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BANK OF NAMIBIA RELEASES 2023 ANNUAL REPORT

BANK OF NAMIBIA DECLARES A DIVIDEND OF N\$511.5 MILLION TO THE STATE REVENUE FUND ON ACCOUNT OF ITS OPERATIONS DURING 2023

Highlights of the Report

- The financial performance of the Bank for the FY2023 represents an improvement when compared to the FY2022.
- The Bank declared dividends of N\$511.5 million to the State Revenue Fund, for the 2023 financial year.
- The stock of international reserves rose by 11.9 percent to N\$53.2 billion (3.8 months of import cover) at the end of 2023.
- Despite a challenging global economic environment, the financial sector's performance remained sound during 2023.
- The Bank pursued a contractionary monetary policy stance during 2023 to safeguard the exchange rate peg, while supporting domestic economic activity.
- Namibia's economic growth scaled down to 4.2 percent in 2023 from 5.3 percent in 2022.
- Namibia's current account deficit as percentage of GDP widened to 15.0 percent during 2023 from 12.8 percent in 2022.

1. **The 2023 Bank of Namibia Annual Report has been prepared in line 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 referred to as "the Bank")


and key achievements of the Bank in 2023 in the execution of its three-year strategic plan (2022–2024). The report also presents the state of the Namibian economy. It includes a Theme Chapter titled: “The impact of climate change on the economy: Adaptive strategies and policy options for Namibia”. The Theme Chapter is a timely intervention as we navigate climatic swings resulting in erratic rainfall that may have a negative impact on the most vulnerable in societies and require the redirection of critical resources to emergency relief programmes and mitigation strategies. Finally, the report contains an assessment of the banking sector and audited annual financial statements of the Bank for the year 2023.

OPERATIONS AND AFFAIRS OF THE BANK

The Bank’s three-year Strategic Plan (2022–2024)

- 2. During 2023, the Bank marked a significant milestone as it completed the second year of its three-year strategic plan (2022-2024).** The Bank stayed true to the Strategic Plan, which continued to set the direction and clear priorities to align departments towards a common goal which, in turn, clarifies and simplifies decision-making. By the end of 2023, the Bank had made noteworthy progress, completing 68 percent of the comprehensive three-year plan and meeting 93 percent of the specific goals set for 2023. The substantial progress made can be credited not only to the clear goals aligned with the Strategic Plan’s objectives, but also to the explicit definition of strategic outcomes. This was evident in the unwavering commitment of each department to the Bank’s strategy and its intended impact.

- 3. The Bank’s financial performance showcased increased robustness in 2023 due to higher interest rates and average investment balances.** Operating profit soared by 57.5 percent, from N\$651 million in 2022 to N\$1.0 billion in 2023, due to higher interest rates and average investment balances. In this regard, the amount designated for distribution increased by 24 percent year-on-year, from N\$772.6 million in 2022 to N\$956.9 million in 2023.



The Bank will distribute a dividend of N\$511.5 million (2022: N\$413.7 million) to the Government for 2023. An allocation of N\$100 million was made to the Development Fund Reserve for development purposes, and N\$10 million to the Training Fund Reserve.

STATE OF THE ECONOMY IN 2023

- 4. The global GDP growth rate is estimated to have decelerated in 2023 from the rate recorded in 2022.** The global GDP growth rate declined from 3.5 percent in 2022 to 3.1 percent in 2023. This is attributed to high interest rates, the enduring effects of the COVID-19 pandemic, and the gradual reduction of fiscal assistance. Economic growth in most advanced economies (AEs) and several emerging markets and developing economies (EMDEs) decelerated in 2023, except in the United States, where growth is expected to remain stable, and in China, Japan, and Russia which experienced an upturn in growth during the same period. Real GDP is expected to increase at the same rate in 2024 as in the previous year. On a positive note, countries in sub-Saharan Africa are expected to recover in 2024. Downside risks to the outlook include amongst others the lagged and ongoing effects of tight monetary policy, as well as risks from escalating conflicts in the Middle East.
- 5. The Namibian economy again recorded sturdy growth in 2023, but at a slower pace than in 2022.** Economic growth scaled down to 4.2 percent, compared to growth of 5.3 percent recorded in 2022, on the back of slower growth in the primary and secondary industries. The slowdown in 2023 growth was largely attributed to weaker demand in both the global and domestic economies, and high interest rates that had a negative impact on consumer spending. Other factors that contributed to the slowdown in 2023 growth were the high base effects in the mining industry, where diamond mining had expanded by 45.1 percent in 2022.
- 6. Inflation in Namibia eased marginally in 2023 compared to 2022.** Overall inflation for Namibia decreased to an average of 5.9 percent during the year under review from 6.1 percent in 2022. This is ascribed to the effect of the tight

