Cross-border Banking Supervision.

The Bank attended the annual meetings of the Board of Governors of MEFMI, alongside the IMF/WBG annual meeting in 2022. 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.

Staff members have received training from MEFMI on Performance Measurement and Attribution, and have participated in a joint MEFMI/WBG regional workshop on Debt Management Performance Assessment.

As a member central bank, the Bank continued to participate in activities of the Committee of Central Bank Governors in SADC in 2022.
Bank officials attended the SADC Peer Review Panel and Committee meetings in 2022. Namibia was one of the countries that peer reviewed another member state, and the resultant peer review report was adopted at the SADC Peer Review Panel meeting. At these meetings, governors discussed economic and financial developments in the SADC region, as well as the SADC's progress towards monetary integration.

The Bank continued its active participation in CMA activities and related issues. The purpose of the CMA central bank governors' meetings was to assess recent economic developments in member countries as well as global economic developments and their potential impact on the CMA economies. In addition, the meetings discussed issues related to payment systems, exchange control, banking regulation and supervision, and financial stability. Moreover, common risks and challenges confronting CMA countries and policy options to address these risks and challenges were also discussed. The Bank also attended the CMA Commission meeting that was held in 2022.

ENHANCED CORPORATE IMAGE

The Bank of Namibia maintained its positive corporate image by strengthening and maintaining long-term relationships with various stakeholders, policymakers and opinion leaders. During the year under review, the Bank recorded 84.4 percent positive media tonality based on a systematic media analysis of news articles featuring the Bank and its activities. Events organised by the Bank continued to attract stakeholders and set the agenda in economic growth-related endeavours.

PUBLIC EDUCATION

The Bank has undertaken to raise its profile amongst the public by creating awareness of its role. The Bank's Public Education Programme continued to inform various stakeholders on issues relating to its functions, role and operational activities. To fulfill this role effectively, the Bank is in the process of implementing the approved consolidated Public Education Strategy in a phased approach over the period 2021 to 2023. The Strategy supports the Strategic Plan of the Bank aimed at enhancing the Bank's commitment to open communication and transparency in response to dynamic developments by leveraging enabling technologies and digital innovations to enhance its communication and public education capability. The Bank's public outreach activities are used to strategically position the Bank as a vital institution that contributes meaningfully to society by addressing low levels of awareness of the mandate and functions of the Bank, financial literacy, and media engagement and visibility. The Bank carried out the activities outlined below.

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 Bank in our economy. The debating challenge is meant to enable students to improve their research and critical thinking skills while increasing their knowledge and understanding of central banking. The Namibia University of Science and Technology (NUST) won the Bank of Namibia's second Tertiary Institutions Debating Challenge, taking home a cash prize of N$10 000. Participating for the first time, the International University of Management was placed second, earning N$5 000, and the University of Namibia took third prize, earning N$2 500. Ms Hilya Indongo, from the NUST, won the title of best speaker after wowing the panel of judges with her erudite debating skills and in-depth subject knowledge. She received a prize of N$2 500.

NATIONAL HIGH SCHOOL COMPETITION

The Bank's National High School Competition concluded on 29 November 2022 and saw 640 learners competing for the coveted prize. The High School Competition is the Bank's leading project targeted at educating and improving high school learners' knowledge of the central bank and its role in the economy. Endorsed by the Ministry of Education, Arts and Culture since 2006, the competition aims to create a better understanding of how decisions of the central bank impact on the daily lives of every citizen, while creating a better understanding of the structure of the Namibian economy, macroeconomic fundamentals, and financial literacy.

This quiz competition sees schools competing nationwide to outshine one another in a series of timed questions centered on central banking and the economy. The competition is comprised of a regional phase and a national phase. In the regional phase, Bank of Namibia and Ministry of Education officials facilitate the competition in the various regions. The regional winners thereafter compete for the national title during in semi-final and final phases, which takes place in Windhoek.

Over 160 schools nationwide registered with the assistance of teachers and regional education officers. Gabriel Taapopi Senior Secondary School emerged victorious as the overall winner of the competition, winning the ultimate prize of N$50 000; Suiderlig Senior Secondary School was the runner up, winning N$30 000; the third prize winner, Uukule Senior Secondary School, won N$10 000.

BoN High School Competition

Grand prize

N$50 000

Hon. Faustina Caley, Deputy Minister of Education, Arts and Culture and Ms. Leonie Dunn, BoN Deputy Governor with the first prize winners of the Bank's National High School Competition (Gabriel Taapopi Senior Secondary School) and the runners up (Suiderlig Senior Secondary School)

UNVEILING OF THE NEW BANK OF NAMIBIA WEBSITE

The Bank of Namibia unveiled its new website to stakeholders in Oshakati on 24 November 2022. The website is the Bank's prime window and public education tool which incorporates a range of features. The website adheres to global digital innovation standards and is suited to the ever-evolving digital environment. The platform's objective is to increase understanding of the central bank while driving financial inclusion amongst all Namibians by improving public access to economic and financial information. The website is mobile responsive, which will enable users to access the Bank's information across a range of devices. Key changes on the new website are the investor portal, knowledge hub and chatbots, amongst other exciting new features. In addition, the Bank's website will stand out as the country's largest repository of economic and financial data. As a result, the architecture of the website has been reorganised to prioritise information that stakeholders, including ordinary Namibians, students and researchers, require on a daily basis. The website officially went live on 12 December 2022.

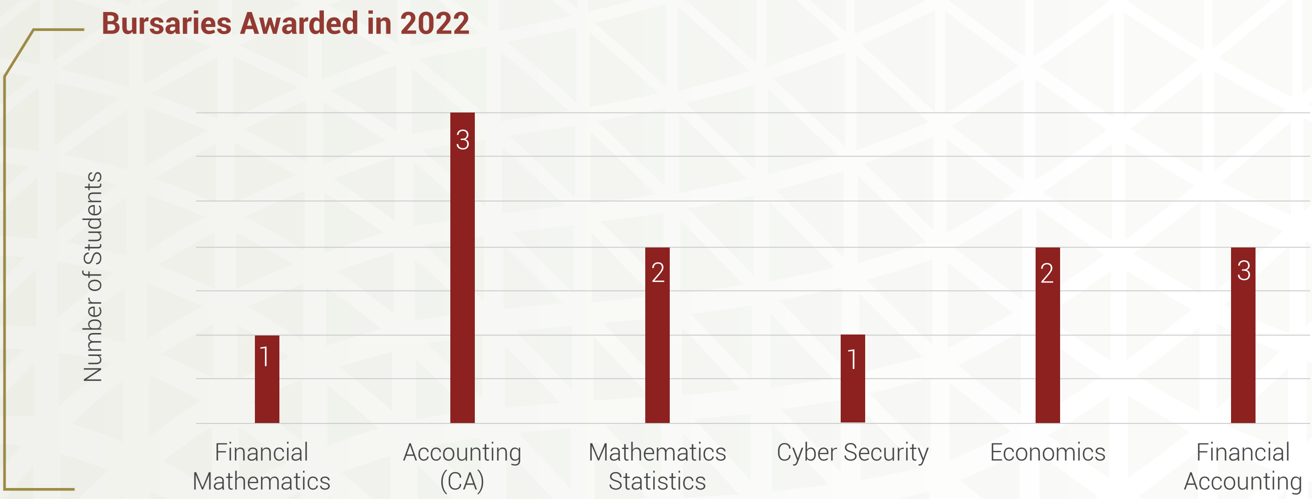
Unveiling the new Bank of Namibia website (fltr): Mr Ebson Uanguta, BoN Deputy Governor; Mr Kazembire Zemburuka, BoN Director: Strategic Communications and International Relations; Ms. Leonie Dunn, BoN Deputy Governor of the Bank of Namibia

CORPORATE SOCIAL INVESTMENT AND RESPONSIBILITY

As a responsible corporate citizen, the Bank places Corporate Social Responsibility and Investment at the heart of its interactions with stakeholders. During the year under review, the Bank sponsored various activities. The sponsorships were targeted at various institutions and initiatives that demonstrated the potential to contribute to the attainment of Namibia's developmental, economic, and social empowerment goals.

As part of its social responsibility, the Bank continues to sponsor students through its bursary scheme. In 2022, a total of 12 bursaries were awarded to students to enable them to embark on undergraduate studies at various local and regional universities.

Figure A.5



Some of our students who were awarded undergraduate bursaries pictured with the Deputy Governor, Mr Ebson Uanguta, and the Human Resources Director, Dr Lea Namoloh

The cooperation with the British High Commission to co-fund two Chevening bursaries per annum continued. So far, five Namibian students have been awarded post-graduate bursaries through the scheme to study at top United Kingdom universities in the fields of Banking, Finance, Economics, and Cyber Security.

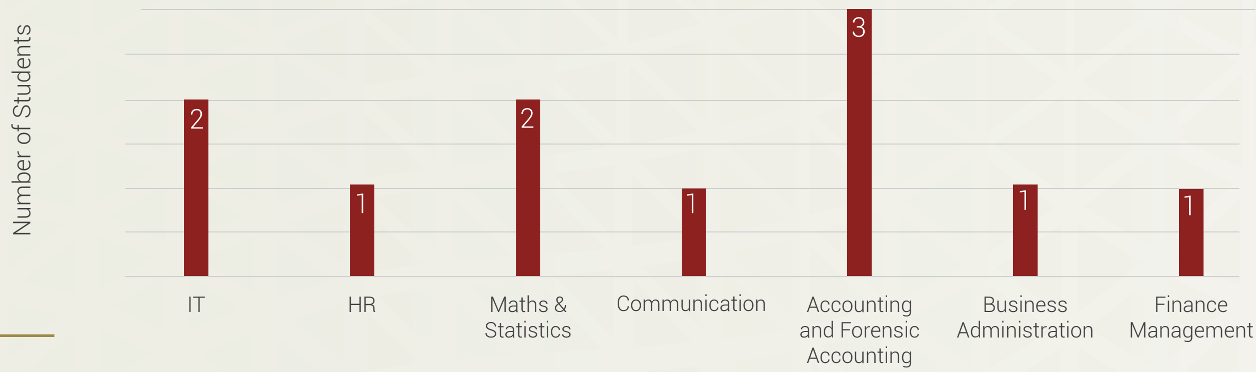
GRADUATE ACCELERATED PROGRAMME

The Bank continued to support young Namibian graduates in gaining experiential learning by exposing them to the real world of work through our Graduate Accelerated Programme. In 2022, the Bank offered opportunities to seven new graduates from various local and international universities to rotate on a six-monthly basis across the core departments.

The Bank also provided internship opportunities for work-integrated learning to 11 students in their final year of studies for various qualifications. The students were assigned to different departments across the Bank.

Figure A.6

Internships Completed



The graduates pictured here with the Governor of the Bank of Namibia, Mr Johannes !Gawaxab, Deputy Governor, Mr Ebson Uanguta, and Deputy Governor, Ms Leonie Dunn

PILLAR 3

TALENT AND TRANSFORMATION PILLAR

KEY STRATEGY 1 ✔	KEY STRATEGY 2 ✔	KEY STRATEGY 3 ✔
PROMOTE POTENTIAL THROUGH TALENT TRANSFORMATION AND BE AN EMPLOYER OF CHOICE • 95% of talent acquired within 45 days • 95% critical and talented employees retained	**FUTURE-FIT CAPACITY BUILDING** Future skills identified and defined as core, enabling and digital skills	**PROMOTE A STAFF CULTURE OF INTEGRITY, AGILITY, EXCELLENCE AND HIGH PERFORMANCE** Culture Renovation Strategy developed and Culture Statement launched

✔ = target met

STAFF COMPLEMENT

A staff complement of 360 positions was approved for the 2022 budget year, which includes 32 Financial Intelligence Centre positions. The actual staff headcount at the end of December 2022 was 337 employees, representing a 93.6% staff strength level. The Bank experienced a total staff turnover rate of 3.58% at the end of December 2022, which is well below the industry turnover of 8.20%. Twelve voluntary exits were recorded during the past twelve months, of which four were regrettable exits (loss of critical skills). It is worth noting that a balanced workforce profile exists in terms of gender and generational representation, which contributes to the diverse and healthy team dynamics in the Bank.

Figure A.7
Staff complement and turnover

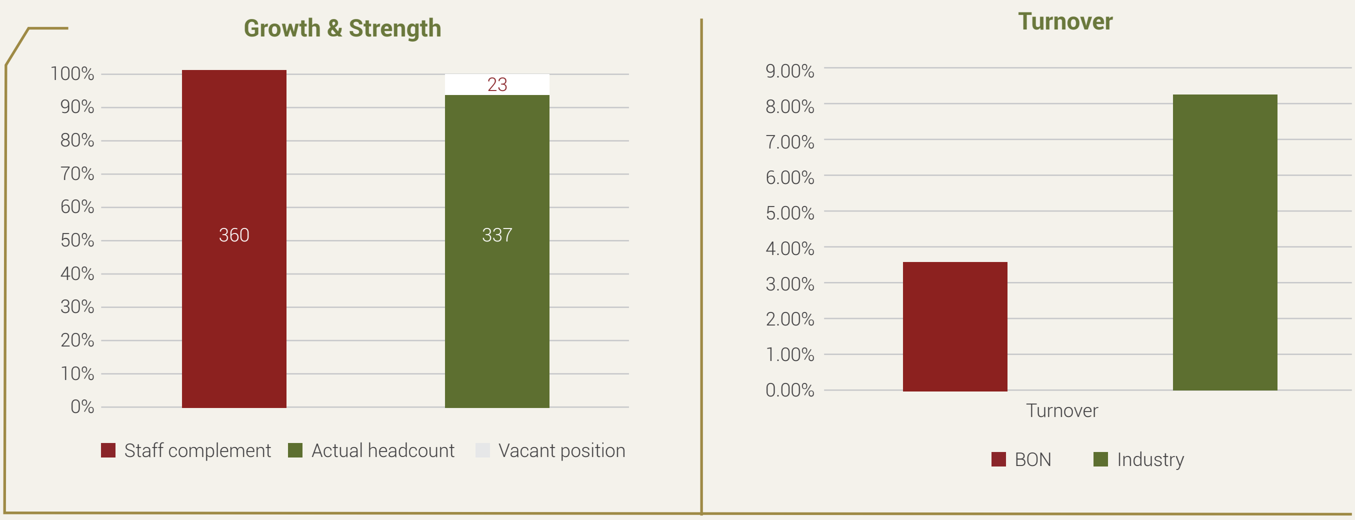
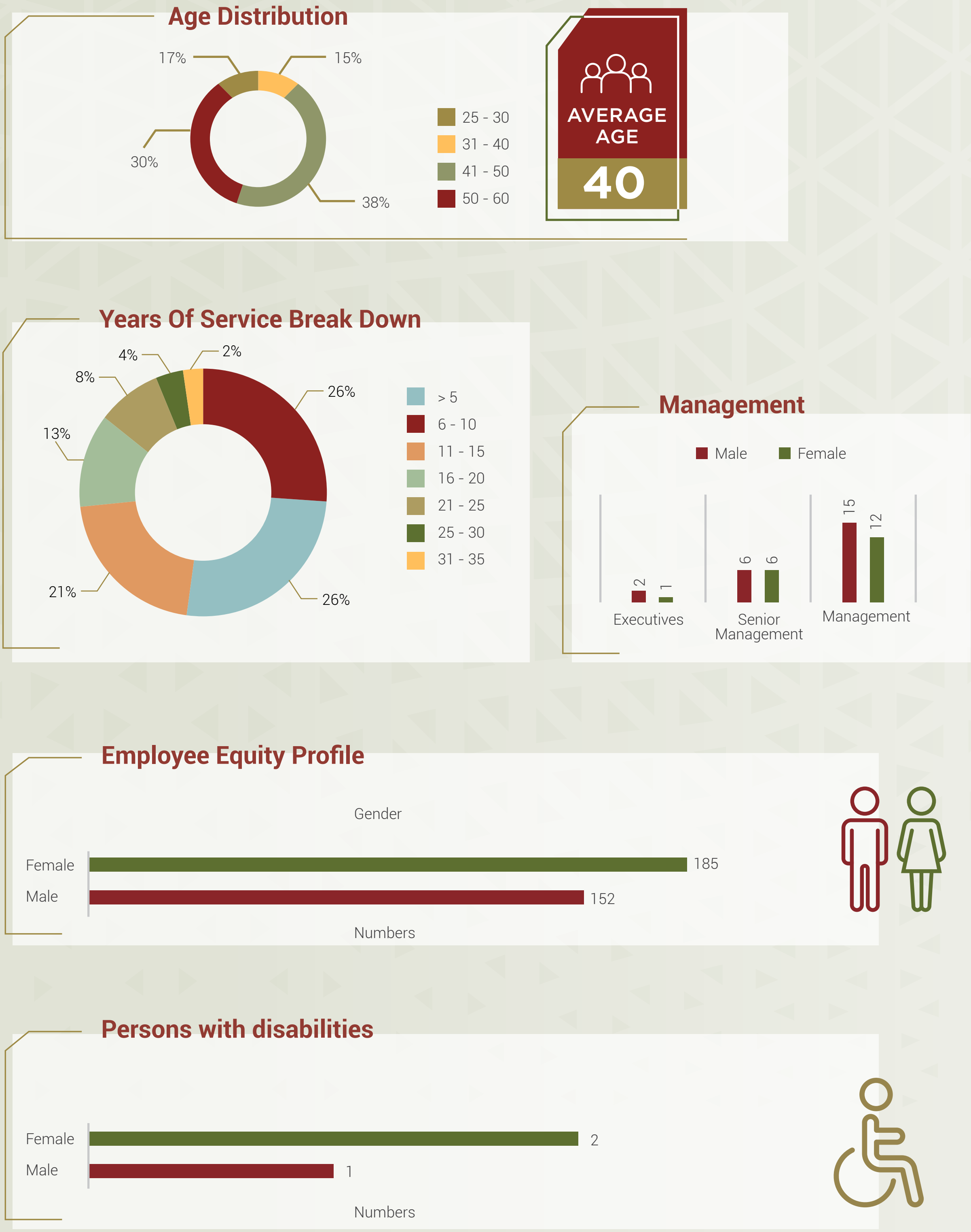


Figure A.8
Employee Statistics



EMPLOYEE RELATIONS

The Bank maintains good employee relations through constructive and mature engagements with employees and the Employee Liaison Forum (ELF). The agreement between the Bank and the recognised union representatives NAFINU (the Namibian Financial Institutions Union) is currently suspended due to there being fewer members in the bargaining unit. Membership of 50% + 1 is required for the agreement to be reinstated.

EMPLOYEE VALUE PROPOSITION (REMUNERATION, REWARD AND RECOGNITION)

As part of the Bank's efforts to encourage excellent staff performance and foster adherence to corporate values, the human resources department has reflected on the current benefits offered to employees. The strategy was informed by various literature sources, benchmark studies and surveys such as the Exit and Stayed interviews and the Employee Engagement survey that was conducted. The Remuneration benefits of the Bank are reviewed annually to ensure the Bank continues to attract and retain talented individuals.

EMPLOYEE WELLBEING

The Bank's Employee Wellness Programme aims to promote a healthy workforce, and thereby to enable consistent and uninterrupted work performance. During the period under review, 14 Covid-19 cases were reported, which brought the total number of staff that have contracted Covid-19 in the Bank to date to 113 since the outbreak of the pandemic. The Bank continues to provide the necessary support and to disseminate Covid-19-related information.

During April 2022, a wellbeing survey was conducted to assess the status of employee wellbeing within the Bank, and to identify areas in which improvement could be made in the Wellness Programme. The results of this survey enabled the Bank to develop a holistic Wellbeing Strategy that is responsive to the issues that were raised, and which focuses on three pillars, i.e., mental, physical and financial wellbeing. Interventions include psychological wellbeing sessions, trauma counselling, onsite physical health screening, financial wellbeing sessions and ongoing dissemination of wellbeing information.

LEARNING AND DEVELOPMENT

Efforts aimed at ensuring continuous development for all employees remain a key priority for the Bank. The aim is to ensure that employees deepen their technical and leadership skills to better enable the Bank to achieve its strategic objectives. To ensure a future-fit workforce that can thrive in the constantly changing, digitally transformed work environment, the Bank defined future skills that are focused on problem solving, self-management, working with people, and the use of digital systems and technology.

The limitations experienced in attending face-to-face training due to Covid-19 restrictions over the past two years provided an opportunity for the Bank to consider strengthening blended learning approaches. Online learning platforms were leveraged, which allowed for self-paced and just-in-time learning. The Bank continued to collaborate with institutions such as MEFMI, the African Training Institute, the IMF, Afritac South, the World Bank, the Bank of Finland, the SADC Banking Association, and Bundesbank to strengthen core central banking skills. During the period under review, a total of 251 employees benefitted from various training interventions.

STAFF GRADUATE RECOGNITION

The Governor of the Bank of Namibia, Mr. Johannes !Gawaxab, commended the bank's staff who attained their bachelor's, master's and doctoral qualifications during the 2020–2022 period. The Governor used the opportunity to highlight the Bank's commitment to being an entity that builds capacity and promotes employee recognition. The recognised staff members who received funding to study at various universities locally and internationally were drawn from across the Bank. A handful received external scholarships through Namibia's international cooperation. They graduated in fields relevant to the functions of the Bank, and widened their expertise in the areas of banking, finance, information technology, economics, accounting, and leadership. The qualifications obtained range from undergraduate to PhD degrees, and the universities studied at include George Washington University, Peking University, the University of Stellenbosch, the University of the Western Cape, and the University of Namibia, amongst others.

BoN Governor, Mr. Johannes !Gawaxab, Deputy Governor Mr Ebson Uanguta, and Deputy Governor Ms Leonie Dunn, together with the graduates

CULTURE TRANSFORMATION

The Bank's new strategic plan provided a compelling reason for the Bank to reflect on its current culture to enable the execution of the strategy. The culture transformation journey of the Bank started off with the adoption of a roadmap that included three phases: a planning phase to set the roadmap for change; a building phase focusing on implementing change; and a maintaining phase to focus on maintaining change and monitoring progress. As part of the planning phase, leadership sessions, employee focus group sessions and an engagement survey were conducted to understand how employees experienced the current culture, and to define what the desired culture should be to drive the new strategy. The Bank's culture was defined as ACT: Embracing "Agility, Collaboration and Trust". The Culture Statement was launched on 28 October 2022 where all employees were encouraged to align behaviours to the defined culture of the Bank to ensure the achievement of the Bank's strategy and to contribute to a prosperous Namibia.

The BoN Governor, Mr Johannes !Gawaxab, with the two Deputy Governors.

A group of employees at the Culture Statement launch event

PILLAR 4

FUTURE-FIT ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS PILLAR

KEY STRATEGY 1

EFFECTIVE AND PRO-ACTIVE RISK MANAGEMENT

Audit and risk completed within the required time
75% complete within three months
99.8% cure rate

KEY STRATEGY 2

ENHANCE OPERATIONAL CAPABILITY AND VALUE MAXIMISATION

- Future skills identified and defined as core, enabling and digital skills
- 100% execution of compliance awareness plan

KEY STRATEGY 3

DELIVER RESPONSIVE AND INNOVATIVE SOLUTIONS AND ADOPT DATA-DRIVEN SOLUTIONS AND DECISION-MAKING

- Business process automated and IT Infrastructure modernised
- Intelligent enterprise established
- The Bank achieved a 99.80% IT systems uptime

✓ = target met ☐ = target partially met

RISK MANAGEMENT AND ASSURANCE

ENTERPRISE RISK MANAGEMENT FRAMEWORK

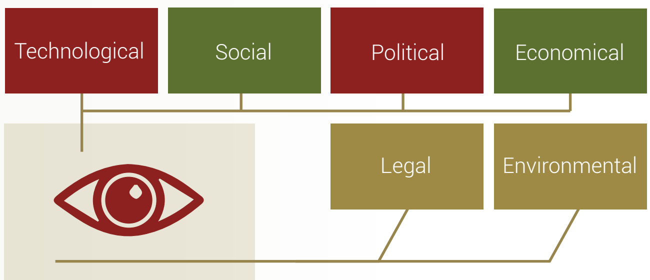
The Bank's Enterprise Risk Management Framework provides the governance structure and approach for our risk management discipline and guidance on instilling an effective risk culture. It establishes the Bank's risk management universe, structure, policies, and processes. The Risk Management and Assurance Division (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 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, measured, managed and monitored, and maintaining governance. The Board oversees risk strategy execution, approves risk appetite, 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. While bearing in mind past risk events, a forward-thinking approach encourages healthy risk discussions during these meetings.

Figure A.10
Emerging Risks



The Bank scans the horizon for new emerging risks that it could be exposed to. These risks could arise from a dynamic external environment or incidents beyond the Bank's control. Emerging risks for the Bank include rising inflation, geopolitical tensions, climatic impacts, increased cyber attacks, and mental instability.

KEY RISK MANAGEMENT ACHIEVEMENTS

- Continuous monitoring of the Bank's top risks was performed.
- An annual Risk Assessment was conducted and the Bank's top risks were revised.
- 21 risk incidents were reported, compared to 44 during 2021.
- The Bank saw an improvement in staff's understanding of the purpose of Risk Appetite and Tolerance levels and Key Risk Indicators; data assisted in performing fundamental risk trend analysis.

  An ethics risk assessment was completed and ethics risk profiles are in place, with three-year implementation plans defined.
- The Risk Appetite and Tolerance analysis was reviewed and approved by the Board. The Risk Management Committee's terms of reference were reviewed to align with best practices per the periodic review, and approved by the Audit Committee.

CROSS-CUTTING RISKS

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

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 an extreme disruption.

During the Covid-19 pandemic period, the Bank's crisis management plans were put to the test and proved to be effective and agile. In 2022, the Bank continued with a hybrid working arrangement in line with the new working practices which became widespread post-Covid-19. Although the Bank anticipates an increase in staff working from the office, working styles are unlikely to return to pre-COVID norms as we implement the telecommuting/ flexible working arrangement policy.

COMPLIANCE MANAGEMENT

The compliance function contributes to developing a culture that values compliance risk identification, assessment, management, monitoring, and reporting as part of the Bank's ongoing activities. The compliance function also collaborates with policy owners and other areas of the Bank to ensure that all applicable laws and regulations, internal policies, and procedures are followed and accessible, and that appropriate controls support them.

There is an updated compliance universe in place. For the compliance section reviewed, there were no significant non-compliance issues reported during the period under review. Policy user awareness remains an integral part within the Bank. As a result, 92% of the planned departmental awareness has been fully executed.

ETHICS

The working environment at the Bank necessitates high ethical standards. Our rules apply equally to all employees, irrespective of their position. Our business activities and relations with stakeholders are infused with ethical practices. 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 information about improper behaviour and/or any violation of the Bank's Code of Ethics and Code of Conduct, as well as relevant laws, policies, and procedures involving staff members at all levels.

An independent external hotline service (Deloitte Tip-offs Anonymous) was established during 2022. The service allows whistle-blowers to report wrongdoing related to the Bank of Namibia's business, while guaranteeing employees and the public anonymity if desired. Up to the end of 2022 there were no tip-offs reported. There was one call reported relating to another institution's normal business operation.

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 2022 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.

INTERNAL AUDIT KEY ACHIEVEMENTS

The Audit division successfully completed 100% of the 2022 audit plan. As per the completed assignments, sufficient audit coverage was achieved that enabled 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 of improvement were identified, and management has initiated action to improve the control environment with implementation timelines that are tracked by the audit division. The cure rate result for December 2022 was 97 percent (2021: 99.8 percent), which is below the target of 100 percent.

LEGAL AFFAIRS AND REPUTATIONAL RISK

The Legal Services Division is responsible for managing the legal affairs of the Bank. The Division also provides secretarial services to the Board of the Bank of Namibia. During 2022, the Division managed and coordinated 18 cases, the majority being regulatory cases in the Supreme Court and the High Court of Namibia. A total of five cases were finalised and the Bank was represented by its appointed legal panel consisting of three separate legal firms.

INFORMATION TECHNOLOGY

IT Governance

Information Technology (IT) is an enabler in achieving the Bank's objectives. The Bank's strategy demands transformation to digital services. IT is fundamental in taking advantage of capabilities offered by various technologies and enabling the bank to exploit previously inaccessible opportunities. Through its stakeholder-driven Master Plan, the IT function was able to upskill its workforce to support newly deployed automation and data analytics platforms, and further developed a digitally focused IT governance framework to align with the Bank's Strategy. The IT function continues to invest in innovative technologies while applying controls to ensure compliance.

IT security

The Bank approved its three-year Cyber Security Plan (2022 - 2024), aligned with its strategic plan to serve as a roadmap for establishing and improving security practices to meet evolving security challenges. The new plan is built on a solid framework that incorporates controls defined by international standards, such as the Federal Financial Institutions Examination Council (FFIEC), Control Objectives for Information and Related Technologies (COBIT), and the National Institute of Standards and Technology (NIST). The controls are regularly tested, including the Cyber Incident Response Plan, that was successfully tested in the period under review. The weaknesses identified were addressed to improve the cyber security controls and response times.

The Security Operations Centre is fully operational with a dedicated team focused on protecting, detecting, and responding to cyber security threats. As part of its operations, new standard operating procedures were developed and implemented this year, namely:

- vulnerability management, which identifies vulnerabilities and prioritises their remediations to improve systems security;
- incident playbooks, which provide detailed steps for responding to and resolving specific security incidents; and
- configuration management, to ensure secure that baseline configurations are applied to all information systems in line with IT security policies and best practices.

Vulnerability Management
Identifies vulnerabilities and prioritises their remediations to improve security

Incident Playbook
Provides detailed steps for responding to and resolving specific security incidents

Configuration Management
Ensure secure baseline configurations are applied to all information systems in line with IT security policies and best practices

IT Business System Investments

The Bank invested in systems and platforms to support digitisation for increased operational efficiency. In pursuit of its digital transformation strategy, platforms for data analytics and Robotic Process Automation capabilities were successfully deployed within the Bank. Some business units have already started to realise the benefits in terms of time and efficiency gains due to end-to-end digitalisation and automation of some business processes, and the use of data-driven insights. These new platforms enabled the development of bots, including the chatbot which is integrated with the Bank's newly revamped interactive website.

The Bank launched a modern intranet to promote better communication and connect employees with work-related information, thereby simultaneously achieving employee engagement. The new intranet has elevated navigation with enhanced versatility to guarantee an outstanding user experience of finding information quickly, effortless collaboration, and enhanced sharing capabilities for a streamlined user experience. It is built on technology that fosters innovation through real-time interactivity and rich data insights.

Technology infrastructure

IT infrastructure remained stable while enabling flexible working practices, supporting a hybrid model and telecommuting policy. The Bank achieved a 99.8% IT systems uptime during the year under review, with only 0.2% downtime experienced. The recorded downtime resulted from internal technical changes but did not impact any business operations due to the infrastructure's resilience and early-warning mechanisms that alerted the team of the need to respond promptly.

A cloud computing policy was approved to address cyber security and control objective needs as the Bank continues to leverage cloud computing technology. The policy presents additional opportunities for innovation and agility with a simplified technology landscape while supporting the Bank's transformation strategy. This has also enabled the Bank to successfully pilot DaaS (Desktop as a Service) and assess various cloud architectures to understand costs and associated risks.

IT Infrastructure Availability

↑ **99.8%** IT infrastructure Systems uptime 2022

↓ **0.2%** IT infrastructure Systems downtime 2022

Cloud Computing Policy approved	Control Objectives
Address Cyber Security	Leverage Cloud Computing Technologies

FIVE YEAR HISTORICAL FINANCIAL OVERVIEW

Table A. 10:
Balance Sheet Comparisons, 2022-2018 - N$'000

ASSETS	31-Dec-22	31-Dec-21 *Restated	31-Dec-20	31-Dec-19	31-Dec-18
Investments	43 771 048	39 871 827	31 654 662	28 905 678	30 951 757
Loans and advances - local banks	6 093	1 456	1 040 782	1 746 376	1 839 118
Currency inventory	81 038	90 100	84 895	98 646	43 870
Rand deposits	159 704	70 014	45 337	89 727	68 526
Other receivables	7 913 980	7 653 445	5 288 750	4 265 239	3 893 707
Loans and advances – other	115 423	112 518	99 582	151 130	123 888
Investment in associate	-	-	-	-	-
Other inventory – stationery and spares	4 806	4 742	4 881	4 584	4 337
Property and equipment	268 638	278 240	284 287	288 584	299 150
Intangible assets	38 405	40 562	21 483	10 177	3 697
TOTAL ASSETS	**52 359 135**	**48 122 904**	**38 524 659**	**35 560 141**	**37 228 050**
LIABILITIES					
Deposits	36 591 583	32 800 835	24 147 300	21 822 910	23 946 257
Trade and other payables	88 761	99 077	110 901	128 189	178 249
Notes and coins in circulation	4 873 869	4 759 436	4 711 567	4 518 207	4 521 178
Provision for post-employment benefits	71 041	69 098	64 957	60 569	68 195
TOTAL LIABILITIES	**41 625 254**	**37 728 446**	**29 034 725**	**26 529 875**	**28 713 879**
CAPITAL AND RESERVES					
Share capital	40 000	40 000	40 000	40 000	40 000
General reserve	3 010 484	2 741 385	2 463 986	2 160 111	1 800 506
Foreign currency revaluation reserve	7 631 685	7 002 208	6 200 558	6 112 300	6 271 690
Training fund reserve	19 279	16 179	16 179	13 479	12 764
State revenue fund	413 700	413 700	278 198	399 941	294 237
Development reserve	184 424	95 986	114 402	166 702	97 402
Building fund reserve	83 300	85 000	85 000	85 000	65 000
Investment revaluation reserve	(648 991)	-	291 611	52 733	(67 428)
TOTAL CAPITAL AND RESERVES	**10 733 881**	**10 394 458**	**9 489 934**	**9 030 266**	**8 514 171**
TOTAL LIABILITIES, CAPITAL AND RESERVES	**52 359 135**	**48 122 904**	**38 524 659**	**35 560 141**	**37 228 050**

* The Other receivables and Deposit balances were restated to derecognise the IMF Rapid Financing Instrument (RFI) of N$4 733 326 due to the Government of the Republic of Namibia which was incorrectly recognised in the 2021 Annual Financial Statements. See note 2 of the financial statements for more information. The restatement did not impact any of the other prior years disclosed.

Table A.11:
Income Statement Comparisons, 2022–2018 – N$'000

	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19	31-Dec-18
Interest income	740 023	547 330	638 676	850 862	828 371
Interest expense	(185 477)	(79 063)	(105 011)	(208 193)	(283 372)
NET INTEREST INCOME	**554 546**	**468 267**	**533 665**	**642 669**	**544 999**
Net other interest income	-	-	-	-	-
Rand compensation income	578 000	505 628	499 787	407 594	401 963
Dividend income	5 025	-	-	-	-
Other income	36 162	43 237	18 294	37 849	53 116
TOTAL INCOME	**1 173 733**	**1 017 132**	**1 051 746**	**1 088 112**	**1 000 078**
Operating expenses	(522 504)	(432 933)	(514 928)	(359 023)	(449 414)
OPERATING PROFIT	**651 229**	**584 199**	**536 818**	**729 089**	**550 664**
Net foreign exchange translation gain/(loss)	629 477	801 650	88 258	(159 390)	1 251 559
Unrealised losses on equity instruments	(15 123)	-	-	-	-
Realised foreign exchange gains on FEC's	56 599	151 656	(4 345)	106 174	19 688
PROFIT FOR THE YEAR	**1 322 182**	**1 537 505**	**620 731**	**675 873**	**1 821 911**
OTHER COMPREHENSIVE (LOSSES)/INCOME	**(544 428)**	**(392 450)**	**238 878**	**134 459**	**1 643**
Unrealised (losses)/gains on investment portfolio	(572 358)	(366 157)	238 878	115 836	-
Allowance for credit losses reversals/(losses)-FVTOCI instruments	24 631	(20 009)	-	4 325	1 643
Actuarial gains/(losses) on post – employment benefits	3 299	(6 284)	-	14 298	-
TOTAL COMPREHENSIVE INCOME	**777 754**	**1 145 055**	**859 609**	**810 322**	**1 823 554**
Foreign currency revaluation reserve	(629 477)	(801 650)	(88 258)	159 390	(1 251 559)
Investment revaluation reserve	587 481	366 157	(238 878)	(115 836)	56 766
Allowance for credit losses	-	(20 009)	-	(4 325)	(1 643)
Distribution adj. on unrealised losses	36 879	(36 879)	-	-	-
NET INCOME AVAILABLE FOR DISTRIBUTION	**772 637**	**672 683**	**532 473**	**849 561**	**627 118**
APPROPRIATIONS:	**772 637**	**672 683**	**532 473**	**849 561**	**627 118**
General reserve	253 937	258 983	251 575	357 463	262 881
Building fund reserve	-	-	-	20 000	20 000
Training fund Reserve	5 000	-	2 700	2 157	-
Development fund reserve	100 000	-	-	70 000	50 000
State revenue fund	413 700	413 700	278 198	399 941	294 237

PART B

Macroeconomic Review

CONTENT

SUMMARY OF GLOBAL AND DOMESTIC ECONOMIC AND FINANCIAL DEVELOPMENTS

The global GDP growth rate is estimated to have slowed in 2022 compared to 2021, amid rising global inflation and the disruptive effects of the Russia-Ukraine war. The growth rate for the global GDP slowed from 6.2 percent in 2021 to 3.4 percent in 2022, partly because of the Russia-Ukraine war that resulted in supply disruptions and high inflation, with the lingering Covid-19 pandemic also resulting in further lockdown-related supply disruptions in China. Economic growth slowed in 2022 across Advanced Economies (AEs), Emerging Market and Developing Economies (EMDEs) and Sub-Saharan Africa (SSA). For 2023, global economic growth is expected to slow further to 2.9 percent, with major risks being monetary policy miscalculation of the right stance to reduce inflation, renewed rises in energy and food prices, and further escalation of geopolitical tension and conflict.

Inflation rose significantly in 2022, and this triggered the majority of monitored central banks to embark on an accelerated path of monetary policy tightening to tame the rising inflation. Inflation increased in both the AEs and EMDEs, mainly reflecting rising commodity prices and global supply shortages. In response to the elevated inflation, most of the monitored central banks raised their policy rates. Exceptions were Japan, which kept its policy rates unchanged, while Russia and China cut their policy rates.

The stock and commodity markets ended 2022 on a negative note, mainly due to skyrocketing inflation, and aggressively rising interest rates. Slow growth in the global economy, underpinned by supply shortages and increased demand as well as rapidly tightening monetary conditions across the globe, also contributed to the weak performance in the markets. Furthermore, geopolitical tensions and the emergence of the Omicron Covid subvariant, XBB.1.5, added to investor uncertainty in the financial markets, contributing further to the relatively poor performance.

Overall inflation rose from 3.6 percent in 2021 to an average of 6.1 percent in 2022, thereby eroding consumers' purchasing power.

The domestic economy built up further growth momentum during 2022, on the back of improved economic activity across all three main industry groupings. Growth in the economy accelerated to 4.6 percent in 2022 from 3.5 percent in 2021. The higher economic growth mainly emanated from improved economic activity across all industries, but was more pronounced in primary industry. On the demand side, the improvement in economic growth for 2022 was underpinned by higher consumption expenditure, as well as private and government investment.

Namibia's consumer price inflation increased during 2022 compared to the previous year, exerting upward pressure on the cost of living. Overall inflation rose from 3.6 percent to an average of 6.1 percent during the period under review, thereby eroding consumers' purchasing power. The elevated inflation was predominantly driven by transport inflation on account of high international oil prices, aggravated by exchange rate depreciation. In addition, inflation for food and non-alcoholic beverages as well as housing, water, electricity, gas and other fuels accelerated in 2022, contributing to higher overall inflation.

Growth in broad money supply (M2) and in credit extension remained subdued in 2022, falling well below the current inflation rate, although growth in Private Sector Credit Extension (PSCE) edged higher over the period. Growth in M2 posted an average of 2.7 percent in 2022, maintaining the same rate as in 2021. The growth in PSCE improved to an average annual rate of 3.6 percent in 2022, from 2.4 percent recorded in 2021. The improvement was the result of increased demand for credit by businesses, particularly corporates in the mining, transport and services sectors.

Central Government's budget deficit narrowed during the financial year (FY)2022/23, while debt continued to rise over the period. The narrowing of the deficit to an estimated 5.2 percent of GDP is ascribed to an increase in revenue collection. This was owing to increases in income tax on individuals, and diamond mining and non-mining companies, coupled with dividends declared by public enterprises. Government expenditure also rose, but at a slower pace in relation to revenue. The increase in expenditure reflected the 3.0 percent increase in civil servants' salaries, rising costs of utilities and general inflationary pressures. Fuelled by the deficit, the debt stock of the Central Government rose further in the year to the end of December 2022 and remained above the SADC benchmark of 60 percent of GDP.

Namibia's current account deficit widened in 2022 compared to 2021, but financial account inflows were adequate to offset it and enable the stock of international reserves to rise over the period. The current account deficit as a percentage of GDP widened to 12.3 percent in 2022 from 9.9 percent in 2021 due to a significant increase in the merchandise trade deficit, lower secondary income inflows as well as higher outflows in the primary income account. The financial account inflows were sufficient to counter the deficit on the current account and allow the stock of international reserves to rise on an annual basis by 8.4 percent to settle at N$47.6 billion at the end of December 2022. The foreign reserves translated into import cover of 5.7 months, higher than the 5.6 months reported a year earlier. In terms of competitiveness, the Real Effective Exchange Rate (REER) depreciated slightly on an annual basis, signaling a moderate gain in the competitiveness of Namibia's products in international markets.

GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

Table B.1

World economic output (annual percentage change)

Real GDP growth, (%)	IMF WEO Jan-23 Update				Difference from Oct-22 WEO Projections		World Bank Jan-2023		Differences from June 2022 Projections	
	2021	2022 (E)	2023 (F)	2024 (F)	2023 (F)	2024 (F)	2023 (F)	2024 (F)	2025 (F)	2026 (F)
World	6.2	3.4	2.9	3.1	0.2	-0.1	1.7	2.7	-1.3	-0.3
AEs	5.4	2.7	1.2	1.4	0.1	-0.2	0.5	1.6	-1.7	-0.3
USA	5.9	2.0	1.4	1.0	0.4	-0.2	0.5	1.6	-1.9	-0.4
Euro Area	5.3	3.5	0.7	1.6	0.2	-0.2	0.0	1.6	-1.9	-0.3
Japan	2.1	1.4	1.8	0.9	0.2	-0.4	1.0	0.7	-0.3	0.1
UK	7.6	4.1	-0.6	0.9	-0.9	0.3	n/a	n/a	n/a	n/a
EMDEs	6.7	3.9	4.0	4.2	0.3	-0.1	3.4	4.1	-0.8	-0.3
China	8.4	3.0	5.2	4.5	0.8	0.0	4.3	5.0	-0.9	-0.1
Russia	4.7	-2.2	0.3	2.1	2.6	0.6	-3.3	1.6	-1.3	-0.6
India	8.7	6.8	6.1	6.8	0.0	0.0	6.6	6.1	-0.5	-0.4
Brazil	5.0	3.1	1.2	1.5	0.2	-0.4	0.8	2.0	0.0	0.0
SSA	4.7	3.8	3.8	4.1	0.1	0.0	3.6	3.9	-0.2	-0.1
Angola	1.1	2.8	3.5	3.3	-0.2	0.5	2.8	2.9	-0.5	-0.3
South Africa	4.9	2.6	1.2	1.3	0.1	0.0	1.4	1.8	-0.1	0.0
Nigeria	3.6	3.0	3.2	2.9	0.2	0.0	2.9	2.9	-0.3	-0.3

Source: IMF World Economic Outlook (WEO) Update, January 2023; WEO, October 2022; World Bank January 2023 GED

Global economic growth slowed

6.2% ↓ 3.4%

2021 2022

The global economy recorded slower growth in 2022 as it faced rising inflation and an associated tightening in financial conditions worldwide, acute energy shortages, and uncertainty around the ongoing war in Ukraine. Global economic growth slowed to 3.4 percent in 2022 from 6.2 percent in 2021 (Table B.1), amid rising global oil prices, the effects of the Russia-Ukraine war, and supply disruptions that impacted all monitored economies. In the AEs, the slowdown was mainly due to rising policy rates, resulting in tighter financial conditions, while in EMDEs the hold up was largely ascribed to China's frequent lockdowns under its Zero Covid-19 Policy and the real estate sector crisis. The Russia-Ukraine war continued to destabilise the global economy and has led to a severe energy crisis.

GDP growth in AEs slowed in 2022, partly due to rising policy rates. In the United States of America (USA), output growth declined to 2.0 percent in 2022 from 5.9 percent in 2021, as higher interest rates continued to take a toll on consumer spending (Table B.1). Similarly, Euro Area growth slowed down to 3.5 percent during the same period from 5.3 percent in 2021, largely owing to high energy prices, coupled with rising interest rates. Furthermore, growth in Japan's economic activity slowed to 1.4 percent 2022, compared to 2.1 percent recorded in the previous year, as consumption weakened due to increasing inflation. Growth in the UK economy slowed down to 4.1 percent in 2022 from 7.6 percent in the previous year due to similar developments in household consumption and business investment, and stalling government expenditure.

Real GDP in EMDEs also slowed down in 2022 compared to 2021, driven by a contraction in the Russian economy and a significant slowdown in the Chinese economy. The EMDEs GDP output growth weakened to 3.9 percent in 2022 compared to 6.7 percent in the previous year, led by a significant slowdown in China's GDP growth rate and a switch to negative growth in Russia (Table B.1). The Chinese GDP growth rate slowed to 3.0 percent in 2022 compared to 8.4 percent in the previous year, chiefly due to the lingering Covid-19 pandemic and the property market crisis which continued to impede economic activity. India's GDP growth slowed to 6.8 percent in 2022 from 8.7 percent in 2021, partly due to declining growth in major trading partners such as China and the USA. In the worst-case development, Russia's GDP contracted by 2.2 percent in 2022 compared to a positive growth rate of 4.7 percent recorded in the previous year, as the economy continued to suffer from sanctions from Western states in retaliation for its invasion of Ukraine in February 2022.

The GDP growth rate of SSA also declined in 2022 partly due to weak economic activity in major trading partners. The South African economy recorded a lower growth rate of 2.6 percent in 2022 compared to 4.9 percent in the previous year, owing to devastating floods in KwaZulu-Natal and intense power rationing that had a negative impact on many industries, alongside tighter monetary policies. Similarly, the Nigerian economy pencilled in a lower growth rate of 3.0 percent in 2022 compared to 3.6 percent in 2021, mainly due to weak economic activity in major trading partners (USA, China, etc), and tighter monetary conditions emanating from efforts aimed at stabilising inflation. In addition, softer growth in the non-oil sector and shrinking of the oil sector as reflected in lower oil output also contributed to the weak performance. However, the Angolan economy recorded a stronger growth rate of 2.8 percent in 2022 compared to 1.1 percent in the previous year, which is reflective of a higher-than-expected rally in oil prices, which averaged about US$100 per barrel in 2022.

Global GDP growth rate is expected to slow

3.4% ↓ 2.9%

2022 2023

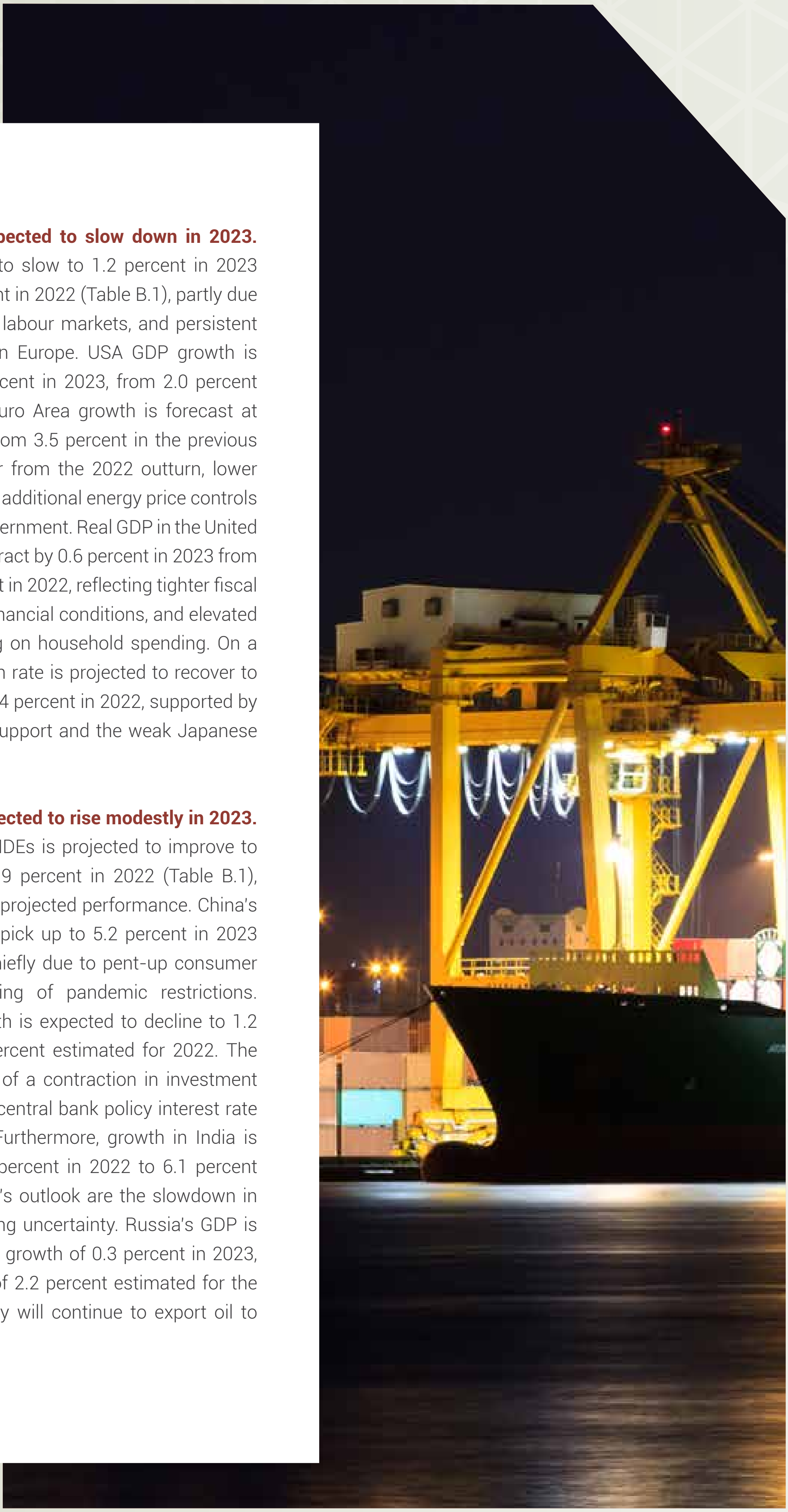
Major economies like the USA, the Euro Area and China are facing significant risks which worsen the economic and financial challenges faced by EMDEs.

The GDP growth rate for EMDEs is projected to improve to 4.0 percent in 2023 from 3.9 percent in 2022 (Table B.1), supported by China's strong projected performance.

ECONOMIC OUTLOOK

The IMF expects global GDP to record slower growth in 2023 than it did in 2022. According to the IMF World Economic Outlook (WEO) Update for January 2023, the global GDP growth rate is expected to slow to 2.9 percent in 2023, from an estimated 3.4 percent in 2022 (Table B.1). This would be well below the long-term average of 3.8 percent. On the other hand, the World Bank Global Economic Prospects for January 2023, expects a sharp deceleration of global growth to only 1.7 percent in 2023 from the estimate of 3.4 percent in 2022 reflecting monetary policy tightening by central banks aimed at containing very high inflation, worsening financial conditions, and continued disruptions from the Russia-Ukraine war. Major economies like the USA, the Euro Area and China are facing significant risks which worsen the economic and financial challenges faced by EMDEs. Furthermore, the weakening global GDP outlook is mainly on the back of inflation that has eroded economic agents' purchasing power, tightening financial conditions, and heavy indebtedness which will likely weaken investment and trigger further corporate defaults.

The risks to the outlook are mostly tilted to the downside; however, adverse risks have moderated since the last IMF outlook in the October 2022 WEO. The main downside risks are severe Covid-19 infection rates in China, possible escalation of the Russia-Ukraine war, and tighter global financing conditions that could worsen debt distress. Furthermore, high energy and food price shocks might result in more protracted inflation and resultant high interest rates. Other negative shocks that could push the global economy down are unexpectedly higher inflation, tighter monetary policy, intensified financial stress, deeper weakness in major economies, adverse climate events, and rising geopolitical tensions. There are also possible upside outcomes to the global economic outlook, such as a stronger boost from pent-up demand and a faster fall in inflation.



The AEs GDP growth is expected to slow down in 2023. Growth in AEs is projected to slow to 1.2 percent in 2023 from an estimated 2.7 percent in 2022 (Table B.1), partly due to high interest rates, softer labour markets, and persistent energy market disruptions in Europe. USA GDP growth is projected to slow to 1.4 percent in 2023, from 2.0 percent in 2022. Furthermore, the Euro Area growth is forecast at 0.7 percent in 2023, down from 3.5 percent in the previous year, reflecting the carryover from the 2022 outturn, lower wholesale energy prices, and additional energy price controls and cash transfers by the government. Real GDP in the United Kingdom is projected to contract by 0.6 percent in 2023 from positive growth of 4.1 percent in 2022, reflecting tighter fiscal and monetary policies and financial conditions, and elevated energy retail prices weighing on household spending. On a positive note, Japan's growth rate is projected to recover to 1.8 percent in 2023 from a 1.4 percent in 2022, supported by monetary and fiscal policy support and the weak Japanese Yen exchange rate.

Growth in the EMDEs is projected to rise modestly in 2023. The GDP growth rate for EMDEs is projected to improve to 4.0 percent in 2023 from 3.9 percent in 2022 (Table B.1), supported by China's strong projected performance. China's GDP growth is projected to pick up to 5.2 percent in 2023 from 3.0 percent in 2022, chiefly due to pent-up consumer spending following the lifting of pandemic restrictions. In Brazil, the real GDP growth is expected to decline to 1.2 percent in 2023 from 3.1 percent estimated for 2022. The slow growth is on the back of a contraction in investment following an increase in the central bank policy interest rate that started in early 2021. Furthermore, growth in India is projected to slow from 6.8 percent in 2022 to 6.1 percent in 2023. Major risks to India's outlook are the slowdown in the global economy and rising uncertainty. Russia's GDP is projected to register modest growth of 0.3 percent in 2023, compared to a contraction of 2.2 percent estimated for the previous year, as the country will continue to export oil to non-sanctioning countries.

INFLATION AND INTEREST RATE DEVELOPMENTS

Table B.2

Annual average consumer price inflation rates (percent)

		2018	2019	2020	2021	2022
AEs						
USA		2.5	1.8	1.2	4.7	8.0
UK		2.5	1.8	0.9	2.6	9.1
Euro Area		1.7	1.2	0.3	2.6	8.4
Japan		1.0	0.5	0.1	-0.1	2.4
EMDEs						
Brazil		3.7	3.7	3.2	8.3	9.4
Russia		2.9	4.5	3.4	6.7	13.8
India		4.0	3.7	6.6	5.2	6.7
China		2.1	2.9	2.5	0.9	2.0
South Africa		4.6	4.1	3.3	4.6	6.9

Source: Trading Economics

Annual average inflation in monitored AEs rose in 2022 to levels last observed decades ago, fuelled by especially high energy prices. Inflation in the USA averaged 8.0 percent in 2022 compared to 4.7 percent in 2021 (Table B.2), on the back of rising energy costs, as well as higher costs of food and housing. Inflation in the UK reached 9.1 percent on average in 2022, the highest level since October 1981, due to rising grocery costs and petrol prices. This compares to only 2.6 percent recorded in the previous year. Similarly, inflation in the Euro Area increased to 8.4 percent in 2022 from 2.6 percent in the previous year. In the same fashion, Japan's consumer price inflation was boosted by higher energy costs and averaged 2.4 percent in 2022 compared to a negative rate of -0.1 percent in 2021.

Inflation in EMDEs increased in 2022, mainly due to rising costs of fuel and food as well as currency depreciations. Average inflation in Russia rose steeply to 13.8 percent in 2022 from 6.7 percent in 2021, held up by higher prices of food. In addition, inflation in Brazil averaged 9.4 percent, up

from 8.3 percent recorded in 2021, chiefly attributed to global supply disruptions which continued to exert upward pressure on prices. Similarly, South Africa's inflation trended upward from 4.6 percent in 2021 to 6.9 percent in 2022, due to higher prices of transport, food and housing utilities. Further, inflation in China averaged 2.0 percent in 2022, up from 0.9 percent in the preceding year, mainly due to supply disruptions because of the lingering Covid-19 pandemic in that country. India's inflation also rose from 5.2 percent in 2021 to 6.7 percent in 2022, due to a surge in fuel and food prices.

Table B.3

Policy rates of selected economies

Country or grouping	Policy rate name	Policy rates at end of 2022 (%)	Month of last meeting in 2022	Policy rate change in 2022 (basis points)	Inflation rate at end of 2022 (%)	Real interest rate at end of 2022 (%)
AEs						
US	Federal funds rate	4.25-4.50	Dec-22	425	6.5	-2.0
UK	Bank rate	3.50	Dec-22	325	10.5	-7.0
Euro Area	Refinancing rate	2.50	Dec-22	250	9.2	-6.7
Japan	Short-term interest rate	-0.10	Dec-22	0	3.8	-3.9
EMDEs						
Brazil	SELIC rate	13.75	Dec-22	300	5.8	8.0
Russia	Key rate	7.50	Dec-22	-100	11.9	-4.4
India	Repo rate	6.25	Dec-22	225	5.7	0.6
China	Loan Prime Rate	3.65	Dec-22	-5	1.8	1.9
SA	Repo rate	7.00	Nov-22	300	7.4	-0.4

Source: Trading Economics

The majority of the monitored AEs raised their policy rates in 2022, apart from Japan, which kept its call rate unchanged. The US Federal Open Market Committee, in its continued efforts to battle inflation, raised its Fed Funds rate from near-zero at the beginning of the year to the target range of 4.25–4.50 percent by the end of 2022 (Table B.3) – the highest rate in 15 years. Similarly, the Bank of England raised its benchmark interest rate by 325 basis points to 3.5 percent to address a tight labour market, high inflation, and wage growth. The European Central Bank raised its policy rate by 250 basis points to 2.50 percent in 2022, bolstered by elevated inflation, despite cooling economic activity and lingering recession risks. Conversely, the Bank of Japan left its key short-term interest rate unchanged at -0.10 percent and maintained the target for the 10-year Japanese government bond yield at around 0.00 percent.

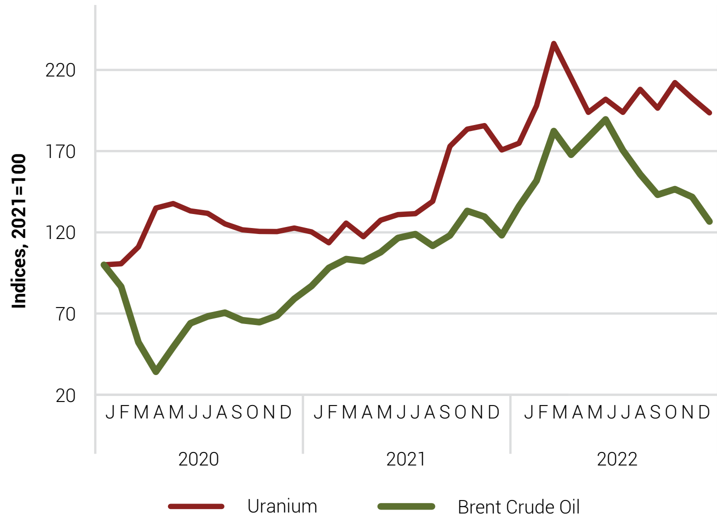
The majority of the monitored central banks in the EMDEs raised their benchmark interest rates in 2022 to combat rising inflation, except for Russia and China that lowered their rate. The Reserve Bank of India raised its repo rate by 225 basis points to 6.25 percent, aimed at keeping inflation in check. Similarly, the South African Reserve Bank raised the repo rate by 300 basis point to 7.0 percent, to combat elevated inflation. In the same fashion, the central bank of Brazil hiked its SELIC rate by 300 basis points to 13.75 percent at the end of December 2022. However, the People's Bank of China cut its prime lending rate by 5 basis points to 3.65 percent during 2022. The central bank of Russia early in the year raised its policy rate in the face of a surge in inflation and rapid depreciation of the Rouble but reversed its actions as the exchange rate and inflation moved back from their extremes. The net effect was that the Bank of Russia cut its repo rate by 100 basis points to 7.50 percent over the course of 2022, to spur subdued consumer demand.

COMMODITY MARKET DEVELOPMENTS

The prices of uranium and Brent crude oil increased in 2022 compared to 2021. The uranium price increased by 41.2 percent to an average of US$49.81 per pound in 2022 (Figure B.1), driven by geo-political uncertainty which started in Kazakhstan in early January 2022. This was amplified by the Russia-Ukraine war that started in late February 2022 which led to the re-examination of supply chains and procurement strategies that are reliant on nuclear fuel coming out of Russia. The global nuclear industry relies on Russia for approximately 14 percent of its supply of uranium concentrates. Due to the growing focus on decarbonisation, there is increased demand for safe, clean and reliable electricity. However, because uranium is a highly trade-dependent commodity, the war has created a transportation risk in the region. The price of Brent crude oil also increased, by 40.6 percent, to an average of US$97.10 per barrel in 2022, largely due to supply restrictions maintained by the OPEC+ grouping and increased transport activity as more pandemic-related restrictions on travel were lifted. In addition, the conflict between Russia and Ukraine further amplified supply disruptions and bolstered the prices of oil and gas, although after peaking in the first half of 2022, the oil price softened notably in the second half of the year as supply from the US and elsewhere expanded.

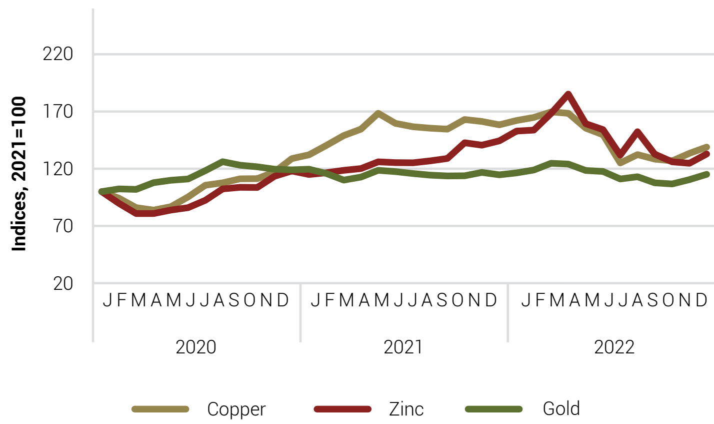
The prices of zinc and gold increased, while that of copper declined in 2022 over 2021. The zinc price increased by 15.9 percent to average US$3,481 per metric tonne owing to concerns over potential shortages resulting from falling

Figure B.1
Uranium And Brent Crude Oil



Source: Cameco, World Bank

Figure B.2
Other Commodity Prices



Source: World Bank

Due to the growing focus on decarbonisation, there is increased demand for safe, clean and reliable electricity.

inventories and possible reductions in smelter output because of high energy prices. In addition, the price of gold recorded a minor increase of 0.1 percent to average US$1,801 per ounce. Overall, gold had a tough year in 2022, on the back of the US dollar exchange rate appreciation, higher bond yields, and negative investor sentiment. The average price of copper decreased by 5.3 percent to average US$8,822 per metric tonne in 2022 (Figure B.2), mainly due to weak prospects for global demand, amid rising interest rates and a weakening Chinese economy stricken by Covid-19 restrictions and a property downturn.

2022

Zinc price

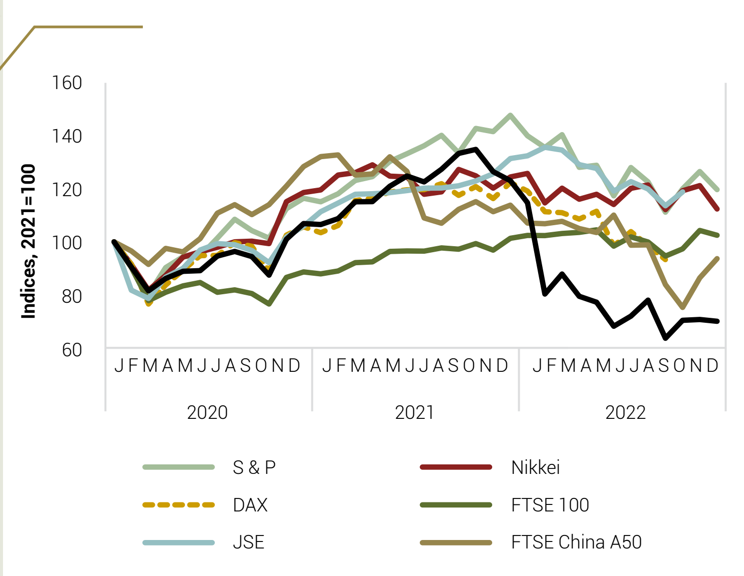
↑ 15.9%

US$3,481 per metric tonne

STOCK MARKET DEVELOPMENTS

Global stock market indices ended 2022 with losses, on concerns of rising interest rates, the appreciating US dollar exchange rate and the prospects of a global slowdown. This was observed across most of the developed equity markets, with the US's S&P 100 experiencing the biggest decline of 19.0 percent (Figure B.3). This was mainly due to skyrocketing global inflation as well as investors feeling disheartened regarding the market, as recession fears continue. The highly transmissible Omicron subvariant, XBB.1.5, also contributed to this performance. Germany's DAX index slipped by 11.9 percent in 2022 as German companies came under significant inflation pressure. Stock markets in China and Russia recorded losses of 17.7 percent and 43.1 percent, respectively. South Africa's JSE ALSI was somewhat resilient, as it only lost around 1.0 percent in 2022, while the UK's FTSE100 generated a 1.0 percent gain.

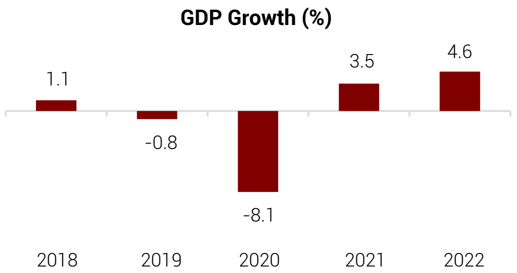
Figure B.3
Stock Price Indices



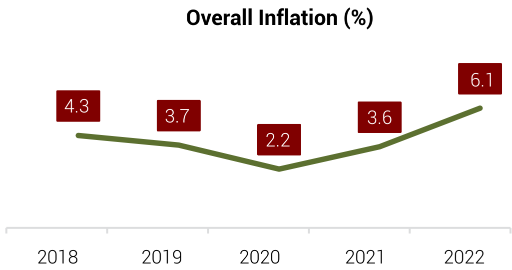
Source: Bloomberg

THE DOMESTIC ECONOMY AND FINANCIAL DEVELOPMENTS

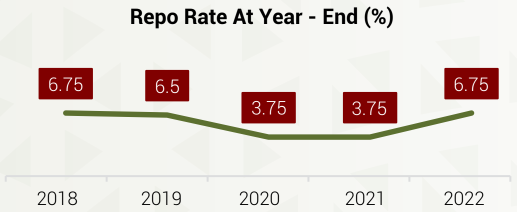
The Namibian economy built up further growth momentum during 2022.



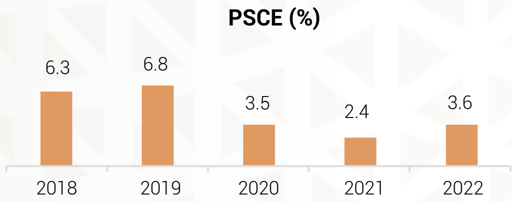
Annual inflation continued to rise strongly during 2022.



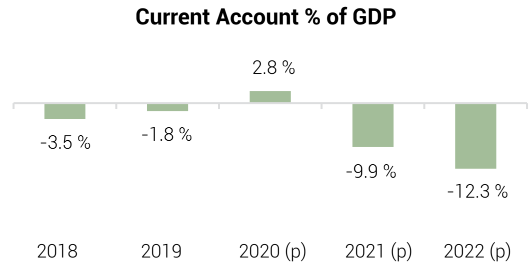
Monetary policy was tightened throughout 2022.



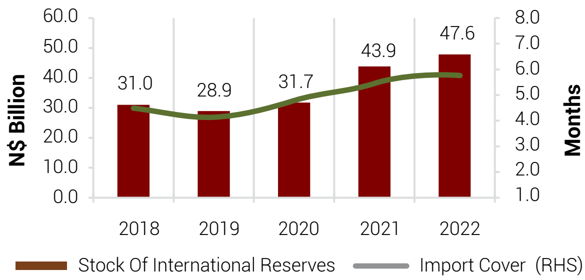
Growth in credit extended to private sector edged higher during 2022.



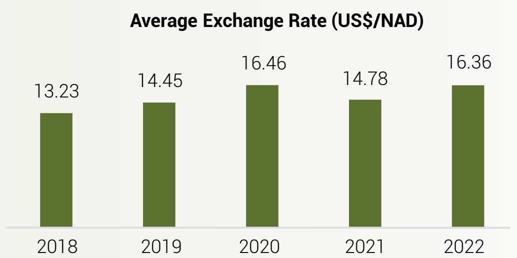
The current account balance deficit deteriorated further during 2022.



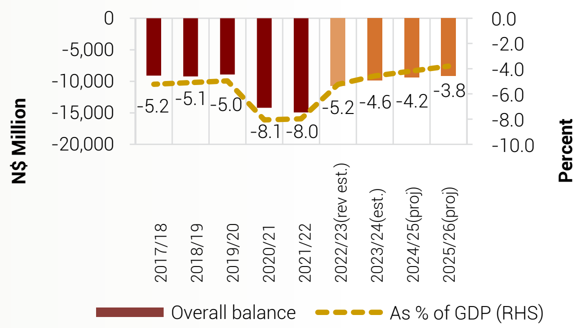
Official reserves remained adequate to maintain the exchange rate peg with South Africa Rand.



The Namibia Dollar weakened against the US Dollar during 2022.



Government's budget deficit narrowed during the fiscal year 2022/23



Source: NSA, BoN, SARB and MoF

REAL SECTOR DEVELOPMENTS

The Namibian economy built up further growth momentum during 2022, on the back of improved economic activity across all three main industry groupings.

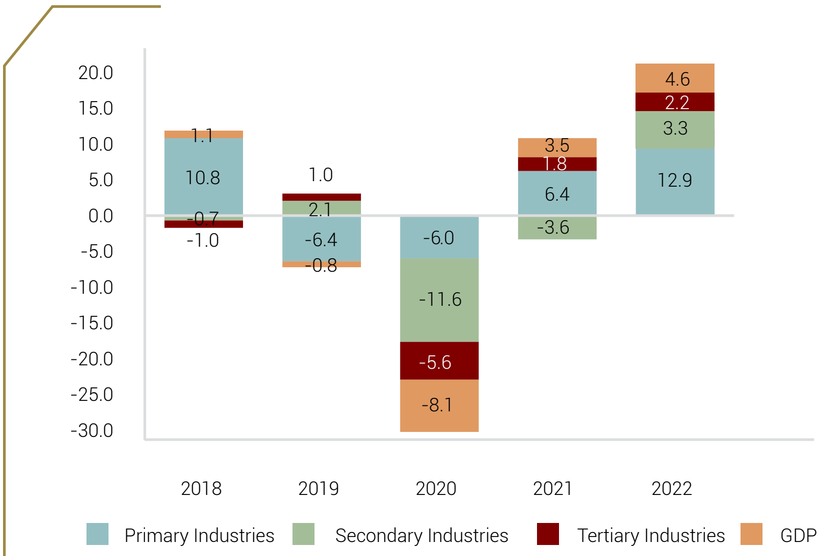
GDP GROWTH

The Namibian economy is estimated to have recorded an improved average growth rate of 4.6 percent during 2022, an increase from 3.5 percent recorded in 2021 (Figure B.4). The higher growth was facilitated by a range of factors including the further relaxation of COVID-related travel restrictions, favourable prices of export commodities, mineral exploration activity, new marine mining capacity, and pent-up demand.

CONTRIBUTIONS TO REAL GDP GROWTH BY INDUSTRY

During 2022, the improved economic growth emanated from increased economic activity across all industries, but it was more pronounced in primary industry (Figure B.4). During 2022, primary industry grew buoyantly, chiefly supported by a significant increase in the production of diamonds. This was due to additional production brought about by the new diamond recovery vessel, the Benguela Gem, as well as the return to service of some of the mining vessels that had been demobilised during 2020 and 2021.

Figure B.4 - Real GDP Growth Contribution By Industry



Source: NSA

diamond production

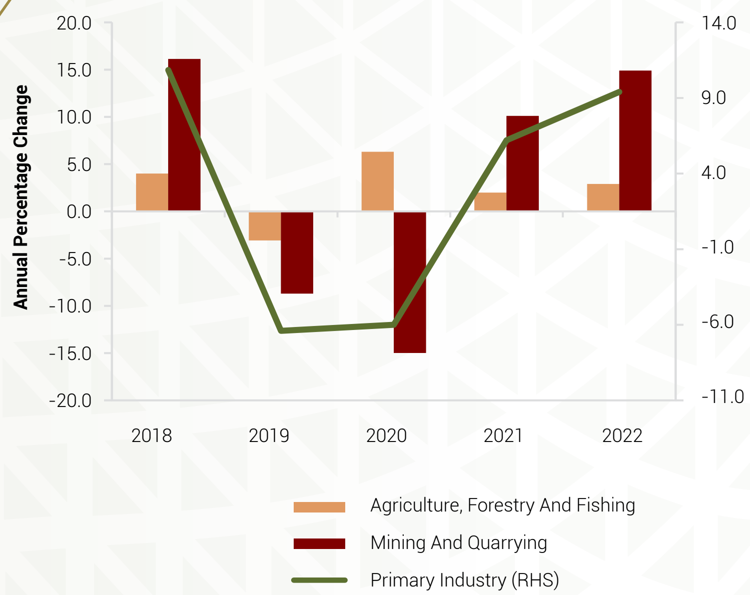
↑ 45.1%

agriculture, forestry and fishing

↑ 2.6%

During 2022, real output of primary industry rose buoyantly, chiefly supported by a significant increase in the production of diamonds. The primary industry grew by a buoyant 12.9 percent, up from 6.4 percent recorded during 2021 (Figure B.5), chiefly supported by a significant increase in of diamonds, which grew by 45.1 percent. This was due to additional production brought by the new diamond recovery vessel, the Benguela Gem, as well as the return to service of some of the mining vessels that had been demobilised during 2020 and 2021. During 2022, both onshore and offshore mineral exploration activity were furthermore stepped up significantly. Furthermore, growth in agriculture, forestry and fishing, which rose by 1.3 percentage points to 2.6 percent, also contributed to the expansion in primary industry. Despite significant variation between regions, rain conditions were generally favourable in 2022. Accordingly, crop farming registered healthy growth in 2022 as a record maize crop was harvested, although mahangu (pearl millet) production contracted over the same period as rainfall patterns in some of the main production areas were erratic. In addition, the forestry, and fishing and fish-processing-on-board subsectors also contributed to the rise in real value addition, partly driven by the timely allocation of fishing quotas, coupled with the auctioning of additional quotas by the Government.

Figure B.5
Primary Industry Real Value Added

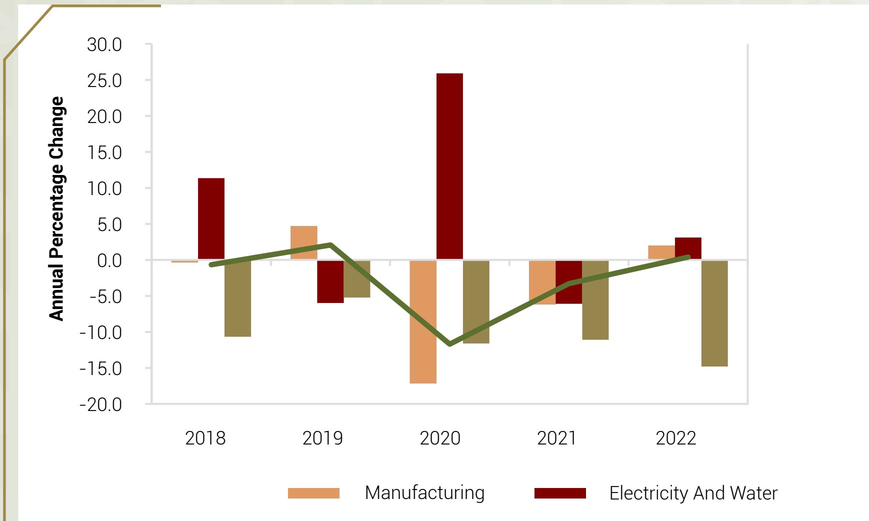


Source: NSA

Secondary industry switched to positive growth during 2022, arising from improvements in the manufacturing, and electricity and water sectors, which more than offset a further decline in construction activity. In secondary industry, growth amounted to 3.3 percent in 2022, switching around from a contraction of 3.6 percent registered during the previous year (Figure B.6). The increase arose from an improvement in activity in the manufacturing sector, coupled with higher growth in the domestic generation of electricity. This was as a result of improved water inflow into the hydroelectricity power plant at Ruacana due to better rainfall received, alongside an increase in solar electricity production. However, the construction sector contracted further, offsetting some of the rise recorded by the manufacturing, and electricity and water sectors.

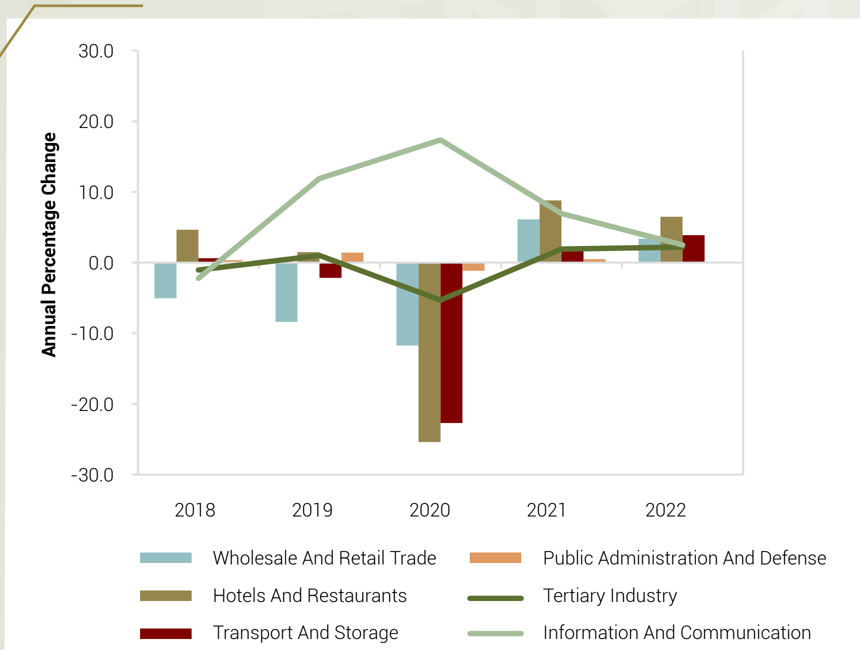
Growth in tertiary industry improved, reflected in increased growth in the hotels and restaurants, information and communication, and wholesale and retail trade sectors. Tertiary industry registered a growth rate of 2.2 percent during 2022 (Figure B.7), higher than the 1.8 percent registered during the previous year, owing to improved performances of the hotels and restaurants, information and communication, and wholesale and retail trade sectors. This was mainly ascribed to the lifting of Covid-19 restrictions boosting tourism activity, coupled with sustained demand for internet data on account of hybrid working arrangements and online learning. Activity in the transport sub-sector continued to increase during 2022, driven by road and sea cargo volumes. The pace of growth for the communication subsector moderated in 2022, however, suggesting a degree of normalisation of activity, with more workers returning to the office.

Figure B.6
Secondary Industry –Real Value Added



Source: NSA

Figure B.7
Tertiary Industry – Real Value Added

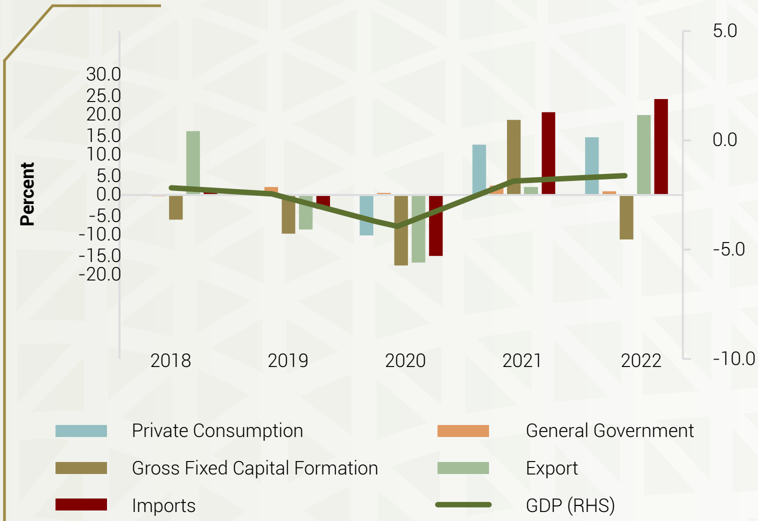


Source: NSA

REAL GDP GROWTH BY EXPENDITURE COMPONENT

On the demand side, the improvement in economic growth for 2022 was underpinned by higher expenditure on final consumption. Real GDP increased to N$144.1 billion in 2022 from N$137.8 billion in the preceding year. This increase was largely attributed to rising private final consumption expenditure which increased by 14.4 percent. Similarly, Government final consumption expenditure increased, but at a lower rate of 0.7 percent, as the Treasury continued to limit growth in public spending. Gross fixed capital formation by the Government declined by 10.7 percent in 2022, as mirrored by the deep contraction in the construction sector (Figure B.8).

Figure B.8
Real GDP Growth By Expenditure Component



Source: NSA

Increase in real GDP growth in 2022 was mainly driven by private final consumption

INFLATION DEVELOPMENTS

Namibia's inflation rate increased during 2022 compared to the previous year, exerting upward pressure on the cost of living. Overall consumer price inflation rose from an average of 3.6 percent in 2021 to 6.1 percent during the period under review, thereby eroding consumers' purchasing power. On a monthly basis headline inflation rose as high as 7.3 percent in August 2022 – a pace last seen in 2017 – before softening somewhat towards the year-end (Figure B.9).

The elevated inflation was predominantly driven by transport inflation. Inflation for transport increased from 7.3 percent in 2021 to 17.2 percent in 2022 on account of high international oil prices, aggravated by exchange rate depreciation. The imposition of sanctions on Russia as a result of its invasion of Ukraine in February 2022 also contributed to the increase in the international oil price, as did action by OPEC+ to limit petroleum output. Consequently, Namibian pump prices of petrol and diesel surged during 2022, with the pump price of diesel 50 ppm adjusted upward on average by N$7.17 per litre to N$20.60 per litre, while that of petrol was adjusted upwards by N$5.87 per litre to N$19.34 per litre. Inflation for the public transport sub-category picked up during the same period as the upward movement in fuel prices culminated in a rise in domestic taxi fares and bus ticket prices.

