



# Resource Manual

National High School Competition 2017



## UNDER-GRADUATE BUSARIES SCHEME 2018

**Bank of Namibia**



In line with its commitment toward human resource development and its social responsibility, the Bank of Namibia is proud to avail bursaries to Namibians who intend to pursue undergraduate studies in the following fields at any recognised university in Namibia and the SADC region:

- Economics
- Actuarial Science
- Banking / Finance
- Accounting / Chartered Accountancy / Forensic Accounting
- Information Technology
- Education: Mathematics, Accounting & Science

Deserving students complying with the following criteria may apply:

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

Please note that the award of bursary for those currently in grade 12 will depend on final examination results.

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

For any query, please call Ms Leena Elago at Tel:+264-61-283 5034; or Email address: [leena.elago@bon.com.na](mailto:leena.elago@bon.com.na)

**The closing date for all applications is  
29 September 2017**

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

# Bank of Namibia

## National High School Competition 2017

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

1. Bank of Namibia 20th Anniversary History Book . . . . . 3  
 Chapter 1 – Precursor to the Bank of Namibia  
 Chapter 2 – Establishment of the Bank of Namibia  
 Chapter 5 – International Cooperation
2. Bank of Namibia Annual Report 2016 . . . . . 36  
 Part A – Operations and Affairs of the Bank  
 Part C – Economic and Financial Developments  
 Part E – Statistical Appendix
3. Financial Literacy Initiative Booklet. . . . . 185
4. Basic Bank Account. . . . . 206
5. Learners are expected to study the chapters listed below of the school handbook  
 Starting Economics by G.F. Stanlake (not in this resource manual): School not offering economics may request these chapters from the Bank  
 Chapter 1 – An introduction to economics  
 Chapter 3 – Economic Systems – how economic resources are allocated  
 Chapter 6 – Productivity and the cost of production  
 Chapter 8 – Prices and Markets  
 Chapter 9 – Elasticity of demand and elasticity of supply  
 Chapter 14 – Money and Banking  
 Chapter 15 – Business Finance  
 Chapter 16 - Incomes  
 Chapter 19 – Balance of payments and the rate of exchange  
 Chapter 21 – Inflation  
 Chapter 24 – Economic Growth
6. The Namibia Financial Sector Strategy: 2011-2021 . . . . . 207

\* Teachers may also make use of the Namcol Modules 1 – 3 for Grade 11 & 12 from the new Namibian syllabus to prepare learners as an additional resource.

The Bank of Namibia National High School Competition is endorsed by the Ministry of Education in Namibia. For any enquiries please call the Bank of Namibia or the Regional Education Director's Office.

For further information or enquiries, please contact:

Ms Suzette Apollus at the Bank's Strategic Communications & Financial Sector Development Department at tel: (061) 283 5025, fax: (061) 283 5975 or email: [suzette.apollus@bon.com.na](mailto:suzette.apollus@bon.com.na)

**QUESTIONS**  
**ANSWERS**  
**QUIZ**

# Bank of Namibia National High School Competition 2017

## Attention - All High Schools

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

### General competition information:

All secondary schools registered with the Ministry of Education may register to take part in the Bank of Namibia National High School Competition 2015.

- All learners from Grades 8 to Grade 12 may participate.
- The regional competition will take place from mid June 2017 to mid July 2017.
- The national competition will take place on 28 July 2017.
- Each learner participating in the national competition will receive a prestigious certificate of participation.

### Competition format

#### Regional competition:

- Learners will form four-member teams that will gather at the selected venue together with their teacher.
- Teams will wait in a holding area whilst the competition is in progress.
- During the regional phase of the competition, only one team together with their teacher will be allowed to enter the questioning area to appear before judges and they will be required to answer a set of 10 questions orally within 30 seconds per question.
- Learners may work together within their teams to derive at the correct answer, but only one team captain may respond or present the answer to the judges.
- Points will be given for the number of questions answered correctly within the time limits.



- After questioning time, the learners will be kept in a separate holding area where they are not allowed to come into contact with learners that have not been questioned yet.
- The next team will then enter and the same process will be continued.
- Once all the scores have been calculated and verified, in the event that teams end up with equal scores, they will then compete in sudden death. A new set of questions will be used and the team with the highest total score will be declared the winner of the regional competition.

### National competition

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

#### Day 1 – Semi-Final:

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

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

#### Day 2 – Finale:

- The Grande Finale will take place during a prestigious evening event and buzzers will be built into this event.
- The top four teams that emerged from the semi-final leg of this competition will compete for the winning position in the final round.

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

### Participation Criteria

#### Regional:

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

Learners from Grades 8 to Grade 12 may participate.

The participating schools will be responsible for their own transport and accommodation fees to the regional competition venue.

#### National:

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

### General Competition Rules:

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

### Winning prizes!

#### Regional Competition Winning Prizes!

First prize: NS1000.00 Stationary Vouchers  
Second prize: NS500.00 Stationary Vouchers  
Third prize: NS250.00 Stationary Vouchers

### National Competition Winning Prizes!

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

First prize: NS50,000.00  
Second prize: NS30,000  
Third prize: NS10,000  
Fourth runner-up: Printer

All information pertaining to the Bank of Namibia National High School Competition 2017 including the resource materials are available on the Bank's website at: [www.bon.com.na](http://www.bon.com.na) and click on "Education", "National High School Competition".

For more information or enquiries, please contact Ms Suzette Apollus at the Bank's Strategic Communication & Financial Sector Development Department at tel: (061) 283 5025, fax: (061) 283 5067 or email: [suzette.apollus@bon.com.na](mailto:suzette.apollus@bon.com.na)

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[www.bon.com.na](http://www.bon.com.na)



BANK OF NAMIBIA

Celebrating  
**20**  
**Years**  
in  
Central Banking



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# Bank of Namibia 20th Anniversary History Book

## Chapter 1

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

### Precursor to the Bank of Namibia

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

The people also traded amongst each other with barter



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

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

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



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

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



## Currency

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

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

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

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

### German Mark

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



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

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



Seitz Notes



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

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



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

### **1914 - 1921**

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

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

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

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

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

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

Civil courts closed after war broke out as during that time no property could be bought or sold. It meant that no debts could be recovered by means of judgment orders. The Deeds Register could not be accessed for the registration of conveyances, properties or mortgages.

When the First World War ended in Europe in 1919, creditors in SWA demanded the reopening of the courts, but the government delayed this 'matter of debt' action pending a decision regarding the foreign exchange issue. The banks especially faced major problems in recovering debts. There were many varying legal opinions regarding the question of which monetary unit should be used for the repayment of debt. One group opined that all the debts - in Mark - which were incurred during the war and period of occupation, could only be repaid in the legal tender of the German Reich, namely German Mark banknotes. Others were of the opinion that the pre-war debts should be repaid in gold. Eventually - at the end of 1920 - a Council of Debt Settlement was instituted and it commenced with its activities in 1921. This council decided that pre-war debts should be repaid in gold and that other disputes with regard to money matters should be considered according to the merits of each case.

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

### **Pound Sterling**

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

### **Salisbury Banknotes**

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

### **Windhoek Banknotes**

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

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

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



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

### South African Rand (ZAR)

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

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

## Banks before Independence

### German Banks

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

The Nord Deutsche Bank, (Hamburg), together with the Deutsche-Afrika Bank (Berlin) opened a branch of the Deutsche-Afrika Bank in Lüderitz in 1907. The building that housed the bank was completed in that same year. The capital was provided by the Nord Deutsche Bank and Diskonto-Gesellschaft. This bank did not advance

cash or grant mortgages to the community, but strictly did business with companies. By 1913 there were also branches in Windhoek and Swakopmund. (After the First World War the history of the Deutsche-Afrika Bank is linked to that of First National Bank - see page 13)



Some other banks were:

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

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

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

The only German bank that remained functional after the First World War was a small local - ostensibly - mortgage

bank in Swakopmund namely the Swakopmunder Bankverein. This bank was liquidated in 1931.

### **British Banks**

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

### **Standard Bank**

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

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

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

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

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



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



### **South African Banks**

#### **National Bank / Barclays DCO / First National Bank**

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

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

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

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



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



### **Bank Windhoek**

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

In 1990 Bank Windhoek amalgamated with Trust Bank (SWA) Ltd (established in 1969) and Boland Bank Ltd both of which had local branches. Boland Bank had been established as a regional general bank in 1900

and was listed on the Johannesburg Stock Exchange (JSE) in 1969.

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



### **Commercial Bank of Namibia**

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

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

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

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

### ***Namibian Banking Corporation Limited***

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

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

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

## **Building Societies**

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

Building societies evolved by taking on new members as earlier purchases were completed and thus continued on

a rolling basis. These institutions were later established in the UK, Ireland, Australia, New Zealand, and also South Africa where they were firmly established by the late 1800s. After the Second World War in 1945 this concept was imported to SWA but only as branches of South African parent companies.

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

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

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



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

In addition, building societies had a network of branches all over and their function was to take in deposits on which interest had to be paid, while the income-generating part of their business was confined to centralised home loan

departments. For example in 1985, one of the building societies had 70 branches and over 300 agencies in the RSA. Not only was the up-keep of these branches expensive but they also did not earn money. To make the branches profitable the building societies needed to increase their range of functions and to convert them into income-generating units. Furthermore, associated with the rising costs of an extensive branch network, was the rising cost of modern technology.

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

From 1945 until 1990, the following building societies opened and closed in Namibia:

- Allied Building Society
- Johannesburg Building Society
- Natal Building Society
- Permanent Building Society
- Provincial Building Society
- Saambou Building Society
- South African Permanent Building Society
- South African Permanent Mutual Building Society
- Southern Trident Building Society
- SWA Building Society (Swabou)
- Trust Building Society
- United Building Society

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

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

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

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

Swabou's main purpose was to provide profitable and convenient avenues for savings and investments and to provide mortgage finance of property. Through its wholly-owned subsidiary companies, Swabou Insurance and Swabou Life it also provided short-term and life assurance cover.

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

## The Banking Sector at Independence



With independence the Namibian banking sector consisted of five commercial banks, namely:

- Standard Bank Namibia Ltd;
- First National Bank of Namibia Ltd;
- Bank Windhoek Ltd;
- Commercial Bank of Namibia Ltd; and the
- Namibian Banking Corporation (see pg 122).

There was one building society namely the South West Africa Building Society.

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

## South African Reserve Bank - Windhoek Branch

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



### **Bank Supervision**

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

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

## **Banking and other Financial Services**

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

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

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

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

## **Public Finance during the South African Era 1915 - 1990**

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

### **Before 1969**

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

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

### **1969 - 1980**

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

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

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

- the Territorial Revenue Fund and the Territorial

Development and Reserve Fund, administered by the SWAA;

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

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

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

### **After 1980**

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

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

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

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

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



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

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

By the time AG 8 was implemented, the RSA realised that there was no hope of SWA ever becoming a fifth province of that country, so the government then started recording debts incurred by SWA.

(See Chapter 2 - Pre-Independence Debt)

## **The Road to Independence**

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

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

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

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

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

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

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



Scott became a permanent representative for the SWA liberation movements at the UN in 1950.

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

When the South African government introduced and enforced more segregation policies in the early 1960s,

the UN General Assembly decided to revoke South Africa's mandate over SWA.

The South African government however, rejected this resolution and SWAPO launched an armed struggle on 26 August 1966.

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



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

### **Council for Namibia**

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

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

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

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



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

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



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

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

**The election results were as follows:**

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

## Chapter 2

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

### Establishment of the Bank of Namibia

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

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

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

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



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

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

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

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

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

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

These options are discussed briefly for the sake of clarity:

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

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

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

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

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

#### ***A common currency union with a supra-national central bank***

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

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

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

It would further allow the country to issue its own independent currency backed by its own reserves. This system is found in most developed and developing countries. The central bank would, in respect of monetary and financial policy matters, have a wide

range of discretionary powers. It would be able to initiate an expansion or contraction of its economic assets and liabilities and could exercise considerable influence over monetary and financial conditions in the country, over the various banks and the financial sector in general.

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

## **Namibian Constitution**

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

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

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

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

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

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

## International Support

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

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

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

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

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

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

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

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

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

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

SIDA focussed on:

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

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

## Banking Statutes

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

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

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

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

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

## Name of the Bank

In 1989 Swabank registered and changed its name to Bank of Namibia, but as the country was preparing to become an independent state the Minister of Finance-

in-waiting, Dr Otto Herrigel, requested that the name be ceded to the new central bank of Namibia which was to be established a few months later. Dr Herrigel further suggested that Swabank rather use the name Commercial Bank of Namibia. The Namibian Banking Corporation was then established by the parent company Nedbank, after which the Commercial Bank of Namibia was registered in 1990. The central bank thus became the Bank of Namibia.

## Staff and Offices

All SARB staff at the Windhoek branch had three options:

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



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

This Operations Department had three divisions, namely:

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

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

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

the training of recruited staff in the various disciplines started in earnest.

The ZAR remained legal tender in Namibia and the Bank became the agent of the SARB for issuing and receiving South African currency. The Bank of Namibia continued to provide a clearing house facility for cheques and interbank clearance settlements.

Besides the Governor's and the General Manager's offices, the Bank had seven departments by 1991. Four of these departments were housed in the former SARB building and two in the Capital Centre in central Windhoek. Subsequently one of these, the Supervision Division, moved from there to the Sanlam Centre the following year. The Exchange Control Division was housed in the CDM building.

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

## The Inauguration of the Bank of Namibia 15 July 1990



## Issuance of National Currency 1993

Preparations for the introduction of a national currency, named the Namibia Dollar, commenced soon after independence. The Technical Committee on the National Currency was formed in September 1990 and charged with performing this task. This committee

consisted of representatives of the Ministry of Finance and the Bank of Namibia. Dr Johan Jones\* (committee chairperson), Paul Hartmann (secretary) and Dr David Rush\* were appointed from the Ministry of Finance. The other two members were Erik Karlsson\* and Emanuel Lule\* from the Bank of Namibia. (\*now deceased).

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

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

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

### **Specifications and Tendering**

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

All designs received for coins were rejected by the Cabinet, after which it was decided to announce a competition for coin designs in June 1992. The competition was launched in the same month with the closing date being 28 August 1992. More than 140 sets of designs were received. After scrutiny by professional artists and technical experts, the Cabinet decided to award the prize for the designs of the N\$1 and N\$5 to Bernard Sargent of the South African company Metal Image. The designs for 5c, 10c and 50c were awarded to the mint of Finland. Quotations for the minting of these coins had to be received by the Bank of Namibia by 9 October 1992.

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

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

### **Awareness Campaign**

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

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

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

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

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

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

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

### **Official Launch of the Namibia Dollar**

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

### **Namibia Dollar as Legal Tender**

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

(IMF: refer to Chapter 5)

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

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

## **Design and Symbolism of Namibia Dollar Banknotes**

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

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

### **Themes**

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

The armed struggle for the achievement of independence is symbolised by Kaptein Hendrik

Witbooi; the Sovereignty of the country is symbolised by the Namibian Parliament; while Nationalism is symbolised by the national flag and the coat of arms. The Natural Diversity of the land is symbolised by the Namibian antelopes.

### **Design features on the obverse side**

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

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



### **Design features on the reverse side**

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

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

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

### **Raw material specifications**

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

### **Security features**

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



# Know Your Currency

## Inspect security features

### WHAT DO I LOOK OUT FOR IN BANKNOTES ?

Follow these three easy steps :

#### Step 1 : LOOK

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



#### Step 2 : INSPECT

Inspect the numbers carefully to ensure that both left and right match.

Inspect the image of the SPARK\* to see the rolling bar from one end to the other on the N\$50, N\$100 and N\$ 200.

Inspect the diamond sign of the OVI on the N\$ 10 and N\$ 20 to see the colour change from magenta to green in the N\$ 20 and gold to green in the N\$ 10.



#### Step 3 : FEEL

Run your fingers across the words "Bank of Namibia" on top of the note and also the denomination on the left edge, to feel the raised ink.

Feel the blind recognition dots for visually impaired people, which appear on each banknote.





## IMF/UNDP

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

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

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

## SIDA Withdrawal

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

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

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

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

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



## New Statutes

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

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

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

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

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

The new Act consolidated certain provisions particularly to:

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

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

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



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

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

## Core Functions of the Bank of Namibia

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

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

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

### **Ensuring Low and Stable Inflation**

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

### **Banking Supervision**

In the broader economic system, commercial banks are analogous to the circulatory system in the human body. The banks keep a large part of the nation's wealth in a form of savings and provide funds to finance investments necessary for economic growth and development. It is therefore important that the banking system remains sound and stable for the nation's savings to be protected and for the country to prosper. To achieve this objective, banks are regulated with a view to minimising disruptions to the economy. In Namibia, the duties to

regulate commercial banks are entrusted to the Bank of Namibia by the Banking Institutions Act, 1998 (Act No. 2 of 1998).

### **Payment System Oversight**

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

### **Issuance of Notes and Coins**

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

### **Banker and Economic Advisor to Government**

The Bank of Namibia

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

### **Services Rendered by the Bank to the Government**

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

### **Economic and Financial Advisor**

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

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



### **Public Debt Management**

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

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

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

### **Lending to Government**

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

### **Foreign Borrowing**

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

### ***Banker to Commercial Banks***

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

### ***Foreign Reserves Management***

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



### ***Administration of Exchange Control on behalf of the Ministry of Finance***

Exchange control involves regulatory measures to directly control or influence the in- and outflow of capital over the country's borders. Exchange control is used to

regulate the local demand for foreign currency in order to protect the official foreign currency of the country and to apportion available foreign currency in the best interest of the country as a whole.

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

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

### ***Combating of Money Laundering Activities***

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

# Chapter 5

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

## International Cooperation

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

At regional level the Bank cooperates with other central banks through the following institutions:

- the Common Monetary Area (CMA);
- the Committee of Central Bank Governors (CCGB) in the Southern African Development Community (SADC); and
- the Association of African Central Banks (AACB).

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

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

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

## Common Monetary Area

Namibia signed a Bilateral Monetary Agreement with the RSA in April 1990 and the CMA's Multilateral Monetary Agreement in April 1992. By doing so, Namibia became

a member of the CMA, which allows for the free flow of capital among members which are Lesotho, Swaziland and the RSA.

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

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

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

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



The CMA has the following dominant features:

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

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

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

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



## Southern African Customs Union

The Bank of Namibia has been providing advice to the Ministry of Finance on revenue-sharing within the framework of SACU of which the members are Botswana, Lesotho, Namibia, the RSA and Swaziland. In this regard, the Bank attends meetings of SACU's Finance Technical Liaison Committee (FTLC) which is tasked to deal with the trade data reconciliation among the SACU

member states and eventual revenue calculation on an annual basis. The FTLC then makes recommendations for approval to the SACU Commission and Council of Ministers on the allocation of revenue shares to SACU member states each financial year.

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

## Southern African Development Community

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

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

These are:

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

## Macroeconomic Convergence

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

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

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

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

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

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

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



## Coordination of Exchange Control Policies

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

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

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

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

Anti-Money Laundering and Combating the Financing of Terrorism

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

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

## Information Technology

The Bank of Namibia has been an active participant in the Information Technology Forum (ITF) of the CCBG which was established in 1997.

The objectives of this forum are two-fold:

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

The key activities that the ITF engages in to achieve its objectives are divided into three areas namely: Business Continuity Management (BCM), regional ICT licensing strategy and information technology governance. The main aim of BCM is to prevent the various threats that can result in the disruption of business operations in SADC central banks. On the other hand, the aim of the ICT licensing strategy is to establish a group licence for SADC central banks to leverage support of common applications and obtain group volume discounts. The

purpose of the information technology governance project is to address the needs of the CCBG and its subcommittees by means of improving information-gathering and sharing facilities, improving the facilities for effective communication between central banks, and providing various on-line business applications for central bank activities.

## Banking Association

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

## Committee of SADC Stock Exchanges

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

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

## Association of African Central Banks

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

The Association has an Assembly of Governors, the governing body comprising all member African Central Banks' Governors (ACBG); a Bureau (composed of the

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

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



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

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

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



## Microeconomic and Financial Management Institute

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

## Eastern and South African Anti-Money Laundering Groups

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

## International Financial Cooperation

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

## International Monetary Fund

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

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

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

This assistance includes:

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

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

Work under the programme seeks to:

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

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

## World Bank

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

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

## World Bank and the Impact of HIV/AIDS

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

and the modelling of the impact of HIV and AIDS on the banking and non-banking financial sector.

## World Bank and the United Nations

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

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

## Bank for International Settlements

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

## Cooperation with other Institutions

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

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

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

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

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

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

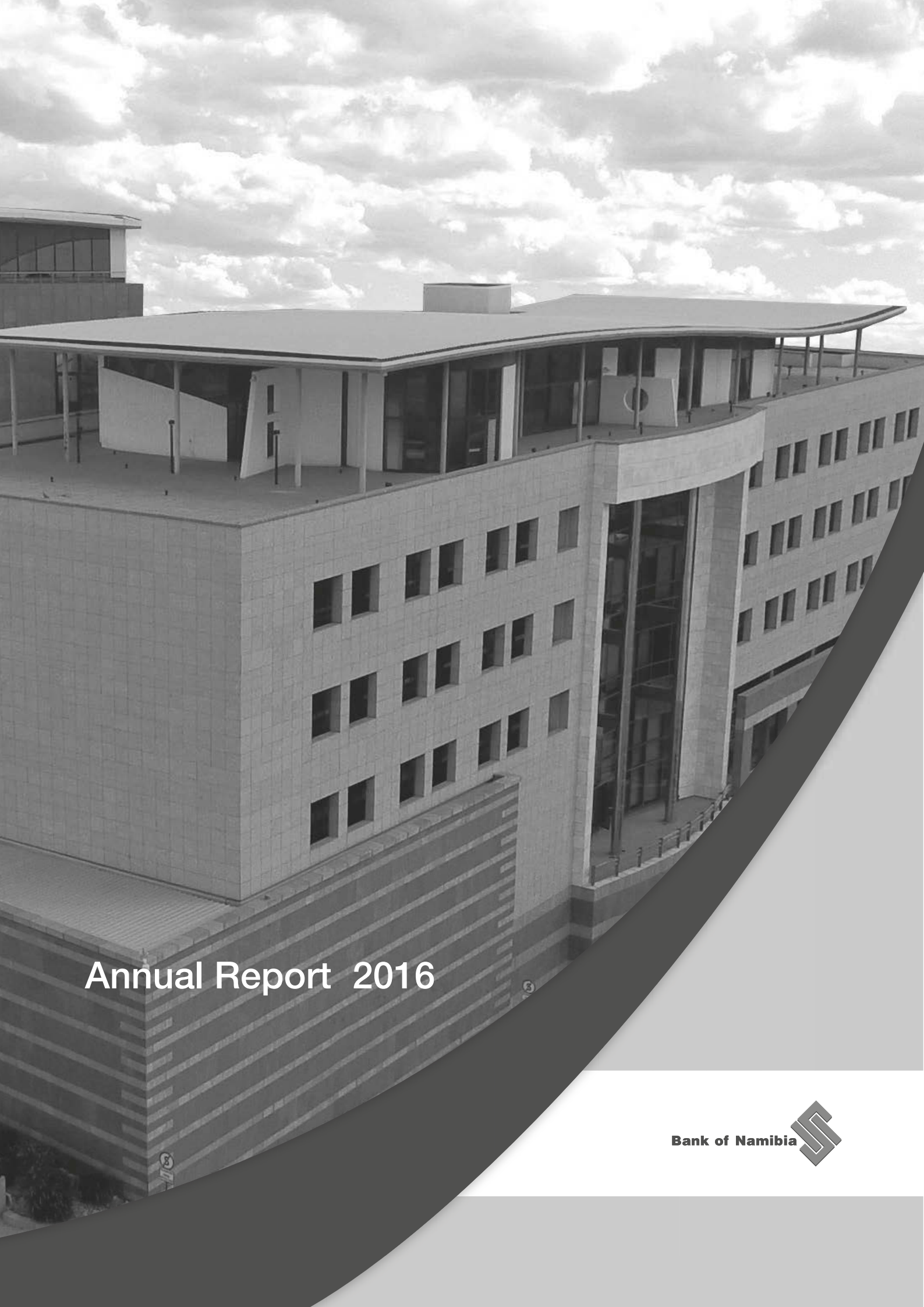


The Bank of Namibia also hosted a seminar on inflation forecasting in collaboration with the Centre for Central Banking Studies of the Bank of England in September 2009. This workshop built and strengthened modelling and forecasting capacity, especially in the area of inflation forecasting.



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

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



# Annual Report 2016

Bank of Namibia





# Part A

## Operations and Affairs of the Bank

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# Bank of Namibia Corporate Charter

## Our Vision

To be a centre of excellence;  
a professional and credible institution;  
working in the public interest and supporting the  
achievement of the national economic development  
goals.

## Our Mission

To support economic growth and development in  
Namibia, we act as fiscal advisor and banker to  
Government;  
Promote price stability;  
Manage reserves and currency;  
Ensure sound financial systems and conduct economic  
research.

## Our Values

We value high performance impact and excellence.  
We uphold open communication, diversity, integrity and  
teamwork.  
We care for each other's well-being.

# Bank of Namibia - Management Structure

(As at 31 December 2016)

**Governor**  
Iipumbu Shiimi

**Deputy Governor**  
Ebson Uanguta

**Director of Information Technology**  
Marsorry Ickua

*Deputy Director: Business Systems*  
Martha Dama

*Deputy Director: IT Infrastructure*  
Vacant

**Director of Payment and Settlement Systems**  
Barbara Dreyer-Omoregie

*Deputy Director: NISS Operations & Projects*  
Peter Nghinyotwa

*Deputy Director: Oversight, Policy & Research*  
Candy Ngula

**Director of Finance & Administration**  
Kuruvilla Mathew

*Deputy Director: Financial Administration*  
John Amakali

*Deputy Director: General Services*  
Dave Kambinda

*Deputy Director: Treasury*  
Vernon Louw

**Director of Banking Services**  
Sam SHIVUTE

*Deputy Director: Currency & Banking*  
Sencia Rukata

*Deputy Director: Protection Services*  
Johannes Asino

*Oshakati Branch Manager*  
Phillip Ndjendja

**Director of Banking Supervision**  
Romeo Nel

*Deputy Director: Analysis & Examinations*  
Penelao Kapenda

*Deputy Director: Policy & Regulations*  
Urbans Karumendu

*Deputy Director: Banking Groups & Special Institutions*  
Ancois Plaatje

*Deputy Director: Exchange Control*  
Bryan Eiseb

*Head of Legal Services & Contract Management*  
Tulonga Nakamhela

*Financial Markets Technical Expert*  
Dantagos Jimmy-Melani

**Director of Strategic Comm. & Financial Sector Development**  
Emma Haiyambo

*Deputy Director: Corporate Communications*  
Israel Zemburuka

**Director of Financial Intelligence Centre**  
Leonie Dunn

*Deputy Director: Investigations & Analysis*  
Gerrit Eiman

*Deputy Director: Legal, Policy, Regulation & Enforcement*  
Zenobia Barry

*Deputy Director: Compliance*  
{Vacant}

**Director of Research**  
Florette Nakusera

*Deputy Director: Macro Models & Financial Stability*  
{Vacant}

*Deputy Director: Policy Research & International Affairs*  
Postick Mushendami

*Deputy Director: Statistics and Publications*  
Edler Kamundu

**Director of Financial Markets**  
Nicholas Mukasa

*Deputy Director: Investments & Domestic Markets*  
{Vacant}

*Deputy Director: Compliance and Risk Analytic*  
{Vacant}

**Director of Human Resources**  
Lea Namoloh

*Deputy Director: HR Admin & Employee Relations*  
Shirene Bampton

*Deputy Director: OD & Training*  
Henny Janse van Rensburg

**Technical Advisor to the Governor**  
Emile van Zyl

**Head of Risk Management and Assurance**  
Magreth Tjongarero

# Members of the Board

As at 31 December 2016



**Mr Lipumbu W Shiimi**  
Governor of the Bank of Namibia,  
Chairperson and Executive  
Member of the Board



**Mr Ebson Uanguta**  
Deputy Governor of the Bank of  
Namibia and Executive Member  
of the Board



**Mr Veston Malango**  
Non-Executive Member of the  
Board and Chairperson of the  
Remuneration Committee



**Ms Ericah Shafudah**  
Ex officio Member of the Board  
and Permanent Secretary of the  
Ministry of Finance

## Term

- Incumbent since 26 March 2010
- Current term ended 31 December 2016
- Renewed until 31 December 2021

## Qualifications

- MSc Financial Economics (UL)
- P/G Diploma Economic Principles (UL)
- Diploma Foreign Trade and Management (MSM)
- Hons Economics (UWC)
- BComm Economics and Accounting (UWC)
- Specialised training in Management Development Programme, Economics and Finance (US & Wits)

**Years of experience**  
22

## Expertise

- Economic policy research
- Macroeconomics
- Central banking
- Development policy
- Leadership and corporate governance

## Term

- Incumbent since 1 January 2012
- Current term ended 31 December 2016.
- Renewed until December 2021

## Qualifications

- MSc Economic Policy Analysis (AAU)
- BEcon (UNAM)
- Senior Executive Fellow (Harvard-KSG)
- Senior Management Programme (USB)
- Project Management Programme (USB)

**Years of experience**  
20

## Expertise

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

## Term

- Incumbent since 1 April 2008
- Current term end 1 January 2019

## Qualifications

- MSc in Mining Engineering (Bergakademie Freiberg, Germany)
- MBA (MSM)

**Years of experience**  
32

## Expertise

- Mineral policy and governance
- Mining industry sustainability

## Term

- Incumbent since 3 April 2010

## Qualifications

- MSc ed (Mathematics) MSc Biostatistics
- MSc in Leadership and Change Management, (PoN)
- Dip in Accounting and Finance

**Years of experience**  
20

## Expertise

- Accounting
- Public policy
- Finance
- Governance



**Adv. Charmaine van der Westhuizen**

Non-Executive Member of the Board, Member of the Audit Committee and Member of the Remuneration Committee

**Term**

- Incumbent since 30 May 2012
- Current term ends 31 January 2019

**Qualifications**

- MBA (Cum Laude) (US)
- LLB (US)

**Years of experience**

13

**Expertise**

- Law and litigation
- Corporate governance
- Corporate social responsibility
- Risk and compliance



**Dr Omu Kakujaha-Matundu**

Non-Executive Member of the Board and Member of the Audit Committee

**Term**

- Incumbent since 1 November 2008
- Current term ends 31 January 2019

**Qualifications**

- PhD Economics (ISS)
- MA Economics (UB)
- BA Economics (UNAM)

**Years of experience**

22

**Expertise**

- Economic policy research and analysis
- Lecturing economic theory and practice



**Ms Ally Angula**

Non-Executive Member of the Board and Chairperson of the Audit Committee

**Term**

- Incumbent since 1 February 2014
- Current term ends 31 January 2019

**Qualifications**

- Chartered Accountancy Board exams (SAICA)
- B.Acc (Hons) (UKZN)
- B.Acc (UNAM)
- Executive Education (various) (Harvard, GIBS and LBS)

**Years of experience**

12

**Expertise**

- Financial management
- Business development
- Auditing
- Strategic investment
- Financial services and energy and natural resources



**Ms E Shangeelao Tuyakula Haipinge**

Non-Executive Member of the Board and Member of the Remuneration Committee

**Term**

- Incumbent since 18 July 2014
- Current term ends 31 December 2018

**Qualifications**

- MBA Corporate Strategy and Economic Policy (MSM)
- Diploma in Personnel Management (PoN)
- Specialised training in Senior Management Development Programme (US),
- Project Management Estara Skills Development (Bloemfontein SA/NIPAM)
- Driving Government Performance (Harvard-KSG),
- Leadership, Innovation, and Change Management (US/NIPAM)

**Years of experience**

24

**Expertise**

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

# The Bank's Senior Management team

As at 31 December 2016



**Mr Lipumbu W Shiimi**  
Governor  
(MPC member)



**Mr Ebson Uanguta**  
Deputy Governor  
(MPC member)



**Ms Florette Nakusera**  
Director: Research  
(MPC member)



**Mr Emile van Zyl**  
Technical Advisor to the Governor  
(MPC member)

## Qualifications

- MSc Financial Economics (UL)
- P/G Diploma Economic Principles (UL)
- Diploma Foreign Trade and Management (MSM)
- Hons Economics (UWC)
- BComm Economics and Accounting (UWC)
- Specialised training in Management Development Programme, Economics and Finance (US & Wits)

**Years of experience**  
22

## Expertise

- Economic policy research
- Macroeconomics
- Central banking
- Development policy
- Leadership and corporate governance

## Qualifications

- MSc Economic Policy Analysis (AAU)
- BEcon (UNAM)
- Senior Executive Fellow (Harvard-KSG)
- Senior Management Programme (USB)
- Project Management Programme (USB)

**Years of experience**  
20

## Expertise

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

## Qualifications

- MComm Economics (US)
- Hons B.Comm Economics (US)
- BComm (Economics Management Science and Auditing) (UNAM)
- Executive Development Programme (EDP) (USB)
- International Executive Development Programme (IEDP) (WBS/LBS)

**Years of experience**  
18

## Expertise

- Macroeconomics and statistics
- Economic policy research
- Central banking
- Finance
- Strategy
- Leadership and corporate governance
- Environmental economics and policy

## Qualifications

- MComm Economics (UP)

**Years of experience**  
32

## Expertise

- Economics
- Banking
- Financial markets



**Ms Lea Namoloh**  
Director: Human Resources



**Mr Romeo Nel**  
Director: Banking Supervision



**Mr Nicholas Mukasa**  
Director: Financial Markets  
(MPC member)



**Ms Leonie Dunn**  
Director: Financial Intelligence  
Centre

---

**Qualifications**

- MBA (UM)
- MEd (UNAM)
- BEd (Hons) (UB)

**Years of experience**

21

**Expertise**

- Human resources management
- Training and development
- Currency management
- Project management

---

**Qualifications**

- M Banking (UL)
- P/G Intermediate Certificate Accountancy (UKZN)
- BEcon (UNAM)
- International Executive Development Programme (WBS/LBS)

**Years of experience**

24

**Expertise**

- Customs and excise
- Finance
- Banking regulation
- Risk management

---

**Qualifications**

- Chartered Financial Analyst (CFA)
- BBA (UNAM)

**Years of experience**

14

**Expertise**

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

---

**Qualifications**

- LLM cum laude (UNICAF)
- LLB and BA Law (US)
- International Executive Development Programme (WBS/LBS)
- Woman in Leadership (US Fellow)

**Years of experience**

18

**Expertise**

- Law: Corporate, Commercial and Criminal
- International AML/CFT/CPF expert
- Financial services regulation
- Financial intelligence unit strategic leadership
- Board of Directors strategic leadership

# The Bank's Senior Management team

As at 31 December 2016



**Ms Barbara Dreyer Omoregie**  
Director: Payment and Settlement Systems

## Qualifications

- MBA (SMC University, Switzerland)
- 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 (2013) (Tufts University, Boston, MA)
- International Executive Development Programme (Wits, LBS)

**Years of experience**  
22

## Expertise

- Payment systems strategy
- Human resources management strategy
- Remuneration strategy and organisation development
- Strategic management and leadership
- Knowledge management
- Organisation learning
- Corporate governance



**Dr Emma Haiyambo**  
Director: Strategic Communication and Financial Sector Development (MPC member)

## Qualifications

- PhD Development Finance (US)
- MSc Financial Economics (UL)
- MA in International Business (PoN)
- P/G Diploma in Financial Economics (UL)
- BEcon (UNAM)
- Diploma in Public Administration (TN)
- Management Development Programme (USB)

**Years of experience**  
20

## Expertise

- Macroeconomics and economic statistics
- Research
- Trade policy analysis
- Financial sector development
- Development finance
- Project management
- Strategic planning and management
- Corporate governance and communication



**Mr Marsorry Ickua**  
Director: Information Technology

## Qualifications

- MSc Information Systems
- Management (ULIV, UK)
- PC Support (BCC, SA)

**Years of experience**  
16

## Expertise

- Information technology
- Innovation
- Project management
- Resource planning
- Information technology governance



**Mr Kuruvilla Mathew**  
Director: Finance and Administration



**Mr Sam SHIVUTE**  
Director: Banking Services



**Ms Magreth Tjongarero**  
Head: Risk Management and Assurance

#### **Qualifications**

- MSc Accounting (University of Glamorgan)
- Chartered Certified Accountant (FCCA, UK)
- International Executive Development Programme (WBS/LBS)

**Years of experience**  
27

#### **Expertise**

- Financial management
- Management accounting
- Financial reporting
- Procurement
- Facilities and asset management

#### **Qualifications**

- LLM International Finance and Banking Law (UL)
- LLB (Hons) and BJuris (UNAM)
- BTech Policing (TUT)
- National Diploma Police Science (PoN)
- International Executive - Development Programme (WBS/LBS)
- Small Counties Financial Management Programme (SBS)
- Management Development Programme (USB)

**Years of experience**  
21

#### **Expertise**

- Banking Operations
- Currency management
- Security management
- Tax law
- Transfer pricing
- Transformational coaching
- Motivational speaking
- Crime investigation

#### **Qualifications**

- BAcc (UNAM)
- International Executive Development Programme (WBS/LBS)

**Years of experience**  
16

#### **Expertise**

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

# GOVERNANCE

## OBJECTIVES AND ACCOUNTABILITY OF THE BANK

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**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 to serve as the State's principal to control money supply, the currency and the institutions of finance. The objectives of the Bank as defined in the Bank of Namibia Act, 1997 (No. 15 of 1997, hereinafter the Act), are, inter alia, as follows:

- 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 payments mechanism
- To foster monetary, credit and financial conditions conducive to the orderly, balanced and sustained economic development of Namibia
- To serve as the Government's banker, financial advisor and fiscal agent, and
- To assist in the attainment of national economic goals.

**In addition, the Bank fulfils other key functions as defined in other Acts, including the following:**

- The Banking Institutions Act, 1998 (No. 2 of 1998, as amended), which empowers the Bank to supervise banking institutions

- The Payment System Management Act, 2003 (No. 18 of 2003), which provides for the management, administration, operation, regulation, oversight and supervision of payment, clearing and settlement systems in Namibia, as well as providing for incidental matters.
- The Financial Intelligence Act, 2012 (Act No. 13 of 2012), which obliges the Bank to provide administrative services to the Financial Intelligence Centre of the Republic of Namibia.

**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 a shareholder, and the Bank is broadly defined in the Act. The Bank's specific obligations are clearly defined in a Memorandum of Understanding entered into between the Ministry of Finance and the Bank. The Memorandum covers the terms and conditions of banking services rendered to Government, public debt management arrangements, and the nature and frequency of consultations. The Minister of Finance and the Governor of the Bank of Namibia hold regular consultations on relevant matters.

## CORPORATE CHARTER

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**Apart from its statutory mandate, the Bank's actions and the way it carries out its mandate are guided by its Mission and Vision Statement as detailed in its Corporate Charter (page 8).** The Bank's Vision portrays the desired state of the Bank in terms of how the institution would like to carry out its mission. The Mission defines the fundamental purpose of the Bank and describing why it exists. The Bank's Values essentially express the beliefs that are shared among the stakeholders of the Bank. The Values drive

the Bank's culture, and articulate the code of conduct that the Bank uses in getting all its resources mobilised in pursuit of its Mission and Vision. All of the Bank's stakeholders are expected to assimilate and identify these required standards and principles toward ethical behaviour and excellence. The Charter strives to promote a sense of shared expectations among all levels and generations of employees toward the Mission, Vision and ethical behaviours.

## STRATEGIC OBJECTIVES 2012–2016

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**The Bank's Strategic Objectives are linked to its Mission and functional priorities.** Eight principal objectives were derived from the Mission and Vision, and

reflect the Bank's desire to meet its statutory mandate. The Strategic Objectives essentially refer to what the

Bank aspires to achieve. The Strategic Objectives are as follows:

- 1) Safeguard and enhance financial stability
- 2) Promote price stability
- 3) Manage reserves prudently
- 4) Provision of currency, Government debt issuance and banking services
- 5) Promote a positive reputation
- 6) Promote financial sector development
- 7) Enhance contribution towards sustainable economic growth, and
- 8) Optimise organisational efficiency and cost-effectiveness.

**Measureable strategies are designed with clear outcomes in order to achieve the eight Strategic Objectives.** Thus, to ensure successful Strategic Plan implementation, the Strategic Objectives have been transformed into areas of concentration with clear, measurable targets. As such, twice a year, the

Directors of the various Departments report on progress in their areas of concentration and the achievement of their targets. Once a year, the entire Strategic Plan is reviewed and refreshed. Therefore, it is 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 or not the objective concerned has been met.

**To promote ownership of the Strategic Plan and to attain performance excellence, the Strategic Plan is rolled out across the board through a Performance Management System.** Individual performance goals are crafted for each employee, and performance progress is evaluated by means of performance appraisals. The section titled “The year in review” in this Report explains the activities and progress under each of the eight Strategic Objectives during the review period.

## ACCOUNTABILITY

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**The Bank is committed to good governance practices and accountability to the public.** It is of paramount importance that the Bank always maintains its accountability to the public at large by adhering to good corporate governance principles. The Bank's legislation, its Corporate Charter and its Strategic Plan are some of the tools that guide the Bank in living up to the ambitions of good governance. The Bank also strives to be transparent by putting in place a concrete communication strategy that is able to openly and clearly convey why and how the Bank does what it does. Below are some of the expectations of good governance that the Bank is committed to observe:

- To be responsible, respected, trustworthy and credible
- To be accountable to its shareholders and the Namibian people
- To demonstrate an exceptionally high degree of integrity
- To ensure that its actions and policies are efficient, effective and transparent
- To maintain professionalism and excellence in the delivery of its services, and
- To be flexible and forward-looking in its approach, but to avoid undue risks.

## THE GOVERNOR

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**The Governor serves the Bank of Namibia as its Chief Executive Officer, and is accountable to the Board for the management of the Bank and for 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 power are in place to guide the decision-making powers of the Governor and his delegates. The Governor is appointed for a five-year term. The Act sets specific criteria for the appointment, reappointment and dismissal of a Governor.

## THE BOARD OF THE BANK OF NAMIBIA

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**The Board is responsible for the policies, internal controls, risk management and the general administration of the Bank.** Board Members, in addition to having typical fiduciary duties, 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 Board of the Bank of Namibia is appointed by the President of the Republic of Namibia, and consists of two Executive, one Ex officio and five Non-executive Members.** The Governor (Chairperson) and the Deputy Governor are Executive Members, while the Permanent Secretary of the Ministry of Finance is an Ex officio Member. One staff member from the

Public Service and four other persons constitute the Non-executive Members. Board Members who served during the year under review are portrayed on page 10-11 of this report.

**The Board meets regularly – at least four times a year – with the main purpose of overseeing and monitoring the Bank's finances, operations and policies.** During 2016, four ordinary and three special Board meetings were held. Table A.1 below sets out the frequency and attendance of Board meetings during 2016.

**Table A.1: Frequency and attendance of Board meetings, 2016**

| Board Member              | 26 February | 21 April<br>(Special) | 27 May | 31 August | 8 November<br>(Special) | 25 November | 14 December<br>(Special) |
|---------------------------|-------------|-----------------------|--------|-----------|-------------------------|-------------|--------------------------|
| Mr I Shiimi (Chairperson) | ✓           | ✓                     | ✓      | ✓         | ✓                       | ✓           | ✓                        |
| Mr E Uanguta              | ✓           | ✓                     | ✓      | ✓         | ✓                       | ✓           | ✓                        |
| Ms A Angula               | ✓           | ✓                     | x      | ✓         | ✓                       | ✓           | ✓                        |
| Ms E Haipinge             | ✓           | ✓                     | ✓      | ✓         | ✓                       | ✓           | ✓                        |
| Dr O Kakujaha-Matundu     | ✓           | ✓                     | ✓      | ✓         | ✓                       | ✓           | ✓                        |
| Mr V Malango              | ✓           | ✓                     | ✓      | ✓         | ✓                       | ✓           | ✓                        |
| Ms E Shafudah             | x           | x                     | x      | ✓         | x                       | ✓           | ✓                        |
| Adv. C van der Westhuizen | ✓           | ✓                     | ✓      | ✓         | ✓                       | ✓           | ✓                        |

The Board Committees, namely the Audit Committee and the Remuneration Committee, had several meetings during the period under review.

**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, information systems and auditing processes.** Three Non-executive Board Members currently serve as Members of this Committee, whose meetings are also attended by the Bank's Head of Risk Management and Assurance, the external auditor and relevant staff members. The Deputy Governor attends Audit Committee meetings upon invitation. In general, the Audit Committee is responsible for considering all audit plans as well as the scope of external and internal audits in order to ensure that the coordination of the audit efforts is maximised. The Committee is also required to introduce measures to enhance the credibility and objectivity of financial

statements and reports prepared with reference to the affairs of the Bank, and to enhance the Bank's corporate governance, with an emphasis on the principles of accountability and transparency, including adequate disclosure of information to the public.

**The Remuneration Committee is responsible for overseeing and coordinating the Bank's remuneration function and for ensuring that remuneration is fair and equitable, in order to attract and retain quality staff and Board Members.** This Committee comprises three Non-executive Board Members.

**Tables A.2 and A.3 set out the frequency and attendance of Audit and Remuneration Committee meetings, respectively, during 2016.**

**Table A.2: Frequency and attendance of Audit Committee meetings, 2016**

| Audit Committee Member    | 25 February | 20 May | 12 August | 18 November |
|---------------------------|-------------|--------|-----------|-------------|
| Ms A Angula (Chairperson) | ✓           | x      | ✓         | ✓           |
| Dr O Kakujaha-Matundu     | ✓           | ✓      | ✓         | ✓           |
| Adv. C van der Westhuizen | ✓           | ✓      | ✓         | ✓           |

**Table A.3: Frequency and attendance of Remuneration Committee meetings, 2016**

| Remuneration Committee Member | 9 May | 4 August | 3 November |
|-------------------------------|-------|----------|------------|
| Mr V Malango (Chairperson)    | ✓     | ✓        | ✓          |
| Ms T Haipinge                 | ✓     | ✓        | ✓          |
| Adv. C van der Westhuizen     | ✓     | ✓        | ✓          |

## MANAGEMENT STRUCTURE

**The Bank's Senior Management Team consists of the Governor, the Deputy Governor, the Advisor(s) to the Governor, and the Directors of the Bank's various Departments, as outlined on page 9 of this Report.** The positions of Governor and Deputy Governor are required by law. To ensure that the Bank implements its policies effectively, various committees have been created. These are the Monetary Policy Committee, the Investment Committee, the Management Committee and the Financial System Stability Committee.

**The Bank's Monetary Policy Committee (MPC) consists of the Governor (Chair), Deputy Governor, Advisor(s) to the Governor, the Director of Research, the Director of Financial Markets and the Director of Strategic Communications and Financial Sector Development.** The MPC meets every second month to deliberate on an appropriate monetary policy stance to be implemented by the Bank in the two-month period that follows. The monetary policy decision is communicated to the public through a media statement delivered at a media conference. Decision-making at the MPC is by consensus.

**The Investment Committee consists of the Governor (Chair), Deputy Governor, Advisor(s) to the Governor, the Director of Financial Markets, the Director of Research, the Director of Strategic Communications and Financial Sector Development and the Director of Finance and Administration.** The Investment Committee is responsible for reviewing the level and adequacy 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 approved policy.

**The Management Committee is composed of the Governor (Chair), Deputy Governor, Advisor(s) to the Governor, all Directors, and the Head of Risk Management and Assurance.** The Management Committee is responsible for reviewing the Bank's policies on financial, human resources, operational and risk management. In addition, the Committee is responsible for reviewing and approving policies relating to regulations and determinations. The Management Committee meets every second week.

**The Financial System Stability Committee 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 chairpersonship alternates every two years between the Bank's Deputy Governor and NAMFISA's Assistant Chief Executive Officer for Supervision. The Committee, which is currently chaired by the Deputy Governor, is composed of representatives from these institutions and meets on a quarterly basis to assess the potential risks to the financial system as a whole and to discuss appropriate policy measures to address such risks.

## REPORTING OBLIGATIONS

**The 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 after having received it. The Report is required to 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 submits a monthly balance sheet to the Minister of Finance, which is also published in the Government Gazette.

## COMMUNICATION AND STAKEHOLDER RELATIONS

**In 2016, the Bank continued to make the most of the support it has created by maintaining excellent relations with multiple stakeholders to further its mandate.** During the year under review, the emphasis

was on growing and nurturing stakeholder relations in a systematic manner and thereby enhancing the reputation of the Bank as a leading institution. The Bank made good use of a wide array of communication tools to engage with diverse internal and external stakeholder groups strategically and proactively. These tools included maintaining a dynamic website and channelling information through social media platforms such as Facebook, Twitter and Flickr. Constant engagement was ensured through regular media briefings on monetary policy and other relevant issues, media releases and placements, and timely responses to various queries.

**The Bank values stakeholder feedback and uses it to inform policy interventions and improve services to achieve set objectives.** Annually, the Bank identifies strategic stakeholder engagements based on this

feedback mechanism. To this end, regular consultative meetings took place with various stakeholders in support of the Bank's corporate communication strategy. The Bank used these opportunities to share its economic outlook for the country and to discuss views on issues of common interest within the Bank's mandate. External engagements held during the review period included the following:

- **In September 2016, the Governor of the Bank hosted members of the diplomatic corps and shared views on relevant economic issues and challenges.** Via this platform, the Governor presented and discussed economic trends, the performance of the banking sector and other related issues. In turn, the diplomats raised matters relating to trade, currency, the performance of different sectors of the economy, structural issues as well as the adverse drought conditions which mostly affected the agricultural sector. All parties found the engagement fruitful and valuable.



*Governor Ipumbu Shiimi (centre front row) together with Heads of Diplomatic Missions during the diplomatic engagement event*

- **The Governor also hosted the National Assembly Standing Committee on Public Accounts as well as the National Council Standing Committee on Public Accounts and the Economy on separate occasions in May 2016.** The role of Parliamentary Standing Committees is to ensure proper oversight in government policy implementation and thereby hold ministries, agencies and offices of government accountable to the legislative arm of the state.

Standing Committees also play a major role in soliciting input from various stakeholders and the ordinary citizens in the governance of the country in promotion of participatory democracy through outreach missions, consultations and courtesy visits. The purpose of this meeting was to brief the Parliamentarians on the mandate and the functions of the Bank; as well as to hear Members' views on economic policy and the status of the domestic economy.



*Governor Iipumbu Shiimi (front left) together with members of the National Council Standing Committee on Public Accounts and the Economy.*

*[From left to right] Hon. Gerhard Shiimi, Hon. Cornelius Kanguatjivi, Hon. Phillip Shikongo, Hon. Lonia Kaishungu, Hon. John Likando, Hon. Peter Kazongominja, Mr Norbert Uuyuni (Parliamentary Clerk), Hon. Joseph Mupetami and Mr Ndangi Katoma (former Director of Strategic Communications and Financial Sector Development at the Bank of Namibia).*

- **Former President His Excellency Hifikepunye Pohamba paid a courtesy visit to the Bank of Namibia on 17 October 2016.** During his visit, the Former President Pohamba addressed staff members and they, in turn, had an opportunity to direct questions to him. Notably, the Former

President was one of the policymakers who were instrumental in the Bank's establishment. The visit presented Former President Pohamba with a moment of reflection on his own contribution to the continued success of the Bank.



*Former President of Namibia HE Hifikepunye Pohamba (centre) with the Bank of Namibia's Management Team.*

*[From left to right, front row] Ms Sencia Rukata, Deputy Director of Currency Services; Ms Barbara Omoregie, Director of Payment and Settlement Systems; Mr lipumbu Shiimi, Governor; Ms Magreth Tjongarero, Head of Risk Management and Assurance; Mr Marsorry Ickua, Director of Information Technology; Ms Florette Nakusera, Director of Research;*

*[From left to right, back row] Mr Nicholas Mukasa, Director of Financial Markets; Mr Bryan Eiseb, Deputy Director of Exchange Control; Mr Ebson Uanguta, Deputy Governor; and Mr Peter Mwatile, Permanent Secretary in the Office of the Former President.*

- **The Bank hosted its Annual Symposium on 22 September 2016, under the theme “Reducing Unemployment in Namibia – Creating More Jobs in the Manufacturing and Tourism Sectors”.** This 17th Symposium was organised to address key issues pertaining to reducing unemployment in Namibia. Delegates who attended the event comprised representatives of

the public and private sector including role players such as academics, researchers, the media and policymakers. An evaluation of the event reported that stakeholders had expressed great satisfaction with how it had been organised. They had found it relevant and timely in respect of addressing Namibia’s development needs, and made useful suggestions for future events.



*Governor Ipumbu Shiimi and Deputy Governor Ebson Uanguta with the main speakers and presenters at the 2016 Annual Symposium.*

*[From left to right] Dr Michael Humavindu (Deputy Permanent Secretary, Ministry of Industrialisation, Trade and SME Development), Dr Diana van Schalkwyk (Owner and Director, Food Chain Solutions Namibia), Dr Sem Shikongo (Director of Tourism and Gaming, Ministry of Environment and Tourism), Dr Emma Haiyambo (Director of Strategic Communications and Financial Sector Development, Bank of Namibia), Mr Ipumbu Shiimi (Governor, Bank of Namibia), Hon. Lucia Ipumbu (Deputy Minister, Economic Planning), Dr Stephen Gelb (Senior Research Fellow, Overseas Development Institute), Ms Florette Nakusera (Director of Research, Bank of Namibia), Dr Erling Kavita (Associate Dean and Head of Hospitality and Tourism Department, Namibia University of Science and Technology), Mr Manfred Goldbeck (Managing Director, Gondwana Group), Mr Ebson Uanguta (Deputy Governor, Bank of Namibia)*

**Internally, the Bank promotes an effective and favourable working relationship with its employees.** The dissemination of corporate information via the Bank’s Intranet, triannual internal newsletter, corporate email system and regular staff meetings are key platforms used to reach every employee. The following are some of the internal engagements that took place during the year under review:

- **Progress reviews continued to take place each semester.** During these reviews, the Senior Management Team gave feedback to the rest of the Bank’s employees regarding progress made

in the implementation of respective departmental strategies and areas of concentration for the year. These enabled employees to participate and be conscious of the Bank’s strategic direction while allowing them to make contributions towards the successful attainment of such plans.

- **The Governor continued to hold biannual general staff meetings.** Staff were encouraged to take the opportunity to air their concerns.
- **The Employee Liaison Forum continued to strengthen the internal communication channels within the Bank.** The Forum, an internal structure that serves as a communication

link between management and employees, further continued to provide constructive inputs in related policy and operational matters of the Bank.

- **The Deputy Governor continued holding briefing meetings to present monetary policy decisions to staff.** These briefings provide staff and the media with the opportunity to discuss matters pertaining to monetary policy.

**During 2016, the Bank continued to produce statutory publications as well as publications covering general information about the Bank, the economy and financial sector.** The aim is to broaden the public understanding of the Bank's functions and operations. The following publications were issued during the review period and are available on the Bank's website:

- **In line with statutory requirements, the Bank's 2015 Annual Report was released in March 2016.** This Report not only covered the operations and affairs of the Bank, but provided information on the Bank's annual financial statements, as well as macroeconomic information on the state of the economy.
- **The Financial Stability Report, which provides an assessment of the financial system in Namibia, was issued in May 2016.** The report, which is a joint Bank– NAMFISA publication, highlights the potential risks to financial stability emanating from developments in the national and international environment. The report recommends appropriate policy actions where concerns have been raised.
- **The Quarterly Bulletin serves as a prime source of information on economic and financial developments in Namibia.** It contains a full set of data covering the real sector, monetary and financial developments, public finance, and the balance of payments. The Bulletin customarily also includes a section entitled "Monetary Policy Review". The latter offers an understanding of monetary policy and the factors the MPC takes into account in its decision-making.
- **An Economic Outlook Report was released in July and November 2016.** These reports highlight global, regional and domestic economic growth prospects and outlooks, and present domestic sectoral estimations and forecasts for the three-year period from 2016 to 2018.

# THE YEAR IN REVIEW

**As mentioned earlier, the Bank's activities are premised on eight Strategic Objectives that guide its operations over five-year periods.** These Strategic Objectives are directly connected to the Bank's functional priorities, its Mission and its Vision, as well as to developments in the internal and external environment. The Bank has determined appropriate initiatives and strategies in order to accomplish each

Strategic Objective. In this section, each Strategic Objective is presented in tabular form along with its associated initiatives and strategies. These are complemented by a list of strategic outcomes which serve as indicators of success in achieving the objective in question. Each presentation is concluded with a report of key actual outcomes during the course of the year.

## STRATEGIC OBJECTIVE 1: SAFEGUARD AND ENHANCE FINANCIAL STABILITY

| Initiatives and strategies                                                | Strategic outcomes                                                                                                 | Actual outcomes                                                                                                                                                                                                            | Strategic Objective Achieved (Yes/No) |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 1.1 Deter illegal financial schemes                                       | All known and detected schemes declared illegal within three months of their identification.                       | All potential schemes reported to the Bank were investigated and the outcomes were communicated to the whistleblowers. All potential and known illegal schemes investigated were recorded on the Bank's internal database. | Yes                                   |
| 1.2 Supervise and regulate deposit-taking institutions and credit bureaus | Early warning indicators such as the following are in place for all deposit-taking institutions and credit bureaus |                                                                                                                                                                                                                            |                                       |
|                                                                           | • There is a minimum capital adequacy of 11 percent.                                                               | Capital adequacy in excess of 15 percent was recorded for 2016.                                                                                                                                                            | Yes                                   |
|                                                                           | • There is a minimum liquidity assets ratio of 10.5 percent.                                                       | Banks recorded a liquid assets ratio of 13.3 percent in 2016.                                                                                                                                                              | Yes                                   |
|                                                                           | • There is a maximum of 4 percent in respect of non-performing loans (NPLs).                                       | NPLs of 1.5 percent were registered in 2016.                                                                                                                                                                               | Yes                                   |
|                                                                           | • There is adequate risk management at banks.                                                                      | Targeted and follow-up examinations were carried out at banking institutions, subject to risk-based examination models and the supervisory review and evaluation process.                                                  | Yes                                   |
|                                                                           | • Bank of Namibia recommendations are implemented within agreed timelines.                                         | Corrective measures were implemented within agreed timelines, unless otherwise negotiated.                                                                                                                                 | Yes                                   |

| Initiatives and strategies                                              | Strategic outcomes                                                                                                                                    | Actual outcomes                                                                                                                                                                                                                                                                                                                                                            | Strategic Objective Achieved (Yes/No) |
|-------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 1.3 Licencing                                                           | Entities that have submitted all information are processed within three months.                                                                       | An application to establish a banking institution was received in August 2015, but could not be completed due to significant deficiencies noted in the submission. After further consultation and information, the application was finalised in February 2016. The Minister of Finance's concurrence was subsequently obtained and the applicant was informed accordingly. | No                                    |
|                                                                         | There is 95 percent compliance with regulations and standards.                                                                                        | Banking institutions complied with regulations and standards to a level of at least 95 percent.                                                                                                                                                                                                                                                                            | Yes                                   |
| 1.4 Ensure efficient, safe and effective payment and settlement systems | There is compliance with the Safety Index, per the following indicators:                                                                              |                                                                                                                                                                                                                                                                                                                                                                            |                                       |
|                                                                         | <ul style="list-style-type: none"> <li>The fraud to turnover ratio is below 0.05 percent.</li> </ul>                                                  | Fraud to turnover ratio was 0.01 percent for 2016.                                                                                                                                                                                                                                                                                                                         | Yes                                   |
|                                                                         | <ul style="list-style-type: none"> <li>The retail payment system and the NISS are available 99 percent of the time.</li> </ul>                        | The two systems were available 99 percent of the time.                                                                                                                                                                                                                                                                                                                     | Yes                                   |
|                                                                         | <ul style="list-style-type: none"> <li>All high- and medium-risk issues identified from inspections are addressed within agreed timelines.</li> </ul> | Most high- and medium-risk issues identified by inspections were addressed within the agreed timelines.                                                                                                                                                                                                                                                                    | No                                    |
| 1.5 Enhance the assessment of financial sector stability                | <ul style="list-style-type: none"> <li>Pre-emptive action is taken to address vulnerabilities identified in the financial system.</li> </ul>          | The Financial stability report for 2016, showed that Banking institutions remained stable, household indebtedness was high and thus warranted monitoring. The loan-to-value (LTV) regulation on non-primary properties was gazetted on the 20th of September, to mitigate the high exposure of banks to mortgage lending.                                                  | Yes                                   |
| 1.6 Develop the ability to handle crises in the financial system        | A tested crisis resolution framework is in place.                                                                                                     | Crisis resolution framework was tested and deficiencies identified are being addressed.                                                                                                                                                                                                                                                                                    | Yes                                   |
| 1.7 Introduce a financial sector safety net.                            | Small depositors are protected in case of a bank failure.                                                                                             | A Deposit Guarantee Scheme Bill is ready for submission to the Minister of Finance.                                                                                                                                                                                                                                                                                        | No                                    |

## Deterrence of illegal financial schemes

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**Section 5 of the Act prohibits unauthorised persons to conduct banking business, receive, accept or take a deposit by any means or advertise or solicit, procure or attempt to procure a deposit.** Section 55 A (1) of the Act prohibits any person or banking institution from conducting, permitting or getting involved in the acceptance or obtaining of money from members of the general public as a regular feature of a business practice, with the prospect that such members will receive monetary or other money-related rewards on or after the introduction of other members of the public

to the business practice, regardless of who introduces them, and whether or not the newly recruited members are required to acquire movable or immovable property.