monetary policy stance filtering through to the economy. The moderation in inflation was primarily reflected in a decline in transport inflation resulting from generally more favourable fuel prices, which were kept unchanged or adjusted downwards for the greater part of the year. Conversely, inflation for food and housing increased in 2023, somewhat offsetting the decline in the other components of inflation. The latest inflation developments show that inflation has slowed further to 5.0 percent in February 2024.

- 7. The Monetary Policy Committee (MPC) of the Bank maintained a tight monetary policy stance during 2023.** Starting at its first meeting of the year, the MPC increased the repo rate by 25 basis points in February 2023, followed by another upward adjustment of the same magnitude in April 2023. The repo rate was hiked further by another 50 basis points at the June 2023 meeting to 7.75 percent, where it remained unchanged for the remainder of the year. Despite a cumulative increase in the repo rate of 100 basis points in 2023, it remained 50 basis points below that of the South African Reserve Bank. These decisions were taken to anchor inflation expectations and safeguard the exchange rate peg, while supporting domestic economic activity by adopting a policy rate moderately below that of the anchor country to cushion borrowers in Namibia.
- 8. On the fiscal front, the Government's budget deficit as a ratio of GDP eased during FY2023/24, while the debt ratio to GDP declined over the year to the end of December 2023.** The central Government's budget deficit for FY2023/24 narrowed to 3.2 percent of GDP, compared to 5.1 percent of GDP registered during the preceding fiscal year. The narrowing of the deficit resulted from a buoyant 26.0 percent increase in revenue during the period under review, exceeding the rise in expenditure, which is estimated to have increased by 18.6 percent. Meanwhile, total debt as a percentage of GDP stood at 65.3 percent at the end of December 2023, moderately lower than a year earlier. The decline in the deficit ratio reflects the concerted fiscal consolidation efforts and shows progress toward restoring macroeconomic stability.

- 9. Namibia's current account deficit deteriorated further, mainly due to increasing outflows on the services account on the back of oil exploration and appraisal activities.** The deficit on the current account widened to N\$34.1 billion during 2023, from N\$26.4 billion recorded in the preceding year.


This was due to a higher outflow recorded in the services and primary income accounts. As a ratio of GDP, the current account deficit stood at 15.0 percent in 2023, relative to a deficit of 12.8 percent recorded the previous year. However, exploration-related foreign direct investment inflows readily financed a significant part of these deficits.

- 10. Namibia's foreign exchange reserves remained resilient during 2023 amidst increasing pressure from rising imports.** The stock of international reserves rose by 11.9 percent during 2023, from N\$ 47.6 billion recorded at the end of 2022 to N\$53.2 billion as at 31 of December 2023. The increase was supported by higher SACU receipts and government foreign borrowing. The reserve position remains adequate as measured in terms of the three adequacy measures adopted by the Bank, with the import cover in particular closing off the year at 3.8 months of imports, above the 3-month international benchmark.

ASSESSMENT OF THE FINANCIAL SECTOR

- 11. The financial system remained resilient, stable and sound amidst slower economic growth and higher interest rates.** In this regard, the banking sector remained well-capitalised and liquid during 2023, above the prudential requirements. The banking sector's profitability remained solid due to higher net income, particularly interest income. Asset quality, as measured by the non-performing loans (NPLs) ratio, deteriorated slightly in 2023 but remained below the crisis time supervision intervention trigger point. Going forward, the risks to the banking sector are centered around the impact of climate change, grey-listing, and cyber security.

- 12. Similarly, the non-bank financial institutions (NBFIs) sector continued to display resilience during 2023.** The NBFi sector withstood the headwinds of the macroeconomic environment, characterised by slowing growth in the



domestic economy, volatility in global financial markets, elevated inflation rates, and correspondingly high interest rates. The demand for NBFIs products was observed to remain sound in 2023, while investment assets performed positively.

CONCLUSION

13. In conclusion, the achievements specified in this report could not have been possible without the invaluable contributions of the Board and our staff as well as the consistent support of all our other stakeholders. The media and the public at large are thus urged to read the report thoroughly, which is available upon request and can also be accessed online at <https://www.bon.com.na/Publications/Annual-Reports.aspx>.



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