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FOR IMMEDIATE RELEASE

BANK OF NAMIBIA RELEASES ANNUAL REPORT FOR 2019

**BANK OF NAMIBIA DECLARES DIVIDEND OF N\$399.9 MILLION TO THE STATE
REVENUE FUND ON ACCOUNT OF ITS OPERATIONS DURING 2019**

Highlights of the Report

- The financial performance of the Bank in 2019 improved when compared to 2018.
- The Bank declares dividends of N\$399.9 million to the State Revenue Fund, for the 2019 financial year.
- The stock of international reserves declined in nominal terms but remained above adequate levels, recording 4.1 months of import cover at the end of December 2019.
- Namibia's current account deficit narrowed to 2.3 percent of GDP during 2019 from 2.8 percent of GDP in 2018.
- Namibia's real GDP is estimated to have contracted by 1.1 percent in 2019 from a moderately positive growth rate of 0.7 percent in 2018.
- Despite the weak growth of the economy, the banking sector's performance remained resilient and sound during 2019.
- The Bank gave support to the domestic economy by reducing the repo rate by 25 basis points in August 2019.
- Subsequent to the reporting year, further repo rate reductions were effected in February 2020 and, as the COVID-19 pandemic intensified, at a special meeting of the Monetary Policy Committee held in March 2020.

1. **The Bank of Namibia continues to honour its statutory obligations and pursuant to Section 52(1) of the Bank of Namibia Act (No. 15 of 1997), hereby releases its Annual Report.** The Annual Report is the Bank's premier publication that outlines the governance of the Bank, the audited annual financial statements, global and domestic economic and financial developments, the banking supervision report, and key achievements of the Bank in 2019.

OPERATIONS AND AFFAIRS OF THE BANK

2. **In 2019, the Bank continued with the implementation of its 2017 – 2021 Strategic Plan, which outlines the Bank's Strategic Objectives, Strategies and Outcomes, and Special Focus Areas.** Through its dedicated staff and the guidance provided by the Board of the Bank, the Bank remains steadfast in delivering its Strategic Objectives, as outlined in the report.
3. **The financial performance of the Bank in 2019 improved in comparison with 2018.** The increase in profits was mainly attributable to improved earnings on the Bank's Rand investments, enhanced by higher actual average reserves balances, partly as a result of an increase in SACU receipts. As in the past, the Bank prudently managed its operational costs and declared an increased dividend of N\$399.9 million to the State Revenue Fund, up from N\$294.2 million a year earlier.

STATE OF THE ECONOMY IN 2019

4. **Global economic growth is estimated to have slowed in 2019 across both advanced economies (AEs) and Emerging Market and Developing Economies (EMDEs).** Global GDP growth for 2019 slowed to 2.9 percent, compared to 3.6 percent in 2018. The reduced growth during 2019 was recorded in most of the AEs, apart from the United Kingdom and Japan. Similarly, the lower growth rates for the EMDEs emanated from China, Russia, India, Brazil, South Africa and Angola, while Nigeria recorded slightly higher growth over the same period. The slower growth was generally due to weak business investment as a result of rising trade barriers; elevated uncertainty surrounding trade and geopolitics; unique factors including drought causing macroeconomic strain; and structural factors, such as low productivity growth and aging demographics.
5. **Going forward, global growth is projected to weaken in 2020 on the back of COVID-19 pandemic.** The intensification of the COVID-19 outbreak and escalation of measures to contain it are having a strong negative effect on the global economy, such that global growth in 2020 is now expected to fall below that of 2019. Further risks to world economic

growth include escalation in the US-China trade tensions, social unrest and geopolitical strains.