**During the review period, the Bank investigated a number of schemes and found three in contravention of the Act.** These schemes were Four Corners Namibia, Grow Big Corporation and Mema Affiliate Marketing. The Bank informed the promoters of these schemes accordingly and they were directed to stop their operations in Namibia.

## Licensing of new banking institutions

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**The Bank issued two final certificates of authorisation to establish banking institutions**

**in Namibia during 2016.** The two institutions were Letshego Bank Namibia Limited and Bank BIC Limited.

## Registration of credit bureaus

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**The Bank granted licences to two credit bureaus during 2016.** Authority to conduct credit bureau business was granted to Compuscan Credit Reference

Bureau (Pty) Limited and TransUnion Namibia Limited on 22 January and 22 April 2016, respectively.

## Payment systems oversight

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**The Bank successfully executed its regulatory mandate to oversee the National Payment System (NPS) in 2016.** This was achieved in line with the Payment System Management Act, through on-site and off-site oversight activities. With the cooperation of the NPS stakeholders, the Bank ensured the safe, secure, efficient and cost-effective operations of the NPS. Off-site monitoring was conducted through a combination of periodic assessments based on data furnished by regulated institutions in the NPS. As part of its on-site activities, the Bank conducted on-site risk assessments on regulated institutions as well as new institutions planning to enter the NPS. On-site inspections are based on the risk profile of the institution concerned, which is derived from the application of the Payment and Settlement Systems Risk-based Oversight Policy Framework, off-site-based data and information, and market intelligence.

**The stability of the Namibia Interbank Settlement System (NISS) to enable real-time payments was also monitored.** Availability of the NISS and retail payment systems operated by the automatic clearing house Namclear – i.e. the Electronic Fund Transfer (EFT) System, the Cheque Processing System and the Card Switching System – were also monitored. Overall

availability of the retail payment systems was registered at 99.4 per cent, while NISS was available 98 per cent of the time in 2016.

**During 2016, the NPS Vision 2020 was cemented further into the NPS.** Since its launch in 2015, execution of the Vision has focused on the rapid growth and development of the NPS in terms of new entrants as well as innovative payment products and services on the market. The NPS infrastructure was upgraded in 2016 to enhance its efficiency, security and ultimately, service delivery. Furthermore, in support of the Determination on the Efficiency of the National Payment System (PSD-7), the industry embarked on a large-scale, novel project to enhance the current EFT services. Given the evolving nature of, and rapid developments in the payments landscape, as well as the increasing risks, the Bank focused strongly on greater efficiency in the NPS and encouraged businesses and the general public to make use of electronic means of payment. In light of this, the Bank issued its Determination on the Reduction of the Item Limit for Domestic Cheque Payments within the Namibian National Payment System (PSD-2), specifically in response to and in support of the banking industry's intention to phase out cheques by 31 December 2017.

**Through various editorials in the print media, the Bank rolled out an awareness campaign on the NPS and key components that make up the payments ecosystem.** Throughout 2016, the Bank maintained an ongoing awareness of the NPS' role in the economy.

**In line with its mandate to ensure efficient access to the NPS, the Bank granted additional participants entry to and use of the system.** The total number of participants in the NPS by the end of 2016 had increased to nine. By the end of 2016, the total number of non-bank payment instrument issuers were five.

**The Bank continued to participate and contribute to the joint oversight of the Southern African Development Community (SADC) Integrated Regional Electronic Settlement System (SIRESS).** SIRESS is a regional settlement system that caters for time-critical or high-value payments between 14 participating SADC countries. There are a total of 83 SIRESS participants i.e. registered banking institutions as well as central banks within the respective SADC jurisdictions. Of these participants, 7 are Namibian. To date, all SADC countries except Madagascar participate in SIRESS. During 2016, the total value of payments processed in SIRESS by Namibian banks amounted to N\$360 billion. Of all the payments processed in SIRESS during 2016 (N\$820 billion), Namibian banks accounted for 44 per cent.

## Settlement services

**The Bank provided collateralised liquidity to NISS participants through overnight and intra-day repo facilities.** Participants maintained sufficient settlement account balances in NISS, resulting in minimal utilisation of repo facilities during 2016.

**Cheque volumes and values processed by Namclear continued to decline in 2016.** A total of 1.1 million cheques were processed during 2016, with a combined total value of N\$10 billion (Table A.5). The continuing downward trend in volume and value is mostly due to the shift to electronic means of payment and the less efficient nature of cheques as a payment instrument when compared to cards and EFT. In addition, the Namibian banking industry reduced the cheque limit from N\$500,000 to N\$100,000 at the beginning of 2016, with the view to eliminate cheques as a payment instrumented in Namibia by 31 December 2017.

**The Bank conducted a review of the Risk-based Oversight Policy Framework which was promulgated in January 2016.** The Framework, initially developed and adopted in 2009, serves as a guide for the Bank's payment systems oversight function. The Framework provides not only specific guidelines governing the types of risks to which the NPS is exposed, but also offers a scope of activities and tools for effective oversight. In 2016, through technical assistance from the World Bank, the need to further revise the Framework was recognised and changes were made. The changes included a stronger focus on the principles for financial market infrastructure (PFMI), as well as the oversight of the Payment Association of Namibia and its operations.

**Substantial progress has been made in the recalling of magnetic strip based cards and the issuing of chip-based cards in 2016.** The Europay, MasterCard and Visa (EMV) standard covers the processing of card payments using a card that contains a microprocessor chip at a payment terminal. During 2016, the industry continued in its efforts to recall magnetic-strip only payment cards to replace and issue EMV-standard-compliant equivalents. The reporting year revealed that 64 per cent of all payment cards circulating in the NPS were EMV-standard-compliant. All card-issuing participants are committed to a phased approach to have all non-compliant cards replaced.

**EFT transactions processed by Namclear increased in 2016, compared to 2015.** Namclear processed 17.3 million EFT transactions to the value of N\$260 billion in 2016, compared with 15.6 million EFT transactions to the value of N\$236 billion in 2015. This increase in EFT usage reflects its efficiency and security as a method of payment versus instruments such as cheques. In addition, the industry's efforts to discourage the use of cheques as a payment method has induced the public to employ alternatives such as cards and EFT, which further explains the upward trend.

**The card payment stream (NamSwitch) also increased in volume and value during the reporting year in comparison with 2015.** Namclear through the local card switch, NamSwitch, processed 17.9 million card transactions to the total value of N\$9.7 billion in 2016, meaning that the volumes and values switched increased by 16.9 and 20.2 percent, respectively, compared with their counterparts in 2015. The trend

has continued upward in terms of volumes and values processed since the switch was localised in 2013.

**The reporting year saw an increase in the value and volume of payments in NISS as well.** The total value settled through NISS in 2016 amounted to N\$738.0 billion, compared to N\$727.2 billion in 2015, of which 61.1 per cent resulted from real-time transactions

settled in the NISS, and 38.9 per cent from retail payment transactions processed through Namclear. The total number of transactions settled in 2016 was 69 579, an increase from the 61 702 transactions settled in 2015. This is an averages of 231 transactions per settlement day and an average daily settlement value of N\$2.5 billion.

**Table A.4: NISS transaction values and volumes**

| Year | Number of settlement days | Values settled (N\$ billion) |                                 |                                      | Total number of settlement transactions |
|------|---------------------------|------------------------------|---------------------------------|--------------------------------------|-----------------------------------------|
|      |                           | Total value settled          | Value of real-time transactions | Value of retail payment transactions |                                         |
| 2012 | 300                       | 480.1                        | 300.5                           | 179.6                                | 49 453                                  |
| 2013 | 301                       | 516.0                        | 304.0                           | 212.0                                | 49 049                                  |
| 2014 | 301                       | 611.7                        | 370.4                           | 241.2                                | 52 658                                  |
| 2015 | 301                       | 727.2                        | 416.6                           | 266.8                                | 61 702                                  |
| 2016 | 301                       | 738.0                        | 450.7                           | 287.2                                | 69 579                                  |

**Table A.5: Namclear transaction values and volumes**

| Year                   | Cheque transactions |               | EFT transactions    |               | Card transactions   |               | Total value cleared (N\$ million) |
|------------------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|-----------------------------------|
|                        | Value (N\$ million) | Volume ('000) | Value (N\$ million) | Volume ('000) | Value (N\$ million) | Volume ('000) |                                   |
| 2012                   | 30 782              | 2 268         | 147 062             | 12 239        | 4 529               | 9 781         | 182 373                           |
| 2013                   | 30 544              | 2 128         | 178 248             | 14 067        | 4 813               | 9 703         | 213 375                           |
| 2014                   | 28 129              | 1 822         | 207 428             | 15 085        | 5 818               | 11 017        | 241 375                           |
| 2015                   | 26 783              | 1 607         | 236 055             | 15 641        | 8 038               | 15 324        | 270 876                           |
| 2016                   | 10 670              | 1 078         | 260 356             | 17 250        | 9 668               | 17 922        | 280 706                           |
| <b>Annual % change</b> |                     |               |                     |               |                     |               |                                   |
| 2012                   | -0.2                | -15.6         | 30.4                | 26.7          | 50.0                | 42.0          | 24.4                              |
| 2013                   | -0.8                | -6.2          | 21.2                | 14.9          | 6.3                 | -0.8          | 17.1                              |
| 2014                   | -7.9                | -14.9         | 16.4                | 7.2           | 20.9                | 13.5          | 13.0                              |
| 2015                   | -4.8                | -11.8         | 13.8                | 3.7           | 38.2                | 39.1          | 12.2                              |
| 2016                   | -60.1               | -32.9         | 10.2                | 10.3          | 20.2                | 16.9          | 3.6                               |

## Financial stability assessment and surveillance

**The Bank publishes a Financial Stability Report once a year, which assesses the stability and resilience of the Namibian financial sector to internal and external shocks.** The report highlights specific risks stemming from the domestic and external economic environments, household and corporate debts, the banking sector, the non-banking financial sector as well as payment and settlement systems.

**The 2016 Financial Stability Report, published in May, found that banking institutions in Namibia were adequately capitalised, profitable, stable and healthy.** Standard indicators showed that banking institutions continued to be resilient and that they not only maintained enough capital, but also kept their liquidity at higher levels than the minimum set by the Bank. In addition, banking institutions displayed robust aggregate balance sheet growth, positive profitability

and satisfactory liquidity levels. The asset quality continued to be good, with very low levels of non-performing loans (NPLs): the latter stood at 1.5 percent during 2016, compared with a maximum tolerance level of 4.0 percent. Overall, this good performance of the banking sector is expected to endure in the foreseeable future.

**The Financial Stability Report further revealed that household indebtedness in Namibia was high relative to comparable economies.** Furthermore,

corporate debt levels increased in 2016, underpinned by developments in both foreign and domestic debt. The key categories that triggered the rise in household debt were mortgages, coupled with instalment credit and other loans and advances. Growth in household disposable income was also slower and contributed to the weakening ratio of household debt to disposable income. Although corporate sector debt increased, risks from this source were well contained as the major drivers were multinationals with strong balance sheets.

## STRATEGIC OBJECTIVE 2: PROMOTE PRICE STABILITY

| Initiatives and strategies                                                  | Strategic outcomes                                                                                                                                                                                                                                                                       | Actual outcomes                                                                                                                                                                                                                                                                                                                 | Strategic Objective Achieved (Yes/No) |
|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 2.1 Ensure reliability of economic data to support economic policy          | <ul style="list-style-type: none"> <li>Timely and reliable balance of payments (BOP) and monetary and financial statistics (MFS) and data that meet international standards are provided.</li> <li>Timely and reliable other economic data provided to relevant stakeholders.</li> </ul> | <ul style="list-style-type: none"> <li>MFS data were provided to the public once a month before the 5th.</li> <li>Both BOP and MFS data were provided to the public on a quarterly and annual basis.</li> <li>All macroeconomic data were provided to the MPC every two months and to external stakeholders on time.</li> </ul> | Yes                                   |
| 2.2 Pursue monetary policy in accordance with the Monetary Policy Framework | Headline inflation below 10 percent is maintained without compromising economic growth.                                                                                                                                                                                                  | Average inflation was maintained below 10 percent, having averaged 6.7 percent in 2016.                                                                                                                                                                                                                                         | Yes                                   |

### Monetary policy stance during 2016

**The MPC maintained a relatively accommodative monetary policy stance in the second half of 2016 in order to support the domestic economy, despite the pressure on international reserves and a fragile regional and global economic environment.** At its February and April 2016 meetings, the MPC decided to increase the repo rate by 25 basis points at each meeting, to 6.75 percent and 7.00 percent, respectively. These decisions were taken to align the interest rate to that of South Africa, with the overall aim to prevent capital outflows and to continue maintaining the one-to-one link to the South African Rand. After the MPC meeting in April, the repo rate was held steady at 7.00 percent for the rest of 2016. Inflation during the reporting year averaged at 6.7 percent, which was relatively higher than the comparative 6.3 percent recorded in South Africa for 2016.

**Global economic growth remained fragile during 2016, where commodity prices, uncertainty regarding the Brexit vote and geopolitical risk negated growth.** Low growth was observed in key advanced economies such as the United States (US), the United Kingdom (UK) and the Euro Area, as well as in the neighbouring economies of South Africa and Angola.

**Domestic economic activities slowed down in 2016, mainly due to contractions in major sectors.** Contractions in the mining, agriculture and construction sectors are attributed to weak global economic growth, drought, low commodity prices and fiscal consolidation.

## STRATEGIC OBJECTIVE 3: MANAGE RESERVES PRUDENTLY

| Initiatives and strategies                                                     | Strategic outcomes                                                                                                      | Actual outcomes                                                                                                                                                                                           | Strategic Objective Achieved (Yes/No) |
|--------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 3.1 Manage foreign reserves prudently in accordance with the Investment Policy | Returns are in line with agreed benchmarks and risk levels.                                                             | No losses or negative returns were recorded on any foreign reserve portfolios during 2016.                                                                                                                | Yes                                   |
| 3.2 Manage liquidity in the banking system proactively to support reserves     | There is 100 percent compliance with reserve adequacy thresholds, in accordance with the Market Intervention Framework. | The level of foreign exchange reserves, although under pressure during 2016, remained adequate and above currency in circulation plus a buffer equal to three months of average commercial bank outflows. | Yes                                   |
| 3.3 Administer exchange control in accordance with relevant laws               | All known and detected illegal foreign exchange trading is investigated and reported to law enforcement within 30 days. | All illegal cash movements detected were reported to law enforcement during 2016.                                                                                                                         | Yes                                   |

### Foreign exchange reserve developments during 2016

**The Bank is responsible for the prudent management of the country's foreign reserves.**

These reserves are held to back the Namibia dollars in circulation, maintain the peg to the South African Rand, and ensure that the country meets its international financial obligations. In satisfying the level of prudence required in managing foreign reserves, the Bank is obliged to ensure that the investment objectives of capital preservation and liquidity are met at all times. The investment objectives are achieved by determining an optimal combination of assets. This combination or mixture of assets is an outcome of the Bank's annual strategic asset allocation exercise which determines the optimal asset allocation, while recognising the risk tolerance and liquidity constraints.

**Over the course of the reporting year, the level of foreign exchange reserves increased marginally, namely by 4.7 percent, in comparison with 2015.**

The country's foreign reserves increased from N\$23.6 billion at the end of 2015 to N\$24.7 billion as at 31 December 2016. During 2016, the Bank continued the asset swap arrangements with institutional investors, which raised the level of the stock of foreign reserves.

Other notable inflows into the reserves during the reporting period include receipts from the Southern African Customs Union (SACU), the repatriation of South African Rand, and US Dollar inflows from the Angolan Kwanza currency conversion arrangement as well as compensation for the circulation of Rand in Namibia. Foreign borrowing in the form of the issuance of a Government bond listed on the Johannesburg Stock Exchange (JSE) in July 2016 contributed positively to the reserve position as well.

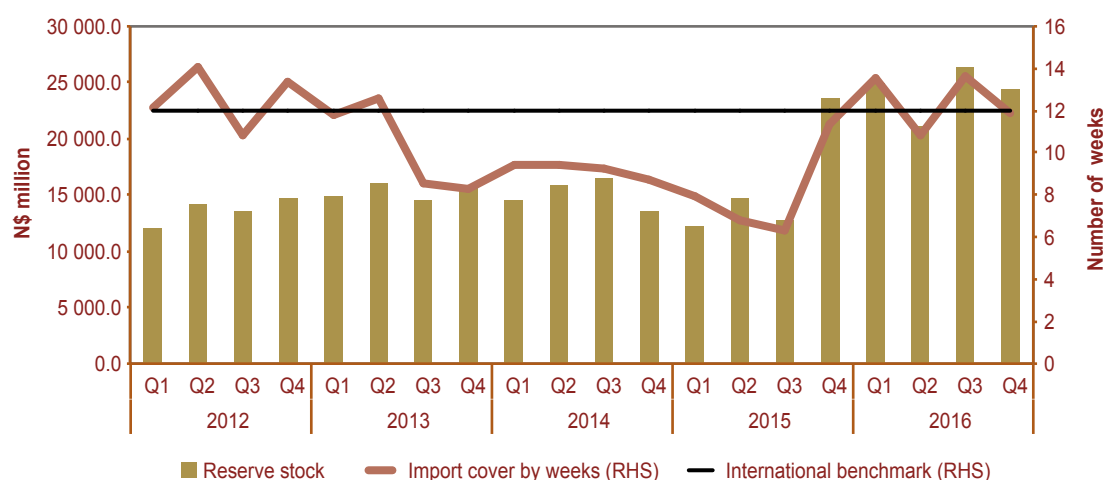
**Despite the significant inflows outlined above, foreign reserves remained under pressure from several quarters.**

For one, the level of imports remained elevated during the year, thereby exerting persistent pressure on the foreign exchange reserves. Moreover, significant net commercial bank outflows as well as net Government expenditures were recorded during 2016. Added pressure on the foreign reserve level emanated from the Namibia Dollar as well: it was much stronger against major currencies such as the Euro, British Pound and US Dollar at year end, compared with its position at the end of 2015.

**Nonetheless, the current reserve levels were adequate in terms of the Common Monetary Area (CMA) agreement, but were slightly lower than the benchmark of three months' import cover.** The total reserves holding of N\$24.7 billion at the end of 2016

is considered adequate as it stands well above the currency in circulation of N\$4.4 billion. In terms of the import cover, foreign reserves increased from around 2.8 months of imports at the end of 2015 to around 2.9 months by the end of 2016 (Chart A.1).

**Chart A.1: Official foreign exchange reserve stock and import cover**

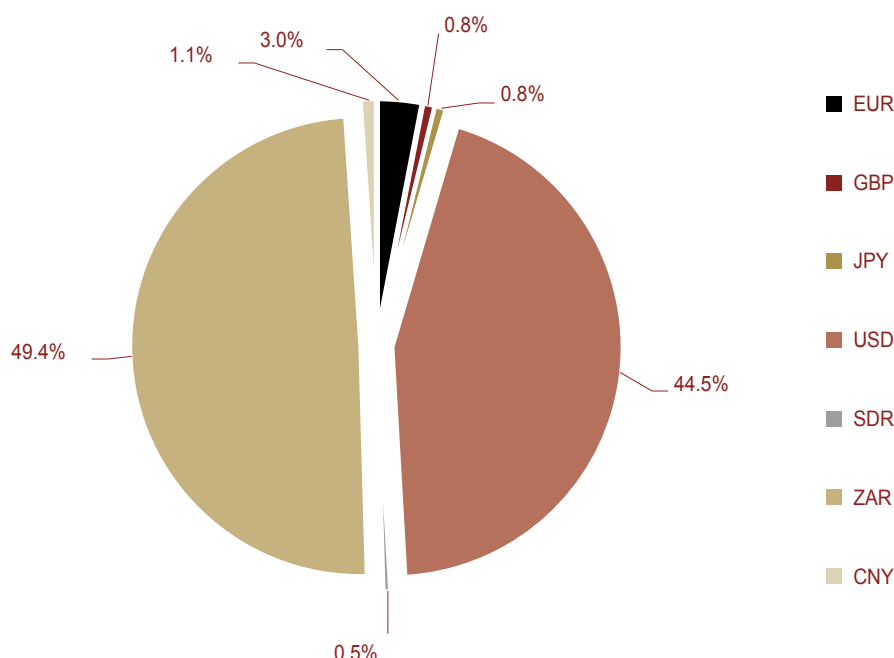


**During the period under review, foreign exchange reserves continued to be managed under challenging and volatile market conditions.** The uncertainties surrounding the low commodity prices, the European Central Bank Quantitative Easing Programme and the market miscalculation of the Brexit vote, among other things, created volatility in the financial markets. Other factors contributing to this volatility included the Federal Reserve's rate hike, policy uncertainty surrounding the Trump presidency, and slower growth in key emerging markets. Notwithstanding these events, all foreign reserve portfolios generated positive returns for the 12 months under review.

**The ZAR, USD and EUR currencies continued to represent the biggest share of the Bank's foreign exchange reserves.** As at the end of 2016, the ZAR,

USD and EUR respectively accounted for 49 percent, 45 percent and 3 percent of foreign exchange reserves. During the corresponding period in 2015, these currencies accounted for 21 percent, 67 percent and 3 percent of foreign exchange reserves, respectively. The increase in the weights of the ZAR reserves during 2016 was mainly due to asset swaps, while the USD proportion decreased due to funding for government expenditure and other international obligations as well as reserve asset reallocation. The Bank held about 3.0 percent of the reserves in EUR, utilised mainly to cover Government obligations. A small percentage of reserves in currencies such as British Pounds Sterling (GBP), Japanese Yen (JPY) and most recently the Chinese Yuan/Renminbi (CNY) were also held as part of the Special Drawing Right basket of currencies (see Chart A.2).

**Chart A.2: Currency mix of foreign exchange reserves, 31 December 2016**



## Administration of exchange control

During 2016, the Bank of Namibia licensed Bank BIC Limited, Atlántico Bank and SME Bank as **Authorised Dealers in foreign exchange**. This brought the total number of Authorised Dealers in Namibia to eight. There were, however, no new Authorised Dealers with Limited Authority (ADLA) licensed during the year under review. The number of ADLAs currently operating in Namibia remains at ten, with branches operating countrywide.

**In terms of Exchange Control Regulations of 1961, no person other than Authorised Dealers and ADLAs are allowed to deal in foreign exchange in Namibia.** These institutions perform an important role of ensuring that foreign exchange is made available for legitimate purposes only and thereby support prudent foreign reserves management.

**The Bank continued its efforts to curb illegal trade in foreign currency during the year under review.**

In this regard, training interventions were offered to the Namibian Police and to Customs and Immigration Officials. Compliance inspections were also conducted in respect of Authorised Dealers and ADLAs.

**As part of the Bank's multilateral obligations in the CMA, regular consultations take place through CMA quarterly Exchange Control Technical Meetings.** Thus, exchange control remains harmonised within the CMA. The Bank also participates in regional efforts to liberalise exchange controls as well as to harmonise balance-of-payment reporting within SADC. The strategy is to move to the use of International Monetary Fund (IMF) Balance of Payment Manual 6 reporting codes, and to receive such information from reporting institutions within SADC.

## STRATEGIC OBJECTIVE 4: PROVISION OF CURRENCY, GOVERNMENT DEBT ISSUANCE AND BANKING SERVICES

| Initiatives and strategies                                       | Strategic outcomes                                                                                                          | Actual outcomes                                                                                                                            | Strategic Objective Achieved (Yes/No) |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 4.1 Provide effective and efficient banking services             | Currency is supplied to commercial banks as per demand at all times.                                                        | All commercial banks were supplied with currency as per demand.                                                                            | Yes                                   |
|                                                                  | All (100 percent) of Government payments and deposits are correctly effected and recorded within the agreed timeline.       | One hundred percent of Government payments and deposits were effected.                                                                     | Yes                                   |
| 4.2 Provide sufficient quality and quantity of currency          | Counterfeit is detected, and counterfeits in circulation does not exceed the threshold of ten pieces per one million notes. | The ratio of counterfeit recorded in 2016 was six pieces per million notes in circulation and, thus, within the Bank's threshold.          | Yes                                   |
| 4.3 Provide effective lending facilities to banking institutions | All (100 percent) of banking institutions' borrowing needs are met.                                                         | One hundred percent of banking institutions' borrowing needs were met.                                                                     | Yes                                   |
| 4.4 Issue and manage Government securities                       | Funds are raised for Government in line with the approved borrowing plan.                                                   | Government funds were raised in line with the said plan, but a borrowing shortfall was recorded in both the domestic and regional markets. | No                                    |

### Currency operations

**Currency management and issuance are among the Bank's strategic functions.** The Bank is responsible for the supply of currency of all denominations to the Namibian market. The Bank ensures that sufficient stock of currency and good quality currency are in circulation at all times. All unfit, soiled or mutilated banknotes are deposited by the commercial banks at the Bank for destruction.

**The Bank observed a slight decrease with regards to growth in the volume of total currency in circulation in 2016.** The total volume of banknotes in circulation decreased by 1.9 percent in 2016, or 49.3 million pieces, compared with the increase of 2.0 percent (51.2 million pieces) recorded in 2015. By the end of 2016, the volume of coins in circulation had decreased by 4.4 percent compared with the 10 percent increase recorded for 2015. Conspicuously, a slower growth of

5.9 percent was registered for the N\$10 coin in 2016, compared with a high growth of 40.9 percent recorded in 2015 (Chart A.3 and Table A.6).

**As at 31 December 2016, the total value of currency in circulation stood at N\$4.4 billion, while this had been registered at N\$4.5 billion for the preceding year.** Thus, a negative annual growth rate of 2.6 percent was recorded in 2016, compared with the increase of 8.4 percent noted in 2015. The slower growth on banknotes in 2016 coincided with the reductions noted in the issuance of the N\$100 and N\$200 denominations, namely 14.9 percent lower for N\$100 notes, and a minor rise of 2.4 percent on the N\$200 notes. Despite these reductions, the N\$100 and N\$200 denominations remained the most widely circulated banknotes in 2016. Notably, an increased issuance was noted on the N\$50 denomination, namely 17.3 percent, in comparison with

a 14.4 percent reduction noted during the previous reporting year. In terms of coinage, the 5-cent piece remained the most popular among the coin series,

recording a 9.7 percent increase in the value of coins in circulation in 2016, although this is relatively lower than the 11.3 percent increase recorded for 2015.

**Chart A.3: Growth in currency in circulation**

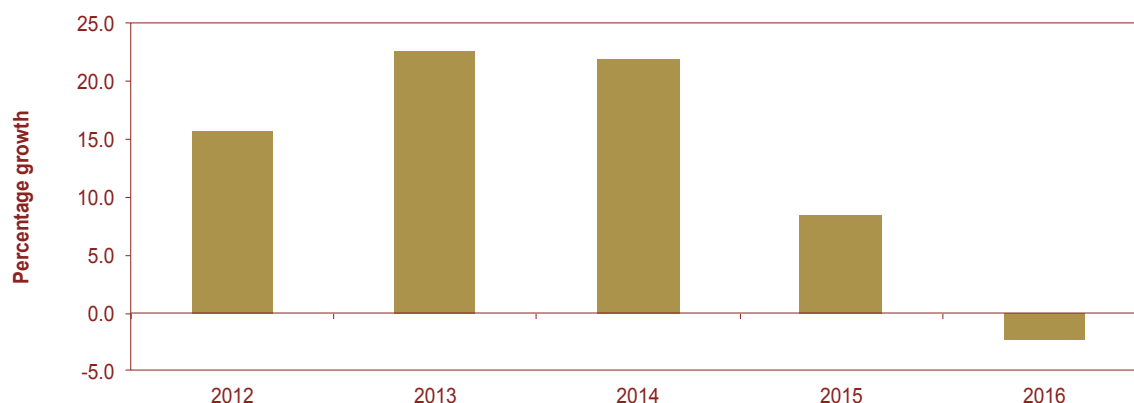


**Table A.6: Composition of currency in circulation, 31 December 2016**

| Denomination       | 2015                |                   | 2016                |                   | % change in value |
|--------------------|---------------------|-------------------|---------------------|-------------------|-------------------|
|                    | Value (N\$ million) | Volume (millions) | Value (N\$ million) | Volume (millions) |                   |
| 5c coins           | 10.3                | 206.2             | 11.3                | 226.2             | 9.7               |
| 10c coins          | 16.8                | 168.0             | 18.1                | 180.5             | 7.7               |
| 50c coins          | 14.4                | 28.7              | 15.1                | 30.1              | 4.9               |
| N\$1 coins         | 105.6               | 105.6             | 108.3               | 108.3             | 2.6               |
| N\$5 coins         | 56.2                | 11.2              | 59.3                | 11.9              | 5.5               |
| N\$10 coins        | 17.8                | 1.8               | 18.9                | 1.9               | 6.2               |
| Total – Coins      | 221.1               | 521.5             | 230.9               | 558.9             | 4.4               |
| N\$10 notes        | 108.8               | 10.9              | 101.5               | 10.2              | -6.7              |
| N\$20 notes        | 181.3               | 9.1               | 172.9               | 8.6               | -4.6              |
| N\$50 notes        | 299.4               | 6.0               | 351.2               | 7.0               | 17.3              |
| N\$100 notes       | 1 360.9             | 13.6              | 1 157.6             | 11.6              | -14.9             |
| N\$200 notes       | 2 324.3             | 11.6              | 2 380.5             | 11.9              | 2.4               |
| Total – Notes      | 4 274.7             | 51.2              | 4 163.7             | 49.3              | -2.6              |
| <b>Grand total</b> | <b>4 495.8</b>      | <b>572.7</b>      | <b>4 394.5</b>      | <b>608.2</b>      | <b>-2.3</b>       |

**The quality of currency remained one of the key focus areas for the Bank in 2016.** New banknotes to the value of N\$2.6 billion were issued, compared with the N\$4.1 billion issued in 2015. This 36.6 percent decrease in the issuance of new banknotes is attributed to the finalisation of sorting volumes on the Namibian currency which were halted in 2015 in order to sort and clear Angolan Kwanzas as part of the Currency Conversion Agreement between the Bank of Namibia

and its Angolan counterpart, the Banco Nacional de Angola.

**The Bank is required to ensure that only banknotes of good quality are in circulation.** To this end, the Bank checked the authenticity and fitness of banknotes for recirculation, which subsequently resulted in the withdrawal of 52.7 million banknote pieces with a face value of N\$3.1 billion in 2016, compared with 44.4 million pieces with a face value of N\$2.8 billion in 2015.

**In its continuous drive to stay abreast of the latest developments in the currency space and ensure that quality standards are maintained, the Bank made a substantial investment in its currency operations in 2016.** The Bank procured a state-of-the-art BPS M7 high-speed note-processing machine for its Oshakati Branch. The new addition will raise the quality level of the banknotes by ensuring that only fit notes are put into circulation. Moreover, overall operational efficiency within the Bank will be enhanced by this investment.

**The South African Rand is a legal tender in Namibia in accordance with the provisions of section 26(1)**

**of the Act.** Furthermore, in line with the Bilateral Monetary Agreement between Namibia and South Africa dated 14 September 1993, the Bank of Namibia is required to repatriate to the South African Reserve Bank any Rand banknotes that are deposited in Namibia. During the period under review, an amount of R600 million was repatriated, compared with R450 million in 2015. These figures show a substantial increase of 33.3 percent between 2015 and 2016, following a decline of 53.8 percent in the total Rand repatriations recorded for the previous year. Rand repatriation values and the value of Namibia Dollars in circulation over the past five reporting years are presented in Table A.7.

**Table A.7: Repatriation of South African Rand banknotes and Namibia Dollar banknotes in circulation**

| Calendar year | Value of Rand repatriation |                   | N\$ in circulation |          |
|---------------|----------------------------|-------------------|--------------------|----------|
|               | Rand (millions)            | % change in value | N\$ (millions)     | % change |
| 2012          | 1 650.0                    | 46.7              | 2 773.3            | 15.6     |
| 2013          | 1 800.0                    | 9.1               | 3 402.1            | 22.7     |
| 2014          | 975.0                      | -45.8             | 4 146.6            | 21.9     |
| 2015          | 450.0                      | -53.8             | 4 495.8            | 8.4      |
| 2016          | 600.0                      | 33.3              | 4 394.5            | -2.3     |

**A substantial decrease was recorded in the number of counterfeit banknotes detected in 2016.** The total number of counterfeit Namibia Dollar banknotes detected in 2016 decreased to 277 pieces compared with 465 pieces recorded in 2015 (Table A.8). It is quite evident that the counterfeiters mostly targeted the N\$200 banknote, which accounted for 71.8 percent of total counterfeits detected in 2016.

**As at 31 December 2016, the ratio of counterfeits per million in respect of all Namibia Dollar banknote denominations stood at 6 pieces of counterfeits per million banknotes, which was well below the international benchmark of 70 pieces of counterfeits per million banknotes in circulation.** It is also worth noting that the 6 pieces were below the Bank's own threshold of 10 pieces per 1 million banknotes (Table A.8). The quality of counterfeits detected was poor and, as such, they did not pose a major concern to the Bank.

**Table A.8: Counterfeit Namibia Dollar banknotes**

| Denomination                                               | Number of counterfeit banknotes detected |      |      |      |      | Counterfeits per single denomination per million notes in 2015 | Counterfeits per single denomination per million notes in 2016 |
|------------------------------------------------------------|------------------------------------------|------|------|------|------|----------------------------------------------------------------|----------------------------------------------------------------|
|                                                            | 2012                                     | 2013 | 2014 | 2015 | 2016 |                                                                |                                                                |
| N\$10                                                      | 4                                        | 3    | 1    | 4    | 0    | 0                                                              | 0                                                              |
| N\$20                                                      | 2                                        | 3    | 8    | 7    | 11   | 1                                                              | 1                                                              |
| N\$50                                                      | 57                                       | 40   | 28   | 33   | 29   | 4                                                              | 4                                                              |
| N\$100                                                     | 258                                      | 125  | 140  | 169  | 38   | 10                                                             | 3                                                              |
| N\$200                                                     | 62                                       | 212  | 166  | 252  | 199  | 18                                                             | 14                                                             |
| TOTAL                                                      | 383                                      | 383  | 343  | 465  | 277  |                                                                |                                                                |
| Total counterfeits per million notes for all denominations | 10                                       | 9    | 7    | 9    | 6    |                                                                |                                                                |

**Table A.9: Counterfeit Namibia Dollar banknotes per banknote series**

| Notes      | N\$10 | N\$20 | N\$50 | N\$100 | N\$200 | Total pieces | Total value (N\$) |
|------------|-------|-------|-------|--------|--------|--------------|-------------------|
| New series | 0     | 10    | 28    | 26     | 197    | 261          | 43 600            |
| Old series | 0     | 1     | 1     | 12     | 2      | 16           | 1 670             |
| Total      | 0     | 11    | 29    | 38     | 199    | 277          | 45 270            |

**The Bank not only provides effective and efficient banking services to the Government by acting as its banker and by maintaining the State Account, it also offers assistance in terms of the safekeeping of significant and valuable assets.** One such special safekeeping duty is to safeguard gold and silver coins found on a recently discovered shipwreck at Oranjemund. On investigation, it emerged that these

coins were artefacts from a Portuguese trading vessel that sank in Namibian waters in the 16th Century. Given the significance of this discovery, the Governments of Portugal and Namibia are working together to preserve and promote the remains of the shipwreck. The ongoing bilateral cooperation resulted in a high-level delegation from Portugal paying a courtesy visit to the Bank of Namibia on 14 November 2016.



*[Front row from left] Mr Iipumbu Shiimi (Governor of the Bank of Namibia) and Hon. Maria Teresa Goncalves Ribeiro (Deputy Minister of Foreign Affairs and Cooperation, Portugal)*  
*[Back row from left] Ms Ana Paula Laborinho (Portugal Commerce Institute), Mr Ebson Uanguta (Deputy Governor of the Bank of Namibia), HE Ms Isabel Brilhante Pedrosa (Ambassador of Portugal to Namibia), Ms Esther Moombola-Goagoses (Director of National Heritage and Culture Programmes, National Museum of Namibia), Mr Boniface Sinvula (Portugal Desk Officer, Ministry of International Relations and Cooperation, Namibia), Ms Fousy Kambombo (Archaeology Technician, National Museum of Namibia), Ms Sencia Kaizemi-Rukata (Deputy Director of Currency and Banking, Bank of Namibia) and Mr Joao Luis Neves Queiros (Head of Cabinet of the Deputy Minister for Foreign Affairs, Portugal).*

## Banking services

**The use of electronic means of payment made significant strides during the 2016 financial year, whilst payments effected through cheques recorded a further decline (Table A.10).** During the 2016 reporting period, the volume of Government transactions in respect of local transfers<sup>1</sup> processed by

the Bank through the NISS increased from 978 to 1 153 (Table A.10). The volume of NISS payments made to the Government by commercial banks increased from 2 164 in 2015 to 2 509 in 2016, which reflects a rise of 15.9 percent. The said growth is much higher than the 4.0 percent growth recorded for 2015.

**Table A.10: Volume of foreign and local transfers by Government**

| Calendar year | Local Transfers (Volume) | Foreign Transfers (Volume) |
|---------------|--------------------------|----------------------------|
| 2012          | 768                      | 1 531                      |
| 2013          | 750                      | 1 959                      |
| 2014          | 879                      | 2 453                      |
| 2015          | 978                      | 2 366                      |
| 2016          | 1 153                    | 2 173                      |

**During the review period, the Bank continued to ensure that all the Government's foreign obligations were honoured timeously.** The Bank recorded a reduction in the number of foreign transfers<sup>2</sup> effected on behalf of Government from 2 366 in 2015 to 2 173 in 2016, which equates to a decline of 8.2 percent (Table A.11). An increase of 17.9 percent in the volume of local transfers was, however, recorded for 2016 in comparison with the previous year.

**In addition, the Bank noted an increase in EFT payments<sup>3</sup> effected by the Government.** The total volume of such EFT payments effected in 2015 amounted to 2 395 920 in comparison with 2 545 720 in 2016 (Table A.11), which reflects an increase of 6.3 percent. During the period under review, the total value of outflows effected from the State Account amounted to N\$101.7 billion, whilst total inflows were N\$99.9 billion.

**Table A.11: Government EFT payments**

| Calendar year | EFT transfers (volume) | EFT transfers (value, N\$) |
|---------------|------------------------|----------------------------|
| 2012          | 1 988 391              | 20 368 858 417             |
| 2013          | 2 473 285              | 21 020 396 152             |
| 2014          | 2 317 679              | 21 094 416 791             |
| 2015          | 2 395 920              | 27 332 351 655             |
| 2016          | 2 545 720              | 31 365 656 013             |

**The volume of cheque transactions dropped by 4.1 percent in 2016, in comparison with a reduction of 1.1 percent recorded the preceding year (Table A.12).** The decrease can be ascribed to the reduction of the cheque item limit from N\$500,000 to N\$100,000

that was implemented on 1 February 2016. The Bank anticipates a further decrease in the volume of cheque transactions, given that cheques are expected to be fully phased out by the end of 2017.

**1** These are high-value and time-bound electronic payments effected through the NISS.

**2** These are electronic transactions effected by the Bank on behalf of the Government to foreign beneficiaries.

**3** The electronic transfer of low-value payments to and from the Government via the Bank of Namibia's EFT System.

**Table A.12: Government cheques processed**

| Calendar year | Volume  | Change<br>(% decrease)/% increase |
|---------------|---------|-----------------------------------|
| 2012          | 271 519 | -37.4%                            |
| 2013          | 229 157 | -15.6%                            |
| 2014          | 231 705 | 1.1%                              |
| 2015          | 229 050 | -1.1%                             |
| 2016          | 219 675 | -4.1%                             |

## Issuance of government debt

### JSE-listed bonds

**During the period under review, the Government tapped its JSE-listed Medium-term Note Programme and listed two new bonds.** Besides increasing the size of its bond programme from N\$3.0 billion to N\$7.5 billion during the review period, the Government also introduced two new bonds, namely the seven-year NAM03 due in 2023, and a ten-year NAM04 due in 2026. In July 2016, a total of N\$492

million was successfully issued: N\$157 million on the NAM03, and N\$335 million on the NAM04. The issuances were undertaken at spreads of 165 basis points over the R2023 and 180 basis points over the R186, respectively. The intention is for the Government to become a regular issuer on the JSE and, in so doing, increase the liquidity of, and demand for, Namibian securities on that exchange.

## STRATEGIC OBJECTIVE 5: PROMOTE A POSITIVE REPUTATION

| Initiatives and strategies             | Strategic outcomes                                                                                                                                   | Actual outcomes                                                                                                                                                       | Strategic Objective Achieved (Yes/No) |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 5.1 Enhance the Banks' corporate image | More than 80 percent of stakeholders express satisfaction with the Bank, based on a minimum response rate of 60 percent.                             | Based on regular assessments of stakeholder feedback on engagements held during the year, the Bank achieved an average satisfaction rate above the 80 percent target. | Yes                                   |
|                                        | The tone with which reference is made to the Bank in the media is positive more than 60 percent of the time, according to systematic media analyses. | The Bank was referred to in a positive tone in the media 96 percent of the time during 2016.                                                                          | Yes                                   |

### Corporate image

**During the period under review, the Bank maintained its positive image, as measured through proactive feedback from regular assessments of its engagement with various stakeholders.** Based on systematic evaluations and feedback mechanisms

during the reporting year, the Bank recorded positive media coverage of its activities 96 percent of the time, and stakeholder satisfaction beyond the targeted 80 percent.

### Public education

**The Bank continued to take advantage of its public education platforms to achieve greater awareness and understanding of its role in the economy.** The Bank's Public Education Programme continued to educate various stakeholders on selected issues relating to its functions, role and operational activities. As in previous years, the media benefited from the programme as well. The role of the media in improving public access to information and assisting in educating the public about various complex economic and financial issues cannot be overemphasised. This fact underlay the Bank's hosting of its annual economic reporting workshop for media practitioners in June 2016. The workshop provided tools for journalists to

report accurately about economic issues. It also served as a platform for insightful engagement with Bank staff.

**During December 2016, the Bank also launched a public awareness campaign on the Loan-to-value Ratio Regulations, which were gazetted on 3 August 2016.** The aim was to clarify the intentions of the Regulations and to inform the public of their effective date, i.e. 22 March 2017. According to the Regulations, home loan applicants who wish to purchase a second or subsequent residential property are required to pay a percentage of its purchase price as a deposit. The public education campaign will continue until the Regulations are implemented.

## Corporate social investment and responsibility

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**In support of the Government's efforts to promote computer literacy at Namibian schools, the Bank continued to play an active role in the upliftment of Namibian communities, focusing in the areas of education and information technology.** To this end, the Bank honoured its five-year commitment to support the Hans Daniel Namuhuya Senior Secondary School (Oshikoto Region) and the PK De Villiers Secondary School (Karas Region) by way of a computer laboratory project. During its five-year project commitment period, which came to an end in December 2016, the Bank assisted with the provision of maintenance for equipment and with training computer teachers at both schools. The project saw the introduction of Information and Communications Technology (ICT) as a subject

from Grades 8 to 10 at both schools. The total value of the project was N\$1,000,000, spread over the five-year period in question.

**During the year under review, the Bank also sponsored various community activities.** These sponsorships targeted various institutions that demonstrate potential in contributing to the attainment of Namibia's developmental, economic and social empowerment goals. The beneficiaries included the Student Economic and Accounting Societies of both the University of Namibia and the Namibia University of Science and Technology. Various community charities also received support. In addition, Bank staff organised fund-raising activities to support certain charity causes.

## STRATEGIC OBJECTIVE 6: PROMOTE FINANCIAL SECTOR DEVELOPMENT

| Initiatives and strategies               | Strategic outcomes                                                                                                                          | Actual outcomes                                                                                                                                                                       | Strategic Objective Achieved (Yes/No) |
|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 6.1 Promote financial sector development | The implementation of the Namibia Financial Sector Strategy is coordinated and executed in line with the agreed Implementation Action Plan. | The Bank continued to coordinate and execute initiatives aimed at improving access to finance not only by individuals earning a low income, but also by small and medium enterprises. | Yes                                   |
|                                          | Payment services are provided in a cost-effective manner.                                                                                   | The Bank is currently in the process of rolling out a costing and income survey to enable it to set appropriate standards for the cost-effective provision of payment services.       | No                                    |

### Financial sector development

**The need and associated aspiration to develop the Namibian financial sector is outlined in the Namibia Financial Sector Strategy (NFSS), launched in 2012 as a long-term development road map for the sector.** The expectation is that the Strategy should guide the achievement of financial sector objectives set out in the various national development plans (NDPs and Vision 2030).

**As Secretariat to the NFSS, the Bank of Namibia continued to coordinate the NFSS implementation process effectively during 2016, and implemented such activities that fell within its mandate.** In this regard, the Bank and other relevant stakeholders implemented a number of projects geared towards the promotion of the Strategy, during the year under review.

**The Bank of Namibia also commissioned a study during the reporting year, as directed by the Financial Inclusion Council, to assess the skills needed in the financial sector.** Such an assessment will assist in identifying current gaps in the sector as well as its future needs, and is in line with the aspirations of the National Human Resource Development Plan. This project also involves developing a Skills Development Plan for the sector after the needs assessment. The report on this study and the associated Skills Development Plan are expected to be finalised in the first quarter of 2017.

**During the year under review, the Bank conducted a feasibility study with respect to establishing a**

**collateral registry in Namibia.** The study stemmed from research done in 2015, which explored alternative methods of collateral for small and medium enterprises (SMEs). This is in line with the NFSS objective to enhance SMEs' access to financial products and services, given that a number of studies have already revealed that the lack of collateral remains a major hindrance to SMEs in respect of accessing credit from lending institutions. Experience elsewhere has shown that countries have opted to introduce collateral registries that bring about confidence and transparency between lenders and borrowers. However, the study was not very conclusive about the viability of a collateral registry in Namibia.

**The Bank continued to provide technical support to the Project Team and Steering Committee spearheading the SME Financing Strategy.** The SME Financing Strategy aims to bridge the access to finance challenges faced by micro, small- and medium-scale enterprises (MSMEs) in Namibia. The Strategy consists of three facilities which are being investigated which are being considered potentially useful, namely, the Credit Guarantee Scheme, Catalytic First Loss Venture Capital Fund and the MSME Mentoring and Coaching Programme. The aim of each of these three complementary facilities as well as progress made on them is outlined below.

- **Credit Guarantee Scheme:** This Scheme aims at enhancing access to finance for SMEs who are unable to acquire loans from lending institutions due to lack of collateral. The Scheme is uniquely designed to cater for bankable SMEs, with risks

shared among the Government, lending institutions and the borrowers themselves. The draft proposal was finalised and presented to various stakeholders, such as commercial banks and other relevant institutions. The document was further presented to the Financial Inclusion Council and further high level consultations are taking place before the proposal is finalised.

- **Catalytic First Loss Venture Capital Fund:** The proposed Fund is an equity financing intervention designed to cater for SMEs who are unable to get equity financing through the established private equity firms. The Fund will primarily cater for high-potential, growth-oriented SMEs looking to expand and/or access new markets. The proposal for the establishment of this Fund has reached an advanced stage. Once the consultations currently under way with key stakeholders have been concluded, the proposal will be submitted to the Financial Inclusion Council for consideration. This is anticipated to be in 2017.
- **MSME Mentoring and Coaching Programme:** One of the principal constraints to SME growth and development in Namibia is a lack of critical skills to manage and operate their businesses optimally. The lack of such operational, financial and managerial skills makes it difficult for SMEs to access loans from financial institutions. To address this constraint, the Project Team drafted a proposal for an MSME Mentoring and Coaching Programme, and consulted relevant stakeholders, including the Financial Inclusion Council, on its content during 2016. Following its endorsement by the Council, the proposal is due to be tabled in Parliament in 2017.

**During the review period, the Bank also made progress on the project aimed at setting up an appropriate Deposit Guarantee Scheme in Namibia.** This Scheme is meant to protect depositors in the event of bank failure by ensuring that they are reimbursed in an efficient and transparent manner. The Scheme is considered a necessity in the financial sector as its existence instils confidence in the system and reduce the risk of a financial system crisis occurring. In 2016, the Bank concluded consultations with the industry on a proposed Deposit Guarantee Bill to establish the said Scheme. The Bill will be forwarded to the Minister of Finance in 2017 for consideration.

**During 2016, the Bank presented a proposal to the relevant Government authority for its approval in respect of how to ensure efficiency and effectiveness in allocating Government funds to**

**support SMEs.** The proposal emanated from a study commissioned by the Financial Inclusion Council. The study, undertaken in 2015, set out to take stock of the operations and performance of SME-supporting funds administered by the various Ministries, and to determine how coordination could be improved among them. However, before a final decision can be taken on the proposal, the Bank and the Ministry of Finance wish to extend the research to establish the impact of the various programmes and funds studied.

**The Bank also made significant progress on the study investigating the feasibility and viability of having a sustainable Central Securities Depository.** Interim regulations that will provide legal certainty and criteria around the licensing of such a Depository as well as the dematerialisation of Government securities have been developed after input from the market and all participants have been received. The regulations were submitted to the Ministry of Finance in 2016 for approval and gazetting.

**During 2016, the Bank of Namibia drafted a General Notice on Securitisation Schemes and launched public consultations.** Securitisation is the process by which relatively standard loans are pooled and sold to a Special Purpose Entity that issues marketable/tradable debt securities or debt instruments against the pooled assets to raise funding. The primary objectives of securitisation are to increase the liquidity of banks and non-bank entities, diversify the sources of funding, reduce the originating bank's capital requirements once certain conditions have been met, and deepen the financial markets. The Bank engaged in this process because, as a regulator of banks, one of its key responsibilities is to ensure that appropriate legal frameworks are in place to conduct securitisation transactions in Namibia. Once the Notice becomes effective, it will apply to all banks, non-bank entities and special purpose entities involved in securitisation transactions in the country.

**During the year under review, the Bank tabled the monitoring and evaluation framework of the NFSS to the Financial Inclusion Council for endorsement.** The framework, which contains set targets for 2015, 2018 and 2021, measures achievement across various identified indicators for NFSS goals, while also presenting progress on projects carried out, such as those discussed above. Accordingly, in 2016, the targets for 2015 were measured against the actuals realised in that year, and a report was submitted to the Financial Inclusion Council indicating notable progress, particularly on the goal of financial inclusion.

## STRATEGIC OBJECTIVE 7: ENHANCE CONTRIBUTION TOWARDS SUSTAINABLE ECONOMIC GROWTH

| Initiatives and strategies                                                       | Strategic outcomes                                                                                          | Actual outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Strategic Objective Achieved (Yes/No)                             |
|----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| 7.1 Deliver and assist with implementation of relevant and quality policy advice | Sixty percent of national economic policy advice is accepted and implemented within a period of five years. | Ninety percent of national economic policy advice was accepted and implemented during the period under review.                                                                                                                                                                                                                                                                                                                                                                                                                               | Yes                                                               |
| 7.2 Deliver innovative and quality research output                               | At least one of the Bank's working and occasional papers is published in a peer-reviewed journal.           | A study titled "Exchange rate pass-through to inflation in Namibia" was conducted and published in a peer-reviewed journal in 2016.                                                                                                                                                                                                                                                                                                                                                                                                          | Yes                                                               |
| 7.3 Promote regional integration                                                 | SADC Regional Integration Agenda of the Bank is implemented.                                                | <p>The Bank is responsible for the implementation of some of the following annexes of FIP:</p> <ul style="list-style-type: none"> <li>• The macroeconomic convergence criteria for assessing the various stages of integration have been monitored in 2016.</li> <li>• Cooperation on Exchange Control</li> <li>• Harmonisation of Legal and Operational Frameworks</li> <li>• Cooperation in the area of Payments systems</li> <li>• Cooperation in the area of ICT</li> <li>• Cooperation in Banking and Regulatory Supervision</li> </ul> | <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> |
|                                                                                  | The Bank contributes to the development of the SADC Payments System Model law.                              | The SADC Payments System Model law has been developed and is currently being finalised for approval by SADC Central Bank Governors.                                                                                                                                                                                                                                                                                                                                                                                                          | Yes                                                               |
|                                                                                  | The Bank participates in overseeing the SADC Integrated Regional Settlement System (SIRESS).                | The Bank participated in the relevant regional committee structures to provide effective oversight over SIRESS.                                                                                                                                                                                                                                                                                                                                                                                                                              | Yes                                                               |

### Policy research and advice

**As part of its statutory mandate, the Bank is required to provide policy advice to 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.

**In accordance with the Bank of Namibia Act, the Bank renders fiscal advice to the Government.** In particular, the Bank furnishes reports to the Minister of Finance on economic, financial or any other matter that the Minister may refer to the Bank for investigation or advice. Furthermore, the Bank may provide reports to the Minister of Finance on matters that could prevent it from achieving its objectives or hinder the performance of its functions. In this regard, the Bank carried out a number of research projects and activities in 2016, as summarised below:

- **A study on the exchange rate pass-through to inflation in Namibia was conducted during 2015 and published in a peer-reviewed journal in 2016.** The study appeared in the *Journal of Emerging Issues in Economics, Finance and Banking*. The main conclusion of the study was that the exchange rate pass-through to inflation was low in Namibia. This was attributed to the ability of firms to set different prices for the same good in the domestic and foreign markets. According to the IMF in 2006, a low exchange rate pass-through implies that the response of the trade balance to nominal exchange-rate changes will be small.
- **During 2016, the Bank continued to take part in efforts to establish a Revenue Agency for Namibia.** The relevant Bill to set up such an entity was drafted in 2016 and sent to the legal drafters to refine. It will then be presented to Parliament for enactment. The Revenue Agency is envisaged to be operationalised in 2017.

- **On 22 September 2016, the Bank held its 17th Annual Symposium, themed as “Reducing unemployment in Namibia: Creating more jobs in the manufacturing and tourism sectors”.** The theme was informed by the high rate of unemployment prevailing among the youth in particular. In this regard, the Symposium aimed to answer the following questions:
  - What is the potential that the country has in terms of reducing unemployment, using the tourism and manufacturing sectors?
  - How many jobs can the tourism and manufacturing sectors provide, compared with the current level?
  - What measures need to be undertaken to ensure a successful creation of jobs in these two sectors?
  - What can Namibia learn from international experiences in terms of reducing unemployment using the two sectors?

**These issues were addressed through presentations given by local and international speakers, and supplemented by panel discussions comprising representatives from the manufacturing and tourism sectors as well as the Bank of Namibia.** The various research papers and recommendations were then published in a Symposium report.

## International financial cooperation

**The Bank regularly engages and collaborates with international and regional stakeholders as part of its day-to-day activities.** The key international stakeholders with whom the Bank collaborates are other central banks, as well as the IMF and the World Bank Group (WBG). Within continental Africa, the Bank is a member of the Association of African Central Banks

(AACB). At the regional level, the Bank continues to participate in SADC activities through the Committee of Central Bank Governors (CCBG) as well as the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). Similarly, the Bank participates in CMA and SACU activities. These cooperation arrangements are elaborated below.

## Cooperation with the World Bank Group and the International Monetary Fund

**In 2016, the Bank continued to participate in the IMF and WBG’s annual meetings.** These meetings were held in Washington, DC, in the US from 7 to 9 October 2016. The meetings bring together central bankers, ministers of finance and development, private sector executives and academics to discuss issues of global concern, which include the world economic outlook, the eradication of poverty, economic development, and the effectiveness of aid. Among

other things, the 2016 meetings focused on monetary policy and financial stability, inequality, opportunity and prosperity, fiscal monitoring, climate change, how to avoid fiscal breakdown, financial inclusion, and sustaining growth amid rising global risks. At the meetings, the Bank of Namibia used the opportunity to engage its counterparts in central banking with the aim of strengthening existing bilateral agreements.

## Cooperation with the IMF

**The IMF team visited the Bank in September 2016 as part of its annual surveillance activities under Article IV of the IMF Articles of Agreement.** The team discussed issues pertaining to financial stability, real sector development, the economic outlook, monetary policy and the financial sector, the anti-money laundering and combating of terrorist financing regime, and balance-of-payment developments. Such Article IV consultations allow the IMF to assess the economic health of each country and to forestall future financial problems. The IMF team's subsequent Article IV report highlighted that Namibia's gross domestic product (GDP) growth had exceeded 5 percent since 2010, despite being a small commodity-dependent economy that was exposed to external shocks such as low commodity prices and slowdown in the South African economy. Nonetheless, the report raised concern about the expansionary fiscal policy of the last four years, i.e. 2013–2016, high unemployment, high income inequality, overvalued housing prices, strong credit growth, and increased household indebtedness in the economy.

**Staff members of the Bank attended training courses offered by the IMF in 2016.** Through its collaboration with the Regional Technical Assistance Center (RTAC) in Southern Africa (AFRITAC South – AFS), the IMF provided fully-funded training workshops in the following areas, among others: financial stability, stress-testing in banks, monetary policy and exchange rate regimes, macroeconomic management and fiscal policy, monetary policy communication, government compensation and employment.

**The IMF also offered technical assistance to the Bank in the areas of monetary and financial statistics.** The IMF statistics team provided the Bank with technical assistance in respect of collecting data on other financial corporations such as pension funds and insurance companies, as per the given benchmarks for these bodies. The Bank made significant progress in collecting data on other financial corporations, as per benchmarks for such entities.