Inflation for food and non-alcoholic beverages, as well as housing, water, electricity, gas and other fuels, accelerated in 2022. Food and non-alcoholic beverages inflation rose from 5.7 percent in 2021 to 7.7 percent in 2022, prominently reflected in the oils and fats and fruit subcategories. Annual inflation for housing, water, electricity, gas and other fuels increased from 1.3 percent in 2021 to 1.8 percent, mainly driven by a rise in rental payments for dwellings, as well as water supply, sewerage services and refuse removal.

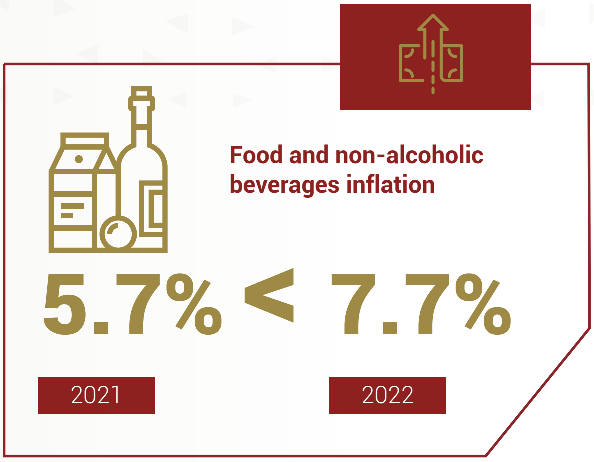
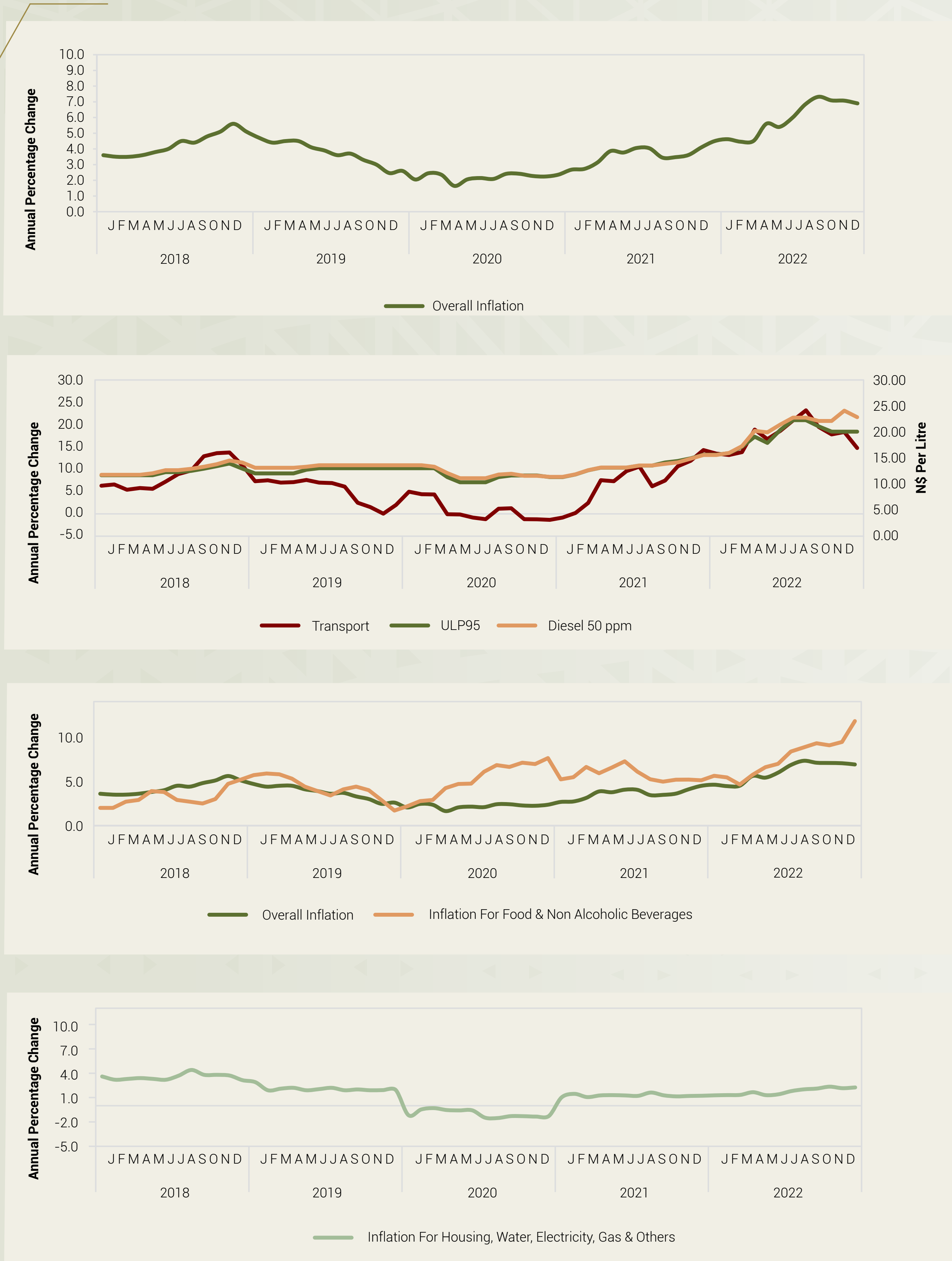
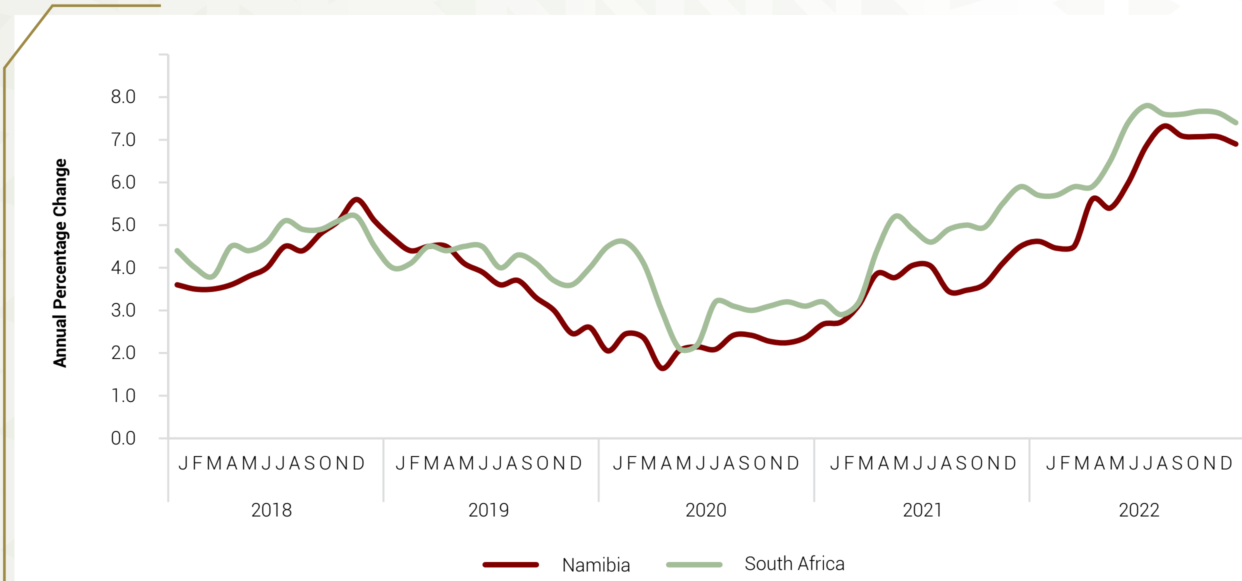


Figure B.9
Inflation Developments



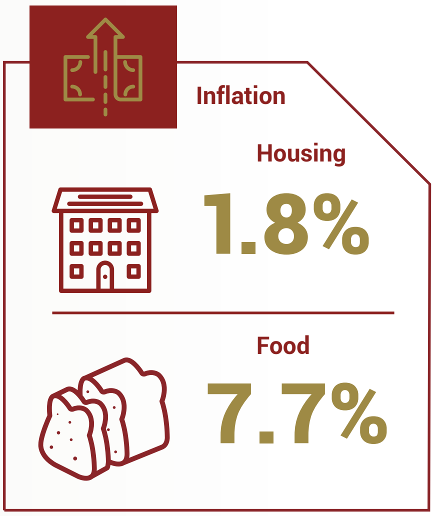
Source: NSA

Figure B.10
Inflation Comparison Between Namibia And South Africa



Source: NSA and Statistics South Africa

Inflation for South Africa increased during 2022 and continued trending above that of Namibia, mainly due to higher housing inflation in the former. South Africa's inflation rate rose by 2.3 percentage points to an average of 6.9 percent during the year under review, 0.8 percentage point above that of Namibia (Figure B.10). This was mainly owing to higher housing and food inflation in South Africa, which averaged 4.6 percent and 9.6 percent, respectively, during the period under review. This compares to Namibia's average housing and food inflation of 1.8 percent and 7.7 percent, respectively, registered over the same period. Furthermore, it is worth noting that the gap between the two countries' inflation rates narrowed over time, mainly as a result of sharper increases in Namibia's transport inflation in relation to that of South Africa.



MONETARY AND FINANCIAL DEVELOPMENTS

The main monetary and credit aggregates continued to record sluggish growth in 2022 despite improved economic activity and a stronger transactions demand for money. The demand for money in 2022, remained subdued overall as transactions-related money balances picked up, but holdings of fixed and notice deposits waned amid the rising interest rate cycle. The main counterparts to the inert growth in the broad money supply (M2) during the period under review, were moderate growth in the net foreign assets and near-stagnation of the domestic claims of the depository corporations.

Table B.4

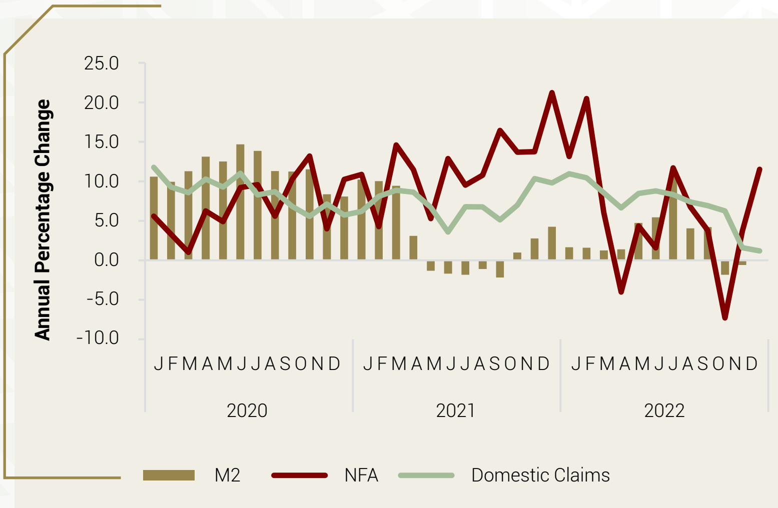
Monetary and Credit Aggregates

(Annual average balances, N$ million)	2018	2019	2020	2021	2022
Net Foreign Assets	35 211	41 740	44 644	50 002	53 009
Net Domestic Assets	110 769	119 628	129 758	135 718	144 218
Claims on other sectors	100 515	107 075	109 971	110 897	113 080
of which: claims on households	53 291	56 478	59 514	61 333	63 158
claims on businesses	39 869	43 291	44 102	44 481	46 421
Net claims on Central Govt.	10 254	12 553	19 786	24 821	31 138
Claims on Central Govt.	18 031	21 742	19 054	34 244	35 539
less government deposits	7 777	9 188	8 268	9 424	4 401
Other Items, net*	-44 880	-51 672	-52 258	-68 428	-68 549
Broad Money	101 100	109 697	122 144	125 291	128 677
(Change during period, N$ million)					
Net Foreign Assets	761	6 529	2 904	5 358	3 007
Net Domestic Assets	11 380	8 859	10 130	5 960	8 500
Total Claims on Other Sectors	6 691	6 560	2 897	926	2 183
of which: claims on individuals	3 712	3 187	3 036	1 819	1 825
claims on businesses	1 909	3 422	812	378	1 940
Net claims on Central Govt	4 689	2 299	7 233	5 034	6 317
Claims on Central Govt	4 652	3 711	6 313	6 190	1 294
less government deposits	-37	1 412	-920	1 146	-5 203
Other items, net	-3 734	-6 791	-587	-8 170	-8 121
Broad Money	8 407	8 597	12 447	3 148	3 386
Annual percentage growth rates)					
Net Foreign Assets	2.2	18.5	7.0	12.0	6.0
Total claims on other sectors	7.1	6.5	2.7	0.8	2.0
of which: claims on individuals	7.5	6.0	5.4	3.1	3.0
claims on businesses	5.0	8.6	1.9	0.9	4.4
Broad Money	9.1	8.5	11.3	2.6	2.7

MONETARY AND CREDIT AGGREGATES

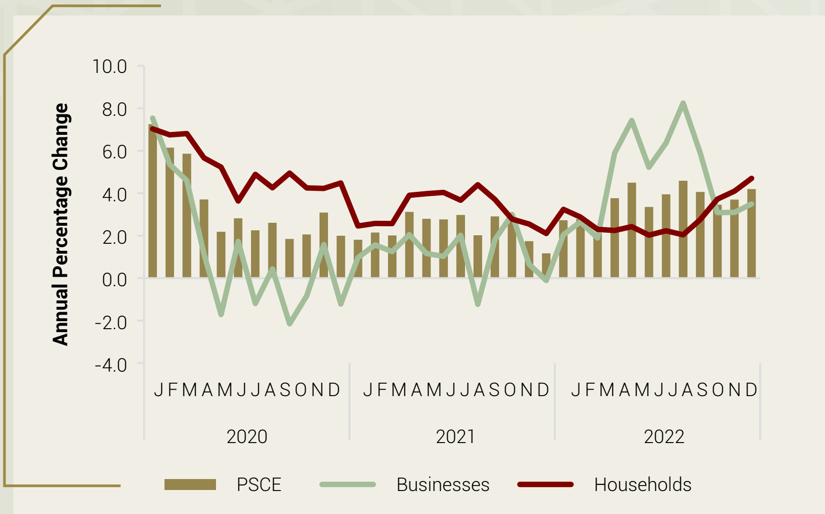
Avarage growth in broad money supply (M2) inched higher in 2022 but remained below the concurrent inflation rate. Growth in M2 posted an average of 2.7 percent in 2022, slightly higher than the rate in 2021 (Figure B.11). The sluggish growth in M2 during 2022 stemmed from moderate growth of 6.0 percent in net foreign assets, balanced by very slow growth in domestic claims, specifically net claims on Central Government. Growth in money supply continued to trend lower than the annual inflation rate, an indication that depositor demand for real money balances continues to subside.

Figure B.11
Money Supply



Growth in credit extended to the private sector edged higher in 2022 compared to 2021, amid a recovery in domestic economic activity. The growth in PSCE rose to an average annual rate of 3.6 percent in 2022, from an annual average of 2.4 percent recorded in 2021 (Figure B.12). The moderate improvement in year-on-year growth in PSCE during 2022 was due to increased demand for credit by businesses, particularly corporates in the mining, transport and services sectors. The average annual growth in total credit extended to businesses increased to 4.6 percent in 2022 from 1.2 percent a year earlier. Credit extended to households slowed to an average growth rate of 2.9 percent in 2022 from 3.2 percent in 2021, partly due to rising inflation and interest rates. The growth in total credit extended was concentrated in the cyclically sensitive instalment sale and leasing credit subsector, as well as in other loans and advances during the period under review.

Figure B.12
Extension Of Bank Credit To The Private Sector



Prime lending rate

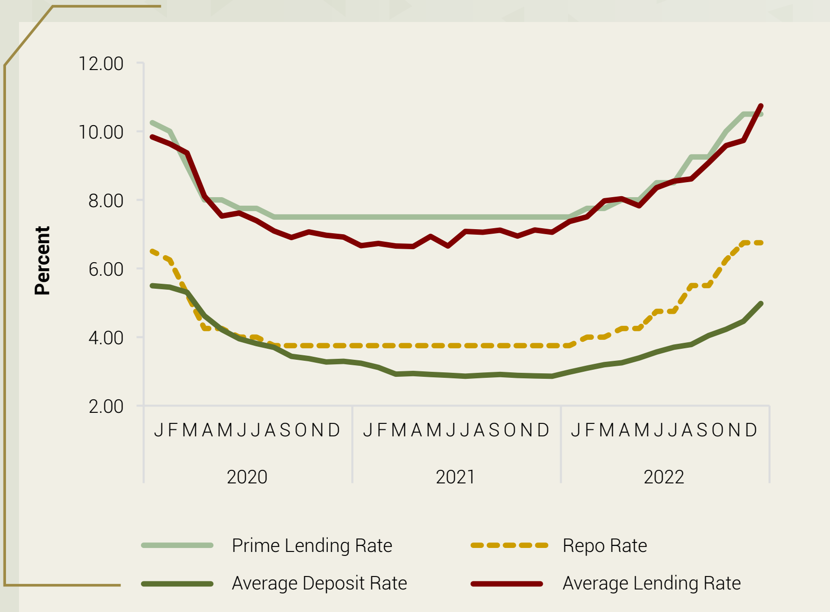
2021
7.50%

2022
10.50%

INTEREST RATES

The Bank of Namibia increased its policy rate stepwise during 2022, and as a result, money market rates in general also trended higher over the course of the year. At each of the six MPC meetings held during 2022, the Bank's Monetary Policy Committee (MPC) increased the repo rate stepwise by a total of 300 basis points from 3.75 percent in January 2022 to 6.75 percent in December 2022 (Figure B.13). These decisions to increase the repo rate were deemed appropriate to continue anchoring inflation expectations, safeguarding the peg arrangement and meeting the country's international financial obligations while also giving support to the economic recovery to the extent possible. As a result, the prime lending rate of the commercial banks stood at 10.50 percent at the end of 2022, up from 7.50 percent a year earlier. In line with the rise in the policy rate and the banks' prime lending rate, the banks' average lending rate rose to 9.58 percent at the end of 2022, compared with 7.06 percent at the end of 2021. Rising less steeply, the average deposit rate rose to 4.22 percent at the end of 2022 from 2.86 percent at the end of 2021 as it typically takes longer to adjust to changes in the policy rate due to the lags before fixed and notice deposits reprice.

Figure B.13
Interest Rates



BOX ARTICLE 2:

EXPANDING NAMIBIA'S MONETARY AND FINANCIAL STATISTICS WITH THE ADDITION OF THE M3 MONETARY AGGREGATE

INTRODUCTION

This note introduces a new monetary aggregate that is broader than the headline M2 money supply currently being published. The note serves to inform all our data users of the addition of an official new monetary aggregate to the monetary and financial statistics published hitherto, namely M3, which will be a composite of M2 plus Negotiable Certificates of Deposit (NCDs). An NCDs is a fixed deposit receipt issued by a bank that is negotiable in the secondary market. These deposits generally have initial maturities of three months, six months, nine months and 12 months, with a minimum face value of N$10 million. Like other deposits, they are guaranteed by the bank receiving the deposit, but can usually be sold in a highly liquid secondary market often facilitated by the banks themselves. Thus, although they cannot be redeemed before maturity they can through on-selling be converted into cash very quickly. Due to their large denominations, NCDs are bought by corporations who use them as a way to invest in a low-risk, high-interest security. Generally, yields on NCDs are wholesale rates which exceed retail deposit rates, and are dependent on money market conditions.

In the monetary context, because of their short-term and liquid nature, NCDs satisfy the criterion of moneyness, and their value remains stable over time. The inclusion of NCDs in a broad monetary aggregate is in line with the guidelines of the 2016 Monetary and Financial Statistics Manual and Compilation Guide, page 186 section (6.48), which states that short-term (original maturity) debt securities issued by Depository Corporations that can be converted into currency or transferable deposits at short notice, for or close to their full nominal value, meet the definition of broad money. According to the Guide, such short-term debt securities include NCDs and commercial paper issued by Other Depository Corporations (ODCs) and are included in broad money when traded in efficient secondary markets.

METHODOLOGY

Namibia introduced the compilation of monetary and credit aggregates in 1990, under the Guide to Money and Banking Statistics published by the IMF in 1984). In April 2002, with the publication of the International Monetary Fund (IMF) 2000 Monetary and Financial Statistics Manual[2], the compilation migrated to the new manual which provided a set of tools for identifying, classifying, and recording stocks and flows of financial assets and liabilities; described standard, analytically oriented frameworks in which the statistics may be presented; and identified a set of analytically useful aggregates within those frameworks. This led, amongst others, to changes in the terminology and differences in classifications; and changes in the conceptual framework for the presentation of monetary and financial statistics[3] in a manner consistent with the 1993 System of National Accounts. In 2016, the IMF updated the manual and merged the methodological and practical aspects of the compilation process of monetary and financial statistics into one volume, The Monetary and Financial Statistics Manual and Compilation Guide. The concepts, accounting principles, and other methodological elements of this manual are harmonised with those of the 2008 System of National Accounts, the sixth edition of the Balance of Payments and International Investment Position Manual, the Government Finance Statistics Manual 2014, and the handbook on Financial Production, Flows and Stocks in the System of National Accounts.

CURRENT COMPOSITION OF MONEY SUPPLY AND THE INTRODUCTION OF A HIGHER MONETARY AGGREGATE

Namibia's broadest monetary aggregate is currently M2. It is comprised of currency outside depository corporations (i.e., the most liquid form of money), transferable deposits (i.e., ultra-short-term deposits, capable of being withdrawn or transferred immediately to another party) and other deposits (i.e., longer-term deposits). Narrow money (M1) is comprised of currency outside depository corporations and transferable deposits only. Below is a brief analysis, based on the past two years, comparing the data with and without the inclusion of NCDs.

2 The 2000 MFSM was followed in 2008 by its accompanying Compilation Guide (MFS Guide).
3 The purpose of compiling monetary and financial statistics is to assist in the formulation and monitoring of monetary policy and to harmonise the monetary and financial statistics system with other macro-economic statistical systems.

Table BA.1
Key Monetary Aggregates
(Accounting determinants and components of money supply, N$ millions)

Key Monetary Aggregates

	2021	2022
Depository Corporations Survey including NCDs		
(New Series)		
Net Foreign Assets	50 697	52 901
Domestic Claims	148 158	151 767
Other Items net	48 644	60 520
Broad Money Supply (M3)	150 211	144 148
Components of Money Supply		
Currency outside depository corporations	3 128	4 874
Transferable Deposits	64 715	67 218
Other Deposits	62 102	58 465
NCDs	20 267	22 344
Depository Corporations Survey excluding NCDs		
(Old Series)		
Net Foreign Assets	50 697	52 901
Domestic Claims	148 158	151 767
Other Items net	68 911	75 610
Broad Money Supply (M2)	129 944	129 058
Components of Money Supply		
Currency outside depository corporations	3 128	4 879
Transferable Deposits	64 715	67 218
Other Deposits	62 102	58 465
Difference		
Net Foreign Assets	0	0
Domestic Claims	0	0
Broad Money Supply	20 267	22 344

Table BA.1 reveals the current M2 and M3, the latter of which includes NCDs. According to the analysis, the inclusion of NCDs adds N$20.3 billion and N$22.3 billion to the M2 aggregate in 2021 and 2022, respectively. The Bank of Namibia will going forward include NCDs in the M3 series and publish this series on a monthly basis. Thus, the public is cautioned to take note of this additional monetary aggregate. For the time being the M3 aggregate will be presented as additional information without changing the Monetary Analysis, which will continue to take M2 as its pivotal monetary aggregate. This position will be regularly reviewed as the public becomes familiar with M3.

Figure BA.1
Impact of inclusion of NCDs and the introduction of M3 as a monetary aggregate

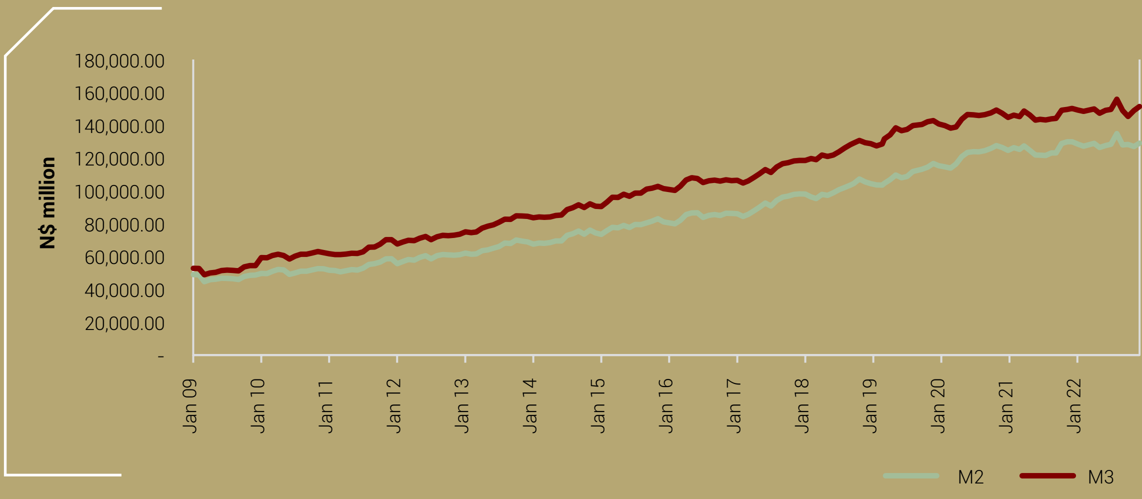
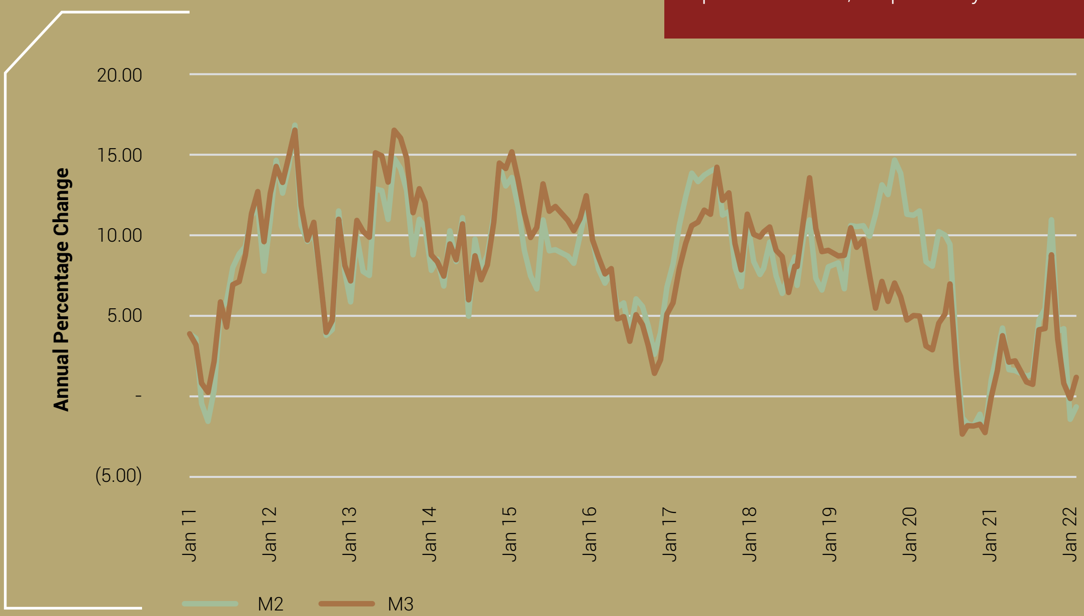


Figure BA.2
Annual Percentage Growth Of M2 And M3

Figures BA1 and BA2 contrast the current M2 and new M3 in nominal and annual percentage growth over a period of time, respectively.



CONCLUSION

It is evident from the above analysis that the newly calculated M3 gives a broader measure of money supply, which is robust in the face of shifts between the public's preferences for fixed-term deposits repayable to the original depositor only, and fixed-term deposits that are negotiable and therefore repayable to whoever the holder of the NCDs is at the time of redemption. Money supply plays a significant role in informing monetary and economic policy and the monetary aggregates supplement other economic statistics on the current and future course of the economy. It is against this background that the addition of a broader monetary aggregate, responsive to the public's preference shifts as outlined above, is of great importance. The Bank of Namibia has therefore deemed it necessary to expand its range of published monetary aggregates, mindful of the generally increasing importance of NCDs as the financial system has structurally broadened and financial intermediation has deepened over the years.

PUBLIC FINANCE

The budget deficit narrowed notably in 2022/23 and is projected to improve further in the coming fiscal years. A significant increase in government revenue contributed to the narrowing of the deficit from 8.0 percent of GDP in 2021/22 to 5.2 percent of GDP in 2022/23. The 2023/2024 Government budget tabled under the theme of Economic Revival and Caring for the Poor targeted the maintenance of a sustainable public fiscal stance while creating a conducive policy environment to stimulate economic activity and create employment. The budget was based on three policy pillars: pro-sustainability, pro-poor, and pro-growth. These three pillars are indicative of the balancing act that is required between ensuring macroeconomic stability, sustaining livelihoods, and supporting economic recovery. The budget reveals an easing fiscal environment on the back of improved revenue outturn and economic growth prospects. As a result, the budget deficit is projected to decline to 4.6 percent of GDP in 2023/2024, which will bring Government debt to 70.1 percent of GDP. Although Government debt is projected to rise in the 2023/2024 fiscal year, it is expected to increase at a slower pace than in previous fiscal years.

Table B.5

Central Government Revenue and Expenditure

	2019/20	2020/21	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26
	Actual	Actual	Actual	Mid-year budget	Revised Estimates	Estimates	Projection	Projection
Revenue	58 425	57 838	55 369	64 064	64 161	74 743	77 277	79 812
% of GDP	32.6	32.8	29.4	32.2	31.4	34.7	34.1	33.2
Expenditure	66 584	72 035	70 302	74 692	74 880	84 580	86 699	88 957
% of GDP	37.1	40.9	37.5	37.5	36.6	39.3	38.2	37.0
Budget Balance	-8 160	-14 196	-14 933	-10 628	-10 719	-9 837	-9 422	-9 145
% of GDP	-4.5	-8.1	-8.0	-5.3	-5.2	-4.6	-4.2	-3.8
Debt*	100 400	110 514	125 784	138 380	140 794	150 869	160 019	166 215
% of GDP	55.9	62.7	67.2	69.5	68.9	70.1	70.5	69.0
Interest payments	6 951	7 937	8 664	9 133	9 322	10 021	10 633	11 303
% of Revenue	11.9	13.7	15.6	14.3	14.5	13.4	13.8	14.2
Guarantees	11 107	10 138	10 338	10 196	9 999	12 658	12 912	13 170
% of GDP	6.2	5.8	5.5	5.1	4.9	5.9	5.7	5.5

Source: MoF. Data have been amended throughout following enhancements to Government finance statistics introduced in the 2023/24 Budget.

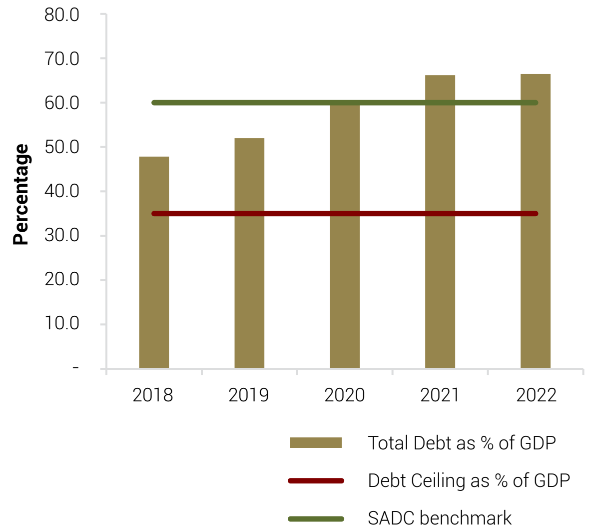
CENTRAL GOVERNMENT'S BUDGET DEFICIT

Central Government's budget deficit narrowed during FY2022/23 and is set to contract further over the MTEF period. In the 2023/24 budget statement in February 2023, Central Government budget deficit as percentage of GDP for the 2022/23 fiscal year was revised downwards by 0.1 percentage point to 5.2 percent of GDP, from the 5.3 percent initially estimated in the October 2022 mid-year budget, owing to an increase in revenue (Figure B.14). Government revenue was revised upwards by 0.2 percent to N$64.2 billion, owing to an improvement in income tax and VAT collection by NamRa during the FY2023/24 budget statement in February 2023. When compared to FY2021/22, revenue rose by 15.9 percent to N$64.2 billion during FY2022/23.This was owing to an increase in income tax on individuals, as well as an increase in diamond mining revenue, coupled with an increase in VAT collections. Government expenditure was also slightly revised upwards by 0.3 percent to N$74.9 billion for FY2022/23, to cater for some shortfalls in the development budget. When compared to the previous fiscal year, however, Government expenditure rose by 6.5 percent to cater for the 3.0 percent increase in civil servants' salaries, as well as to allow for the rising costs of utilities and the general inflationary pressures. This was reflected in sub-categories such as subsidies and other current transfers, acquisitions of capital goods, and interest and borrowing related charges.

CENTRAL GOVERNMENT DEBT

The debt stock of the Central Government rose over the year to the end of December 2022, driven mainly by a rise in domestic debt. The total Government debt stock stood at N$137.5 billion at the end of December 2022, representing an increase of 10.6 percent during the year under review (Figure B.14; Table B.6). The increase in 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 65.9 percent at the end of December 2022, above the SADC benchmark of 60 percent of GDP.

Figure B.14
Central Government Debt



Source: MOF

Table B.6

Central Government Debt as at 31 December

Value (N$ million) / %	2018	2019	2020	2021	2022
Fiscal year GDP	**181 103**	**179 469**	**176 667**	**189 506**	**208 491**
Foreign debt stock	**32 156**	**30 852**	**33 065**	**32 488**	**34 095**
Bilateral	3 027	2 723	2 804	2 792	2 504
As % of total	9.4	8.8	8.5	8.6	7.3
Multilateral	8 198	7 583	9 942	15 723	18 376
As % of total	25.5	24.6	30.1	48.4	53.9
Eurobond	18 039	17 654	18 277	11 930	12 722
As % of total	56.1	57.2	55.3	36.7	37.3
JSE Listed bond	2 892	2 892	2 042	2 042	492
As % of total	9.0	9.4	6.2	6.3	1.4
Total Debt service	**5 170**	**6 078**	**6 859**	**13 443**	**9 577**
Domestic debt service	3 187.4	3 519.3	3 443.0	3 118.9	6 077
Foreign debt service	1 983.0	2 558.2	3 416.1	10 324.2	3 680
Domestic debt stock	**54 492**	**62 300**	**73 773**	**91 844**	**103 362**
Treasury bills	21 789	24 247	27 330	31 764	35 109
As % of total	40.0	38.9	37.0	34.6	34.0
Internal registered stock	32 703	38 053	46 443	60 079	68 253
As % of total	60.0	61.1	63.0	65.4	63.0
Total Central Government debt	**86 647**	**93 151**	**106 838**	**124 332**	**137 457**
End of Period Exchange rate in terms of N$					
US Dollar	14.4309	14.1235	14.6218	15.9065	16.9625
EUR	16.4917	15.8247	17.9716	17.9917	18.0765
RMB	2.0982	2.0247	2.2391	2.4963	2.4394
CHF	14.6520	14.5985	16.5838	17.5747	18.4332
JPY	0.1308	0.1300	0.1418	0.1382	0.1280
SDR	20.0803	19.5313	21.0526	21.7392	22.5989
KWD	47.4078	46.0937	48.1454	50.5194	55.5558
Proportion of total debt					
Foreign debt stock	37.1	33.1	30.9	26.3	24.8
Domestic debt stock	62.9	66.9	69.1	73.7	75.2
As % of GDP					
Foreign debt stock	17.8	17.2	18.7	17.1	16.4
Domestic debt stock	30.1	34.7	41.8	48.5	49.6
Total debt	**47.9**	**51.9**	**60.5**	**65.6**	**65.9**

Sources: MoF, BoN and NSA

EXTERNAL SECTOR DEVELOPMENTS

Namibia's current account deficit widened in 2022 compared to 2021, but financial account inflows were sufficient to offset it and enable the stock of international reserves to rise over the period.

Table B.7

Balance of Payments Overview (N$ million)

(Inflows +, outflows -) unless otherwise indicated	2021(p)	2022(p)
1. Current account (deficit -)	-18 272	-25 278
2. Capital transfers (inflow +)	2 030	1 770
3. Financial account excluding reserve action (outflow -, inflow +)	19 764	26 062
4. Unidentified transactions (outflow -, inflow +)	-1 337	-1 488
5 = (1+2+3+4) Balance of Payments before reserve action	2 186	1 066
6. Reserve action: Liabilities related to reserves (inflow +)	7 972	0
7 = 5+6 Gross reserves (increase +, decrease -)	**10 158**	**1 066**
8 = (3+6 – 7) Net borrowing (+) with reserve action	17 578	24 996

Note: p in this section stands for provisional.

Financial account inflows contributed to the accumulation of reserves in 2022. The current account deficit widened to N$25.3 billion in 2022, compared to N$18.3 billion recorded in 2021 while the capital transfer receipts declined to N$1.7 billion during the same period. On the financial account, strong non-reserve related financial account inflows of N$26.1 billion, mainly in the form of foreign direct investment was enough to finance the high current account deficit (Table B.7). As a result, the overall balance of payments before reserve action registered a moderate surplus amounting to N$1.1 billion in 2022 which the Bank of Namibia absorbed from the market and added to its reserves.

CURRENT ACCOUNT

The current account deficit as a percentage of GDP widened in 2022, compared to 2021. The current account balance deficit relative to GDP widened to 12.3 percent (N$25.3 billion) in 2022, compared to a deficit of 9.9 percent (N$18.3 billion) recorded in 2021 (Table B.8). This was ascribed mainly to a deterioration of the merchandise trade deficit due to an increase in imports. Expenditure on merchandise imports rose by 27.9 percent to N$104.7 billion during 2022. The category mineral fuels contributed about 56.3 percent of the annual rise in import payments, reflecting the higher cost of fuel. This was on the back of ongoing higher international fuel prices, mainly due to a recovery in travel activity, coupled with inflationary pressure attributable to the ongoing Russia-Ukraine war. The value of merchandise exports rose briskly by 29.2 percent to N$68.4 billion during 2022, largely ascribed to higher export earnings from rough and processed diamonds, processed fish and live animals.

The higher net outflows in the primary income account and the lower net inflows in the secondary income account contributed to the higher current account deficit. Net outflows on the primary income account rose by 37.7 percent to N$5.9 billion during 2022. The higher outflows were mainly underpinned by an increase in investment income payments to foreign direct investors, particularly in the form of higher dividends as well as higher retained earnings by foreign-owned companies during 2022. Inflows on the secondary income account fell by 11.1 percent to N$15.6 billion during 2022. This was mainly due to lower SACU receipts, which decreased by 13.8 percent to N$14.3 billion during 2022 (Table B.8). The net services balance recorded a net inflow of N$1.3 billion in 2022, compared to an outflow of N$2.6 billion in 2021. The inflow was largely attributable to higher receipts for travel services as well as transportation services.

Current account deficit as percentage of GDP

2021	2022
9.9%	12.3%

Table B.8
Current Account Aggregates (N$ Million)

Current Account Aggregates

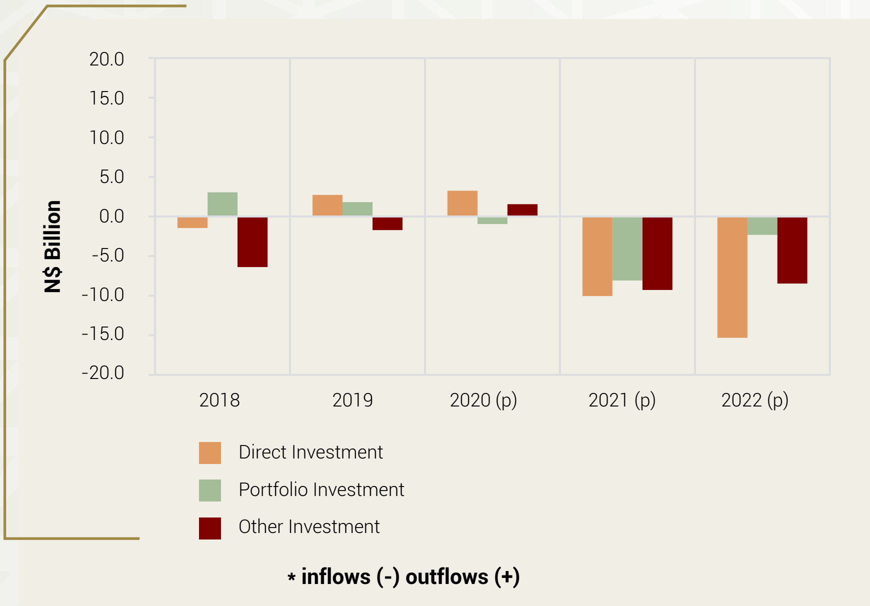
	2021(p)	2022(p)
CURRENT ACCOUNT	-18 272	-25 278
GOODS	-28 884	-36 290
Exports (fob)[4]	52 950	68 401
Diamonds	8 372	14 445
Other mineral products	19 180	21 318
Food and live animals	2 980	3 752
Manufactured products	18 962	23 830
of which polished diamonds	4 953	7 575
of which Processed fish	10 633	11 609
Other commodities	2 024	1 919
Re-exports	1 433	3 138
Imports (fob)	81 834	104 692
Consumer goods	23 811	27 801
Mineral fuels, oils and products	12 392	25 260
Vehicles, aircraft, vessels	9 209	8 827
Machinery, mechanical, electrical	11 947	15 096
Base metals and articles of base Metal	5 502	5 945
Products of the chemical industries	8 718	9 625
Other imports	10 255	12 137
SERVICES	**-2 642**	**1 304**
PRIMARY INCOME	**-4 265**	**-5 874**
SECONDARY INCOME	**17 519**	**15 582**
of which SACU receipts	16 626	14 329
Current account balance relative to GDP (%)	-9.9	-12.3

Note: Data for the previous three years are provisional and subject to revision.