6. **The domestic economy is estimated to have contracted in 2019, mainly due to slower activity in the primary industry and some sectors in the secondary and tertiary industries.** The country's real GDP is estimated to have contracted by 1.1 percent in 2019, from a low positive growth rate of 0.7 percent in 2018. The dismal performance in 2019 was mainly ascribed to the declines in the output of the mining, agriculture, electricity and water, construction, wholesale and retail trade, and public sectors. Some growth in the manufacturing sector, led by beverages and meat processing, sustained the activity in the secondary industry during 2019.
7. **Namibia's inflation rate slowed in 2019 compared to 2018, mainly due to a decline in inflation for transport and housing.** The inflation rate averaged 3.7 percent in 2019, lower than the 4.3 percent recorded in 2018. The lower inflation was largely reflected in transport and housing categories, mainly as a result of lower oil prices, coupled with weak economic activity and negative dwelling rental inflation.
8. **During 2019, the Bank's Monetary Policy Committee (MPC) relaxed its monetary policy stance in the August MPC meeting to support domestic economic growth.** Following a review of global, regional and domestic economic and financial developments, in its August 2019 meeting, the MPC cut the repo rate by 25 basis points to 6.50 percent, down from the prevailing rate of 6.75 percent since August 2017. The commercial banks also reduced their prime lending rates by 25 basis point to 10.25 percent in August 2019. A further 25 basis points reduction followed in February 2020, taking the repo rate to 6.25 percent. Most recently the MPC at a special meeting held on 20 March 2020 reduced the repo rate by a further 100 basis points to 5.25 percent. This was done to provide support to the economy in the wake of the intensification of the COVID-19 pandemic with its associated disruptions of economic activity.
9. **Developments in the monetary and credit aggregates in 2019 were characterised by a slight decline in growth in the broad money supply (M2), while growth in private sector credit extension (PSCE) rose marginally.** Growth in M2 declined to 8.5 percent in 2019, compared to 9.1 percent in 2018. The slower growth in M2 during the period under review was consistent with the weak economy and decline in inflation, dampening the transactions demand for money. Growth in PSCE rose on average by 0.5 percentage point to 6.8 percent during 2019, due to a higher uptake of credit by business in the form of other

loans and advances, and overdraft credit in the manufacturing, services, construction and fishing sectors during the year under review.

10. On the fiscal front, the overall deficit is estimated to have narrowed both in nominal terms and as a ratio to GDP during 2019/20, compared to 2018/19. The 2019/20 Central Government deficit as a percentage of GDP was estimated at 4.5 percent, lower than the 5.2 percent deficit recorded in 2018/19. This was due to an increase in revenue, which grew at a faster pace than expenditure due to higher SACU receipts. Total Government debt as a percentage of GDP increased to 51.2 percent at the end of December 2019, thus remaining above the ceiling set by the Government of 35 percent.

11. In 2019, Namibia's external position improved as a result of a smaller current account deficit. Namibia's current account deficit narrowed by 18.2 percent to N\$4.1 billion or 2.3 percent of GDP in 2019 compared to 2.8 percent of GDP in 2018. The improvement is mainly ascribed to the shrinking merchandise trade deficit that reflected a moderate decline in the import bill and a slight increase in export earnings. This was further supported by lower net outflows on the primary income account, coupled with increased inflows on the secondary income account as a result of increased SACU receipts. The nominal effective exchange rate (NEER) appreciated while the real effective exchange rate (REER) displayed a moderate depreciation during 2019 compared to 2018. The depreciation of the REER implies that Namibia's external competitiveness improved during the year.

12. During 2019, the stock of international reserves held by the Bank of Namibia decreased. The stock of foreign reserves declined by 6.7 percent over the year to N\$28.9 billion at the end of December 2019. The reduction in foreign reserves was partly driven by higher Government foreign payments during 2019, coupled with net sales of Rand to commercial banks by the Bank of Namibia. The reserves were estimates to cover 4.1 months of the country's imports for goods and services for the year, which was slightly lower than the 4.5 months recorded at the end of 2018.

ASSESSMENT OF THE BANKING SECTOR

13. The banking sector remained resilient and sound during 2019, amidst the weakened domestic economy. The capital of banks remained strong during 2019 and supported the balance sheet expansion and risk coverage. The banks' liquid asset holdings remained adequate to meet near-term obligations. Due to the unfavourable domestic economic conditions, asset quality deteriorated, as the ratio of non-performing loans (NPLs) increased from 3.6 percent of total loans in 2018 to 4.8 percent in 2019. The increase in

NPLs was observed in mortgages, overdrafts and other loans and advances. Banks' profitability nevertheless remained intact.

CONCLUSION

14. Finally, the achievements noted in the Annual Report have been made possible through the invaluable contributions of the Bank's staff and Board, as well as the unwavering support from the Bank's stakeholders. The media and the public at large are encouraged to read the entire report, which can be accessed online at:

<https://www.bon.com.na/Publications/Annual-Reports.aspx>



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