## Cooperation with the WBG

**Bank of Namibia continued to benefit from WBG technical assistance and training in 2016.** In May 2008, the Bank had entered into an investment management and consulting agreement with the WBG, under its Reserves Advisory and Management Program. In terms of this Program, the Bank receives certain technical advisory and asset management services. In 2016, the Program team provided on-site training on

the implementation of the WBG's Portfolio Analytics Tool 3 (PAT3), which equips risk managers with portfolio analytics software. Bank staff also attended a number of training workshops related to strategic asset allocation during the review period. In addition, a number of staff continued to benefit from fully funded Chartered Financial Analyst training and examination.

## Cooperation with the Alliance for Financial Inclusion

**The Bank maintained its membership of the Alliance for Financial Inclusion during the year under review, and continued benefiting from the Alliance's activities and programmes.** The Alliance is a world leader in financial inclusion policy and regulation, as well as being a member-owned network that promotes and develops evidence-based policy

solutions that help to improve the lives of the poor. The Bank participates in the Alliance's activities as a primary member. Among other things, the reporting year saw the Bank providing input into a database that tracks members' progress towards achieving financial inclusion goals.

## Bilateral cooperation with other central banks

**Technical assistance that commenced in 2015 with the Sveriges Riksbank – the Kingdom of Sweden's central bank – continued in 2016.** The areas covered include capacity development assistance rendered in the areas of monetary policy communication, financial stability, and banking supervision issues.

**The Bank of Namibia maintained its bilateral collaboration on the Currency Conversion**  
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**Agreement with its Angolan counterpart, the Banco Nacional de Angola, in 2016.** The two central banks continued to share information on the global economic environment and the impact of low commodity prices on their own economies. The two central banks also reflected on developments regarding their Agreement with the aim of ensuring its efficacy.

## Cooperation with the Association of African Central Banks

**The Governor of the Bank of Namibia served as Chairman of the AACB Southern Africa Sub-regional Committee during a two-year tenure that ended in August 2016.** As part of this role, the Bank of Namibia was responsible for coordinating progress on the AACB's African Monetary Co-operation Programme for the Southern Africa Sub-region. The Programme aims to harmonise the AACB's monetary, financial

and payments policies and to enhance monetary cooperation among African countries. In addition, the Bank of Namibia represented the Bureau of the Southern Africa Sub-regional Committee at AACB Bureau Meetings, which precede AACB Annual General Meetings. The Central Bank of Swaziland assumed the Southern Africa Sub-regional Committee chair for the next two-year period, ending in August 2018.

## Cooperation with the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)

**During the period under review, the Bank attended annual meetings of the Board of Governors, which precede IMF and WBG annual meetings.** The Director of the Research Department was appointed to the MEFMI Academic Board in 2016. MEFMI, IMF and WBG collaborate in providing training in areas of Debt Management; Macroeconomic Management and Financial Sector Management.

**The Bank continued its cooperation with MEFMI through participation in its fellowship and training programmes.** One staff member participated in the

Fellows Development Programme in the areas of balance-of-payments collection in terms of compilation and harnessing of remittances data, which commenced in October 2015. Graduate fellows are accredited and become regional experts in their respective areas of specialisation. The duration of the Programme is 18 months; current candidates are expected to graduate in 2017. In respect of MEFMI's training programmes, some members of the Bank attended fully funded workshops in areas such as the balance of payments, and monetary and financial statistics.

## Cooperation with the Committee of Central Bank Governors in SADC

**The Bank of Namibia continued to participate in CCBG activities.** Bank staff participated in two CCBG meetings in 2016, namely in May and October, in which Governors discussed economic and financial developments in the SADC region as well as SADC's

progress towards monetary integration. The CCBG also dealt with important issues such as the SADC Integrated Regional Settlement System (SIRESS), settlement currencies for SIRESS, and a clearing house for low value electronic funds transfers (EFTs).

## Cooperation with Common Monetary Area structures

**The Bank continued participating in CMA meetings during 2016.** In this respect, the Bank participated in three CMA Governors' Meetings, during which Governors exchanged views on economic developments in their respective countries. The revised Multilateral Monetary Agreement among the four member states

was submitted to the South African Treasury for further consultations with members states' National Treasury authorities. In addition, senior treasury officials from the four member states also held a meeting to discuss its content. The Agreement is expected to be discussed by CMA Ministers of Finance in 2017.

## Cooperation with the Southern African Customs Union

**The Bank maintained its participation in SACU activities during 2016.** There were four SACU Commission<sup>4</sup> meetings held in 2016, of which the Bank was represented at two. Among other things, the

meetings discussed matters related to the harmonisation of GDP compilation; trade data reconciliation, finance and audit; the trade facilitation programme; trade-related issues; and administrative issues.

## STRATEGIC OBJECTIVE 8: OPTIMISE ORGANISATIONAL EFFICIENCY AND COST-EFFECTIVENESS

| Initiatives and strategies                                                                                                                                                  | Strategic outcomes                                                                                                                                                                     | Actual outcomes                                                                                                                                                                                                                                                                                                              | Strategic Objective Achieved (Yes/No) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 8.1 Manage risk effectively                                                                                                                                                 | All gaps are identified and mitigating strategies for medium and high risks are implemented within the agreed time frame.                                                              | The 2016 Audit Plan was executed as intended. As per those assignments, sufficient audit coverage was achieved to enable the Bank to express an opinion on its risk management practices, controls and governance processes. The cure rate for the audit findings were 86 percent, which was below the targeted 100 percent. | No                                    |
| 8.2 Ensure that the Bank can function in the event of a disaster (business continuity)                                                                                      | A tested Crisis Management Plan is in place.                                                                                                                                           | The Framework was tested and gaps were identified that have been corrected.                                                                                                                                                                                                                                                  | Yes                                   |
| 8.3 Enhance a high-performance-driven culture which lives the Values of the Bank and strategic talent management                                                            | The Bank achieves all (100 percent) of its goals.                                                                                                                                      | Most of BoN strategic goals were achieved.                                                                                                                                                                                                                                                                                   | No                                    |
|                                                                                                                                                                             | 100% Staff members live the Bank's Values.                                                                                                                                             | Bank's staff were found to be living its Values.                                                                                                                                                                                                                                                                             | Yes                                   |
|                                                                                                                                                                             | 95 percent of the critical talent of the Bank are retained.                                                                                                                            | All the Bank retained 95 percent of its critical staff in 2016.                                                                                                                                                                                                                                                              | Yes                                   |
| 8.4 Manage the Bank's financial resources and affairs in a prudent manner                                                                                                   | The Bank issues unqualified Annual Financial Statements in compliance with the Bank of Namibia Act and International Financial Reporting Standards.                                    | The Bank has consistently obtained an unqualified Audit Report, in compliance with International Financial Reporting Standards.                                                                                                                                                                                              | Yes                                   |
| 8.5 Ensure the functionality, security and availability of facilities, other assets and infrastructure that support the Bank's operations in an environment-friendly manner | There is 97 percent availability and functionality in respect of the facilities, infrastructure and other assets that support the Bank's operations in an environment-friendly manner. | An average of 99 percent availability in respect of Bank assets that support its operations was achieved during 2016.                                                                                                                                                                                                        | Yes                                   |
|                                                                                                                                                                             | The Bank's security system is 100 percent functional.                                                                                                                                  | The security system was 100 percent functional in 2016.                                                                                                                                                                                                                                                                      | Yes                                   |
|                                                                                                                                                                             | Initiatives are taken to reduce the Bank's carbon footprint.                                                                                                                           | A successful energy awareness campaign was completed in 2016; its impact will be monitored in 2017.                                                                                                                                                                                                                          | Yes                                   |

| Initiatives and strategies                                                                                        | Strategic outcomes                                                                                 | Actual outcomes                                                                                             | Strategic Objective Achieved (Yes/No) |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 8.6 Provide relevant, secure, dependable and efficient information technology (IT) to improve business operations | There is 99.9 percent availability of IT systems.                                                  | IT systems' availability registered at 99.6 percent for 2016.                                               | No                                    |
|                                                                                                                   | The degree of IT security achieved is equivalent to maturity level 3.5.                            | The maturity level of IT security increased from 2.25 to 2.95 in 2016                                       | No                                    |
| 8.7 Employ efficient procurement practices.                                                                       | Procurement practices that result in cost savings and reduced procurement cycle time are in place. | Marginal cost savings were achieved. More initiatives towards achieving this goal will be explored in 2017. | Yes                                   |

## Risk management and assurance

**The Bank's risk management function facilitates enterprise risk management practices across the board, in order to manage risks in a proactive, coordinated, prioritised and cost-effective manner.**

In 2016, the Bank received an average Level 3 maturity rating through an independent maturity review. This rating places the Bank at a *Top down* level of maturity<sup>5</sup>. The reporting of operational risk incidents improved, with a total of 28 being reported for 2016 (2015:15). Actual financial losses incurred as a result of these incidents amounted to N\$765,193. Remedial actions to address, wherever possible, the root causes of the incidents in question were defined and are being taken. The Bank's risk universe and risk tolerances are also being developed. These will assist the Bank in gaining a better understanding of the inherent risks it faces, while the tolerances will help ensure that risk-taking is effected within Board-approved limits. The top strategic and operational risks and their identified response strategies continued to be monitored at the Bank's quarterly Risk management and Audit Committees.

**The risk relating to the Bank's repayment of obligations emanating from the implementation of the Angola Trade facilitation and its Currency Conversion Agreement with its Angolan**

**counterpart, the Banco Nacional de Angola, were also monitored during the reporting period.** These efforts resulted in an accelerated repayment plan which has since become part of a revised agreement. The acceleration was a prudent risk-mitigation measure as changes to economic conditions in Angola and global oil prices, could potentially affect the repayment pattern. So far, the Banco Nacional de Angola has honoured the repayments: since the Agreement's inception in 2015, US\$120 million has been paid towards the obligation. Of this amount, US\$80 million was for 2016 alone. By the end of the reporting period the total outstanding obligation amounted to US\$306 million.

**Business continuity management at the Bank continues to improve from year to year.** During the review period the Bank conducted a business continuity simulation exercise to prepare for responses to significant disruptions to its most urgent (critical) business processes. The lessons learnt from the 2015 simulation exercises were implemented, which resulted in a good outcome for the 2016 simulation: all time-critical processes were able to operate at the disaster recovery site for at least one day. However, the recovery time objectives were not met for all systems, with the exception of the EFT system. The main cause identified

for not meeting these objectives involved replication challenges. An awareness was done for the Crisis management team during October 2016. Actions defined as a result of the simulation and the crisis team exercise will be monitored for implementation. In addition, two disaster recovery tests were conducted in respect of the NISS.

**The Bank-wide compliance management process was strengthened by having a detailed procedure in place, identifying compliance champions and clarifying the role of compliance facilitation.**

Implementation of the Anti-money-laundering Policy is also in progress, with suspicious transactions being monitored and suspicious activities being reported. The acquisition of a monitoring tool is being investigated as well.

**The internal audit function provides independent and objective assurance on the adequacy and effectiveness of the Bank's control and**

**governance processes.** The approved Internal Audit Plan for 2016 provided comprehensive assurance over these processes, which manage key risks. This was undertaken as planned, and any material issues that arose were reported to the appropriate level of management and to the Board's Audit Committee. As per the completed assignments, sufficient audit coverage was achieved. This coverage enabled the Bank to express an opinion that it had adequate and effective risk management practices, controls and governance processes in place.

**The tracking and accountability for corrective actions on issues raised during audits was prioritised by way of quarterly reporting to the Audit Committee in respect of the Bank-wide cure (resolution) rate.** The cure rate results for November were 86 percent (2015: 88 percent), which is still below the desired target of 100 percent.

## Staffing and human resource developments

### Staffing

**The Bank achieved significant milestones in 2016 by ensuring that it had an adequate staff complement, with the right people in the right positions, willing and able to contribute towards executing the Bank's mandate.** The staff complement as at 31 December 2016 was 300 employees. This means 37 fewer posts than the approved establishment

of 337 were filled. The discrepancy was attributed to vacancies resulting from retirements, promotions and resignations during the year under review (Table A.12). In addition, the Bank took a strategic decision not to automatically fill vacant positions, but only to do so where there was a critical need; hence, a number of the positions remained vacant in 2016.

**Table A.12: Number of staff as at 31 December 2016**

| Staff category                                 | 2012       | 2013       | 2014       | 2015       | 2016       |
|------------------------------------------------|------------|------------|------------|------------|------------|
| General staff                                  | 278        | 271        | 257        | 269        | 265        |
| Management<br>(excluding Executive Management) | 34         | 33         | 32         | 32         | 33         |
| Executive Management                           | 3          | 3          | 2          | 2          | 2          |
| <b>Total employed</b>                          | <b>315</b> | <b>307</b> | <b>291</b> | <b>303</b> | <b>300</b> |

### Employment equity

**The Bank continued to comply with the requirements of the Affirmative Action (Employment) Act, 1998 (No. 29 of 1998).** In this regard, the Bank ensured that all its policies and practices were aligned to affirmative action requirements and guidelines. The Bank consistently followed through on its three-year Employment Equity Plan, which runs from 2016 to

2018. During the reporting year, the Bank met – and, in some instances, exceeded – its employment equity targets. The Affirmative Action and Employment Equity Commission therefore duly awarded the Bank with a certificate of compliance for 2016.

**The current total workforce profile for the Bank's 300 permanent employees was as follows at the end of December 2016 (Table A.13):**

- A total of 288 (96 percent) of the Bank's employees are representative of the designated groups. Female representation totalled 164 (55.0 percent).

- A total of 27 new employees were recruited, of whom 44.0 percent were female. Two of the 12 new female employees were appointed at management level.

**Table A.14: Employment equity data, 2012–2016**

| Workforce                 | 2012       | 2013       | 2014       | 2015       | 2016       |
|---------------------------|------------|------------|------------|------------|------------|
| Male                      | 161        | 153        | 140        | 144        | 136        |
| Female                    | 154        | 154        | 151        | 159        | 164        |
| Racially disadvantaged    | 301        | 297        | 282        | 291        | 288        |
| Racially advantaged       | 9          | 5          | 4          | 6          | 6          |
| Persons with disabilities | 4          | 4          | 5          | 6          | 6          |
| Non-Namibians             | 1          | 1          | 0          | 0          | 0          |
| <b>Total</b>              | <b>315</b> | <b>307</b> | <b>291</b> | <b>303</b> | <b>300</b> |

## Capacity development

**The Bank continued to invest in building capacity among its employees in order to enable them to accomplish the Bank's mandate as articulated in its Strategic Plan.** In 2016, altogether 69 employees were trained in various aspects of central banking. In addition, a number of employees were provided with technical and soft skills training interventions in leadership, effective management and accountability. The need for soft skills training was identified from staff performance appraisals as well as by the development needs identified and proposed by supervisors and managers.

**The Bank continued to invest in education by granting bursaries to Namibian learners as well as bursaries or loans to deserving staff members who consistently met their performance goals so that they could pursue undergraduate degrees in areas relevant to the operations of the Bank.**

For the period under review, 5 staff members received bursaries for undergraduate studies, while 19 were awarded study loans. The Bank also sponsored four staff members who were registered for Master's degrees at internationally recognised universities. Three other sponsored staff members completed their Master's degrees in IT, Risks Management and in Commerce, respectively. Their respective specialisations were governance, organisation management and financial crime. The reporting year also saw the Bank award nine new bursaries to Namibian school-leavers to study at recognised institutions within the SADC Region in the fields of Accounting/Finance, Computer Science/IT, Economics, Actuarial Science, and Education (Accounting and Science). A total of 43 percent of bursary recipients were female. The Bank provided altogether 28 undergraduate bursaries in 2016 (Table A.15).

**Table A.15: Namibian students sponsored by the Bank's Bursary Scheme, 2016**

| Field of study                     | Number of students |
|------------------------------------|--------------------|
| Accounting/Finance                 | 13                 |
| Computer Science/IT                | 2                  |
| Economics                          | 8                  |
| Actuarial Science                  | 1                  |
| Education (Accounting and Science) | 4                  |
| <b>Total</b>                       | <b>28</b>          |

**The Graduate Accelerated Programme, which was introduced in 2011, continued to progress well in 2016.** The purpose of the Programme is to provide graduates in the areas of banking, economics and finance the opportunity to gain relevant work experience in various aspects of central banking over a period of 18 months. The Programme is designed to stimulate interest and innovation in finance and banking as well as related areas, and to facilitate framework shifts with all participants toward excellence. The Programme for 2016 proved to be very successful, with one of the six candidates securing permanent employment with the Bank. The remaining five candidates are due to complete the programme in August 2017. The next intake will be in February 2018.

**In 2016, the Bank also provided various in-house training courses in advanced project management, industrial relations, advanced supervisory skills, leadership development and plain language.** The training is meant to equip managers and staff with the necessary competencies aimed at contributing to superior performance. It also aims to create awareness of the role of the central bank in the economy. The technical training, which covered all mission-critical areas relevant to the Bank's operations, enhanced accountability awareness and improved the staff's technical competencies, thereby bridging performance gaps.

## Organisation development and workplace culture

**The Bank continued to motivate its staff through targeted interventions that develop and strengthen the Bank's Vision of being a Centre of Excellence.** Through these interventions, the Bank fosters a culture of diversity by focusing on interpersonal and inter-group communication, and uses relationship-building activities to inculcate the Bank's culture drive for excellence in the workplace. Such sessions strive to instil the Bank's Values and to ensure that all staff are conversant with its Vision and Mission. This initiative was further consolidated through various team-building sessions and one breakaway session with the Governor for new employees. Other ongoing leadership development and coaching sessions complemented these efforts.

**In the course of the reporting year, staff performance was managed and tracked to ensure employees remained optimally engaged.** Staff members' work lives were assessed in respect of their deployment of the Bank's Values with a view to ensuring that the desired Bank culture remained intact and that staff continued to live the Bank brand.

**An appropriately designed Wellness Programme is an important component in any organisation – and the Bank is no exception in this regard.** During 2016, the Bank's Wellness Programme continued to impact Bank staff's work/life balance through awareness and knowledge sessions on issues such as effective stress management, emotional wellness, HIV/AIDS,<sup>6</sup> and financial coaching. Staff also took advantage of various other individual consultations and counselling sessions that were offered.

**Bank staff benefited from the relevant wellness inputs in respect of issues such as general health and safety.** Staff members working in sensitive such as cafeteria and note sorters underwent routine occupational general health check-ups. Staff members were also regularly updated on issues such as rubella (German measles), measles, the Zika virus and yellow fever. Some 65.0 per cent of staff were voluntarily immunised against the rubella and measles viruses. Wellness activities will continue to focus on preventative interventions to deal with potential health risks, and work related stress caused by work pressure.

**The Bank engages in benchmarking activities with various institutions in Namibia and outside the country with a view to stimulate innovation as well as to enhance business efficiencies and organisational effectiveness.** During 2016, various Departments benchmarked with identified institutions internationally and implemented what could be learnt from the experience of others in order to improve and enhance their own business practices and processes. In 2016, the project to map and enhance business processes was completed and signed off. Based on this business processes management exercise, all the job descriptions in the Bank were reviewed and analysed to ensure resources were being deployed and used optimally. The job evaluation project is expected to be completed by May 2017.

**In 2016, the Bank also revised the terms of reference of the Benchmarking Committee to include a comprehensive drive to stimulate innovation and improve efficiencies.** The Innovation and Efficiency

**6** Human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS).

Committee with a renewed terms of reference was formed to oversee and drive all benchmarking initiatives at the Bank, and to ensure innovation and central banking business progress. To this end, the benchmarking budgets for 2017 were finalised and the Business Processes Improvement and Re-engineering

Project was initiated. Another milestone reached during the reporting period was the completion of a succession management pilot study. The Succession Management Project will be rolled out progressively in the next few years to include all the relevant posts in the Bank's organisational structure.

## FINANCIAL MANAGEMENT

**An examination of the Bank's liabilities gives a good indication of the sources of funds with which**

**it sustains its operations.** These funds are reflected in Table A.16.

**Table A. 16: Composition of monthly average liabilities of the Bank of Namibia**

| Financial year                | 2012          | 2013          | 2014          | 2015          | 2016          |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>N\$ million</b>            |               |               |               |               |               |
| Capital and reserves          | 1 798         | 3 165         | 4 018         | 5 123         | 7 384         |
| Currency in circulation       | 2 332         | 2 864         | 3 385         | 3 929         | 4 044         |
| Government deposits           | 7 328         | 6 975         | 3 556         | 3 510         | 6 635         |
| Bank deposits                 | 1 790         | 1 950         | 2 513         | 2 259         | 3 396         |
| Other                         | 1 804         | 2 134         | 3 155         | 5 440         | 11 677        |
| <b>Total</b>                  | <b>15 052</b> | <b>17 088</b> | <b>16 627</b> | <b>20 261</b> | <b>33 136</b> |
| <b>Percentage composition</b> |               |               |               |               |               |
| Capital and reserves          | 11.9          | 18.5          | 24.2          | 25.3          | 22.3          |
| Currency in circulation       | 15.5          | 16.8          | 20.4          | 19.4          | 12.2          |
| Government deposits           | 48.7          | 40.8          | 21.4          | 17.3          | 20.0          |
| Bank deposits                 | 11.9          | 11.4          | 15.1          | 11.1          | 10.2          |
| Other                         | 12.0          | 12.5          | 19.0          | 26.9          | 35.3          |
| <b>Total</b>                  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  |

**The sources of Bank funds increased in 2016.** One of the main contributing factors to this increase can be attributed to the increase in Other Deposits. Other Deposits increased from N\$5.4 billion in 2015 to N\$11.7 billion in 2016. As a percentage of liabilities, average Other Deposits increased from 26.8 percent in 2015 to 35.3 percent during 2016. A significant portion of this increase in Other Deposits can be attributed mainly to the Asset Swaps arrangements (GIPF & Nampower Swaps). Average Capital and Reserves, Currency in circulation, Government Deposits and Bank Deposits in absolute terms also increased moderately in 2016.

**Table A.17 presents a few major categories of the Bank's assets.** As a central bank, it is typical that the bulk of the Bank's assets consist of foreign investments. The Bank's foreign investments balances remained relatively constant until 2014. However, financial years 2015 and 2016 showed notable increases. The value of average foreign investments significantly increased from N\$18.6 billion in 2015 to N\$27.7 billion in 2016, which represents 48.9 percent increase over last year. The reason for this increase observed is primarily attributed to increases in the IMF Quota subscriptions for Namibia and to the Asset Swap arrangements with GIPF and Nampower entered into in order to enhance Namibia's foreign reserve stocks.

**Table A. 17: Composition of Bank assets per monthly average**

| Financial year         | 2012          | 2013          | 2014          | 2015          | 2016          |
|------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>N\$ million</b>     |               |               |               |               |               |
| Foreign investments    | 14 334        | 16 253        | 15 859        | 18 594        | 27 687        |
| Loans and advances     | 42            | 48            | 82            | 131           | 342           |
| Fixed assets           | 247           | 311           | 306           | 297           | 309           |
| Other assets           | 429           | 476           | 380           | 1 239         | 4 798         |
| <b>Total</b>           | <b>15 052</b> | <b>17 088</b> | <b>16 627</b> | <b>20 261</b> | <b>33 136</b> |
| Percentage composition |               |               |               |               |               |
| Foreign investments    | 95.2          | 95.1          | 95.4          | 91.8          | 83.6          |
| Loans and advances     | 0.3           | 0.3           | 0.5           | 0.6           | 1.0           |
| Fixed assets           | 1.6           | 1.8           | 1.8           | 1.5           | 0.9           |
| Other assets           | 2.9           | 2.8           | 2.3           | 6.1           | 14.5          |
| <b>Total</b>           | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  | <b>100.0</b>  |

**As outlined in Table A.18, the Bank's total income increased in 2016 when compared to 2015 financial year.** Interest earnings increased mainly due to higher average Rand holdings observed in 2016. In addition,

market valuation gains on our investment portfolios also contributed to the increase in total income in the 2016 financial year.

**Table A. 18: Sources of Bank income**

| Income component         | 2014        |             | 2015        |              | 2016        |             |
|--------------------------|-------------|-------------|-------------|--------------|-------------|-------------|
|                          | N\$ million | Percent     | N\$ million | Percent      | N\$ million | Percent     |
| Interest received        | 366.2       | 60.8        | 324.6       | 64.3         | 435.3       | 72.1        |
| less: Interest paid      | (124.6)     | (20.7)      | (88.9)      | (17.6)       | (174.2)     | (28.9)      |
| Net interest earned      | 241.6       | 40.1        | 235.7       | 46.7         | 261.1       | 43.2        |
| Net realised gain/(loss) | 102.2       | 17.0        | (33.9)      | (6.7)        | 12.8        | 2.1         |
| Rand seigniorage         | 217.6       | 36.1        | 260.3       | 51.6         | 296.5       | 49.1        |
| Other income             | 41.2        | 6.8         | 42.4        | 8.4          | 33.6        | 5.6         |
| Total income             | 602.6       | 100.0       | 504.5       | 100.0        | 604.0       | 100.0       |
| <b>Annual % change</b>   | <b>n/a</b>  | <b>68.0</b> | <b>n/a</b>  | <b>-16.3</b> | <b>n/a</b>  | <b>19.7</b> |

**Since the Bank maintains strict control over all expenditure and works within the budget constraints approved by the Board, it is possible to contain and manage operating expenses (see Table A.19).** Other operating expenses makes up the Bank's largest expenses during 2016, followed by staff costs. Other operating costs increased from N\$ 78.0 million in 2015 to N\$163.0 million in 2016 due to increases in major accounts such as municipal charges, maintenance, subscriptions, management fees, etc.,. Salaries and related personnel costs decreased by

13.9 percentage due to the costs of the Financial Intelligence Centre that were separated from the Bank during the 2016 financial year as well as the reduction in the Post-Retirement Medical Aid (PRMA) provision. In addition, depreciation charge increased significantly from negative N\$2.4 million in 2015 to N\$22.5 million in 2016. The negative depreciation recorded in 2015 arose from the residual value adjustments performed on assets. Currency expenses also went down due to a decrease in the issuance of new currency, hence reduced the amortisation cost of currency.

**Table A. 19: Composition of the Bank's operating costs**

| Cost component           | 2014        |         | 2015        |         | 2016        |         |
|--------------------------|-------------|---------|-------------|---------|-------------|---------|
|                          | N\$ million | Percent | N\$ million | Percent | N\$ million | Percent |
| Staff costs              | 168.5       | 54.2    | 192.8       | 56.3    | 166.0       | 40.7    |
| Currency expenses        | 44.4        | 14.3    | 74.3        | 21.7    | 56.4        | 13.8    |
| Depreciation charges     | 18.4        | 5.9     | (2.4)       | (0.7)   | 22.5        | 5.5     |
| Other operating expenses | 79.5        | 25.6    | 78.0        | 22.8    | 163.0       | 40.0    |
| Total operating expenses | 310.8       | 100.0   | 342.7       | 100.0   | 407.9       | 100.0   |
| Annual % change          | n/a         | 3.2     | n/a         | 10.3    | n/a         | 19.0    |

## FACILITIES MANAGEMENT

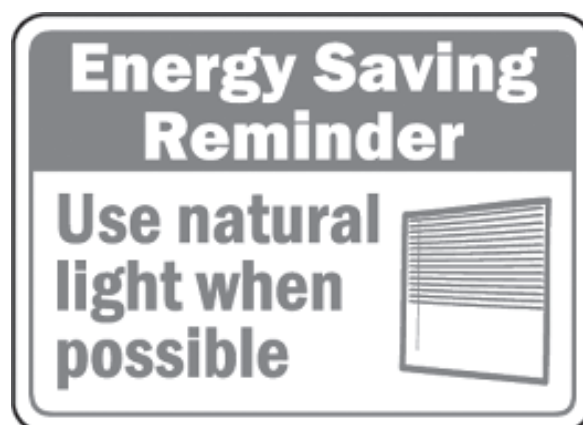
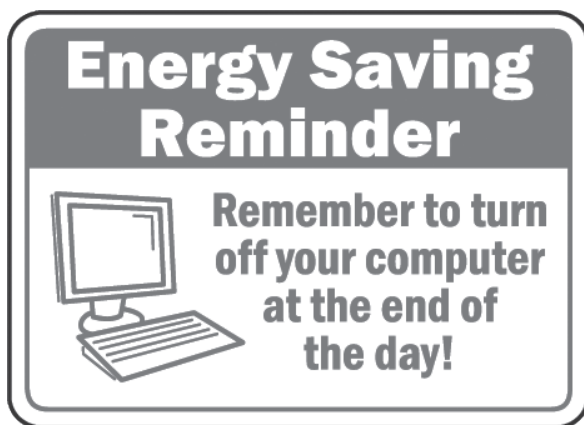
**Facilities management, which is an interdisciplinary field devoted to the coordination of all business-support services, is of strategic importance to the Bank.** The Bank's facilities management function can be defined as the integration and alignment of non-core services required to operate and maintain the Bank to fully support its core objectives. The facilities management function includes infrastructure development, general repairs and maintenance, fire safety, utility services and business continuity.

**In 2016 the Bank focused on three projects to maintain and enhance its facilities.** These involved launching the Green Initiative Project, upgrading the air-conditioning system and repairing the parking garage floor.

- **The Green Initiative Project:** This is a long-term project aimed at identifying potential opportunities through which the Bank of Namibia can realise substantial reductions in energy consumption and thus reduce its carbon emission footprint. Following the successful completion of the first phase of the Green Initiative Project which entailed the carrying out of an energy audit on the Head Office building in 2015, a Bank wide energy awareness campaign was carried out during the month of August 2016 to sensitise the Bank staff on how to use electrical energy more efficiently. Emphasis was placed on the switching off of lights that are not in use and to encourage the use of natural light. The starting and

stopping times of the HVAC (heating, ventilation air conditioning) system were also adjusted to ensure that the HVAC system only ran when the building is occupied. Consumption of energy data is being collected after these adjustments to assess the energy saving being realised at the end of 2017. The Bank will continue to explore areas in which greater energy savings can be realised through the Green initiative project.

- **Optimisation of the Bank's air-conditioning system:** This is a component of the Air-conditioning Upgrade Project. The optimisation exercise entails installing 24-V Rickard diffusors throughout the Bank building because the existing diffusors have become less efficient as they have aged. The new diffusors should improve the circulation of ventilated air in the building. It was decided that installations would be done one floor at a time each year. Thus, installations on Floor 1 were completed on 22 December 2016, while those on Floor 2 should be completed in 2017.
- **Headquarters Parking Garage Floor Repair Project:** This Project was intended to lift the parking floor at areas where it has sagged. The Bank was advised by the consultant that the floor would not sag further and that any repairs to it would be cosmetic at best. The Project was therefore discontinued during the reporting period.



*Energy awareness campaign aimed at reducing the Bank's carbon footprint*

#### *Air-conditioning Upgrade Project*



*Old diffusors*



*New energy-efficient diffusors installed on Floor 1*

# INFORMATION TECHNOLOGY

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## IT governance initiatives

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**The final and concluding period of the five-year IT Master Plan was reached in 2016.** In 2012, the IT Department set out seven strategic themes, which in turn had around 70 sub-activities planned. The Bank has since managed to satisfactorily complete about 46 of these sub-activities, representing an execution success rate of approximately 65 percent. Of the original 70 sub-activities, 10 were either cancelled entirely or largely behind schedule due to various constraints, while 14 were still in progress by the end of the reporting period.

**The Bank finalised its top five focus areas for technology governance.** Following its migration to

the latest technology governance framework (Control Objectives for Information and Related Technology, COBIT 5), the Bank rated its maturity across most of the processes outlined in it. A priority process was undertaken to align resources and focus efforts on the processes that would bring the most value to central banking business. The processes identified include IT risk management, benefits delivery, IT security, availability and capacity management, and business continuity. Implementation of these priority processes began at the end of 2016, and are earmarked for completion over a three-year period.

## IT infrastructure and security developments

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**The Bank improved its IT security maturity steadily during the year under review.** Thus, the maturity level of IT security increased from 2.25 to 2.95, based on the older IT governance framework. Nonetheless, this is still below the overall target of 3.5 for the Bank to be comfortable in its operations. To this end, further improvements are planned in this area of focus. The human resources IT security specialty field is also earmarked for attention in the first half of 2017.

**Various security systems were steadily implemented during the year under review.** The Bank saw the implementation of an improved intrusion prevention system, which monitors and assists in counteracting malicious data leaving or entering the Bank. The introduction of hardware and software based data encryption on removable media was also successfully deployed. Various other technologies have

additionally been added to enhance network access controls – all with the aim of improving the Bank's overall security posture during a year of continued cybersecurity incidents and breaches around the world. Two feasibility studies were concluded in 2016 to strengthen the Bank's security posture further in 2017 and beyond.

**The strategic target of systems availability of 99.9 per cent was within reach, but still not achieved during the year under review.** The Bank's Early Warning System, which tracks the availability of systems 24/7, recorded an overall availability throughout the year of 99.55%. This is a steady improvement, given the average of 99.43 per cent recorded for 2015. The main outages registered were on the NPS and the databases infrastructure caused by network challenges, and connectivity to the Oshakati Branch caused by the Bank's Internet service provider.

## Developments in IT business systems

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**The Bank's technology improvements during the year under review have been positive and cost-effective.** The NPS was successfully upgraded to the latest version early in the year without any challenges. Improvements were also observed in better capabilities for disaster recovery testing for the national system.

**The Bank is both a regulator of, and a participant in, the NPS and, as such, needs to comply with the provisions of the Determination on the Efficiency of the National Payment System (PSD-7).** The

Determination became effective on 31 December 2014 and requires improved efficiencies in the NPS, particularly the EFT payment instrument. The Bank therefore initiated the replacement of its EFT System during the year under review to address the provisions of PSD-7. With the bulk of the project completed in 2016, the Bank expects to complete it in 2017. This is in line with the project timelines of Namclear's Enhanced EFT Project coordinated by the Payment Association of Namibia.

**The Bank conducted two mini-studies to look into the way information is handled with its internal and external stakeholders.** The first study examined how the Bank collected information from commercial banks, the frequency at which such collections occurred, and the format in which the information was delivered. The study aimed to enhance the Bank's understanding of the nature of its data needs, and to reduce any potential burden to the commercial banks. These steps would in turn help to improve efficiencies in central banking operations. The second investigation was a feasibility study that looked into centralising various data repositories in the Bank for improved data collection, storage, dissemination and analysis. The key purpose of this study was to improve the Bank's decision-making, with the long-term view of having a single source of information available to the Bank's stakeholders.

**As part of the Efficiency and Innovation Committee's agenda, the Bank saw various improvements in the IT space.** These gains include a revision of a major software agreement between the Bank and one of its solution providers that saw a reduction of costs while observing an increase in services and functionality. The Bank also negotiated its telecommunication services around the country by reducing costs and increasing performance for stakeholders. Finally, the Bank's upgrade of its core payment system brought about significant cost savings that were derived through a cancellation of a hardware service-level agreement that became redundant. The combined efforts of the IT function resulted in a reduction of over N\$870,000 in annual operational costs, while improving efficiencies in all the targeted areas.

## FIVE YEAR HISTORICAL FINANCIAL OVERVIEW

Table A. 20: Balance Sheet comparisons 2012-2016 - N\$'000

|                                         | 31-Dec-12         | 31-Dec-13         | 31-Dec-14         | 31-Dec-15         | 31-Dec-16         |
|-----------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>ASSETS</b>                           |                   |                   |                   |                   |                   |
| <b>Non-current assets</b>               | <b>436 020</b>    | <b>491 316</b>    | <b>460 401</b>    | <b>491 689</b>    | <b>1 868 010</b>  |
| Property, plant and equipment           | 299 628           | 304 926           | 300 937           | 308 534           | 312 109           |
| Intangible assets - computer software   | 8 448             | 5 166             | 2 686             | 7 551             | 6 093             |
| Currency inventory - notes and coins    | 82 382            | 118 711           | 108 831           | 123 450           | 106 759           |
| Loans and advances                      | 45 562            | 62 513            | 47 947            | 52 154            | 1 443 049         |
| <b>Current assets</b>                   | <b>15 109 847</b> | <b>16 086 865</b> | <b>16 437 114</b> | <b>32 303 401</b> | <b>32 346 126</b> |
| Investments                             | 14 612 828        | 15 612 445        | 13 418 719        | 23 557 196        | 24 599 948        |
| Loans and advances                      | 2 529             | 750               | 358 415           | 784 338           | 716 038           |
| Rand Cash                               | 161 233           | 144 499           | 80 645            | 37 779            | 59 212            |
| Other inventory - stationary and spares | 2 189             | 2 195             | 2 211             | 1 926             | 1 947             |
| Other assets                            | 331 068           | 326 976           | 2 577 124         | 7 922 162         | 6 968 981         |
| <b>TOTAL ASSETS</b>                     | <b>15 545 867</b> | <b>16 578 181</b> | <b>16 897 515</b> | <b>32 795 090</b> | <b>34 214 136</b> |
| <b>EQUITY AND LIABILITIES</b>           |                   |                   |                   |                   |                   |
| <b>Capital and reserves</b>             | <b>2 142 630</b>  | <b>3 769 643</b>  | <b>4 525 798</b>  | <b>7 874 483</b>  | <b>7 279 815</b>  |
| Share capital                           | 40 000            | 40 000            | 40 000            | 40 000            | 40 000            |
| General reserve                         | 812 792           | 835 588           | 1 127 638         | 1 197 333         | 1 277 053         |
| Foreign Currency revaluation reserve    | 1 099 415         | 2 688 311         | 3 310 620         | 6 574 092         | 5 851 617         |
| Distribution state revenue fund         | 9 442             | -                 | -                 | -                 | -                 |
| Training fund reserve                   | -                 | -                 | 10 000            | 15 000            | 15 000            |
| Building fund reserve                   | 150 000           | 150 000           | -                 | -                 | 20 000            |
| Development fund reserve                | 25 000            | 25 000            | 35 000            | 43 789            | 43 789            |
| Unrealised gain reserve                 | 5 981             | 30 744            | 2 540             | 4 269             | 32 356            |
| <b>Non-Current Liabilities</b>          | <b>43 846</b>     | <b>55 107</b>     | <b>61 494</b>     | <b>68 535</b>     | <b>55 175</b>     |
| Provision for post-employment benefits  | 43 846            | 55 107            | 61 494            | 68 535            | 55 175            |
| <b>Current Liabilities</b>              | <b>13 359 391</b> | <b>12 753 431</b> | <b>12 310 223</b> | <b>24 852 072</b> | <b>26 879 146</b> |
| Notes and coins in circulation          | 2 773 341         | 3 401 981         | 4 146 558         | 4 510 774         | 4 394 547         |
| Deposits                                | 10 560 075        | 9 299 551         | 8 134 924         | 20 294 533        | 22 452 711        |
| Provision for post-employment benefits  | 890               | 1 199             | 1 295             | 1 470             | 1 453             |
| Trade and other payables                | 25 085            | 50 700            | 27 446            | 45 295            | 30 435            |
| <b>TOTAL EQUITY AND LIABILITIES</b>     | <b>15 545 867</b> | <b>16 578 181</b> | <b>16 897 515</b> | <b>32 795 090</b> | <b>34 214 136</b> |

**Table A.21: Income Statement comparisons 2012–2016 – N\$'000**

|                                               | 31-Dec-12      | 31-Dec-13        | 31-Dec-14        | 31-Dec-15        | 31-Dec-16        |
|-----------------------------------------------|----------------|------------------|------------------|------------------|------------------|
| Interest income                               | 255 833        | 345 506          | 366 247          | 324 608          | 435 251          |
| Interest expense                              | (104 906)      | (91 418)         | (124 569)        | (88 956)         | (174 245)        |
| <b>Net interest income</b>                    | <b>150 927</b> | <b>254 088</b>   | <b>241 678</b>   | <b>235 652</b>   | <b>261 006</b>   |
| Net gains/(loss) on portfolio investments     | (39 301)       | (148 501)        | 102 158          | (33 914)         | 12 784           |
| Net foreign exchange gains/(losses)           | 272 924        | 1 588 895        | 622 309          | 3 263 472        | (722 475)        |
| Rand compensation                             | 190 174        | 214 618          | 217 600          | 260 288          | 296 463          |
| Other income                                  | 20 196         | 38 417           | 41 292           | 42 391           | 33 598           |
| <b>Total income</b>                           | <b>594 920</b> | <b>1 947 517</b> | <b>1 225 037</b> | <b>3 767 889</b> | <b>(118 624)</b> |
| <b>Operating expenses</b>                     | <b>268 200</b> | <b>301 292</b>   | <b>310 827</b>   | <b>342 736</b>   | <b>407 925</b>   |
| <b>Net income for the year</b>                | <b>326 720</b> | <b>1 646 225</b> | <b>914 210</b>   | <b>3 425 153</b> | <b>(526 549)</b> |
| Transfer from/(to) revaluation reserve        | (272 924)      | (1 588 895)      | (622 309)        | (3 263 472)      | 722 475          |
| Unrealised Gain reserve                       | (721)          | (24 763)         | 28 204           | (1 729)          | (28 087)         |
| <b>Net income available for distribution</b>  | <b>53,075</b>  | <b>32 566</b>    | <b>320 105</b>   | <b>159 952</b>   | <b>167 839</b>   |
| <b>Appropriations:</b>                        | <b>53 075</b>  | <b>32 566</b>    | <b>320 105</b>   | <b>159 952</b>   | <b>167 839</b>   |
| General reserve                               | 22 710         | 22 796           | 142 050          | 68 476           | 79 720           |
| Building reserve                              | -              | -                | -                | -                | 20 000           |
| Training fund reserve                         | -              | -                | 10 000           | 5 000            | -                |
| Development fund reserve                      | 5 000          | -                | 10 000           | 10 000           | -                |
| Distribution to State revenue fund            | 15 923         | 9 770            | 158 055          | 76 476           | 68 119           |
| Distribution to State revenue fund (retained) | 9 442          | -                | -                | -                | -                |



# Part C

## Economic and financial developments

### Content

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# SELECTED FINANCIAL AND ECONOMIC INDICATORS

| Indicator                                         | 2012           | 2013           | 2014           | 2015           | 2016            |
|---------------------------------------------------|----------------|----------------|----------------|----------------|-----------------|
|                                                   | Actual         |                |                |                | Estimate        |
| (Annual percentage change)                        |                |                |                |                |                 |
| Real GDP growth                                   | 5.1            | 5.7            | 6.5            | 5.3            | 1.0*            |
| GDP deflator                                      | 12.9           | 8.7            | 6.8            | -0.2           | 6.3*            |
| Consumer price inflation (period average)         | 6.7            | 5.6            | 5.4            | 3.3            | 6.7             |
| Consumer price inflation (end-of-period)          | 6.4            | 4.9            | 4.6            | 3.7            | 7.2             |
| Exports                                           | 12.7           | 24.6           | 11.4           | 3.9            | 15.1            |
| Imports                                           | 33.5           | 19.4           | 21.7           | 14.4           | 0.3             |
| Real effective exchange rate <sup>[1]</sup>       | -3.8           | -4.5           | -8.2           | -4.7           | -1.5            |
| Private sector credit                             | 17.0           | 14.3           | 16.4           | 13.5           | 8.9             |
| Broad money supply                                | 4.1            | 12.8           | 7.8            | 10.2           | 4.9             |
| (In percent of GDP, unless otherwise stated)      |                |                |                |                |                 |
| Investment                                        | 26.7           | 25.1           | 34.2           | 35.3           | 32.0            |
| Public                                            | 7.0            | 6.5            | 7.6            | 8.6            | 7.3             |
| Private                                           | 19.7           | 18.6           | 26.6           | 26.7           | 24.7            |
| Savings                                           | 26.7           | 25.1           | 34.2           | 35.3           | 32.0            |
| External                                          | 5.6            | 3.3            | 8.7            | 9.6            | 11.7            |
| Domestic                                          | 21.1           | 21.8           | 25.5           | 25.7           | 20.3            |
| Public                                            | 4.9            | 3.6            | 3.5            | -0.3           | -2.0            |
| Private                                           | 16.2           | 18.2           | 22             | 26.1           | 22.3            |
| <b>Public Finance</b>                             |                |                |                |                |                 |
| Overall government deficit <sup>[2]</sup>         | -0.1           | -3.8           | -6.2           | -8.3           | -6.3            |
| Public debt outstanding                           | 24.6           | 24.3           | 23.2           | 37.8           | 40.7            |
| Public guaranteed debt outstanding                | 2.0            | 3.6            | 3.4            | 4.9            | 5.5             |
| <b>External Sector</b>                            |                |                |                |                |                 |
| Current account balance                           | -5.5           | -4.0           | -7.5           | -13.5          | -11.8           |
| excluding official transfers                      | -17.6          | -16.4          | -21.1          | -26.6          | -22.5           |
| Gross official reserves                           |                |                |                |                |                 |
| In N\$ million                                    | 14 729.2       | 15 709.5       | 13 526.9       | 23 577.2       | 24 720.1        |
| In US\$ million                                   | 1 738.5        | 1 503.3        | 1 170.0        | 1 515.7        | 1 814.5         |
| in months of imports                              | 3.0            | 2.6            | 1.8            | 2.8            | 2.9             |
| External debt <sup>[3]</sup>                      | 32.8           | 38.2           | 32.8           | 57.7           | 54.8            |
| Exchange rate to US\$ (end-of period)             | 8.5            | 10.4           | 11.6           | 15.6           | 13.6            |
| Exchange rate to US\$ (period average)            | 8.2            | 9.7            | 10.8           | 12.6           | 14.7            |
| <b>GDP at current market prices (N\$ million)</b> | <b>106 864</b> | <b>122 749</b> | <b>139 500</b> | <b>146 619</b> | <b>156 111*</b> |
| <b>Fiscal year GDP (N\$ million)</b>              | <b>110 835</b> | <b>126 937</b> | <b>141 280</b> | <b>148 992</b> | <b>158 615*</b> |

\* The Bank estimates and projections contained in this table and in the Real Sector Developments section (Page 122-130) should be viewed as preliminary and is subject to some revisions as more data become available. For historical data on economic growth the Namibia Statistics Agency provides the official record in its annual and quarterly national accounts publications.

**[1]** A decrease in Real Effective Exchange Rate index means that the national currency depreciated, reflecting a gain in the competitiveness of the Namibian products on the international market. An increase in the index on the other hand, represents an effective appreciation of the national currency, indicating a loss in competitiveness of the local products on the international market.

**[2]** These are fiscal year data, starting from the 2012/13-2016/17 financial year.

**[3]** Includes government, parastatals and private sector debt

# SUMMARY OF ECONOMIC AND FINANCIAL DEVELOPMENTS

**Global economic growth was slightly weaker in 2016, compared with 2015.** Following the global financial crisis in 2008, the world economy is still struggling to regain momentum. The economic growth rate in the advanced economies is estimated to have moderated, while that of emerging market and developing economies (EMDEs) remained weak in 2016. The lower estimated growth in advanced economies was due to weak investment and slow productivity growth. EMDEs were adversely affected by the sluggish growth in advanced economies, tighter financial conditions, and low commodity prices. Exporters of oil and other key commodities were hit particularly hard.

**In 2016, global financial market was volatile, following the UK's vote to leave the European Union and the outcome of the US presidential elections.** While the British Pound and the currencies of commodity-exporting countries depreciated, the US bond yields rose and the US Dollar appreciated. In addition, there were significant portfolio outflows from EMDEs and weak foreign debt issuance in some of those economies.

**Monetary policy stances were generally accommodative in both advanced economies and EMDEs in 2016, while inflation increased in the former, but varied in the latter.** It is worth noting that the central banks of the US and South Africa increased their interest rates during the year under review. Inflation increased in most of the monitored advanced economies, albeit still remaining below targeted levels. On the other hand, inflation rates in some monitored EMDEs such as Brazil, Russia and India declined, while such rates increased in China, South Africa and Angola.

**Domestic economic growth is estimated to have slowed in 2016, compared with 2015.** Growth in the domestic economy is estimated to have slowed to 1.0 percent in 2016, lower than the 5.3 percent recorded in the previous year. The slower performance was mainly attributed to the decline in construction and in mining of diamonds and metal ores, but also due to fiscal consolidation measures in the public sector. Furthermore, the severe drought also impacted negatively on the agricultural sector and the overall performance of the economy.

**Namibia's average inflation rate increased significantly during 2016 compared with 2015, as reflected in all major inflation categories.** The inflation rate averaged 6.7 percent in 2016, higher than the 3.4 percent average registered for 2015. The increase in the overall inflation was reflected in inflation rates for *Housing, water, electricity, gas and other fuels*, which is the largest contributor in the Consumer Price Index. Furthermore, categories such as *Food and non-alcoholic beverages* as well as *Transport* added to high inflationary pressures in 2016, while this was not the case in 2015.

**The Bank of Namibia raised its policy rate twice during 2016.** The Repo rate was increased by 25 basis points at two MPC meetings to 6.75 percent in February, and to 7.00 percent in April 2016, respectively. In line with the changed monetary policy stance, commercial banks subsequently increased their prime lending rates to 10.50 percent in February and to 10.75 percent in April. Meanwhile, growth in broad money supply slowed to 4.9 percent in 2016, compared with 10.2 percent in 2015, mainly due to the decline in net foreign assets (NFA) of other depository corporations, coupled with slower growth in credit extended to the private sector. Thus, growth in NFA contracted by 4.0 percent at the end of 2016 from a positive growth of 13.6 percent at the end of 2015. Growth in private sector credit extended (PSCE) slowed to 8.9 percent at the end of 2016, having dropped from 13.5 percent in 2015. This slowdown was mainly due to lower demand for credit by both the corporate and household sectors.

**The overall liquidity position of the Namibian banking industry moderated during 2016 when compared with the preceding year.** The liquidity balances of the banking industry averaged N\$2.6 billion during 2016, which is slightly lower than the average of N\$2.8 billion during 2015. This moderation was reflected in a decline in NFA of other depository corporations.

**On the fiscal front, Government's overall deficit is estimated to improve both in nominal terms and as a ratio to GDP during the 2016/17 fiscal year, mainly on account of Government fiscal consolidation efforts.** Government's overall budget deficit as a percentage of GDP is estimated to improve to 6.3 percent, which is lower than the 8.3 percent recorded for the 2015/16 fiscal year. This positive step

was mainly attributed to the Government's consolidation efforts. Total Government debt, however, increased to 40.7 percent of GDP during the reporting period, which is higher than the Government debt ceiling of 35.0 percent. Nonetheless, this ratio is expected to decline to 37.7 percent over the period of the current Medium-term Expenditure Framework spanning from 2015/16 to 2017/18. Government loan guarantees as a ratio to GDP rose slightly from 4.9 in 2015 to 5.5 percent at the end of 2016, thus remaining within the set ceiling of 10.0 percent.

**Namibia's external balance recorded a reduced surplus of N\$0.9 billion during 2016, from a surplus of N\$10.0 billion registered in 2015.** This lower surplus was mainly due to decreased capital inflows in the capital and financial account. Meanwhile, the current account deficit improved during the year under review, mainly owing to a significant increase in export earnings relative to import payments. The level of international reserves increased by 4.8 percent to N\$24.7 billion at the end of 2016, from N\$23.6 billion one year earlier. The reserve levels led to a rise in import cover of 2.9 months from 2.8 months in 2015. Namibia's

International Investment Position (IIP) recorded liability position in 2016 compared with the previous year, owing to a decline in foreign assets compared to a marginal growth in foreign liabilities. In addition, both the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) indices for Namibia depreciated on average during 2016, contributing to Namibia's improved external competitiveness in the international market.

**Going forward, notable recovery in commodity prices - such as for copper and zinc - since the latter part of 2016 will help improve economic growth in commodity-exporting countries in 2017.** This will have spillover effects on Namibia through trade. The recovery in commodity prices will improve Namibia's export receipts, given that Namibia is a small, open economy. Nonetheless, downside risks that could negatively affect global growth remain, and include uncertainty regarding the Brexit vote as well as China's ongoing economic rebalancing and associated spillovers, which will negatively affect Namibia's real GDP growth.

# GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

**Global economic growth is estimated to have moderated slightly during 2016, as a result of weak economic activity in key advanced economies.** The advanced economies are estimated to have recorded a lower growth rate in 2016, compared with 2015, on the back of weak investment and slow productivity growth. The US and Europe were characterised by low investment levels and weak productivity growth. Similarly, GDP growth in Japan was estimated to be lower in 2016 on the back of weak exports and investment. A key factor that is likely to shape Europe's political and economic future is the impact of Brexit. Economic growth in EMDEs was weak during 2016, compared to 2015. Brazil and Russia remained in recession in 2016. Growth in China was the weakest since 1990 as consumption and investment slowed. Economic growth in India and South Africa slowed in 2016, compared with 2015. In respect of India, the slowdown in the economy can be explained partly by the temporary negative consumption shock caused by cash shortages and payment disruptions prompted by the currency note withdrawal and exchange rate initiatives implemented during the latter part of the reporting year. In South Africa, weak growth emanated

not only from drought and weak export prices but also from political factors and delays in passing key reforms, which deterred investors and put the country's credit rating at risk.

**Global financial market conditions tightened in 2016, particularly in the EMDEs, following the US elections.** As the election events unfolded, US bond yields rose significantly and the US Dollar appreciated, resulting in the depreciation of some other currencies, portfolio outflows, and weak foreign debt issuance in some EMDEs.

**Advanced economies and EMDEs recorded varied inflation rates in 2016.** Inflation rates increased in the advanced economies, though still falling below official target rates, while they varied among the EMDEs. The inflation rate declined in Brazil, India and Russia, while it increased in Angola, China and South Africa. Monetary policy stances in both advanced economies and EMDEs remained generally accommodative, although in South Africa and the US, monetary authorities raised the benchmark rates.

## OUTPUT GROWTH AND OUTLOOK BY MAIN REGIONS AND ECONOMIC BLOCS

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**The global economy is estimated to have moderated in 2016, compared with 2015, but economic activity in both advanced economies and EMDEs is forecasted to improve in 2017.** Growth in the global economy is estimated to have slowed slightly to 3.1 percent in 2016, from 3.2 percent

in 2015 (Table C.1). Factors that led to this slowdown in growth are stagnant global trade, subdued investment, and increased policy uncertainty. Global growth is, however, expected to improve to 3.4 percent in 2017 on account of an upswing in economic activities in both advanced economies and EMDEs.

**Table C.1: World economic output (annual % change)**

| Economic region                                                  | 2012       | 2013       | 2014       | 2015       | 2016<br>(estimate) | 2017<br>(projected) |
|------------------------------------------------------------------|------------|------------|------------|------------|--------------------|---------------------|
| <b>World output</b>                                              | <b>3.4</b> | <b>3.3</b> | <b>3.4</b> | <b>3.2</b> | <b>3.1</b>         | <b>3.4</b>          |
| <b>Advanced economies</b>                                        | <b>1.2</b> | <b>1.3</b> | <b>1.8</b> | <b>2.1</b> | <b>1.6</b>         | <b>1.9</b>          |
| Eurozone                                                         | -0.7       | -0.5       | 0.9        | 2.0        | 1.7                | 1.6                 |
| Germany                                                          | 0.9        | 0.2        | 1.6        | 1.5        | 1.7                | 1.5                 |
| Japan                                                            | 1.5        | 1.6        | 0.0        | 1.2        | 0.9                | 0.8                 |
| Spain                                                            | 0.3        | -1.2       | 1.4        | 3.2        | 3.2                | 2.3                 |
| UK                                                               | 0.3        | 1.7        | 2.9        | 2.2        | 2.0                | 1.5                 |
| USA                                                              | 2.3        | 2.2        | 2.4        | 2.6        | 1.6                | 2.3                 |
| Other advanced economies                                         | 1.6        | 2.2        | 2.8        | 2.0        | 1.9                | 2.2                 |
| <b>Emerging markets and<br/>Developing Economies<br/>(EMDEs)</b> | <b>5.1</b> | <b>4.7</b> | <b>4.6</b> | <b>4.1</b> | <b>4.1</b>         | <b>4.5</b>          |
| Emerging and Developing Asia                                     | 6.7        | 6.6        | 6.8        | 6.7        | 6.3                | 6.5                 |
| Latin America and the Caribbean                                  | 2.9        | 2.8        | 1.3        | 0.1        | -0.7               | 1.2                 |
| Middle East, North Africa,<br>Afghanistan and Pakistan           | 4.8        | 2.2        | 2.8        | 2.5        | 3.8                | 3.1                 |
| Sub-Saharan Africa                                               | 4.4        | 5.2        | 5.0        | 3.4        | 1.6                | 2.8                 |
| Angola                                                           | 5.2        | 6.8        | 4.8        | 3.0        | 0.0                | 1.5                 |
| Botswana                                                         | 4.8        | 9.3        | 3.2        | -0.3       | 3.1                | 4.0                 |
| Brazil                                                           | 1.0        | 2.5        | 0.1        | -3.8       | -3.5               | 0.2                 |
| China                                                            | 7.7        | 7.8        | 7.3        | 6.9        | 6.7                | 6.5                 |
| India                                                            | 4.7        | 5.0        | 7.3        | 7.6        | 6.6                | 7.2                 |
| Russia                                                           | 3.4        | 1.3        | 0.6        | -3.7       | -0.6               | 1.1                 |
| South Africa                                                     | 2.5        | 2.2        | 1.5        | 1.3        | 0.3                | 0.8                 |
| Zambia                                                           | 6.8        | 6.7        | 4.9        | 3.2        | 3.4                | 4.0                 |
| Zimbabwe                                                         | 10.6       | 4.5        | 3.5        | 1.1        | 1.2                | 1.6                 |

Source: IMF World Economic Outlook, October 2016 and January 2017, Central Banks of respective countries

**Economic activity in the advanced economies is estimated to have slowed in 2016, compared with 2015.**

Developed economies are estimated to have recorded a lower growth rate of 1.6 percent in 2016, from the 2.1 percent recorded in 2015, due to weak investment and sluggish productivity growth. The US GDP is estimated to have recorded lower growth of 1.6 percent in 2016, compared with 2.6 percent in 2015, mainly attributed to weak exports, continued drawdown in inventories, and a deceleration in private investment. The UK's GDP is estimated to have grown by only 2.0 percent, compared with its 2.2 percent growth in the previous year. GDP growth for the Eurozone is estimated to have slowed to 1.7 percent in 2016 in relation to its 2015 pace of 2.0 percent, as both domestic demand and exports lost momentum. Japan's economy is similarly estimated to have registered growth at a lower

rate, namely 0.9 percent in 2016 versus 1.2 percent in 2015, which can be attributed to weak investment and exports. In general, the downside risks to the growth outlook for advanced economies remain: persistent low inflation (or deflation, in some cases), weak private demand, and inadequate progress on reforms.

**Overall economic growth in EMDEs remained weak in both 2015 and 2016.**

According to preliminary calculations, the rate of GDP growth in EMDEs will remain weak at 4.1 percent both these years. For those economies that were experiencing recessions, such as Brazil and Russia, their economic situation improved slightly from their 2015 levels. Thus, Russia's GDP should contract more mildly by 0.6 percent in 2016, compared with its decline of 3.7 percent in 2015 (Table C.1). This could be attributed to the higher levels of output in the

manufacturing industry and a notable recovery in exports as well as firmer oil prices observed during the latter half of 2016. Similarly, the rate of contraction of Brazil's GDP growth is likely to lessen slightly to 3.5 percent in 2016, compared with its 3.8 percent decline in the previous year. The Indian economy, on the other hand, will expand by 6.6 percent in 2016, according to provisional figures, although this is a slower growth rate than the 7.6 percent seen in 2015. As noted previously in this section, the relative retardation can be partly explained by the temporary negative consumption shock as a result of cash shortages and payment disruptions due to the withdrawal of certain bank denominations note and exchange rate initiatives implemented during the latter part of 2016. China's economy kept up its strength in 2016, advancing at a rate of 6.7 percent. Nonetheless, this is a slowdown from the 2015 rate of 6.9 percent, as the Chinese economy shifted further from being driven by investment to one focusing on consumption instead.