The financial account balance recorded a higher net inflow during 2022, when compared to a year earlier.

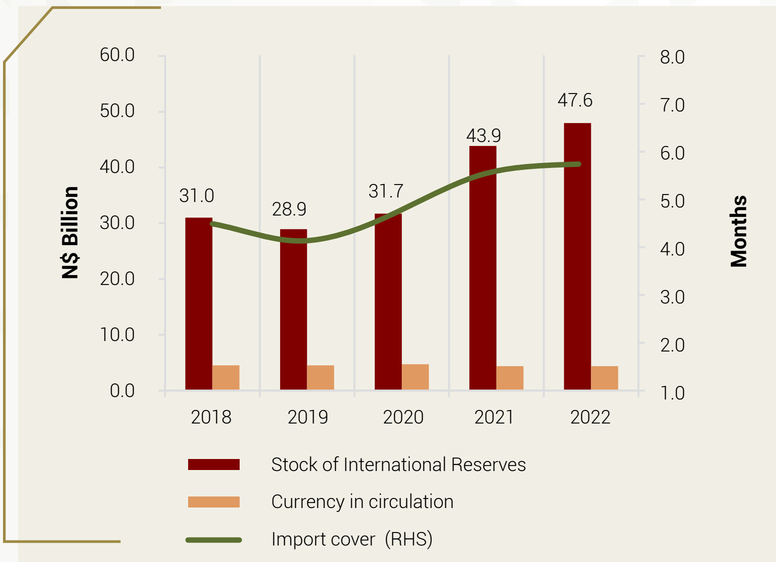
The financial account balance recorded a higher net inflow during 2022, when compared to a year earlier. The financial account balance recorded higher net borrowing from the rest of the world to the tune of N$25.0 billion compared to N$17.6 billion recorded in 2021. The net borrowing from the rest of the world was supported by inflows observed across direct, portfolio and other investment. Net foreign direct investment into Namibia rose to N$15.3 billion during 2022 compared to N$10.0 billion registered during 2021 (Figure B.15). The higher foreign direct investment inflows were mainly due to equity capital injections for exploration activities following the offshore oil discoveries, and higher uptake of intercompany loans extended to domestic subsidiaries operating in the mining sector. Moreover, Namibia's portfolio investment registered a lower net capital inflow of N$2.3 billion compared to a capital inflow of N$8.1 billion recorded a year earlier. The lower net inflow was mainly driven by a reduction in resident institutional investors' net selling of foreign listed equity securities. Other investment recorded a lower net capital inflow of N$8.5 billion compared to N$9.3 billion in 2021. The decrease in capital inflows was mainly due to lower uptake of external long-term loans by the Central Government.

Figure B.15
Financial Account Components



INTERNATIONAL RESERVES

Figure B.16
Stock of International Reserves

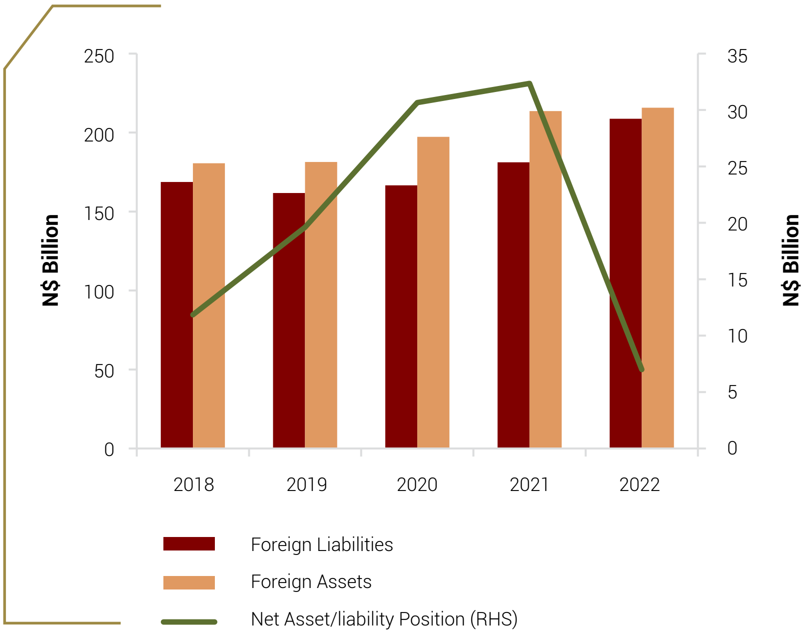


At the end of December 2022, the stock of foreign reserves held by the Bank had risen compared to a year earlier, partly due to capital inflows from foreign asset swaps arrangements, African Development Bank loan and revaluation gains. The stock of international reserve rose on an annual basis by 8.4 percent to settle at N$47.6 billion at the end of December 2022 (Figure B.16). At the current level, the stock of foreign reserves was estimated to be 9.8 times higher than the currency in circulation, remaining adequate to sustain the currency peg. The foreign reserves translated into import cover of 5.7 months, higher than the 5.6 months reported a year earlier.

INTERNATIONAL INVESTMENT POSITION

Namibia's external balance sheet recorded a lower net asset position in 2022 in comparison to 2021 due to an increase in foreign liabilities. Namibia registered a lower net asset position of N$6.4 billion, compared to a position of N$32.4 billion recorded a year earlier, due to a rise in foreign liabilities, particularly foreign direct investment. The market value of Namibia's foreign assets increased marginally by 1.0 percent to N$215.7 billion by the end of 2022 reflected mostly by direct investment and foreign reserve assets (Figure B.17). The increase in direct investment mainly resulted from the revaluation effects as the exchange rate depreciated on an annual basis. At the end of December 2022, the market value of Namibia's foreign liabilities increased over the year by 15.5 percent to N$209.3 billion. The increase in gross foreign liabilities was mainly due to direct and other investment that rose over the year to the end of the December 2022.

Figure B.17
International Investment Position



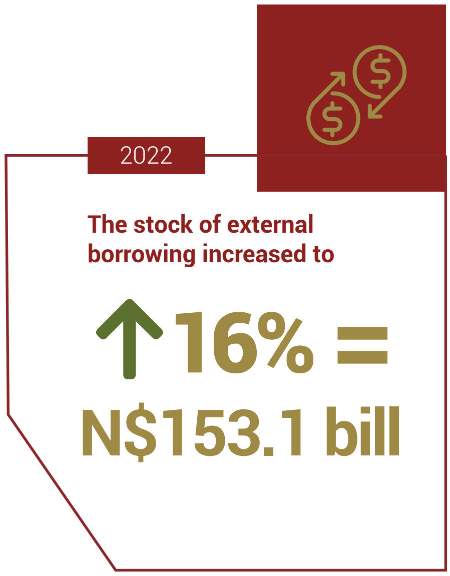
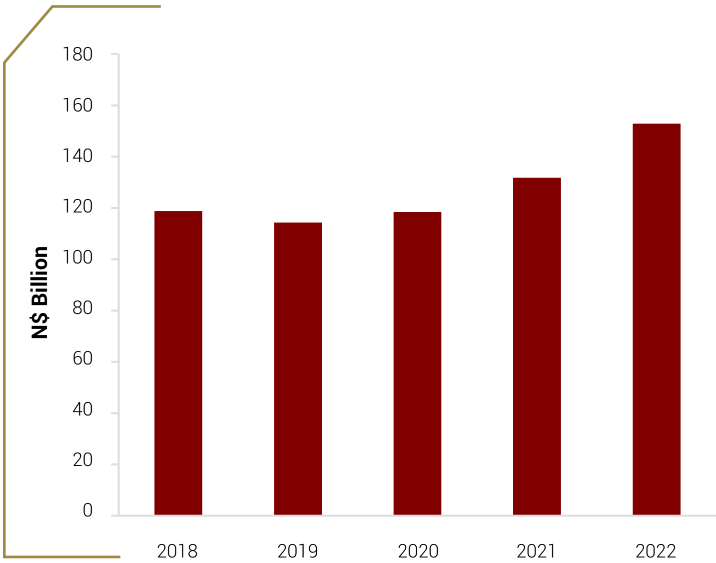


Figure B.18
Gross External Debt Position



EXTERNAL DEBT

During 2022, the stock of external debt rose due to increased borrowing by foreign owned enterprises and increased deposits by non-resident entities in local banks. In 2022, the stock of external borrowing increased by 16.3 percent, to a level of N$153.1 billion due to increases observed in direct investment intercompany lending and deposit taking corporations (Figure B.18). The rise in direct investment intercompany lending was due to foreign direct investors extending loans to subsidiaries in the mining sector to finance operations as well as the depreciation of the Namibia Dollar against the US Dollar.

Table B.9

External Debt by Remaining Maturity (End of 2022)

N$ Millions as at the end of fourth quarter 2022	Total	Short term	2024	2025	2026	2027	2028	2029 plus
Central Government	34 095	580	4 380	12 722	569	268	88	15 618
State Owned Enterprises/ Parastatals	9 636	8 274	186	186	186	186	88	532
Central Bank	6 714	-	-	-	-	-	-	6 714
Deposit-Taking Corporations, except the Central Bank	14 921	13 169	500	330	-	-	-	923
Other Sectors	10 631	3 821	-	-	-	-	-	6 810
Direct Investment: Intercompany Lending	77 188	3 976	9 539	2 120	16 651	816	816	43 271
Gross External Debt	**153 185**	**29 819**	**14 604**	**15 357**	**17 406**	**1 269**	**991**	**73 738**

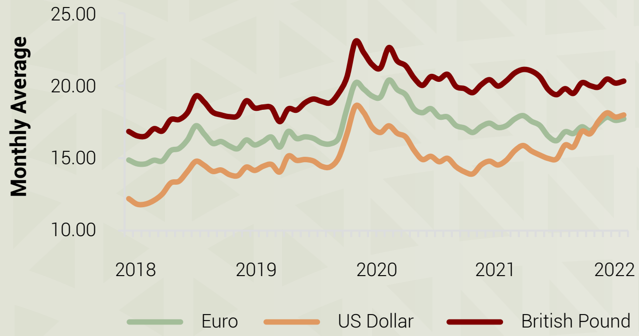
By the end of 2022, external debt with maturity beyond five years constituted 48.1 percent of the total external debt, indicating that the country's external debt is predominantly long-term.

Namibia's debt due in less than one year was N$29.8 billion, which constitutes 19.5 percent of the total external debt, and is mainly driven by the debt obligations of the direct investment enterprises that are due in 2023, together with intragroup deposits of non-resident banks.

Namibia's external debt maturity structure is largely concentrated in the long run, conferring the ability to mitigate the impact of external shocks. By the end of 2022, external debt with maturity beyond five years constituted 48.1 percent of the total external debt, indicating that the country's external debt is predominantly 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 debt due in less than one year was N$29.8 billion, which constitutes 19.5 percent of the total external debt, and is mainly driven by the debt obligations of state owned enterprises, direct investment enterprises that are due in 2023, together with intragroup deposits of non-resident banks. The remaining share of 32.4 percent was allocated to external debt due within the next five years, the main debt obligation being the Eurobond due in 2025 (Table B.9).

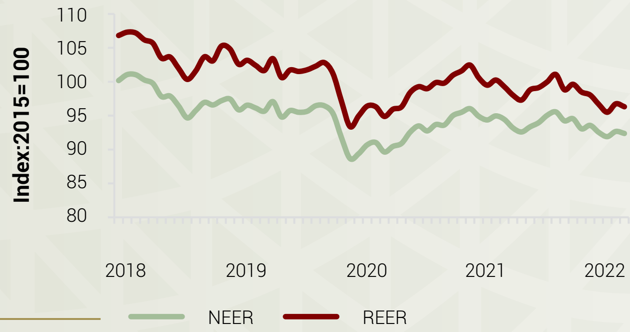
EXCHANGE RATE DEVELOPMENTS

Figure B.19
Namibia Dollar Against Major Currencies



Source: SARB

Figure B.20
Effective Exchange Rates Indices



BILATERAL EXCHANGE RATES

During 2022, the Namibia Dollar/Rand[4] depreciated notably against the US Dollar, whereas it appreciated slightly against the British Pound and the Euro. The Namibia dollar depreciated against the US dollar by 10.7 percent as the greenback strengthened against virtually all currencies owing to aggressive tightening of monetary policy by the US Federal Reserve, and subdued risk appetite among investors amid mounting uncertainty and fears of global recession (Figure B.19). South Africa's large current account deficit as well as the more frequent power cuts further amplified the depreciation. However, the Namibia Dollar appreciated slightly against the British Pound and the Euro by 0.7 percent and 1.6 percent, respectively. The appreciation was aided by steep interest rate increases by the South African Reserve Bank, reinforced by the continued resilience of most commodity prices.

TRADE-WEIGHTED EFFECTIVE EXCHANGE RATES[5]

The Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) both depreciated during 2022, following tightening financial conditions and global recession fears. During 2022, the NEER depreciated by 0.8 percent to an index level of 93.5 (Figure B.20). An unfavourable global economic environment characterised by tighter financial conditions, the evolving global downturn and weaker commodity prices associated with a deterioration in demand as well as the ongoing electricity blackouts in South Africa, resulted in the NEER depreciation. Similarly, the REER weakened during 2022 by 1.6 percent to an index level of 98.3, signaling a moderate gain in competitiveness of Namibian products in international markets.

4 The Namibia Dollar (N$) trades one-to-one against the South African Rand (ZAR) and these currencies are therefore referred to interchangeably. This section uses middle exchange rates against foreign currency units, unless otherwise stated. The respective exchanges rates are period averages.

5 The NEER is a trade weighted index of the nominal exchange rate of the Namibia Dollar against the currencies of Namibia's major trading partners: the Rand, Pula, Euro, US Dollar, Yuan, UAE Dirham and Indian 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

Global Economic Shocks: Repositioning Namibia to Cope With Adverse Effects

CONTENT

1 / INTRODUCTION

Namibia is highly exposed to global risks and shocks as a resource-intensive and open economy. Global and regional developments are important drivers of Namibia's economic performance, as well as of its fiscal and external positions, as the country is highly reliant on commodity exports and Southern African Customs Union (SACU) transfers, as more than half of Namibia's exports – mainly diamonds, uranium ore, beef and fish – are destined for Europe, the United States and China.

Several shocks have adverse effects on small open economies. Financial shocks like those from global financial conditions or even a generalised risk aversion, such as that emanating from the Covid-19 pandemic, can drive domestic financial conditions, capital flows to banks and corporates, and the exchange rate, amongst other things. Real economic shocks, such as those to productivity and foreign demand, can also impact investment and output.

Real economic shocks that affect world growth and financial conditions filter into real developments in Namibia through trade linkages. The mechanisms through which the global economic shocks have affected Namibia include a contraction in global trade and a related collapse in primary commodity exports, which is a key dependency for Namibia.

Furthermore, global financial conditions affect Namibia mainly through the monetary link to South Africa. South Africa is one of the most financially integrated emerging markets in the world. The link connecting Namibia to South Africa is through the peg of the Namibia Dollar to the South African Rand. Financial conditions in the Namibian economy have deteriorated following 1) the general increase in global and domestic interest rates in response to elevated inflation rates principally emanating from high food and energy costs, attributable to the Russia-Ukraine war; 2) the aftermath of the Covid-19 pandemic; and 3) the volatility in export commodity prices.

The objective of this theme chapter is to assess how Namibia can reposition itself to withstand the adverse effects of global shocks. It is necessary for policymakers to understand the nature of these shocks and their transmission channels, and to craft appropriate policies to cushion the economy against these shocks. This assessment aims to address the following questions:
This is a valuable exercise as it can inform the design of the appropriate macroeconomic policy response and frameworks in Namibia.

Q1

How can the Namibian economy manage external shocks?

Q2

More specifically, how should Namibia build internal and external resilience to better navigate shocks?

The theme chapter is organised as follows: Following this introductory section, Section 2 outlines the growth trajectory and important features of the Namibian economy, while Section 3 presents an explanation of the macroeconomic framework and the main channels through which the effects of the global economic shocks are transmitted to the Namibian economy. Section 4 examines various strategies to help build resilience, while in conclusion, Section 5 offers various policy recommendations.

Section 2
Growth trajectory and important features of the Namibian economy

Section 3
Explanation of the macroeconomic framework and the main channels through which the effects of the global economic shocks are transmitted to the Namibian economy

Section 4
Various strategies to help build resilience

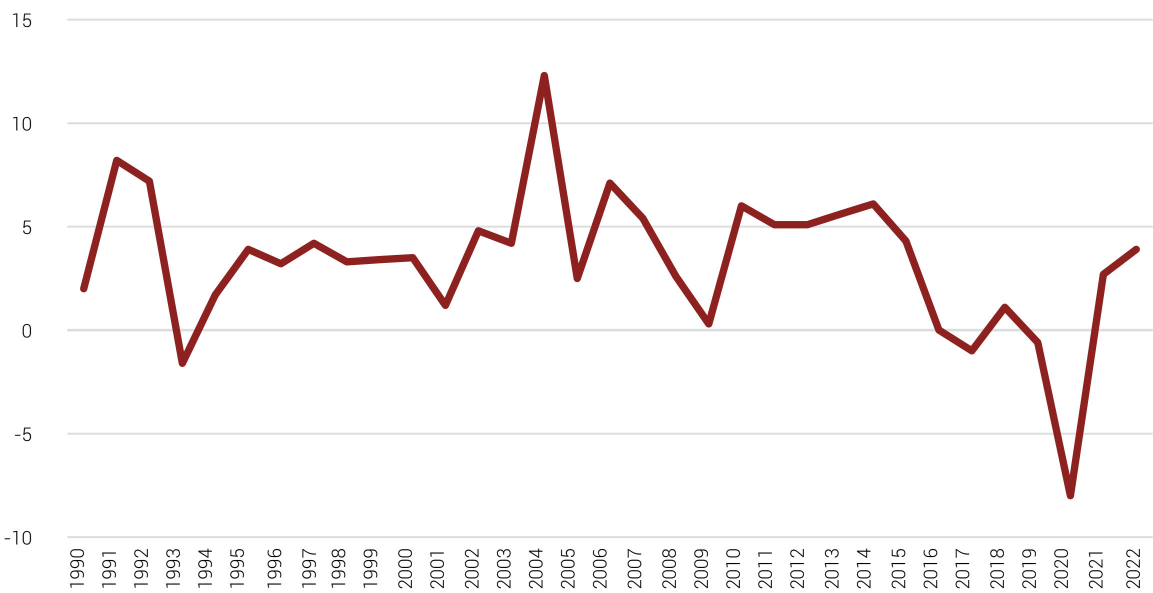
Section 5
Policy recommendations

2 / GROWTH OVERVIEW AND IMPORTANT FEATURES OF THE NAMIBIAN ECONOMY

2.1 GROWTH TRAJECTORY SINCE INDEPENDENCE

Namibia's growth prospects have historically been characterised and conditioned by its reliance on the endowment of its natural resources. Since independence, Namibia has registered overall positive economic growth, except for 1993, 2017, 2019 and 2020 (see Figure 1). Growth during the first decade was driven by the global commodity super cycles[6] – which translated into favourable terms of trade, an investment boom in the mining industry, and blossoming exports coming from that sector – alongside the post-independence surge in international ties and representation, together with the expansion of the public sector. Commodity prices have undergone repeated cycles over the past fifty years. On average, the cycles lasted almost six years, peak to peak. In the case of Namibia, the commodity super cycle is linked to China's economic growth, whose growth trajectory started in mid-1996 and lasted until it was curtailed by the Covid-19 pandemic. The most recent upcycle started in 2000, with the rapid industrialisation of China, and peaked in 2008, when the global financial crisis halted demand.

Figure TC.1
Real GDP Growth In % (1990–2022)



Source: NSA

6 A commodity super cycle means an extended period of boom and bust in the commodities markets, with prices falling significantly above or below their long-term trends. A commodity super cycle can last up to six years, or more.

Public investment has historically been an important driver of growth. Starting in 2008, a rapid expansion in public expenditure fuelled the growth acceleration further, transmitting and amplifying the impacts of the commodity-driven boom to the rest of the economy. The result was a large multiplier effect on the non-tradeable sector – in particular, the wholesale and retail trade, public administration, construction, and real estate sectors – which contributed more than 80 percent of the overall economic growth registered between 2000 and 2015. This public investment also contributed to the cushioning of the economy against the global financial crisis of 2008. The public investment spending was fuelled by the Targeted Intervention Programme for Employment and Economic Growth, a three-year initiative which ended in March 2014. It was aimed at addressing the high unemployment rate, while also supporting strategic economic sectors.

As the commodity super cycle came to an end and the fiscal space was exhausted, coinciding with the worst drought in Namibia since independence, Namibia experienced a significant reversal of trends. Gross domestic product (GDP), which had increased at an average rate of 4.8 percent per annum over the fifteen years of growth acceleration (2000–2015), contracted at a compounded average rate of -1.7 percent between 2016 and 2020. In 2013, 2016 and 2019, the country experienced devastating droughts[7] that required government intervention through drought relief, which further exhausted the state coffers. As a result, by the beginning of 2020, the country had been struggling for five years to reignite new and inclusive sources of growth to consolidate its fiscal balance, and to promote equal opportunities for all its citizens. The Covid-19 pandemic and related lockdowns then brought about the worst contraction in the history of the Republic of Namibia, with the economy shrinking by 8.1 percent in 2020, From this low base, the country registered positive growth of 3.5 percent in 2021.

7 https://www.rosalux.de/en/news/id/45964/namibias-punishing-drought

2.2 IMPORTANT FEATURES OF THE ECONOMY

The Namibian economy has some notable features that render it susceptible to global risks and inward spill-overs. The most notable of these are: (i) being a resource-based and highly open economy; (ii) having its monetary and trade links in southern Africa; and (iii) having a limited manufacturing base and a small domestic market.

(i)

A resource-intensive and highly open economy: Namibia's trade openness ratio, measured as the sum of exports and imports to GDP in nominal terms, increased from 37 percent in 1990 to approximately 90 percent in 2022. The value of imports has grown from approximately N$9 billion in 2000 to an estimated N$104 billion in 2022, representing an average growth rate of 20 percent per annum. Export values, on the other hand, have grown moderately with an average growth rate of 9 percent per annum since 2000. The high degree of openness of the economy and its heavy reliance on imports from South Africa means that it is highly susceptible to negative economic developments in South Africa and the global economy.

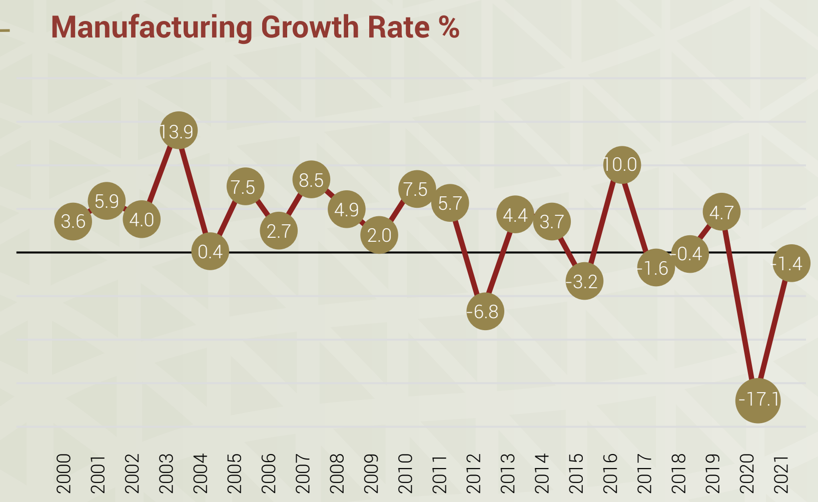
(ii)

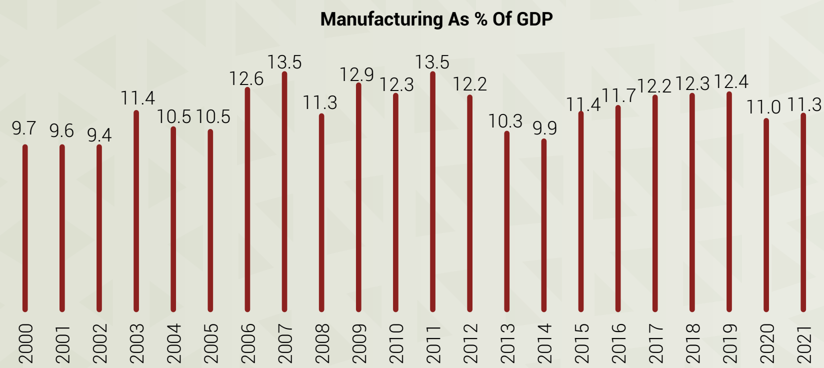
The Common Monetary Area (CMA) and membership of the Southern Africa Customs Union (SACU): South Africa has one of the most liquid emerging markets, and shocks emanating from global financial conditions rapidly filter into South African domestic financial variables. Outward spill-overs from South Africa to other members of the CMA and SACU are significant, and they are particularly felt through trade revenue. Customs revenue depends heavily on South African imports and accounts for a substantial portion of fiscal revenue in most BELN countries (Botswana, Eswatini, Lesotho and Namibia).

(iii)

Limited manufacturing base and a small population and domestic market: The Namibian economy is driven by the extraction and production of important raw materials. Although the manufacturing sector is one of the biggest contributors to GDP, it has seen very little growth over the years. The growth rate of the manufacturing sector has been slow and mainly in negative numbers from 2014 to 2021.

Figure TC.2
The Manufacturing Sector (Growth Rate And Its Contribution To GDP)





Source: NSA

3 / GLOBAL SPILL-OVERS: TRANSMISSION MECHANISM INTO NAMIBIA

Global shocks have sparked debates on how countries are affected and what policy options should be explored. Recent events, such as the Covid-19 pandemic, the war in Ukraine and resulting food and energy crises, surging inflation, rising interest rates and debt tightening, as well as the rising climate concerns, have raised questions again about spill-over effects onto the economic performance of countries around the world, including Namibia. Existing global literature identifies and categorises a number of channels through which real shocks spread from one country to another: This analysis is narrowed down to the following three channels (i) the trade channel (commodity price movement), (ii) the exchange rate transmission channel and (iii) the fiscal channel. A deep understanding of spill-over channels is key to ensuring optimal policy decisions, particularly in open economies with strong international ties.

3.1 TRADE LINKAGES

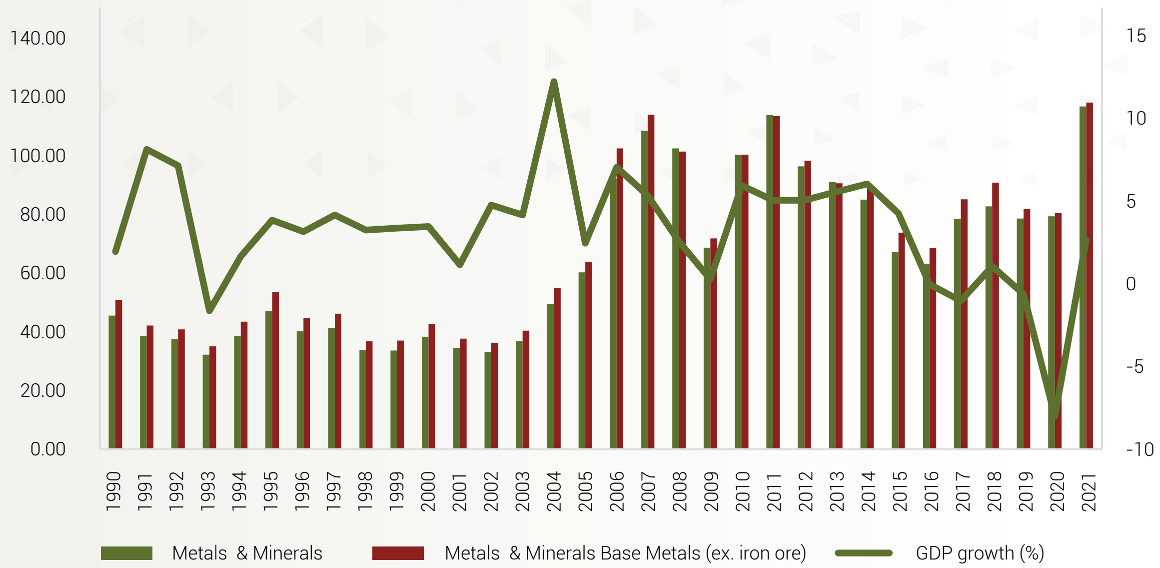
3.1.1 Commodity prices

Trade and commodity price movements have significant impacts on the growth of developing economies such as Namibia's. Changes in global commodity prices lead to terms of trade shocks, which often account for as much as half of the fluctuations in their economic activity. For Namibia, a deterioration in the terms of trade[8] reduces growth and worsens its current-account balance. In a floating exchange rate country, it would also weaken the currency, but due to the peg to the Rand, the Namibian dollar does not weaken unless the South African terms of trade also weaken.

For Namibia, where a few commodities are responsible for a significant part of external trade, increasing mineral commodity prices around the world generally push the terms of trade higher and are good for growth. This is particularly significant for growth in Namibia's mining industry and serves as a boost for government revenue from the extractive sector.

Global commodity prices have surged upwards as world economies, including that of Namibia, have embarked on an economic recovery path following the devastating impact of Covid-19. The IMF commodity price index shows that global commodity prices have picked up since the setback caused by Covid-19. Figure TC.3 below shows how the metal and mineral price index has moved and how it is intertwined with the economic business cycle in Namibia.

Figure TC.3
Metal And Mineral Price Index



Source: World Bank

8 The ratio of the country's export prices relative to its import prices.

The price indices for metals and minerals on average increased by 50 percent in 2021 and 4 percent in 2022. All commodities that Namibia exports gained handsomely in 2021. In 2022, movements have been muted, as the average price of gold increased marginally by 0.05 percent from US$1799.6 to US$1800.6 per ounce, while that of zinc increased by 16.0 percent from US$3002.5 to US$3481.4 per metric tonne. This implies more export earnings for Namibia. Similarly, in 2022, in the spot market, the average price of uranium increased by 41.2 percent to US$49.81 per pound[9].

International oil prices have been on the rise since April 2020, and this trend has been exacerbated by the Russia-Ukraine war. International Brent crude oil prices rose by 56.8 percent over the twelve months from January 2021 to close at US$85.53 per barrel in January 2022, mainly on the back of a recovery in global demand. The invasion of Ukraine by Russia on 24 February 2022 and the subsequent sanctions imposed on Russia caused international oil prices to rise sharply. This was on the back of supply disruptions, given that Russia is amongst the largest oil exporters, coupled with a rise in refinery costs owing to a loss in refinery capacity since 2020. Brent crude oil prices have risen sharply since February 2022, by 31.4 percent to US$112.37 per barrel during May 2022. The rise in fuel prices stemming from the war has had a negative impact on the trade balances of fuel-importing countries and is constraining real disposable income, and may consequently reduce consumption and investment.

In addition, global shocks through the trade linkages tend to weigh heavily on the Namibian economy through reduced demand from the major trading partners, the Eurozone and China. The top three trading partners for Namibia's exports are South Africa, the Eurozone, and Botswana, and as of 2018, China has become one of Namibia's top five export markets. The top five exports markets accounted on average for 78 percent of total exports between 2015 and 2021. The top broad export groupings are mineral products and manufactured products, while at a more detailed level, diamonds, uranium and processed fish take the top spots.

price indices for metals and minerals

in 2021

> 50%

in 2022

> 4%

International Brent crude oil prices

> 56.8%

from January 2021 to close at US$85.53 per barrel in January 2022

9 https://www.bon.com.na/CMSTemplates/Bon/Files/bon.com.na/74/74eb30eb-7d3a-4d20-a1df-8e2709029c3b.pdf.

TC.1

Composition of exports and imports

In N$ million	2015	2016	2017	2018	2019	2020	2021	2022
Export (fob)*	41 150	46 837	49 865	55 575	56 063	51 704	52 950	68 401
Diamonds	11 195	10 357	9 744	11 014	9 364	7 068	8 372	14 445
Other mineral products	8 569	10 744	11 209	14 784	16 421	19 807	19 180	21 318
Food and live animals	2 447	2 055	3 858	3 774	3 382	2 583	2 980	3 752
Manufactured products	14 917	20 769	21 886	22 931	23 741	19 475	18 962	23 830
of which Processed fish	*7 529*	*9 109*	*9 234*	*10 055*	*10 154*	*10 001*	*10 633*	*11 609*
Other commodities	1 761	1 572	1 524	1 679	1 911	1 867	2 024	1 919
Re-exports	2 261	1 341	1 645	1 394	1 243	904	1 433	3 138
Import (fob)*	81 603	82 099	73 980	76 023	74 886	67 438	81 834	104 692
Consumer goods	18 765	19 659	20 748	20 671	21 570	21 197	23 811	27 801
Mineral fuels, oils and products of their distillation	14 136	11 959	8 894	11 961	12 747	9 290	12 392	25 260
Vehicles, aircraft, vessels	10 579	11 716	8 746	8 726	8 371	7 690	9 209	8 827
Machinery, mechanical, electrical appliances	13 189	12 362	11 455	11 903	10 378	10 060	11 947	15 096
Base metals and articles of base Metal	6 949	5 409	4 614	4 600	4 412	4 114	5 502	5 945
Products of the chemical industries	6 361	7 288	7 018	7 514	6 976	7 488	8 718	9 625
Other imports	11 622	13 706	12 507	10 649	10 432	7 599	10 255	12 137

Namibia's top import trading partner is South Africa, from which it imports more than 60 percent of its goods. The country's other top trading partners are China, the Eurozone and India, which collectively account for a further 20 percent of imports. Namibia's top import commodities are consumer goods; mineral fuels, oils and products of their distillation; and machinery, mechanical and electrical appliances.

As a semi-arid country, Namibia imports more than 80 percent of its food, and is susceptible to global food price increases. The recent global shock triggered by the Russia-Ukraine war, caused an increase in global food prices, at a time when food prices were already at historically high levels due to the Covid-19 pandemic-induced supply limitations and transportation disruptions. The World Bank's food price index increased to its highest ever level of 159.04 index points in March 2022, although it eased somewhat later in the year. This rise was mainly due to higher prices of most cereals and vegetable oils, owing to supply chain and transportation disruptions, coupled with high prices of wheat and coarse grain resulting from the war. The resultant additional pressure on global food security is mainly felt by the most vulnerable members of society.

3.2 EXCHANGE RATE TRANSMISSION CHANNEL

The exchange rate channel affects various sectors of the Namibian economy. The exchange rate is one of the intermediate policy variables through which monetary policy is transmitted to the larger economy through its impact on the value of domestic currency, domestic inflation (the pass-through effect), the external sector, macroeconomic credibility, capital flows, and financial stability. It is through this channel, that the Bank of Namibia uses monetary policy to achieve the goals of macroeconomic management.

The strong ties between Namibia and South Africa, tightening global conditions, and increasing inflation tend to fuel inflationary pressures in Namibia. These lead to interest rate hikes by the central bank which may, inadvertently, place a drag on investment[10]. The graphs below (Figure TC.4) depict the extent to which the Namibian and South African economies are interlinked.

10 There is an inverse relation between the rate of interest and investment. If the rate of interest is high then less loans will be taken up from the bank and they will have less money to invest in whereas if rate of interest is low then people will take more loan from the bank to invest in the business.

Figure TC.4
Inflation And Repo Rate History Of Namibia And South Africa

Source: BoN, SARB and NSA

3.2 FISCAL CHANNEL

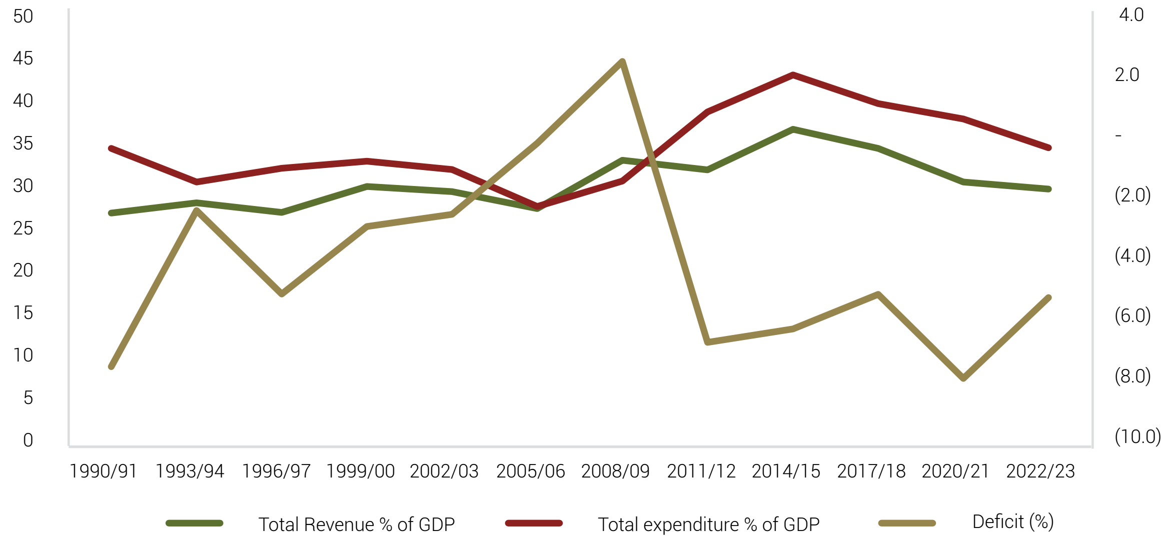
Spill-overs can arise from large fluctuations in fiscal revenues associated with SACU and from commodity pricing policies in neighbouring countries. These developments impact strongly on economic activity and fiscal sustainability. Given the relative importance of the South African economy in the customs union, the state of its economic cycle is the main driver of the size of the common revenue pool. Fluctuations in South Africa's consumption and imports have a large impact on total SACU trade-related and excise revenues.

Figure TC.5
SACU Receipts As % Of GDP

Source: MoF

Exchange rate fluctuations can also affect government revenues through increased foreign debt. Foreign denominated debts are susceptible to currency fluctuations thereby increasing/decreasing the amount which the Namibian government is expected to pay back upon maturity. This then in turn also affects the fiscal deficit.

Figure TC.6
Government Expenditure, Revenue And Fiscal Deficit As % Of GDP



Source: MoF

The Government's borrowing for the Covid-19 pandemic drove the already high Namibian government debt to unprecedented levels, substantially exceeding national and SADC convergence limits. Furthermore, global and domestic interest rates are in an upward cycle to fight inflation. The combination of rising interest rates and a very high ratio of public sector debt to GDP will continue to put significant pressure on the Namibian budget deficit as the government's borrowing costs rise. Therefore, it is imperative that improvements in revenue should be prioritised alongside containment of expenditure, to stabilise and pay off debt.

4 / BUILDING RESILIENCE TO GLOBAL SHOCKS

Building resilience will require specific interventions that are most appropriate to the Namibian economy. Key responses must involve: (i) interventions to respond to trade distortions through economic diversification; (ii) interventions to rebuild fiscal policy buffers and ensure external sustainability; and (iii) interventions that deal with the problem of the poor and vulnerable.

A) INTERVENTIONS TO RESPOND TO TRADE DISTORTIONS THROUGH ECONOMIC DIVERSIFICATION

The Namibian economy is largely undiversified due mainly to an overreliance on mining and related exports. The performance of the economy has been highly reliant on mining commodity exports which tend to be volatile as they are dependent on commodity prices set at an international level. For Namibia, diversifying the economy would mean moving away from relying only on one or two main drivers of growth. This would require expanding investments in the non-mining, non-government sector and orienting these investments to be weighted towards exports rather than consumption.

Shielding the economy from external shocks through economic diversification can be achieved, either by diversifying the economic structure or by increasing export markets. Economic diversification can be defined as the shift towards a more varied structure of domestic production and trade with a view to increase productivity, creating jobs and providing the base for sustained poverty-reducing growth. Growth also tends to be unbalanced in the case of mineral dependent countries or slow and difficult to sustain in agrarian ones. Poverty-reducing, trade-driven, growth has been particularly difficult to achieve in countries whose economies are heavily dependent upon primary commodities. However, the development and expansion for instance of diamond cutting and polishing, fish processing, beer and soft drink production, and tourism in Namibia is proof that diversification can succeed in practice. Another way the country can build resilience to shocks is by broadening the export markets, thereby reducing the overreliance on only a handful of countries for revenue.

The recent discovery of oil and gas, including the green hydrogen project emerge as potential avenues of economic opportunity in Namibia. These discoveries could place Namibia as a potential economic player within the region and on international markets soon, as it has a comparative advantage to fully explore the arena of green energy. The tendency of commodity price booms to be more pronounced than price slumps, as witnessed over the past 50 years, underscores the importance for Namibia to save windfall revenues, through the newly established sovereign wealth fund, during good times to respond to future shocks.

Namibia, which is prone to droughts, will need to look at avenues of rainwater harvesting during flood seasons to ensure sufficient water is available for agricultural products. To cushion the economy against adverse food price increases will require that the country find ways to be food self-sustainable. Increasing irrigation is one of the inevitable ways to ensure continuous food production throughout the year. This will require rainwater harvesting during rainy season, ensuring water supply throughout the year. This will increase crop production of basic items to substitute some imports for local production. Moreover, the country may wish to look at drought resistance crops to adapt to climate change.