**In respect of Namibia's neighbours, economic growth in South Africa and Angola are forecasted**

**to slow in 2016.** In South Africa, the economy is expected to have performed poorly in 2016, with an estimated growth rate of 0.3 percent, compared with 1.3 percent in 2015. The economy faced drought, sluggish export prices and a number of threats emanating from political factors and delays in passing key reforms, which deterred investors and put the country's credit rating at risk. As a remedial measure, in its Medium Term Budget Policy Statement in October 2016 and February 2016 Budget, the South African Government announced further fiscal consolidation despite the economy facing slow growth.

**Similarly, Angola continued to suffer as it had in 2015, from the negative impact of low oil prices in 2016.** Angola's economy faced fiscal challenges and a deterioration in its external position, which affected government investment and the currency. For 2016, therefore, the Angolan economy is expected to remain stagnant, compared with its growth of 3.0 percent in 2015.

## ECONOMIC OUTLOOK FOR 2017

**In its World Economic Outlook update for January 2017, the IMF projected that the global GDP growth rate would pick up in 2017, compared with 2016.** World GDP growth is expected to be 3.4 percent in 2017, which is stronger than the 3.1 percent in 2016. Growth in both the advanced economies and EMDEs, is projected to gain some momentum. This positive outlook is reflected in the gradual normalisation of macroeconomic conditions in countries that are currently experiencing recessions, namely Brazil and Russia. The advanced economies are projected to expand by 1.9 percent in 2017, up from an estimated 1.6 percent in 2016. The IMF expects the US economy to lead this positive momentum, based on an assumption of fiscal

stimulus that could result in a 2.3 percent GDP growth rate for the US in 2017. Similarly, growth in EMDEs is projected to strengthen to 4.5 percent in 2017, from an estimated 4.1 percent in 2016. Risks to the global growth outlook include uncertainty regarding the new US administrations policies and their implications for the global economy as well as underlying vulnerabilities in some large EMDEs. In addition, civil wars and domestic conflicts in parts of the Middle East and parts of Africa as well as protracted effects of the droughts in eastern and southern Africa are some of the factors that could further dampen the global economy.

## MONETARY POLICY STANCE AND INTEREST RATE DEVELOPMENTS

**Advanced economies' inflation rates edged higher, while monetary policy stances remained accommodative in 2016.** As was widely expected, the Federal Reserve hiked the federal funds target rate by 25 basis points in December 2016 to 0.75 percent, hinting at expected improvement in the US economy (Table C.2). In the UK, the Bank of England cut its policy rate by 25 basis points to 0.25 percent; and undertook a number of other initiatives to support the economy,

following the EU referendum. The European Central Bank similarly lowered its refinancing rate by 0.05 basis points to 0.00 percent at the beginning of 2016, and increased its asset purchase programme by 20 billion to 80 billion a month. In addition, its deposit facility rate was cut by 10 basis points to -0.4 percent, the lending facility was lowered by 5 basis points to 0.25 percent, and a new series of long-term loans to banks was announced. The Bank of Japan increased the monetary

base at an annual pace of ¥80 trillion in January 2016 and adopted a benchmark rate of -0.1 percent, with the aim of achieving its inflation target rate of 2.00 percent.

**Table C.2: Latest policy rates in selected economies**

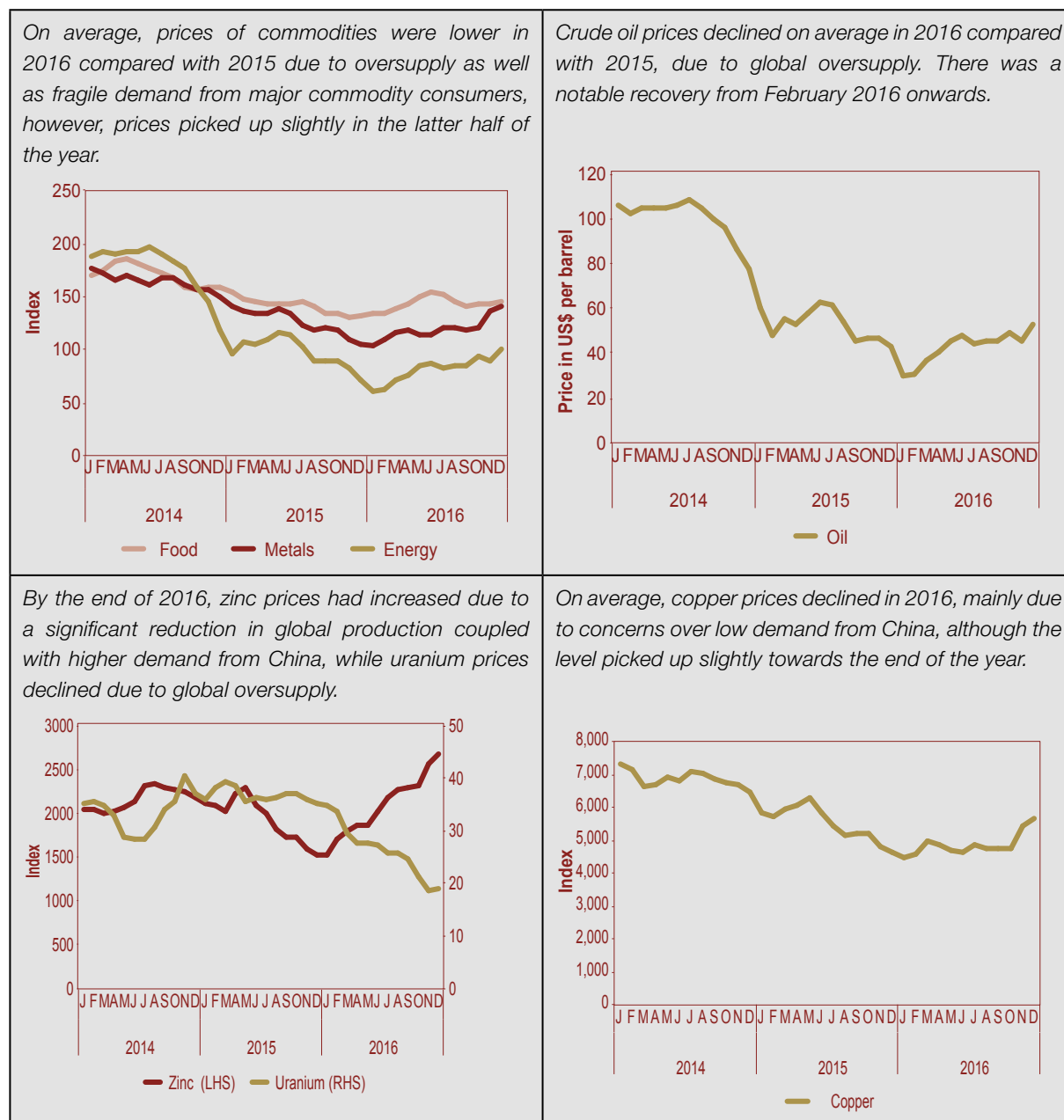
| Countries                 | Policy rate              | Rates at the end of 2016 (%) | Policy rate change for 2016 (%) | Last central bank meeting | December 2016 inflation (%) | Real interest rate (%) |
|---------------------------|--------------------------|------------------------------|---------------------------------|---------------------------|-----------------------------|------------------------|
| <b>Advanced economies</b> |                          |                              |                                 |                           |                             |                        |
| USA                       | Federal funds rate       | 0.50–0.75                    | 0.25                            | December                  | 1.7                         | -0.2                   |
| Canada                    | Overnight rate           | 0.50                         | 0.00                            | December                  | 1.2                         | -0.7                   |
| Australia                 | Cash rate                | 1.50                         | -0.50                           | December                  | 1.3                         | 0.2                    |
| Eurozone                  | Refinancing rate         | 0.00                         | -0.05                           | December                  | 1.1                         | -1.1                   |
| UK                        | Bank rate                | 0.25                         | -0.25                           | December                  | 1.2                         | -1.0                   |
| Japan                     | Call rate                | -0.10                        | -0.20                           | December                  | 0.5                         | -0.6                   |
| <b>BRICS economies</b>    |                          |                              |                                 |                           |                             |                        |
| Brazil                    | Short-term interest rate | 13.75                        | -0.50                           | December                  | 6.3                         | 7.5                    |
| Russia                    | Refinancing rate         | 10.00                        | -1.00                           | December                  | 5.4                         | 4.6                    |
| India                     | Repo rate                | 6.25                         | -0.50                           | December                  | 3.6                         | 2.6                    |
| China                     | Lending rate             | 4.35                         | 0.00                            | December                  | 2.1                         | 2.3                    |
| South Africa              | Repo rate                | 7.00                         | 0.75                            | December                  | 6.6                         | 0.4                    |

**Generally, EMDEs experienced a period of accommodative monetary policy stances in 2016, while inflation rates were divergent in 2016.** External financial conditions improved after the start of 2016, and by December there were signs that macroeconomic distress in some key countries may be easing. The Central Bank of Brazil lowered its benchmark Selic (short-term interest) rate by a total of 50 basis points to 13.75 percent in 2016 on the back of signs of slowing inflation and a severe contraction. In the same vein, the Central Bank of Russia cut its benchmark interest rates by a total of 100 basis points to 11.00 percent to support economic growth, as inflation subsided. Following suit was the Reserve Bank of India, which

lowered its repurchase rate by a total of 50 basis points to 6.75 percent in 2016, in order to support economic growth. In addition, India's inflation declined to below the central bank's target rate of 4 percent (Table C.2). On the other hand, the People's Bank of China's MPC left the benchmark interest rates unchanged throughout 2016. Inflation rates in China followed an upward trend in 2016, ending the year at 2.1 percent on account of high food prices. Bucking this trend was the South African Reserve Bank, which in 2016 increased its repo rate by a total of 75 basis points to 7.00 percent to counteract risks of inflation pressures, despite a worsening economic growth outlook.

# COMMODITY PRICE DEVELOPMENTS AND PROSPECTS

**Figure C.1: Selected commodity prices and price indices in US dollar**



Source: IMF

**The average price indices for metals and energy trended upwards towards the end of 2016, although the prices were on average lower during the reporting period.** Price indices for metals and energy declined by 5.4 percent and 16.5 percent to 119.35 and 81.76 points, respectively, in 2016 in comparison with the 2015 levels. This decline was mainly due to oversupply of these commodities and fragile demand from major commodity consumers, especially China. The appreciation of the US Dollar contributed to weaker commodity prices as well. With regards to energy

prices, the slower recovery could be explained by high stocks in Organisation for Economic Co-operation and Development (OECD) economies, ample global supply, and the continued expectation of slower global demand from big EMDEs. It is, however, worth mentioning that most commodity prices, with the exception of uranium, showed notable recovery during the second half of 2016, and this trend is expected to continue in 2017. The slight decline of 1.9 percent in the food price index to 143.76 points in 2016, relative to 2015, could be

ascribed to the falling prices of cereal, meat and dairy products.

**Crude oil prices rose in 2016, but the average price was still lower than it was in 2015, due to global oversupply.** The average oil price for 2016 was US\$44.05 a barrel, compared to US\$52.40 a barrel in 2015 (Figure C1). Oil prices averaged US\$54.07 a barrel in December 2016, which contrasts sharply with the average of US\$30.80 a barrel in the first half of the reporting period. When excluding any other market surprises, a further recovery of oil prices is expected on account of a reduced oil production by Organization of the Petroleum Exporting Countries (OPEC) member states from the fourth quarter of 2016.

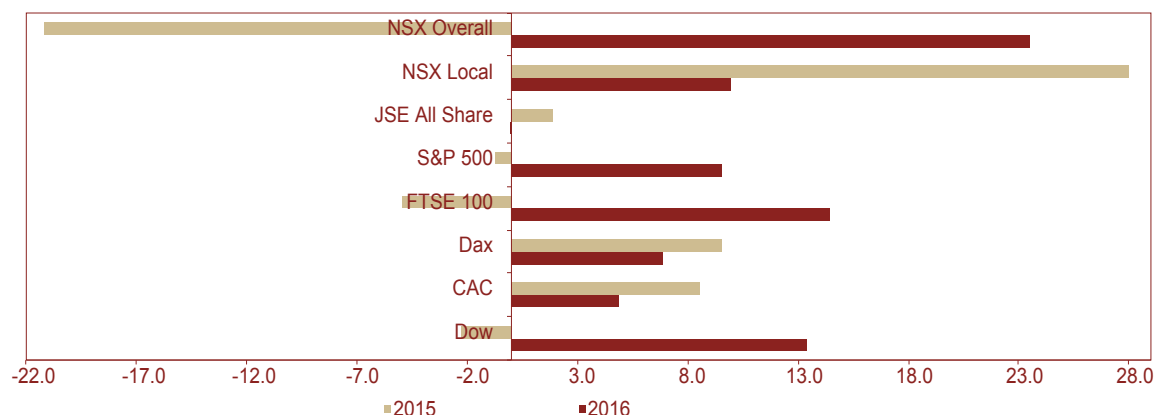
**Prices of copper and uranium declined between 2015 and 2016 while that of zinc increased.** The average price for copper levelled out at US\$4 868 in 2016, compared to US\$5 510 in 2015. The 11.7 percent decline coincided with the ongoing excess supply in the copper market. Similarly, the average price of uranium was US\$26.31 per ounce in 2016, having dropped from the US\$36.74 recorded for the previous reporting year. Uranium prices continued to be depressed mainly due to global oversupply and high inventories. Contrary to this, zinc prices increased by 8.2 percent at the end of 2016 to US\$2 090 per metric tonne, due to a significant reduction in global production and a rise in demand from China.

## DEVELOPMENTS IN FINANCIAL MARKETS

**Most of the stock market indices recorded gains in 2016 in comparison with 2015 figures.** The key factors underpinning these gains were a combination of an improving US economy and interest rates remaining low, which supported global financial markets during

the reporting period. Furthermore, the quantitative easing programmes adopted by major central banks, particularly in advanced economies, supported investment in financial markets (Figure C.2).

**Figure C.2: Annual growth rates in stock markets (% change in indices in USD terms)**



Source: Bloomberg

## WORLD TRADE DEVELOPMENTS

**Global trade volumes have slowed significantly in recent years, and continued in 2016.** The volume of goods and services traded recorded the weakest growth since the financial crisis in 2008. Growth in the world trade volumes declined slightly to 2.3 percent in 2016 from 2.6 percent in 2015 reflecting soft demand from advanced economies, contracting imports from major

commodity exporters and weak investment growth (Table C.3). Growth in imports by advanced economies, slowed from 4.2 percent in 2015 to 2.4 percent in 2016. Likewise growth in exports by advanced economies slowed from 3.6 percent in 2015 to 1.8 percent in the current reporting period. In contrast, the growth of imports by EMDEs improved to 2.3 percent, recovering

from the decline of 0.6 percent recorded for 2015. Also showing positive developments were exports by

EMDEs, which rose by 2.9 percent in 2016 compared with the 2015 increased of 1.3 percent.

**Table C.3: Growth in the volume of world trade (goods and services) 2012–2016 (annual % change)**

|                                                | 2012 | 2013 | 2014 | Actual<br>2015 | Projections |      |
|------------------------------------------------|------|------|------|----------------|-------------|------|
|                                                |      |      |      |                | 2016        | 2017 |
| <b>World trade volume (goods and services)</b> | 2.8  | 3.5  | 3.8  | 2.6            | 2.3         | 3.8  |
| <b>Imports</b>                                 |      |      |      |                |             |      |
| Advanced economies                             | 1.2  | 2.3  | 3.8  | 4.2            | 2.4         | 3.9  |
| EMDEs                                          | 5.5  | 5.3  | 4.5  | -0.6           | 2.3         | 4.1  |
| <b>Exports</b>                                 |      |      |      |                |             |      |
| Advanced economies                             | 2.3  | 3.2  | 3.8  | 3.6            | 1.8         | 3.5  |
| EMDEs                                          | 3.8  | 4.5  | 3.5  | 1.3            | 2.9         | 3.6  |

Source: IMF

## IMPLICATIONS OF GLOBAL DEVELOPMENTS

### **The moderate performance of the global economy in 2016 affected the Namibian economy negatively.**

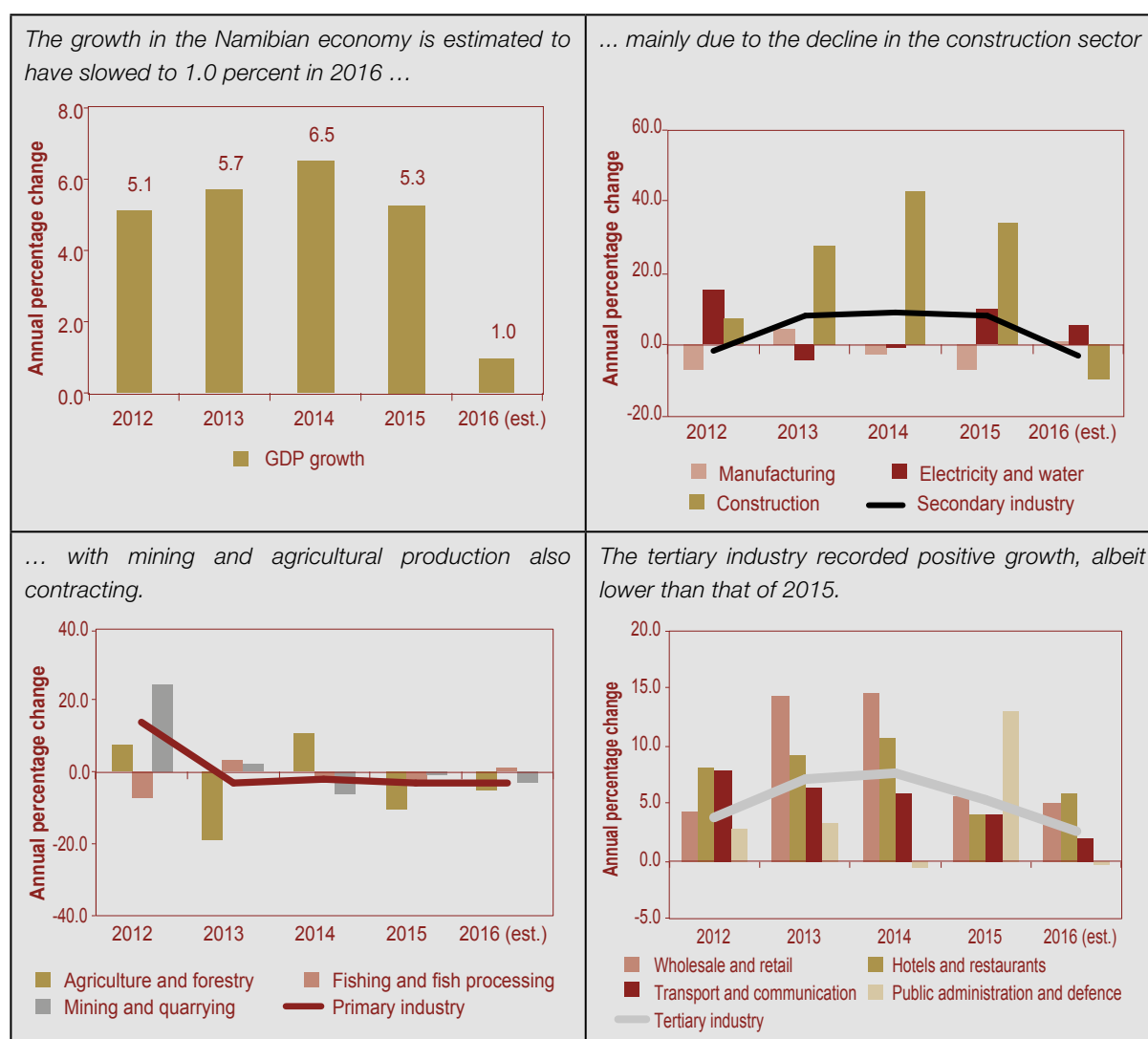
The low prices of commodity exports resulted in a weak rate of exchange between the South African Rand/Namibia Dollar and the US Dollar. The negative sentiments regarding EMDEs in general – and growth in China in particular – are dissipating, as those economies that were experiencing economic recessions showed encouraging recovery in 2016. Going forward, the notable recovery in commodity prices experienced since the second half of 2016, will lift growth in Namibia

in 2017 and expected acceleration in global growth and trade volumes. Nonetheless, risks that could negatively affect growth in the domestic economy remain, such as a continued deceleration of growth in China's economy and dampened price prospects for metal commodities such as copper and uranium. In addition, uncertainty regarding the new US administration's policies, their impact on global trade and economic integration, and the underlying vulnerabilities in some large EMDEs could affect Namibia's exports and overall economic performance.

# DOMESTIC ECONOMIC AND FINANCIAL DEVELOPMENTS

## REAL SECTOR DEVELOPMENTS

**Figure C.3: Real sector developments**



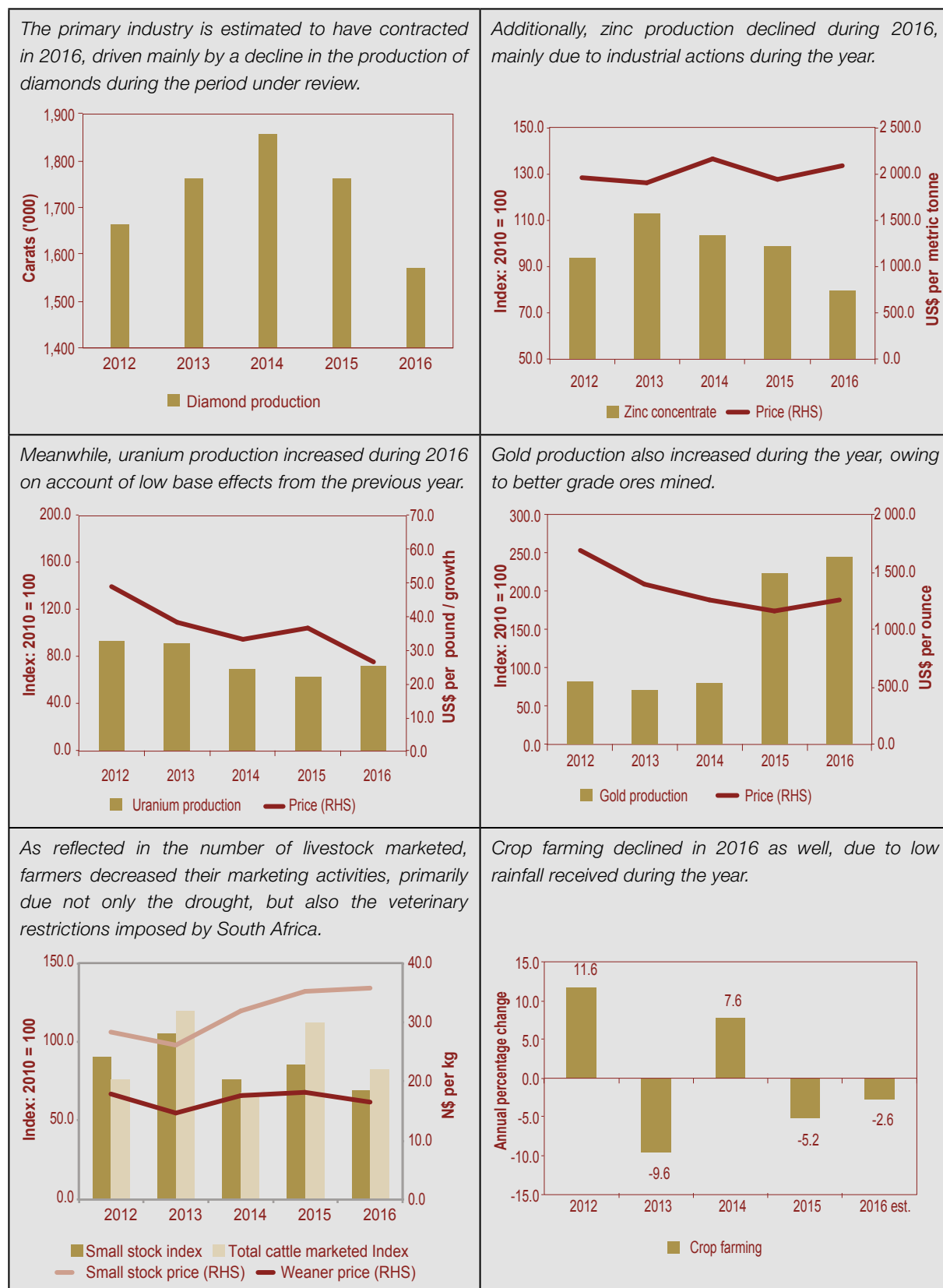
Source: Namibia Statistics Agency for 2011–2015 figures; Bank of Namibia for 2016 estimates

**Domestic economic growth is estimated to have slowed in 2016, compared to 2015.** The economic growth rate is estimated to have slowed to 1.0 percent in 2016, dropping from the 5.3 percent recorded during the previous year (Figure C.3). The diminished

performance was mainly attributable to a decline in construction and mining activities as well as the fiscal consolidation measures in the public sector. The drought also impacted negatively on the agricultural sector and the overall performance of the economy.

## PRIMARY INDUSTRY DEVELOPMENTS

Figure C.4: Primary industry



Source: Mining companies, Meat board of Namibia and Namibia Statistics Agency.

## Mining

**Activities in the mining sector contracted during 2016, relative to the previous year, mainly as a result of lower production of diamonds and zinc concentrate.** Production levels for these two commodities decreased as a result of low-quality carats and ore mined, respectively, during the year under review. The production of diamond and zinc concentrate constitute a combined weight of 63.1 percent of the mining and quarrying sector, in the National Accounts, which explains the slowdown of activities in the mining sector as a whole. In contrast, production of uranium and gold increased during the period under review. Major events in the four principal mining subsectors were as follows for the reporting year:

- **Diamond mining output** declined in 2016, stemming mainly from low-quality carats mined offshore, but also from the time-intensive maintenance of a vessel during the year under review. Thus, diamond production declined by 10.9 percent to 1 571 972 carats during the year under review, compared with the 4.9 percent decline registered in 2015 (Figure C.4).
- **The production of zinc concentrate** fell significantly in 2016, mainly due to lower-grade ore mined and a strike that took place during the early months of the period under review. Production of zinc concentrate showed a sharp 19.2 percent drop to 80 560 metric tonnes compared with 2015's

production levels. Meanwhile, international zinc prices rose during 2016 to an average of US\$2 090 per metric tonne, compared to its 2015 equivalent of US\$1 932. The principal contributor to the rise was a supply deficit in the global market.

- **Uranium production** increased by 15.5 percent to 4 287 metric tonnes during the year under review, compared with the levels produced in 2015. The increase was mainly due to low base effects resulting from operational challenges experienced during 2015. Conversely, compared with 2015, international uranium prices declined significantly by 28.4 percent to US\$26.31 a pound in 2016. This decrease could mainly be attributed to an oversupply of uranium in the global market. Going forward, there are positive prospects of a growing demand for nuclear energy, which is expected to impact favourably on uranium prices.
- **Gold production** increased by 9.9 percent during 2016, compared with production levels in 2015. The rise in production could largely be ascribed to better ore grades mined. Furthermore, international gold prices rose to an average of US\$1 248 per ounce in 2016, up from the average price of US\$1 160 per ounce in 2015. The increase, which was based principally on investors seeking less risky assets, stemmed from negative interest rates in advanced economies and uncertainty in the global market.

## Agriculture

**The agricultural sector is estimated to have continued contracting in 2016, albeit at a slower rate than in 2015, mainly due to the persistent drought situation in the country.** Value addition in the agricultural sector is estimated to have contracted by 4.7 percent in 2016, compared with a higher contraction of 10.3 percent in 2015. Low and erratic rainfall experienced during the 2014/15 and 2015/16 rainy seasons continued to negatively impact the sector. This was reflected in the contraction of both livestock farming and crop production during 2016. Crop farming declined by 2.6 percent, while 2015 showed a steeper contraction of 5.2 percent. Similarly, livestock farming contracted by 6.4 percent in 2016 from an even worse contraction of 14.0 percent in 2015. Meanwhile, the total number of cattle marketed declined by 26.8 percent to 290 667 head during 2016, compared with those recorded in 2015. This was mainly due to the ongoing drought, but also to new import requirements introduced by South Africa during the period under review. Consequent shortages in the market also impacted on the average price for beef, which rose by 4.3 percent to N\$28.80 per kilogram during 2016.

**Declines in total small stock marketed prevailed during 2016, while average prices rose during the year under review.** Small stock marketed, which includes sheep and goats, declined by 20.0 percent to 880 075 head during 2016, when compared with 2015. The falling numbers were reflected both in small stock exported on the hoof to South Africa and in small stock slaughtered locally. These depressed figures were as a result of new import requirements by South Africa in respect of live animals. Meanwhile, the average price of small stock rose slightly by 3.2 percent in 2016, to N\$35.94 per kilogram. This increase was driven by competitive prices offered by local abattoirs relative to those in South Africa.

**Milk production dropped slightly during 2016 compared with the preceding year, mainly due to the prevailing drought.** The slight decline of 0.5 percent to 24.2 million litres was principally ascribed to the drought and higher input costs.

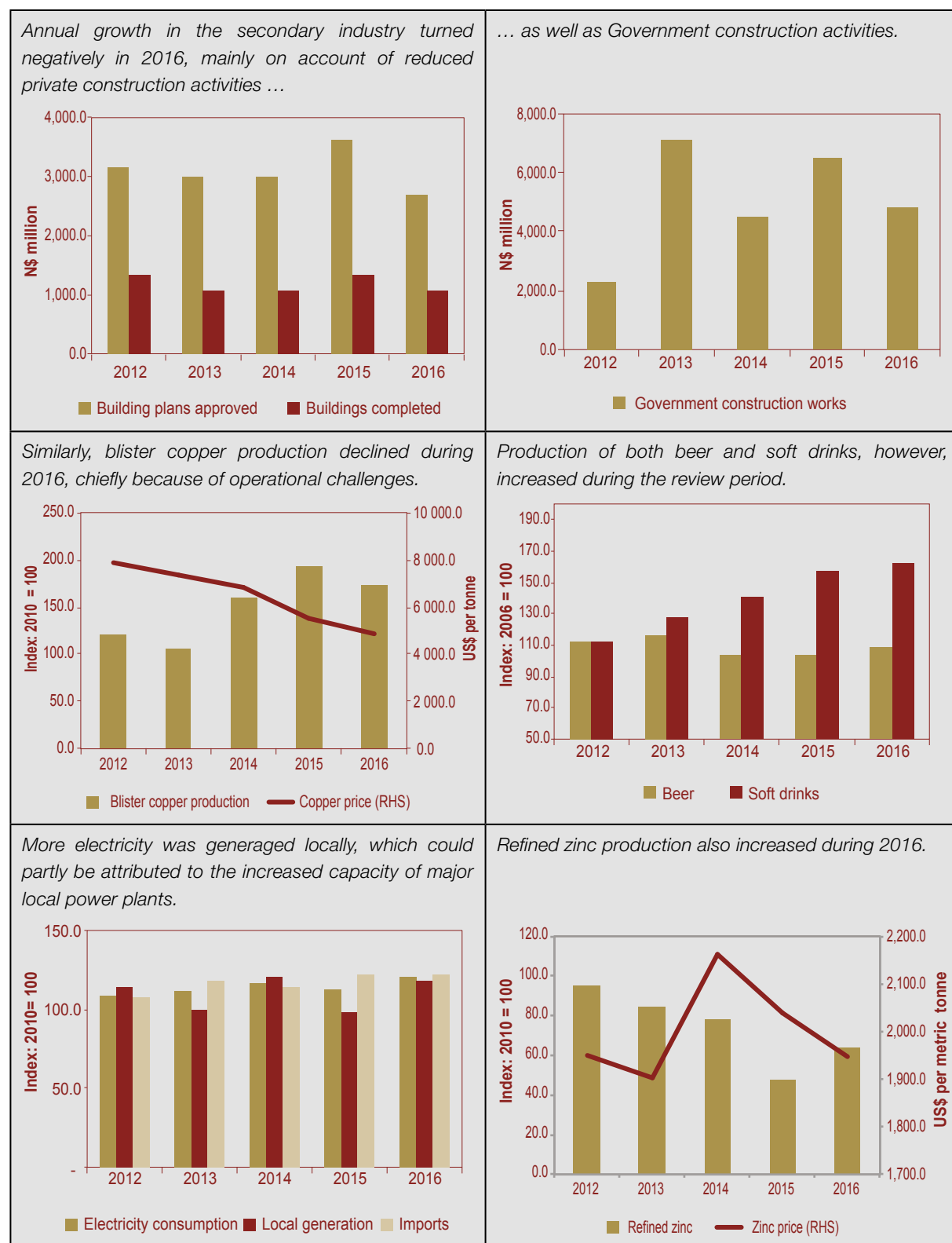
**Estimates are that the fishing sector performed better in 2016 in comparison with the previous reporting year.** Value addition in the fishing sector

increased slightly, namely by 0.8 percent during the period under review, compared with the decline of 2.8 percent in 2015. The rise was attributed mainly to

good horse mackerel landings and the moratorium on the total allowable catch (TAC) for pilchard being lifted during the reporting year.

## SECONDARY INDUSTRY DEVELOPMENTS

Figure C.5: Secondary industry



Source: Municipalities, Ministry of Finance and various companies operating in Namibia

## Construction

**Output in the construction sector contracted during 2016, which can principally be ascribed to some major construction projects in the private sector which were completed and fiscal consolidation measures being implemented.** The sector is estimated to have contracted sharply in 2016, when compared to substantial growth in the preceding three years. The steep decline came after some major construction projects were completed in 2015, especially in the mining sector, coupled with certain consolidation measures taken by Government to restore fiscal buffers.

As a result, the real value of building plans approved and buildings completed declined, while Government construction activities slowed. During 2016, the real value<sup>7</sup> of building plans approved declined by 20.0 percent to N\$3.2 billion from 2015 levels, while buildings completed fell in real value by 15.7 percent to N\$1.3 billion in relation to the previous reporting year's levels (Figure C.5). In addition, the real value of Government construction works decreased by 13.1 percent to N\$5.0 billion over the same period.

## Electricity and water

**The growth in output of the electricity and water sector slowed in 2016, whereas 2015 had robust expansion.** The sector is estimated to have grown by 5.9 percent in 2016, compared with an expansion of 9.7 percent in 2015. The slower growth in 2016 was caused by the water subsector, which is estimated to have contracted due to the limited supply of water in the central regions of the country. In contrast, electricity generation improved during 2016, largely reflecting the

increased generation capacity of some of the major local power generation plants, particularly Ruacana and Van Eck. The increase was boosted by the commissioning of some local solar-power-generation initiatives, such as HopSol and Innosun Osona. Compared with 2015, local electricity generation increased by 20.4 percent in 2016, while imports of electricity increased by only 0.2 percent over the same period.

## Manufacturing

**Real output in the manufacturing sector is estimated to have expanded marginally in 2016, largely due to the increased processing of diamonds.** Overall manufacturing expanded by 0.8 percent in 2016, compared with a contraction of 6.6 percent in 2015. The diamond processing subsector grew particularly strongly during the reporting period, albeit from a low base, following a sharp contraction in 2015. Diamond processing recovered due to increased supply of rough diamonds to processors.

**During 2016, refined zinc production increased substantially, in line with the rise in international zinc prices, while production of blister copper declined in comparison with 2015 levels.** Production of refined zinc leapt by 34.3 percent to 90,739 metric tonnes during 2016, compared with the 71,961 metric

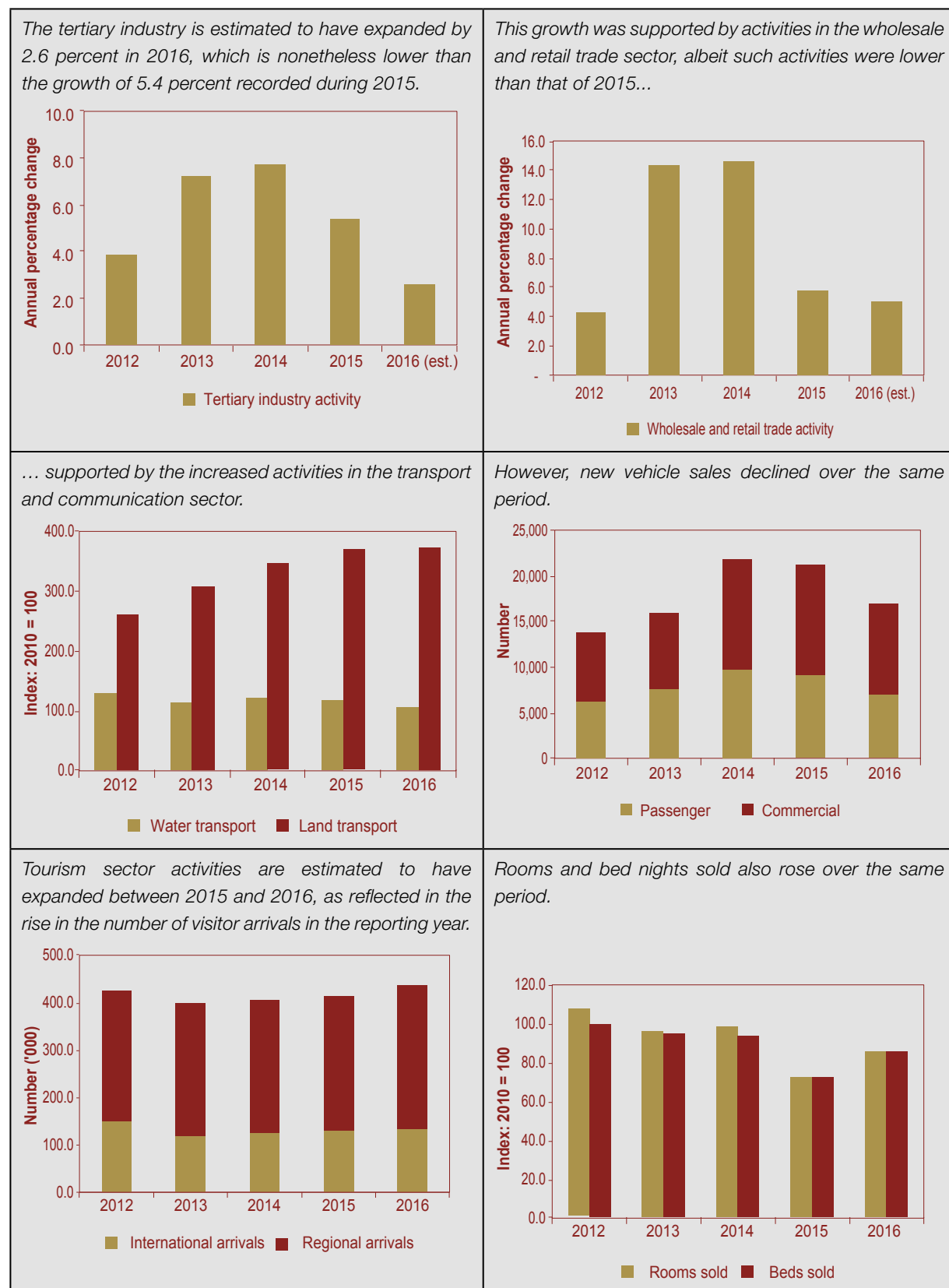
tonnes recorded during 2015. This was mainly ascribed to the low base factor established in 2015. On the other hand, blister copper production declined by 9.7 percent in 2016 to 40,181 metric tonnes, compared with the preceding year, which could principally be ascribed to operational challenges.

**In 2016, production of both beer and soft drinks increased, owing to sustained demand.** The production of beer increased by 4.4 percent in 2016, from a decline of 0.6 percent in 2015. The chief contributor to increased beer production was sustained demand, coupled with a low base effect after commercial production began at a new company, which increased its uptake in 2016. The production of soft drinks rose by 3.7 percent over the same period also due to ongoing demand.

**7** The data are deflated by the Consumer Price Index (CPI) (December 2012 = 100).

## TERTIARY SECTOR DEVELOPMENTS

Figure C.6: Tertiary industry



Source: Namibia Statistics Agency, National Association of Automobile Manufacturers of South Africa, Namport, TransNamib and other transport operators, Namibia Airports Company, and Hospitality Association of Namibia

## Wholesale and retail trade

**Wholesale and retail trade is estimated to have slowed during 2016, compared with the previous year.** The sector's growth slowed by 5.1 percent for 2016, but lower than the 5.7 percent growth recorded for 2015 (Figure C.6). In real terms, however, positive momentum was retained in respect of wholesale and retail trade turnover, chiefly because of a sizeable supply of equipment to the mining sector and improved sales for wholesale trade. On the other hand, sales of new vehicles dropped substantially between 2015 and 2016, by 19.7 percent. Commercial vehicles alone showed

a decrease in sales of 17.7 percent, while passenger vehicle sales fell by 22.5 percent. The decline in vehicle sales was partly influenced by the rise in interest rates and lower Government spending on vehicles. Demand, was also dampened as the Credit Agreements Amendment Act<sup>8</sup> took effect during the review period resulting in more restrictive initial deposits and shorter maximum repayment periods on instalments sale agreements. The carbon emission tax was also implemented in July 2016.

## Transport and communication

**The transport and communication sector recorded positive growth, mainly due to the rise in the value added for post and telecommunication services.**

The transport and communication sector expanded slightly in 2016 by 2.0 percent, which was around half of the 4.0 percent growth recorded for 2015. Nonetheless, the growth was sustained by a substantial rise in the value added for the post and telecommunications subsector as cellular and internet traffic continued to soar. The rise in value added for the communication subsector was attributed to improved operational efficiency. However, in

respect of the transport subsector, total cargo volumes decreased by 2.9 percent to 15.2 million metric tonnes in comparison with 2015 levels. Sea transport cargo volumes alone decreased by 9.6 percent since the previous reporting period, while their rail counterparts fell by 4.5 percent. The decline in sea cargo volumes was partly attributed to low export volumes of certain minerals such as zinc concentrate and blister copper during the year under review. Conversely, road cargo volumes rose by 2.5 percent in 2016, whereas 2015 had seen a 7.8 percent increase.

## Tourism

**The performance of the tourism sector, which is measured by activities under *Hotels and restaurants*, expanded in 2016, as reflected by the rise in the number of visitor arrivals and rooms sold.** The sector is estimated to have increased by 5.9 percent in 2016, compared with the growth rate of 4.1 percent in 2015. This was also reflected in the higher

number of total visitor arrivals, which increased by 11.2 percent from 2015 to 2016. In addition, both the number of rooms and bed nights sold, which are robust indicators of tourism activities, rose by 18.4 percent and 18.5 percent, respectively, during 2016, after recording a substantial decline in 2015.

## Public administration and defence

**Value added by public administration and defence contracted marginally during the reporting year.** The slight contraction of 0.3 percent stands in sharp

contrast to the substantial growth of 13.1 percent during the previous year. The contraction was largely due to fiscal consolidation measures instituted by Government.

## GROSS NATIONAL INCOME AND GROSS NATIONAL DISPOSABLE INCOME

**Namibia's gross national income (GNI)<sup>9</sup> and gross national disposable income (GNDI) are estimated**

**to have increased during 2016.** The country's GNI at current prices is estimated to have risen to N\$153.9

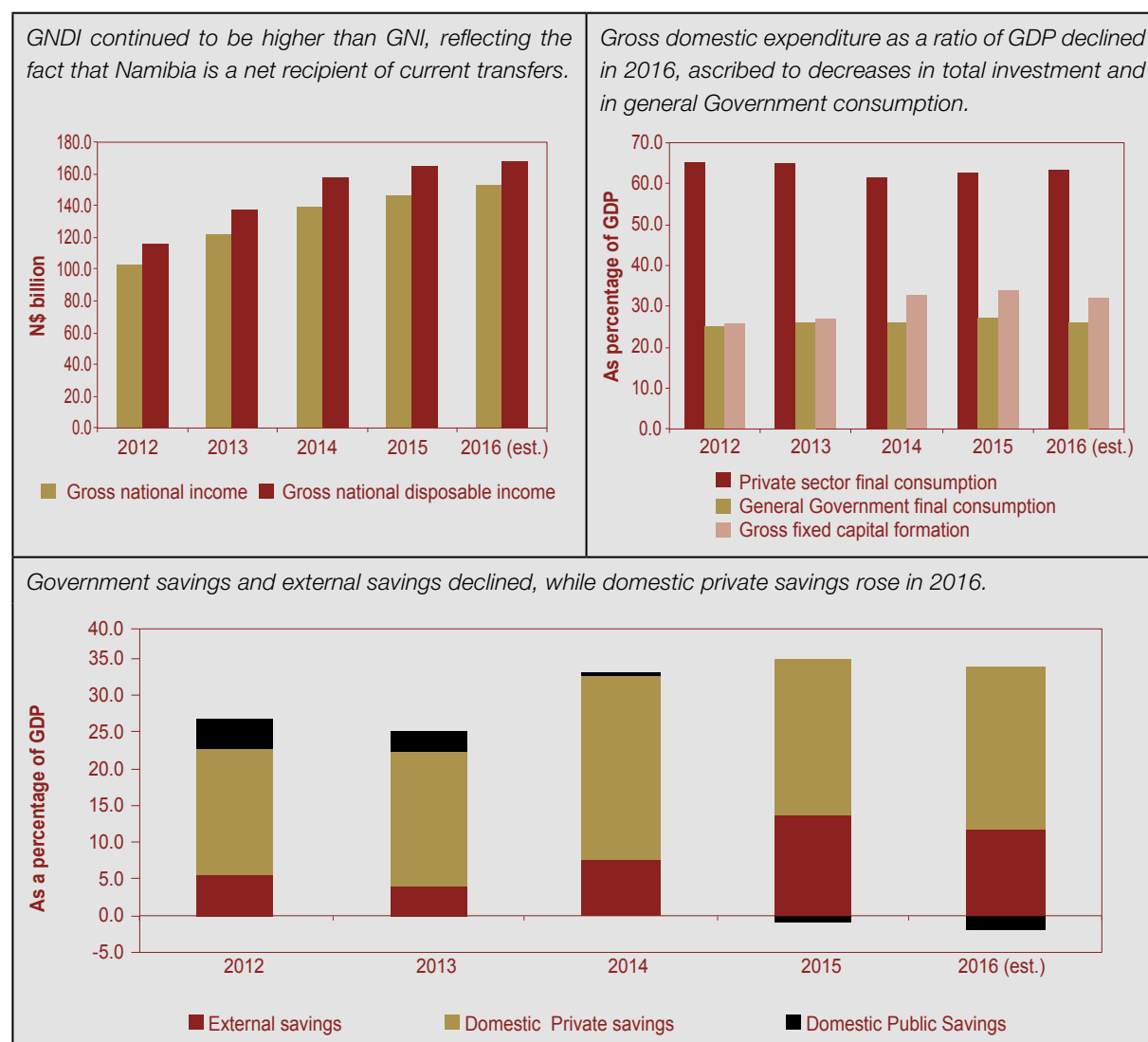
**8** The Credit Agreements Amendment Act, 2016 (No. 3 of 2016) is an amendment to the Credit Agreements Amendment Act No.75 of 1980, which serves (among other things) to strengthen the power of the enforcing authority and reinforcing penalties on credit transactions.

**9** In contrast to GDP, which measures domestic output, GNI and GNDI measure total income received by residents. GNI measures total income earned by the factors of production owned by residents irrespective of the location of the activity from which the income is derived (domestically or abroad), while GNDI measures disposable income of residents, after transfers and taxes have been factored in. Annual Report 2016

billion in 2016, from N\$146.2 billion in 2015, representing a 5.3 percent increase (Figure C.7). Similarly, GNDI is estimated to have increased by 2.8 percent to N\$169.7 billion in 2016, from N\$165.1 billion in the previous year. GNI and GNDI grew by 5.0% and 4.5% in 2015,

respectively. Moreover, GNDI continued to be higher than GNI, indicating that Namibians received more transfers from the rest of the world compared with what they sent abroad.

**Figure C.7: Gross national income (GNI), gross national disposable income (GNDI) and savings at current prices**



Source: Namibia Statistics Agency for the 2012–2015 figures and Bank of Namibia for the 2016 estimates

## GROSS DOMESTIC EXPENDITURE

**Gross domestic expenditure as a ratio of GDP is estimated to have declined in 2016, due to decreases in investment as well as in the final consumption of general government.** Gross domestic expenditure (GDE) at current prices is estimated to have risen to N\$184.0 billion in 2016 from N\$181.5 billion in the preceding year, representing an increase of 1.4 percent (Figure C.7). As a percentage of GDP, GDE declined to 121.6 percent in 2016, from 123.8

percent in 2015, which is a reduction by 2.2 percentage points. Over the same period, investment as percentage of GDP declined by 1.6 percentage points, while the general government final consumption expenditure fell by 1.1 percentage points. The household sector's final consumption expenditure as percentage of GDP is, however, estimated to have risen by 1.0 percentage point in 2016.

## SAVINGS AND INVESTMENT BALANCE

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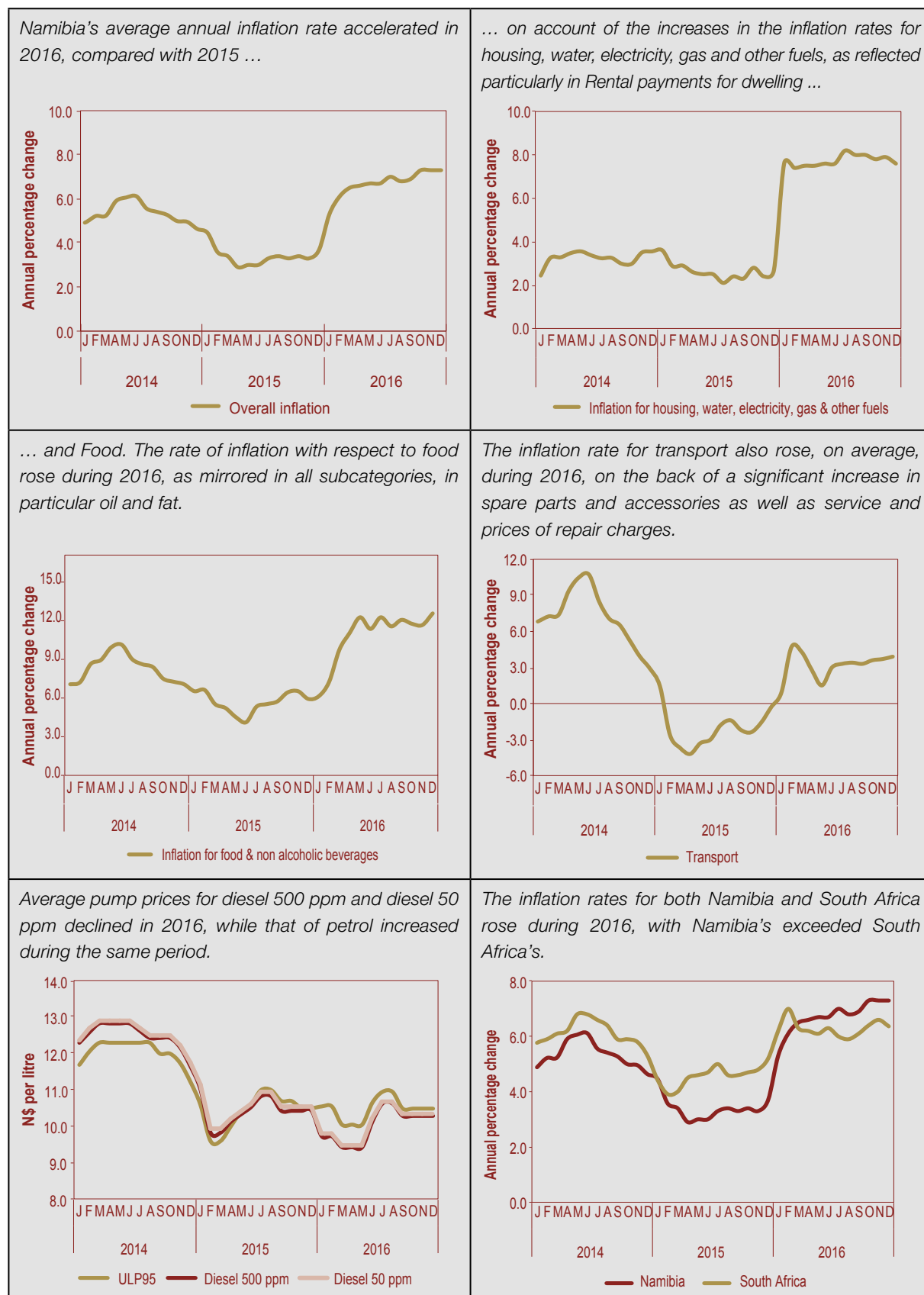
### **Namibia's total domestic savings as percentage of GDP is estimated to have moderated in 2016.**

Total domestic savings as a ratio of GDP is estimated to have decreased slightly to 20.3 percent in 2016, from 20.5 percent in 2015. National savings play a significant role in driving investment, which can in turn stimulate economic growth. Overall domestic savings benefited from higher private savings, which increased to 22.3 percent of GDP in 2016, from 21.4 percent of GDP in

the previous year (Figure C.7). On the contrary, domestic public savings as a ratio of GDP is estimated to have declined to -2.0 percent in 2016, from -0.9 percent in 2015, indicating that the government is dissaving. Given the above developments in savings, total investment as a percentage of GDP is estimated to have moderated to 32.0 percent in 2016, from 34.2 percent in the previous year.

# PRICE DEVELOPMENTS<sup>10</sup>

**Figure C.8: Price developments**



Source: Namibia Statistics Agency

**Namibia's headline inflation rate accelerated during 2016, as reflected in all major inflation categories.** On average, the inflation rate rose by 3.3 percentage points to 6.7 percent during 2016 (Figure C.8). The rise was mainly reflected in the categories *Housing, water, electricity, gas and other fuels, Transport* and *Food* during the period under review.

**The inflation for the *Housing* category rose in 2016, as reflected in all subcategories of housing.** While increases were recorded in all the subcategories of housing, inflation was especially driven by the high-weight items; Rental payments for dwellings, which jumped by 5.4 percentage points to 7.0 percent during 2016.

**The inflation rate for Transport rose during 2016, which was driven mainly by the subcategory *Operation of personal transport equipment*.** Inflation in Transport registered a rate of 5.3 percent during 2016, compared with the deflation rate of 2.1 percent for the year before. The main subcategory involved was *Operation of personal transport equipment*, which climbed by 8.5 percentage points, up from -6.3 percent in 2015. But *Spare parts and accessories*, as

well as *service and repair charges* registered hefty price increases during the year under review.

**Pump prices for diesel 500 ppm and diesel 50 ppm declined on average during 2016, while that of petrol rose during the period under review.** Diesel 500 ppm and diesel 50 ppm averaged at N\$10.02 and N\$10.07 per litre, respectively, during 2016, from their respective prices of N\$10.41 and N\$10.51 per litre in 2015. Meanwhile, pump prices for petrol averaged N\$10.47 per litre during the period under review, slightly higher than the average price of N\$10.42 per litre recorded for the previous year.

**The annual inflation rate for *Food and non-alcoholic beverages* accelerated markedly during 2016.** The rate of inflation for Food accelerated to 10.7 percent during 2016, which is almost double the level of 5.6 percent recorded for 2015 (Table C.4). The rise was evident in all subcategories except *Meat*, which declined by 2.1 percentage points to 4.8 percent during the period under review, mainly due to the high base effects from 2015.

**Table C.4: Inflation relating to food and non-alcoholic beverages**

| Category                                | Weight      | 2012       | 2013       | 2014       | 2015       | 2016        |
|-----------------------------------------|-------------|------------|------------|------------|------------|-------------|
| <b>Food and non-alcoholic beverages</b> | <b>16.4</b> | <b>9.1</b> | <b>6.5</b> | <b>8.3</b> | <b>5.6</b> | <b>10.7</b> |
| <b>Food</b>                             | <b>14.8</b> | <b>9.1</b> | <b>6.6</b> | <b>8.8</b> | <b>5.8</b> | <b>11.0</b> |
| Bread and cereals                       | 4.8         | 9.5        | 4.6        | 8.2        | 3.9        | 13.3        |
| Meat                                    | 3.5         | 13.9       | 6.5        | 12.4       | 7.0        | 4.8         |
| Fish                                    | 0.8         | 8.0        | 8.6        | 3.3        | 7.2        | 13.8        |
| Milk, cheese and eggs                   | 1.2         | 4.0        | 5.3        | 11.4       | 7.6        | 7.8         |
| Oils and fats                           | 0.8         | 9.7        | 7.5        | 4.5        | 3.2        | 15.2        |
| Fruit                                   | 0.3         | 3.0        | 13.1       | 7.4        | 8.5        | 15.7        |
| Vegetables                              | 1.2         | 5.8        | 11.7       | 11.5       | 6.3        | 15.8        |
| Sugar, jam, honey, syrups, etc.         | 1.4         | 11.5       | 7.9        | 5.3        | 7.2        | 13.9        |
| Food products                           | 0.6         | 5.7        | 5.1        | 5.4        | 5.6        | 10.3        |
| <b>Non-alcoholic beverages</b>          | <b>1.7</b>  | <b>8.3</b> | <b>5.3</b> | <b>3.2</b> | <b>4.2</b> | <b>7.3</b>  |
| Coffee, tea and cocoa                   | 0.3         | 7.4        | 4.6        | 6.3        | 8.1        | 15.3        |
| Mineral waters, soft drinks and juices  | 1.4         | 8.6        | 5.6        | 2.5        | 3.3        | 5.4         |

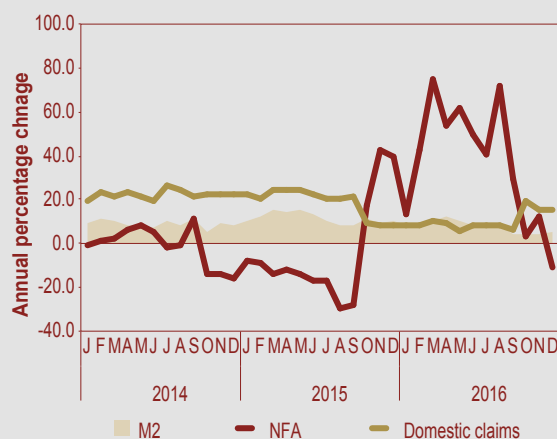
**A comparison between Namibia and South Africa reveals that both countries, inflation rates rose during 2016, although Namibia's was higher than that of South Africa.** South Africa recorded an average inflation rate of 6.2 percent, which is 0.5 percentage point lower than for Namibia. This was partly due to the

fact that three categories that experienced particularly high inflation in 2016 - Housing, transport and food and non-alcoholic beverages - have higher weight in Namibia's Consumer Price Index (CPI) basket than in South Africa.