Similarly, the global energy crisis also remains a significant risk that must be monitored and countered. The global energy crisis, especially in Europe and southern Africa, shows the need for the country to increase energy supply in the country, while also exploiting the diversification opportunities created by the energy situation in the SADC region.

B) INTERVENTIONS TO REBUILD FISCAL POLICY BUFFERS AND ENSURE EXTERNAL SUSTAINABILITY

Creating fiscal space and enhancing government revenue is important for buffering the economy against shocks. Increasing tax revenues, rationalising spending, increasing spending efficiency, and addressing medium-term fiscal risks are necessary to increase development, social, and climate spending, while maintaining fiscal sustainability. To mitigate against potential future crises, the Namibian government will need to think of bolder and stronger transformative policies to build fiscal buffers. This will mean saving during times of economic booms and reducing non-essential spending through targeted spending efforts. To this end the Namibian authorities have created a mechanism through a sovereign wealth fund as one of the important avenues to facilitate such saving.

To support the stronger pro-growth fiscal policies, Namibia will need to double efforts to enhance revenue mobilization and increase productive spending and its efficiency. Higher tax revenues, through enhanced collection methods instead of increased tax rates would support consolidation while allowing higher pro-growth expenditures. The increase in revenues should be accompanied by efforts to enhance fairness by reducing regressive and distortive exemptions and closing loopholes. On the spending side, better prioritisation and streamlining of current expenditure and increased efficiency of capital and social spending would be crucial for increasing productivity and growth. Similarly, improved controls over public sector procurement and transparency over the procurement decisions will save cost and reinforce credibility. It would also improve the business environment while reducing income inequality and fighting poverty. Increased revenues should be saved under the sovereign wealth fund to increase long term fiscal buffers.

C) INTERVENTIONS THAT DEAL WITH THE PROBLEM OF THE POOR AND VULNERABLE

Food and fuel price increases could lead to a substantial increase in poverty rates in Namibia. The impact of the food price increases on poverty could be particularly significant in Namibia, given that many households spend about half of their income on food. The fuel price increases are likely to have a smaller direct impact on poverty, however, because fuel is an intermediate input into most other goods and into transport services, the impact could still be great.

To curb the increases of fuel prices, the Mines and Energy Ministry in 2022, reduced levies on all petroleum products. While these measures provide temporary relief to consumers, they may not be sufficient, especially to the most vulnerable members of the society. However, more long-term measures are needed to protect the most vulnerable people in society, such as increasing grants to the elderly and those living with disabilities.

The Namibian government can consider zero-rating consumer goods that are particularly consumed by the most vulnerable. A host of the consumer goods, which are presumably affected by the current global supply disruptions and increasing price caused by the Russia-Ukraine war, are already zero-rated. However, other goods that could be considered for zero-rating may include all wheat and all grain products and substitutes.

Namibia should also look at longer-term policies designed to raise income levels and hence to reduce the vulnerability of the people who are currently prone to all shocks, and particularly to shocks involving changes in the price of food. Raising the income of the poor is the most effective long-term mechanism for reducing their vulnerability—and especially the vulnerability associated with higher prices of staple foods. This is a huge challenge that involves all fields of economic policy. For this, Namibia will need to improve the technology of agricultural production. Investments in agricultural research and the adoption of modern technology can have particularly high rates of return. This can be done by scaling up climate-smart agricultural practices, strengthening climate-smart agricultural research and seed systems, and supporting market, climate, and advisory services.

It can also contribute to fairer competition, increased government revenues, national economic growth, and social cohesion. During the Covid-19 pandemic, informal activities picked up and became an alternative source of income to many. However, due to the informality of these businesses, Covid-19 regulations did not permit them to operate as they did not meet health standards. The various authorities can assist by supporting and enabling the informal trades to achieve formal status.

Namibia should also invest in rural infrastructure. Improvements in rural infrastructure raise the prices received for output from a region and lower the cost of consumption goods brought into the region and can be very effective in lowering poverty. Investments in infrastructure frequently have high benefit/cost ratios. A sound strategy is to rigorously screen potential infrastructure projects so that high benefit/cost ratio projects are identified and carried out.

There is a need to support the small and medium enterprises through the formalisation of informal businesses. Formalisation is the process of acquiring formal legal status through complying with business regulations. Formalisation can help small informal businesses grow and provide greater security for workers.

5 / CONCLUSION AND POLICY RECOMMENDATIONS

5.1 CONCLUSION

The aim of the theme chapter was to document how the Namibian economy can manage external shocks, looking specifically, at how the country can build internal and external resilience to navigate these shocks. This was done by looking at how shocks transmit into the Namibian economy. The theme chapter found that the Namibian economy is mainly affected through the trade channels, especially through reduction in commodity prices that lead to terms of trade shocks, which reduces growth and worsens government revenue. Another key channel is the exchange rate channel which impacts on the value of domestic currency, domestic inflation (the pass-through effect), the external sector, macroeconomic credibility, capital flows, and financial stability. The fiscal shocks are transmitted through the volatility associated with SACU receipts. Key responses to building resilience to these shocks have been identified as: (i) interventions to respond to trade distortions through economic diversification; (ii) interventions to rebuild fiscal policy buffers and ensure external sustainability; and (iii) interventions that deal with the problem of the poor and vulnerable. The proposed policy options offers avenues on how to cushion and build resilience against the global shocks.

Amid a fragile global economic environment, the domestic economy has demonstrated some resilience in 2021 and 2022, as it continued to recover from the Covid-19 pandemic shock. Consistent with this evidence, the ongoing global slowdown has spilled over into Namibia, although their effect remains contained. The mineral demand side (increased in mineral exports) continues to shield Namibia from major economic shocks. However, it should be noted that further deterioration of the euro area economies may generate significant negative spill-overs to the Namibian economy through trade linkages.

The general fear is that such shocks impact the economy in ways which adversely affect the well-being of the most disadvantaged and vulnerable members of society. Despite the estimated improvement in growth in 2021 and 2022, the impact on Namibia's main economic challenges, namely, poverty, inequality and unemployment, remain inadequate and calls for concerted efforts to sustain and improve economic growth.

For Namibia, mitigating the global shocks' impact on economic activity, protecting vulnerable groups, and building fiscal buffers are immediate policy priorities. In the medium-term, policies should focus on structural reforms and modernising policy frameworks to boost growth, support the vulnerable, strengthen governance, and tackle the rising levels of debt.

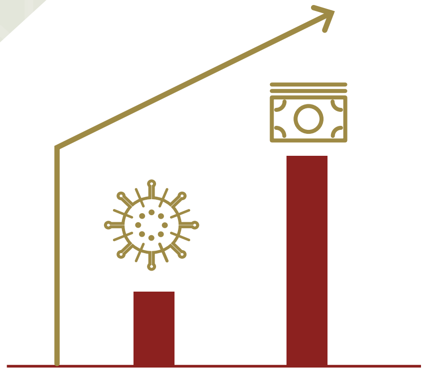
5.2 POLICY OPTIONS

Structural reforms to support economic diversification and enhance productivity should be implemented. Diversifying the economy, building fiscal buffers and protecting the vulnerable people are key to building resilience.

Improve investment climate and boost productivity. To support private sector-led growth, underpinned by exports and investments, structural reforms should focus on improving governance, diversifying exports, increasing productivity, and building climate resilience to lift the economy's growth potential. This will enhance diversification efforts, which will help the country to manage volatility and provide a more stable path for equitable growth and development.

Namibia's fiscal consolidation strategy is crucial to preserve debt sustainability. Containing the wage bill, advancing the reform of state-owned enterprises, and strengthening tax administration are key. In parallel, it is important to preserve social spending and growth-supporting public investment and mitigate the impact of higher food and fuel prices on the poorest. Improvements in the SACU receipts, when they occur, must therefore be used to reduce the deficit, stabilise the debt level and save for the future through the sovereign wealth fund (the Welwitschia Fund).

The country should enhance resilience of food production to climate change through access to water, resilient seeds and fertilizer among others. Namibia should consider as an example, rainwater harvesting to increase food productivity. Rainwater harvesting can positively impact the agricultural sector by enabling increased productivity in the dry season.



Amid a fragile global economic environment, the domestic economy has demonstrated some resilience in 2021 and 2022, as it continued to recover from the Covid-19 pandemic shock.

The Government of Namibia should therefore encourage rainwater harvesting by providing financial support to the farmers, and by conducting awareness campaigns that increase knowledge and stress the importance of rainwater harvesting. In addition, the Government should increase the supply of resilient seeds and access contaminant-free fertilizers appropriate for specific weather shocks, soil, and crops.

Protecting the vulnerable members of society against shocks should be a priority. Systems of social protection should be strengthened to provide buffers to shocks, especially for particularly vulnerable segments of the population. These systems should be made adaptive – integrated with disaster risk reduction and climate change adaptation.

PART C

Banking Supervision

CONTENT

BANKING SUPERVISION

INTRODUCTION

Despite various challenges, the banking sector remained resilient and reported good balance sheet growth, strong capital, profitability and adequate liquidity levels. During 2022, banks rebounded from the Covid-19 pandemic's effects with strong balance sheet expansion, strong capital and sufficient liquidity. The banking sector recorded elevated growth in earnings, which was driven by steady economic recovery. To support economic recovery, the Bank maintained and further enhanced its relief measures to ensure that banking institutions could continue lending to businesses and clients affected by the Covid-19 pandemic until April 2023.

The Namibian banking sector remained with seven (7) fully fledged commercial banks, of which four (4) are Domestic Systemically Important Banks (DSIBS)[11], while the remaining three (3) are classified as second tier banks. In addition, one (1) foreign banking institution and one (1) representative office complete the list of authorised institutions.

11 DSIBs are classified on the basis of the impact that their failure may have on the domestic economy, based on an assessment of factors such as (i) size, (ii) interconnectedness, (iii) substitutability, and (iv) financial market infrastructure.

Total eligible capital ratio increased from

15.9%

to 17%

in 2022

PERFORMANCE OF THE BANKING SECTOR

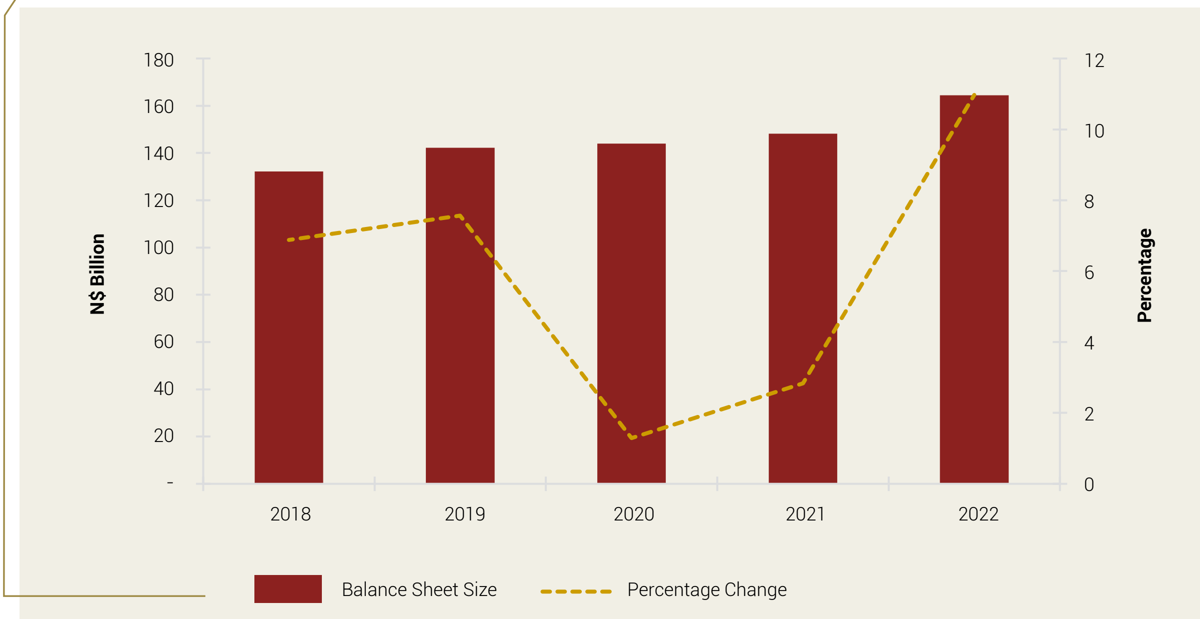
The banking system remained well-capitalised, with a notable improvement in asset quality and total income. Total eligible capital ratio increased to 17.0 percent, from 15.9 percent reported in 2022. Likewise, all DSIBs recorded improvements in other capital indicators, namely the Common Equity Tier 1 capital ratio and the Tier 1 leverage ratio, at 14.7 percent and 9.6 percent, respectively, exceeding the prudential requirements of 6.0 percent and 7.0 percent, respectively. Although the industry posted strong capital levels, it is expected that increasing interest rates and rising provisions may negatively impact profitability and ultimately capital levels in future. Nevertheless, asset quality as measured by the performance of non-performing loans (NPLs) has seen material improvement during 2022, due to a combination of repayments, write-offs and debt restructuring measures. Finally, earnings for the banking sector for year 2022 improved, mainly driven by an increase in net interest income and operating income.

BALANCE SHEET STRUCTURE

The banking sector remained resilient, as can be noted from the persistent balance sheet growth despite the economy still facing headwinds following the fallout of Covid-19. The balance sheet size grew by 11.0 percent to N$164.4 billion, which surpassed the 2.8 percent growth reported in 2021 (Figure C.1). The balance sheet growth was mainly driven by increases in cash and balances held with the banks, short-term negotiable securities, and loans and advances.

Figure C.1
Aggregated Balance Sheet

The banking sector showed improved growth in balance sheet size during 2022.



The balance sheet size grew by

11% to N$164.4 billion

ASSET STRUCTURE

The banking sector registered an improved financial position in 2022 as evidenced by higher bank balances held with banks and the central bank. The growth in the balance sheet was mainly attributable to increased cash and balances held with the banks, which expanded by N$9.6 billion to N$26.5 billion, on the back of increases mainly in interbank placements and other balances held with Bank of Namibia. Similarly, net loans and advances reported an increase of N$4.3 billion to N$105.8 billion, with most credit extended into residential and commercial mortgages. The short-term negotiable securities category increased by N$1.7 billion to N$20.6 billion and was largely driven by investments in Negotiable Certificates of Deposit.

The asset structure maintained its composition from the prior year with net loans and advances accounting for more than half of total assets. Net loans and advances decreased as a proportion of total assets from 68.5 percent to 64.4 percent, whereas cash and balances with banks' asset share increased from 11.4 percent held during the 2021 to 16.1 percent in 2022. Notably, a decrease was reported under short term negotiable securities from 12.8 percent in 2021 to 12.5 percent in 2022.

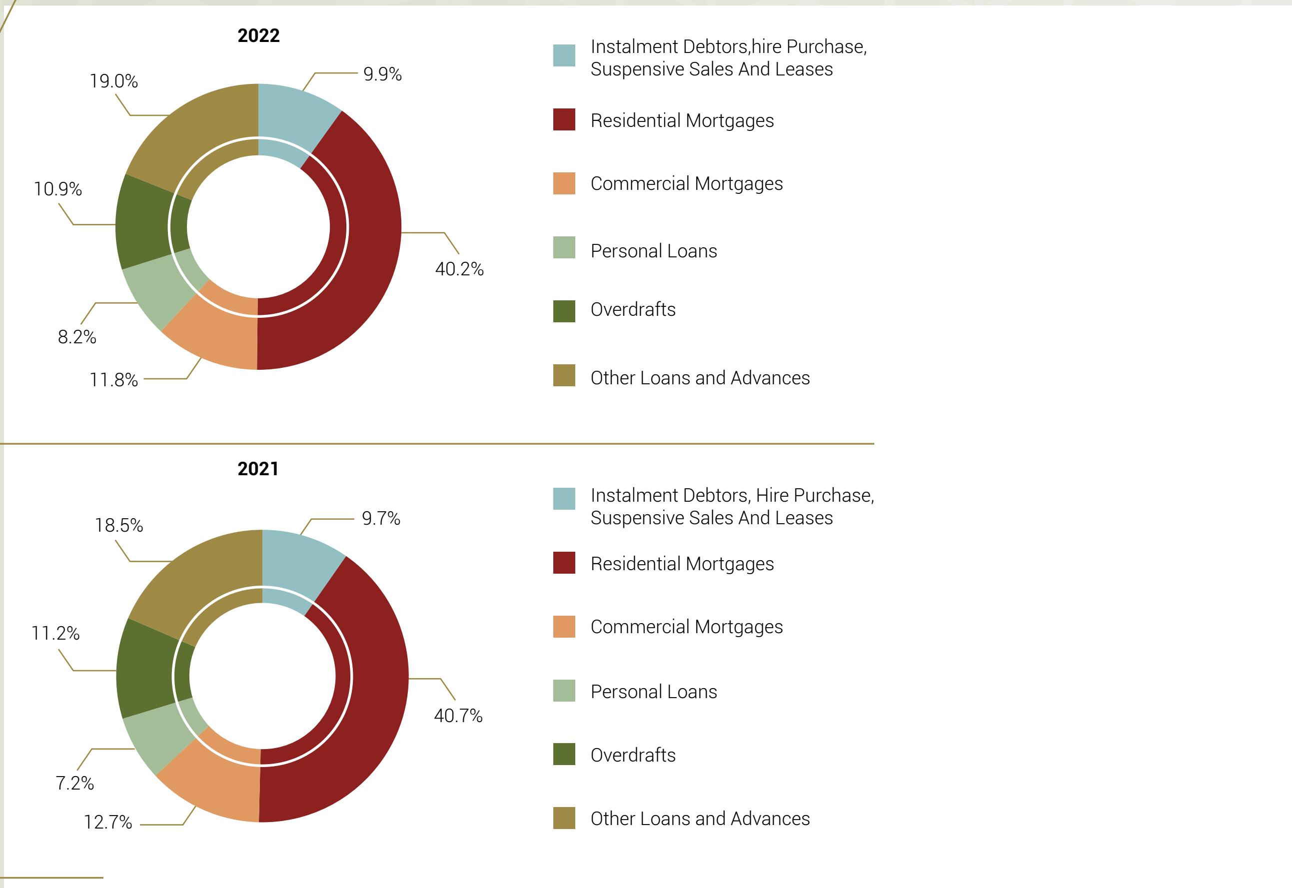
Credit extension was steered towards personal loans and residential mortgages despite the steady rise in interest rates. The year under review saw a 4.1 percent growth across the loan book which brought it to N$110.0 billion. Personal loans led the increase in the loan book by N$1.4 billion and stood at N$9.0 billion. Similarly residential mortgages as a major loan component increased by N$1.2 billion to N$44.2 billion. The top categories of the loan book were residential mortgage loans, which occupied the largest portion of the loan book at 40.2 percent, followed by other loans and advances at 19.0 percent, and commercial mortgage loans at 11.8 percent (Figure C.2).

Residential mortgages increased by

N$1.2 bill to N$44.2 bill

Figure C.2
Composition Of Loans And Advances

Loans And Advances Were Driven By Extensions In Residential Mortgages, Other Loans And Advances, And Commercial Mortgages.



FUNDING STRUCTURE

The banking industry was mainly funded by non-bank funding in the form of deposits and borrowing. Bank funding increased by N$7.0 billion to stand at N$10.7 billion for 2022, compared to N$3.7 billion recorded in 2021. In a similar vein, capital and reserves increased by N$1.6 billion to N$19.9 billion due to an increase in general reserves (Figure C.3).

Figure C.3 Funding Structure

Sources of funding were dominated by non-bank funding, and capital and reserves.

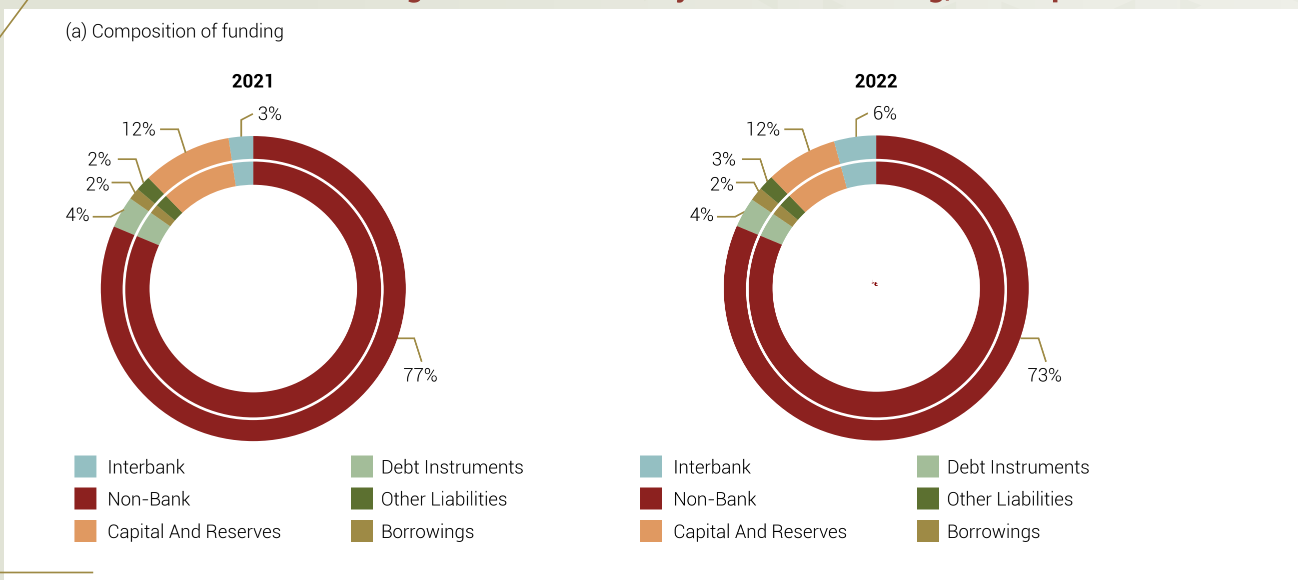
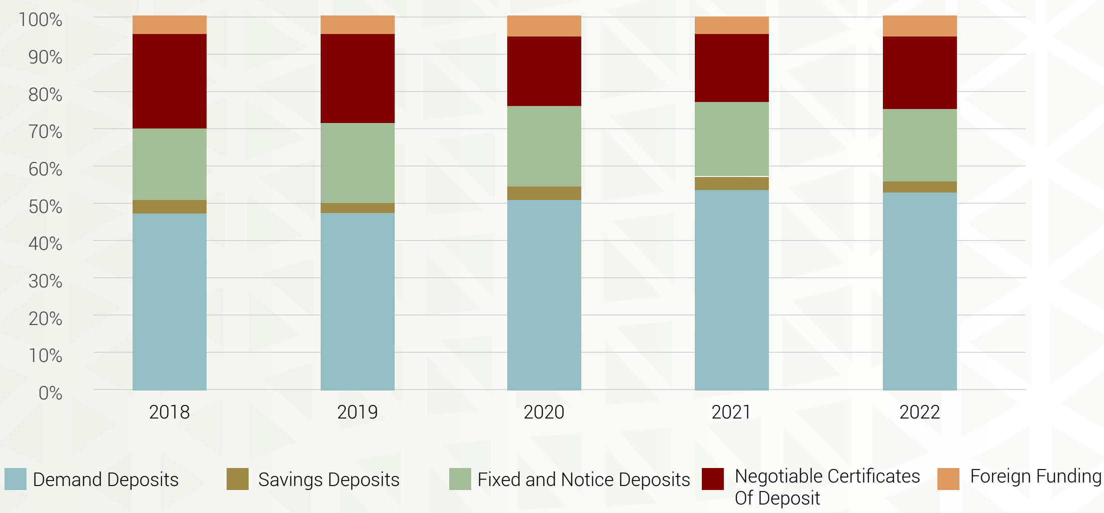


Figure C.4 Funding Structure

Demand deposits make up largest portion of non-bank funding and capital and reserves

(b) Composition of non-bank deposits



Demand deposits accounted for the largest portion of non-bank funding, while Negotiable Certificates of Deposit and fixed and notice deposits lagged. Demand deposits increased from N$61.2 billion to N$63.5 billion. Among the other deposit classes in 2022, Negotiable Certificates of Deposit increased from N$20.4 billion to N$23.3 billion, whereas fixed notice deposits decreased from N$23.8 billion in 2021 to N$22.9 billion (Figure C.4).

CAPITAL ADEQUACY

The banking sector complied with the set minimum capital requirements during 2022. The banking sector is strongly capitalised with a Total eligible capital ratio of 17.0 percent, an expansion from the 15.9 percent reported in 2021[12]. As prescribed by the Basel III Capital Accord, DSIBs are expected to hold a minimum Common Equity Tier 1 capital ratio of 7.0 percent of risk-weighted assets, to cushion banks against a financial crisis. In this regard, all DSIBs recorded improvements in Common Equity Tier 1 capital from N$14.5 billion in 2021 to N$16.0 billion in 2022. Both the total eligible capital ratio and the Common Equity Tier 1 capital ratio are above the minimum regulatory requirements for DSIBs of 10.0 percent and 7.0 percent, respectively. During 2022, the Common Equity Tier 1 capital ratio stood at 14.7 percent, while Tier 1 leverage stood at 9.6 percent, compared to 13.7 percent and 9.6 percent recorded in 2021, respectively. Lastly, the Tier 1 leverage ratio remained constant and well positioned above the regulatory minimum of 6.0 percent, which indicates a higher capital buffer to withstand financial shocks.

Bank funding increased by N$7.0 billion to stand at
N$10.7 billion
for 2022
compared to N$3.7 billion recorded in 2021.

Capital and reserves increased by N$1.6 billion to
N$19.9 billion
due to an increase in general reserves

Demand deposits increased from N$61.2 billion to
N$63.5 billion

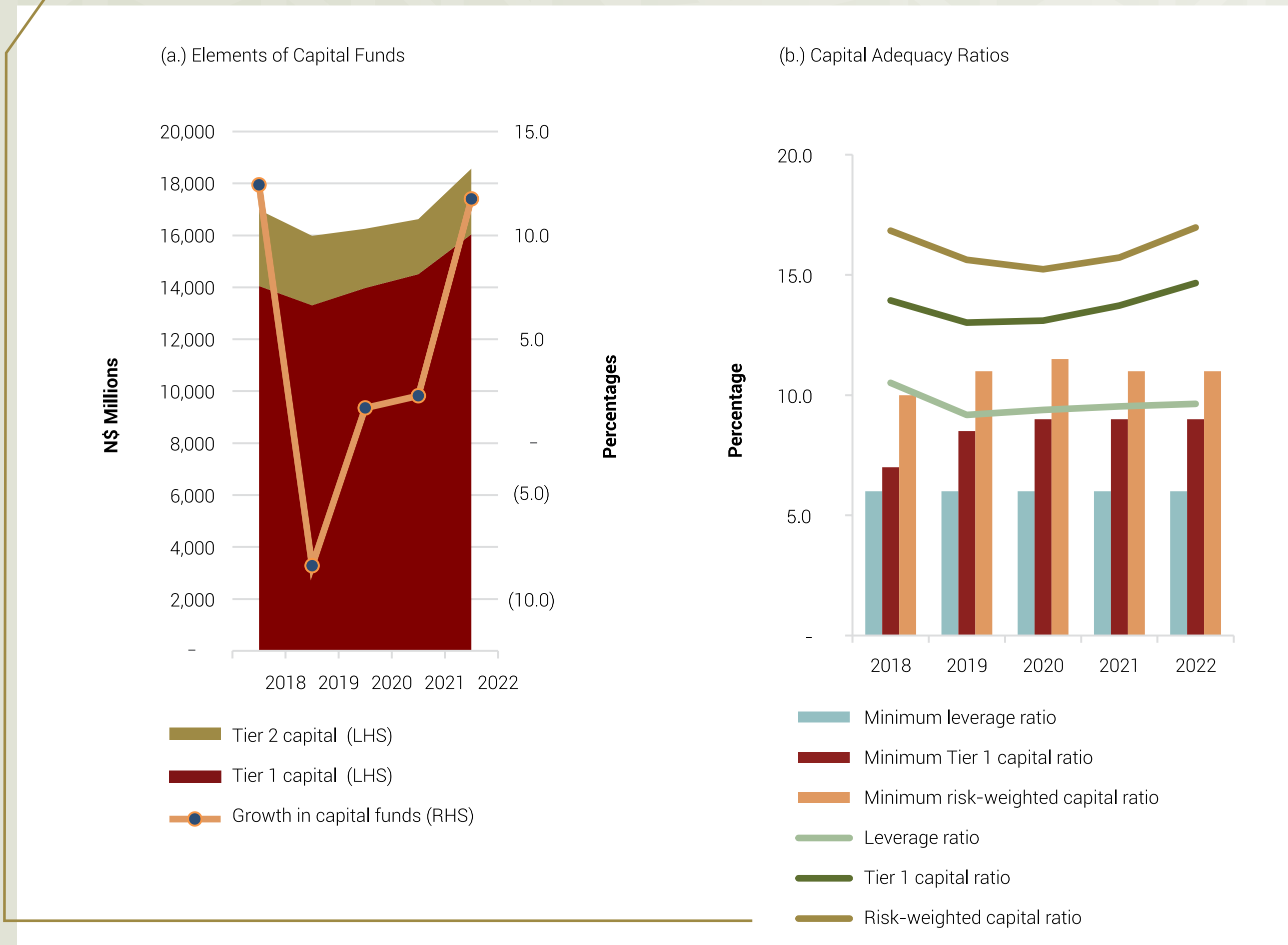
Fixed and notice deposits decreased from N$23.8 billion in 2021 to
N$22.9 billion

12 Capital figures reported for December 2021, were revised after publication of the annual report of 2021.

Total eligible capital continued an upward trajectory as a result of the further build-up of reserves through retained income. Total eligible capital recorded growth of 11.8 percent, considerably higher than the 2.3 percent increase reported a year ago, and stood at N$18.6 billion for 2022 (Figure C.5). The increase was mainly on account of an increase in Common Equity Tier 1 capital, which increased significantly by N$1.5 billion, mainly reflected in accumulation of general reserves and retained earnings. Similarly, Tier 2 capital increased by N$420.0 million, due to increases in unaudited interim profits and certain loan loss provisions. Although the industry posted strong capital levels, poor asset quality is expected to negatively impact capital levels as existing non-performing exposures indirectly affect profitability and capital levels of banks, through lower interest income and increased levels of provisions.

Figure C.5
Funding Structure

Capital holdings stood sufficiently above required prudential levels.



The continued operational losses significantly reduced the Second-Tier banks total qualifying capital. Total qualifying capital deteriorated by a further 3.5 percent and stood at N$1.2 billion, stemming from significant decreases in Tier 1 capital and Tier 2 capital. Tier 1 capital decreased by N$34.7 million as attributed to decreases in retained profits that declined by N$96.7 million on the back of continuous increases in operational losses observed among the second-tier banks.

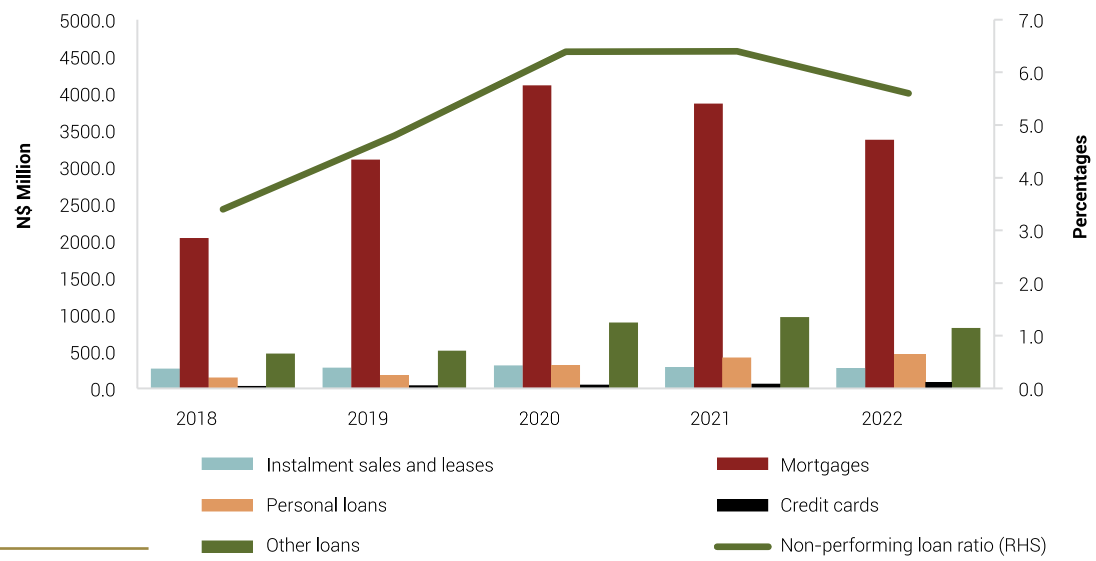
CREDIT RISK

Analysis of non-performing loans

The stock of non-performing loans (NPLs) improved over the period under review, driven by recoveries of non-performing mortgages. The NPLs decreased from N$6.7 billion to N$6.1 billion, with major improvement being recorded for non-performing mortgages, which decreased by N$490.0 million to N$3.4 billion. Improvements in asset quality were also observed under other loans and advances, as well as overdrafts, of which the NPLs decreased by N$146.8 million to N$821.0 million, and by N$56.0 million to N$1.1 billion, respectively. The witnessed improvements in the quality of the loan book were underpinned by repayments, write-offs and debt restructuring. Consequently, the NPL ratio improved to 5.6 percent in 2022 from 6.4 percent recorded in 2021. The NPL ratio of 5.6 percent, stood below the crisis trigger benchmark ratio of 6.0 percent and indicates that the quality of assets was satisfactory during 2022 (Figure C.6).

Figure C.6
Non-performing loans

NPLs recovered as driven by mortgage products.



The NPLs sectoral distribution was mainly concentrated under individual, and real estate and business services. Non-performing loans of the individual sector made up 46.5 percent of total NPLs. The real estate and business services sector recorded the second highest in NPLs at N$833.7 million, or 13.7 percent. The construction and agriculture sectors followed and were also amongst the most affected sectors in terms of NPLs, standing at N$618.1 million (10.2 percent) and N$491.7 million (8.1 percent), respectively, of the total non-performing book share. The remaining percentage share of 21.5 percent of total NPLs was distributed among manufacturing, transport, fishing, mining, electricity, gas and water, trade and accommodation, government services, and finance sectors.

The real estate and business services sector recorded the second highest in NPLs at

N$833.7 million

= 13.7%

The following sectors were amongst the most affected sectors in terms of NPLs, standing at

Construction

N$618.1 million

= 10.2%

Agriculture

N$491.7 million

= 8.1%

Adequacy of provisions

As expected, total provisioning decreased in tandem with the contraction observed in the NPL portfolio. Total provisions decreased from N$3.6 billion to N$3.4 billion in tandem with the improvements observed in NPLs. Specific provisions[13] decreased by N$500.0 million to N$1.8 billion, as NPLs decreased by N$670.1 million to N$6.1 billion due to repayments, write-offs and debt restructuring. General provisions moved in the opposite direction and increased from N$1.2 billion to N$1.5 billion as total loans and advances increased from N$105.7 billion to N$110.0 billion. The significant increase in general provisions was due to an increase in total loans and advances, including a corresponding increase in overdue loans, especially under the one-to-two month and two-to-three month buckets. These exposures were adequately provisioned in accordance with the prescribed prudential requirements of the asset classification categories in line with Determination on Asset Classification, Suspension of Interest and Provisioning (BID-2).

Loan diversification and statutory large exposures[14]

The banking sector continued to spread the credit risk by diversifying loans across different sectors and counterparties. The spread in the loan disbursements remained well diversified across various sectors, which is necessary to mitigate the probability of default risk by one sector. Gross loans and advances grew by N$4.3 billion and stood at N$109.7 billion in 2022.

The banking industry managed concentration risk well to remain within regulatory thresholds for large exposures during 2022. The value of large exposures[4] decreased by 18.3 percent to N$15.8 billion year-on-year due to a reduction observed in large exposures which are largely owed to debt servicing by corporates. The large exposures to total loans ratio declined marginally from 16.8 percent to 14.4 percent, which is within regulatory limits of 30.0 percent of the banks' capital. On aggregate, large exposures in relation to qualifying capital declined from 106.8 percent to 85.1 percent, also meeting the aggregate limit of 800 percent of capital funds per the Determination on Limits on Exposures to Single Borrowers, Large Exposures and Concentration Risk (BID-4) (Figure C.7).

13 Specific provisions are provisions set aside for loans graded Substandard, Doubtful, and Loss.
14 Large exposure is any exposure to a single person or group of related persons which, in the aggregate, equals or exceeds 10% of a banking institution's capital funds.

Total value of the loans increased to

N$110.0 bill

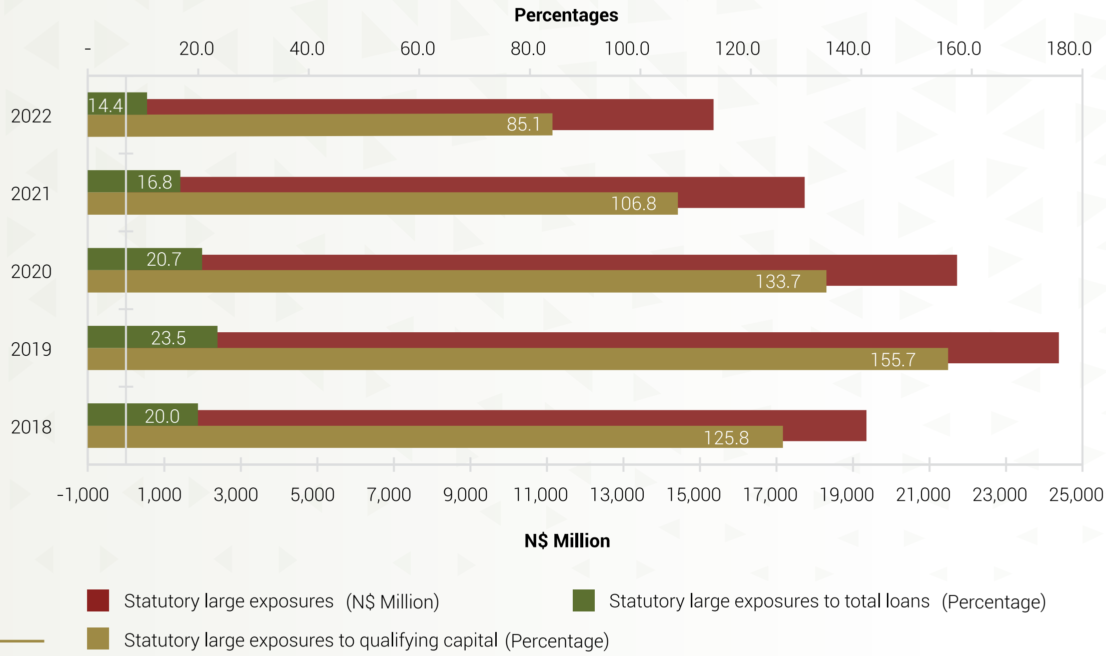
in 2022 from

N$105.7 bill

in 2021

Figure C.7 (A)
Statistical Large Exposures Relative to total loans and capital funds

Large Exposures decreased during the annual period.

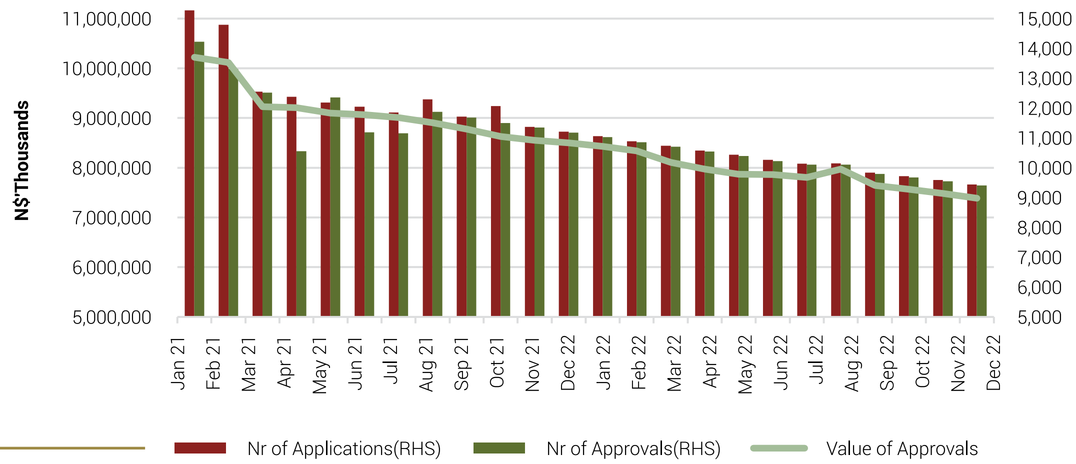


Loan moratorium during the Covid-19 pandemic

The value of loan moratoriums granted reduced, which is a result of mild levels of economic recovery. The total value of the loans decreased by N$932.0 million in 2021 and stood at N$7.4 billion during 2022. Similarly, the total number of loan applications reduced from 11 210 in 2021 to 9 438. Meanwhile, the number of approvals reduced from 11 210 to 9 409, year-on-year. Some banks mostly rolled-over existing facilities and others opted to restructure distressed loans. In addition, the uptake of loan moratoria declined due to banks applying other methods, such as debt restructuring aimed at assisting clients under distress.

Figure C.7 (B)
Covid Relief Statistics

COVID relief statistics were granted to clients and reduced gradually during the year.



PROFITABILITY AND EARNINGS

Total income for the banking sector increased due to an increase recorded in net interest income and operating income. The total income amounted to N$11.1 billion, representing a growth of 5.8 percent. Net interest income expanded by 12.8 percent to N$6.7 billion, driven by higher interest income earned on the back of rising interest rates in 2022. Furthermore, operating income increased by 10.8 percent to N$5.1 billion owing to higher transaction volumes, higher than the 4.6 percent increase recorded in 2021.

Net interest income continued to be the principal sources of income for the banking sector, standing at N$6.7 billion in 2022 and constituting 60.0 percent of total income. This was largely driven by the interest income from residential mortgages, fixed term loans, and other interest-related income.

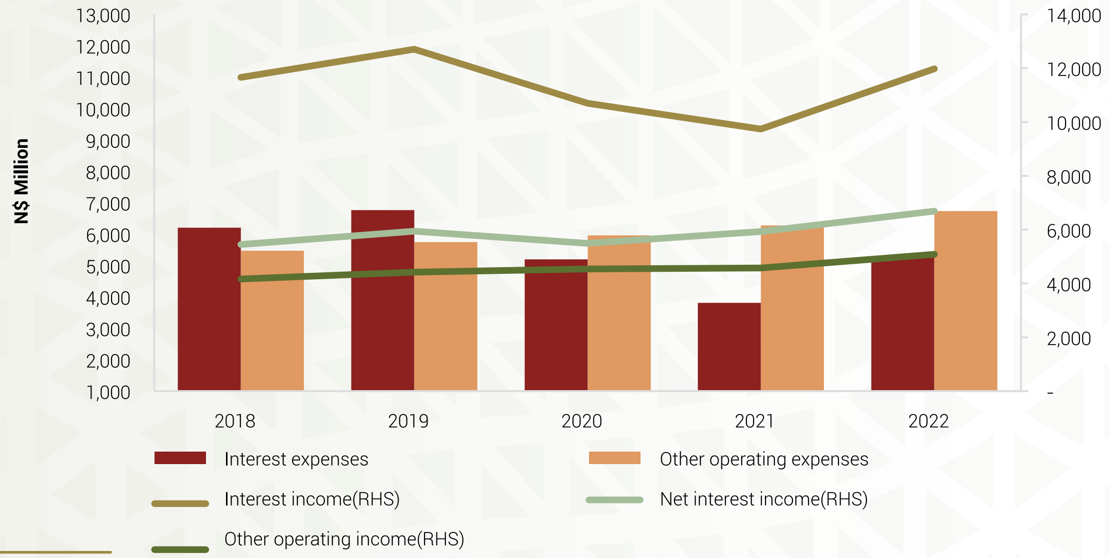
Net interest income continued to be the principal source of income for the banking sector in 2022

N$6.7 billion

= 60% **of total income**

Figure C.8 (A)
Key Income Statement Indicators

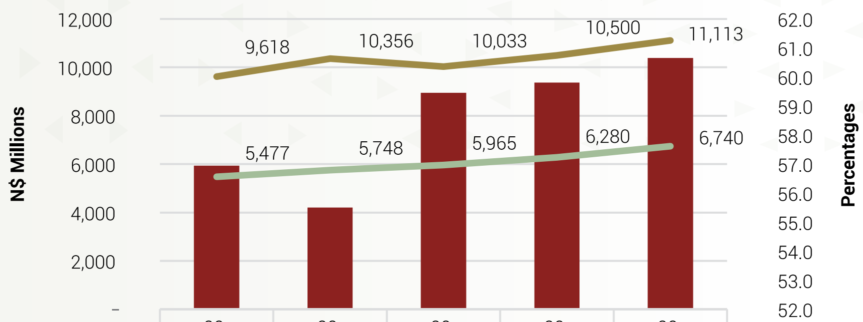
Total income improved to pre-COVID levels driven by interest income.



The efficiency ratio trended upward following an escalation in operating costs in 2022. Operating expenses stood at N$6.7 billion in 2022, 7.0 percent higher than in 2021. The operating expenses expansion was a result of increases in staff costs, administration and overheads costs, and other operating expenses[15]. The cost-to-income ratio increased from 59.8 percent to 60.7 percent (Figure C.8b) signaling a deterioration in efficiencies, but still stood below the Bank's benchmark of 65.0 percent.

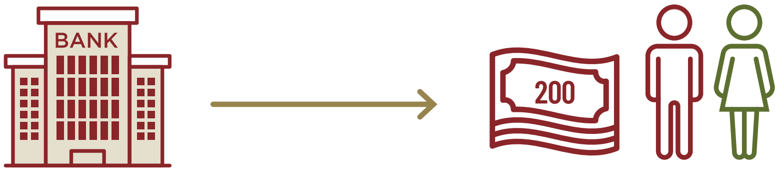
Figure C.8 (B)
Efficiency Indicators of the banking sector

The cost-to-income ratio weakened slightly following the rise in staff costs.



	2018	2019	2020	2021	2022
Cost-to-income ratio (RHS)	56.9	55.5	59.5	59.8	60.7
Total income (LHS)	9,618	10,356	10,033	10,500	11,113
Operating expenses (LHS)	5,477	5,748	5,965	6,280	6,740

15 Other operating expenses includes director's fees and remuneration, marketing, auditing, consultancy and management fee.



The banking sector continued to record profits mainly due to an increase in net interest income. Net income after tax increased by 33.5 percent year-on-year to N$3.0 billion in 2022. The prior year recorded an increase of 23.7 percent. The growth in net income after tax was primarily due to the higher interest earned on loans following the increase in the repo rate during 2022, coupled with the growth in loans advanced to customers. Consequently, the ROA (Return on Assets) improved from 1.7 percent to 1.9 percent following the improvement in earnings. Similarly, the ROE (Return on Equity) increased from 13.9 percent to 15.7 percent, as capital and reserves improved year-on-year (Table C.1).

Return on Assets improved

1.7% to 1.9%

Table C.1

ROA and ROE

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

The banks embarked on a digitisation strategy which entails reducing the bank's points of presence. The number of branches reduced from 135 to 134 reported during the year, while the number of agencies decreased from 85 to 82 points (Table C.2).

Table C.2

Bank Branch Network

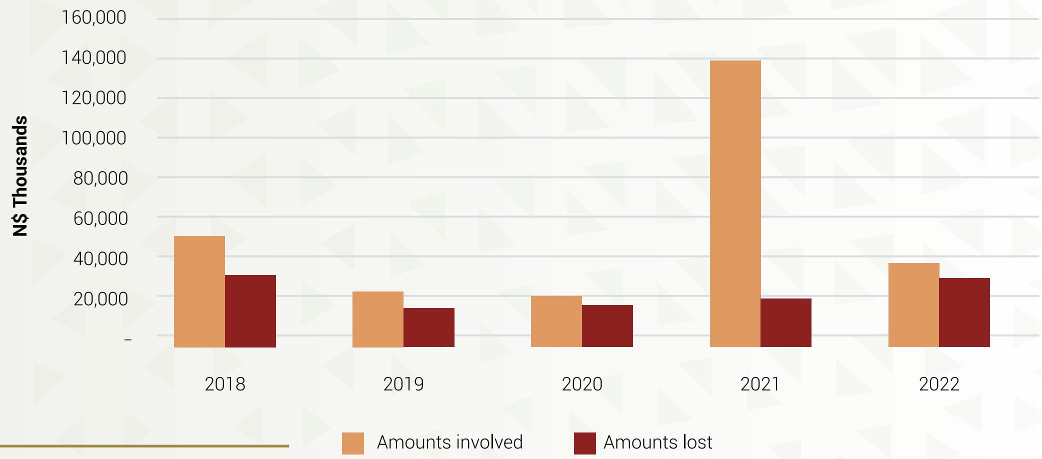
Description	2018	2019	2020	2021	2022
Branches	167	149	145	135	134
Agencies	64	82	84	85	82
Total	**231**	**231**	**229**	**220**	**216**

FRAUD AND OTHER ECONOMIC CRIME

The banking sector observed an increase in the number of fraud and related economic crimes during 2022 in comparison to the previous reporting period. A total of 370 fraud cases were reported during 2022, an increase of 38.0 percent over 268[16] cases reported in 2021. The categories of fraud experienced by banking institutions in 2022 included ATM fraud, EFT fraud, credit and debit card fraud, mobile application fraud, currency counterfeits, and theft of cash. Despite these increases, the total value of fraud incidents reported in 2022 decreased to N$41.6 million, from N$144.0 million in 2021 (Figure C.9). This substantial decrease in the current year is attributed to low value fraud incidents noted in comparison to the prior year. Additionally, banking institutions have maintained and enhanced control measures aimed at combating high-value fraud incidents, and thereby contributing to the decline. However, the actual amount of financial loss suffered by the industry (banks and clients) increased by 44.4 percent from N$22.6 million in 2021 to N$32.6 million in 2022. Of the amount lost, the banking sector recovered N$5.2 million during 2022, which is similar to the amount recovered in 2021.

Figure C.9
Fraud and other economic crimes

The financial losses suffered increased even though fraud amounts decreased.



LIQUIDITY

The banking sector's liquid asset holdings recorded an improvement during the review period. The liquid asset portfolio grew by 9.3 percent from N$23.2 billion to N$25.3 billion in 2022. The increase is ascribed to a greater increase in non-bank funding that became due and payable, when compared to the movement in lending activity. This spilled over into increases in the banks' holdings of stocks, bills and bonds, as well as clearing account and call account balances held with the Bank.

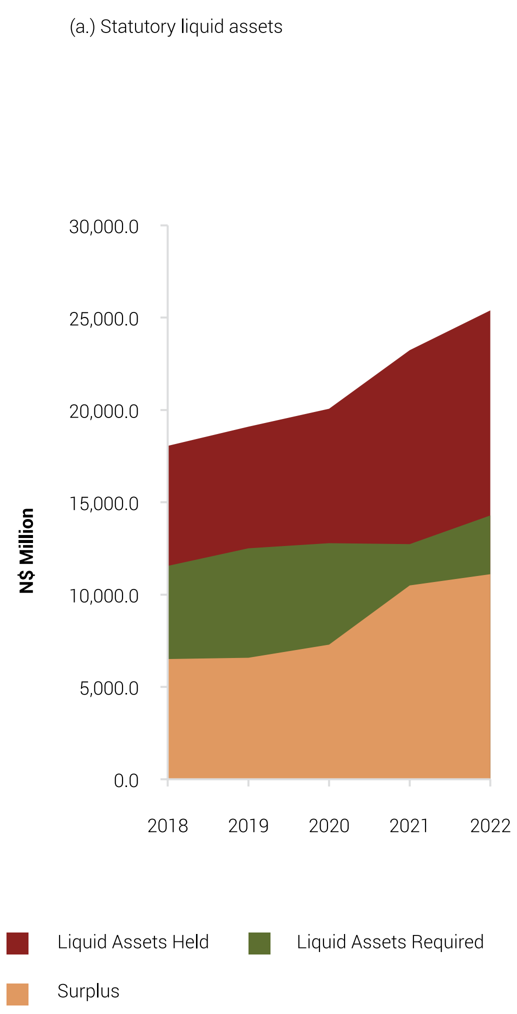
Fraud cases reported:

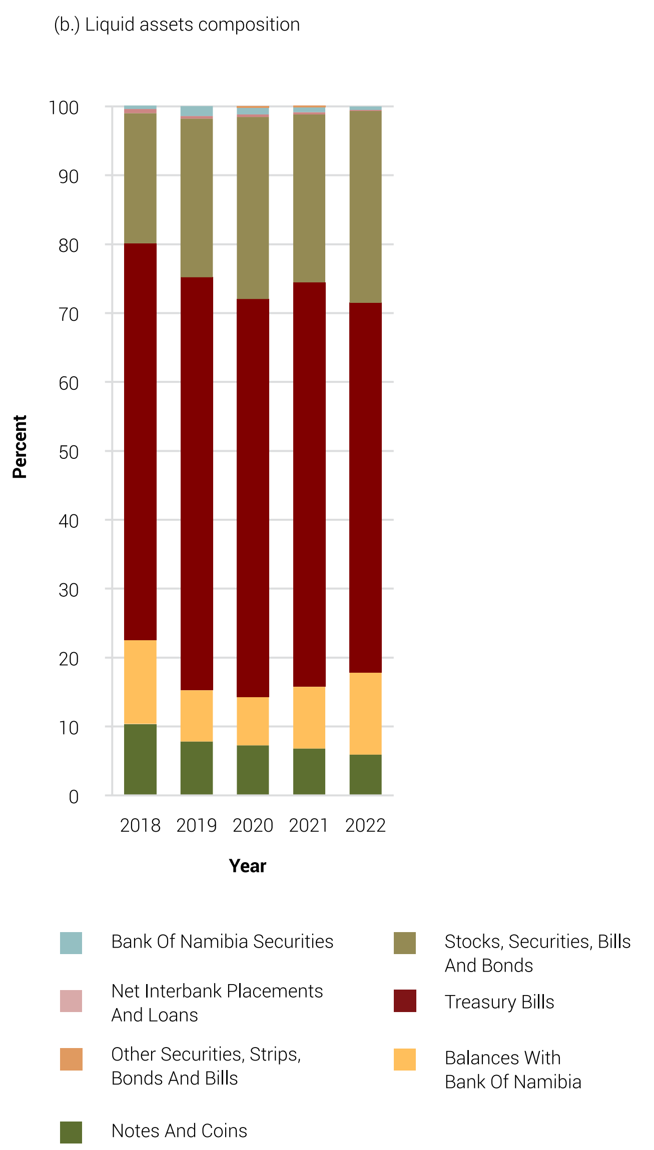
2021		2022
268 cases	<	370 cases

16 The number and value of the fraud cases recorded for 2021 increased from what had previously been reported due to revised updates.

Figure C.10
Liquidity

Liquid assets holdings slightly uptick above prudential requirements.





Conventionally, treasury bills and investment securities held across the industry have served as the preferred liquid asset instruments. Treasury bills constituted the majority shareholding of 53.7 percent of liquid asset instruments, decreasing from 58.7 percent in 2021. Stocks, securities, bills and bonds held a share of 27.8 percent, followed by balances with Bank of Namibia 11.9 percent and notes and coins with 5.9 percent. Net interbank placements and other securities remained insignificant at 0.5 percent and 0.2 percent, respectively.

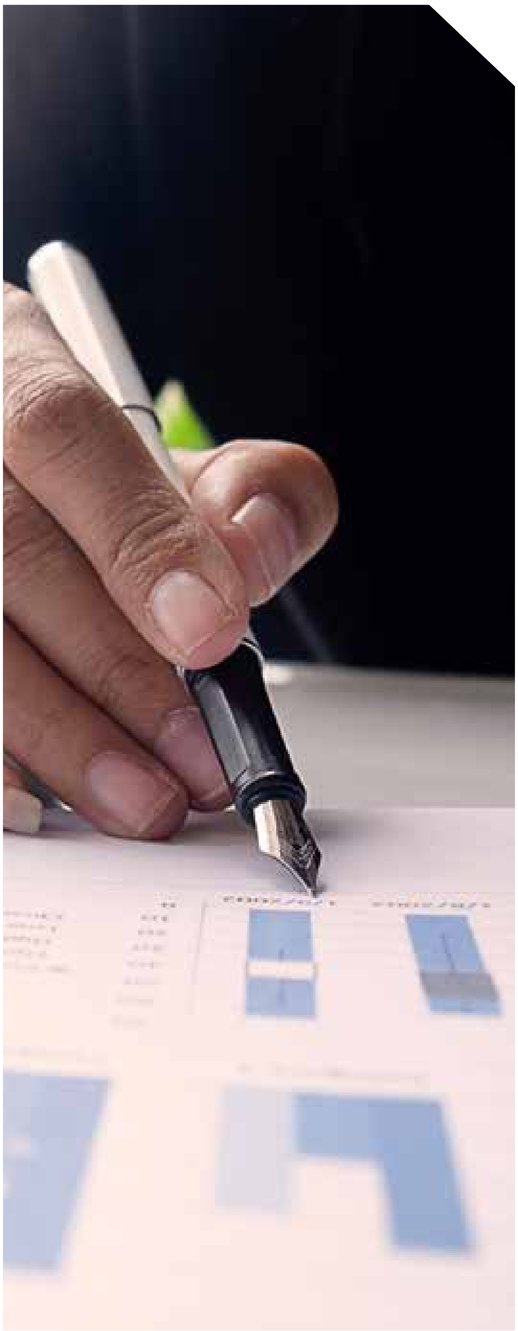
The banking sector remained compliant with the minimum liquidity statutory requirement. The liquid asset ratio declined marginally to 15.6 percent in 2022, from 15.7 percent recorded in 2021, while the liquidity ratio declined from 18.3 percent in 2021 to 17.8 percent in 2022. The liquidity ratio was well above the regulatory minimum of 11.0 percent, with a surplus of N$11.1 billion being recorded. The average total liabilities to the public increased by 12.2 percent from N$127.3 billion in 2021 to N$142.8 billion 2021, mainly driven by an increase in total deposits.

Other liquidity measures such as the loan-to-asset ratio and the loan-to-deposit ratio performed well. The loan-to-asset ratio declined from 69.2 percent to 65.1 percent. This indicates the liquidity in terms of the asset base, which stood slightly below the international benchmark of 75.0 percent. Meanwhile the loan-to-deposit ratio decreased from 90.4 percent in 2021 to 83.7 percent in 2022. Nevertheless, the ratio remained below 100.0 percent, depicting a more stable deposit base and an adequately funded banking industry for lending activities.

ON-SITE EXAMINATIONS

During 2022, the thematic reviews on credit risk management were the key focus area for safeguarding and enhancing financial stability. The thematic reviews focused on compliance by DSIBs with the Determination on Asset Classifications, Suspension of Interest and Provisioning (BID 2) and the Determination on Policy Changes in Response to Economic and Financial Stability Challenges as a Result of the Covid-19 Pandemic (BID-33). Making use of data analytics tools and techniques, the Bank assessed the accuracy of asset classifications, suspension of interest, provisioning treatment of collateral, reclassification of loans back to accrual status, treatment of loans with payment holidays, and write-offs of NPLs classified as losses. The implementation of the recommendations by senior management of all DSIBs is underway.

The Bank also engaged in additional supervisory activities during 2022 to promote banking sector stability and bolster confidence within the banking sector. The Bank applies a risk-based approach in its supervisory practices to ensure more intensive supervision of high and moderate risk areas of deposit-taking institutions at the levels of individual banks (solo) and banking groups (consolidated). As such, risk-based examinations are conducted to determine the effectiveness of risk management practices, compliance with relevant laws and regulations, and adequacy of capital. The Bank conducted a risk-based examination at one DSIB and finalised the examination report on another DSIB which had commenced during 2021. The outcome of the DSIB examinations were communicated to the boards of directors of the respective banking institutions. The preliminary risk assessment for one non-DSIB was finalised in 2022, while the on-site examination was deferred to 2023 due to new developments that required the urgent attention of the Bank.



The Bank approached the High Court of Namibia to seek liquidation of one of the non-DSIBs which had been under supervisory action since 2020. This was necessitated by the banking institution's non-responsiveness in addressing key concerns of the Bank which were required for the said banking institution to continue as a going concern. Other than the aforementioned High Court application, all the institutions examined during the year were in sound condition, and weaknesses identified during the examinations could be addressed in the normal course of business.

Supervision of cross-border banking groups was conducted during the year under review. The Bank participated in two supervisory colleges and prudential meetings for coordination, collaboration and sharing of information for the effective supervision of components of cross-border banking groups. Supervisory colleges and prudential meetings provide a platform for interaction between the banking institutions and regulators, which allows the Bank to craft a comprehensive consolidated supervision approach.

Supervisory colleges and prudential meetings provide a platform for interaction between the banking institutions and regulators, which allows the Bank to craft a comprehensive consolidated supervision approach.

LEGAL MATTERS

Licensing of banking institutions and building societies

During the year under review, the Bank received an application seeking authorisation to establish a building society in terms of section 4 of the Building Societies Act (Act No. 2 of 1986), as amended. The application was assessed and found to have met the minimum requirements for registration of a building society and was provisionally approved. Upon fulfilment of the conditions of provisional registration, the Registrar will grant final approval for registration to Cadence Building Society.

Illegal financial schemes

Sections 5 and section 55A of the Banking Institutions Act (Act No. 2 of 1998) as amended outlaw illegal financial schemes. During 2022, in accordance with its mandate as provided for in the Act, the Bank investigated illegal financial schemes which were suspected of conducting business in contravention of the Act. Fourteen (14) of the suspected schemes were presented to the Board and necessary approval was granted to take action as provided for in the Act.

The Bank continues to conduct public awareness campaigns through public and private television and radio stations and social media platforms to create awareness about illegal financial schemes and the dangers they pose to the public.

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Developments relating to banking legislation

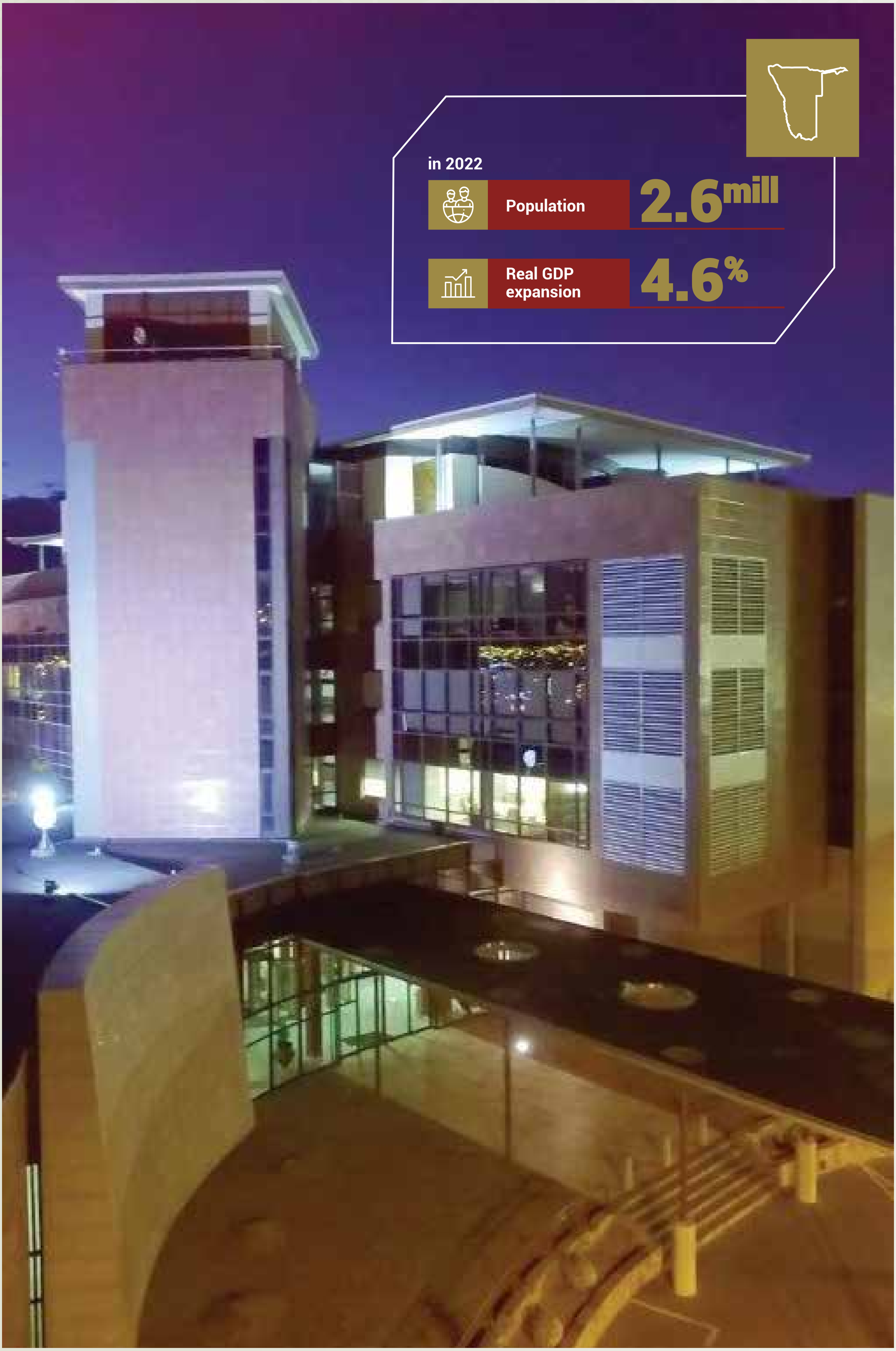
The Bank requires a regulatory framework that is in line with international standards to ensure effective regulation and supervision of institutions under its regulatory purview. It is therefore incumbent upon the Bank to ensure that the regulatory tools for the supervision of banking institutions and other entities under its regulatory purview are relevant and fit for regulatory purposes.

Primary legislative changes

The revision of the Banking Institutions Act is ongoing. The revision seeks to, among others, introduce a blend of local and foreign ownership with a view to transform the banking sector. The Bill is expected to be tabled in Parliament during the first semester of 2023.

Secondary legislative changes

The Bank is empowered by section 71 of the 1988 Banking Institutions Act, as amended, to issue secondary legislation on matters which the Bank considers appropriate for the conducting of the banking business. In line with its mandate, the Bank revised and issued the following determinations to ensure that banking institutions conduct their business in a prudent manner: the Determination on Outsourcing and Cloud Computing (BID-34); the Determination on Policy Changes in Response to Economic and Financial Stability Challenges (BID-33); and the Determination on the Appointment Duties and Responsibilities of Directors, Principal Officers, and Executive Officers of Banking Institutions and Controlling Companies (BID-1).


in 2022
Population
2.6mill
Real GDP expansion
4.6%

PART D

Annual Financial Statements

CONTENT

FINANCIAL STATEMENTS OVERVIEW

AS AT 31 DECEMBER 2022

KEY POINTS		2022 N$'000	2021 Restated* N$'000
Net interest income increased from N$468.27 million in 2021, to N$554.55 million in 2022 due to higher interest rates and higher average investment balances.	Net interest income	554 546	468 267
Total operating expenses increased by N$89.57 million from N$432.93 million in 2021 to N$522.50 million in 2022.	Operating expenses	522 504	432 933
Amount available for distribution increased by N$99.96 million, from N$672.68 million in 2021 to N$772.64 million in 2022.	Amount available for distribution	772 637	672 683
An amount of N$413.7 million will be paid to the Government as dividend for the 2022 financial year compared to N$413.7 million paid in 2021.	Distribution to the State	413 700	413 700
The Bank's assets increased from N$48.12 billion in 2021 to N$52.36 billion in 2022.	Total Assets*	52 359 135	48 122 904
Notes and coins in circulation increased from N$4.76 billion in 2021 to N$4.87 billion in 2022.	Notes and coins in circulation	4 873 869	4 759 436

* The Other receivables and Deposits balances were restated to derecognise the IMF Rapid Financing Instrument (RFI) of N$4 733 326 233 due to the Government of the Republic of Namibia, which was incorrectly recognised in the 2021 Annual Financial Statements. See note 2 of the financial statements for more information. The restatement did not impact any of the other prior years.

STATEMENT OF BOARD'S RESPONSIBILITIES

The main statutory provisions relating to the role and duties of members of the Board are covered under Section 9 and 10 of the Bank of Namibia Act No.1 of 2020. We confirm that:

1. The Board members are responsible for the preparation of the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Bank of Namibia Act, No. 1 of 2020 and for the judgements used therein.

2. The Board has overall responsibility for the system of internal financial control in the Bank, which is designed to safeguard the assets of the Bank, prevent and detect fraud and other irregularities. To discharge this responsibility, an appropriate organisational structure has been established. In this regard, the Audit Committee of the Board meets periodically with Internal and External Auditors and members of Management of the Bank to discuss control issues, financial reporting and related matters. The Internal and External Auditors have full access to the Audit Committee. Further, the Bank has a comprehensive Risk Management Strategy in place.

3. The Board is satisfied that the annual financial statements complies with IFRS and requirements of the Bank of Namibia Act, No. 1 of 2020.

4. The Board members confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

5. The Board's Audit Committee is composed of members who are neither officers nor employees of the Bank and who have the required mix of skills, with at least one member being a financial expert. The Committee is therefore qualified to review the Bank's annual financial statements and recommend the approval by the Board Members. The Committee has a duty to review the adoption of, and changes in accounting principles including risk management issues and makes recommendations on the same for approval. The Board considers and where necessary approves the Board Audit Committee recommendations.

The annual financial statements on pages 160 to 215 were approved by the Board and are signed on its behalf by:

CHAIRMAN
J. !Gawaxab
29 March 2023

BOARD MEMBER
R. Pretorius
29 March 2023

Deloitte.

Grand Namibia
Chartered Accountants & Auditors

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF THE BANK OF NAMIBIA

Opinion

We have audited the financial statements of Bank of Namibia ("Bank"), set out on pages 160 to 215, which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of Namibia as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Bank of Namibia Act, No.1 of 2020.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants, International Code of Ethics for Professional Accountants (including International Independence Standards) and other independence requirements applicable to performing audits of financial statements in Namibia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Board members are responsible for the other information. The other information comprises the information included in the Bank of Namibia Annual Report which includes the Message from the Governor, Part A (Operations and Affairs of the Bank), Part B (Macroeconomic Review), Theme Chapter, Part C (Banking Supervision), Financial Statement Overview, Statement of Board's Responsibilities of Part D (Annual Financial Statements) which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board members for the Financial Statements

The Board members are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Bank of Namibia Act, 2020 and for such internal control as the Board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board members are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board members either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board members.

- Conclude on the appropriateness of the Board of directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche

Deloitte & Touche
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Per: RH Mc Donald (Partner) Partners:
RH Mc Donald (Managing Partner), J Cronjé, H De Bruin,
A Akayombokwa, J Nghikevali, G Brand*, M Harrison*
*Director

29 March 2023

Associate of Deloitte Africa, a member of Deloitte Touche Tohmatsu Limited.

Grand Namibia

Registered Accountants and Auditors Chartered Accountants (Namibia)
09 Axali Doeseb Street, Windhoek;
PO Box 24304, Windhoek
ICAN Practice number 9424

Per: RN Beukes (Partner) Partners:
R Theron (Managing Partner), RN Beukes, P Nghipandulwa

29 March 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 N$'000	2021 Restated* N$'000
Net interest income		554 546	468 267
Interest income	3	740 023	547 330
Interest expense	3	(185 477)	(79 063)
Net other interest income		-	-
Interest from rand investments exchanged*	3	715 500	540 600
Interest paid on BON bills - NamPower and GIPF*	3	(715 500)	(540 600)
Non-interest revenue		619 187	548 865
Rand compensation income	3	578 000	505 628
Dividend income	3	5 025	-
Other income	3	36 162	43 237
TOTAL INCOME		**1 173 733**	**1 017 132**
Total operating expenses	3	(522 504)	(432 933)
Operating expenses	3	(518 077)	(439 424)
Allowance for credit losses - amortised cost instruments	3	(4 427)	6 491
Operating profit		**651 229**	**584 199**
Foreign exchange and fair value gains		670 953	953 306
Net foreign exchange gains	21	629 477	801 650
Unrealised (losses)/gains on rand investments exchanged*		(496 899)	1 289 538
Unrealised gains/(losses) on BON Bills – NamPower and GIPF*		496 899	(1 289 538)
Unrealised losses on equity instruments	25	(15 123)	-
Realised foreign exchange gains on FEC's		56 599	151 656
PROFIT FOR THE YEAR		**1 322 182**	**1 537 505**
Items that will be subsequently reclassified to profit or loss:		(572 358)	(366 157)
Unrealised losses – FVTOCI instruments	25	(572 358)	(366 157)
Items that will not be subsequently reclassified to profit or loss:		27 930	(26 293)
Allowance for credit loss reversal/(losses) – FVTOCI instruments	5.1	24 631	(20 009)
Actuarial gains/(losses) on post - employment benefits	18	3 299	(6 284)
TOTAL COMPREHENSIVE INCOME		**777 754**	**1 145 055**
Profits attributable to:			
Foreign currency revaluation reserve	21	629 477	801 650
Investment revaluation reserve	25	(587 481)	(366 157)
Distribution adjustment – unrealised (losses)/gains	25	(36 879)	36 879
Amount available for distribution	4	772 637	672 683
		777 754	**1 145 055**

* During 2022 management identified that in prior years the interest income, interest expense, and fair value gains and losses relating to the purchase of the ZAR portfolio and issuance of the Bank of Namibia bills to GIPF and NamPower had not been recognised. The Bank controls the ZAR portfolio acquired from GIPF and NamPower and has an obligation to GIPF and NamPower for the Bank of Namibia bills issued. Therefore, the interest income, interest expense, and fair value gains and losses must be recognised in the Statement of profit or loss and other comprehensive income.

The net impact of the interest income and interest expense is nil and is included in the 'Net other interest income' section as part of Total income. The net impact for the fair value gains and losses is nil and is included in the 'Foreign exchange and fair value gains'. See note 1.3.8 and note 2.2 of the financial statements for more information.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 N$'000	2021 Restated* N$'000
ASSETS			
Investments	5	43 771 048	39 871 827
Loans and advances - local banks	6	6 093	1 456
Currency inventory	7	81 038	90 100
Rand deposits	8	159 704	70 014
Other receivables**	9	7 913 980	7 653 445
Loans and advances – other***	10	115 423	112 518
Investment in associate	11	-	-
Other inventory – stationery and spares	12	4 806	4 742
Property and equipment	13	268 638	278 240
Intangible assets – computer software	14	38 405	40 562
TOTAL ASSETS		**52 359 135**	**48 122 904**
LIABILITIES			
Deposits**	15	36 591 583	32 800 835
Trade and other payables	16	88 761	99 077
Notes and coins in circulation	17	4 873 869	4 759 436
Provision for post – employment benefits	18	71 041	69 098
TOTAL LIABILITIES		**41 625 254**	**37 728 446**
CAPITAL AND RESERVES			
Share capital	19	40 000	40 000
General reserve	20	3 010 484	2 741 385
Foreign currency revaluation reserve	21	7 631 685	7 002 208
Training fund reserve	22	19 279	16 179
State revenue fund	4	413 700	413 700
Development fund reserve	23	184 424	95 986
Building fund reserve	24	83 300	85 000
Investment revaluation reserve	25	(648 991)	-
TOTAL CAPITAL AND RESERVES		**10 733 881**	**10 394 458**
TOTAL LIABILITIES, CAPITAL AND RESERVES		**52 359 135**	**48 122 904**

** The Other receivables and Deposits balances were restated to derecognise the IMF Rapid Financing Instrument (RFI) of N$4 733 326 233 due to the Government of the Republic of Namibia, which was incorrectly recognised in the 2021 Annual Financial Statements. See note 2 of the financial statements for more information. The restatement did not impact any of the other prior years, therefore the 2020 financial year was not restated.

***Other receivables are more liquid than Loans and Advances – other in the current year, and has, therefore, been moved up in the liquidity order above Loans and Advances - other.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

N$'000	Share Capital	Accumulated Profit & Loss	Training Fund Reserve	General Reserve	Foreign Currency Revaluation Reserve	Investment Revaluation Reserve	State Revenue Fund	Development Fund Reserve	Building Fund Reserve	Total N$'000
Balance at 01 January 2021	**40 000**	**-**	**16 179**	**2 463 986**	**6 200 558**	**291 611**	**278 198**	**114 402**	**85 000**	**9 489 934**
Profit for the year	-	1 537 505	-	-	-	-	-	-	-	1 537 505
Other Comprehensive Income for the year	-	(392 450)	-	-	-	-	-	-	-	(392 450)
Transfer to Revaluation reserve	-	(801 650)	-	-	801 650	-	-	-	-	-
Transfers	-	-	-	18 416	-	-	-	(18 416)	-	-
Allowance for credit losses - FVTOCI	-	-	-	-	-	37 667	-	-	-	37 667
Transfer of unrealised loss to investment revaluation reserve	-	366 157	-	-	-	(366 157)	-	-	-	-
Distribution adjustment - unrealised losses	-	(36 879)	-	-	-	36 879	-	-	-	-
Dividend distribution	-	-	-	-	-	-	(278 198)	-	-	(278 198)
Appropriation of net profit for the year	-	(672 683)	-	258 983	-	-	413 700	-	-	-
Balance at 31 December 2021	**40 000**	**-**	**16 179**	**2 741 385**	**7 002 208**	**-**	**413 700**	**95 986**	**85 000**	**10 394 458**
Profit for the year	-	1 322 182	-	-	-	-	-	-	-	1 322 182
Other Comprehensive Income for the year	-	27 930	-	-	-	(572 358)	-	-	-	(544 428)
Transfer to Revaluation reserve	-	(629 477)	-	-	629 477	-	-	-	-	-
Transfers	-	-	(1 900)	15 162	-	-	-	(11 562)	(1 700)	-
Allowance for credit losses - FVTOCI	-	-	-	-	-	(24 631)	-	-	-	(24 631)
Transfer of unrealised loss to investment revaluation reserve	-	15 123	-	-	-	(15 123)	-	-	-	-
Distribution adjustment - unrealised losses	-	36 879	-	-	-	(36 879)	-	-	-	-
Dividend distribution	-	-	-	-	-	-	(413 700)	-	-	(413 700)
Appropriation of net profit for the year	-	(772 637)	5 000	253 937	-	-	413 700	100 000	-	-
Balance at 31 December 2022	**40 000**	**-**	**19 279**	**3 010 484**	**7 631 685**	**(648 991)**	**413 700**	**184 424**	**83 300**	**10 733 881**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 N$'000	2021 Restated* N$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	A	322 551	278 818
CASH FLOWS FROM INVESTING ACTIVITIES		(23 284)	(48 489)
Interest acquired in associate	11	(290)	(252)
Purchase of property and equipment	13	(8 972)	(11 522)
Purchase of intangible assets – computer software	14	(11 117)	(23 779)
Increase in loans and advances – other		(2 905)	(12 936)
CASH FLOWS FROM FINANCING ACTIVITIES		(299 267)	(230 329)
Distribution to the State Revenue Fund	B	(413 700)	(278 198)
Decrease in notes and coins in circulation		114 433	47 869

NOTE:

A. Reconciliation of profit for the year to cash generated by operations

	2022 N$'000	2021 Restated* N$'000
Operating Profit	651 229	584 199
Adjusted for:		
Interest from rand investments exchanged	(716 993)	(523 369)
Interest paid on BON bills - NamPower and GIPF	716 993	523 369
Depreciation	18 574	17 566
Provision post-employment benefits	5 242	(2 144)
Amortisation of computer software	13 273	4 701
Currency inventory amortisation costs	36 017	34 018
Expected credit allowance losses/(gains) IFRS 9	4 427	(6 491)
Impairment of investment in associate	290	252
Operating cash flows before movements in working capital	**729 052**	**632 101**
Increase in Investments	(3 805 052)	(7 605 866)
(Increase)/decrease in Loans and advances - local banks	(4 637)	1 039 326
Decrease in Currency inventory	(26 955)	(39 223)
Increase in Rand deposits	(89 690)	(24 677)
Increase in Other receivables**	(260 535)	(2 364 695)
(Increase)/decrease in Other inventory stationery and spares	(64)	140
Increase in Deposits**	3 790 748	8 653 535
Decrease in Trade and other payables	(10 316)	(11 823)
	322 551	**278 818**

B. Distribution to State revenue fund

	2022 N$'000	2021 Restated* N$'000
Opening balances	(413 700)	(278 198)
Appropriations of net profit for the year	(413 700)	(413 700)
Closing balance	413 700	413 700
Paid for the year	**(413 700)**	**(278 198)**

** The Other receivables and Deposits balances were restated to derecognise the IMF Rapid Financing Instrument (RFI) of N$4 733 326 233 due to the Government of the Republic of Namibia, which was incorrectly recognised in the 2021 Annual Financial Statements. See note 2 for more information

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES

The Bank's annual financial statements are prepared in accordance with the going concern principle under the historical cost basis, except for financial assets and liabilities where the fair value and amortised cost basis of accounting is adopted. The principal accounting policies, which have been consistently applied in all material respects, are set out below. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.3. The annual financial statements have been prepared to comply with the requirements of the Bank of Namibia Act 2020, the Namibian Companies Act and with the requirements of International Financial Reporting Standards (IFRSs).

1.1. New And Revised International Financial Reporting Standards

- International Financial Reporting Standards and amendments issued and effective for 31 December 2022 year-end; the standards listed below did not have a material impact on the financial statements of the Bank. We have only disclosed relevant standards that have become effective during the current year.

Standards	Effective Date	Executive Summary
IAS 16 amendments Property, Plant and Equipment	1 January 2022	Proceeds before intended use: The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit and loss. The amendment is not relevant to the Bank as the Bank does not sell any items of property and equipment before the intended use.
IAS 37 Amendments Onerous Contracts	1 January 2022	The IASB published Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37) amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is not relevant to the Bank as the Bank had no onerous contracts during the current or previous financial years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.2. New And Revised International Financial Reporting Standards

International Financial Reporting Standards and amendments issued but not effective for 31 December 2022 year-end; Management do not expect that the adoption of the Standards listed below will have a material impact on the financial statements of the Bank in future periods:

Standard(s)	Effective date	Executive summary
IAS 1 Presentation of Financial Statements	1 January 2023	Classification of Liabilities as Non-current: The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. Materiality Judgements—Disclosure of Accounting Policies: The amendments change the requirements in IAS 1 Presentation of Financial Statements regarding disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The supporting paragraphs in IAS 1 Presentation of Financial Statements are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.
IAS 8 Accounting Policies, Change in Accounting Estimates and Errors	1 January 2023	Definition of Accounting Estimates: The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirement for recognising the effect of change in accounting prospectively remain unchanged. The IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications: • A change in accounting estimate that results from new information or new developments is not the correction of an error; and • The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Critical Accounting Estimates And Judgements In Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The major areas where management has used its judgement and accounting estimates are set out below:

1. *Impairment of financial assets*

   IFRS 9 requires that financial instruments be tested for impairments on a forward-looking basis. The main aim is to determine whether the credit risk of an instrument has changed materially since the previous reporting period. To make this calculation, the IASB requires entities to develop and use an Expected Credit Loss (ECL) model. Generally, it can be summarised that the ECL model aims to anticipate shortfalls of contractual cash flows of financial instruments in the event of a default. Refer to note 1.5 and 5.1 for the ECL accounting policy and disclosure.