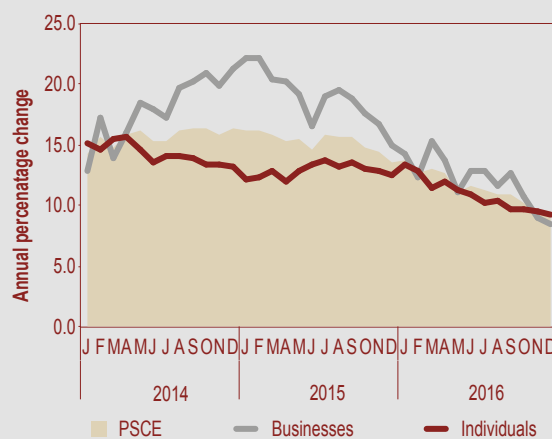
# MONETARY AND FINANCIAL MARKET DEVELOPMENTS

**Figure C.9: Monetary and financial market developments**

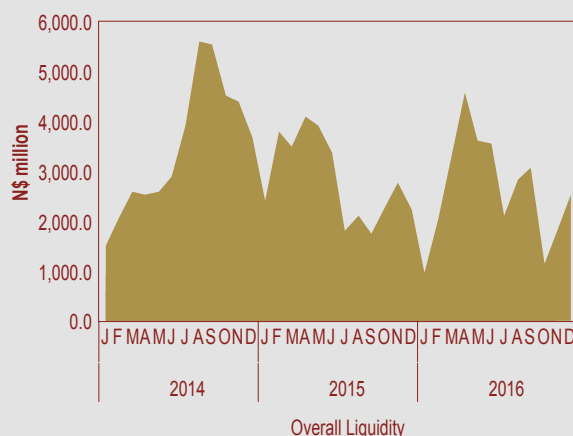
The annual growth in broad money supply (M2) slowed at the end of 2016, driven mainly by the decline in Net Foreign Assets (NFA) ...



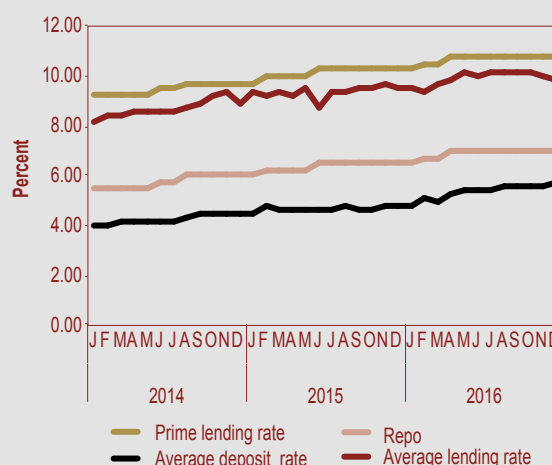
... supported by lower growth in private sector credit extended (PSCE), mainly due to low demand for credit by both the corporate and household sectors.



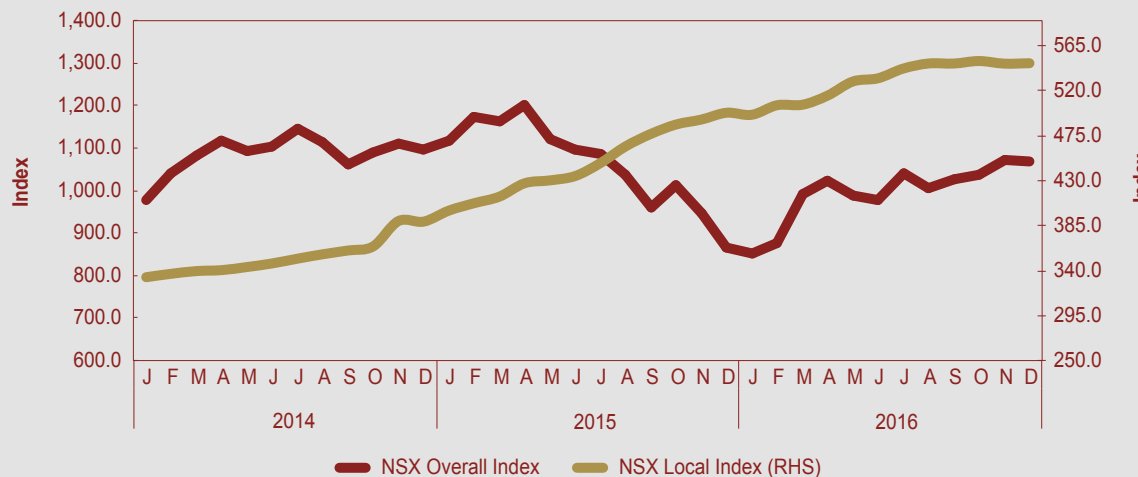
The overall liquidity position of the Namibian banking industry declined during 2016, in contrast to the preceding year.



Money market rates<sup>1</sup> rose during 2016, after the Bank of Namibia increased its Repo rate in February and April 2016.



The Overall and Local Indices of the NSX rose in 2016.



## MONETARY AGGREGATES

During 2016, developments in monetary and credit aggregates in Namibia were characterised by subdued growth both in credit extended to the private sector and in money supply. These

developments were partly influenced by liquidity constraints in the banking system, coupled with a slowdown in domestic economic activity.

**Table C.5: Monetary and credit aggregates**

| (N\$ million)                           | 2012       | 2013       | 2014       | 2015       | 2016       |
|-----------------------------------------|------------|------------|------------|------------|------------|
| Net foreign assets                      | 20,742.0   | 23,151.7   | 19,422.4   | 29,515.9   | 26,225.4   |
| Net domestic assets                     | 53,160.0   | 62,866.8   | 77,065.6   | 83,315.6   | 95,879.2   |
| of which: claims on individuals         | 31,310.2   | 36,020.9   | 40,793.2   | 45,968.1   | 50,116.3   |
| Claims on businesses                    | 20,660.1   | 23,465.9   | 28,489.2   | 32,894.8   | 35,489.9   |
| Net claims on Central Govt              | (1,305.6)  | 269.4      | 4,002.3    | (1,608.4)  | 3,905.0    |
| Other items, net*                       | (12,764.6) | (14,932.4) | (13,928.9) | (15,638.0) | (14,925.0) |
| Broad money                             | 61,141.7   | 68,957.8   | 74,366.0   | 81,933.8   | 85,949.5   |
| <b>(Contribution to growth in M2)</b>   |            |            |            |            |            |
| Net foreign assets                      | (1.9)      | 3.9        | (5.4)      | 13.6       | (4.0)      |
| Net domestic assets                     | 17.3       | 15.9       | 20.6       | 8.4        | 15.3       |
| of which: claims on individuals         | 10.1       | 7.7        | 6.9        | 7.0        | 5.1        |
| Claims on businesses                    | 7.9        | 4.6        | 7.3        | 5.9        | 3.2        |
| Net claims on Central Govt              | (0.1)      | 2.6        | 5.4        | (7.5)      | 6.7        |
| Other items, net*                       | (6.8)      | (3.5)      | 1.5        | (2.3)      | 0.9        |
| Broad money                             | 13.4       | 12.8       | 7.8        | 10.2       | 4.9        |
| <b>(Annual percentage growth rates)</b> |            |            |            |            |            |
| Net foreign assets                      | (4.6)      | 11.6       | (16.1)     | 52.0       | (11.1)     |
| Net domestic assets                     | 21.3       | 18.3       | 22.6       | 8.1        | 15.1       |
| of which: claims on individuals         | 21.0       | 15.0       | 13.2       | 12.7       | 9.0        |
| Claims on businesses                    | 25.9       | 13.6       | 21.4       | 15.5       | 7.9        |
| Other items, net*                       | 40.1       | 17.0       | (6.7)      | 12.3       | (4.6)      |
| Broad money                             | 13.4       | 12.8       | 7.8        | 10.2       | 4.9        |

## MONEY SUPPLY

The annual growth in broad money supply (M2) slowed at the end of 2016, in comparison with 2015. Thus, M2 growth slowed from 10.2 percent in 2015 to 4.9 percent in 2016 (Figure C.9). The subdued growth in M2 during the reporting period was mainly due to the decline in Net foreign assets, coupled with slower growth in claims on individuals and businesses on account of slower growth in loans and advances to the private sector. Growth in NFA contracted remarkably to 11.1 percent at the end of 2016, when compared to a 52.0 percent increase at the end of 2015. The decline in the NFA of other depository corporations was due to commercial banks' withdrawal

on their foreign accounts for foreign currency payment purposes. The growth in claims on individuals slowed significantly, to 9.0 percent, at the end of 2016; from 12.7 percent. Growth in claims on businesses also decelerated, levelling out at 7.9 percent by the end of 2016, which was almost half of the 15.5 percent growth rate registered at the end of 2015. Annual growth in the narrower monetary aggregates (M1) was also lower, and generally resembled that of M2. Similarly, growth in currency in circulation – the most liquid form of money – decelerated remarkably to 5.2 percent in 2016, down from 19.6 percent in 2015. Growth in other or longer-term deposits, which comprise the largest

component of M2, declined from 11.0 percent in 2015 to 10.8 percent in 2016. Contributing to the decline was a reduction in deposit holdings, particularly in respect of *Other financial corporations*, i.e. pension fund and

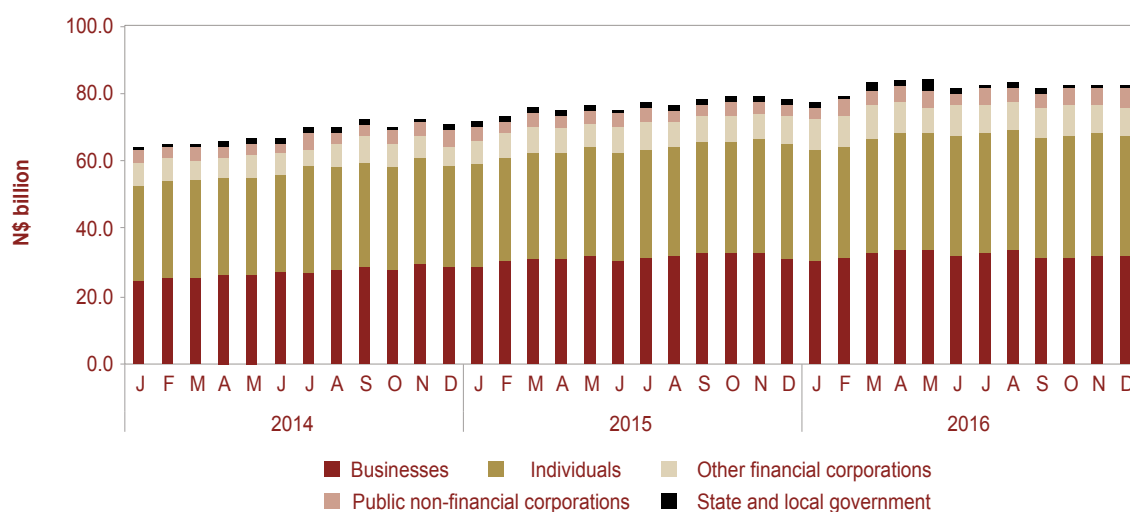
insurance corporations. Similarly, growth in transferable (demand) deposits decelerated to 0.9 percent to reach N\$36.7 billion at the end of the 2016.

## SOURCES OF FUNDS OF OTHER DEPOSITORY CORPORATIONS<sup>12</sup>

**Total deposits with other depository corporations rose in 2016, driven by increased deposits from the corporate sector.** At the end of 2016, deposits from individuals and businesses accounted for 43.6 percent and 38.6 percent of total deposits respectively, while the remaining 17.8 percent stemmed from other

financial corporations, the State and Local Government, and public non-financial corporations. In the prior year, deposits from individuals and businesses accounted for 42.8 percent and 40.3 percent, respectively (Figure C.10).

**Figure C.10: Sources of funds of other depository corporations**



12

Total deposits for other depository corporations include all seven commercial banks, Money Market Unit trust funds and other deposit-takers, i.e. Nampost Savings Bank, Agribank, and the National Housing Enterprise. Hence, deposits described herein, in Part C of the Annual Report, differ from total deposits reported on in Part D – Banking supervision, as the latter only reports on deposits with the commercial banks and not on unit trust funds or other deposit-takers.

# ADVANCE NOTE: INCLUSION OF DATA ON OTHER FINANCIAL CORPORATIONS IN THE PRESENTATION OF NAMIBIA'S MONETARY AND FINANCIAL STATISTICS

This note serves to inform all data users that the Bank of Namibia has expanded its Monetary and Financial Statistics (MFS) coverage to also include *Other Financial Corporations (OFCs)*, i.e. Non-bank Financial Institutions. The primary objective for inclusion of the OFCs is to expand the coverage of the financial sector, which currently covers only the banking sector through the Depository Corporations Survey. The banking sector, in turn, is composed of the central bank, which is covered in the Central Bank Survey (CBS), and of the other banks, which are covered in the Other Depository Corporations Survey (ODCS).

In 2008, the Bank of Namibia commissioned a project aimed at enhancing Namibia's monetary and financial statistics to the point where they are fully aligned with the current best international practices for compiling MFS, as set out in the International Monetary Fund's *Monetary and Financial Statistics Manual and Compilation Guide*. To that effect, Bank of Namibia has made major strides in bringing the accounts of the central bank and of the rest of the banking sector up to the current best practices in data compilation, such as the inclusion of Money Market Unit Trust funds (MMU) in 2013 to form part of the ODCS amongst others. The next stage of the project was to do the same for the accounts on OFCs in a two-step approach. The first step of the OFCs was to include:

- Insurance companies
- Pension funds and
- Development finance institutions

The second step of the project is to further include

- Non-money market investment funds<sup>13</sup> and
- Medical aid funds over a two-year period.

Although OFCs<sup>14</sup> are not deposit taking institutions and thus by definition cannot issue broad money liabilities, they have, however,

gained considerable importance in recent years, not only as a factor affecting monetary developments, but also for the functioning of the financial system. The OFCs make a large contribution to the Financial Corporations Survey (FCS), which then provides the most comprehensive measures of liquidity and credit extended by the entire financial system.

**The building blocks of the entire MFS framework are three subsectors that are respectively captured in the CBS, ODCS and OFCS.** The focus at the CBS level is the components of the monetary base, central bank credit and the central bank's net foreign assets. In the ODCS, much attention is usually directed to the credit aggregates. The Depository Corporations Survey (DCS) consolidates the CBS and ODCS, which are significant for the derivation of broad money liabilities i.e. M2 and credit to other sectors of the domestic economy. The Financial Corporations Survey (FCS), on the other hand, consolidates data from the DCS and OFCS to provide data regarding claims on and liabilities to all other sectors of the domestic economy and non-residents for the entire financial system.

**At this stage, the coverage of OFCs reported herein comprises only of aggregated quarterly data for pension funds, insurance companies and development finance institution, backdated from 2015 onwards.** More OFC sub-sectors may be included gradually over time, depending on such data becoming available and standing up to careful monitoring in terms of significance, quality and periodicity.

**The impact of the inclusion of OFCs on the main statistical aggregates tracked in Monetary and Financial Statistics is presented in Table C.9 below.** The balance sheet readings relate to the end of 2015 and 2016.

**13** For example equity funds, property funds etc

**14** Herein, OFCs and non-bank financial institutions excludes money market unit trust funds and is used interchangeably.

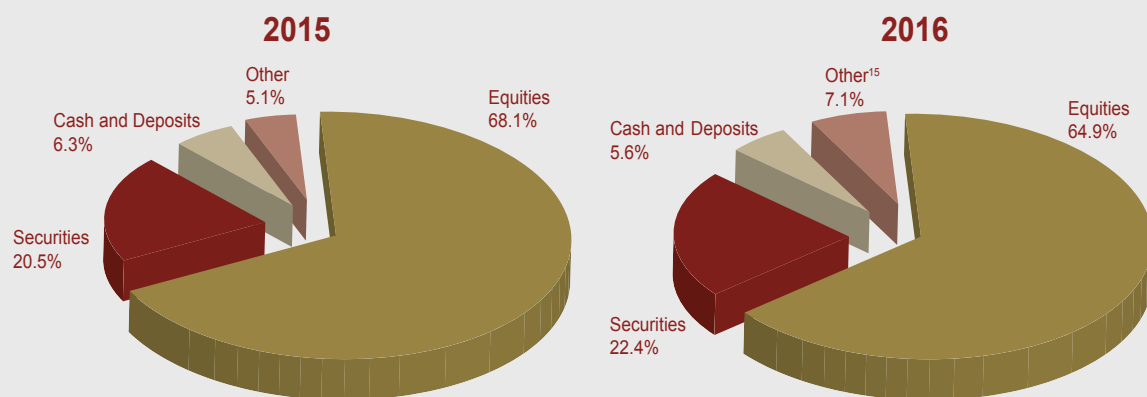
**Table 1: Key Monetary Aggregates**

| <b>Central Bank Survey (N\$ million) existing analysis</b>            | <b>2015</b> | <b>2016</b> |
|-----------------------------------------------------------------------|-------------|-------------|
| Net Foreign Assets                                                    | 23,999.1    | 24,052.7    |
| Net Domestic Assets                                                   | (17,626.8)  | (16,107.7)  |
| Monetary Base                                                         | 6,372.3     | 7,945.0     |
| <b>Other Depository Corporations (N\$ million) existing analysis</b>  |             |             |
| Net Foreign Assets                                                    | 5,516.9     | 2,172.7     |
| Net Domestic Assets                                                   | 76,650.6    | 84,728.8    |
| of which: Claims on individuals                                       | 45,926.4    | 50,072.9    |
| Claims on businesses                                                  | 32,894.8    | 35,489.9    |
| <b>Depository Corporations Survey (N\$ million) existing analysis</b> |             |             |
| Net Foreign Assets                                                    | 29,515.9    | 26,225.4    |
| Net Domestic Assets                                                   | 83,315.6    | 95,879.2    |
| of which: claims on individuals                                       | 45,968.1    | 50,116.3    |
| Claims on businesses                                                  | 32,894.8    | 35,489.9    |
| Net claims on Central Govt                                            | (1,608.4)   | 3,905.0     |
| Broad Money                                                           | 81,933.8    | 85,949.5    |
| <b>Other Financial Corporations Survey (N\$ million) new analysis</b> |             |             |
| Net Foreign Assets                                                    | 75,886.0    | 77,336.0    |
| Claims on ODCs                                                        | 21,852.5    | 22,742.0    |
| Claims on Other Sectors                                               | 19,553.3    | 22,997.4    |
| Insurance and Technical Reserves                                      | 124,712.3   | 124,452.7   |
| <b>Financial Corporations Survey (N\$ million) new analysis</b>       |             |             |
| Net Foreign Assets                                                    | 105,401.9   | 103,561.4   |
| Net Domestic Assets                                                   | 107,532.5   | 127,459.7   |
| of which: Claims on individuals                                       | 101,129.4   | 111,392.6   |
| Claims on businesses                                                  | 97,902.1    | 108,048.0   |
| Insurance and Technical Reserves                                      | 124,712.3   | 124,452.7   |
| Net Equity of Households in Life Insurance                            | 23,186.1    | 19,711.5    |
| Net Equity of Households in Pension Funds                             | 89,150.8    | 94,818.8    |

**Net foreign assets of OFCs stood at N\$77.3 billion at the end of December 2016, far higher than N\$24.1 billion and N\$2.2 billion of CBS and ODCS, respectively.** This has brought the

total net foreign assets for the FCS to N\$103.6 billion at the end of December 2016, an indication of the significance of the non-banking institutions in Namibia.

**Figure 1 Asset holdings of non-bank financial institutions as at December 2015 and 2016**



**Total assets of OFCs stood at N\$149.7 billion at the end of December 2016, which represents an increase of 6.8 percent from the level at the end of December 2015.** In terms of asset allocation, a majority of OFCs' funds are channelled into equities, followed by interest bearing securities and thereafter cash and deposits.

**NOTE: The Bank of Namibia will continue surveying OFCs on a quarterly basis and will**

**include the data in Namibia's Monetary and Financial Statistics going forward.** From the June 2017 Quarterly Bulletin, a complete FCS will be disseminated every quarter, thus providing the public with a richer dataset for analysis of the broad financial sector. The narrower analyses of the central bank (CBS), other banks (ODCS) and banking sector as a whole (DCS) will continue to be published.

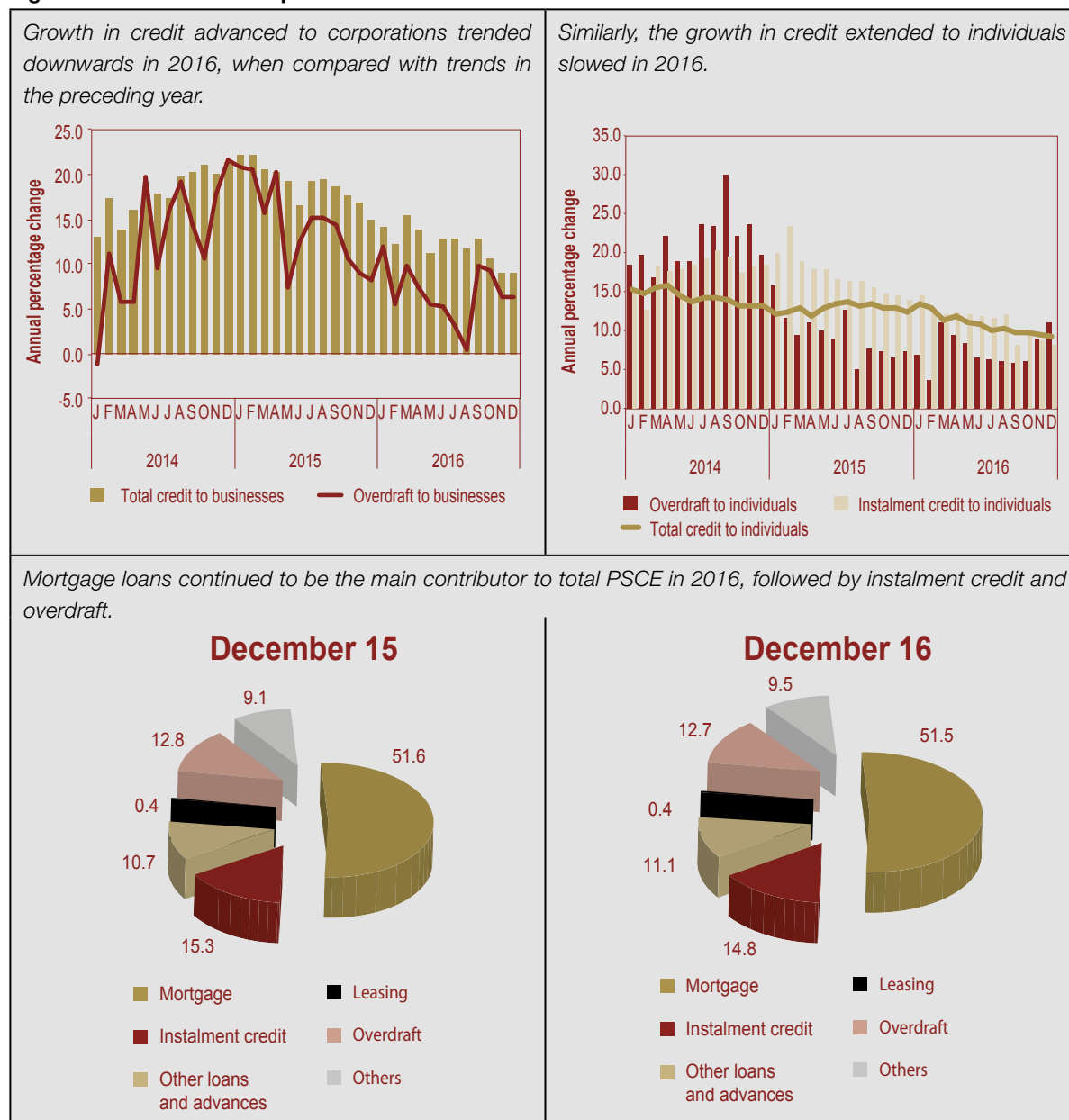
**15** The category Other, is comprised of non-financial assets, loans, receivables and financial derivatives

## EXTENSION OF BANK CREDIT TO THE PRIVATE SECTOR

**Annual growth in private sector credit extended (PSCE) slowed to 8.9 percent at the end of 2016, compared with 13.5 percent in 2015.** This subdued growth appeared against the backdrop of a general deceleration in economic activity in Namibia. Most credit categories contributed to the subdued growth in private sector credit in 2016, with the exception of *Other loans and advances*, which rose significantly.

Total credit extended to various economic sectors in 2016 continued to be dominated by credit granted to the private sector, i.e. credit to private corporations and households, which amounted to N\$85.3 billion at the end of 2016 or 55.28 percent of GDP. In real terms, growth in PSCE hovered around 4.4 percent on average during 2016, compared with 11.5 percent over the preceding year.

**Figure C.11: Credit developments**



**Annual growth in credit extended to the household sector (individuals) declined during 2016 in comparison with the preceding year.** Credit extended to individuals was the main driver of the slowdown in PSCE growth in 2016. Annual growth in credit extended

to individuals slowed to 9.3 percent at the end of 2016, dropping from 12.5 percent at the end of 2015 (Figure C.9). The subdued growth in credit extended to individuals was more pronounced in the categories *Mortgage lending*, *Overdrafts* and *Instalment credit*.

The *Mortgage lending* category, which represents the largest portion of total loans advanced to individuals, slowed to 9.5 percent at the end of 2016 from 12.5 in 2015. Persistently high property prices, high interest rates and weak economic conditions were the principal contributors to the retracted growth in mortgage advances. The slower growth in mortgage lending to the household sector was also in line with the decline in the total number of building plans approved, which fell sharply by 20.6 percent to a total of 3,742 building plans approved during the year 2016.

**Annual growth in total credit extended to the business sector trended downwards during 2016.**

The growth in overall credit extended to businesses slowed to 8.5 percent, compared with 14.9 percent in 2015. The slackening pace in credit extended to businesses was mostly recorded in categories such as

*Overdraft, Instalment credit* and *Mortgage lending*. The slower pace primarily stemmed from corporations' diminished appetite for credit during the year under review, especially in the *Overdraft* and *Instalment credit* categories, which respectively grew by 7.5 percent and 4.9 percent in 2016, compared with 8.0 and 13.7 percent in 2015. The reduced demand by corporations for short-term overdraft facilities was partly attributable to slow economic activities domestically.

**In 2016, mortgage credit continued to account for more than half of the total credit extended to the private sector.** Mortgage credit remains the largest contributor to total PSCE, namely 51.5 percent. Instalment credit and Overdraft credit follow in size, making up 14.8 percent and 12.7 percent, respectively of PSCE. Other loans and advances contributed 11.1 percent of the total PSCE in 2016 (Figure C.11).

## **BANKING SYSTEM LIQUIDITY<sup>16</sup>**

**The overall liquidity position of the Namibian banking industry moderated during 2016 in contrast to the preceding year.** In this regard, average liquidity balances of N\$2.6 billion were recorded for the reporting period, which is slightly lower than the average of N\$2.8 billion during 2015 (Figure C.9). The moderation in the liquidity position was evident in the

decline in NFA of other depository corporations. During 2016, the highest monthly average liquidity position was N\$4.5 billion in April, while the lowest was N\$948 million in January. The liquidity position was at a particularly low level during the second half of the year, in line with the slowdown in Government expenditure during that period.

## **MONEY MARKET DEVELOPMENTS**

**The Bank of Namibia raised its policy rate twice during 2016.** The Repo rate was increased by 25 basis points at each of the first two MPC meetings held during the reporting year, 6.75 percent in February, and to 7.00 percent in April 2016. In line with the changed monetary policy stance, commercial banks subsequently increased their prime lending rates to 10.50 percent in

February and to 10.75 percent in April (Figure C.9). As a result of the increase in the Repo rate as well as market conditions in general, the average lending and deposit rates increased to 9.87 percent and 5.69 percent, respectively, during 2016, from 9.32 percent and 4.71 percent during 2015 (Figure C.9).

## **INTERBANK MARKET ACTIVITIES**

**The value of transactions in the interbank market showed a reduction when compared with the levels in 2015.** Alongside lower liquidity in the market during 2016, interbank market activities declined. Consequently, the banking industry opted to utilise funding facilities with the central bank to meet their funding shortages. As indicated in Figure C.12, the local interbank market traded funds amounting to N\$2.5

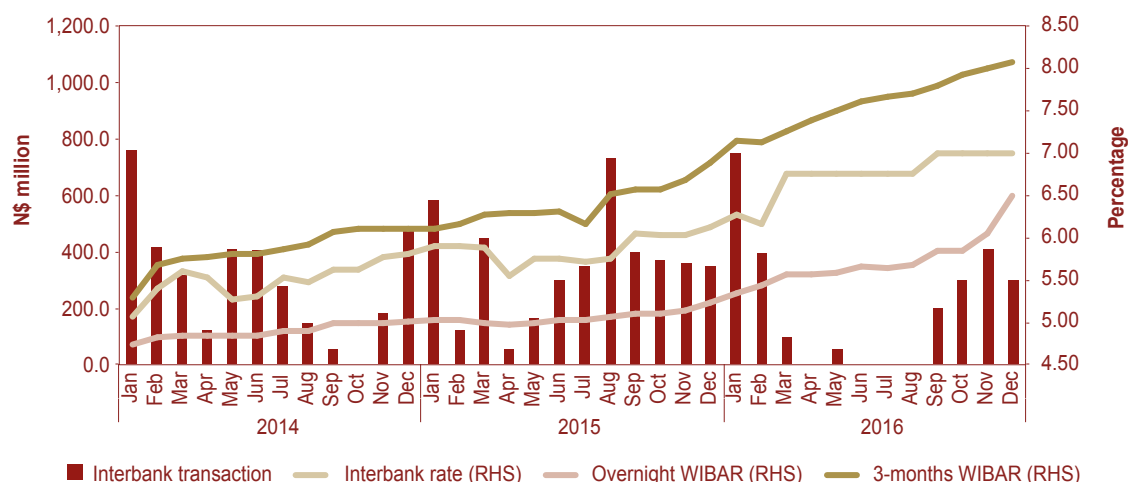
billion during 2016, significantly lower than the N\$4.2 billion registered during the preceding year. The highest monthly value of transactions was N\$750 million, recorded in January 2016, when the liquidity position was at its lowest for the year. No interbank transactions were recorded during the months of April, June, July and August 2016.

**16** The liquidity position of the Namibian banking system is influenced mainly by Government spending, the level of required reserves, currency in circulation, corporate tax payments, inflows and outflows to South Africa, and mineral sale proceeds.

**Money market rates increased markedly during 2016 in contrast to 2015.** Corresponding to the interest-rate-tightening cycle and weak market conditions, both in Namibia and South Africa, the domestic interbank rate increased significantly during 2016. In this regard, the average interbank market rate increased from an average of 5.87 percent in 2015 to an average of 6.75 percent during 2016. Similarly, the

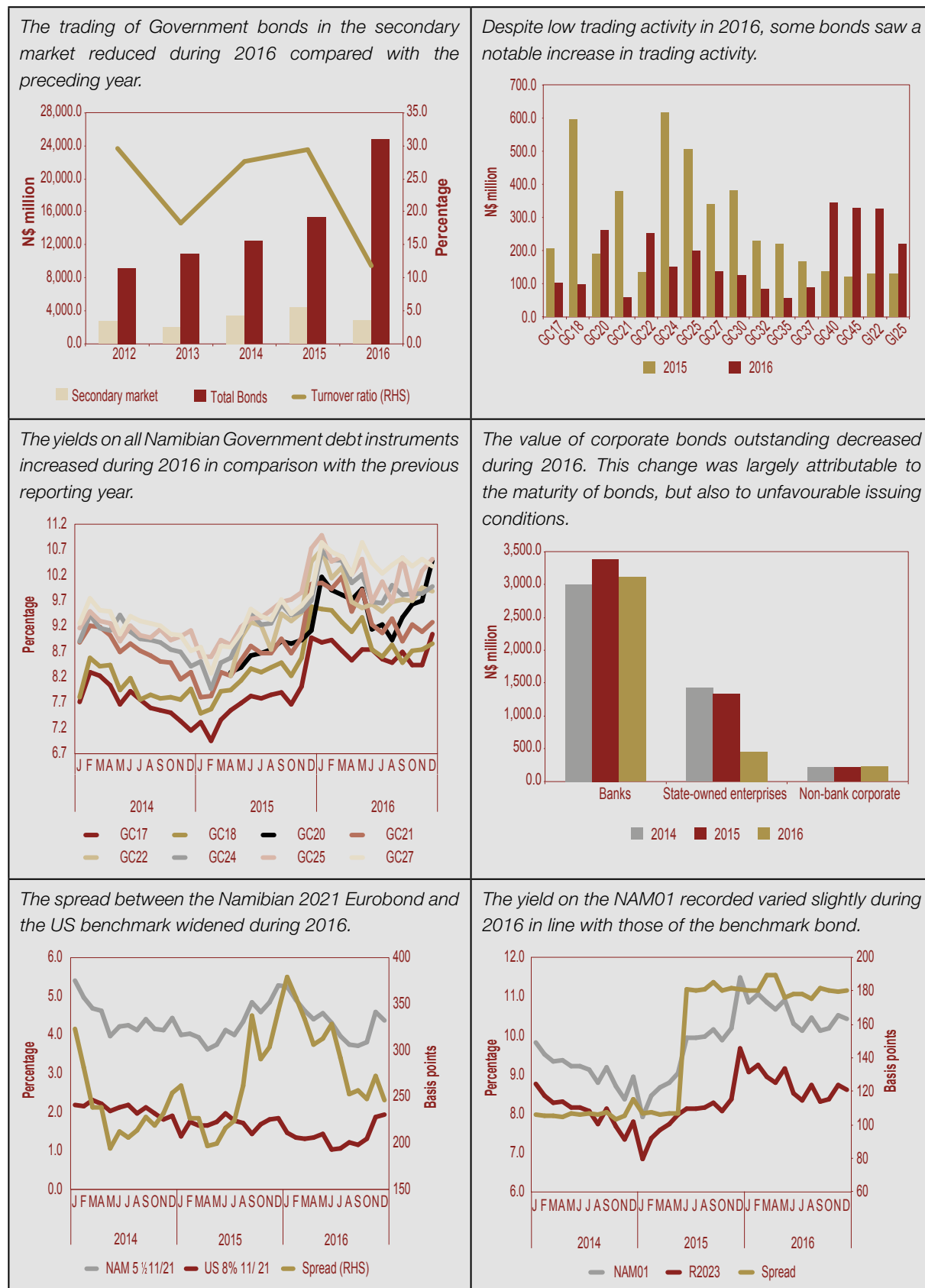
average overnight Windhoek Interbank Agreed Rate (WIBAR) increased to 5.73 percent from 5.06 percent in 2015, while the three-month WIBAR increased by 120 basis points from its 2015 level to reach 7.60 percent during 2016. The rise in Namibia's money market rates was consistent with the increase in the Repo rate and benchmark rates in South Africa.

**Figure C.12: Interbank trading activities and the WIBAR**



# BOND MARKET DEVELOPMENTS

**Figure C.13: Bond market developments**



Source: NSX, Bloomberg and JSE

## Government bonds

**The value of outstanding Government bonds increased during 2016.** The outstanding amount on domestic Government bonds climbed from N\$15.3 billion at the end of 2015 to N\$24.8 billion by the end of December 2016. Of the 2016 value, N\$2.3 billion are inflation-linked bonds. The increase in the

stock of domestic bonds outstanding was in line with increased Government borrowing and efforts to extend the duration of bonds during the reporting year. No new Government bonds were introduced during 2016. Issuance was undertaken on the existing 16 bonds, of which only 12 were actively offered at primary auctions.

## Secondary market activities

**The trading of Government bonds in the secondary market fell during 2016 in comparison with similar trading in 2015.** As depicted in Figure C.13, Government bonds worth N\$2.9 billion were traded on the secondary market during the year under review, a decrease from the corresponding amount of N\$4.5 billion registered in 2015. The decline was mainly due to imbalances between the seller and buyers. As a result, the turnover ratio of Government bonds decelerated from the 29.4 percent recorded in 2015 to a rate of 11.8 percent observed in 2016.

**Although secondary market trading activity declined during 2016, some of the bonds saw a**

**notable increase in trading activity.** The GC40, GC45 and GI22 were the most popularly traded: their turnover of over N\$300 million each accounted for over 35 percent of secondary market trading during the year (Figure C.13). The GC20, GC22, GI25 and GC25 followed closely, trading over N\$200 million each in this market, and constituting over 30.0 percent of total turnover for the reporting year. All off-the-run bonds, namely the GC17, GC18, GC21 and GC24, experienced the least trading during 2016. The GC17 and GC18 recorded low trading activity as they are close to their maturity dates. While trade in the GC24 is lowest in any event as it has the highest coupon rate of 10.50 percent, prompting investors to buy and hold this bond.

## Switch auctions

**During 2016, N\$1.0 billion of the GC17 was successfully switched at three different auctions.** The Government commenced with a bond switch auction programme to induce holders of the GC17 to switch their holdings to longer-dated bonds. This programme is part of Government's efforts to practise a prudent debt management strategy and minimise rollover risk at redemption. In this regard, three switch auctions were conducted for the GC17 during 2016. At the first auction in June, an amount of N\$311 million was switched, while another N\$491 million was switched

in September. At the last auction for the year, namely in November, a total of \$227 million was switched. These switches brought about a reduction in the total outstanding balance for the GC17 from N\$2.1 billion to N\$1.1 billion. These amounts were switched into longer-dated instruments, namely the GC20, GC22, GC27, GC32, GC37 and GC40. More auctions are scheduled to be conducted during the first half of 2017 to further reduce the outstanding amount prior to its redemption on 15 October 2017.

## Government bond yields

**The yields on all Government debt instruments increased during 2016.** On short-dated bonds, the rate on the GC17 increased by 100 basis points, while the GC18 yield increased by 73 basis points (Figure C.14). The rates on the GC20, GC21 and GC22 recorded increases of 94 basis points, 85 basis points and 64 basis points, respectively. Similarly, on medium-dated tenors, the yields on the GC24, GC25 and GC27

rose by 100 basis points, 91 basis points and 129 basis points, respectively. The increase in yields mirrors similar developments in the corresponding benchmark South African bonds, which saw yields rising following various regional and international developments during the year. Similarly, yields on longer dated bonds (GC30, GC32, GC35, GC37, GC40 and GC45) increased within the range of 91 to 117 basis points.

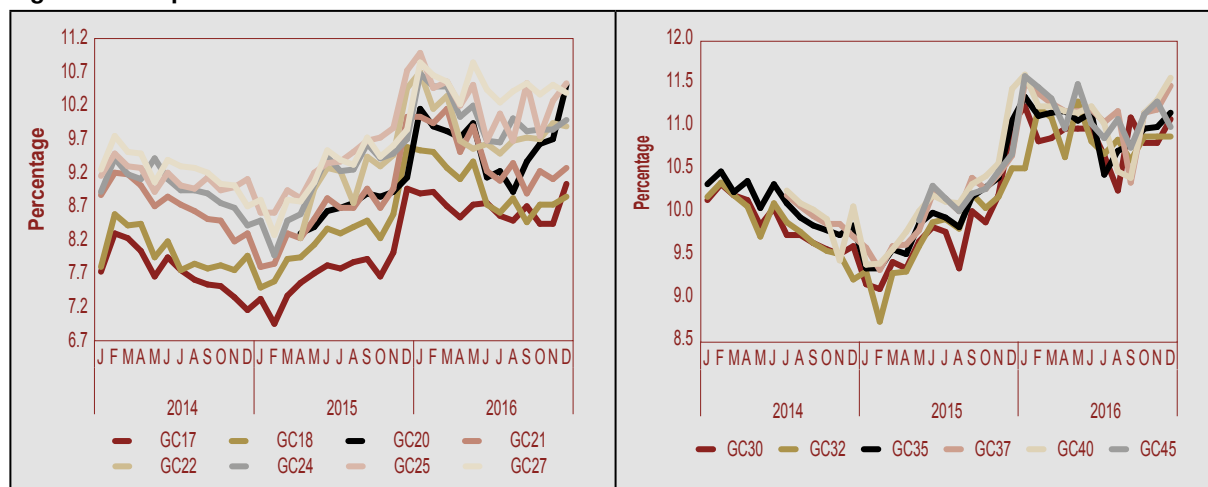
## Yield spreads

**The average yield spread between Namibian bonds and equivalent South African bonds increased during 2016.**

During 2016, the average spread on the GC20 and GC22 against the R207 and R2023 averaged 123 basis points and 121 basis points, respectively. Meanwhile, for medium-term bonds, the GC24, GC25 and GC27 correspondingly recorded annual average spreads of 97, 139 and 148 basis points. A similar trend was observed on the longer end of the yield curve. In

this regard, the spreads between the GC30, GC32, GC35, GC37 and their respective benchmarks averaged between 146 and 161 basis points. Similarly, the long-term GC40 and GC45 recorded average yield spreads of 152 and 142 basis points, respectively. The widening spreads for domestic bonds reflected increased supply volumes and rising debt levels coupled with moderate liquidity and low demand across the yield curve.

**Figure C.14: Spreads between Namibian Government bonds and South African benchmark bonds**



## Corporate bonds

**The value of corporate bonds outstanding decreased during 2016.**

In this regard, the stock of bonds issued by Namibian corporates on the Namibian Stock Exchange (NSX) also decreased from N\$4.9 billion in 2015 to N\$3.8 billion in 2016. The moderation stemmed from the maturity of bonds issued by State-owned enterprises and commercial banks during the reporting year as well as unfavourable market conditions in respect of issuing new bonds. Of the N\$3.8 billion outstanding, N\$3.1 billion was issued by

commercial banks and N\$450 million by State-owned enterprises. Nonetheless, the domestic bond market continues to be highly dominated by Government bond issues. Corporate bonds, as a proportion of total bonds outstanding in the market during 2016, stood at 10.9 percent, which is well below the 24.4 percent observed in 2015. The decrease in the proportion of corporate issues owes itself to increased bond issuance by the Government during the year.

## Namibian Eurobond

**The average yield spread between the Namibian 2021 Eurobond and its US benchmark widened during 2016.**

The spread between the Namibian Eurobond and its US benchmark averaged 299 basis points during 2016, compared with an average spread of 257 basis points during 2015 (Figure C.13). In this regard, the yield on Namibia's Eurobond peaked at 5.24 percent in December 2015 before trending downwards for most of 2016, albeit showing some improvement in the later part of the year. Emerging market bonds were under significant pressure during 2016, largely on the

back of deteriorating fundamentals in line with weak commodity prices and expectations of the rate-tightening cycle in the US. The widening spread of the Namibian Eurobond against its US benchmark is, therefore, a mirror of these broader market developments.

**The Namibian 2025 Eurobond also observed a yield increase relative to its US benchmark during 2016.**

At issue date, the ten-year Eurobond was issued at a coupon rate of 5.25 percent per annum and was priced at 5.375 percent, constituting a spread of 336

basis points above the US Treasury bond. The yield of the 2025 Eurobond has since the issue date in October 2015 widened, peaking above 400 basis points during

2016. On average, a spread of 340 basis points was recorded during 2016.

## Namibia's JSE-listed bonds

### The seven-year NAM01 bond trading on the JSE tracked developments in benchmark bonds.

Having hit its highest point of 11.07 percent for the reporting year at the end of February 2016, the yield on the NAM01 recorded decreases after that, dropping as low as 10.11 percent during July. The movements in the yield on the NAM01 were in line with those of its benchmark bond, the R2023 (Figure C.15). The average spread between the two bonds increased to 181 basis points during 2016, wider than the spread of 150 basis points observed during the preceding year. The wider spread could be attributed to increased risk aversion in respect of smaller emerging markets during 2016,

which was more pronounced for Namibia relative to South Africa.

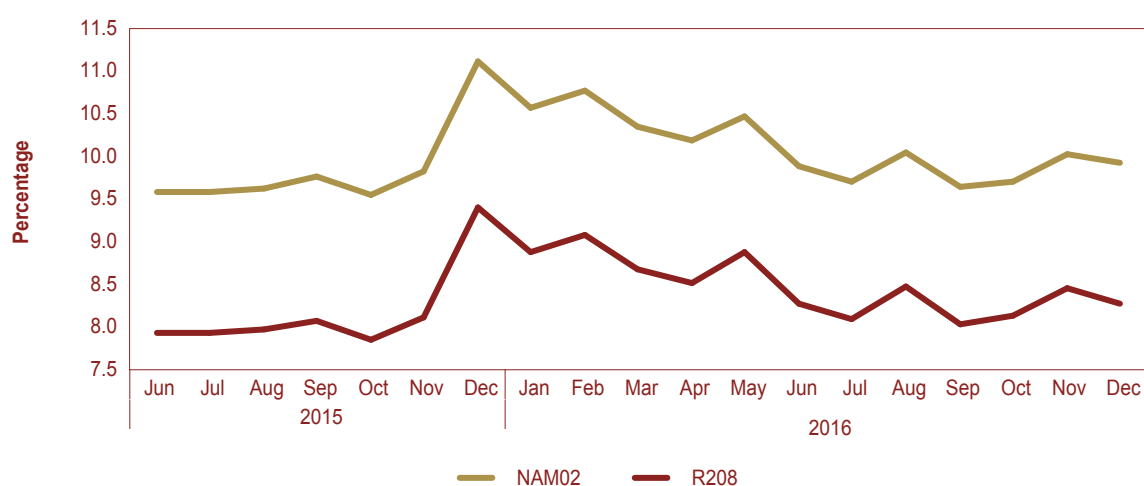
**The yield on the NAM02 trended downwards during 2016.** In this regard, the NAM02 recorded its highest for the reporting year, namely 10.77 percent, in February 2016. Thereafter, it trended downward, hitting its lowest yield of 9.65 percent in September. This declining yield corresponds to the movement in the yield of its South African benchmark bond, the R208. Since no additional funds were raised on the NAM01 and NAM02 during 2016, the outstanding balances remained at their December 2015 levels of N\$1.6 billion and N\$840 million, respectively.

## Extension of JSE-listed Medium-term Note Programme

**The Government increased the size of its Medium-term Note Programme on the JSE, namely from ZAR3.0 billion to ZAR7.5 billion, with effect from 11 July 2016.** The size of the Programme was extended to cater for continued funding needs. In line with its 2016/17 borrowing strategy, the Government listed two additional bonds on the JSE during the reporting year, namely a seven-year bond (NAM03) due on 1 August 2023 and a ten-year bond (NAM04) due on 1

August 2026. The NAM03 and NAM04 bonds issued on 1 August 2016, at coupons of 10.06 percent and 10.51 percent, respectively. At that auction, a total of N\$157 million was raised on the NAM03, and N\$355 million was issued on the NAM04. These remain as the outstanding balances on the two bonds as at the end of December 2016, as there were no further issuances during the reporting period.

Figure C.15: NAM02 performance



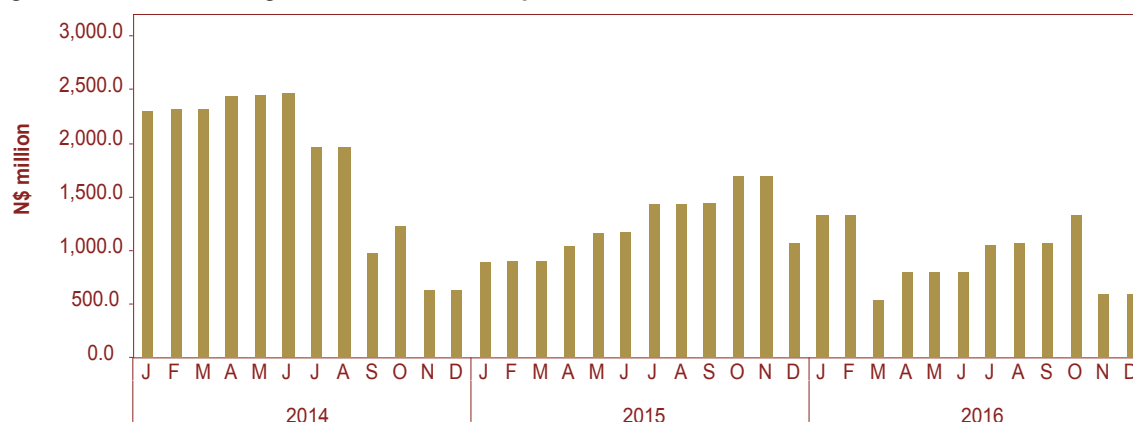
Source: JSE and Bloomberg

## INTERNAL REGISTERED STOCK REDEMPTION ACCOUNT

The balance of the Internal Registered Stock Redemption Account decreased during 2016 (Figure C.16). The balance on this account stood at N\$598 million at the end of December 2016, lower than its December 2015 balance of N\$1.1 billion. The Government made cash injections as well as withdrawals from the Redemption Account for investments and budgetary financing purposes, in line with the 2016/17 Budget Funding Plan. The

next domestic bond to mature is the GC17, which is due on 15 October 2017. The GC17 as at the end of 2016 has an outstanding balance of N\$1.1 billion. The Government will continue to fund this account, when necessary, in order to warrant that maturing bonds can be redeemed smoothly, while ensuring that the account is not unnecessarily overfunded.

Figure C.16: Internal Registered Stock Redemption Account



## SOVEREIGN CREDIT RATINGS

**Fitch revised Namibia's outlook to *Negative* during 2016, while affirming the country's rating at *BBB-*.**

The issuer ratings on Namibia's senior unsecured foreign- and local-currency bonds were also affirmed at *BBB-*. The Country Ceiling was affirmed at *BBB*, while the Short-term Foreign and Local Currency International Default Rates (IDRs) qualified as *F3*. Fitch attributed the downgrade of the outlook to several factors. These included the widening budget deficit, the increase in the Government debt stock, the deterioration of Namibia's current account deficit, and lower levels of international foreign reserves in comparison with peer countries.

**Fitch outlined factors that could result in changes to both the outlook as well as the rating.**

In this regard, the agency stressed that future developments that could result in the outlook being revised to *Stable* included a narrowing of the budget deficit, consistent with a stabilisation of the Government debt-to-GDP ratio; a marked improvement in the current account balance; and an increase in foreign exchange reserves. Similarly, future developments that could result in a rating downgrade by the agency included failure to narrow the fiscal deficit, leading to a continued rise in the Government debt-to-GDP ratio; failure to narrow the current account deficit; a significant drawdown in

international reserves; and deterioration in economic growth, e.g. due to a worsening business environment.

**Moody's outlook on Namibia's *Baa3* rating was downgraded to *Negative* during 2016.**

The decision to change the outlook to *Negative* reflects the following drivers: slower than expected fiscal consolidation in the current fiscal year and continued rise in public debt; risks of further tightening in domestic funding conditions should fiscal slippages continue to result in higher debt-servicing costs; and protracted external vulnerability. Nonetheless, Moody's decision to affirm the *Baa3* rating was informed by Namibia's robust growth outlook, favourable debt metrics in comparison to peers, and political stability. Further supporting Moody's unchanged rating was Namibia's institutional framework, which has proven conducive to reaching consensus on key macroeconomic policies and structural reforms. Namibia's long-term local-currency bond and bank deposit ceilings of *A1*, its long-term foreign-currency bank deposit ceiling of *Baa3*, and its long-term foreign-currency bond ceiling of *A3* also remained unchanged.

**Moody's also highlighted factors that could lead to a rating upgrade or downgrade.** Thus, Namibia's ratings could be upgraded should the trends motivating the negative outlook on Namibia's *Baa3* rating dissipate

or reverse over 12 to 18 months. Accordingly, a return to a *Stable* outlook could be secured if the Government's commitment to fiscal consolidation results in a marked slowing and stabilisation of debt accumulation. Furthermore, a sustainable improvement in the country's twin balances – a sustained easing of funding conditions on the domestic market, and a material increase in foreign exchange reserves comfortably above three months of imports – would also be positive and lead to upward rating pressure. On the downside, Moody's could likely downgrade Namibia's rating if the new fiscal consolidation plan proves ineffective in containing public sector debt accumulation beyond the rating agency's baseline. A sustained decline in foreign currency reserves to below three months of import cover and/or an increase in funding pressure resulting from reduced market appetite for Government securities that lead to

a material increase in borrowing costs would also put downward pressure on the rating.

**In the wake of the ratings outlook downgrade, the Government instituted corrective measures to manage the identified macro risks.** In this regard, the 2016/17 Mid-year Budget Review released in October 2016 highlighted several expenditure realignments to ensure that public finances were situated on a sustainable trajectory. Among other things, the Review included continued measures to cut non-essential spending, improvements on spending priorities, and reallocating expenditure from non-priority areas to key spending priorities. Lastly, the Review also detailed a plan to contain the growth in the wage bill by freezing the filling of new vacancies in the Public Service, managing growth in its size, and managing its remuneration.

## EQUITY MARKET DEVELOPMENT

**Table C.6: Summary statistics for the Namibian Stock Exchange**

| Category                                                     | 2015      | 2016      | % change |
|--------------------------------------------------------------|-----------|-----------|----------|
| <b>Overall Index</b>                                         |           |           |          |
| Share price index (end of year)                              | 865.00    | 1 068.59  | 23.5     |
| Market capitalisation (N\$ million) (end of year)            | 1 377 626 | 1 693 022 | 22.9     |
| Free-float market capitalisation (N\$ million) (end of year) | 965 419   | 1 211 069 | 25.4     |
| Volume traded ('000)                                         | 260 106   | 217 794   | -16.3    |
| Value traded (N\$ million)                                   | 16 593    | 14 234    | -14.2    |
| Number of deals                                              | 4 298     | 5 112     | 18.9     |
| Number of new listings (Development Capital Board Dev)       | 3         | 3         | 0        |
| <b>Local Index</b>                                           |           |           |          |
| Share price index (end of year)                              | 497.91    | 547.45    | 10.0     |
| Market capitalisation (N\$ million) (end of year)            | 29 430    | 32 017    | 8.8      |
| Volume traded ('000)                                         | 42 859    | 41 803    | -2.5     |
| Value traded (N\$'000)                                       | 812 134   | 585 787   | -27.9    |
| Number of deals                                              | 870       | 1 132     | 30.1     |
| Number of new listings                                       | 0         | 0         | 0        |

Source: NSX and JSE

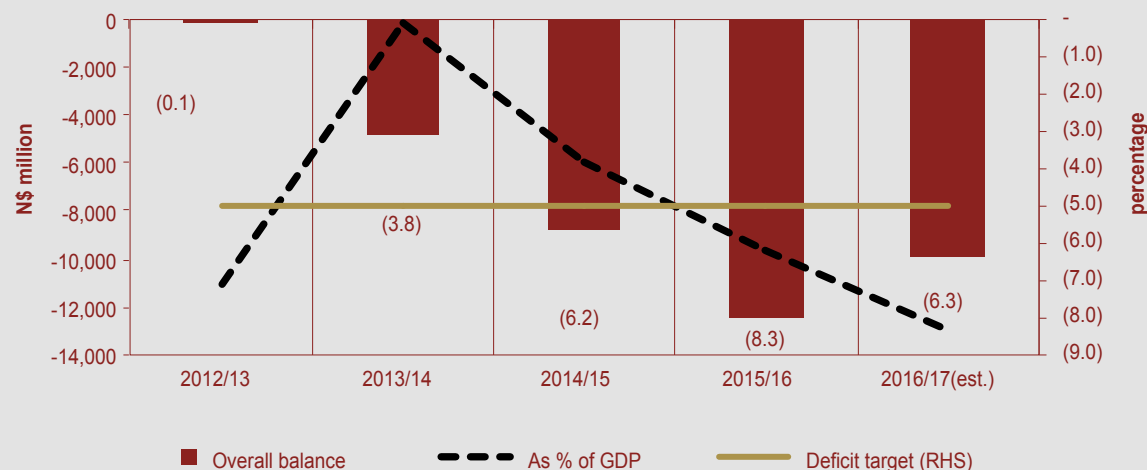
**In line with the global stock market developments, the NSX Overall Index stood higher at the end of 2016, compared with its level at the end of the preceding year.** The NSX Overall Index closed at 1,068.59 index points at the end of December 2016, representing a 23.5 percent increase. The surge in the Overall Index was driven by the rapid increase in the Anglo American share, whose price rose sharply to trade at N\$195.90 at the end of December 2016, compared

with N\$68.99 at the end of the same month in 2015. The Local Index continued to perform well during 2016: it closed higher at 547.45 index points, up from 497.91 index points at the end of 2015. Local stock-market capitalisation increased by 8.8 percent from N\$29.4 billion at the end of the previous year to N\$32.0 billion at the end of 2016.

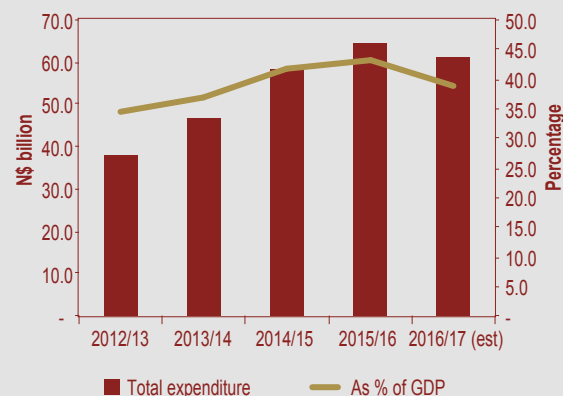
# PUBLIC FINANCE

**Figure C.17: Fiscal developments**

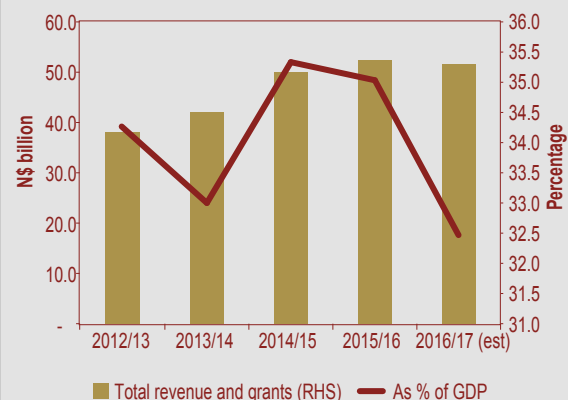
The Central Government budget deficit as a percentage of GDP is projected to improve during the 2016/17 fiscal year in comparison with the previous fiscal year, mainly owing to Government's fiscal consolidation efforts.



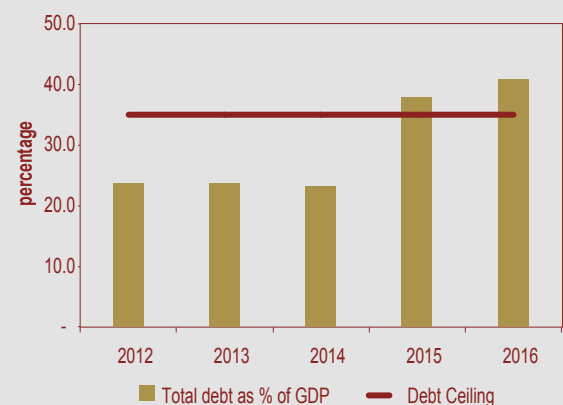
Total Government expenditure is estimated to decline in 2016/17, owing mainly to the downward revision in operational and capital expenditure.



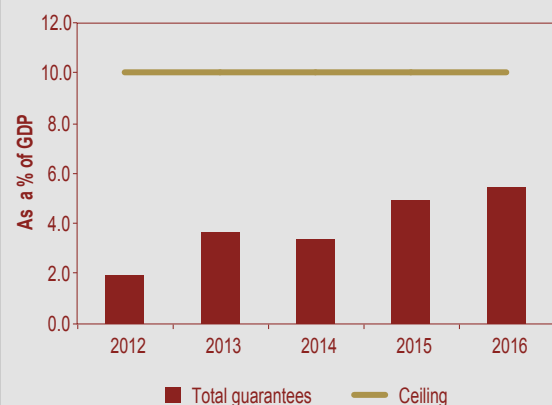
Total revenue is also estimated to fall during 2016/17, owing to lower - than - anticipated revenue collection and SACU receipt during the period under review.



Total Government debt as a percentage of GDP rose to 40.7 percent, which is above the set ceiling of 35 percent.



The ratio of total loan guarantees to GDP rose to 5.65 percent during 2016, and remained within the set ceiling of 10 percent.



Source: Ministry of Finance

## BUDGET BALANCE

**During the 2016/17 fiscal year, the Government's overall budget balance is estimated to improve, chiefly due to Government's fiscal consolidation efforts.** Government's overall budget deficit as a percentage of GDP is estimated to improve to 6.3 percent, from 8.3 percent during the previous fiscal year (Figure C.17). This expectation is founded principally on the recent downward revision in expenditure during the 2016/17 Mid-term Budget Review, as a result of Government's additional fiscal consolidation efforts.

**Growth in Government expenditure declined during 2016/17, as reflected in both current and capital expenditure, also as a result of the fiscal consolidation efforts in the review period.** Total Government expenditure is estimated to decline by 4.9 percent to N\$61.5 billion in the 2016/17 fiscal year, compared with a growth rate of 10.1 percent in the previous fiscal year, primarily due to fiscal consolidation efforts during the period under review. The contracted growth in expenditure will be reflected in categories such as overtime, furniture, office equipment, material

supplies, subsistence and travel, and expenditure on non-productive capital projects such as office buildings. Total expenditure as a percentage of GDP decreased by 4.6 percentage points to 38.8 percent during the period under review, compared with the preceding fiscal year.

**Revenue also declined during 2016/17, which can largely be attributed to high base effects and the expected slowdown in economic activity during the period under review.** Total revenue is estimated to drop by 1.3 percent, i.e. to N\$51.5 billion, during 2016/17. This contraction is in contrast to the positive growth of 4.6 percent recorded for the previous fiscal year. The decline in Government revenue is mainly ascribed to high base effects, an expected slowdown in economic activity, and low SACU receipts during the 2016/17 fiscal period in comparison with its 2015/16 counterpart. Similarly, total revenue as a percentage of GDP declined by 2.6 percentage points in 2016/17, namely to 32.5 percent.

## CENTRAL GOVERNMENT DEBT

**Total Government debt increased both in nominal terms and as a percentage of GDP at the end of 2016, mainly on account of an increase in domestic debt during the year under review.** Total debt increased by 14.5 percent to N\$64.5 billion at the end of 2016, when compared with the debt stock recorded at the end of 2015 (Table C.7). The nominal increase emanated mostly from an increase in domestic debt as a result of an upsurge in the net issuance of

Internal Registered Stocks and Treasury Bills during the period under review. Meanwhile, external debt declined during the period under review, largely on account of an exchange rate appreciation. Total debt as a percentage of GDP increased by 2.8 percentage points to 40.7<sup>17</sup> percent at the end of 2016. This level is higher than the set Government debt ceiling of 35 percent, but is expected to decline to 37.7 percent at the end of the Medium-term Expenditure Framework period.

**17** Fifty percent of the Eurobond issued was for reserve enhancement purposes.

**Table C.7: Central Government debt, 31 December 2016 (N\$ million)**

| Type of Government debt                   | 2012            | 2013            | 2014            | 2015            | 2016            |
|-------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>GDP fiscal year</b>                    | <b>110 835</b>  | <b>126 937</b>  | <b>141 280</b>  | <b>148 992</b>  | <b>158 615</b>  |
| <b>Total export of goods and services</b> | <b>44 673</b>   | <b>53 629</b>   | <b>61 252</b>   | <b>63 640</b>   | <b>70 331</b>   |
| <b>Foreign debt stock</b>                 | <b>9 040.3</b>  | <b>10 876.6</b> | <b>11 429.8</b> | <b>28 332.1</b> | <b>25 419.8</b> |
| Bilateral                                 | 1 313.6         | 1 938.4         | 2 176.6         | 3 549.2         | 3 155.7         |
| As % of total                             | 14.5            | 17.8            | 19.0            | 12.5            | 12.4            |
| Multilateral                              | 2 640.4         | 2 863.2         | 2 622.4         | 2 938.9         | 2 342.2         |
| As % of total                             | 29.2            | 26.3            | 22.9            | 10.4            | 9.2             |
| Eurobond                                  | 4 236.3         | 5 225.0         | 5 780.8         | 19 444.1        | 17 029.9        |
| As % of total                             | 46.9            | 48.0            | 50.6            | 68.6            | 67.0            |
| JSE-listed bond                           | 850.0           | 850.0           | 850.0           | 2 400.0         | 2 892.0         |
| As % of total                             | 9.4             | 7.8             | 7.4             | 8.5             | 11.4            |
| <b>Foreign debt service</b>               | <b>575.5</b>    | <b>609.4</b>    | <b>664.3</b>    | <b>467.0</b>    | <b>264.9</b>    |
| As % of export                            | 1.8             | 1.1             | 1.1             | 0.7             | 0.4             |
| <b>Domestic debt stock</b>                | <b>17,277.9</b> | <b>19,023.3</b> | <b>21,282.3</b> | <b>28,045.3</b> | <b>39,118.9</b> |
| Treasury Bills                            | 8,041.9         | 8,132.3         | 8,797.3         | 12,715.6        | 14,327.9        |
| As % of total                             | 46.5            | 42.7            | 41.3            | 45.3            | 36.6            |
| Internal registered stock                 | 9,236.0         | 10,891.0        | 12,485.0        | 15,329.7        | 24,791.1        |
| As % of total                             | 53.5            | 57.3            | 58.7            | 54.7            | 63.4            |
| <b>Total Central Government debt</b>      | <b>26,318.2</b> | <b>29,899.9</b> | <b>32,712.1</b> | <b>56,377.4</b> | <b>64,538.7</b> |
| Proportion of total debt                  |                 |                 |                 |                 |                 |
| Foreign debt stock                        | 34.4            | 36.4            | 34.9            | 50.3            | 39.4            |
| Domestic debt stock                       | 65.6            | 63.6            | 65.1            | 49.7            | 60.6            |
| <b>As % of GDP</b>                        |                 |                 |                 |                 |                 |
| Foreign debt stock                        | 8.2             | 8.6             | 8.1             | 19.0            | 16.0            |
| Domestic debt stock                       | 15.6            | 15.0            | 15.1            | 18.8            | 24.7            |
| Total debt                                | 23.7            | 23.6            | 23.2            | 37.8            | 40.7            |

Source: Ministry of Finance, Bank of Namibia and Namibia Statistics Agency

## DOMESTIC DEBT

**Domestic debt increased both in nominal terms and as a ratio to GDP at the end of 2016, compared with 2015, as more internal registered stocks and Treasury Bills were issued.** The total domestic debt stock increased by 39.5 percent to N\$39.1 billion at the end of 2016. The rise was reflected mainly in internal registered stocks, which gained significantly by 61.7 percent. In addition, Treasury Bills issuance grew, albeit by a lower margin of 12.7 percent. As a result, the share

of internal registered stocks to total domestic debt increased to 63.4 percent, while the share of Treasury Bills to total domestic debt declined from 45.3 percent to 36.6 percent. The ratio of domestic debt to GDP increased by 5.9 percentage points in 2016 compared with 2015 levels, namely to 24.7 percent. Domestic debt constituted about 60.6 percent of total debt by the end of 2016, which reflects a sharp increase from the 49.7 percent level registered at the end of the preceding year.

## FOREIGN DEBT

**Central Government total foreign debt declined during 2016 due to currency appreciation.** Foreign debt declined by 9.7 percent in 2016 to N\$25.6 billion at the end of the year (Table C.9). The decline was largely attributed to the appreciation of the Namibia Dollar against the major currencies from a very weak level at the end of 2015. External debt as a percentage of GDP had also declined by the end of the reporting period, i.e. by 3.0 percentage points to 16.0 percent. Foreign debt accounted for 39.4 percent of total Central Government debt at the end of 2016, which is a decline of 10.9 percentage points, compared with the preceding year.

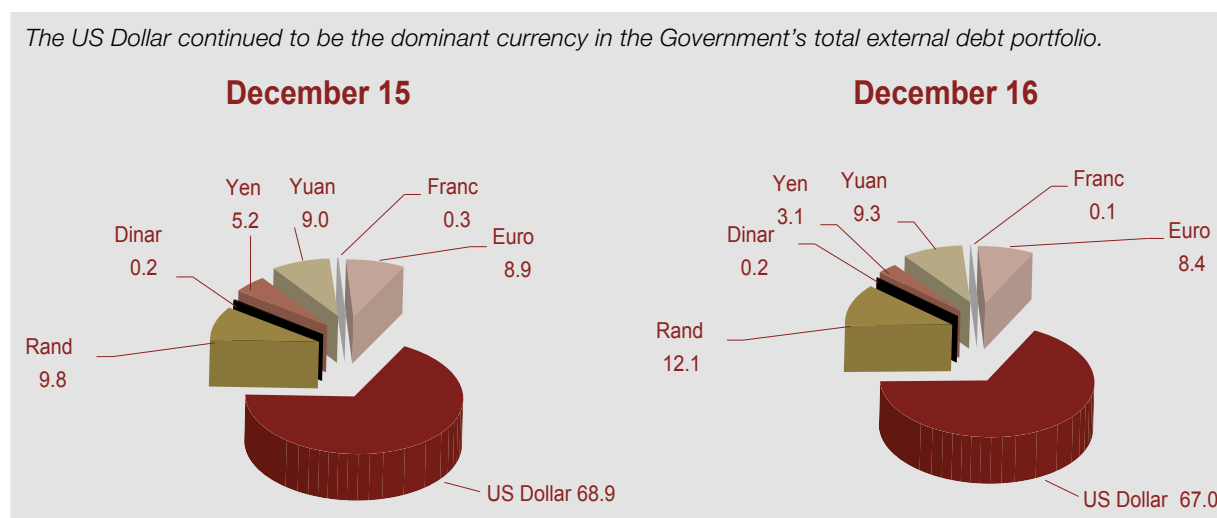
**The Eurobond continued to dominate the external debt portfolio.** At the end of 2016, the Eurobond as a share of total foreign debt stock accounted for 67.0 percent of the external debt portfolio. This drop of 2.0 percentage points from the previous reporting year's figures was mainly due to the local currency appreciating. Bilateral loans made up 12.4 percent of total foreign loans. The JSE bond, which made up 11.4 percent of the total external debt portfolio, increased its share by 2.9 percentage points compared with 2015. The increase derived largely from the new JSE bond issued during the year under review.

## CURRENCY COMPOSITION

**The US Dollar remained the major currency in the Government's total external debt portfolio at the end of the 2016.** Thus, the US Dollar dominated with a 67.0 percent share of the total debt portfolio in 2016, whereas the 68.9 percent share in 2015 had been slightly higher. The second highest currency share in the portfolio was the South African Rand, accounting for 12.1 percent of the total, thus registering 2.5

percentage points higher than its share for the previous reporting year (Figure C.18). Debt denominated in the Yuan accounted for 9.3 percent, increasing by 0.6 percentage points since the previous year, while the Euro and Japanese Yen accounted for 8.4 and 3.1 percent, respectively, at the end of 2016 compared to the previous year.

**Figure C.18: External debt currency composition (% share)**



Source: Ministry of Finance

## CENTRAL GOVERNMENT LOAN GUARANTEES

**Total loan guarantees rose during 2016, as reflected in foreign loan guarantees, with domestic loan guarantees declining over the same period.** Central Government total loan guarantees rose by 18.4 percent

to N\$8.7 billion during the period under review. This was reflected in foreign loan guarantees and mainly resulted from a new loan that was acquired in the finance sector during the year under review. Meanwhile, domestic

guarantees declined during the year under review, as a result of repayments of some loans in the education and finance sectors. As a percentage of GDP, Central Government loan guarantees rose by 0.6 percentage

point to 5.5 percent. At this ratio, total loan guarantees remained well below the Government's ceiling of 10.0 percent of GDP.

**Table C.8: Central Government loan guarantees, 31 December 2016 (N\$ million)**

| Type of loan guarantee   | 2012           | 2013           | 2014           | 2015           | 2016           |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| GDP fiscal year          | 110,835        | 126,937        | 141,280        | 148 992        | 158 615        |
| Domestic guarantees      | 918.0          | 832.2          | 799.7          | 1,452.3        | 1,045.8        |
| As % of GDP              | 0.8            | 0.7            | 0.6            | 1.0            | 0.7            |
| As % of total guarantees | 41.6           | 18.1           | 16.8           | 19.7           | 12.0           |
| Foreign guarantees       | 1,288.1        | 3,757.9        | 3,947.9        | 5,914.1        | 7 673.6        |
| As % of GDP              | 1.2            | 3.0            | 2.8            | 4.0            | 4.8            |
| As % of total guarantees | 58.4           | 81.9           | 83.2           | 80.3           | 88.0           |
| <b>Total guarantees</b>  | <b>2,206.1</b> | <b>4,590.1</b> | <b>4,747.5</b> | <b>7,366.4</b> | <b>8 719.4</b> |
| As % of GDP              | 2.0            | 3.6            | 3.4            | 4.9            | 5.5            |

Source: Ministry of Finance, Bank of Namibia and Namibia Statistics Agency

## FOREIGN LOAN GUARANTEES

**Total foreign loan guarantees rose during 2016, mainly due to a new loan acquired in the finance sector.** On an annual basis, total foreign loan guarantees rose by 29.8 percent to N\$7.7 billion at the end of 2016 owing to the acquisition of a loan in the finance sector during the period under review. As a percentage of GDP, total foreign loan guarantees rose by 0.8 percentage point to 4.8 percent at the end of the period under review.

**In terms of sectoral allocations, transport continue to remained the dominant sector in the foreign loan guarantees portfolio at the end of 2016.** The transport sector accounted for 63.7 percent of the total share of foreign loan guarantees allocated at the end of the period under review. This represents an annual decline of 28.2 percentage points, in comparison to year earlier. Meanwhile, the finance sector, had the second-largest share of foreign loan guarantees, representing 32.6 percent, while the energy sector made up only 3.2 percent at the end of the review period.

## DOMESTIC LOAN GUARANTEES

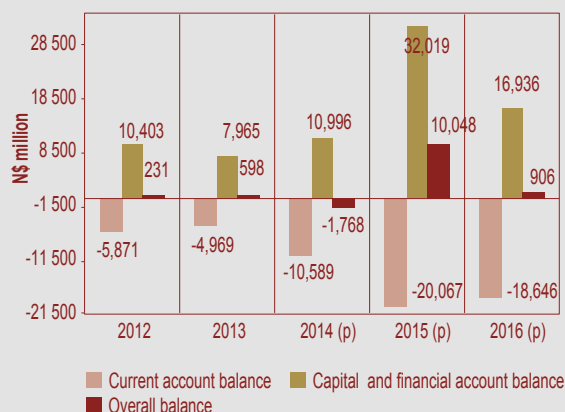
**Domestic loan guarantees declined during 2016, mainly due to repayment of loans by some institutions in the finance, tourism and education sectors.** Domestic loan guarantees declined by 28.0 percent to N\$1.0 billion, at the end of 2016. This was mainly due to repayment of loans by some institutions in the finance, tourism and education sectors during the period under review (Table C.10). Moreover, domestic

loan guarantees as a percentage of GDP declined by 0.3 percentage point to 0.7 percent at the end of 2016. In terms of sectoral distribution, the energy, agricultural, tourism and fisheries sectors continued to dominate the total loan guarantees issued in the domestic market. At the end of 2016, the share of these sectors to total domestic loan guarantees stood at 63.5 percent, 21.3 percent, 8.7 percent and 6.4 percent, respectively.

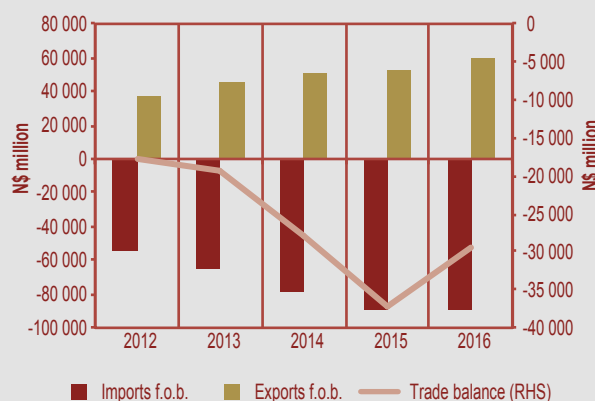
# FOREIGN TRADE AND PAYMENTS<sup>18</sup>

**Figure C.19: External developments**

The overall external balance recorded a reduced surplus of N\$906 million during 2016, from a surplus of N\$10.0 billion in 2015, ascribed to decreased capital inflows in the financial account.



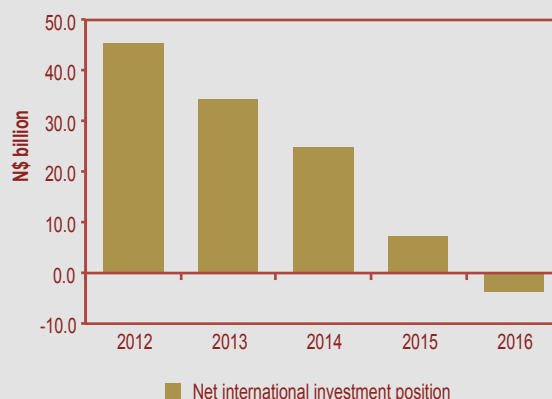
The merchandise trade balance improved between 2015 and 2016 on account of higher export earnings in relation to import payments.



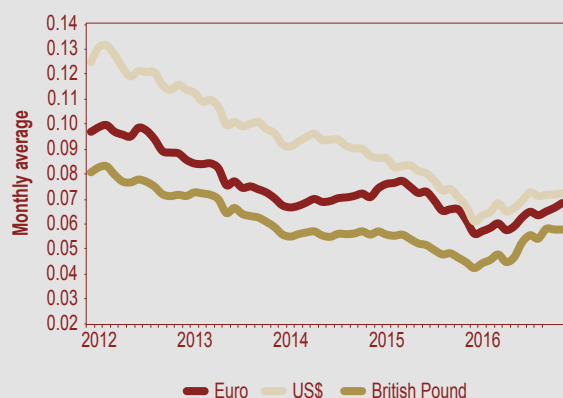
The stock of international reserves rose at the end of 2016, mainly attributed to higher net foreign exchange inflows than in 2015.



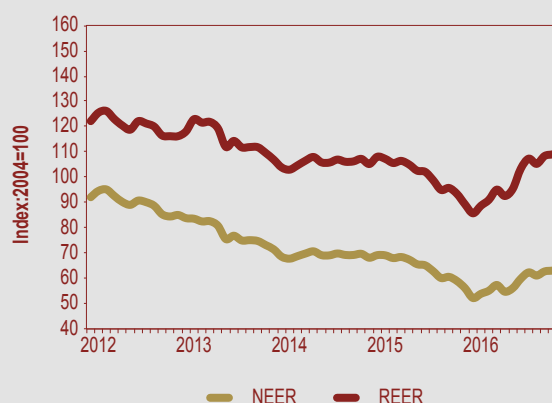
Namibia's International Investment Position (IIP) recorded a net liability position in 2016, compared with the previous year, owing to a faster decline in foreign assets, while foreign liabilities rose marginally.



As from the end of 2015, the Namibia Dollar depreciated against all the currencies of Namibia's major trading partners, primarily due to low commodity prices.



Compared with 2015, Namibia's external competitiveness, on average, improved on the international market, during 2016 as a result of a depreciated real effective exchange rate (REER).



## CURRENT ACCOUNT

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**Namibia's current account deficit remained high despite its improvement during 2016, which derived primarily from a declining merchandise trade deficit.** The current account recorded a lower deficit of N\$18.6 billion, compared with a deficit of N\$20.0 billion in 2015 (Figure C.19). The improvement in 2016 was underpinned by growing export receipts and slower growth in the import bill. The value of

merchandise exports rose on an annual basis, following firm increases in major export categories, namely uranium, gold, manufactured products and re-exports. At the same time, the value of merchandise imports grew marginally during 2016, despite declines in key import categories such as fuel, machinery, vehicles and consumer goods.

## MERCHANDISE TRADE BALANCE

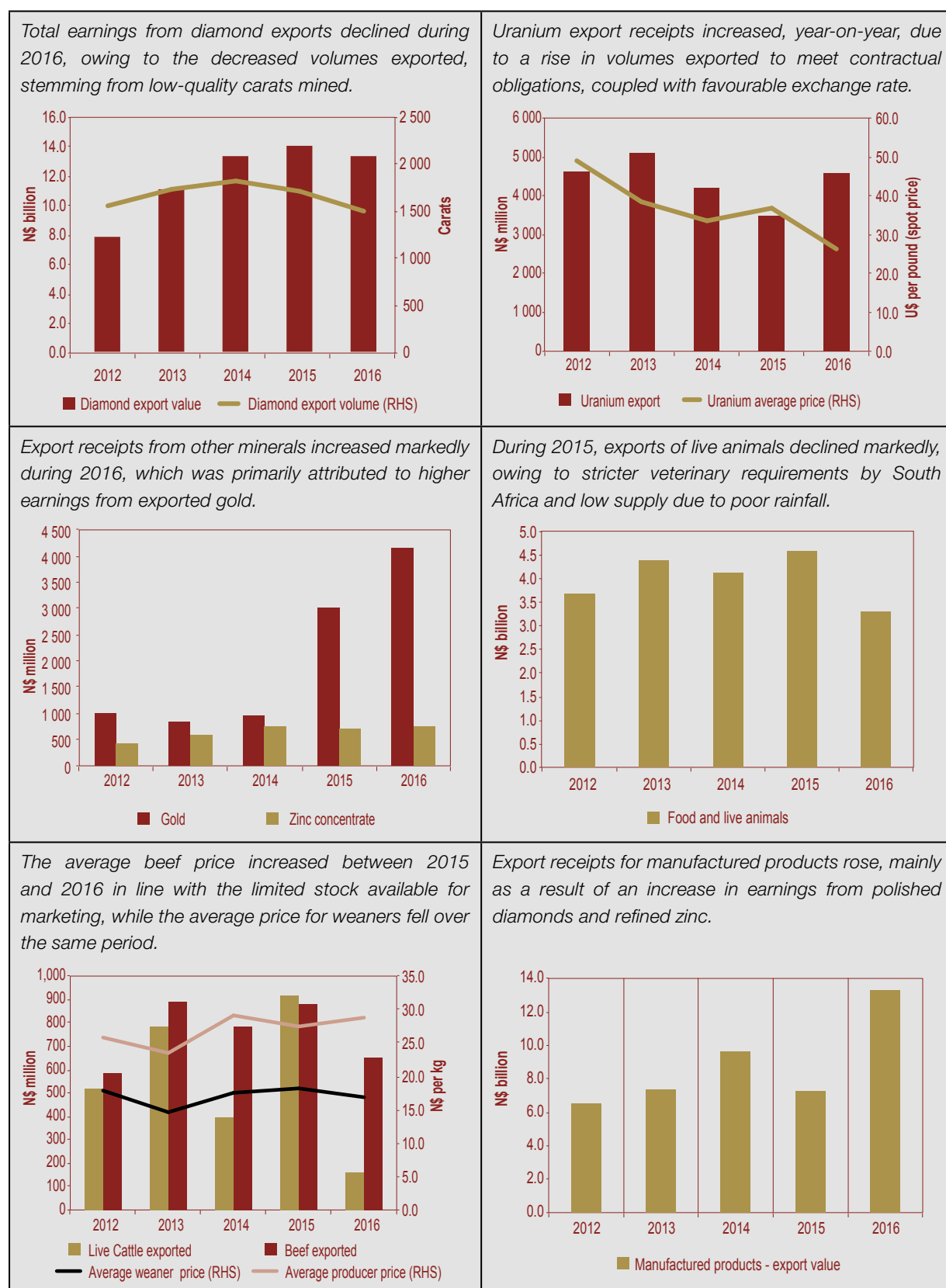
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**During 2016, Namibia's trade deficit narrowed noticeably from its 2015 levels, mainly because of a significant increase in export earnings, which trumped the marginal growth in import payments.** The trade deficit improved significantly by N\$7.6 billion to N\$29.6 billion in 2016 (Figure C.19). The decline in the goods account was supported by a firm increase in export receipts, whereas the import bill rose only marginally. During the review period, export earnings rose by 15.1 percent to N\$59.8 billion. The noticeable annual increase in export receipts was mainly driven by a surge in major export categories such as uranium,

gold, manufactured products and re-exports. Overall, export performance was further supported by the exchange rate, which was favourable, on average, during the review period, when compared with 2015 levels. The import bill increased marginally between 2015 and 2016, namely by 0.3 percent to N\$89.4 billion. The import bill was restrained by key categories, predominantly fuel, machinery, vehicles and consumer goods. These declines were mostly due to the current fiscal consolidation path being taken by Government and the completion of major construction projects, especially in the mining sector.

## EXPORTS

Figure C.20: Export commodities



Source: Namibia Statistics Agency, Ministry of Mines and Energy, Meat Board of Namibia and Bank of Namibia

**Namibia's export proceeds grew during 2016, driven mainly by mineral exports, manufactured products and re-exports.** Export earnings increased noticeably by 15.1 percent to N\$59.8 billion during the review period. Minerals continued to be Namibia's major export commodity, taking up a 40.2 percent share of total export earnings, albeit lower than the 44.7 percent registered in 2015. Diamonds, which constitute the largest subcategory of minerals, slowed from a contribution of 28.5 percent in 2015 to 23.5 percent in 2016. The share of uranium in total exports, however, increased from 6.7 percent in 2015 to 7.7 percent in 2016 (Figure C.20). Other minerals' contribution fell marginally, year-on-year, from 9.4 percent to 9.0 percent

during 2016. Conversely, the share of manufactured products and re-exports in total exports increased from 14.0 percent and 18.5 percent in the previous review period to 22.2 percent and 23.4 percent during 2016, respectively. Showing a decline for the year under review was the share of food and live animals in total exports, falling from 8.9 percent in 2015 to 5.5 percent. This decline was due to a fall in earnings from livestock and meat as a result of the limited number of weaners offered for sale, which in turn arose from the unfavourable effects of the drought. The implementation of new import requirements by South Africa in respect of animals on hoof, contributed to the sluggish exports in this category.

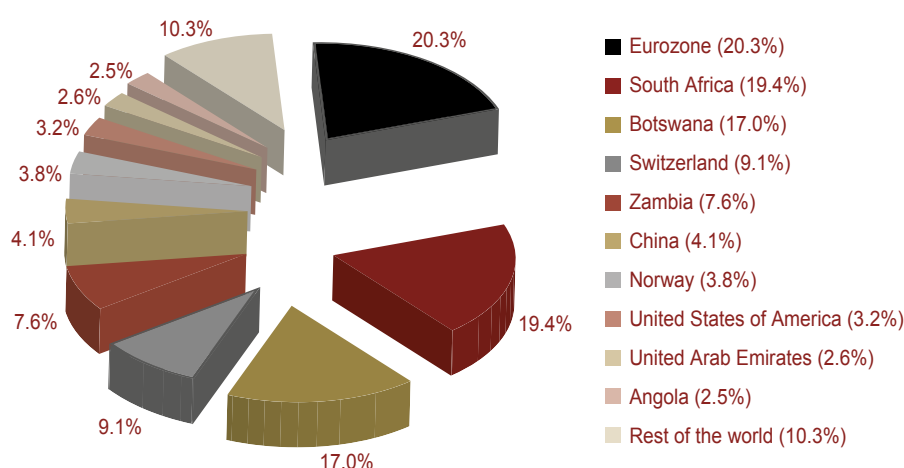
**Table C.9: Major export receipts (% of total exports)**

| Export receipts       | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------|------|------|------|------|------|
| Minerals              | 42.3 | 42.6 | 42.4 | 44.7 | 40.2 |
| Diamonds              | 22.9 | 26.1 | 28.0 | 28.5 | 23.5 |
| Uranium               | 12.8 | 11.4 | 8.4  | 6.7  | 7.7  |
| Other minerals        | 6.6  | 5.2  | 6.0  | 9.4  | 9.0  |
| Food and live animals | 10.2 | 9.8  | 8.3  | 8.9  | 5.5  |
| Manufactured products | 18.2 | 16.4 | 19.3 | 14.0 | 22.2 |
| Re-exports            | 7.9  | 13.7 | 16.2 | 18.5 | 23.4 |
| Other commodities     | 21.4 | 17.4 | 21.0 | 13.9 | 8.6  |

**The Eurozone was the top destination for Namibia's export products during 2016, followed by South Africa and Botswana.** The Eurozone took up 20.3 percent of Namibia's exports during the period under review, to feed their demand for uranium and fish products. South Africa followed closely behind, accounting for 19.4 percent of total exports, which

constituted mainly gold, live animals, fish and other consumables. Botswana absorbed about 17.0 percent of total exports, consisting predominantly of diamonds. Other export products were destined for Switzerland, Zambia and China, which comprised 9.1 percent, 7.6 percent and 4.1 percent of total exported commodities, respectively (Figure C.21).

**Figure C.21: Namibia's major export destinations (% share)**



Source: Namibia Statistics Agency

## Mineral exports

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### Diamonds

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**Diamond export receipts declined between 2015 and 2016 on the backdrop of low quality carats mined.** Export receipts from diamonds decreased by 5.2 percent to N\$14.1 billion during the period under

review (Figure C.20). The decline was evident in the yearly volumes exported, which fell by 225,210 carats to 1 577,878, attributed to the low quality carats mined during 2016.

### Uranium

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**Export proceeds from uranium increased on an annual basis due not only to a rise in volumes exported to meet contractual obligations, but also the benefits of a favourable exchange rate.**

Uranium export earnings rose significantly by N\$1.1 billion to N\$4.6 billion between 2015 and 2016, as a result of higher volumes exported to meet contractual obligations, coupled with a favourable exchange rate environment. In this connection, volumes exported rose noticeably by 1,056 metric tonnes between the two reporting periods, to reach 4,310 metric tonnes

in 2016 (Figure C.20). Furthermore, the average international prices for uranium fell markedly by 28.4 percent between 2015 and 2016, to US\$26.31 per pound. Uranium prices were depressed largely due to global oversupply and high inventories. Going forward, with the expected opening of nuclear reactors in China and India, the demand – and, concomitantly, the price – is anticipated to increase. In addition, production is projected to be ramped up with the operationalisation of the Husab Uranium Mine, which will result in higher export earnings from this mineral.

### Other minerals

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**During 2016, other mineral<sup>19</sup> export proceeds surged, driven primarily by high-grade ore mined at the gold mine and higher gold prices.** Foreign earnings from all other minerals rose by 10.0 percent to N\$5.4 billion in 2016. The increase owed itself principally to greater export earnings from gold, which rose by 37.6 percent to N\$4.1 billion. This growth was underpinned by better grades mined during the review period, coupled with increased production capacity, which translated in rising exported volumes. Conversely,

export earnings from zinc and copper concentrate declined from 2015 to 2016, mainly due to low-grade ores mined. The average international prices for gold, zinc and lead all climbed during the reporting year, while that of copper fell. The increased average price of gold stemmed mainly from investors seeking less risky assets, and low interest rate environment in advanced economies. Zinc prices were driven up by a significant reduction in global production and increased demand from the Chinese market.

## Non-mineral exports

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### Food and live animals

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**During 2016, the export earnings from food and live animals declined significantly when compared with 2015.** Foreign earnings for this sector of the economy fell noticeably by 28.1 percent in 2016, to N\$3.3 billion (Figure C.20). The main momentum of the decline originated from the limited number of weaners offered for sale, resultant from the unfavourable effects of the drought. South Africa's import requirements in respect of weaners on hoof also negatively affected foreign earnings in the reporting year.

**Although the average price for weaners fell during 2016, it increased for beef.** Thus, the average price

for beef rose by 4.3 percent from its 2015 level to N\$28.8 per kilogram in 2016 (Figure C.20). The higher price of beef in 2016 was in line with the concurrent shortage of cattle available in the market, mostly due to the drought. On the other hand, the average price for weaners fell by 7.3 percent during 2016, to N\$16.7 per kilogram. The lower average price for weaners could be ascribed to a general drop in the number of live weaners exported, which owed itself largely to South Africa's stricter veterinary import requirements.

**19** These include gold, zinc concentrate, copper concentrate, lead, manganese and dimension stones.

## Manufactured products

**Receipts from manufactured products exported increased significantly during the period under review due to higher earnings from diamond polishing and refined zinc.** Export earnings from manufactured products surged by N\$6.0 billion, levelling off at N\$13.3 billion for 2016 (Figure C.20). The increase earnings for manufactured products could be traced to intensified activities in diamond polishing and

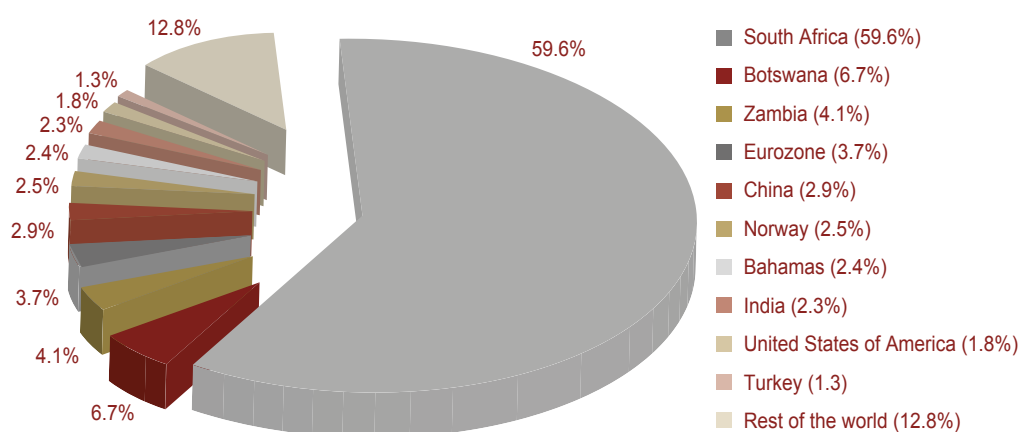
zinc refinery. The manufacturing companies registered higher earnings, which they ascribed to improved global demand, especially for polished diamonds, coupled with a weak average exchange rate. The increase in earnings from refined zinc was supported by higher volumes exported, mainly stemming from base effects and increased zinc prices.

## IMPORTS

**During 2016, South Africa remained Namibia's leading source of imported merchandise.** Namibia's southern neighbour accounted for about 59.6 percent of the total imported goods during the period under review (Figure C.22). South Africa proved to be the most popular source of vehicles, distillate fuel and consumer goods. Botswana was second, accounting for 6.7 percent of all imports. Imports from Botswana consisted largely of

diamonds. Zambia was Namibia's third largest source of imported goods during 2016, making up 4.1 percent of the total. In this regard, copper was the predominant commodity sourced from neighbouring Zambia. Among the highest components of the remaining imports originated from the Eurozone (3.7 percent), China (2.9 percent) and Norway (2.5 percent).

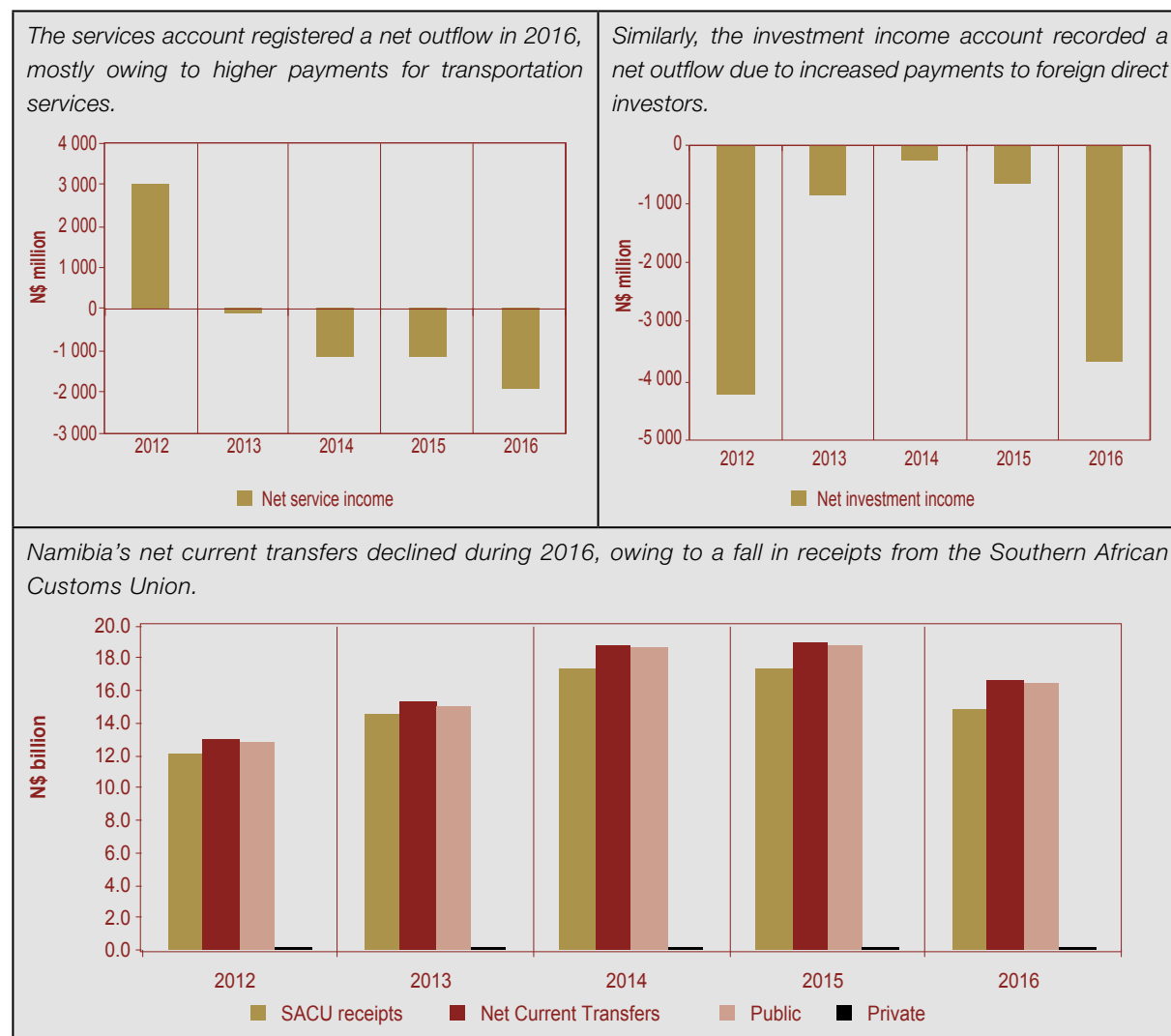
**Figure C.22: Namibia's major imports, by origin (% share)**



Source: Namibia Statistics Agency

## Services, investment income and current transfers

Figure C.23: Other current account components



Source: Various companies and Bank of Namibia surveys

### Services

**Namibia's net services account recorded a higher outflow during 2016, driven predominantly by higher payments made for transportation services.**

Thus, net services recorded an outflow of N\$1.9 billion,

up from a lower outflow of N\$1.2 billion the previous year (Figure C.23). The higher outflow was primarily attributable to an increase in transportation activities during the review period.

### Investment income

**During 2016, net investment income recorded a higher net outflow due to increased payments to foreign direct investors.** The net outflow on the investment income account moved to N\$3.7 billion from a lower net outflow of N\$631 million in the corresponding period the year before (Figure C.23). The rise stemmed

from a significant increase in dividend payments and retained earnings, predominantly by mining entities. In this regard, net income payments to foreign direct investors increased by N\$3.0 billion to N\$5.9 billion between 2015 and 2016.

## Current transfers

**Namibia's net current transfer receipts declined in 2016 in comparison with 2015 levels, owing to reduced SACU receipts.** Net current transfer receipts dropped by 12.4 percent to register N\$16.6 billion during 2016. The decline was driven by decreased

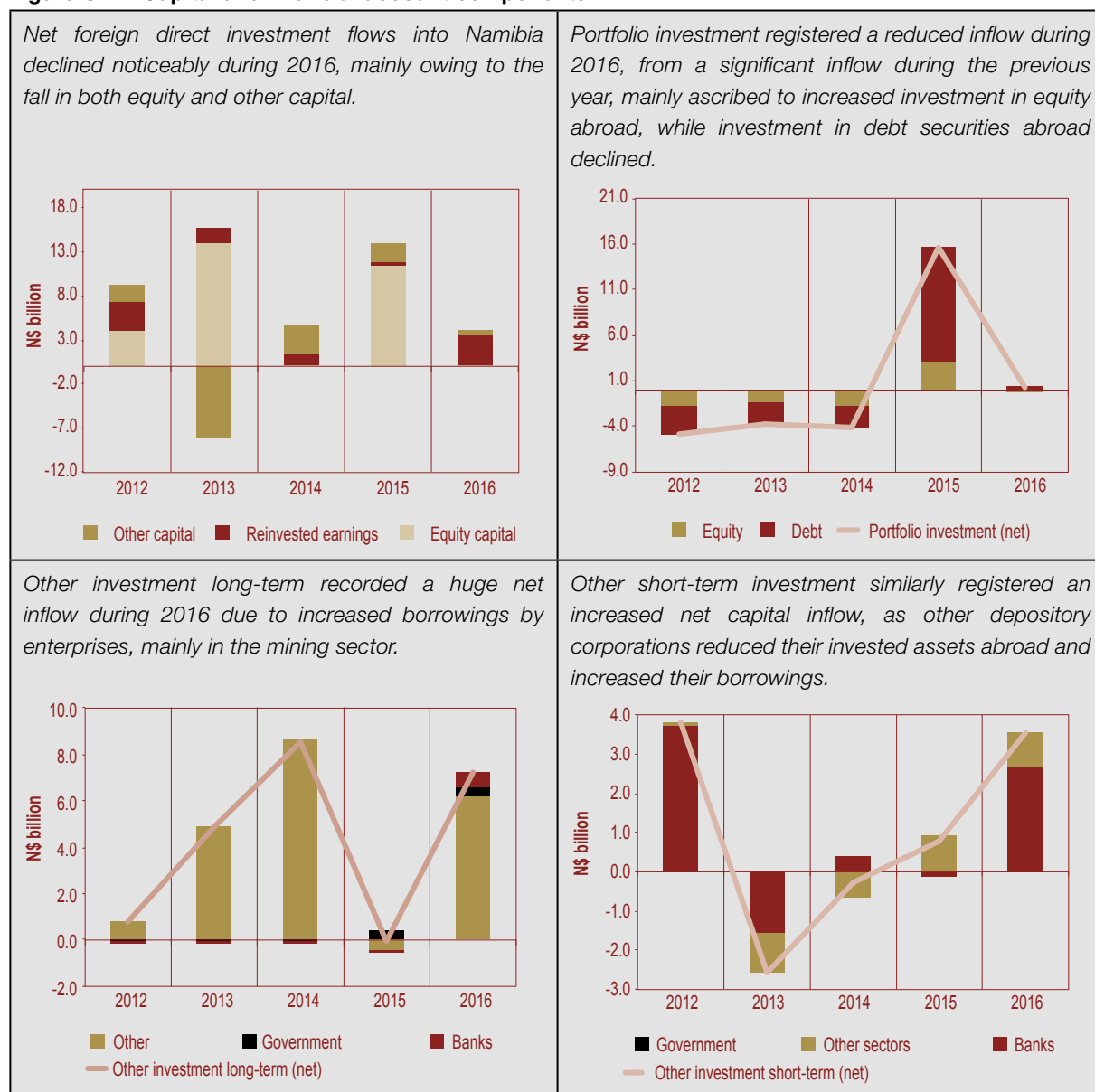
SACU receipts, which fell by 14.6 percent to N\$14.8 billion in 2016, when compared with 2015 figure (Figure C.23). Part of the decline could also be traced to higher Government payments made in terms of other transfers, which rose marginally by 2.7 percent to N\$1.2 billion.

## CAPITAL AND FINANCIAL ACCOUNT

**The capital and financial account recorded a reduced surplus during 2016 in comparison with 2015, mainly due to lower foreign direct investment (FDI) inflows.** Thus, the capital and financial account surplus declined sharply to N\$16.9 billion during the reporting period, from N\$32.0 billion

in the preceding year (Figure C.24). The decline was attributed to significantly lower net FDI inflows, which were previously amplified via the issuance of the Eurobond in combination with debt-to-equity swaps by some mining companies during 2015.

**Figure C.24: Capital and financial account components**



Source: Bank of Namibia

## Foreign direct investment

**During 2016, net FDI flows into Namibia fell sharply, following reduced investment in both equity and other capital.** FDI inflows declined by 71.1 percent from 2015 inflows to N\$4.0 billion during 2016 (Figure C.24). The declines mainly emanated from high base effects of the debt-to-equity swaps by some mining companies in 2015. In this regard, investment in equity capital declined substantially from the N\$11.4 billion registered in the previous reporting year to N\$236.0 million in 2016. Similarly, other capital registered a net

inflow of N\$508.0 million in 2016, from a higher inflow of N\$2.1 billion in 2015. This development during the previous year arose because part of the funded equity originated from loans of other investors, and not exclusively from other capital. Conversely, reinvested earnings rose significantly from N\$544 million in 2015 to N\$3.3 billion in 2016. The surge was on the back of increased operating profits of enterprises, primarily in the mining and financial sectors, especially during the first quarter of 2016.

## Portfolio investment

**Portfolio investment recorded a reduced net inflow during 2016 from a significant high net inflow during the preceding year, mainly due to base effects arising from the issuance of the Eurobond during the previous year.** In this regard, net portfolio investment registered a reduced inflow of N\$314.0 million during 2016, while a major inflow of N\$15.6 billion prevailed in 2015 (Figure C.24). This smaller inflow in 2016 relative to 2015 mainly stemmed from

the base effects of high inflows in debt securities, which originated from the issuance of the Eurobond during the previous year. In this connection, asset management companies increased their foreign investment in the form of equity abroad, amounting to N\$215.0 million in 2016, while foreign investment in debt securities declined from N\$12.2 billion to N\$1.1 billion over the same period.

## Other investment

**During 2016, net inflows of other long-term investment<sup>20</sup> rose substantially, mainly credited to an increase in foreign borrowings by local enterprises.** The inflow of other long-term investment rose to N\$7.0 billion during 2016, mainly due to liabilities incurred by other sectors, primarily corporations in the mining sector. Commercial banks similarly increased their borrowings with their parent companies (Figure C.24).

**Similarly, during 2016, the net capital inflow of other short-term investment rose considerably,**

**owing to banks reducing their assets abroad.** In this regard, an inflow of N\$3.5 billion was recorded during 2016, from a lower inflow of N\$791.0 million in 2015 (Figure C.24). The inflow during the period under review emanated from a combination of banks reducing their foreign invested assets and increased borrowing from their parent companies abroad. Thus, banks registered an inflow of N\$2.7 billion of which N\$1.7 billion was attributed to decreased foreign assets, while their liabilities were increased by N\$344.0 million to N\$1.0 billion during the year under review and contributed to the overall net inflow for this category in 2016.

## INTERNATIONAL RESERVES

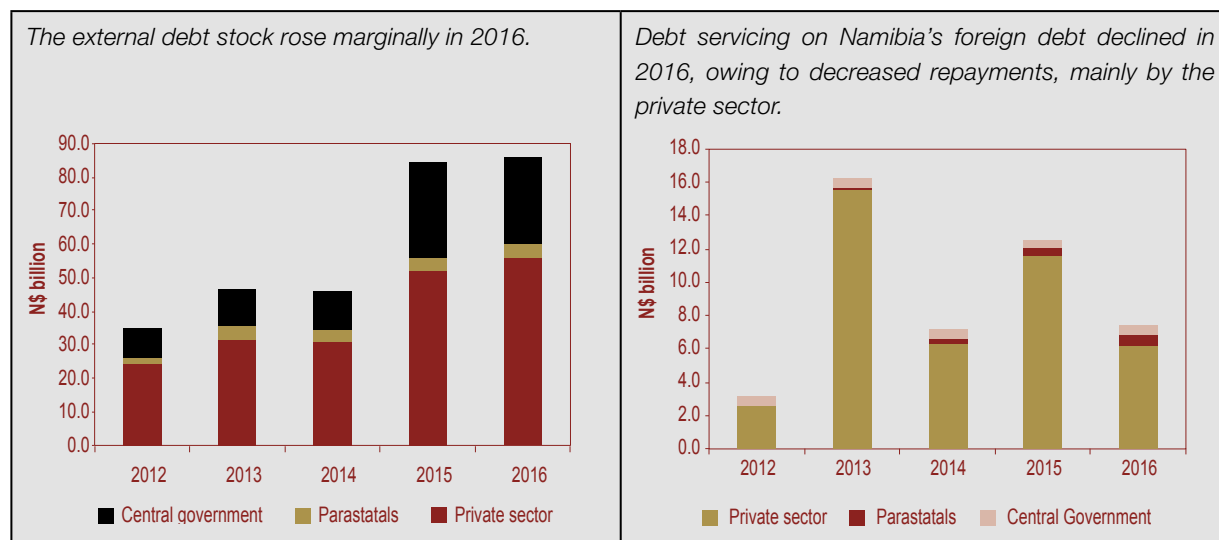
**At the end of 2016, the estimated stock of international reserves held by the Bank of Namibia rose due to higher net foreign exchange inflows.** The international reserves rose by 4.8 percent to N\$24.7 billion at the end of 2016. The major contributors to these inflows were; the asset swap arrangements between the Bank of Namibia and institutional investors, SACU revenue inflows and the issuance of the JSE-listed bonds in July 2016 (Figure C.19). Given the rise

in the reserves and marginal increase in imports, the import cover increased from 2.8 months in 2015 to 2.9 months in 2016, marginally lower than the international benchmark of 3.0 months. At the current level of N\$24.7 billion, the international reserves were 5.6 times higher than the currency in circulation during the period under review, supporting the adequacy of reserves required to maintain the currency peg to the Rand.

**20** The category *Other long-term investment* consists of loans with the original contractual maturity of more than one year or with no stated maturity (e.g. equity securities), while the category *Other short-term investments* are those that are payable on demand (e.g. currency), or which have an original contractual maturity of one year or less.

## EXTERNAL DEBT<sup>21</sup>

Figure C.25: External debt



Source: Bank of Namibia

**At the end of 2016, Namibia's total external debt stock rose marginally, primarily due to increased borrowing by the private sector.** In this regard, the total external debt outstanding rose by 1.1 percent to N\$85.6 billion in comparison to the level in 2015 (Figure C.25). The increase was mainly reflected in the borrowings of the private sector, which rose by 7.9 percent to N\$55.7 billion. On the contrary, the foreign

debt stock of Central Government and parastatals declined by 10.3 percent and 4.6 percent to N\$25.4 billion and N\$4.4 billion, respectively, mainly due to the appreciation of the Namibia Dollar. Consequently, the total external debt stock as a percentage of GDP fell to 54.8 percent at the end of 2016, relative to 57.7 percent of GDP in 2015.

**21** The data on external debt levels for Namibia, as carried out by the Bank of Namibia through surveys, have been revised due to the reclassification of certain items.

**Table C.10: Namibia's external debt**

| <b>Total external debt stock</b>     | <b>2012</b>  | <b>2013</b>  | <b>2014</b>  | <b>2015</b>  | <b>2016 (est.)</b> |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------------|
| <b>(N\$ billion)</b>                 |              |              |              |              |                    |
| Central Government                   | 9.0          | 10.9         | 11.4         | 28.3         | 25.4               |
| Parastatals                          | 2.2          | 4.1          | 3.5          | 4.6          | 4.4                |
| Private sector                       | 23.8         | 31.9         | 30.8         | 51.7         | 55.7               |
| <b>Total external debt</b>           | <b>35.0</b>  | <b>46.9</b>  | <b>45.7</b>  | <b>84.6</b>  | <b>85.6</b>        |
| <b>(in % of total external debt)</b> |              |              |              |              |                    |
| Central Government                   | 25.8         | 23.2         | 25.0         | 33.5         | 29.7               |
| Parastatals                          | 6.2          | 8.8          | 7.7          | 5.5          | 5.2                |
| Private sector                       | 68.0         | 68.0         | 67.3         | 61.0         | 65.1               |
| <b>Total external debt</b>           | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>       |
| <b>(in % of GDP)</b>                 |              |              |              |              |                    |
| Central Government                   | 8.5          | 8.9          | 8.2          | 19.3         | 16.5               |
| Parastatals                          | 2.0          | 3.3          | 2.5          | 3.1          | 2.8                |
| Private sector                       | 22.3         | 26.0         | 22.1         | 35.2         | 36.1               |
| <b>Total external debt</b>           | <b>32.8</b>  | <b>38.2</b>  | <b>32.8</b>  | <b>57.7</b>  | <b>54.8</b>        |

Source: Bank of Namibia

**In comparison to 2015, Namibia's foreign debt servicing declined in the reporting year due to reduced payments, primarily by the private sector.**

Thus, total debt servicing declined by 40.3 percent to N\$7.5 billion in 2016 compared with the previous year (Figure C.25). Moreover, the reduction in private sector debt servicing of 46.5 percent to N\$6.2 billion, was mainly reflected in decreased short-term loans and trade finance of the commercial banks during the period under review. In addition, debt servicing decreased as a result of the high base effects linked to the debt-to-equity swap in 2015. Conversely, even though the

Central Government and parastatals' debt service rose, it was insufficient to offset the decline in loan repayments by the private sector.

**The ratio of debt servicing to exports also fell in comparison with the ratio for 2015.** The 2016 ratio fell to 12.5 percent, from 24.1 percent in the previous year. This decline was mainly due to decreased debt servicing, coupled with higher growth in exports during 2016. These factors led to the ratio settling well below the international benchmark<sup>22</sup> of 15.0–25.0 percent.

## INTERNATIONAL INVESTMENT POSITION

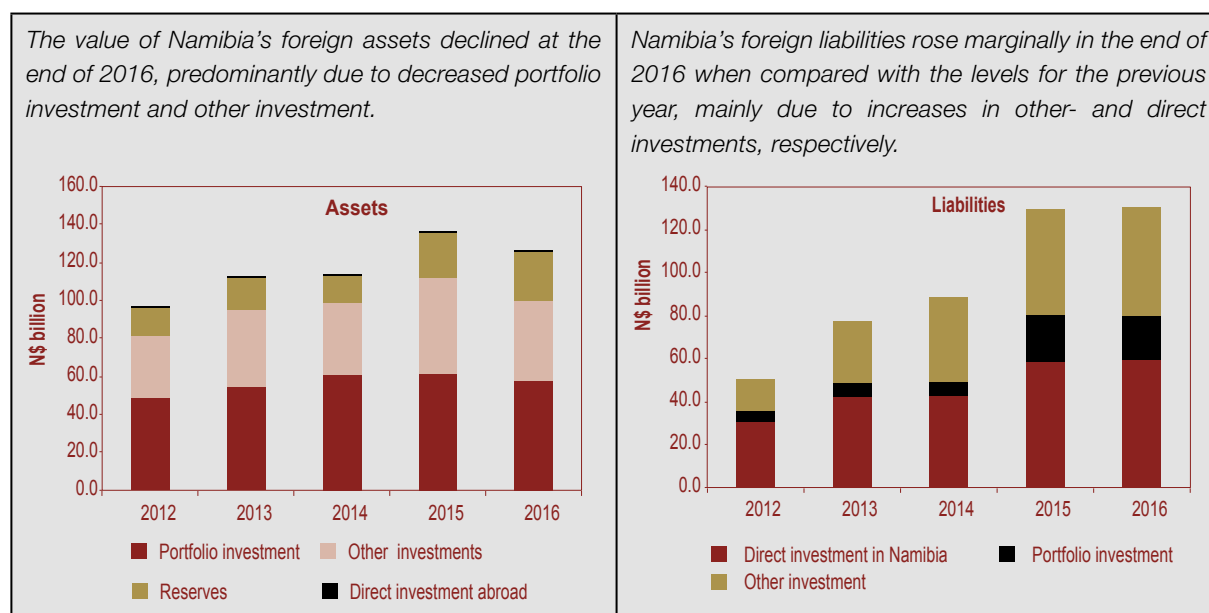
**At the end of 2016, Namibia's international investment position recorded a net liability position relative to the prior reporting year, owing to a faster decline in foreign assets when compared**

**to a marginal growth in foreign liabilities.** The net foreign liability position in this regard was N\$3.7 billion in 2016.

22

The international benchmark values give an assessment of the country's risk of debt distress. If the ratio falls below the threshold of 15.0–25.0 percent, then the country is seen to meet its debt service obligations and is at low risk. Should the country's debt burden fall within the threshold, but stress tests indicate a possible breach in the presence of external shocks or abrupt changes in macroeconomic policies, then it would be at a moderate risk. But if the country's debt burden falls above the stated threshold, then the country would be considered to be in debt distress and stringent policy interventions need to be taken.

**Figure C.26: International investment position: Foreign assets and liabilities**



Source: Bank of Namibia

**The value of Namibia's foreign assets declined at the end of 2016, predominantly due to a decline in portfolio investment and other investment.**

The stock of foreign assets declined by 7.1 percent, to N\$127.1 billion at the end of 2016 (Figure C.26). The decrease in foreign assets was mostly reflected in portfolio- and other investments that fell by 5.3 percent and 15.5 percent, to N\$57.9 billion and N\$42.6 billion, respectively. The decline in portfolio investment was primarily due to decreased investments in debt and equity securities abroad. The decline in other investment was mainly due to decreased claims of the banks in the form of short-term loans and trade finance as well as in the category other assets.

**At the end of 2016, the value of Namibia's foreign liabilities rose when compared to the previous year, mainly due to an increase in other- and direct investment.**

Thus, the country's foreign liabilities rose slightly by 0.9 percent on an annual basis to N\$130.7 billion at the end of the period under review (Figure C.26). The increase could be attributed to other investment that rose by 3.8 percent to N\$51.0 billion, mainly due to a rise in long-term loans and trade finance of some EPZ companies in the mining sector. Direct investment similarly rose by 2.1 percent to N\$59.8 billion. This was mostly reflected in increases of both equity and other capital of the companies predominantly in the mining sector.

## EXCHANGE RATE DEVELOPMENTS

**The annual average rate of the Namibia Dollar depreciated against a basket of major trading currencies in 2016, primarily due to low commodity prices, a weak domestic economic outlook, and concerns regarding political developments in South Africa.** During the course of the reporting year, the Namibia Dollar weakened considerably, on average, by 16.5 percent against the US Dollar, 16.1 percent against the Euro and by a lower rate of 4.0 percent against the British Pound, when compared to 2015 (Figure C.19). The depreciation of Namibia's currency against all major trading currencies was mainly

attributable to the international low export commodity prices; a weak economic growth outlook linked to South Africa's adverse political events, which eroded business confidence; and fears of sovereign credit downgrade during the period under review.

**Year-on-year, the Namibia Dollar appreciated against all major trading currencies in December 2016, compared to the same period in 2015.** By the end of December 2016, the Namibia Dollar appreciated by 5.7 percent against the US Dollar, 22.7 percent against the British Pound, and by 9.9 percent against

the Euro, when compared to the end of December 2015 (Figure C.19). The appreciation of the Namibian currency against all these currencies can be attributable to base effects, a moderate uptick in commodity prices, and

a rebound in emerging markets' risk appetite, on the back of a relatively low yield environment in developed markets during the period under review.

## TRADE-WEIGHTED INDEX

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**For the duration of 2016, on average, both the nominal effective exchange rate (NEER) and the real effective exchange rate (REER) indices for Namibia depreciated.** The NEER index depreciated by 9.0 percent, while the REER index depreciated by 1.7 percent when compared with the previous year (Figure C.19). Adverse political events in South Africa during the period under review negatively affected the

financial markets and ultimately led to the depreciation, as reflected in the two indices. Nonetheless, the depreciation of the REER implies that Namibia's external competitiveness improved in the international market. This competitiveness gain was, however, partly eroded by the strengthening of the currency during the second half of 2016.