2. *Provision for post-employment benefits disclosed under note 18*

   An actuarial valuation is performed annually to determine the Bank's obligation in this regard. The assumptions and judgments used by the actuary were considered by the Bank and were deemed reasonable considering the prevailing and anticipated future economic conditions.

3. *Evaluation of useful lives and residual values*

   The residual value and useful life evaluation exercise is performed by internal staff members who have technical knowledge of specific classes of assets. Market information with regards to pricing is also obtained to ensure the required level of objectivity is maintained in the whole evaluation process.

4. *Accounting for off-market loans as disclosed under note 9*

   Management judgement was applied to determine the average repayment period on the various classes of loans granted by the Bank. Prevailing interest rates at year-end were however applied to determine the impairment charge for the year on new off-market loans.

5. *Sovereign Wealth Fund*

   The cabinet through cabinet decision no. 8th/23.06.20/005 approved, in principle, the establishment of the Sovereign Wealth Fund of Namibia (SWF), also known as the Welwitschia Fund as a reserve account that shall be managed in terms of the sections (72)(2) and (73)(1)(a) of the Bank of Namibia Act, 2020 (Act. No.1 of 2020).

   On 12 May 2022 the Minister of Finance, Honourable Ipumbu Shiimi, and the Governor of the Bank of Namibia, Mr. Johannes !Gawaxab signed a Memorandum of Understanding (MoU) to appoint the Bank as the manager of the Sovereign Wealth Fund. The Bank has no equity interest in the Fund and effectively has no voting rights in the governance structures of the SWF. The Bank manages the Fund on behalf of the Ministry of Finance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Critical Accounting Estimates And Judgements In Applying Accounting Policies (continued)

The funds under management at 31 December 2022 were N$320.79 million (2021: nil). The Bank received management fees of N$8 640 for the period ended 31 December 2022 (2021: nil).

6. Rand Compensation Income

Rand compensation income is computed per the formula prescribed in article 8 of the Multilateral Monetary Agreement (MMA), which requires the South African government to make compensatory payments for the Rand currency circulating in Namibia. The compensation income (seigniorage) is calculated using the currency in circulation and yields, being:

- Averages of Rand currency in circulation in South Africa and NAD currency in circulation in Namibia for the measured year,
- South African government ten-year bond yield (average of the last 3 months – October/November/December of the measured year).

The compensation is calculated by taking two thirds (2/3) of the last three months' average of the South African government ten-year bond yield: 7.63% (2022), 6.69% (2021), multiplied by the calculated stock of the Rand currency in circulation in Namibia, as per the agreed formula. The actual Rand compensation income realised amounted to N$578 million (2021: N$505 million).

7. Rapid Financing Instrument

On 31 March 2021, the International Monetary Fund (IMF) approved financial assistance to the Government of the Republic of Namibia (the Government) for a Rapid Financing Instrument (RFI) loan to the value of 191,100,000 Special Drawing Rights (SDRs) (N$ 4 733 326 233). The funds under the RFI were provided for as direct budget financing for the Government. The loan amount was drawn down on 6 April 2021.

The Bank of Namibia's (BoN) role in the financing of the RFI was to facilitate payment as part of its statutory obligation in terms of the Bank of Namibia Act No.1 of 2020, to provide depository services and act as fiscal agent to the Government. Additionally, the Government issued a non-negotiable, non-interest-bearing promissory note in Namibia Dollar in favour of the IMF. This absolves BoN from any performance obligation towards repayment of the principal, interest and any other cost. There is, therefore, no past event for the Bank giving rise to any possible, probable or actual obligation.

8. Acquisition of ZAR portfolios from GIPF and NamPower and issuance of BON bills

The Bank of Namibia acquired the GIPF and NamPower's ZAR portfolios in November 2015 and February 2016, respectively, to bolster the country's foreign currency reserves pursuant to its powers in sections 4, 62 and 63 of the Bank of Namibia Act, No.1 of 2020. As compensation for the ZAR portfolios, the Bank issued equivalent Bank of Namibia bills.

The Bank has not only taken legal ownership of the bills but also has substantive control over the ZAR investments premised on the following substantive factors:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

8. Acquisition of ZAR portfolios from GIPF and NamPower and issuance of BON bills (continued)

- GIPF and NamPower can liquidate these investments at any time. In return, they have no claim to the ZAR investments but can receive compensation in NAD, SDR, foreign currency, gold and loan funding from, e.g., the IMF, without liquidating the ZAR investments. Effectively, the Bank the discretion to decide on the form of the Bank of Namibia bills settlement. The Bank of Namibia bills and the ZAR investments are therefore not tied but can be sold/ exchanged/ transferred independently. Furthermore, the Bank manages the ZAR portfolios as part of its foreign currency reserves.

- The initial ZAR portfolio, comprised of debt instruments, mainly SA government inflation-linked bonds, and collective investment scheme instruments, acquired from the counterparties changed significantly since inception. The investment choices, strategy and risk appetite, were subject to the Bank's policies, guidance and strategy, without any involvement of the counterparties.

- The Bank of Namibia will only liquidate the ZAR investments upon a balance of payments crisis confirming that the duration is long, and the investment is not working capital. In the event of a balance of payments crisis, the returns shall link to an index plus a pre-agreed margin. The returns of the Bank of Namibia bills will not be required to return immediately.

1.4 Revenue Recognition

Interest income is recognised on a time proportioned basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate considers all directly attributable external costs, discounts, or premiums on the financial assets.

Dividends on equity instruments are recognised in profit or loss in accordance with IFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment.

Rand compensation income is received from the South African Government as compensation for the Rand currency in circulation in Namibia. The Bank accounts for this income on an accrual basis.

Other income consists of rental received, bank supervision fees and charges as well as sundry income. Other income is recognised to the extent that it is probable that the economic benefit will flow to the Bank and revenue can be reliably measured.

1.5 Financial Instruments

Financial instruments as reflected on the Bank's Statement of financial position include all financial assets and financial liabilities. Management determines the appropriate classification at initial recognition of the financial instrument. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Financial Instruments (continued)

In inactive markets, the most recent arm's length transactions are the basis of current fair values. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation, or distressed sale.

It is to be noted that the Bank does not invest in financial instruments which are not quoted in an active market. However, should our investment philosophy change, valuation techniques such as cash flows models and consideration of financial data of the investees will be used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures will be made in the financial statements if changing any such assumptions to a reasonably possible alternative different profit, income, total assets, or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium, are not presented separately and are included in the carrying values of related Statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate on the carrying amount). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a short period, if appropriate, to the net carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Recognition

The Bank recognises financial instruments including, “regular way” purchases and sales on settlement date and thus applies settlement date accounting to these transactions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Financial Instruments (continued)

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Loans and advances, other receivables and other financial liabilities are recognised on the day they are transferred to the Bank or the day the funds are advanced.

Measurement

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Subsequent to initial measurement financial instruments are measured at fair value or amortised cost depending on their classification.

Reclassification

It is a requirement that institutions disclose when it has reclassified a financial asset between one measured at amortised cost, FVTOCI or FVTPL. The Bank has not reclassified any of its financial assets during the year under review.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

1. *Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Financial Instruments (continued)

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Investment in equity instruments is classified at FVTPL, unless designated as equity investment that is not held for trading.

Despite the foregoing, the Bank may make the following irrevocable elections/designations at initial recognition of a financial asset:

- The Bank may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. Impairment of financial assets

The Bank recognises a loss allowance for expected credit losses on investments in financial assets that are measured at amortised cost or at FVTOCI and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Financial Instruments (continued)

2.1 Definitions

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating.
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost.
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations.
- an actual or expected significant deterioration in the operating results of the debtor.
- significant increases in credit risk on other financial instruments of the same debtor.
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Financial Instruments (continued)

(1) The financial instrument has a low risk of default,
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and .
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has an external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amount.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria can identify a significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without considering any collateral held by the Bank).

Irrespective of the above analysis, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower.
(b) a breach of contract, such as a default or past due event (see (ii) above).
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Financial Instruments (continued)

financial difficulty, having granted the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or another financial re-organization;or;

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. Write-off policy

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Banks's recovery procedures, considering legal advice where appropriate. Any recoveries made are recognised in profit or loss.

4. Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Bank recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in financial assets that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve and does not reduce the carrying amount of the financial asset in the statement of financial position.

5. Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Financial Instruments (continued)

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred

financial asset, the Bank continues to recognise the financial asset and recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on de-recognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is reclassified to profit or loss.

The Bank did not transfer financial assets in such a way that part of the assets did not qualify for de-recognition.

Financial liabilities

These are measured at amortised cost. Amounts due to the Government, bankers' reserve and current accounts are stated at cost as these accounts do not have fixed maturity dates.

Notes and coins issued are measured at face value as this liability does not have a fixed maturity date.

Accounts payable are stated at cost as this approximates fair value due to the short-term nature of such obligations.

1.6 General Reserve

The general reserve is established in terms of Section 72 of the Bank of Namibia Act No.1 of 2020 and may only be used for the purpose specified below:

- increase the paid-up capital of the Bank.
- offset losses sustained by the Bank during a financial year.
- fund a Development Reserve Account; and
- redeem any securities issued by the Bank.

The amount maintained in this account relates to the annual appropriation of distributable profits determined by Section 71 of the Bank of Namibia Act No.1 of 2020. The Act prescribes that not less than 25% of the net profits of the Bank for a financial year be transferred to the General Reserve Account.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.7 Foreign Currency Activities And Revaluation Reserve

The Revaluation Reserve has been created in accordance with Section 64 of the Bank of Namibia Act No.1 of 2020 and is used to accommodate any net gains or losses in any financial year of the Bank arising from any change in the book value or realised/unrealised value of the Bank's assets or liabilities denominated in currencies or units of account other than the Domestic Currency, such as gold, special drawing rights and foreign currencies. Any change in the value of such currencies or units of account in terms of the currency of Namibia, shall be credited to the Revaluation Reserve Account before any appropriation to any other reserve.

Assets and liabilities in foreign currencies are translated to Namibia Dollars at year-end exchange rates. In terms of Section 64 of the Bank of Namibia Act No.1 of 2020, exchange gains and losses of the Bank are for the account of the Government and are consequently transferred to the Revaluation Reserve Account before appropriation of profits.

1.8 Building Fund Reserve

This reserve was reactivated in the 2016 financial year to set aside funds for the construction of a Currency Museum and to extend the parking facilities at the Bank's premises. Annual profits appropriated will be credited to the reserve and on completion of the construction, the reserve so created will be released to the General Reserve.

1.9 Development Fund Reserve

This reserve was established under section 73(1)(a) of the Bank of Namibia Act No.1 of 2020 for the purpose of promoting or financing economic development in Namibia. The reserve will be released to the General Reserve.

1.10 Property And Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairments losses and are depreciated on the straight-line method over their estimated useful lives. The estimated useful lives, residual values and depreciation methods are reviewed regularly, with the effect of any changes in estimate accounted for on a prospective basis. The revised useful life in years, is as detailed below:

Freehold buildings	50 years
Computer hardware	2-6 years
Motor vehicles	4 years
Furniture, fittings and equipment	1-20 years
Note sorting machines	9-17 years

The residual value on the building is benchmarked to similar structures in the country and did not call for any adjustment in residual value both in the previous year and the current year. Subsequent costs are included in the assets carrying value only when it is probable that future economic benefits associated with the assets will accrue to the Bank. All other repairs and maintenance costs are charged to the Statement of Profit or Loss and Other

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.10 Property And Equipment (continued)

Comprehensive income during the financial period in which they are incurred.

1.11 Intangible Assets – Computer Software

On acquisition the software is capitalised at purchase price and amortised on a straight-line basis with zero residual value. The estimated useful lives, residual values and amortisation methods are reviewed at each year end, with the effect of any changes in the estimate accounted for on a prospective basis. The Bank reassesses the residual value and useful life of Computer software on an annual basis and the useful life has been set to range between 1 and 8 years. Refer to note 14 for disclosure.

1.12. Inventory

Currency Costs

The costs of new Namibia bank notes and coins are capitalised and amortised on the earlier of issue of the currency or over five years. Cost comprises of printing and minting costs, carriage, insurance and freight landed at the Bank's premises or designated port of consignment arrival. Currency is issued using the weighted average cost.

Stationery and spares

Stationery and spares inventory are capitalised and stated at the lower of cost and net realisable value. Cost comprises of purchase price as well as applicable freight for imported spare parts. Inventory is issued using the weighted average cost.

1.13. Pension Fund

It is the policy of the Bank to contribute to the retirement benefits for employees. The Bank operates a defined contribution pension fund. Contributions to the Bank of Namibia Provident Fund are charged against income in the year in which they become payable.

1.14 Impairment of Non-Financial Assets

The carrying amount of the assets of the Bank are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment, in which case their recoverable amounts are estimated.

An impairment loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income whenever the carrying amount of an asset exceeds its recoverable amount. A previously expensed impairment loss will be reversed, if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.15 Employee Benefits

(a) Post- Employment Medical Benefits

The Bank provides post-employment medical benefits in the form of a medical aid scheme for eligible employees and pensioners. The cost of providing benefits is determined using the projected unit credit method. The liability for the Bank's contribution to the scheme is, in respect of current and future pensioners, provided for by means of a financial liability. The magnitude of the liability is based on an actuarial valuation. Actuarial gains and losses on the post-retirement medical benefits are accounted for in the year in which they arise.

(b) Annual Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave that are expected to be settled wholly within 12 months are recognised and measured at the amounts expected to be paid when the liabilities are settled.

(c) Severance Pay

Severance pay is an amount paid to an employee on the early termination of a contract. Severance pay is equal to 1 week's remuneration for every 12 months of continuous employment with the same employer. The Bank makes provision for severance pay for employees in terms of section 35 (1) of the Labour Act.

1.16 Statement of Cash Flow

The definition of cash in the Standard is not wholly appropriate to the Bank. Due to its role in the creation and withdrawal of currency, the Bank has no cash balances on its Statement of financial position.

1.17 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

1.18 Transactions On Behalf Of Government

The Bank undertakes numerous transactions on behalf of the Government, which include among others, payments and receipts, opening and maintenance of accounts for donor funded projects and the maintenance of accounts for line ministries. All such accounts opened are pre-funded with the funds received invested and the corresponding liability recorded in the books of the Bank. The transactions where the Bank only acts as an agent, as well as the assets and liabilities arising from such transactions, are not reflected in the annual financial statements of the Bank. Refer to note 32 for disclosure.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

1. ACCOUNTING POLICIES (CONTINUED)

1.19 Borrowing Costs

Borrowing costs are primarily interest and other costs incurred by the Bank in connection with the borrowing of funds. Borrowing costs are recognised on a time proportioned basis, taking account of the principal outstanding and the effective interest rate over the period of the loan and are expensed accordingly.

1.20 Accounting For IMF – Special Drawing Rights (SDR)

The SDR is an international reserve asset, created by the International Monetary Fund (IMF) in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organisations. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of the five major currencies (Euro, Japanese yen, Pound sterling, US dollar and Chinese renminbi). In as far as Namibia is concerned, the total allocation of SDR by the IMF is classified in the books of the Bank as an asset under "Other Receivables" and as a liability under "Deposits" classification.

As stated in our significant judgements in note 1.3 for the RFI issued by the IMF to the Government of the Republic on Namibia, the bank acts as an agent to the transaction and has been absolved of any obligation. No asset or liability is therefore recognised in our financial statements for the RFI.

1.21 Notes and coins in circulation

One of the primary functions of the Bank is the printing and minting of Namibia Dollar currency and issuance thereof into circulation. Costs of printing and minting the currency are capitalised and amortised based on issuance of the currency into circulation. New currency notes and coins are issued to the Commercial Banks at face value which then flows into circulation through the monetary and financial systems operational in the country. Once issued into circulation the notes and coins are reflected in the books of the Bank as a liability and the liability is only extinguished when the currency is no longer in circulation.

1.22 Lent-Out Securities

The Bank derives income from securities lending activity. The counterparties involved in these transactions are highly rated institutions and cash collateral is deposited by the counterparty with the custodians as guarantee for the lent-out securities. Our custodians are responsible for the administration and management of this activity. The income generated from the lent-out securities activities are recorded in the books of the Bank accordingly.

1.23 Investment Revaluation Reserve

The Reserve has been created to retain unrealised gains and losses on the Bank's portfolio investments that are measured at fair value through other comprehensive income (FVTOCI) and fair value through profit and loss as per IFRS 9, until they are realised. Unrealised gains when realised become available for distribution and unrealised losses when realised are charged to the Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

2. CORRECTION OF PRIOR PERIOD ERRORS

2.1 Restatement of the treatment of the Rapid Financing Instrument

On 31 March 2021, the International Monetary Fund (IMF) approved financial assistance to the Government of the Republic of Namibia (the Government) of a Rapid Financing Instrument (RFI) to the value of Special Drawing Rights (SDR) of 191,100,000 (N$ 4 733 326 233). The funds under the RFI were provided for direct budget financing to the Government. The loan amount was drawn down on 6 April 2021.

The Bank of Namibia's (the Bank) role in the financing of the RFI was to facilitate payment as part of its statutory obligation in terms of the Bank of Namibia Act No.1 of 2020, to provide depository services and fiscal agencies to the Government. Additionally, the Government issued a non-negotiable, non-interest-bearing promissory note in Namibia Dollar in favour of the IMF. This absolves the Bank from any performance obligation towards repayment of the principal, interest and any other cost.

The Bank of Namibia incorrectly recorded the RFI loan debt as external debt of the Bank which was then on-lent, as a domestic loan, to the Government. An IMF RFI asset was recognised and a corresponding and equal liability was recognised in the books of the Bank, at initial recognition and included in other receivables and deposits.

As the Bank was acting as an agent in the RFI arrangement, no recording of amounts was to occur. This error has been corrected retrospectively. The error only affects the 2021 financial year as the instrument was only issued by the IMF during 2021. Therefore, no restatement of the 2020 annual financial statements was required and therefore no third statement of financial position is presented. The error had no impact on the statement of profit or loss and other comprehensive income or statement of changes in equity.

The effect of the correction of the error on the results for the 2021 financial year is as follows:

Statement of Financial Position	**Previously Reported N$'000**	**2021 Restatement N$'000**	**Restated N$'000**
ASSETS:			
Decrease in Other receivables	12 386 771	(4 733 326)	7 653 445
LIABILITIES:			
Decrease in Deposits	37 534 161	(4 733 326)	32 800 835

Statement of Cash Flows	**Previously Reported N$'000**	**2021 Restatement N$'000**	**Restated N$'000**
Increase in Other receivables	(7 098 021)	4 733 326	(2 364 695)
Increase in Deposits	13 386 861	(4 733 326)	8 653 535

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

2. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

2.2 Recognition of interest income and interest expense from the purchase of the ZAR Portfolio and issuance of the Bank of Namibia Bills to GIPF and NamPower

The critical accounting estimate and judgement relates to the acquisition of the ZAR portfolios from GIPF and NamPower and issuance of Bank of Namibia bills is rehearsed in accounting policy note 1.3.8. Upon re-evaluation of the accounting treatment, management identified that the interest income and interest expense related to these instruments were not accounted for in the Bank's financial statements in the prior financial years. The ZAR portfolio acquired from GIPF and NamPower earn interest, however, and interest expenses are incurred on the Bank of Namibia bills issued to GIPF and NamPower.

To correct this, the income statement has been restated for 2021. The effect of the correction of the error on the results for the 2021 financial year is as follows:

Statement of Profit or Loss and Other Comprehensive Income	Previously Reported N$'000	2021 Restatement N$'000	Restated Amounts N$'000
Net other interest income	-	-	-
Increase in interest income from rand investments	-	540 600	540 600
Increase in interest expense on BoN bills - NamPower and GIPF	-	(540 600)	(540 600)
Unrealised gains on rand investments exchanged	-	1 289 538	1 289 538
Unrealised (losses) on BoN Bills – NamPower and GIPF	-	(1 289 538)	(1 289 538)
Operating profit	584 199	-	584 199
Profit for the year	1 537 505	-	1 537 505
Total Comprehensive Income	1 145 055	-	1 145 055

The misstatement had no impact on the statement of financial position, statement of changes in equity and statement of cashflows and these statements have not been restated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

3. RESULTS FOR THE YEAR

	2022 N$'000	2021 Restated N$'000
Profit for the year is arrived at after taking the following items into account:		
Interest Income		
Namibia dollar & rand currency	**521 167**	**404 697**
Debt securities and money market instruments	521 167	404 697
Other currencies	**213 958**	**137 548**
Debt securities	207 610	135 488
Money market instruments	6 348	2 060
Unwinding of present value adjustments (staff loans)	4 898	5 085
	740 023	**547 330**
Interest Paid		
Government	-	-
Commercial banks	91 426	54 906
Other	94 051	24 157
	185 477	**79 063**
Rand Currency		
Interest income from rand investments exchanged*	715 500	540 600
Namibia Dollar Currency		
Interest paid on liabilities to NamPower and GIPF*	715 500	540 600
Rand compensation income	578 000	505 628
Other Income		
Dividend income on equity instruments	5 025	-
Sundry income	36 162	43 237
	41 187	**43 237**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

3. RESULTS FOR THE YEAR (CONTINUED)

	2022 N$'000	2021 Restated N$'000
Operating Expenses		
Depreciation	18 574	17 566
Amortisation of computer software	13 273	4 701
Currency inventory amortisation costs	36 017	34 018
Salaries and related personnel costs	312 932	266 343
Staff training and development	5 482	2 955
Social responsibility	1 605	11 447
Board members' fees - for services as board members	1 211	1 163
Auditors' remuneration - audit fees	2 290	1 921
Membership fees	1 105	1 146
Building, Information Technology and other maintenance costs	22 114	18 881
Amortisation of pre-paid long-term employee benefits	4 898	5 084
Expected credit losses – IFRS 9	4 427	(6 491)
Share of loss from associate	290	252
Asset management fees	8 940	10 943
Municipal accounts	10 761	9 832
Subscription	6 614	6 929
Research expenses: growth strategy	20 586	8 865
Other expenditure	51 385	37 378
Total operational expenditure	**522 504**	**432 933**
Number of employees	**337**	**323**

* During 2022 management identified that in prior years the interest income, interest expense, and fair value gains and losses relating to the purchase of the ZAR portfolio and issuance of the Bank of Namibia bills to GIPF and NamPower had not been recognised. The Bank controls the ZAR portfolio acquired from GIPF and NamPower and has an obligation to GIPF and NamPower for the Bank of Namibia bills issued. Therefore, the interest income, interest expense, and fair value gains and losses must be recognised in the Statement of profit or loss and other comprehensive income.

The net impact of the interest income and interest expense is nil and is included in the 'Net other interest income' section as part of Total income. The net impact for the fair value gains and losses is nil and is included in the 'Foreign exchange and fair value gains'. See note 1.3.8 and note 2.2 of the financial statements for more information.

Interest income relates to interest earned on investments which are invested in the Rand, Euro and USD money and capital markets as well as interest earned in NAD on the commercial banks' settlement accounts, repurchase agreements and staff loans.

Interest expense mainly relates to interest expense incurred on Bank of Namibia bills issued to commercial banks, interest expense incurred on commercial banks' settlement accounts, Special Drawing Rights allocations by the IMF and interest on bills issued to GIPF and NamPower.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

4. APPROPRIATION OF PROFITS IN TERMS OF THE BANK OF NAMIBIA ACT, NO.1 OF 2020

	Notes	2022 N$'000	2021 N$'000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		777 754	1 145 055
Unrealised losses transferred to the investment revaluation reserve		587 481	366 157
Distribution adjustment - unrealised losses		36 879	(36 879)
Exchange rate gains transferred to the revaluation reserve		(629 477)	(801 650)
Amount available for distribution		**772 637**	**672 683**
APPROPRIATION OF PROFITS		772 637	672 683
General reserve	20	253 937	258 983
Training fund reserve	22	5 000	-
Development fund reserve	23	100 000	-
Distribution to state revenue fund		413 700	413 700

The foreign exchange gain reflected on the Statement of Profit or Loss and Other Comprehensive Income includes the translation gain for the year that has been charged to the Statement of Profit or Loss and Other Comprehensive Income to comply with the requirements of IAS 21 – Effect of changes in Foreign Exchange Rates. In terms of section 64 of the Bank of Namibia Act, 2020, gains and losses arising based on changes in the book or realised value of assets or liabilities, denominated in currencies other than the domestic currency, are to be transferred to the revaluation reserve. The net profit for the year in line with the compliance requirements of the Bank of Namibia Act, 2020 would therefore amount to N$772.64 million (2021: N$672.68 million). Appropriations of profits are based on this net profit figure.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

5. INVESTMENTS

	2022 N$'000	2021 N$'000
RAND CURRENCY		
Fair value through profit or loss		
Debt securities and money market investments	18 580 025	17 486 315
Fair value through other comprehensive income		
Debt securities	2 963 687	4 176 576
Amortised cost		
Money market instruments	7 828 367	4 926 431
	29 372 079	**26 589 322**
OTHER CURRENCIES		
Fair value through profit or loss		
Equity instruments	554 009	-
Fair value through other comprehensive income		
Debt securities and money market investments	7 600 979	8 094 265
Amortised cost		
Money market instruments	6 252 690	5 192 520
	14 407 678	**13 286 785**
Total Gross investments	**43 779 757**	**39 876 107**
Less: Rand currency allowance for credit losses - amortised cost (refer to 5.1)	(8 431)	(4 019)
Less: Other currency allowance for credit losses - amortised cost (refer to 5.1)	(278)	(263)
Total Investments	**43 771 048**	**39 871 825**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

5. INVESTMENTS (CONTINUED)

5.1 Movements in expected credit losses

The following table shows the movement in expected credit losses that has been recognised for the respective investments.

CLASSIFICATION	Measured at FVTOCI			Measured at amortised cost	Total
	Internally Managed bonds	Externally Managed bonds	Allowance for credit losses – FVTOCI instruments	Internally managed money market instruments	
	N$'000	N$'000	N$'000	N$'000	N$'000
Balance at 1 January 2022	41 559	2 075	43 634	4 282	47 916
Net (decrease)/increase in ECL	**(24 379)**	**(253)**	**(24 631)**	**4 427**	**(20 204)**
Increase/(decrease): 12-month ECL	700	(120)	580	16	596
(Decrease)/increase: Lifetime ECL	(25 079)	(133)	(25 211)	4 411	(20 800)
Balance at 31 December 2022	**17 180**	**1 822**	**19 003***	**8 709**	**27 712**

CLASSIFICATION	Measured at FVTOCI			Measured at amortised cost	Total
	Internally Managed bonds	Externally Managed bonds	Allowance for credit losses – FVTOCI instruments	Internally managed money market instruments	
	N$'000	N$'000	N$'000	N$'000	N$'000
Balance at 1 January 2021	21 123	2 503	23 626	10 773	34 339
Net (decrease)/increase in ECL	**20 436**	**(428)**	**20 009**	**(6 491)**	**13 517**
Increase/(decrease): 12-month ECL	26	(123)	(96)	(44)	(141)
(Decrease)/increase: Lifetime ECL	20 410	(305)	20 105	(6 447)	13 658
Balance at 31 December 2021	**41 559**	**2 075**	**43 634***	**4 282**	**47 916**

IFRS 9.5.5.2 prescribes that the allowance for credit losses for financial assets measured at FVTOCI of N$19.0 million (2021: N$43.6 million) shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The movement in the loss allowance is included in the investment revaluation reserve.

*The total allowance for credit losses at FVTOCI is presented in the Investment revaluation reserve under equity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

5. INVESTMENTS (CONTINUED)

5.2 Lent-Out Securities

At 31 December 2022, the value of lent-out securities from our investment portfolio, managed by our custodians, nominal value amounted to USD 3.41 million; NAD equivalent 57.81 million (2021: USD1.593 million; NAD equivalent 25.34 million). The counterparties involved in these transactions are rated institutions and cash collateral has been deposited with the custodians as guarantee for the lent-out securities. The income generated from the lent-out securities activity, has been recorded in the books of the Bank accordingly.

5.3 Fair Value Hierarchy of Financial Instruments

The levels of hierarchy used to determine the fair value of financial instruments is as detailed below:

Fair value of instruments that fall in the Level 1 category would be based on the unadjusted quoted prices in an active market for identical assets or liabilities. Level 2 category would be based on quoted prices that are observable for the asset or liability, either directly as prices or indirectly as derived from prices. Level 3 category would be based on inputs for the asset or liability that are not based on observable market data.

Level 1
The fair value of the Bank's financial instruments traded in active markets are based on the quoted prices obtained from the custodian at the statement of the financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer broker or pricing services, and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2
The fair value of financial instruments not traded in an active market is determined using available observable market data and rely as little as possible on entity specific estimates. Some of the techniques used include market prices for similar instruments and discounted cash flows where future cash flows are discounted using a market related interest rate.

At 31 December 2022, the fair value of financial instruments that were classified under the various hierarchies is detailed in the tables below:

At 31 December 2022	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
Rand and other currencies investments	3 082 790	26 061 901	-	29 144 691
Other currencies - equity investments	554 009	-	-	554 009
	3 636 799	**26 061 901**	**-**	**29 698 700**

At 31 December 2021	Level 1 N$'000	Level 2 N$'000	Level 3 N$'000	Total N$'000
Rand and other currencies investments	**3 386 452**	**26 325 819**	**-**	**29 712 271**

The fair value of the amortised cost instruments not included above amounts to N$14 081 057 excluding the allowance for credit losses of N$8 709 (2021: N$10 118 952, excluding the allowance for credit losses of N$4 282).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

6. LOANS AND ADVANCES - LOCAL BANKS

	2022 N$'000	2021 N$'000
Loans to local banks	6 093	1 456
Closing balance	**6 093**	**1 456**

The loans to local banks are for the Covid-19 SME Loan Scheme where the commercial banks further on-lent the funds to eligible SME's as Covid-19 Loans. These loans are unsecured and accrue interest at the prime rate of which the obligation to pay interest and capital is deferred for the first six months after the first drawdown. The Government provided guarantees amounting to N$500 million towards this scheme.

7. CURRENCY INVENTORY

	2022 N$'000	2021 N$'000
Opening balance	90 100	84 895
Purchases current year	26 929	25 028
Currency revaluation	26	14 195
Currency amortisation	(36 017)	(34 018)
Closing balance	**81 038**	**90 100**

8. RAND DEPOSITS

	2022 N$'000	2021 N$'000
Closing balance	**159 704**	**70 014**

Rand deposits is the value of Rand bank notes held by the Bank of Namibia. Commercial banks deposit the Rand bank notes collected at their various branches at the Bank of Namibia. The Bank of Namibia in turn repatriates the Rand bank notes to the South African Reserve Bank based on predetermined currency values. Upon repatriation, the South African Reserve Bank then credits the Namibian reserves on deposit with an amount equal to the value of the Rand bank notes repatriated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

9. OTHER RECEIVABLES

	2022 N$'000	2021 *Restated N$'000
Other receivables	75 909	59 813
Less: Allowance for credit losses	-	-
Net accounts receivable	**75 909**	**59 813**
Rand compensation receivable	578 000	505 628
IMF - Quota **	3 436 443	3 115 667
Receivable - Financial Intelligence Centre (FIC)	4 738	-
IMF - Special Drawing Rights (SDR) holdings	3 818 890	3 972 337
Total other receivables	**7 913 980**	**7 653 445**

The SDR is an international reserve asset, created by the International Monetary Fund (IMF) to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR comprises of 178 355 551 (2021: 182 724 609) units of SDR currency.

Other receivables balances consist mainly of prepayments and VAT receivables which are non-financial instruments.

** The Other receivables and Deposits balances were restated to derecognise the IMF Rapid Financing Instrument (RFI) of N$4 733 326 233 due to the Government of the Republic of Namibia, which was incorrectly recognised in the 2021 Annual Financial Statements as being part of the IMF quota allocation. See note 2 for more information.

No allowance for credit losses has been recognised on any of the Other receivables, as the counterparties predominantly include the IMF, South African Government's Treasury and the FIC which are public corporations and government agencies which have high ratings and/ or creditworthiness.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

10. LOANS AND ADVANCES - OTHER

	2022 N$'000	2021 N$'000
Staff loans	117 072	114 118
Less: Present value adjustment for off - market loans	**(45 084)**	**(42 857)**
Opening balance – 1 January	(37 773)	(32 507)
Current year fair value adjustment of new loans	(2 413)	(5 266)
Amortised to income statement	(4 898)	(5 084)
Add: Staff long-term fringe benefits	**45 084**	**42 857**
Opening balance – 1 January	37 773	32 507
Current year fair value adjustment of new loans	2 413	5 266
Amortised to income statement	4 898	5 084
Net staff loans	**117 072**	**114 118**
Lifetime expected credit loss allowance	(1 649)	(1 600)
Closing balance	**115 423**	**112 518**

11. INVESTMENT IN ASSOCIATE

	2022 N$'000	2021 N$'000
Carrying value of investment – 1 January	-	-
Increase in investment	290	252
Share of loss in associate	(290)	(252)
Closing balance	**-**	**-**

The Bank holds a 49% interest in the Central Securities Depository (Pty) Ltd (CSD). The company is incorporated in Namibia and the interest is equity - accounted for. The principal activity of the CSD is to provide central securities depository services to the Namibian market.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

11. INVESTMENT IN ASSOCIATE (CONTINUED)

Below is a summary of the financial information:

	2022 N$'000	2021 N$'000
Total Income	-	-
Total Expenses	(1 072)	(932)
Net Loss for the year	**(1 072)**	**(932)**
Total Assets	3	2
Total Liabilities	(7 110)	(6 037)
Equity	**(7 107)**	**(6 035)**
Share of Loss in Associate recognised	290	252
Cumulative unrecognised share of loss	577	342

The Bank has subordinated its debt of N$3.1million (2021: N$2.9 million) in favour of other creditors of the CSD, both present and future and the Bank will not call its claims against the CSD before 1 January 2024. The debt has been fully impaired in the books of the Bank.

12. OTHER INVENTORY – STATIONERY AND SPARES

	2022 N$'000	2021 N$'000
Opening balance	4 742	4 881
Purchases current year	556	469
Issues current year	(492)	(591)
Adjustments	–	(17)
Closing balance	**4 806**	**4 742**

The cost of inventories recognised as an expense during the year was N$1.04 million (2021: N$ 1.07 million). There was no write-down of inventory to net realisable value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

13. PROPERTY AND EQUIPMENT

2022 Cost	Freehold Land and Buildings	Computer Hardware	Furniture Fittings & Equipment	Motor Vehicles	Total
	N$'000	N$'000	N$'000	N$'000	N$'000
At 1 January 2022	344 234	35 240	122 154	12 954	514 582
Additions	5 873	749	2 350	-	8 972
At 31 December 2022	**350 107**	**35 989**	**124 504**	**12 954**	**523 554**
Accumulated depreciation					
At 1 January 2022	95 030	28 455	101 540	11 317	236 342
Current year charge	7 369	4 720	5 358	1 127	18 574
At 31 December 2022	**102 399**	**33 175**	**106 898**	**12 444**	**254 916**
Carrying value					
At 1 January 2022	**249 204**	**6 785**	**20 614**	**1 637**	**278 240**
At 31 December 2022	**247 708**	**2 814**	**17 606**	**510**	**268 638**

2021 Cost	Freehold Land and Buildings	Computer Hardware	Furniture Fittings & Equipment	Motor Vehicles	Total
	N$'000	N$'000	N$'000	N$'000	N$'000
At 1 January 2021	340 763	28 451	121 721	12 954	503 889
Additions	3 471	6 842	1 209	-	11 522
Disposals	-	(53)	(776)	-	(829)
At 31 December 2021	**344 234**	**35 240**	**122 154**	**12 954**	**514 582**
Accumulated depreciation					
At 1 January 2021	87 830	25 229	96 503	10 040	219 602
Current year charge	7 200	3 279	5 810	1 277	17 566
Disposals	-	(53)	(773)	-	(826)
At 31 December 2021	**95 030**	**28 455**	**101 540**	**11 317**	**236 342**
Carrying value					
At 1 January 2021	**252 933**	**3 222**	**25 218**	**2 914**	**284 287**
At 31 December 2021	**249 204**	**6 785**	**20 614**	**1 637**	**278 240**

A register containing details of land and buildings is available for inspection at the registered office of the Bank.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

14. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2022 N$'000	2021 N$'000
Cost		
Opening balance	99 183	75 404
Additions	11 117	23 779
Closing balance	**110 300**	**99 183**
Accumulated amortisation		
Opening balance	58 622	53 921
Current year charge	13 273	4 701
Closing balance	**71 895**	**58 622**
Carrying value:		
Opening balance	**40 562**	**21 483**
Closing balance	**38 405**	**40 562**

15. DEPOSITS

	2022 N$'000	2021 *Restated N$'000
Government of the Republic of Namibia	908 444	2 515 377
Domestic bankers' reserve account	1 428 663	1 283 911
Domestic bankers' settlement account	3 304 649	2 200 533
SDR allocation account	6 713 588	6 815 307
IMF securities account **	3 436 443	3 115 667
Bank of Namibia Bill - GIPF	17 760 352	14 894 372
Bank of Namibia Bill - NamPower	819 042	917 284
Foreign currency placements	2 138 892	969 486
Other – pre-funded donor funds at cost	81 510	88 898
Total Deposits	**36 591 583**	**32 800 835**

Bankers' reserve account balances have no fixed maturity and attract no interest. The settlement account however attracts interest at the prevailing rate as determined by the Bank of Namibia.

** The Other receivables and Deposits balances were restated to derecognise the IMF Rapid Financing Instrument (RFI) of N$4 733 326 233 due to the Government of the Republic of Namibia, which was incorrectly recognised in the 2021 Annual Financial Statements. See note 2 for more information.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

15. DEPOSITS (CONTINUED)

Pursuant to sections 45 and 47 of the Bank of Namibia Act No.1 of 2020, the Government may take up short-term loans from the Bank, which shall have a maturity of less than six months. The Government may without prior notification utilise an overdraft facility from the Bank not exceeding N$2.5 billion. The Government shall pay interest to the Bank on debit balances at a rate equivalent to the 91-day treasury bill rate plus 50 basis points. Any request by Government for credit from the Bank exceeding N$2.5 billion shall be referred to the Board of Directors of the Bank for consideration and approval or not.

The IMF securities account represents long - term Government deposits.

The Government Institutions Pension Fund (GIPF) and Namibia Power Corporation (Proprietary) Limited (NamPower), purchase agreements were concluded in November 2015 and February 2016, respectively, to enhance Namibia's foreign reserve stocks. NamPower and GIPF transferred their ZAR investments to the Bank in exchange for an investment in NAD Instruments issued by the Bank. The Bank has created and issued Bank of Namibia Bills to the two corporate investors, in terms of Section 7(2) of the Bank of Namibia Act 2020.

Other deposits are mainly made up of foreign currency denominated call deposit facilities provided to commercial banks and call account facilities extended to specific local institutions.

The pre - funded donor funds at cost are monies received on behalf of the Government for various donor funded projects being undertaken in Namibia. These funds have no maturity dates and attract no interest.

16. TRADE AND OTHER PAYABLES

	2022 N$'000	2021 N$'000
Sundry creditors	71 781	53 011
Payable - Financial Intelligence Centre (FIC)	-	35 185
Payable - Namibia Deposit Guarantee Authority (NDGA)	16 980	10 881
Total trade and other payables	**88 761**	**99 077**

17. NOTES AND COINS IN CIRCULATION

	2022 N$'000	2021 N$'000
Namibian notes in circulation	4 605 914	4 501 499
Namibian coins in circulation	267 955	257 937
Total notes and coins in circulation	**4 873 869**	**4 759 436**

Issued notes and coins go into circulation and are recorded as a liability. The liability is extinguished when the notes and coins are removed from circulation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

18. PROVISION FOR POST-EMPLOYMENT BENEFITS

The Bank provides post-employment medical benefits to retired staff members. A provision for the liability has been determined based on the Projected Unit Credit Method. The independent actuarial valuation was performed for the year ended 31 December 2022.The actuarial valuation was performed by ARCH Actuarial consulting, a member of the Actuarial Society of South Africa ("ASSA") with more than 20 years of experience in performing similar valuations.

	2022 N$'000	2021 N$'000
Opening liability	69 098	64 957
Interest cost	7 092	6 134
Current service cost	1 214	1 130
Benefit payments	(3 064)	(2 897)
Estimate adjustment	-	(6 510)
Actuarial loss	(3 299)	6 284
Closing liability	**71 041**	**69 098**
Number of members	**173**	**175**

Key Assumptions	2022	2021
Discount rate	11.54% p.a.	10.49% p.a.
Medical inflation	7.72% p.a.	7.45% p.a.
Valuation date	31.12.22	31.12.21

The effect of a 1% movement in the assumed medical cost trend rate is as follows:	Increase N$'000	Decrease N$'000
Effect on the aggregate of the current service cost and interest cost	9 505	7 875
Effect on the defined benefit obligation	80 546	63 166

At 31 December	2022 N$'000	2021 N$'000	2020 N$'000	2019 N$'000	2018 N$'000
Present value of post-retirement benefit obligation	**71 041**	**69 098**	**64 957**	**60 569**	**68 195**

The Bank's post-retirement plan is unfunded.