# Note on the conversion and revision of Namibia's balance of payments statistics

## INTRODUCTION AND BACKGROUND

To keep abreast of international best practice in the compilation and dissemination of balance of payments statistics, the Bank of Namibia (BoN) has aligned its balance of payments statistics with the guidelines provided in the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) of the International Monetary Fund (IMF). This transition is discussed and the revised statistics, including a change in the analytical presentation of the balance of payments, are presented in this note.

The foundation for the enhancements now being introduced by BoN was laid in 2009 when, in response to economic and financial developments, changes in analytical interest and the accumulation of experience by compilers, the IMF introduced a revised manual for the compilation of balance of payments statistics, replacing the 1993 version. Three thematic trends motivated the revisions in the manual:

- *Increasing globalisation*, visible in the expanding relationships among economies brought about by migration and the rise in global value chains and production processes such as outsourcing and merchanting among economies.
- *Increasing elaboration of balance sheet issues*, with balance sheet analysis as an approach becoming more and more relevant for understanding international economic developments in the context of vulnerability and sustainability.
- *Financial innovation*, which gave rise to the creation of and growth in new financial processes and instruments such as securitization and index-linked securities, and also underpinned the recent surge in institutional arrangements such as special purpose entities and multi-economy corporate structures.

## MAJOR CHANGES IN THE CURRENT ACCOUNT: LAYOUT, CATEGORIES AND NEW SOURCES

With the migration to BPM6, new sources of data were identified to enhance the data, fill some of the hitherto existing gaps and replace estimates that were outdated. As a result, there are more categories as BPM6 allows for more disaggregation when compared to BPM5. Furthermore, there are noticeable changes in the

titles of some categories between the two standards. In addition, the capital account is now incorporated in the current account to determine whether the country is a net lender to or net borrower from the rest of the world. The major adjustments that were effected on the current account are dealt with by sub-account in the following sections:

### Merchandise trade account

Key changes in the goods account arose from the identification of specific Customs Procedure Codes (CPCs) in line with the BPM6 standards, as opposed to using the General Trade Statistics. In the latest (BPM6) presentation

of the trade statistics, imports are now disaggregated to indicate the key imported commodities, as opposed to disseminating a single aggregate figure. Moreover, BoN has completely moved away from using exports data from its original source, namely

quarterly surveys conducted by BoN, and replaced the data with the export figures sourced from the Namibia Statistics Agency (NSA). This was to ensure

reconciliation between the National accounts and Balance of payments.

## Services account

**New data sources were introduced in the services account and an expansion of the services categories were incorporated as per the BPM6 guidelines.** The services account underwent major changes, as new categories were added to the existing ones and these were also incorporated in the latest BoP quarterly surveys conducted among respondents. Furthermore, key sources were identified and utilised; these include the Balance of Payments Reporting Requirements for Customer

Transactions (BOPCUS) system and administrative sources like the Banking Services Department within the BoN for all transactions related to government payments to non-resident entities. The summary presentation of the key services categories includes new sub-categories such as *Manufacturing Services* and *Maintenances and Repair Services*. It is worth noting that in BPM5, Manufacturing Services were included in the goods account even when change of ownership did not take place.

## Secondary income account

**The secondary income category, previously known as current transfers in BPM5, underwent a number of changes due to the utilisation of new sources that made it possible to fill gaps that previously existed in the data and improve estimates that were outdated.** In this regard, the main adjustment within this sub-account was the incorporation of the data received from BOPCUS to fill the gaps for private aid and grants. The system was also helpful in filling the gaps on personal

remittances, as this is an item that previously relied mainly on data captured through household surveys that are conducted far apart. Furthermore, Government aid and grants were revised using the Budget Book and committed amounts on projects monitored by the National Planning Commission (NPC). Secondary income remains a key contributor of inflows in the current account of the balance of payments, as was the case in BPM5.

## Capital account

**The Capital account shows capital transfers receivable and payable between residents and non-residents, and the acquisition and disposal of non-produced, non-financial items.** In BPM6, this account together with the Current account determine the country's lending or borrowing status. In BPM5, the Capital account had numerous soft estimates, as the main source was quarterly surveys

that at times were incomplete and hard to verify. Once again, the BOPCUS was identified as a major source to fill the gaps in the account. In addition, data from administrative sources, notably the NPC, was also integrated to compile the capital account in BPM6.

Following all the major changes between the two standards, Table 1 below compares the results

for the two periods (2015 and 2016) between BPM5 and BPM6 in the Current Account.

**Table 1: Impact of migration to BPM6, including general revisions, on the Current account of the Balance of payments**

| Current account<br>(N\$ million)          | BPM5           |                | Current account<br>(N\$ million)              | BPM6           |                |
|-------------------------------------------|----------------|----------------|-----------------------------------------------|----------------|----------------|
|                                           | 2015           | 2016           |                                               | 2015           | 2016           |
| <b>1. Merchandise trade balance [2-3]</b> | <b>-37,194</b> | <b>-29,571</b> | <b>1. Merchandise trade balance [2-3]</b>     | <b>-40,066</b> | <b>-32,046</b> |
| <b>2. Exports fob</b>                     | <b>51,938</b>  | <b>59,792</b>  | <b>2. Exports fob</b>                         | <b>41,663</b>  | <b>50,264</b>  |
| Diamonds                                  | 14,828         | 14,050         | Diamonds                                      | 11,195         | 10,357         |
| Other mineral products                    | 8,392          | 9,974          | Other mineral products                        | 8,437          | 10,569         |
| Food and live animals                     | 4,607          | 3,312          | Food and live animals                         | 2,718          | 2,390          |
| Manufactured products                     | 7,293          | 13,298         | Manufactured products                         | 14,015         | 19,100         |
| Other commodities                         | 16,818         | 19,159         | of which :Processed fish                      | 7,054          | 8,515          |
|                                           |                |                | Other commodities                             | 3,042          | 3,243          |
|                                           |                |                | Re-exports                                    | 2,257          | 4,604          |
| <b>3. Imports fob</b>                     | <b>-89,131</b> | <b>-89,362</b> | <b>3. Imports fob</b>                         | <b>81,729</b>  | <b>82,310</b>  |
|                                           |                |                | Consumer goods                                | 18,765         | 19,703         |
|                                           |                |                | Mineral fuels, oils and distillation products | 14,136         | 11,959         |
|                                           |                |                | Vehicles, aircraft, vessels                   | 10,579         | 11,716         |
|                                           |                |                | Machinery, mechanical, electrical appliances  | 13,189         | 12,362         |
|                                           |                |                | Products of the chemical industries           | 6,949          | 5,409          |
|                                           |                |                | Base metals and articles of base metal        | 6,361          | 7,288          |
|                                           |                |                | Other imports                                 | 11,749         | 13,873         |
| <b>4. Services (net)</b>                  | <b>-1,152</b>  | <b>-1,934</b>  | <b>4. Services (net)</b>                      | <b>1,708</b>   | <b>-2,450</b>  |
| Transportation (net)                      | -4,648         | -4,929         | Manufacturing services (net)                  | 1,461          | 1,521          |
| Travel (net)                              | 3,010          | 2,606          | Maintenance and repair services (net)         | 235            | 27             |
| Insurance (net)                           | -942           | -900           | Transportation (net)                          | -977           | -964           |
| Other private services* (net)             | 1,351          | 1,212          | Travel (net)                                  | 4,779          | 2,065          |
| Other government services (net)           | 77             | 77             | Insurance (net)                               | -272           | -227           |
|                                           |                |                | Other private services* (net)                 | -3,987         | -4,575         |
|                                           |                |                | Other government services (net)               | 470            | -296           |
| <b>5. Compensation of employees (net)</b> | <b>-53</b>     | <b>-74</b>     | <b>5. Primary income (net)</b>                | <b>-555</b>    | <b>-4,438</b>  |
|                                           |                |                | 5.1 Compensation of employees (net)           | 59             | -50            |

| Current account<br>(N\$ million)                      | BPM5           |                | Current account<br>(N\$ million)                                         | BPM6           |                |
|-------------------------------------------------------|----------------|----------------|--------------------------------------------------------------------------|----------------|----------------|
|                                                       | 2015           | 2016           |                                                                          | 2015           | 2016           |
| <b>6. Investment income (net)</b>                     | <b>-631</b>    | <b>-3,679</b>  | 5.2 Investment income (net)                                              | -510           | -4,278         |
| Income received                                       | 3,594          | 3,401          | Income received                                                          | 3,620          | 3,489          |
| Direct investment                                     | -20            | -73            | Direct investment                                                        | 84             | 106            |
| Portfolio investment                                  | 2,759          | 2,505          | Portfolio investment                                                     | 2,742          | 2,489          |
| other investment                                      | 856            | 969            | Other investment                                                         | 476            | 477            |
| Income paid                                           | -4,225         | -7,080         | Reserve assets                                                           | 318            | 417            |
| Direct investment                                     | -2,868         | -5,865         | Income paid                                                              | 4,129          | 7,766          |
| Portfolio investment                                  | -446           | -637           | Direct investment                                                        | 2,478          | 5,301          |
| Other investment                                      | -911           | -578           | Portfolio investment                                                     | 859            | 1,928          |
|                                                       |                |                | other investment                                                         | 792            | 537            |
|                                                       |                |                | 5.3 Other Primary Income                                                 | -104           | -111           |
| <b>7. Goods, services and income balance [2 to 6]</b> | <b>-39,029</b> | <b>-35,258</b> | <b>6. Goods, services and primary income balance [2 to 5]</b>            | <b>-38,912</b> | <b>-38,934</b> |
| <b>8. Current transfers in cash and kind (net)</b>    | <b>18,962</b>  | <b>16,612</b>  | <b>7. Secondary income (net)</b>                                         | <b>18,789</b>  | <b>16,531</b>  |
| Government - current transfers                        | 18,831         | 16,461         | General government                                                       | 18,540         | 16,158         |
| - development assistance                              | 1,908          | 2,058          | - Current taxes on income, wealth etc.                                   | 209            | 193            |
| - from SACU                                           | 17,374         | 14,835         | - Current international cooperation (Include SACU)                       | 18,331         | 15,966         |
| - withholding taxes                                   | 423            | 447            | of which SACU receipts                                                   | 17,374         | 14,835         |
| - other transfers received                            | 270            | 296            | of which SACU pool payments                                              | 1,127          | 1,158          |
| - transfer debits (mainly SACU)                       | -1,144         | -1,175         | Financial corporations, non-financial corporation, households and NPISHs | 250            | 372            |
| Private - current transfers                           | 132            | 152            | - Personal transfers                                                     | 24             | 355            |
| - grants received by NGO's                            | 93             | 113            | - Other current transfers                                                | 225            | 17             |
| - other transfers (net)                               | 39             | 39             |                                                                          |                |                |
| <b>9. Total current account balance[7+8]</b>          | <b>-20,067</b> | <b>-18,646</b> | <b>8. Total current account balance [6+7]</b>                            | <b>-20,123</b> | <b>-22,403</b> |
| <b>10. Net capital transfers</b>                      | <b>1,751</b>   | <b>1,967</b>   | <b>9. Capital account balance (+ surplus; - deficit)</b>                 | <b>751</b>     | <b>1,161</b>   |
| Resident official sector                              | 1,728          | 1,944          | Gross acquisitions                                                       | 1              | 0              |
| Other sectors                                         | 22             | 22             | Capital transfers                                                        | 750            | 1,161          |
|                                                       |                |                | <b>10. Net lending (+)/ Net borrowing (-) [8+9]</b>                      | <b>-19,372</b> | <b>-21,242</b> |

## Major changes in the Financial account: Disaggregation, reclassification of functional categories and new data sources:

### Renaming of Capital and financial account

**The adoption of BPM6 principally renames the Capital and Financial account to the Financial account.** In this regard, the Capital account maintains its autonomy outside its usual presentation in the

Financial account and now contributes to deriving the net borrowing/lending position (previously known as the current account balance).

### Derivation of net balances

**The net credit and net debit balances are renamed in BPM6.** These will be known as the *net*

*acquisition of assets (net credits) and net incurrence of liabilities (net debits).*

### Sign conversion

**The adoption of BPM6 will make it easier to analyse changes in foreign assets.** All increases in foreign assets are now denoted with a positive sign. Declines in foreign liabilities are, however,

shown with a negative sign, the same as in BPM5. The reverse applies for the decrease in foreign assets and the increase in foreign liabilities.

### Introduction of a new category in BPM6

**BPM5 had four main functional categories, namely, Foreign Direct Investment (FDI), Portfolio investment, Other investment and Reserves.** In addition to the above mentioned

categories, BPM6 reclassifies Financial derivatives to a new functional category, bringing the total to five from four.

### Direct investment

**There is a strong emphasis on the foreign direct investment relationships in the financial account in BPM6, both on the assets and liabilities side.** In this regard, besides investments of foreign direct investors with their enterprises (FDI in FDIE) and investment of the enterprises with their FDI (i.e. reverse investment; FDIE in FDI), investments

between fellow enterprises (affiliated companies that share the same FDI parent) are now also captured. In addition, the differences in FDI assets and liabilities between the data compiled in BPM5 and BPM6 are mainly due to routine revisions of data, based on new information and expansion of data coverage.

### Portfolio investment

**Financial derivatives that formed part of portfolio investment in BPM5 are reclassified to a category on its own.** In this regard in BPM6, the mentioned category is known as *Financial derivatives*

and *Employee stock options*. The differences are therefore due to the reclassification and routine data revisions.

### Other investment

**Other investment in BPM6 is disaggregated to include three new sub-categories, while new data sourced from the Bank of International Settlements (BIS) is added to the data**

**presentation on the assets side.** The three disaggregated categories are:  
*-insurance, pension and standardised guarantee schemes;*

-trade credit (**trade credit in BPM5 was combined with loans**) and advances; and

-other accounts receivable and payable.

**The above categories are illustrated under both the net acquisition of assets and the net incurrence of liabilities.** The BIS data is introduced on the assets side to capture currency and deposits of Namibian residents held with non-resident banks abroad. In this regard, the changes under this category are primarily due to this new data source. Changes on both the assets and liabilities

particularly on commercial banks' loans data is due to BPM6 using the Monetary and Financial Statistics (MFS) data on loans from 2009-2015 as the source, while for 2016, surveyed data based on BPM6 was used. The rest of the changes are mainly due to data revisions and reclassifications. Efforts are underway to get backdated loans data (2009-2015) from commercial banks as per the surveyed BPM6 standard.

## Reserve assets

**Data on Reserve assets remained unchanged between the two standards.** An increase in reserve assets is denoted with a positive sign, showing that more funds were available to finance the net lending/

borrowing position (current account balance). In BPM5, an increase in reserve assets was, however, denoted with a negative sign.

## Net errors and omissions

**The derivation of Net errors and omissions between the two standards is simplified in BPM6.** In BPM5, the item *Net errors and omissions* was derived as the sum of the balances on the Current, Capital and Financial accounts, with the sign reversed. In BPM6, *Net errors and omissions* is simply calculated as the balance on the Financial

account minus the sum of the balances on the Current and Capital accounts.

Changes to the Financial account due to a combination of routine data revisions, reclassifications and new data sources, are shown in the accompanying table.

**Table 2. Impact of the migration to BPM6 including general data revisions on the Financial account**

| Financial Account<br>(N\$ millions)    | BPM5          |              | Financial Account<br>(N\$ millions)                                     | BPM6           |               |
|----------------------------------------|---------------|--------------|-------------------------------------------------------------------------|----------------|---------------|
|                                        | 2015          | 2016         |                                                                         | 2015           | 2016          |
| <b>Net capital transfers</b>           | <b>1,751</b>  | <b>1,967</b> |                                                                         |                |               |
| Resident official sector               | 1,728         | 1,944        |                                                                         |                |               |
| Other sectors                          | 22            | 22           |                                                                         |                |               |
| <b>1. Net Direct Investment</b>        | <b>13,268</b> | <b>4,110</b> | <b>1. Direct investment</b>                                             | <b>-13,236</b> | <b>-6,414</b> |
| <b>Direct investment abroad</b>        | <b>-704</b>   | <b>67</b>    | <b>Net acquisition of assets</b>                                        | <b>798</b>     | <b>98</b>     |
| <b>Equity capital</b>                  | <b>-373</b>   | <b>-131</b>  | <b>Equity and investment fund shares</b>                                | <b>373</b>     | <b>121</b>    |
|                                        |               |              | Direct investment in Direct investment enterprise                       | 373            | 121           |
|                                        |               |              | Direct investment enterprise in Direct investment (reverse investment)  | 0              | 0             |
|                                        |               |              | Between Fellow enterprises                                              | 0              | 0             |
| <b>Reinvested earnings</b>             | <b>25</b>     | <b>77</b>    | <b>Reinvestment of earnings</b>                                         | <b>-6</b>      | <b>77</b>     |
| <b>Property</b>                        | <b>-1</b>     | <b>-5</b>    | <b>Property now included in equity &amp; investment fund share data</b> | <b>0</b>       | <b>0</b>      |
| <b>Other capital</b>                   | <b>-357</b>   | <b>120</b>   | <b>Debt instruments</b>                                                 | <b>431</b>     | <b>-100</b>   |
| Liabilities to affiliated enterprises  | 0             | 0            | Short term                                                              | 145            | 14            |
| Claims on affiliated enterprises       | -357          | 120          | Direct investment in direct investment enterprise                       | -7             | 6             |
|                                        |               |              | Direct investment enterprise in direct investment (reverse investment)  | 152            | 9             |
|                                        |               |              | Between fellow enterprises                                              | 0              | 0             |
|                                        |               |              | Long term                                                               | 286            | -114          |
|                                        |               |              | Direct investment in direct investment enterprise                       | 353            | -137          |
|                                        |               |              | Direct investment enterprise in direct investment (reverse investment)  | -67            | 23            |
|                                        |               |              | Between fellow enterprises                                              | 0              | 0             |
| <b>2. Direct investment in Namibia</b> | <b>13,972</b> | <b>4,043</b> | <b>Net incurrence of liabilities</b>                                    | <b>14,034</b>  | <b>6,512</b>  |
| <b>Equity capital</b>                  | <b>11,364</b> | <b>236</b>   | <b>Equity and investment fund shares</b>                                | <b>11,510</b>  | <b>269</b>    |
|                                        |               |              | Direct investment in direct investment enterprise                       | 11,510         | 269           |
|                                        |               |              | Direct investment enterprise in direct investment (reverse investment)  | 0              | 0             |
|                                        |               |              | Between fellow enterprises                                              | 0              | 0             |
| <b>Reinvested earnings</b>             | <b>544</b>    | <b>3,299</b> | <b>Reinvestment of earnings</b>                                         | <b>227</b>     | <b>3,299</b>  |

| Financial Account<br>(N\$ millions)             | BPM5          |              | Financial Account<br>(N\$ millions)                                    | BPM6           |              |
|-------------------------------------------------|---------------|--------------|------------------------------------------------------------------------|----------------|--------------|
|                                                 | 2015          | 2016         |                                                                        | 2015           | 2016         |
| <b>Other capital</b>                            | <b>2,064</b>  | <b>508</b>   | <b>Debt instruments</b>                                                | <b>2,296</b>   | <b>2,944</b> |
|                                                 |               |              | Short term                                                             | 1,028          | 2,555        |
| Liabilities to affiliated enterprises           | 2,703         | 540          | Direct investment in direct investment enterprise                      | 1,028          | 0            |
| Claims on affiliated enterprises                | -639          | -31          | Direct investment enterprise in direct investment (reverse investment) | 0              | 0            |
|                                                 |               |              | Between fellow enterprises                                             | 0              | 0            |
|                                                 |               |              | Long term                                                              | 1,268          | 390          |
|                                                 |               |              | Direct investment in direct investment enterprise                      | 1,268          | 390          |
|                                                 |               |              | Direct investment in direct investment enterprise                      | 0              | 0            |
|                                                 |               |              | Direct investment in direct investment enterprise                      | 0              | 0            |
| <b>3. Portfolio investment</b>                  | <b>15,600</b> | <b>315</b>   | <b>2. Portfolio investment</b>                                         | <b>-15,348</b> | <b>-586</b>  |
| <b>Assets</b>                                   | <b>3,266</b>  | <b>-849</b>  | <b>Net acquisition of assets</b>                                       | <b>-3,370</b>  | <b>897</b>   |
| <b>Equity</b>                                   | <b>2,970</b>  | <b>-239</b>  | <b>Equity and investment fund shares</b>                               | <b>-2,970</b>  | <b>239</b>   |
| Assets                                          | 2,970         | -239         | Deposit-taking corporations except central bank                        | 0              | 0            |
|                                                 |               |              | Other sectors                                                          | -2,970         | 239          |
| <b>Debt</b>                                     | <b>296</b>    | <b>-610</b>  | <b>Debt securities</b>                                                 | <b>-399</b>    | <b>658</b>   |
| Assets                                          | 296           | -610         | Short term                                                             | -655           | 549          |
| Deposit-taking corporations except central bank | 655           | -549         | Deposit-taking corporations except central bank                        | -655           | 549          |
|                                                 |               |              | Other sectors                                                          | 0              | 0            |
|                                                 |               |              | Long term                                                              | 256            | 109          |
|                                                 |               |              | Deposit-taking corporations except central bank                        | 0              | 0            |
| Other sectors                                   | -256          | -109         | Other sectors                                                          | 256            | 109          |
| Financial derivatives                           | -75           | 48           |                                                                        |                |              |
| <b>Liabilities</b>                              | <b>12,306</b> | <b>1,164</b> | <b>Net incurrence of liabilities</b>                                   | <b>11,978</b>  | <b>1,483</b> |
| <b>Equity</b>                                   | <b>29</b>     | <b>25</b>    | <b>Equity and investment fund shares</b>                               | <b>29</b>      | <b>25</b>    |
| Liabilities                                     | 29            | 25           | Central Bank                                                           | 0              | 0            |
|                                                 |               |              | General government                                                     | 0              | 0            |
|                                                 |               |              | Deposit-taking corporations except central bank                        | 0              | 0            |
|                                                 |               |              | Other sectors                                                          | 29             | 25           |
| <b>Debt</b>                                     | <b>12,277</b> | <b>1,140</b> | <b>Debt securities</b>                                                 | <b>11,949</b>  | <b>1,458</b> |
| Liabilities                                     | 12,277        | 1,140        | Short term                                                             | 9              | 956          |
|                                                 |               |              | Central bank                                                           | 0              | 0            |
|                                                 |               |              | General government                                                     | 0              | 0            |

| Financial Account<br>(N\$ millions) | BPM5          |               | Financial Account<br>(N\$ millions)                            | BPM6          |                |
|-------------------------------------|---------------|---------------|----------------------------------------------------------------|---------------|----------------|
|                                     | 2015          | 2016          |                                                                | 2015          | 2016           |
| Banks                               | 9             | 956           | Deposit-taking corporations<br>except central bank             | 9             | 956            |
|                                     |               |               | Other sectors                                                  | 0             | 0              |
|                                     |               |               | <b>Long term</b>                                               | <b>11,941</b> | <b>502</b>     |
|                                     |               |               | Central bank                                                   | 0             | 0              |
| General government                  | 11,941        | 503           | General government                                             | 11,941        | 502            |
| Bonds & new issuances               | 11,930        | 492           | Deposit-taking corporations<br>except central bank             | 0             | 0              |
| Internal registered stock           | 11            | 11            | Other sectors                                                  | 0             | 0              |
| Financial derivatives               | 327           | -319          |                                                                |               |                |
|                                     |               |               | <b>3. Financial derivatives and<br/>employee stock options</b> | <b>-251</b>   | <b>271</b>     |
|                                     |               |               | Net acquisition of assets                                      | 75            | -48            |
|                                     |               |               | Net incurrence of liabilities                                  | 327           | -319           |
| <b>5. Other investment</b>          | <b>1,400</b>  | <b>10,146</b> | <b>4. Other investment</b>                                     | <b>1,846</b>  | <b>-13,376</b> |
| <b>Assets</b>                       | <b>-1,243</b> | <b>1,645</b>  | <b>Net acquisition of assets</b>                               | <b>3,299</b>  | <b>-4,244</b>  |
|                                     |               |               |                                                                | 0             |                |
| <b>Currency and deposits</b>        | <b>-760</b>   | <b>1,694</b>  | <b>Other equity</b>                                            | <b>0</b>      | <b>0</b>       |
| Monetary authorities                | 0             | 0             | <b>Currency and deposits</b>                                   | <b>3,199</b>  | <b>-3,791</b>  |
| Banks                               | -761          | 1,693         | Central bank                                                   | 0             | 0              |
| General government                  | 0             | 0             | Deposit-taking corporations<br>except central bank             | 741           | -1,693         |
| Other sectors                       | 1             | 1             | General government                                             | 0             | 0              |
|                                     |               |               | Other sectors                                                  | 2,457         | -2,097         |
| <b>Loans</b>                        | <b>-483</b>   | <b>-49</b>    | <b>Loans</b>                                                   | <b>165</b>    | <b>425</b>     |
| <b>Long term</b>                    | <b>-460</b>   | <b>138</b>    | <b>Long term</b>                                               | <b>84</b>     | <b>430</b>     |
| Monetary authorities                | -94           | -84           | Central bank                                                   | 0             | 0              |
| Banks                               | -43           | -17           | Deposit-taking corporations<br>except central bank             | 43            | 404            |
| General government                  | -40           | -40           | General government                                             | 40            | 40             |
| Other sectors                       | -283          | 278           | Other sectors                                                  | 1             | -13            |
| <b>Short term</b>                   | <b>-23</b>    | <b>-187</b>   | <b>Short term</b>                                              | <b>81</b>     | <b>-5</b>      |
| Monetary authorities                | 0             | 0             | Central bank                                                   | 0             | 0              |
| Banks                               | -50           | -29.0         | Deposit-taking corporations<br>except central bank             | 50            | -5             |
| General government                  | 0             | 0             | General government                                             | 0             | 0              |
| Other sectors                       | 28            | -158          | Other sectors                                                  | 30            | 0              |
|                                     |               |               | Insurance, pension,<br>standardised guarantees                 | 0             | 0              |

| Financial Account<br>(N\$ millions) | BPM5         |              | Financial Account<br>(N\$ millions)                    | BPM6         |              |
|-------------------------------------|--------------|--------------|--------------------------------------------------------|--------------|--------------|
|                                     | 2015         | 2016         |                                                        | 2015         | 2016         |
|                                     |              |              | Trade credit and advances                              | -58          | -121         |
|                                     |              |              | Central bank                                           | 0            | 0            |
|                                     |              |              | Deposit-taking corporations<br>except central bank     | -6           | -1           |
|                                     |              |              | General government                                     | 0            | 0            |
|                                     |              |              | Other Sectors                                          | -52          | -120         |
|                                     |              |              | <b>Other accounts receivable</b>                       | <b>-6</b>    | <b>-758</b>  |
| <b>Liabilities</b>                  | <b>2,643</b> | <b>8,442</b> | <b>Net incurrence of liabilities</b>                   | <b>1,453</b> | <b>9,110</b> |
|                                     |              |              | <b>Other equity</b>                                    | <b>0</b>     | <b>0</b>     |
| <b>Currency and deposits</b>        | <b>683</b>   | <b>-459</b>  | <b>Currency and deposits</b>                           | <b>683</b>   | <b>-459</b>  |
| Monetary authorities                | 0            | 0            | Central bank                                           | 0            | 0            |
| Banks                               | 683          | -459         | Deposit-taking corporations<br>except central bank     | 683          | -459         |
| General government                  | 0            | 0            | General government                                     | 0            | 0            |
| Other sectors                       | 0            | 0            | Other sectors                                          | 0            | 0            |
| <b>Loans</b>                        | <b>1,960</b> | <b>8,901</b> | <b>Loans</b>                                           | <b>245</b>   | <b>7,329</b> |
| <b>long term</b>                    | <b>1,069</b> | <b>6,883</b> | <b>Long term</b>                                       | <b>181</b>   | <b>7,169</b> |
| Monetary authorities                | 780          | -157         | Central bank                                           | 0            | 0            |
| Banks                               | 0            | 685          | Deposit-taking corporations<br>except central bank     | 66           | 810          |
| General government                  | 435          | 459          | General government                                     | 435          | 459          |
| Other sectors                       | -146         | 5,896        | Other sectors                                          | -320         | 5,901        |
| <b>Short term</b>                   | <b>891</b>   | <b>2,019</b> | <b>Short term</b>                                      | <b>65</b>    | <b>160</b>   |
| Monetary authorities                | 0            | 0            | Central bank                                           | 0            | 0            |
| Banks                               | 0            | 1,027        | Deposit-taking corporations<br>except central bank     | -633         | 251          |
| General government                  | 0            | 0            | General government                                     | 0            | 0            |
| Other sectors                       | 891          | 991          | Other sectors                                          | 698          | -91          |
|                                     |              |              | <b>Insurance, pension,<br/>standardised guarantees</b> | <b>0.0</b>   | <b>0.0</b>   |
|                                     |              |              | <b>Trade credit and advances</b>                       | <b>196</b>   | <b>1,082</b> |
|                                     |              |              | <b>Short term</b>                                      | <b>196</b>   | <b>1,082</b> |
|                                     |              |              | Central bank                                           | 0            | 0            |
|                                     |              |              | Deposit-taking corporations<br>except central bank     | 0            | 0            |
|                                     |              |              | General government                                     | 0            | 0            |
|                                     |              |              | Other sectors                                          | 196          | 1,082        |

| Financial Account<br>(N\$ millions)                                    | BPM5           |               | Financial Account<br>(N\$ millions)                | BPM6           |                |
|------------------------------------------------------------------------|----------------|---------------|----------------------------------------------------|----------------|----------------|
|                                                                        | 2015           | 2016          |                                                    | 2015           | 2016           |
|                                                                        |                |               | <b>Long term</b>                                   | <b>0</b>       | <b>0</b>       |
|                                                                        |                |               | Central bank                                       | 0              | 0              |
|                                                                        |                |               | Deposit-taking corporations<br>except central bank | 0              | 0              |
|                                                                        |                |               | General government                                 | 0              | 0              |
|                                                                        |                |               | Other sectors                                      | 0              | 0              |
|                                                                        |                |               | <b>Other accounts payable</b>                      | <b>329</b>     | <b>1,158</b>   |
| <b>6. CAPITAL AND FINANCIAL<br/>ACCOUNT BALANCE EXCL.<br/>RESERVES</b> | <b>32,019</b>  | <b>16,936</b> |                                                    |                |                |
| <b>7. Net errors and omissions</b>                                     | <b>-1,904</b>  | <b>2,615</b>  |                                                    |                |                |
| <b>8. OVERALL BALANCE</b>                                              | <b>10,048</b>  | <b>906</b>    |                                                    |                |                |
| <b>9. RESERVE ASSETS</b>                                               | <b>-10,048</b> | <b>-906</b>   | <b>5. RESERVE ASSETS</b>                           | <b>10,047</b>  | <b>906</b>     |
| Monetary gold                                                          | 0              | 0             | Monetary gold                                      | 0              | 0              |
| Special drawing rights                                                 | 1              | 22            | Special drawing rights                             | 1              | 22             |
| Reserve position in the Fund                                           | 0              | 0             | Reserve position in the IMF                        | 0              | 0              |
| Foreign exchange                                                       | -10,047        | -906          | Other reserve assets                               | 10,047         | 906            |
|                                                                        |                |               | <b>6. FINANCIAL ACCOUNT<br/>BALANCE</b>            | <b>-16,943</b> | <b>-19,176</b> |
|                                                                        |                |               | <b>7. Net errors and omissions</b>                 | <b>2,429</b>   | <b>2,066</b>   |

## International Investment Position

The International Investment Position (IIP) is a statistical statement that shows at a point in time, the value of financial assets of residents of an economy (that are claims on non-residents), and the liabilities of an economy to non-residents. The IIP is virtually a mirror account of the financial account in the balance of payments, except

that it records stock data at the end of a specific period, as opposed to flow data in the balance of payments. In this regard, with very few exceptions, the changes made in the Financial account were also reflected in the IIP.

## BPM6 Enhancements: Further disaggregation, reclassification of functional categories, and new data sources

### Direct investment

In order to enhance the data on Direct investment on the asset side, the IMF's Coordinated Direct Investment Survey (CDIS) data is the new

primary data source used for both equity and debt instruments. In this regard, BPM6 figures on the assets side are relatively higher than those in

BPM5, due to underreporting. Changes in net FDI liabilities were mainly due to data revisions.

### Portfolio investment

**In BPM6, for the Portfolio investment category, commercial banks were added as new data source for the item debt securities, both on the net acquisition of assets and the net incurrence of liabilities.** In this regard, the changes between the two standards was due to the data from this new

data source. In addition, on the liabilities side, the estimates on equity and investment fund shares in BPM5 were replaced with the actual data from banks and other sectors in BPM6. These inclusions led to the improved data coverage.

### Financial derivatives

**This category was not part of Namibia's aggregated IIP account under BPM5.** Its inclusion in BPM6 on both the net acquisition of assets and

net incurrence of liabilities mainly accounts for the difference between the two standards.

### Other investment

**The most significant impact on the IIP in BPM5, was on the asset side, where the currency and deposits of the Namibian commercial banks was overstated, as it included Net Foreign Assets (NFA) of the entire banking sector.** Unlike in BPM5 where deposits of commercial banks were overstated, in BPM6, only currency and deposits of the commercial banks were considered. The overall impact of the overestimation was reflected in the Net IIP position between BPM5 and BPM6. The correct classification in BPM6, however, showed consistency in the direction and magnitude of the

Net position in the IIP between the two standards. In addition, as with the Financial account, BIS data was added on the asset side and accounts for further changes. Changes on both the assets and liabilities particularly on data for commercial banks' loans, is due to BPM6 using the Monetary and Financial Statistics (MFS) data on loans from 2009-2015 and surveyed data based on BPM6 concepts from 2016 onwards. Efforts are underway to get backdated data on loans (2009-2015) as per BPM6 standard from the commercial banks.

### Reserve assets

**Data on reserve assets remained unchanged between the two standards.**

### Net IIP Position: Changes between BPM5 and BPM6

**The most significant change in the Net Asset/Liability IIP position was as a result of the overstated currency and deposits in BPM5.** In this regard, the IIP asset position in BPM5 is relatively higher than in BPM6, while the liability position in BPM5 is lower in relation to BPM6 due to the same reason.

The changes in the IIP account were mainly due to the overstated figures on currency and deposits in BPM5, new data sources, routine data revisions and adoption of BPM6. The results are shown in the accompanying table:

**Table 3. Impact of BPM6 changes and revisions on the International Investment Position**

| IIP (N\$ millions)                                         | BPM5           |                | BPM6           |                |
|------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                            | 2015           | 2016           | 2015           | 2016           |
| <b>FOREIGN ASSETS</b>                                      | <b>136,407</b> | <b>127,063</b> | <b>127,580</b> | <b>119,515</b> |
| <b>1. Direct investment</b>                                | <b>1,669</b>   | <b>1,834</b>   | <b>7,808</b>   | <b>6,909</b>   |
| 1.1 Equity and investment fund shares                      | 910            | 1,418          | 5,576          | 4,407          |
| 1.2 Debt instruments                                       | 760            | 415            | 2,232          | 2,502          |
| <b>2. Portfolio investment</b>                             | <b>61,201</b>  | <b>57,932</b>  | <b>63,817</b>  | <b>61,175</b>  |
| 2.1 Equity and investment fund shares                      | 36,517         | 35,481         | 36,517         | 35,481         |
| 2.2 Debt securities                                        | 24,685         | 22,451         | 27,300         | 25,694         |
| <b>3. Financial derivatives and employee stock options</b> | <b>0</b>       | <b>0</b>       | <b>110</b>     | <b>62</b>      |
| <b>4. Other investment</b>                                 | <b>49,959</b>  | <b>42,577</b>  | <b>32,267</b>  | <b>26,649</b>  |
| 4.1 Currency and deposits                                  | 29,516         | 26,225         | 14,982         | 10,233         |
| 4.2 Loans                                                  | 20,022         | 15,619         | 16,736         | 15,618         |
| 4.3 Insurance, pension and standardised guarantee schemes  | 0              | 0              | 0              | 0              |
| 4.4 Trade credit and advances                              | 422            | 733            | 422            | 733            |
| 4.5 Other accounts receivable                              | 0              | 0              | 128            | 65             |
| <b>5. Reserve Assets</b>                                   | <b>23,577</b>  | <b>24,720</b>  | <b>23,577</b>  | <b>24,720</b>  |
| <b>FOREIGN LIABILITIES</b>                                 | <b>129,557</b> | <b>130,748</b> | <b>126,211</b> | <b>131,881</b> |
| <b>1. Direct investment</b>                                | <b>58,501</b>  | <b>59,759</b>  | <b>57,586</b>  | <b>59,759</b>  |
| 1.1 Equity and investment fund shares                      | 38,363         | 39,205         | 37,449         | 39,205         |
| 1.2 Debt instruments                                       | 20,139         | 20,554         | 20,137         | 20,554         |
| <b>2. Portfolio investment</b>                             | <b>21,943</b>  | <b>20,022</b>  | <b>22,710</b>  | <b>21,020</b>  |
| 2.1 Equity and investment fund shares                      | 99             | 100            | 764            | 41             |
| 2.2 Debt securities                                        | 21,844         | 19,922         | 21,946         | 20,979         |
| <b>3. Financial derivatives and employee stock options</b> | <b>0</b>       | <b>0</b>       | <b>454</b>     | <b>135</b>     |

| IIP (N\$ millions)                                        | BPM5          |               | BPM6          |                |
|-----------------------------------------------------------|---------------|---------------|---------------|----------------|
|                                                           | 2015          | 2016          | 2015          | 2016           |
| <b>4. Other investment</b>                                | <b>49,113</b> | <b>50,967</b> | <b>45,462</b> | <b>50,967</b>  |
| 4.1 Currency and deposits                                 | 3,365         | 2,906         | 3,365         | 2,906          |
| 4.2 Loans                                                 | 41,386        | 42,788        | 37,735        | 42,788         |
| 4.3 Insurance, pension and standardised guarantee schemes | 0             | 0             | 0             | 0              |
| 4.4 Trade credit and advances                             | 1,278         | 2,321         | 1,278         | 2,321          |
| 4.5 Other accounts payable                                | 0             | 0             | 329           | 1487           |
| 4.6 Special Drawing Rights( SDRs)                         | 3,084         | 2,953         | 3,084         | 2,953          |
| <b>NET ASSET/LIABILITY POSITION</b>                       | <b>6,849</b>  | <b>-3,685</b> | <b>1,040</b>  | <b>-13,853</b> |

## Conclusion

**The adoption of BPM6 was consistent with Namibia's commitment to adhere to international best practice in compiling Balance of payments statistics.** The revision and reclassification of these statistics will enable data users to compare Balance of payments statistics internationally and with other macroeconomic accounts with greater confidence and precision than before. The revised statistics as published in this note reflects the impact of the

changes emanating from the migration to BPM6, data enhancements resulting from more reliable data sources, as well as general revisions that are usually undertaken on an annual basis. Kindly note that going forward, the Balance of payments will be disseminated based on the BPM6 from the June 2017 *Quarterly Bulletin*. Data has been revised back to 2009 to allow for longer time series for analysis.

# THEME CHAPTER:

## THE IMPACT OF THE DECLINE IN COMMODITY PRICES ON THE NAMIBIAN ECONOMY POST 2008

### INTRODUCTION

**The prices of commodities peaked in mid-2008, before plunging as the global financial crisis intensified, pushing prices down to very low levels in early 2009.** Commodity prices then recovered, but they peaked in 2011 for most items, after which the decline resumed. Meanwhile, the generally high prices of the recent past had led to a marked expansion of capacity and production – also in Namibia. However, although prices had been expected to fall again as production improved, it became clear that their degree of decline was greater than anticipated. Falling prices have affected the Namibian economy via decreased investment in the mining and trade sectors, and have impacted other macroeconomic variables. These negative influences have in turn restrained growth, particularly in mining, which had been expected to improve after significant investments had been made in the sector over the past few years. With both prices and production falling short of expectations, export earnings, Government revenue and economic growth suffered setbacks and have been further compromised

by a severe drought and a generally weak global economic environment.

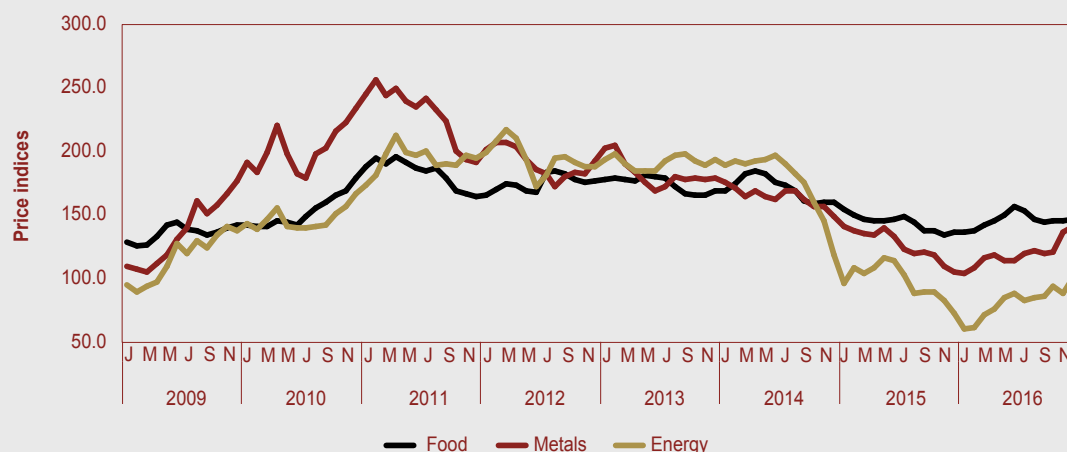
**In the context of Namibia, low commodity prices have mainly affected uranium, copper and other metal ores, while diamond and zinc were affected by other factors.** The low commodity prices have resulted in some uranium, copper and other metal ore mines being placed on care and maintenance regimes, while several other mining projects have been put on hold, pending an improvement in market conditions. On the other hand, lowered diamond and zinc production was affected by factors not necessarily linked to low commodity prices; nonetheless, they are covered in this Theme Chapter as contrastive examples. Against the above background, the following discussion therefore examines how the decline in commodity prices has impacted the Namibian economy post 2008, and it reflects on the outlook for these prices in the short term.

### TRENDS IN GLOBAL COMMODITY PRICES

**Commodity prices trended upwards from 2009 to 2011 before they started declining from 2012, with the lowest prices observed in 2016.** The average price indices for commodities such as metals, energy and food increased by 93.7 percent, 70.0 percent and 35.9 percent, respectively, between 2009 and 2011, due to the growth in global demand, particularly from China, and due to their low base stemming from the 2007/8 global financial crisis. Between 2012 and 2015, prices of metals, energy and food fell by 33.9 percent, 45.0 percent and 19.0 percent, respectively (Figure TC1). While the decline in metal and energy prices during this period was

due to weak global demand and oversupply, food prices were lower because of ample supply following good weather conditions. During 2016, however, the food price index increased marginally, from an average of 141.0 in 2015 to 143.6 in 2016. The increase in food prices was attributable to lower supply, which resulted from the persistently harsh weather conditions experienced in parts of the world. The metal and energy indices, on the other hand, respectively reached their lowest levels of 118.9 and 80.8 during 2016, due to low demand for metal ores and the oversupply of oil, respectively.

**Figure TC1: Price indices for food, metals and energy, 2009–2016**



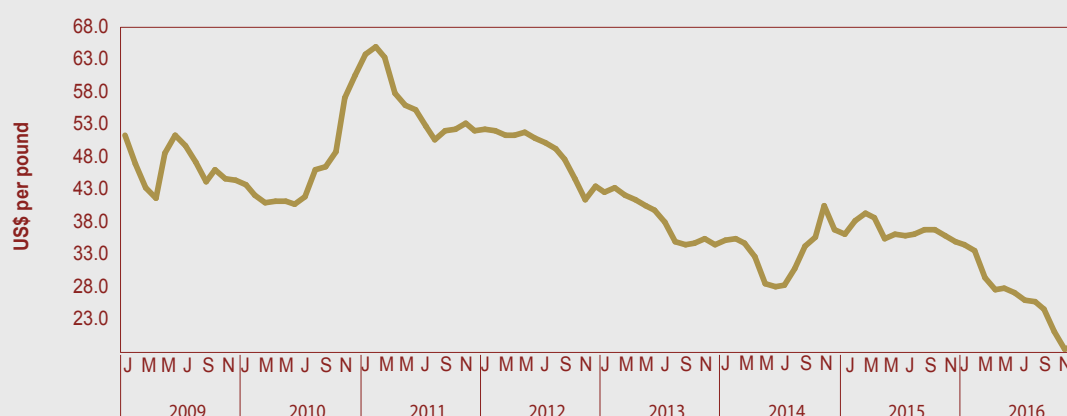
Source: International Monetary Fund (IMF)

## Uranium

**Despite the temporary recoveries, the broad trend in uranium prices has been downward since 2009.** Uranium prices were relatively low in 2009 and 2010 before they jumped to their highest level of US\$63.50 per pound in the eight-year period, namely in 2011 (Figure TC2). Uranium prices fell significantly after the Fukushima incident in March 2011: from their highest annual average of US\$99.24 per pound, recorded in 2007, the price plummeted to US\$26.31 per pound in 2016, although it had improved slightly between mid-2014 and early 2015. This slight improvement owed itself

not only to a positive reaction from the market in anticipation that reactors at Japanese nuclear plants would be restarted, but also to supply disruptions elsewhere.<sup>23</sup> However, uranium prices began slipping at the end of the first quarter of 2015 and continued their downward trend throughout 2016, dropping to an unsustainable low of US\$18.50 per pound early in November 2016, which is the worst performance in 12 years. The downward trend between 2015 and 2016 was on account of weak global demand, especially from China. On balance, uranium prices fell by 43.7 percent between 2009 and 2016.

**Figure TC2: Developments in uranium prices, 2009–2016**



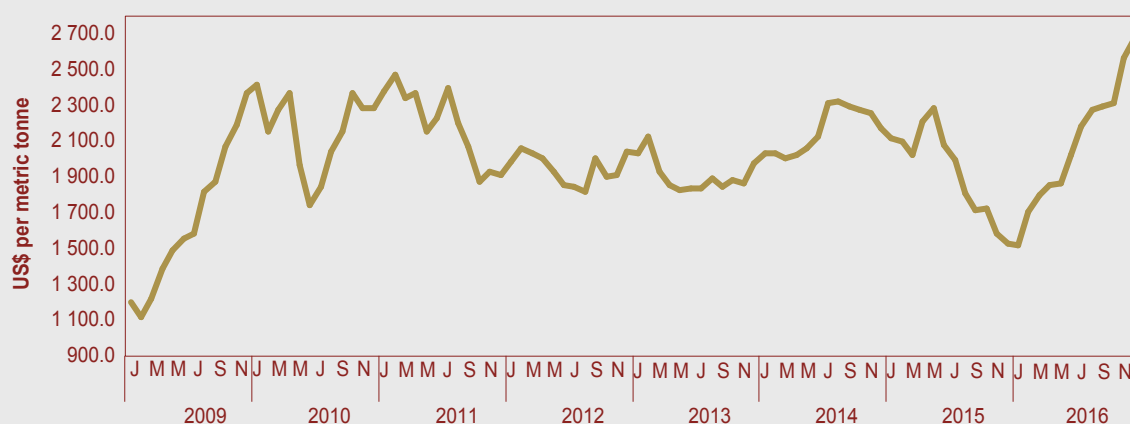
Source: IMF

## Zinc

**Zinc prices have been fluctuating since 2009, hitting a recent low towards the end of 2015, before picking up firmly in 2016.** Zinc prices have been on an upward trend in 2009 before they started fluctuating between 2010 and 2015. In May 2015, zinc prices dropped significantly from US\$2 282 to US\$1 520 per metric tonne in January 2016 (Figure TC3). The weak prices observed during this period were ascribed to poor demand from major

consumers, including China. The upward trajectory in prices from January 2016 was linked chiefly to supply concerns following the closure of large zinc mines around the world, namely the Vedanta Resources' Lisheen Mine in Ireland and MMG's Century Mine in Australia. Zinc prices shot up to US\$2 665 per metric tonne by December 2016, which was the highest price recorded for the metal since November 2007.

**Figure TC3: Developments in zinc prices, 2009–2016**



Source: IMF

## Copper

**Copper (spot) prices inclined upwards from 2009 to early 2011, followed by a declining trend that remained intact until the first half of 2016, after which prices improved moderately.** On average, copper prices increased significantly, i.e. by 70.8 percent, between 2009 and 2011, leaping from US\$5 165 per metric tonne to US\$8 823 per metric tonne, respectively. By 2016, the average price of copper had steadied to US\$4 868 per metric tonne,

having fallen from its 2015 level of US\$5 510 per metric tonne. The price recorded its lowest ebb of US\$4 472 per metric tonne in January 2016, slipping from the level it had held in December 2015, namely US\$4 639 per metric tonne. The decline in copper prices since 2011 was attributed to excess supply in the markets due to weak demand from China, which consumes around 45 percent of total global copper production (Figure TC4).

**Figure TC4: Developments in copper spot prices, 2009–2016**



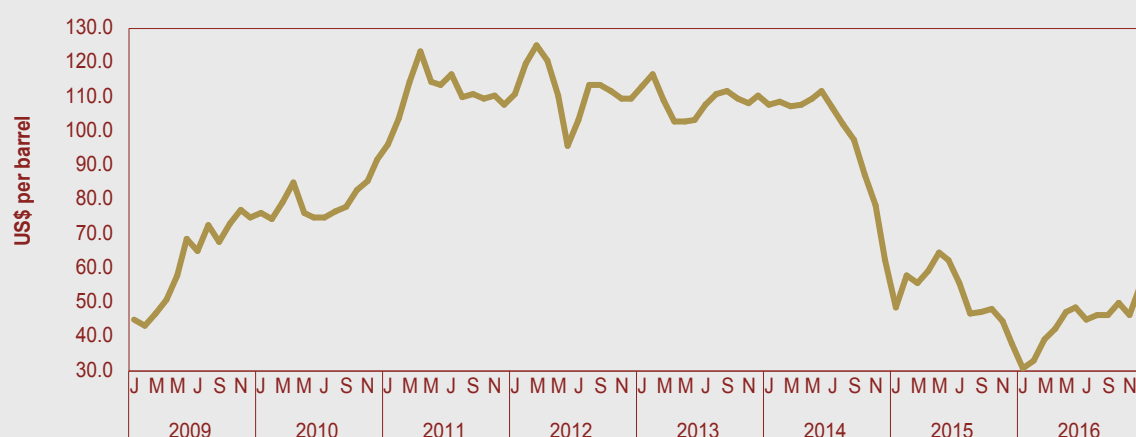
Source: IMF

## Crude oil

**Crude oil prices increased from 2009 to 2010, but started to decline after 2011.** Crude oil prices increased by 43.4 percent between 2009 and 2010. A significant decline of 60.8 percent in crude oil prices was, however, recorded between 2011 and 2016, although they reached a relatively high level of US\$110 a barrel between 2012 and June 2014. Thus, 2012 oil prices averaged US\$112 a barrel before sliding down to US\$99 and US\$43 a barrel in 2014 and 2016, respectively. The lowest price for a barrel of crude oil was registered for January 2016, when it

fell to US\$31 (Figure TC5). The drop was explained by an increase in supply after sustained growth in production by members of the Organization of the Petroleum Exporting Countries (OPEC). However, this growth was not met by an equivalent surge in demand, least from the largest consumers such as Europe and China, while countries like Iran and Libya returned to the global oil production market. Oil prices, however, started to increase again at the beginning of the second quarter of 2016, due to supply constraints in Nigeria.

**Figure TC5: Developments in Brent crude oil prices, 2009–2016**



Source: IMF

## Gold

**The rise in the price of gold since 2009 was interrupted by a decline between 2012 and 2015, but the price staged a recovery in the first half of 2016.** The gold price peaked at an average of US\$1 669 an ounce in 2012 and then dropped sharply to US\$1 160 an ounce in 2015. This decline was mainly attributed to the fall in global inflation that reduced gold's value as a hedge against rising prices (Bloomberg 2013), and investors' improved risk appetite. On a positive note, the average gold price began to inch upwards from US\$1 160 an ounce in

2015 to US\$1 248 an ounce in 2016. The increase in the gold price can be ascribed to investors' appetite for less risky assets, negative interest rate policies, the general environment of historically low interest rates, and uncertainty in the global market. The price of gold, however, slipped to a lower level in the last quarter of 2016, settling at US\$1 151 an ounce by December 2016 (Figure TC6). Market expectations of increased fiscal spending and higher interest rates in the US contributed to the decline in the gold price.

**Figure TC6: Developments in gold prices, 2009–2016**



Source: World Gold Council

## IMPACT OF THE DECLINE IN COMMODITY PRICES ON THE GLOBAL ECONOMY

**Declining commodity prices have mixed implications for the global economy.** In this context, the ongoing rebalancing of the economy in China, a major consumer and importer of commodities, has played a significant role in influencing the decline in commodity prices internationally. The transition away from a reliance on investment and a concomitantly lower demand for commodities, in favour of greater dependence on domestic consumption and on services, created a surplus in the market, especially since 2012. This surplus, in turn, drove prices for metal ores downwards. The reduction in China's demand for commodities, combined with an increase in supply following investment that expanded capacity, of certain key options among them, resulted in an oversupply of most commodities. This led to low prices, which, for countries that were net exporters of

commodities, had negative economic implications as export revenue and overall gross domestic product (GDP) declined.

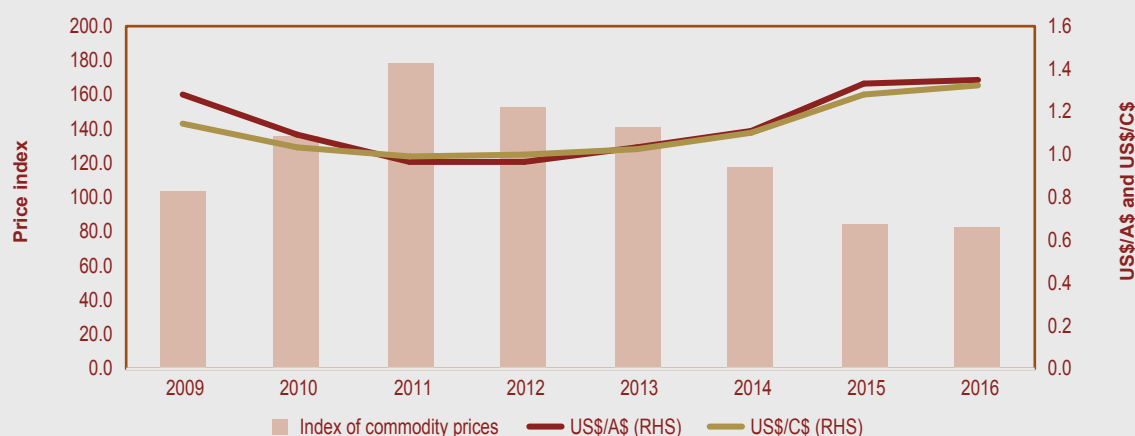
**Declining commodity prices are among the reasons cited by the IMF as contributing to a moderate global economic growth in 2016, relative to 2015.** In the January 2017 update of its World Economic Outlook, the IMF estimated growth in the global economy to ease to 3.1 percent in 2016, from 3.2 percent in 2015. Low commodity prices, coupled with government tendencies to embark on fiscal consolidation paths to compensate for the associated lower tax income, contributed to restrained economic growth in commodity-exporting countries. The following subsections examine the impact of low commodity prices on some economies that are net exporters of commodities.

## Canada

**Canada, whose second largest export is crude oil and mineral fuels, was not spared from the impact of low commodity prices.** The Canadian Dollar appreciated against the US Dollar by 13.3 percent between 2009 and 2011, while the index of commodity prices increased significantly, namely by 72.3 percent, from 103.3 in 2009 to 178.0 in 2011 (Figure TC7). From 2012, however, once

commodities prices began to decline, the Canadian Dollar started to depreciate. Moreover, since Canada exports most of its oil to the US, and the US Dollar had been strengthening in recent years due to improved economic activity, the Canadian currency depreciated further. On average, the Canadian Dollar depreciated from C\$1.00 to C\$1.33 against the US Dollar, i.e. by 32.6 percent, between 2012 and 2016.

**Figure TC7: Movements in the Australian Dollar (A\$) and Canadian Dollar (C\$), and index of commodity prices, 2009–2016**



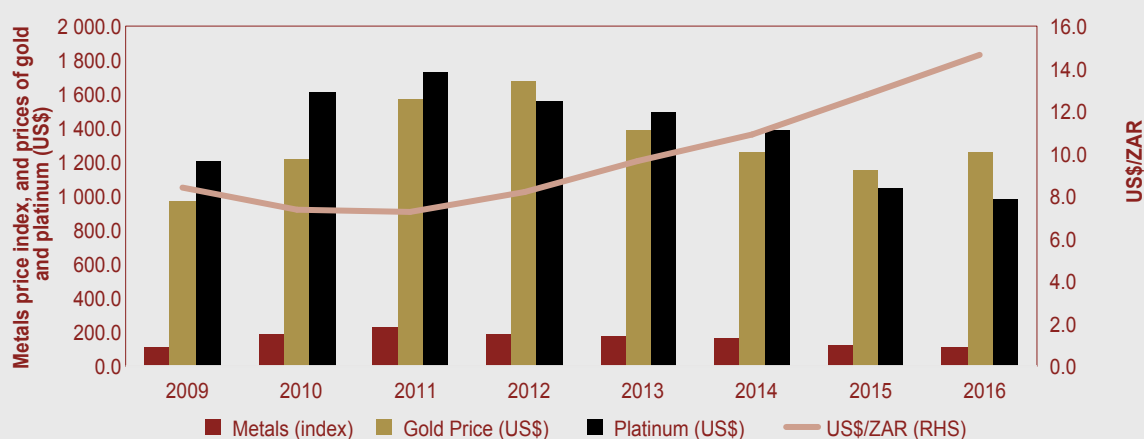
Source: IMF

## Australia

**Similar to Canada, Australia's exchange rate movements are closely linked to the performance of its major export – iron ore, with China being its largest market.** Between 2009 and 2011, when the overall demand for commodities was still relatively strong, the index of commodity prices started to rise. The Australian Dollar simultaneously appreciated against the US Dollar, by 24.4 percent between 2009 and 2011, i.e. from A\$1.28 to A\$0.97 (Figure TC7). Once the international demand for

most commodities – including iron ore – started to fall after 2011, the Australian Dollar began to depreciate. Between 2012 and 2016, when the commodity prices decreased by 45.6 percent, from 152.2 in 2012 to 82.8 in 2016, the Australian Dollar depreciated against the US Dollar by 39.3 percent, from A\$0.97 in 2012 to A\$1.35 in 2016. During this five-year period, the depreciation of the Australian currency was largely attributable to the significant drop in commodity prices.

**Figure TC8: Movements in the South African Rand (ZAR), the Metals Price Index, and gold and platinum prices, 2009–2016**



Source: IMF

## South Africa

### **Mineral-exporting emerging markets and developing economies such as South Africa also could not circumvent the negative impacts of declining commodity prices.**

As the world's biggest producer of platinum, South Africa saw its currency appreciate between 2009 and 2011. The South African Rand appreciated against the US Dollar by an average of 13.9 percent, namely from R8.43 in 2009 to R7.26 in 2011 (Figure TC8). During the same three-year period, the prices of platinum, gold and other metals were increasing because of high international demand and slow production, the latter attributable to labour disputes at South African mines. Between 2012 and 2016, the Rand depreciated significantly against the US Dollar, i.e.

by an average of 78.4 percent. During this five-year span, platinum, gold and other metal prices dropped again: the labour disputes had ended and production picked up; the international demand for commodities declined; and US interest rate had stabilised. These low international commodity prices, coupled with South Africa's political, economic and climatic conditions, have contributed to the country's economic growth moderating in recent years. The South African economy is estimated to have grown by 0.3 percent in 2016, and the South African Reserve Bank forecasts only 1.1 percent growth for 2017.