The discount rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market closed at year end.

A health care cost inflation rate of 7.72% (2021: 7.45%) has been assumed. This is 1.50% (2021:1.50%) in excess of expected CPI inflation over the expected term of the liability, namely 6.22% (2021:5.95%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

19. SHARE CAPITAL

	2022 N$'000	2021 N$'000
Authorised share capital	-	-
100 000 000 ordinary shares of N$1 each	100 000	100 000
Issued share capital		
40 000 000 ordinary shares of N$1 each	40 000	40 000

The share capital is the amount subscribed by the Government in accordance with Section 8 of the Bank of Namibia Act, 2020. The Bank is not subject to any externally imposed capital requirements, however, annually appropriation of profits is approved by the Government which requires that a minimum percentage of the annual profits is transferred to the general reserve which forms part of the Bank's capital.

20. GENERAL RESERVE

Opening balance	2 741 385	2 463 986
Transfer from development fund reserve/training fund reserve	15 162	18 416
Appropriation of net profit for the year	253 937	258 983
Closing balance	**3 010 484**	**2 741 385**

The General Reserve is a Statutory Reserve that can be utilised for increasing the paid up capital of the Bank, offset losses incurred, fund a Development Reserve and redeem any securities issued by the Bank.

21. FOREIGN CURRENCY REVALUATION RESERVE

Opening balance	7 002 208	6 200 558
Net foreign exchange gain	629 477	801 650
Closing balance	**7 631 685**	**7 002 208**

The foreign currency revaluation reserve has been created in accordance with Section 64 of the Bank of Namibia Act, 2020. The Act requires that both realised and unrealised gains and losses be transferred to the revaluation reserve account.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

22. TRAINING FUND RESERVE

	2022 N$'000	2021 N$'000
Opening balance	16 179	16 179
Transfer to general reserve	(1 900)	-
Appropriation of net profit for the year	5 000	-
Closing balance	**19 279**	**16 179**

The training fund reserve has been created to provide funds to up-skill the Bank's human capacity in order to meet challenges of the rapidly changing and complex financial environment in which the Bank operates.

23. DEVELOPMENT FUND RESERVE

	2022 N$'000	2021 N$'000
Opening balance	95 986	114 402
Transfer to general reserve	(11 562)	(18 416)
Appropriation of net profit for the year	100 000	-
Closing balance	**184 424**	**95 986**

This reserve was established under section 73(1)(a) of the Bank of Namibia Act, 2020 for the purpose of promoting or financing economic development in Namibia.

24. BUILDING FUND RESERVE

	2022 N$'000	2021 N$'000
Opening balance	85 000	85 000
Transfer to general reserve	(1 700)	-
Closing balance	**83 300**	**85 000**

This reserve was established under section 73(1)(a) of the Bank of Namibia Act, 2020 for the purpose of accumulating funds for building projects that the Bank intends to embark upon in the future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

25. INVESTMENT REVALUATION RESERVE

	2022 N$'000	2021 N$'000
Opening balance	-	291 611
Transfers to investment revaluation reserve for the year (FVTPL)	(15 123)	-
Transfers to investment revaluation reserve for the year (FVTOCI)	(572 358)	(366 157)
Allowance for expected credit loss 2020 adjustment - corrected in 2021	-	17 658
Allowance for expected credit losses	(24 631)	20 009
	(612 112)	**(36 879)**
Distribution adjustment - unrealised losses	(36 879)	36 879
Closing balance	**(648 991)**	**-**

The reserve has been created to retain unrealised gains and losses on the Bank's portfolio investments that are measured at fair value through other comprehensive income (FVTOCI) and fair value through profit and loss per IFRS 9, until they are realised. Unrealised gains when realised become available for distribution and unrealised losses when realised are charged to the Statement of Profit or Loss and Other Comprehensive Income.

26. RETIREMENT FUND

Retirement benefits are provided for employees by a separate provident fund, known as the Bank of Namibia Provident Fund, to which the Bank contributes. The provident fund is administered under the Pension Fund Act, 1956 (No. 24 of 1956). The Fund was converted from a defined benefit pension fund to a defined contribution provident fund as at 1 March 2000. All employees contribute to the fund. Total Bank's contributions for the year 2022 amounted to N$27 666 111 (31 December 2021: N$25 891 288).

27. TAXATION

No provision for taxation has been made in the annual financial statements as the Bank is exempted from taxation in terms of Section 74 of the Bank of Namibia Act, 2020.

28. FINANCIAL INTELLIGENCE CENTRE (FIC)

The Bank continues to render administrative support to the Financial Intelligence Centre (FIC). The FIC was established in terms of the Financial Intelligence Act, 2007 (No 3 of 2007). This Act was repealed in 2012 and replaced by the Financial Intelligence Act of 2012 which came into effect in December 2012. The Act prescribes that the Bank of Namibia shall host the FIC and will be responsible and accountable for all its operational and administrative activities. During 2016, the FIC financials were separated from those of the Bank. The intercompany accounts are used to determine and settle transactions between the FIC and the Bank. As at 31 December 2022, the Bank has a receivable from the FIC of N$4 738 015 (2021 Payable: N$35 185 273) which is reflected on the intercompany account and disclosed under Note 32.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

29. NAMIBIA DEPOSIT GUARANTEE AUTHORITY (NDGA)

The Bank renders administrative support to the Namibia Deposit Guarantee Authority (NDGA). The NDGA was established in terms of the Deposit Guarantee Act (No. 16 of 2018). The Act prescribes that the Bank of Namibia shall host the NDGA and will be responsible and accountable for all its operational and administrative activities. The intercompany accounts are used to determine and settle transactions between the NDGA and the Bank. As at 31 December 2022, the Bank owes the NDGA N$16 979 512 (2021: N$10 880 987), which is reflected on the intercompany account and disclosed under Note 32.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The investment of foreign exchange reserves in financial instruments gives rise to exposure to various types of financial risks which include currency, interest rate, credit and liquidity risk. Risk management at the Bank of Namibia forms an integral part of foreign reserves management within the governance structures of the Bank. Foreign exchange reserves are managed in a three-tier governance structure consisting of the Board of Directors, the Investment Committee and the Financial Markets Department (FMD). To further strengthen the role of managing foreign reserves, a Credit Risk Committee was established acting as a function of the FMD and consists of members from outside the department.

The highest hierarchy, namely the Board defines the investment policy of the Bank, which guides the management and risk appetite of the foreign exchange reserves. The Board authority is delegated to the Investment Committee to ensure compliance with the investment mandate. The FMD is responsible for managing the reserves and within the FMD, there is a Risk & Analytics section that proactively monitors compliance of investments to assigned risk parameters daily.

In order to best achieve the multiple investment objectives, the Bank divides the reserves into three tranches namely: working capital, liquidity and investment tranche.

Tranche	Horizon	Objective
Working capital	0-3 Months	Provide liquidity. No negative returns allowed on any period (100% Cash).
Liquidity	1 Year	Maximise returns subject to avoiding negative returns at 99% confidence (as measured on an annual basis).
Investment	1 Year	Maximise returns subject to a negative return of 100 bps with 95% probability (as measured on an annual basis).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The different types of risks that the foreign exchange reserves are exposed to and the Bank's risk management approaches are stated below:

30.1 MARKET RISK

Market risk is the potential for adverse changes in the fair value or future cash flows of the Bank's foreign reserve assets due to changes in market and macroeconomic variables such as interest rates, exchange rates and inflation. The Bank employs duration management, diversification, hedging, correlation analysis and risk budgeting to manage market risk. In managing the foreign exchange reserves, the Bank follows an enhanced indexation approach which aims to outperform traditional passive portfolio management techniques by investing in a defined benchmark as well as employing an active management strategy to enhance investment returns on appropriate portfolios.

Sensitivity analysis on currency risk

The Bank of Namibia follows an Asset-Liability Management Approach to determine its currency composition (an exercise which is undertaken annually during the Strategic Asset Allocation review). To manage the Bank's exposure to foreign-denominated liabilities, the foreign reserve assets are matched to these liabilities, yet some exposure to currency risk remains. Refer to note 30.3.

To demonstrate the sensitivity of our foreign currency investments to foreign exchange market changes, we elected to stress the foreign currency investments with a reasonably possible variable of 10% in line with the requirements of IFRS 7 Financial Instruments: Disclosures.

	2022		2021	
	Total Assets NAD'000	(Increase)/ decrease with 10% change	Total Assets NAD'000	(Increase)/ decrease with 10% change
Assets				
USD	12 622 461	(1 262 246)	11 478 014	(1 147 801)
EURO	923 096	(92 310)	885 313	(88 531)
SDR	7 255 333	(725 533)	7 088 004	(708 800)
OTHER CURRENCIES	861 843	(86 184)	939 689	(93 969)
Balance at 31 December 2022	**21 662 733**	**(2 166 273)**	**20 391 020**	**(2 039 101)**
% Impact on assets		4%		5%
Liabilities				
USD	(2 220 402)	222 040	(1 058 384)	105 838
EUROS	-	-	-	-
SDR	(10 150 031)	1 015 003	(9 930 973)	993 097
Balance at 31 December 2022	**(12 370 433)**	**1 237 043**	**10 989 357**	**1 098 935**
% Impact on liabilities		3%		3%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 INTEREST RATE RISK

Interest rate risk is the risk that the fair value of a financial instrument will reduce below its acquisition cost due to an increase in interest rates. Foreign exchange reserve assets are sensitive to the interest rate movement path. Changes in interest rates impacts the value of these assets as well as the potential interest income. A commonly used measure for interest rate risk on a bond or money market portfolio is the Dollar Value (DV01) approach. This approach considers the change in value of an asset or portfolio due to a 0.01 percent change in yield. The following table summarises the Bank's interest rate exposure using this methodology and applies a 0.01 percent interest rate shock. The table can therefore be used as a basis for an assessment of the sensitivity of the Bank's income to interest rate movements.

<u>Sensitivity analysis on interest rate risk</u>

To demonstrate the sensitivity of our investments to interest rate changes, we elected to stress the investments with a reasonably possible variable of 100 bps, i.e., 1%. This variable is supported by the spate of interest rate changes in financial markets over the last two years. The elected variable is in line with the requirements of IFRS 7 Financial Instruments: Disclosures.

IMPACT OF INTEREST RATE CHANGE ON EURO PORTFOLIO - 2022

Instrument	Amount invested €'000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	-	-	-	-	-	-	-
Liquidity tranche	-	-	-	-	-	-	-
Investment tranche	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

There is no interest rate calculation on the EUR portfolio as it currently has no assets that carry interest rate risk

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 INTEREST RATE RISK (CONTINUED)

IMPACT OF INTEREST RATE CHANGE ON USD PORTFOLIO - 2022

Instrument	Amount invested US$'000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	16 966	3	4.29	0.00	0.47	287 785	8
Liquidity tranche	28 396	4	4.26	0.14	40.88	481 665	693
Investment tranche	61 878	9	1.48	2.29	1 416.85	1 049 600	24 033
Externally managed portfolios	418 642	64	2.34	3.17	13 274.49	7 101 202	225 168
CFC	126 627	20	4.30	0.00	3.52	2 147 904	60
	652 509	**100**	**16.67**		**14 736.21**	**11 068 156**	**249 962**

IMPACT OF INTEREST RATE CHANGE ON ZAR PORTFOLIO - 2022

Instrument	Amount invested R'000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	2 178 815	21	7.15	0.00	60	2 178 815	60
Liquidity tranche	3 525 682	33	6.88	0.20	6 906	3 525 682	6 906
Investment tranche	4 859 943	46	7.17	0.24	11 807	4 859 943	11 807
	10 564 440	**100**	**21.20**		**18 773**	**10 564 440**	**18 773**

IMPACT OF INTEREST RATE CHANGE ON SDR PORTFOLIO - 2022

Instrument	Amount invested '000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
SDR	143 503	9	0.00	-	-	4 030 685	-
CNY	154 518	7	1.97	0.10	150	1 074 549	1 046
EUR	49 108	2	1.68	0.32	159	887 708	2 868
GBP	12 041	1	3.95	0.24	29	246 145	590
JPY	1 600 660	77	0.00	-	-	204 932	-
USD	91 304	4	3.62	0.11	101	1 548 743	1 719
	2 051 134	**100**	**11.22**		**439**	**7 992 762**	**6 223**

Exchange Rates source www.imf.org

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 INTEREST RATE RISK (CONTINUED)

IMPACT OF INTEREST RATE CHANGE ON EURO PORTFOLIO - 2021

Instrument	Amount invested €'000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	-	-	-	-	-	-	-
Liquidity tranche	-	-	-	-	-	-	-
Investment tranche	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

IMPACT OF INTEREST RATE CHANGE ON USD PORTFOLIO - 2021

Instrument	Amount invested US$'000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	13 109	2	0.05	0.00	0.36	208 521	6
Liquidity tranche	56 748	9	0.14	0.09	52.88	902 656	841
Investment tranche	68 279	11	1.79	2.45	1 671.26	1 086 080	26 584
Externally managed portfolios	440 885	69	2.21	3.43	15 101.28	7 012 908	328 290
CFC	60 003	9	0.13	0.01	6.66	954 432	106
	639 024	**100**	**4.32**		**16 832.44**	**10 164 597**	**355 827**

IMPACT OF INTEREST RATE CHANGE ON ZAR PORTFOLIO - 2021

Instrument	Amount invested R'000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
Working capital	2 217 592	24	3.79	0.00	60.76	2 217 592	61
Liquidity tranche	3 866 911	43	3.22	0.21	8 120.51	3 866 911	8 121
Investment tranche	2 999 941	33	3.40	0.30	8 987.29	2 999 941	8 987
	9 084 444	**100**	**10.41**		**17 168.56**	**9 084 444**	**17 169**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 INTEREST RATE RISK (CONTINUED)

IMPACT OF INTEREST RATE CHANGE ON SDR PORTFOLIO - 2021

Instrument	Amount invested '000	Actual Portfolio Weight(%)	Interest Rate %	Duration (Yrs)	Estimated Loss Assuming 1 % Change ('000)	Amount invested NAD'000	Estimated Loss Assuming 1% Change ('000)
SDR	182 726	57	0.00	-	-	3 972 338	-
CNY	156 704	6	2.32	0.02	25	391 175	62
EUR	49 120	12	-0.27	0.11	55	883 747	989
GBP	11 847	4	0.05	0.10	11	254 377	244
JPY	1 600 831	3	0.00	-	-	221 218	-
USD	79 687	18	0.11	0.14	113	1 267 530	1 798
	2 080 915	**100**	**2.21**		**204**	**6 990 385**	**3 093**

Exchange Rates source www.imf.org

INTEREST RATE REPRICING PROFILE

The following table summarises the Bank's interest rate exposure in the form of an interest rate repricing table. This shows when the interest rate earned or charged on assets and liabilities are expected to change based on the various maturities. The table can therefore be used as the basis for an assessment of the sensitivity of the Bank's net income to interest rate movements.

AS AT YEAR ENDED 31 DECEMBER 2022

N$'000	0 - 3 Months	3 - 12 Months	1 - 5 Years	More than 5 years	Non-interest bearing	Total
Assets						
Loans and advances local bank	298	1 027	4 768	-	-	6 093
Loans and advances	-	115 423	-	-	-	115 423
Investments	14 085 285	5 689 355	22 623 864	1 007 709	364 835	43 771 048
Rand deposits	159 704	-	-	-	-	159 704
Other receivables	3 894 799	-	-	-	4 019 181	7 913 980
Total Financial assets	**18 140 086**	**5 805 805**	**22 628 632**	**1 007 109**	**4 384 016**	**51 966 248**
Liabilities						
Deposits	31 644 967	-	-	-	4 946 616	36 591 583
Trade and other payables	88 761	-	-	-	-	88 761
Total Financial Liabilities	**31 733 728**	**-**	**-**	**-**	**4 946 616**	**36 680 344**
Interest rate repricing gap	**(13 593 642)**	**5 805 805**	**22 628 632**	**1 007 109**	**(562 600)**	**15 285 904**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 INTEREST RATE RISK (CONTINUED)

AS AT YEAR ENDED 31 DECEMBER 2021

N$'000	0 – 3 Months	3 – 12 Months	1 – 5 Years	More than 5 years	Non- interest bearing	Total
Assets						
Loans and advances local bank	-	-	1 456	-	-	1 456
Loans and advances	-	15 503	97 015	-	-	112 518
Investment	12 951 468	4 470 540	20 350 682	1 740 489	358 648	39 871 827
Rand deposits	70 014	-	-	-	-	70 014
Other receivables	4 032 150	-	-		3 621 295	7 653 445
Total Financial assets	**17 053 632**	**4 486 043**	**20 449 153**	**1 740 489**	**3 979 943**	**47 709 260**
Liabilities						
Deposits	28 312 359	-	-	-	4 488 475	32 800 834
Trade and other payables	99 077	-	-	-	-	99 077
Total Financial Liabilities	**28 411 436**	**-**	**-**	**-**	**4 488 475**	**32 899 911**
Interest rate repricing gap	**(11 357 804)**	**4 486 043**	**20 449 153**	**1 740 489**	**(508 532)**	**14 809 349**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 CURRENCY RISK

In terms of the Investment Policy and Guidelines, foreign exchange risk is managed on a risk neutral basis through a currency composition (benchmark) that provides a natural hedge against potential liabilities. The currency composition of the foreign exchange reserves reflects the currency distribution of the country's short-term external debt, imports and other contingent liabilities. The Bank's foreign reserve tranches are further composed of its various reserve currencies. The currency composition of reserves is determined using an Asset Liability approach whereby the potential calls on the reserves form the basis for the respective currency allocations. For the year 2022, the foreign reserves tranches were managed in-line with the currency exposure limits as shown below.

Instruments	ZAR Portfolio	USD Portfolio
Working capital	500mil – 2.5bn	10mil – 20mil
Liquidity tranche	1.0 bn – 4.5bn	20mil – 125mil
Investment tranche (%)	73	27

Risk - return preferences per tranche

Instruments	Horizon	Objective
Working capital	0-3 Months	Provide Liquidity. No negative returns allowed on any period (100% Cash).
Liquidity tranche	1 Year	Maximise returns subject to avoiding negative returns at 99% confidence (as measured on an annual basis).
Investment tranche (%)	1 Year	Maximise returns subject to a negative return of 100 bps with 95% probability (as measured on an annual basis).

The effect of the Namibia dollar exchange rates against the foreign currencies can have an impact on the level of foreign currency reserves when reported in local currency (NAD). The weakening of the NAD against the USD as well as other major currencies will favourably affect the reserve position when reported in NAD. The opposite effect holds when the NAD appreciates against these currencies. The NAD is pegged to the ZAR at a one-to-one parity and hence there is no currency risk on the portion of foreign reserves invested in that currency.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 CURRENCY RISK (CONTINUED)

AT 31 DECEMBER 2022 THE BANK HAD THE FOLLOWING CURRENCY POSITION EXPOSURES

N$'000	N$ '000	ZAR '000	Euro '000	US$ '000	Other '000	Total N$'000
Assets						
Loans and advances – other	115 423	-	-	-	-	115 423
Investments	-	29 363 648	923 096	12 622 461	861 843	43 771 048
Loans and advances – local banks	6 093	-	-	-	-	6 093
Rand deposits	-	159 704	-	-	-	159 704
Other receivables	80 647	578 000	-	-	7 255 333	7 913 980
Total Financial Assets	**202 163**	**30 101 352**	**923 096**	**12 622 461**	**8 117 176**	**51 966 248**
Liabilities						
Deposits	24 221 150	-	-	2 220 402	10 150 031	36 591 583
Trade and other payables	88 761	-	-	-	-	88 761
Total Financial Liabilities	**24 309 911**	**-**	**-**	**2 220 402**	**10 150 031**	**36 680 344**
Net Statement of financial position	**(24 107 748)**	**30 101 352**	**923 096**	**10 402 059**	**(2 032 855)**	**15 285 904**

AT 31 DECEMBER 2021 THE BANK HAD THE FOLLOWING CURRENCY POSITION EXPOSURES

N$'000	N$ '000	ZAR '000	Euro '000	US$ '000	Other '000	Total N$'000
Assets						
Loans and advances – other	112 518	-	-	-	-	112 518
Investments	-	26 568 811	885 313	11 478 014	939 689	39 871 827
Loans and advances – local banks	1 456	-	-	-	-	1 456
Rand deposits	-	70 014	-	-	-	70 014
Other receivables	59 812	505 628	-	-	7 088 005	7 653 445
Total Financial Assets	**173 786**	**27 144 453**	**885 313**	**11 478 014**	**8 027 694**	**47 709 260**
Liabilities						
Deposits	21 811 478	-	-	1 058 384	9 930 973	32 800 835
Trade and other payables	99 077	-	-	-	-	99 077
Total Financial Liabilities	**21 910 555**	**-**	**-**	**1 058 384**	**9 930 973**	**32 899 912**
Net Statement of financial position	**(21 736 769)**	**27 144 453**	**885 313**	**10 419 630**	**(1 903 279)**	**14 809 348**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its financial obligations as they fall due or the possibility that the Bank will incur substantial capital losses when it disposes its securities in the secondary market. Liquidity is the second most important foreign exchange reserves management objective after capital preservation. The Bank seeks to maintain sufficient liquidity by investing in money market instruments and securities with an active secondary market. At 31 December 2022, 54.3% (2021:46.96%) of total assets could be liquidated at no cost within two working days, reflecting the high liquidity nature of the portfolio. The remaining 45.6% remains highly liquid with varying minimal cost of liquidation. The Bank seeks to maintain sufficient liquidity by investing in money market instruments and securities with an active secondary market.

LIQUIDITY/OBLIGATIONS RISK ANALYSIS STATEMENT AS AT YEAR ENDED 31 DECEMBER 2022

N$'000	0 – 3 Months	3 – 12 Months	1 – 5 Years	5 – 10 Years	Total
Assets					
Loans and advances – other	-	16 854	98 569	-	115 423
Loans and advances- local banks	298	1 027	4 768	-	6 093
Investments	14 450 120	5 695 448	22 617 771	1 007 709	43 771 048
Rand deposits	159 704	-	-	-	159 704
SDR Holdings - IMF	3 818 890	-	-	-	3 818 890
SDR Quota	3 436 443	-	-	-	3 436 443
Other receivables	658 647	-	-	-	658 647
Total Financial Assets	**22 524 102**	**5 713 329**	**22 721 108**	**1 007 709**	**51 966 248**
Equity and liabilities					
Deposits	24 104 444	2 337 108	-	-	26 441 552
SDR Allocation – IMF*	6 713 588	-	-	-	6 713 588
IMF securities account*	3 436 443	-	-	-	3 436 443
Trade and other payables	88 761	-	-	-	88 761
Total Equity and Liabilities	**34 343 236**	**2 337 108**	**-**	**-**	**36 680 344**
Liquidity sensitivity gap	**(11 819 134)**	**3 376 221**	**22 721 108**	**1 007 709**	**15 285 904**
Cumulative liquidity sensitivity gap	**(11 819 134)**	**(8 442 913)**	**14 278 195**	**15 285 904**	**15 285 904**

**Relates to reserves that are held as a result of the Bank's IMF membership. Refer to Note 1.19*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 LIQUIDITY RISK (CONTINUED)

LIQUIDITY/OBLIGATIONS RISK ANALYSIS STATEMENT AS AT YEAR ENDED 31 DECEMBER 2021

N$'000	0 – 3 Months	3 – 12 Months	1 – 5 Years	5 – 10 Years	Total
Assets					
Loans and advances	-	15 503	97 015	-	112 518
Loans and advances- local banks	-	-	1 456	-	1 456
Investments	13 309 931	4 470 540	20 350 867	1 740 489	39 871 827
Rand deposits	70 014	-	-	-	70 014
SDR Holdings - IMF	3 972 338	-	-	-	3 972 338
SDR Quota	-	-	-	3 115 667	3 115 667
Other receivables	565 440	-	-	-	565 440
Total Financial Assets	**17 917 723**	**4 486 043**	**20 449 338**	**4 856 156**	**47 709 260**
Equity and Liabilities					
Deposits	19 070 574	3 799 287	-	-	22 869 862
SDR Allocation – IMF*	6 815 307	-	-	-	6 815 306
IMF securities account*	-	-	-	3 115 667	3 115 667
Trade and other payables	99 077	-	-	-	99 077
Total Equity and Liabilities	**25 984 958**	**3 799 287**	**-**	**3 115 667**	**32 899 912**
Liquidity sensitivity gap	**(8 067 235)**	**686 756**	**20 449 338**	**1 740 489**	**14 809 348**
Cumulative liquidity sensitivity gap	**(8 067 235)**	**(7 380 479)**	**13 068 859**	**14 809 348**	

**Relates to reserves that are held as a result of the Bank's IMF membership. Refer to Note 1.19*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 CREDIT RISK

In terms of the Bank's Foreign Reserve Management Policy and Guidelines, foreign reserve assets are invested with reputable high-quality institutions in line with the Bank's investment guidelines. As such, the management and monitoring of credit risk, which is the potential loss arising from failure of a counterparty to meet payment obligations in accordance with agreed terms, is an integral part of the reserve management practice.

In terms of the Bank's credit appetite and threshold, the Bank is exposed to credit risk through money market instruments issued by counterparts with a minimum short-term credit rating of upper medium grade. Longer-dated fixed income instruments are limited to issuances by countries holding a lower medium credit rating according to the IMF country classification list. South Africa's credit rating is presently below investment grade, however, exposure to this market is inevitable due to the historic economic relationship between Namibia and South Africa. Accordingly, a special provision has been made to allow for short-term exposure (minimum one year) to liquid instruments issued by the South African Government as well as by the top five commercial banks in South Africa. This is of strategic importance given the peg of the Namibian Dollar to the South African Rand.

Detailed below is a table which presents the Bank's total foreign asset exposure over various regions as well as their credit rating grading:

REGIONAL EXPOSURE	CREDIT RATING GRADING 2022*	N$ '000
United States	High grade	6 409 663
North America (excl. USA)	High grade	596 164
Euro Area	High grade	3 316 078
United Kingdom	High grade	174 523
Japan	Upper medium grade	924 562
Other Advanced Economies**	High grade	237 826
China	Upper medium grade	1 400 006
South Africa	Non-investment grade speculative	29 283 733
Other Emerging Market **	Lower medium grade	607 437
Multilaterals**	Prime	8 850 262
Namibia	Non-investment grade speculative	165 994
TOTAL ASSETS		**51 966 248**

**Lowest weighted average credit rating applied*

***Other Advanced Economies, Other Emerging Market and Multilaterals represents countries classified as such as per the International Monetary Fund (IMF) country classification list and these have been grouped together to represent one regional risk exposure.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.5 CREDIT RISK (CONTINUED)

REGIONAL EXPOSURE	CREDIT RATING GRADING 2021*	N$ '000
United States	High grade	7 456 757
North America (excl. USA)	High grade	723 856
Euro Area	High grade	2 885 910
United Kingdom	High grade	982 484
Japan	Upper medium grade	1 795 989
Other Advanced Economies**	High grade	204 156
China	Upper medium grade	1 409 274
South Africa	Non-investment grade speculative	26 587 050
Other Emerging Market **	Lower medium grade	466 151
Multilaterals**	Prime	1 286 919
Namibia	Non-investment grade speculative	3 910 714
TOTAL ASSETS		**47 709 260**

**Lowest weighted average credit rating applied*

***Other Advanced Economies, Other Emerging Market & Developing Economies and Multilaterals represents countries classified as such as per the International Monetary Fund (IMF) country classification list and these have been grouped together to represent one regional risk exposure.*

The Bank invests/buys securities in reputable institutions who are rated by rating agencies. The Bank's credit risk exposure has remained static and movements in the fair values of our external portfolio investments were as a result of movements in interest rate risk and foreign exchange risk.

30.6 SETTLEMENT RISK

The Bank is exposed to settlement risk when settling or clearing transactions. This type of risk occurs in an event that the Bank or the counterparty in the dealing contract fails to settle or clear transactions where the exchange of cash, securities is not instantaneous. This risk is of particular significance as this could result in penalties, interest foregone and consequently affect the reputation of the Bank. To control this risk, the Bank has imposed counterparty and dealer limits so as to limit the bank's exposure to a counterparty at any given time in the deal cycle.

30.7 OPERATIONAL RISK

Like any other institution, the Bank is exposed to operational risk, which is the risk of financial losses or damage to the Bank's reputation resulting from one or more risk factors such as human factors, failed or inadequate processes, failed or inadequate systems and external events.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.7 OPERATIONAL RISK (CONTINUED)

These factors are defined in detail as follows:

30.7.1 *Human Factors:*
Insufficient personnel, lack of knowledge, skills or experience, inadequate training and development, inadequate supervision, loss of key personnel, inadequate succession planning or lack of integrity or ethical standards.

30.7.2 *Failed or inadequate systems and system:*
A process is poorly designed or unsuitable, or not properly documented, understood, implemented, followed or enforced. A system is poorly designed, unsuitable, or unavailable or does not operate as intended.

30.7.3 *External events:*
The occurrence of an event having an adverse impact on the Bank but outside its control.

The operational risk at the Bank is managed by having a suitable operational organisational structure with clear segregation of duties as well as defined built-in systematic controls. Bank-wide operations manuals are in place to be followed by staff. The Bank - wide business continuity plans which clearly states effective disaster recovery plans are currently being developed.

For the treasury operations, the Bank ensures that dealers and analysts are well trained in instruments in which they are trading and that the systems they need to operate on are in place. The Bank also makes sure that all investment officers are aware of procedures in place and have access to relevant documents. The Financial Markets Department Director reviews all procedures, documentation requirements and the operational practices.

30.8 LEGAL RISK

Legal risk is the risk arising from failure to comply with statutory or regulatory obligations. Legal risk also comes about if the rights and obligations of parties involved in a payment are subject to significant uncertainty, for example if a payment participant declares bankruptcy. Legal disputes that delay or prevent the resolution of payment settlement can cause credit, liquidity, or reputational risks at individual institutions. Legal risk also results from a financial institution's failure to comply with the bylaws and contractual agreements established with the counterparties with which it participates in processing, clearing and settling payment transactions. The Bank therefore manages this risk by having appropriate documentation and using the market - customary, standard master - agreements where possible.

30.9 COLLATERAL

The Bank provides overnight and seven-day loans (Repo's) to commercial banks to cover for temporary liquidity shortages. The commercial banks pledge eligible securities in the form of Government bonds, treasury bills, etc. as collateral for this facility.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.9 COLLATERAL (CONTINUED)

The Bank is not permitted to sell or re-pledge these securities in the absence of default from the said commercial banks. As at 31 December 2022, the Repo's to commercial banks were N$ 0 (2021: N$0).

30.10 CREDIT LOSSES

No expected credit losses have been recognised for the Bank's financial assets, other than investments at FVTOCI and investments held at amortised cost. Refer to note 5.1. However, when expected credit losses are recognised, the Bank records the impairment in a separate impairment account rather than directly reducing the carrying amount of the concerned assets. Refer to note 5.1.

30.11 DEFAULTS AND BREACHES

The bank did not default on any of its loan commitments during the current and previous financial year.

31. CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments	2022 N$'000	2021 N$'000
Approved and contracted	128 534	25 008
Approved and subject to board approval	-	-

32. RELATED PARTY INFORMATION

During the year the Bank in its ordinary course of business, entered into various transactions. These transactions were undertaken on commercial terms and conditions. The Bank of Namibia Act, 2020 prescribes that the emoluments of the Governor, Deputy Governors and Board members be determined by the Minister of Finance. The emoluments of the Board members are primarily sitting fees and the annual stipend. The Governor and the Deputy Governors` emoluments are all inclusive packages which comprises of salaries, pension contributions, medical aid and leave pay. The gross emoluments of executive, senior management and Board members are detailed below. Transactions with the Namibian Government, sole shareholder of the institution, are detailed in note 1.17 of this report. Note 26, 28 and 29 provides more information on the Retirement Fund, Financial Intelligence Centre and Namibia Deposit Guarantee Authority.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

32. RELATED PARTY INFORMATION (CONTINUED)

Gross Emoluments	Salaries	Retirement Benefit	Medical Aid Benefit	Total 2022	Total 2021
	N$'000	N$'000	N$'000	N$'000	N$'000
Executive Management					
Governors'	8 386	751	163	9 300	6 203
Senior Management	22 053	2 729	886	25 668	24 496

	2022 N$'000	2021 N$'000
Non-Executive Board		
Ms S T Haipinge	209	197
Ms C v/d Westhuizen	255	246
Mr E I Meroro	340	331
Mr C A Baisako	230	243
Ms R Pretorius	177	-
Mr F. Tjivau	-	124
Total	**1 211**	**1 141**

Mr. Titus Ndove is an ex-officio director and is, therefore, not entitled to any directors' remuneration.

Government of Namibia	2022 N$'000	2021 N$'000
Assets - Investments	632	1 629 773
Liabilities - Government Deposits	908 444	2 515 377
Interest paid to Government	-	-
Interest received from Government	15 262	409
(Receivable)/Payable - Financial Intelligence Centre (FIC)	(4 738)	35 185
Payable - Namibia Deposit Guarantee Authority (NDGA)	16 980	10 881
Investment in Central Securities Depository (CSD)	290	252
Impairment (I/S) - Investment in Central Securities Depository (CSD)	(290)	(252)
Loan to Central Securities Depository (CSD)	3 100	2 900
Impairment (SFP) - Investment in Central Securities Depository (CSD)	(3 100)	(2 900)

There were no other related party transactions with either the executives management or non-executive management Board Members.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2022

33. APPROVAL OF FINANCIAL STATEMENTS

The Annual Financial Statements have been approved by the Board of Directors at the Board meeting held on 17 March 2023.

34. SUBSEQUENT EVENTS

There were no other material events post the reporting date other than the declaration of Dividends to the State of N$413.7 million (2021: N$413.7 million).

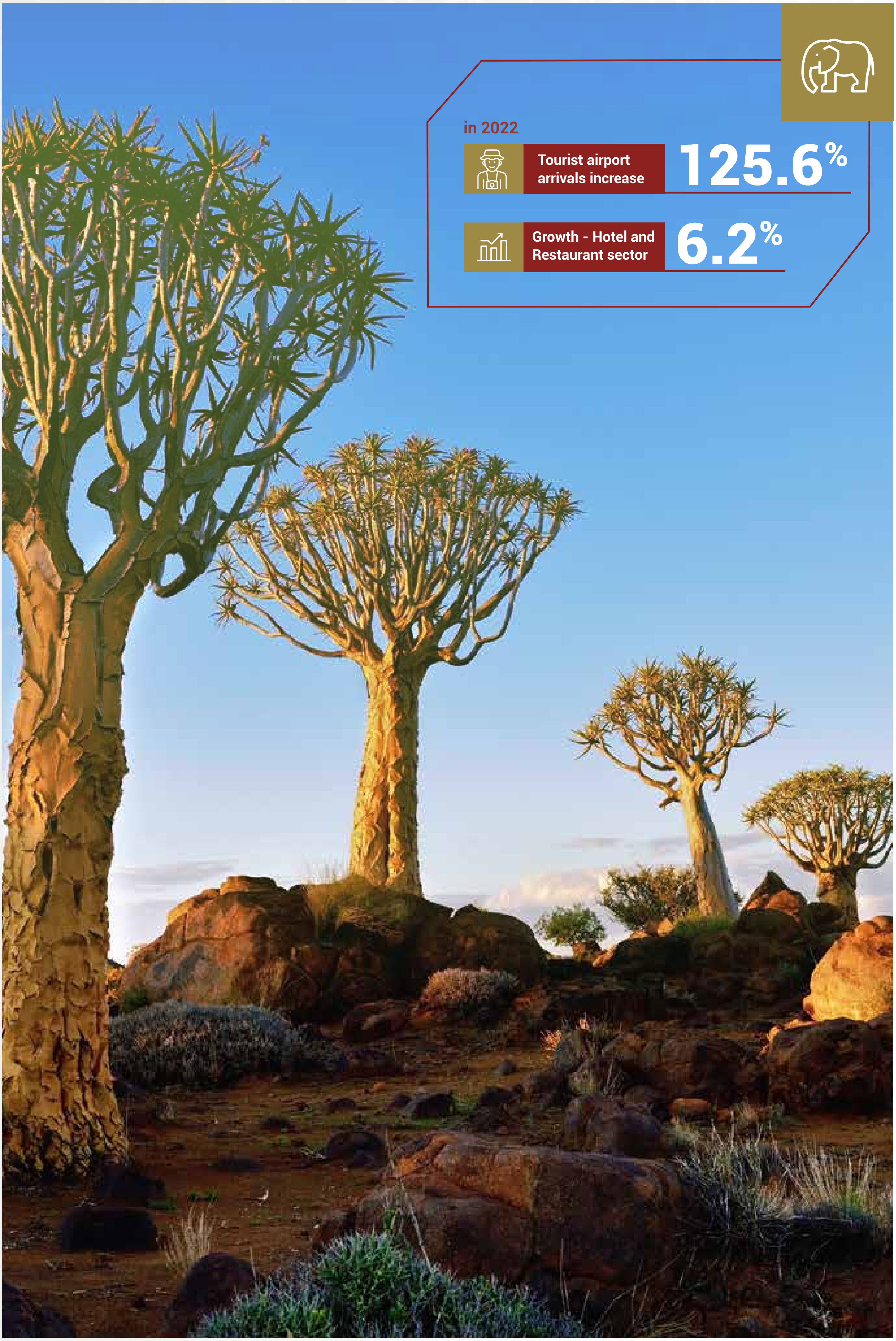
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022 (IN COMPLIANCE WITH THE BANK OF NAMIBIA ACT NO.1 OF 2020)

	Notes	2022 N$'000	2021 Restated N$'000
Net interest income		**554 546**	**468 267**
Interest income	3	740 023	547 330
Interest expense	3	(185 477)	(79 063)
Net other interest income		-	-
Interest from rand investments exchanged	3	715 500	523 369
Interest paid on BON bills – NamPower and GIPF	3	(715 500)	(523 369)
Non-interest revenue		**619 187**	**548 865**
Rand compensation income	3	578 000	505 628
Dividend income	3	5 025	-
Other income	3	36 162	43 237
TOTAL INCOME		**1 173 733**	**1 017 132**
Total operating expenses	3	**(522 504)**	**(432 933)**
Operating Expenses	3	(518 077)	(439 424)
Allowance for credit losses – amortised cost instruments	3	(4 427)	6 491
OPERATING PROFIT		**651 229**	**584 199**
Foreign exchange and fair value gains		670 953	953 306
Net foreign exchange gain	21	629 477	801 650
Unrealised (losses)/gains on rand investments exchanged		(496 899)	1 289 538
Unrealised gains/(losses) on BON Bills-NamPower and GIPF		496 899	(1 289 538)
Unrealised losses on equity instruments	25	(15 123)	-
Realised foreign exchange gains on FEC's		56 599	151 656
PROFIT FOR THE YEAR		**1 322 182**	**1 537 505**
OTHER COMPREHENSIVE LOSSES		**(544 428)**	**(392 450)**
Unrealised loss reserve	25	(572 358)	(366 157)
Allowance for credit reversal/(losses) - FVTOCI	5.1	24 631	(20 009)
Actuarial gains/(losses) on post - employment benefits	18	3 299	(6 284)
TOTAL COMPREHENSIVE INCOME		**777 754**	**1 145 055**
Profit attributable to:			
Foreign currency revaluation reserve	21	629 477	801 650
Investment revaluation reserve	25	(587 481)	(366 157)
Distribution adjustment - unrealised (losses)/gains	25	(36 879)	36 879
Amount available for distribution	4	772 637	672 683

ACRONYMS AND INITIALISMS

AD	Authorised Dealer
ADLA	Authorised Dealer with Limited Authority
AEs	Advanced Economies
AFI	Alliance for Financial Inclusion
BA	Bachelor of Arts
BoN	Bank of Namibia
CEO	Chief Executive Officer
CFC	Customer Foreign Currency
CMA	Common Monetary Area
CSD	Central Securities Depository
DSA	Debt Sustainability Analysis
DSIB	Domestic Systemically Important Bank
EFT	Electronic Funds Transfer
ELF	Employee Liaison Forum
EMDEs	Emerging Market and Developing Economies
E-money	Electronic-money
FIC	Financial Intelligence Centre
FSR	Financial Stability Report
FSSC	Financial System Stability Committee
FVTOCI	Fair Value Through Other Comprehensive Income
FY	Financial Year
GDP	Gross Domestic Product
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
M1	Narrow Money Supply
M2	Broad Money Supply
M3	Broad Money Supply including NCDs
MA	Master of Arts
MBA	Master of Business Administration
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MOC	Macroprudential Oversight Committee
MoF	Ministry of Finance
MPC	Monetary Policy Committee
MTEF	Medium-Term Expenditure Framework
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFI	Non-bank Financial Institutions
NamRA	Namibia Revenue Agency
NCDs	Negotiable Certificates of Deposit
NDGA	Namibia Deposit Guarantee Authority
NEER	Nominal Effective Exchange Rate
NFSS	Namibia Financial Sector 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

PoN/NUST	Polytechnic of Namibia / Namibia University of Science and Technology
ODC	Other Depository Corporation
OPEC	Organisation of the Petroleum Exporting Countries
PSCE	Private Sector Credit Extension
REER	Real Effective Exchange Rate
RFI	Rapid Financing Instrument
RMAD	Risk Management and Assurance Department
ROA	Return on Assets
ROE	Return on Equity
RTO	Recovery Time Objective
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
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
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNISA	University of South Africa
UNODC	United Nations Office on Drugs and Crime
US	University of Stellenbosch
USA	United States of America
WBG	World Bank Group
WBS	Wits Business School
WEO	World Economic Outlook


in 2022
Tourist airport arrivals increase
125.6%
Growth - Hotel and Restaurant sector
6.2%

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