## Angola

**The sharp decline in international oil prices negatively affected Angola's fiscal revenue and exports, underlining that economy's predominant dependence on oil.** Economic growth in Angola is expected to slow to 0.0 percent

in 2016, falling from its level of 3.0 percent in 2015. The IMF estimated that Angola's economic growth rate may improve to a modest 1.5 percent in 2017.

## **IMPACT OF THE DECLINE IN COMMODITY PRICES ON THE NAMIBIAN ECONOMY**

### **Impact on production**

**The recent declines in commodity prices have had a negative effect on the growth of the**

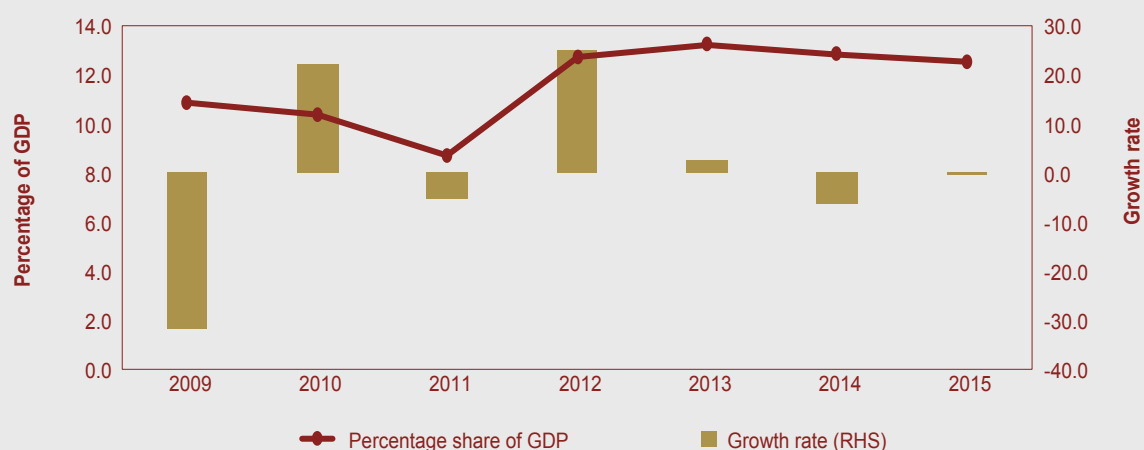
**mineral sector, export earnings and Government revenue.** The impact of low commodity prices is

revealed by mining and quarrying as a share of GDP: after having had a 10.9 percent share in 2009, this share peaked at 12.7 percent in 2012. However, once commodity prices began to fall again, mining and quarrying as a share of GDP has slipped steadily lower, and is estimated to have fallen to an 8.6 percent share for 2016 (Figure TC9). The decline came at a time when the sector had been expanding in response to commodity prices rising, which required large spending on construction, machinery and equipment. Production in the sector had been expected to grow after these large investments, contributing to export earnings and Government revenue, but this did not happen.

**After a period of positive economic growth, driven mainly by export-led sectors, the**

**Namibian economy came under severe strain in 2016, as factors such as low commodity prices intensified.** Economic sectors such as mining, construction, public administration and wholesale and retail trade were impacted by unfavourable economic conditions. The low commodity prices resulted in weakened growth and contractions in various sectors, and contractions in some of these sectors, have become prevalent in the last few years. For example, the mining sector contracted on three occasions between 2009 and 2015 (Figure TC9), and is expected to have done so in 2016 as well. The performance of the mining sector has, as a result, contributed to the sector's share of GDP trending downwards. The sector's real production is expected to contract by 3.3 percent in 2016, compared with a contraction of 0.3 percent in 2015.

**Figure TC9: Mining sector growth rate and percentage of GDP, 2009–2015**

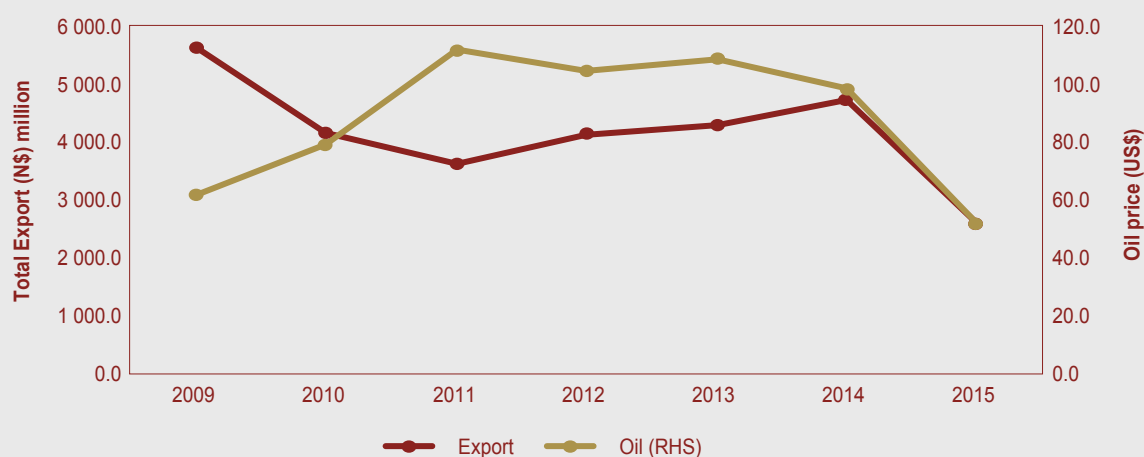


Source: Namibia Statistics Agency

**The impact of low oil prices on the Angolan economy sent aftershocks to Namibia's wholesale and retail trade sector.** Growth in this sector is likely to be affected by low commodity prices indirectly, i.e. via the Angolan economy. Namibia's oil-exporting neighbour is currently being affected negatively by the lower oil price, which has exacerbated the availability of foreign currency, and ultimately impacts the wholesale and retail trade sector in Namibia. Growth in this sector slowed to 5.7 percent in 2015, compared with 14.1 percent observed in 2013 and 14.6 percent in 2014, when oil prices were higher, compared with 2015 and 2016.

The clothing and vehicles subsectors have been the hardest hit by the fall in demand by Angolan nationals. In 2015, real output in the clothing trade subsector declined by 5.5 percent and in its vehicles counterpart by 6.9 percent; the two subsectors are estimated to have contracted by a further 0.9 and 11.2 percent, respectively, in 2016. The growth rate of the wholesale and retail sector as a whole is estimated to be lower at 5.8 percent in 2016 in the wake of the lower oil price impacted sales to Angolans and the more subdued Namibian economy. In addition, total exports of goods to Angola declined by 44.7 percent in 2015 as observed in Figure TC10.

**Figure TC10: Total exports to Angola in relation to the oil price, 2009–2015**



Source: IMF and Bank of Namibia

**The impact of low commodity prices also transmitted to the Namibian economy via declining investment in the mining sector and in unrealised production potential.**

Of all the sectors in the domestic economy, mining receives the biggest share of total investment. This was borne out in the years 2009–2015, when investment in mining grew at an average rate of 26.9 percent per annum, although 2015 itself only registered 0.6 percent growth. The sustained rise in investment in the sector during this period is attributed to increased mining activities, including the construction of new mines (B2Gold, the Tschudi Copper Project, and Husab/Swakop Uranium), but growth slowed in 2015 as most major constructions in the sector reached completion. The mining sector accounts for at least 30.0 percent of total investment in Namibia for the last seven years (2009–2015), with the highest share having been observed in 2013. While the decline in investment

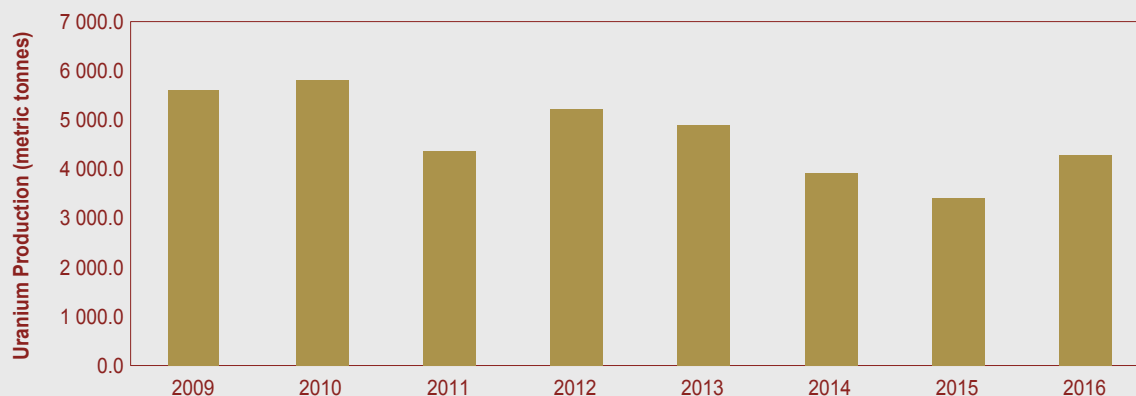
after 2015, was anticipated, owing to prices lowering as production increased, the extent of the price drop made that decline sharper than anticipated. Similarly, the drop entailed that production associated with the new investment could not take off as envisaged. Some mining companies have also begun scaling down on operations and production, while some were put under care and maintenance during 2009–2016 period. About four mines are currently under care and maintenance, while the development of several new mines remains in the pipeline. Although the overall production level of minerals appears relatively unaffected, individual analyses show that they were indeed impacted by low commodity prices. The following discussion offers some insight into Namibian mineral production and exports before and after commodity prices started declining for the period of eight years from 2009 to 2016.

## Uranium

**Low uranium prices had a dampening effect on the production of this commodity in Namibia (Figure TC11).** Uranium is the second largest mining subsector in the Namibian economy after diamonds and it has been affected by low commodity prices. The total contribution of uranium mining to GDP declined from 4.3 percent in 2009 to only 1.0 percent in 2014 and 2015. Production receded from 5,238 Metric Tons in 2012 to 3,420 metric tonnes in 2015. Real production in the uranium subsector shrank by 18.1 percent in 2015, but the estimates for 2016 indicate a recovery with a 24.8 percent jump in output. The previous reporting year's decline in production was exacerbated by technical problems caused by

a fire incident at one of the mines. Nonetheless, Namibia's uranium production increased to 4,213 metric tonnes in 2016, largely thanks to existing long-term contractual agreements. Despite all these improvements, however, production was still well below the levels of 2009 and 2010. In addition, the Trekkopje Mine owned by France's AREVA Group is under care and maintenance, while production at Swakop Uranium's Husab Mine only started at the end of 2016. In addition, five development projects – Etango Uranium, Namibplaas, Norasa Uranium, Valencia Uranium and Zhonge Uranium – remain in the pipeline, pending an improvement in uranium prices.

**Figure TC11: Trends in uranium production, 2009 – 2016**



Source: Bank of Namibia

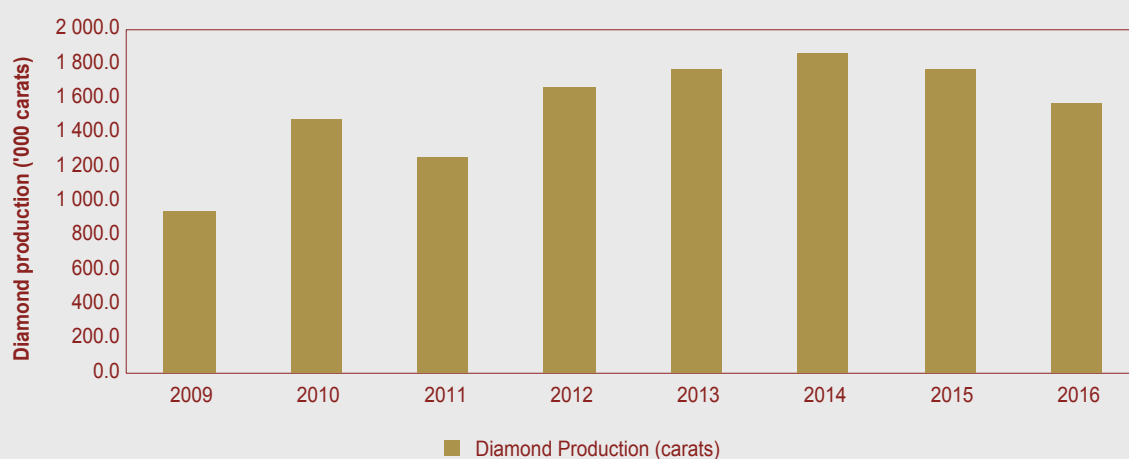
## Diamonds

**Namibia's diamond production has been trending higher since 2009 and peaked in 2014, but it slipped into decline after that, following low-grade ore and technical challenges.**

Diamond production dropped massively by 57.8 percent in 2009, but jumped by 56.6 percent the following year, before slipping back down by 14.7 percent in 2011. The average rate of growth in production in the period between 2009 and 2016, however, is estimated to have been as low as 1.5 percent. On average, the production of diamonds in

Namibia declined from 1.8 million carats in 2014 to 1.6 million carats in 2016 (Figure TC12). Diamond mining output is expected to contract again in 2016, with real production expected to shrink by 10.9 percent in 2016, after slipping by 3.4 percent in 2015. The low production of these gems was attributed to lower grades having been mined by Namdeb, as well as due to the fact that one of De Beers' marine mining vessels went for service during 2016, consequently affecting production.

**Figure TC12: Trends in diamond production, 2009–2016**



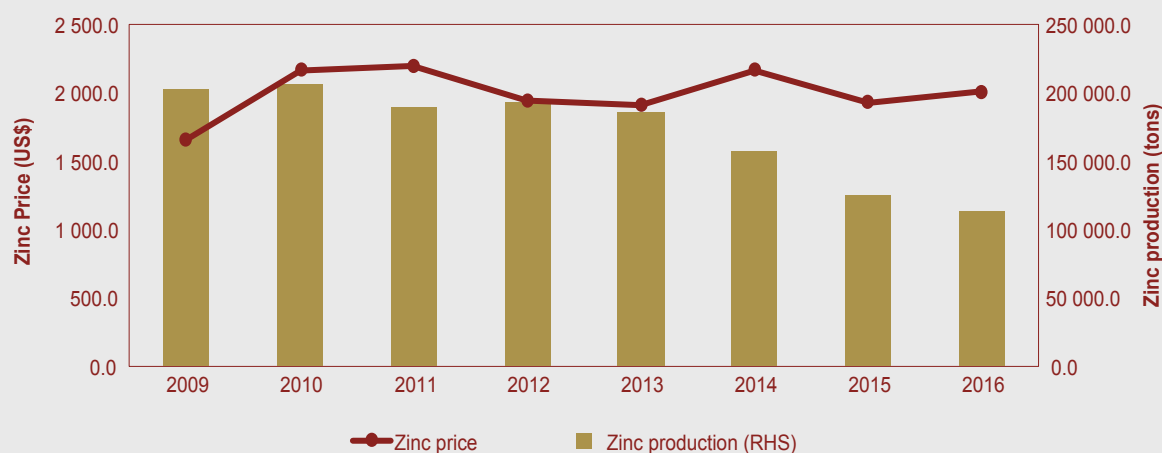
Source: Namdeb

## Zinc

**As mentioned earlier herein, zinc production has been declining since 2010 despite improvements in the price, while several zinc ore projects remain pending.** The production level remained low in 2016 compared with output in 2012 and 2013, when the price was actually significantly lower (Figure TC13). The anticipated production of zinc for 2016 was 215,103 metric tonnes, but the output achieved only amounted to 113,509 metric

tonnes. The low production levels in 2015 and 2016 can chiefly be attributed to a two-month operations shut down for maintenance during 2015, and to industrial strikes at the mines during 2015 and 2016. Manganese production has also been affected by low commodity prices, with other ore projects such as Shiyela Iron and Tumas, remaining pending awaiting price improvements.

**Figure TC13: Trends in zinc production, 2009–2016**



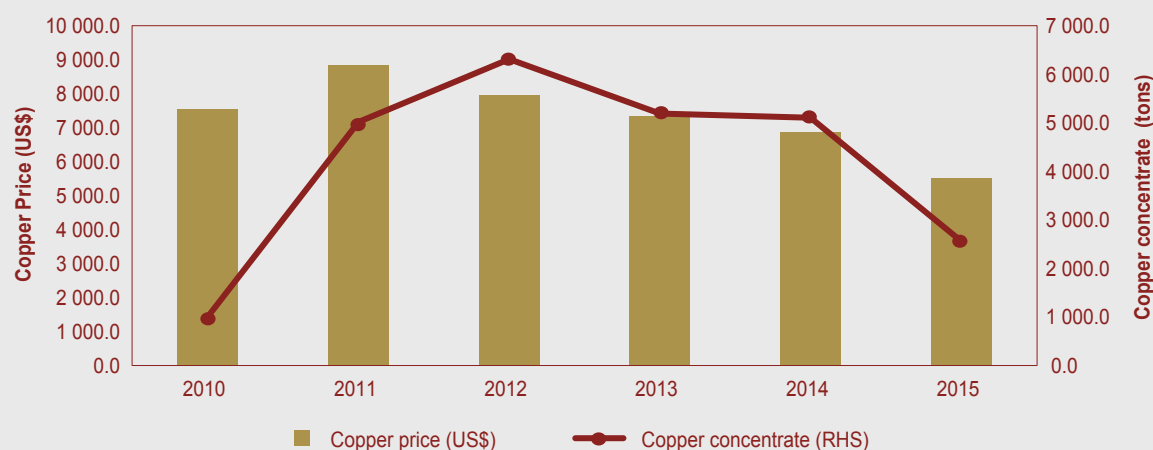
Source: Bank of Namibia

## Copper

**The price of copper increased from 2009, but peaked in 2011, with its subsequent fall leading to a concomitant decline in copper production.** Thus, the production of copper concentrate declined from 6,300 metric tonnes in 2012 to 2,543 metric tonnes during 2015. Also in response to weak prices, Weatherly Mining Namibia suspended operations at two of its mines, namely Otjihase and Matchless, putting them under care and maintenance as from September 2015 (Figure TC14). In addition, copper

cathode production at the new Tschudi Copper Mine that came into operation in 2015 amounted to 10,659 metric tonnes that year, but the expected increase to 17,000 metric tonnes during 2016 was not realised, with only 16,391 metric tonnes having been produced due to the effect of low prices. In addition, the production of copper blister in Namibia declined from 44,504 metric tonnes in 2015 to 37,828 metric tonnes in 2016.

**Figure TC14: Trends in copper concentrate production and price, 2010–2015**



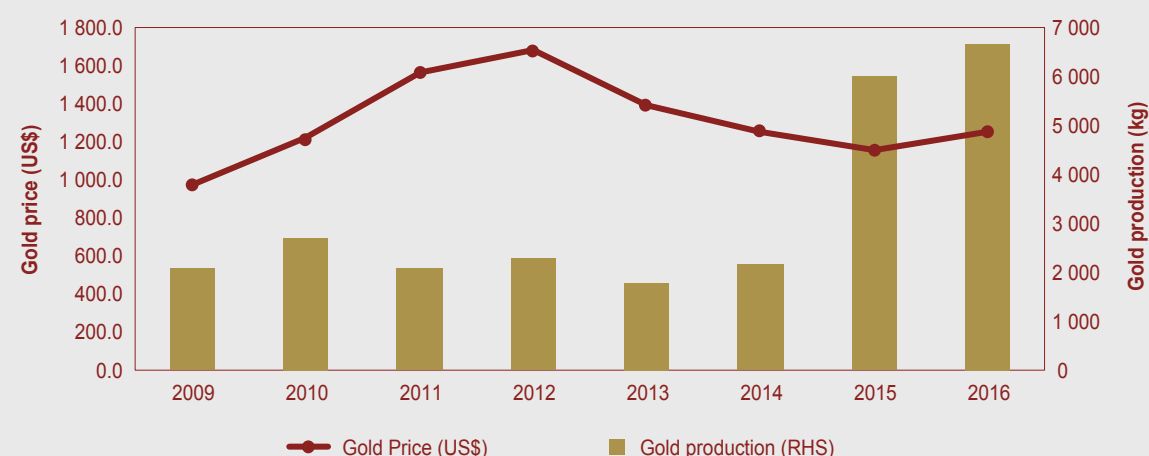
Source: IMF, Weatherly Mining and Dundee Precious Metals

## Gold

**Namibia's gold production has been relatively stable since 2009, and more than tripled by 2016 due to new mines coming on board.** The increase in production was a result of commencement by the B2Gold mine and its subsequent production expansion in 2015. Gold output increased from

6,008 kg in 2015 to 6,374 kg in 2016 (Figure TC15). Production continued to rise in 2016 as gold prices started to recover from a decline that had begun in 2013. As mentioned above, the gold price in US dollar terms has been increasing since 2009, peaking in 2012 after which it started to fall.

**Figure TC15: Trends in gold production and price development, 2009–2016**



Source: IMF, B2Gold and Navachab Mine

## Impact on Government revenue

**The low commodity price environment has had an impact on Government revenue as royalties and company tax revenue did not grow as anticipated.** Although aggregate production of Namibia's mineral commodities has remained at a

relatively elevated level even after commodity prices began to fall, the main impact of lower prices has been on the sector's potential: it was anticipated to grow significantly, after huge investments over the past few years, which included the establishment of

a number of new mines. Accordingly, the associated total revenue generated from tax and royalties improved from 4.8 percent of total revenue in 2009 to 8.5 percent in 2011, but slipped to 4.7 percent in 2013. A slight improvement from 8.4 percent in 2014/15 to 8.8 percent of total revenue in 2015/16

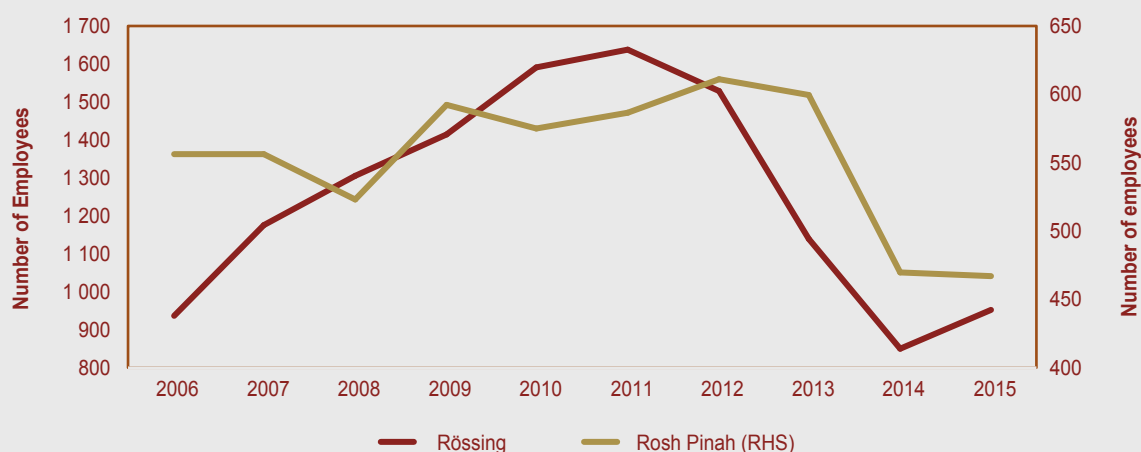
was registered, but current estimates show another decline to 7.8 percent for the 2016/17 fiscal year. The decline is largely due to the impact of low commodity prices, which restrained both the volume and value of mining output.

## Impact on employment

**The pressure of low commodity prices on firms in the mining industry is expected to cause them to rein in labour costs.** The Namibia Labour Force 2014 reports that, the mining sector accounts for 2.0 percent of employment in Namibia. According to Namibia's Chamber of Mines (2016), members of the Chamber directly employ 8,853 staff in permanent positions, 716 in temporary posts and 9,243 on

**Figure TC16: Employment in mining, 2006–2015**

contract. This situation could change if commodity prices continue to decline further in 2017 and 2018, as employment creation in the mining sector largely depends on favourable conditions in the global economic environment and the entry of new mines in the sector. This has made employment in the sector cyclical, with employment improving in boom years and declining in lean ones (Figure TC16).



Source: Chamber of Mines of Namibia

**Although the mining and quarrying sector has, on average, experienced a net increase in employment, some companies have reduced their labour force as a result of low commodity prices as they cut production.** Weatherly mine retrenched 215 workers when their two mines were placed under care and maintenance. Similarly, the labour force at the Rössing Uranium and Trekkopje Mines respectively declined from 1,592 and 154 workers in 2012, to 953 and 38 workers by 2015. In addition, the anticipation that Langer Heinrich Uranium Mine may halt production during 2017 and 2018 could result in more job losses in the mining sector.

**Implication for an impact on job cuts in the sector have implications for the standard of**

**living and poverty levels in Namibia, and these effects could spill over to other industries if low commodity prices persist.** Although the mining sector absorbs only about 2.0 percent of the total number of employed persons on average, the sector is one with high-paying jobs. Thus, if mining starts cutting down on jobs, it will weigh down on the economy not only in terms of employment, but also in terms of lower consumption demand, especially in mining towns, resulting in high poverty levels and reduced standards of living. Employment in businesses that supply goods and services to the mining industry – which, according to estimates, employ more workers than the industry itself – may also be affected negatively.

## Impact on other macroeconomic variables

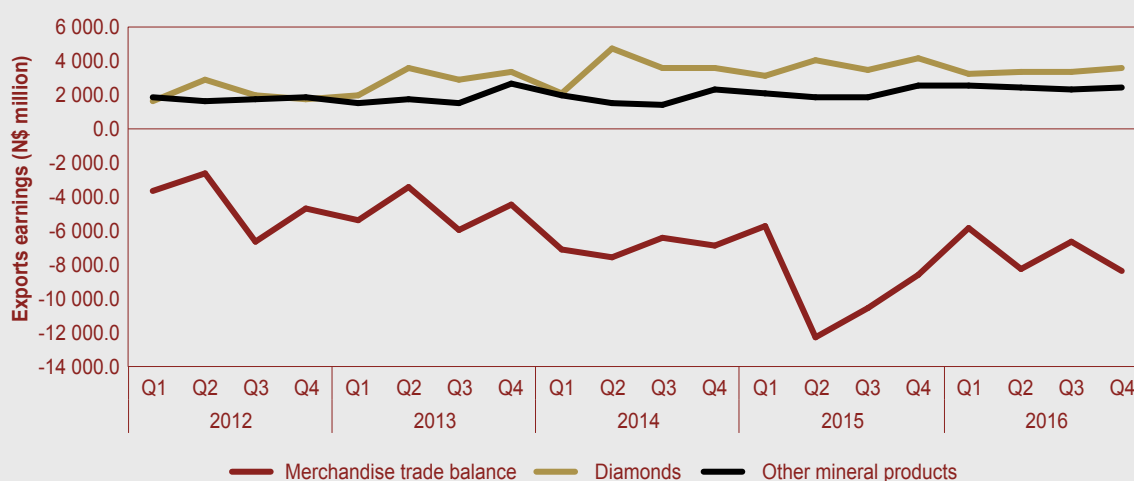
### Current account

**Namibia's export earnings from minerals increased slightly in 2016.** Namibia receives about 40.0 percent of its export earnings from diamonds and other mineral products. Since minerals constitute a large portion of the country's exports, a change in commodity prices has a significant impact on the value of exports and, consequently, on the current account. A reduction in commodity prices during the period under review have resulted in export earnings from minerals declining. Namibia's export earnings from minerals is estimated to have registered a slower growth rate of only 0.6 percent in 2016, compared with 25.6 percent, 10.9 percent and 9.5 percent in 2013, 2014 and 2015, respectively. In addition, a higher investment in the mining sector induced expectations that export earnings would increase significantly. However, these expectations were not realised, as some new mines delayed commencing production, while others were put on

care and maintenance in an effort to weather the low price environment.

**Despite the above, the overall merchandise trade balance improved in 2016 in comparison with 2015 (Figure TC17).** This upward movement could be attributed to slower growth in total imports caused by scaled-down construction activities in the mining, construction and public sectors. On average, the country's total imports rose by only 0.3 percent in 2016 compared to a 14.4 percent increase the year before (Figure TC18). The improvement in total exports can further be attributed to increased export earnings, mainly from uranium and gold. The uranium exports volume increased by 32.5 percent in 2016, from 3,254 metric tonnes exported in 2015 to 4,310 metric tonnes exported in 2016, whereas exports of gold grew by 13.6 percent, from 5,900 kg in 2015 to 6,700 kg in 2016.

**Figure TC17: Merchandise trade balance, 2012–2016**



Source: Bank of Namibia

**On the other hand, export earnings from diamonds, zinc and copper declined during 2016 in relation to these earnings in 2015.** Thus, diamond exports revenue fell by 12.5 percent in 2016 on the back of low volumes produced and the low quality of carats mined during 2016, while exports of zinc concentrate declined significantly – i.e. by 29.0 percent in 2016 – due to low production resulting from

industrial strikes. Export volumes of copper blister in 2016 dropped by 10 percent when compared with their 2015 counterparts, namely from 44,623 metric tonnes in 2015 to 40,034 metric tonnes in 2016. Despite the improvement in the trade balance from 2015 to 2016, the estimated overall current account deficit remains relatively large at N\$4 511 million in 2016 compared to N\$2 658 million in 2014.

**Figure TC18: Total imports and exports growth rates, 2009–2016**



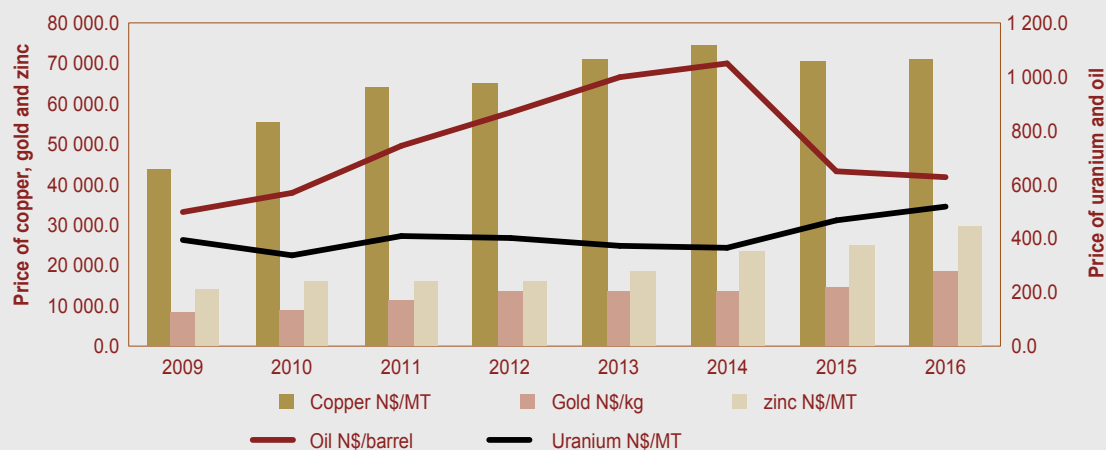
Source: Bank of Namibia

## Exchange rate

**The depreciation of the Namibia Dollar softened the negative effects of low commodity prices, while at the same time it countered the benefits of the low prices of oil and other imported commodities.** During 2015 and 2016, the Namibia Dollar depreciated by an average of 17.6 percent and 15.5 percent, respectively, against the US Dollar, as a result Namibian exports became more competitive in the international market. The depreciation of the Namibia Dollar, which is pegged to the Rand on a

one-on-one basis, was linked not only to the impact of low commodity prices, but also to political factors in South Africa. The negative effect of low commodity prices during this period was softened out by the depreciation of the Namibia Dollar. This is in the sense that, when a currency depreciates, exported goods become competitive in the international markets. Figure TC19 below depicts commodity prices in Namibia Dollar.

**Figure TC19: Commodity prices in local currency terms, 2009–2016**



Source: International Monetary Fund

## Inflation

**Overall, inflation in Namibia increased in 2016 compared with 2015.** Inflation averaged 6.7 percent in 2016 compared with only 3.4 percent in 2015. The rise was mainly due to domestic conditions, where prices climbed in major categories such as housing, water, electricity, gas and other fuels, transport and food. The international food price index increased slightly, i.e. from 141.0 in 2015 to 143.6 in 2016, while the inflation rate associated specifically with food in Namibia increased from 5.6 percent in 2015 to 10.8 percent in 2016. The latter increase was linked to the effects of the drought as well as high international

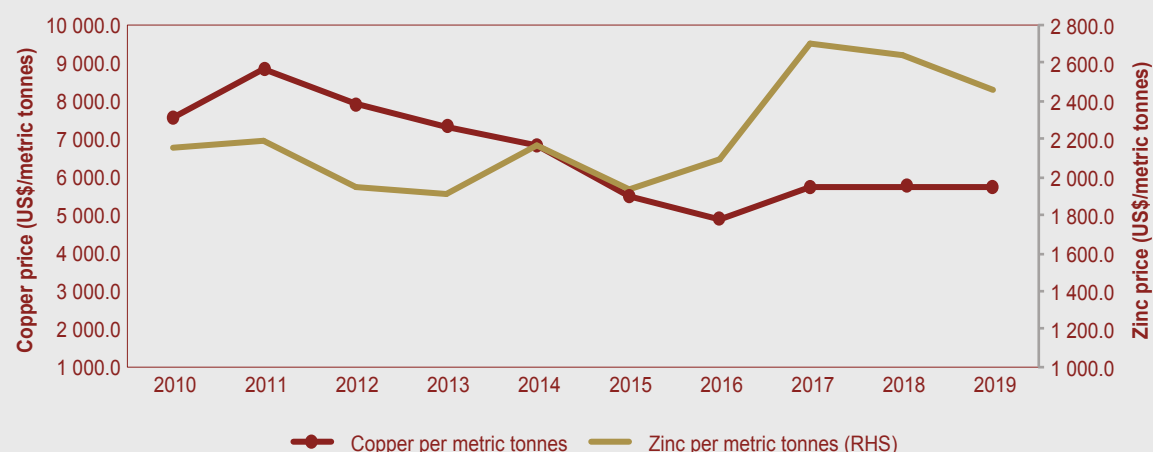
food prices. Moreover, international oil prices were generally low in 2016. The effect of these low prices was offset by the weak exchange rate, however, which resulted in a marginal rise in the pump price of petrol, namely by 0.5 percent, from N\$10.4 in 2015 to N\$10.5 in 2016. Conversely, compared with 2015, the price of diesel 500 ppm was reduced by 3.8 percent to N\$10.0 a litre in 2016, while diesel 50 ppm fell by 4.2 percent to cost N\$10.1 a litre for the reporting year. Overall, however, low commodity prices had little impact on the general rise in prices in Namibia.

## THE OUTLOOK ON COMMODITY PRICES

**Commodity prices are projected to rise in 2017.** In this regard, the IMF forecasts that crude oil prices will register an average of US\$54.9 a barrel in 2017, up from US\$43.0 a barrel in 2016, following agreements amongst some OPEC and non-OPEC producers to limit output in the first half of 2017. The prices of metals are also projected to lift by 11.0 percent on average in the year ahead following supply constraints, including the closure of large zinc mines, coupled with strong demand from China and advanced economies alike. Furthermore, the IMF's anticipation is that China, India and Japan will expand their nuclear energy capacities, thereby increasing demand for uranium.

**Prices for zinc and copper are projected to rise in 2017.** The IMF projects that copper and zinc prices will increase in 2017 before they ease in 2018 (Figure TC20). The expected moderation in the price of copper in particular from 2018 onward is explained by an oversupply internationally, as new capacity is expected to join the market in the next two to three years. On the other hand, the projected decline in zinc prices is linked to an expected supply boost, partly from two large new mines – Gamsberg and Dugald River both in Australia – planned for commissioning in the next two years, and partly from a number of small mines in China.

**Figure TC20: Copper and zinc price outlook, 2010–2019**



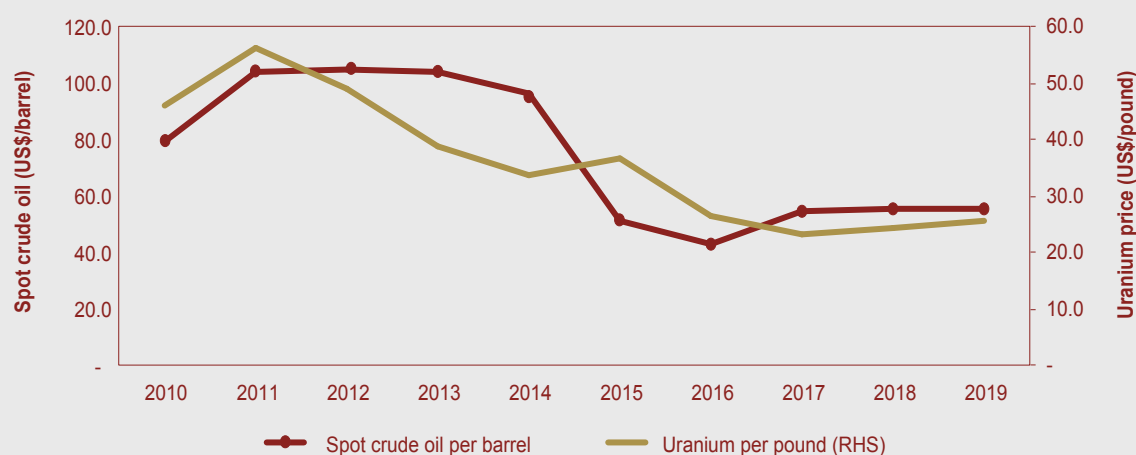
Source: International Monetary Fund

**There are both upside and downside risks to the outlook for metal prices.** Upside risks include stronger global demand, a slower increase in production, and policy actions that could limit supply and exert upward pressure on prices. Downside risks comprise slower demand from China and production that is higher than expected, including the resumption of idle capacity.

**The IMF projects the uranium price to be relatively flat, while that of spot crude oil is likely to increase in 2017 and 2018.** The relatively flat price for uranium in 2017 should rise slightly in 2018 if demand from China, India and Russia increases as

expected, while the anticipated upward trend in oil prices is associated with OPEC's agreed reduction in oil supplies (Figure TC21). The agreement stipulates that OPEC member states should reduce crude oil output to 32.5 million barrels a day (mbd), effective from January to June 2017. The OPEC production cut was the first since 2008, while the joint OPEC/non-OPEC curtailment was the first since 2001. The bulk of actual cuts is expected to come from OPEC Gulf Cooperation Council countries and the Russian Federation, amounting to about 1 mbd in the first quarter of 2017. This is expected to help draw down stocks in 2017.

**Figure TC21: Uranium and spot crude oil price outlook, 2010–2019**



Source: International Monetary Fund

**Both upside and downside risks to the crude oil prices forecast remain.** On the upside, stronger demand and greater compliance by OPEC/non-OPEC producers could accelerate the rebalancing of supply and demand in the market and contribute to a rise in prices. Furthermore, if the rebound in

US shale oil production is slower than expected, it could limit supply and cause prices to increase. On the downside, weak compliance with the OPEC agreement and rising output from Libya and Nigeria could delay the supply/demand rebalancing and exert downward pressure on prices.

## CONCLUSION AND RECOMMENDATIONS

**Commodity prices, which have been rising since 2009, started trending downwards since 2012 and only started to recover late in 2016.** The low prices resulted in the contraction of the mining sector, which dragged down economic growth in Namibia. The share of mining in GDP has shrunk as a result. Locally, low commodity prices have had an impact on uranium, copper and other ores such as manganese, resulting in production declines and some mines being placed under care and maintenance. Similarly,

low prices have compromised the sector in terms of restrained investment, with several mining projects put on hold pending improvements in market conditions. Moreover, the negative effect of low commodity prices was exacerbated by unfavourable technical and operational conditions for diamond and zinc mining.

**The low commodity prices have also affected the Namibian economy via the trade channel**

**and Government revenue.** Trade with Angola has been severely affected, to the detriment of growth in the wholesale and retail trade sector. The effects emanating from low commodity prices in general, combined with a generally weak economic environment due to the severe drought, affected Government revenue as well. This necessitated fiscal consolidation, which affected the construction and public administration sectors.

**As regards to other macroeconomic variables, the impact of low commodity prices had mixed effects.** Mining companies, for example, are under pressure to rein in their labour costs as a result, with several companies reducing their labour force. Export earnings from mining have increased, but only marginally, reflecting the constraints that low commodity prices have placed on production in the sector. On the positive side, the kerf on mining investments has also resulted in the current account balance easing over the short term. The depreciation in the Namibia Dollar's exchange rate softened the negative effect of low commodity prices to some extent, while it worked against gaining the benefit of low prices for oil and other imported commodities. Nonetheless, despite low international commodity prices, their effect on Namibia's inflation was marginal.

**Going forward, the current environment of low global mineral prices poses a risk and challenge to resource-dependent exporting nations such as Namibia, as such conditions have a significant impact on Government revenue.**

Thus, while the projection of improved commodity prices holds potential for enhanced performance in the mining sector, the expected decline in zinc and copper prices represents a downside risk to the sector. In particular, the low prices for zinc, which is already facing non-price challenges, may end up causing massive worker lay-offs. If the trend continues, low global commodity prices in 2017 and 2018 entail that Namibia may continue to experience fiscal challenges linked to revenue constraints.

**The challenges and risks from the mining sector make it crucial for Namibia to intensify efforts to diversify its economy away from primary commodity exports.** This can be achieved by focusing on exporting other goods, namely from the manufacturing and services sectors. The recycling nature of the mining sector and its revenues underline the need to save a large part of windfall revenues and build reserves in good times, so as to be more robust in difficult times.

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# Part E

## Statistical Appendix

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# METHODS AND CONCEPTS

## BALANCE OF PAYMENTS

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### ***Accrual accounting basis***

This applies where an international transaction is recorded at the time when ownership changes hands, and not necessarily at the time when payment is made. This principle governs the time of recording for transactions; transactions are recorded when economic value is created, transformed, exchanged, transferred or extinguished.

### ***Balance of Payments***

The balance of payments (BOP) is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy with the rest of the world. Transactions, for the most part between residents and non residents, consist of those involving goods, services, and income; those involving financial claims and liabilities to the rest of the world; and those (such as gifts) classified as transfers. It has two main accounts viz, the current account, capital and financial account. Each transaction in the balance of payments is entered either as a credit/asset or a debit/liability. A credit/asset transaction is one that leads to the receipts of payment from non-residents. Conversely, the debit/liability leads to a payment to non-residents.

### ***Current Account***

The current account of the balance of payments covers all transactions (other than those in financial account) that involve economic values, (i.e.; real transactions) and occur between residents and non-resident entities. Also covered are offsets to current economic values provided or acquired without a quid pro quo. Included are goods, services, income and current transfers. The balance on goods, services, income and current transfers is commonly referred to as the “current balance” or “current account balance”.

### ***Capital and Financial Account***

In the balance of payments, the capital account covers capital transfers and the acquisition or disposal of non-produced non-financial items such as patents. The financial account of the balance of payments consists of the transactions in foreign financial assets and liabilities of an economy. The foreign financial assets of an economy consist of holdings of monetary gold, IMF Special Drawing Rights and claims on non-residents.

The foreign financial liabilities of an economy consist of claims of non-residents on residents. The primary basis for classification of the financial account is functional: direct, portfolio, other investment and reserve assets.

### ***Current Transfers***

Current transfers are all transfers of real resources or financial items without a quid pro quo and exclude transfers of funds directed for capital investments. Included are gifts of goods and money to or from non-residents viz, governments and private individuals. Current transfers directly affect the level of disposable income and should influence the consumption of goods and services.

### ***Capital Transfers***

Capital transfers in kind consists of the transfers without a quid pro quo of the (1) ownership of a fixed asset or (2) the forgiveness, by mutual agreement between creditor and debtor, of the debtor's financial liability when no counterpart is received in return by the creditor. Capital transfer in cash, on the other hand, is linked to or conditional on, the acquisition or disposal of a fixed asset by one or both parties to the transaction (e.g., an investment grant).

### ***Direct Investment***

Direct investment refers to a lasting interest of an entity resident in one economy (the director investor) in an entity resident in another economy (the direct investment enterprise), with an ownership of 10 per cent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

### ***Double-entry accounting***

The basic accounting convention for a balance of payment statement is that every recorded transaction is represented by two entries with exactly equal values. Each transaction is reflected as a credit (+) and a debit (-) entry. In conformity with business and national accounting, in the balance of payment, the term: credit is used to denote a reduction in assets or an increase in liabilities, and debit a reduction in liabilities or an increase in assets.

### **Goods**

These are real transactions with change in the ownership of physical products and include consumer and capital goods.

### **Income**

Income covers two types of transactions between residents and non residents: (i) those involving compensation of employees, which is paid to non-resident workers (e.g. border, seasonal and other short-term workers), and (ii) those involving investment income receipts and payments on external financial assets and liabilities. Included in the latter are receipts and payments on direct investment, portfolio investment and other investment and receipts on reserve assets. Income derived from the use of tangible asset e.g., car rental by a non-resident is excluded from income and is classified under services such as travel.

### **Merchandise Trade Balance**

This is net balance of the total export and import of goods excluding transactions in services between residents and non-residents. Trade balance is the net balance of the total export and import of goods including transactions in services between residents and non-residents.

### **Net Errors and Omissions**

The balance of payment accounting framework requires a balancing item as the measure of the difference between recorded credits/debits and omissions. This is called net errors and omissions'. Theoretically, it measures quality though in practice a zero/lower net errors and omissions could imply not necessarily good quality data but that debits and credits just cancelled each other.

### **Other Investment**

Other investment covers all financial instruments other than those classified as direct investment, portfolio investment or reserve assets.

### **Overall Balance of Payments**

A balance simply refers to the difference between the sum of credits and debit entries. The overall balance is a very simple concept but a powerful analytical tool often used by analysts. In the balance of payment, overall balance refers to the balance between the sum of the current account balance, the capital and financial account balance and net errors and omissions.

### **Portfolio Investment**

Portfolio investment includes trading in equity and debt securities (other than those included in direct investment and reserve assets). These instruments are usually traded (or tradable) in organized and other financial markets, including over-the-counter (OTC) markets.

### **Reserve Assets**

Reserve assets consist of those external assets that are readily available to and controlled by the monetary authority for the direct financing of payments imbalances, for indirectly regulating the magnitude of such balances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes.

### **Residency**

In the balance of payments, the concept of residency is based on a sectoral transactor's center of economic interest. Country boundaries recognized for political purposes may not always be appropriate for economic interest purposes. Therefore, it is necessary to recognize the economic territory of a country as the relevant geographical area to which the concept of residence is applied. An institutional unit is a resident unit when it has a center of economic interest in the territory from which the unit engages in economic activities and transactions on a significant scale, for a year or more.

## **MONETARY AND FINANCIAL STATISTICS**

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### **3-Month BA Rate**

The interest rate on a time draft (bill of exchange) drawn on and accepted by Other Depository Corporations on which it was drawn; the bank accepting the draft assumes the obligation of making payment at maturity on behalf of its client.

### **Repo rate**

The rate charged by the Bank of Namibia on advances on specific collateral to Other Depository Corporations. The Repo rate is the cost of credit to the banking sector and therefore eventually affects the cost of credit to the general public.

### **Depository Corporations Survey**

The Depository Corporations Survey is a consolidation of the Central Bank Survey and the Other Depository Corporations Survey.

### **Bond**

A security that gives the holder the unconditional right to a fixed money income or an income linked to some index, and except for perpetual bonds, an unconditional right to a stated fixed sum or a sum linked to some index on a specified date or dates.

### **Currency in circulation**

Consist of notes and coins that are of fixed nominal values and are issued by central banks and governments. Currency is the most liquid financial asset and is included in broad money aggregates.

### **Narrow Money Supply (M1)**

Narrow Money Supply (M1) is defined to include currency in circulation and transferable deposits of resident sectors, excluding Central Government and depository corporations.

### **Broad Money Supply (M2)**

Broad Money Supply (M2) is defined to include currency outside depository corporations, transferable and other deposits in national currency of the resident sectors, excluding deposits of the Central Government and those of the depository corporations.

### **Transferable Deposits**

These are deposits that are exchangeable without penalty or restriction, on demand and are directly usable for making third party payments.

### **Other Depository Corporations (ODCs)**

The ODC sub-sector consists of all resident financial corporations (except the Central Bank) and quasi-corporations that are mainly engaged in financial intermediation and that issue liabilities included in the national definition of broad money. There are currently fourteen financial intermediaries classified as ODCs in Namibia, i.e. First National Bank of Namibia, Standard Bank of Namibia, Nedbank Namibia, Bank Windhoek, Agribank of Namibia, National Housing Enterprise, Namibia Post Office Savings Bank, Fides Bank, FNB Unit Trust, Stanlib Unit Trust, Pointbreak, Prudential, Salam Unit trust, Old Mutual Unit Trust and Capricorn Unit Trust.

### **Other Deposits**

The other deposit category comprises all claims, other than transferable deposits, that are represented by evidence of deposit. Different forms of other deposits are e.g. savings and fixed investments. Other deposit is thus a component of broad money supply.

### **Deposit rate**

The deposit rate refers to the weighted average deposit rate of the ODC's i.e. the rate that ODC's declare on other deposits (e.g. time deposits).

### **Dual-listed Companies**

Refer to those companies listed and trading on two stock exchanges, such as the Johannesburg Stock Exchange as well as on the NSX.

### **Lending rate**

The lending rate refers to the weighted average lending rate, i.e. the rate charged by ODC's to borrowers.

### **Local Market in terms of NSX**

Only local (Namibian) companies listed on the NSX.

### **Market Capitalisation**

Market Capitalisation is the total market value of a company's issued share capital. It is equal to the number of fully paid shares listed on the NSX multiplied by the share price.

### **Free-float Market Capitalisation**

Free-float market capitalisation is the value of shares held by investors who are likely to be willing to trade. It is a measure of how many shares are reasonably liquid.

### **Market Turnover**

Volume of shares traded on the NSX multiplied by the share price.

### **Market Volume**

The number of shares traded on the NSX.

### **Money Market rate**

The money market rate refers to the inter-bank interest rate; the rate at which ODC's extend credit to each other.

### **Money Market Unit Trust (MMU)**

The MMU sub-sector consists of all resident unit trust companies that have money market funds. There are currently seven of those companies in Namibia: FNB Unit Trust, Stanlib Unit Trust, Pointbreak, Prudential, Salam Unit trust, Old Mutual Unit Trust and Capricorn Unit Trust.

***Mortgage rate***

The rate charged on a loan for the purpose of financing construction or purchasing of real estate.

***Overall Market in terms of NSX***

Refers to all companies, local as well as foreign, listed on the NSX.

***Prime rate***

The rate of interest charged by Other Depository Corporations (ODC's) for loans made to its most credit-worthy business and industrial customers; it is a benchmark rate that banks establish from time to time in computing an appropriate rate of interest for a particular loan contract.

***Real Interest rate***

The rate of interest adjusted to allow for inflation; the nominal interest rate less the rate of inflation for Namibia, is the real interest rate.





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3

### About the Financial Literacy Initiative

The Financial Literacy Initiative (FLI) is a national platform to enhance financial education for individuals and micro-, small- and medium sized enterprises. More than 30 platform partners from the Namibian public, private and civil society sector strive to address the needs in the area of financial literacy and consumer protection in a coordinated effort. The FLI was initiated by the Ministry of Finance in 2009 with support of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

### What is financial literacy?

We understand financial literacy as the ability to make informed judgements and take effective decisions regarding the use and management of money and the knowledge and skills passed on by financial education. This involves the following:

- Managing personal and business finances – planning, budgeting, saving and making financial decisions
- Choosing financial products and services – knowing what financial services or products are available e.g. savings accounts, house loans, insurance products etc.
- Knowing the different types of financial institutions in Namibia e.g. banks, insurance houses, medical aid societies, etc.
- Knowing one's rights as a user of financial products and services as well as knowing where to go for financial advice in the event of a query or dispute.

5

# money and well-being

In today's world, money is part of our everyday life – getting what we need often requires it. Having enough money, none at all, or too much, is a source of relief or frustration for many of us.

Money is a means to an end, but it is not the overall goal. People, in general, want to achieve a better sense of well-being in order to become happier.

Financial goals can be used as a guide to help you identify what to save for.

6



## What is a financial goal?

A financial goal has a monetary value. Therefore, you must spend money to complete or possess it. You have two choices to complete a financial goal:

1. You save up your money to buy something in the future, or
2. You can buy something 'on credit' now and pay off the debt.

If you decide to buy on credit, carefully think about the total cost until you paid off the debt. Compare all choices (loan from a financial institution, retailer, family, etc.) before you decide!

How to set your financial goals:

- **List your financial goals** (please show a mini graph with a small paper with a handwritten list of items, like cellphone, dress, TV, etc.)
  - **Estimate the costs** (please show a note pad with a calculation, like 100 N\$ + 150 N\$ + 800 N\$)
  - **Set target dates** for your goals (please show a small icon with a calendar with "December 2014" or so)
  - **Determine how much you need to save per week or month**
- ...and then...**START SAVING** for your financial goals **TODAY!**

7

$$\begin{array}{r} \text{N\$ } 50 \\ \times \\ 12 \text{ months} \\ = \\ \text{N\$ } 600 \end{array}$$

## WHAT DO YOU SPEND MONEY ON?



I LOVE READING SO I SPEND MOST OF MY MONEY ON BOOKS.

8

I LOVE TECHNOLOGY AND AM ALWAYS SAVING UP FOR NEW GADGETS.



I LOVE FASHION AND SPEND MY POCKET MONEY ON CLOTHES.

Our spending habits reflect what we value in our lives. If we take a moment to set our financial goals, we can reflect on what we want to achieve and what we would like to change or keep to reach the goals.



**Setting  
financial  
goals helps us  
plan how to save  
and spend  
money.**

9

**FINANCIAL  
GOAL:**

New cellphone

**Save  
N\$ 200  
for 10 months**

**N\$ 2000**



10

## Entrepreneurship and how to start a business



**What is an entrepreneur?**

An entrepreneur is a person who organises and operates a business venture and assumes the risk for it.



**Why become an entrepreneur?**

**What is it that motivates someone to start their own business?**

Many people become entrepreneurs because they want to create something of their own, to have a sense of personal achievement. Some view entrepreneurship as an opportunity to create substantial wealth. Others want to break out of the "corporate rat race" and be their own boss.

11



#### Oapco Chemicals

The young entrepreneur Deon Christiaan produces and markets Namibia's first biodegradable and non-toxic household cleaning products. In addition to his windshield repair business he wishes to contribute to a more sustainable and environmentally friendly way of living in Namibia with his soaps and detergents. He will produce and package locally but aims to sell in Namibia and abroad.

## Examples of ENTREPRENEURS IN NAMIBIA



#### Epata Traditional Cuisine

Being passionate about the Namibia heritage in general and traditional Namibian dishes in particular, Willem Thomas founded the etapa Restaurant. After having run a Braai delivery business on his own, Mr. Willem will now open up a restaurant in the city center of Windhoek serving traditional cuisine in a modern setting. With his passion for Namibian food as well as with his entrepreneurial spirit he will make Namibian traditions a part of the everyday life of Windhoek's businessmen and women once again as well as introduce it to tourists. And Windhoek is just the beginning...

#### Risks involved in becoming an entrepreneur

- Needless to say, there is financial risk associated with starting a business. You may have to invest some of your own savings and/or use your personal assets as collateral for business loans. **Successful entrepreneurs take risks, but they are calculated risks.** They don't plunge blindly into new situations. Instead, they think things through and are prepared.
- **Running your own business is a tremendous responsibility.** Your customers expect you to deliver on your promises. Are you the kind of person that can handle that kind of pressure?

**BusinessWISE**

**Kennedy Shindodi,  
Brainchild Technologies**

The outgoing and passionate young entrepreneur Kennedy Shindodi connects local Namibian farmers with supermarkets by processing and packaging as well as marketing traditional Namibian cooking ingredients.

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## How to start your business

- 1 Identify an opportunity.** Keep your eyes and ears open. Ask lots of questions. Look for unmet needs you could address through a new product or service. Be innovative.
- 2 Don't jump into anything until you are sure the opportunity is real. Conduct market research** to determine the true potential for your idea.
- 3 Next, develop a business plan.** The process of writing your ideas down will help you refine your thinking and will focus your efforts.
- 4 One of the biggest challenges for a start-up business is obtaining adequate financing.** Among the possible sources of funding are your savings, friends and family, lending institutions and venture capitalists. Consider the long-term impact of the different alternatives before making any decisions.

14

5

Before you open your doors, you will need to **establish the legal status of your business**. Your options include: sole proprietorship, partnership, limited partnership and corporation. Decide on one that works best for the kind of business you want to get into.

6

It is crucial that you **set up a good bookkeeping system**. You will need to track revenue and expenses, manage cash flow and plan for taxes. Find someone who can advise you on the information needed and the best way to manage it.

7

**If the risk is limited and acceptable for you - just give it a go!**

15



**Edwig Theodor, Kingly Fish**

As the first woman in Namibia, Edwig Theodor brings locally produced curried fish not only to Namibia's dinner tables but also to the world. By doing so, she will not only support the local fish and vegetable industry but also promote Namibian culture in other countries. Short distances and local production add to the freshness of her home-made product. Her strive for quality and her entrepreneurial talent also reflect in the superior product and service that she provides.

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## A few final thoughts for you upcoming entrepreneurs:

- **Get experience in the field you choose for your business before you break out on your own** - you will have more credibility and will recognise the pitfalls to avoid.
- **Be realistic in your expectations** - don't give up when things don't happen as quickly as you would like.
- **Network everywhere you go** - you never know where you might find a new customer or a great new idea.

## Helpful info:

Please visit or contact the following institutions for more information:

### **Development Bank of Namibia (for financing)**

Tel: 061-2908000

Website: [www.dbn.com.na](http://www.dbn.com.na)

### **Namibian Chamber of Commerce and Industry (NCCI) (for general business support and networking)**

Tel: 061-228809

Website: [www.ncci.org.na](http://www.ncci.org.na)

### **Junior Achievement Namibia**

**(for youth entrepreneurial development and empowerment)**

Tel: 061-221140

Email: [Rebekka@ja-namibia.org](mailto:Rebekka@ja-namibia.org)

### **Namibia Business Innovation Centre (NBIC)**

**(for support in the business start-up phase and innovation)**

Tel: 061-2072885

Email: [nbic@polytechnic.edu.na](mailto:nbic@polytechnic.edu.na)

Website: [nbic.polytechnic.edu.na/](http://nbic.polytechnic.edu.na/)

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# SPENDING WISELY

When buying something, ask yourself:  
Do I need it or is it just a nice to have?

**What is spending?**  
Spending is paying out money for goods and services and basic needs such as food, clothing, toiletries and luxuries like entertainment.

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*Spend* **WISE**

**In order to spend wisely, take the following steps:**

- 1 Make a list of what you need to spend money on, list how much they cost and decide on the most important ones.
- 2 Spend only on what you need.
- 3 Do not spend all your money, but save some.
- 4 Live within your means, so that you can save.
- 5 If you have a small business, keep a record of your earnings and your expenses to keep control of your finances. That way, you will know what you have left to spend on the business and to save.

**needs vs wants**

Think before you spend!

**needs**

- SCHOOL SUPPLIES
- MEDICINE
- SOAP SHAMPOO LOTION
- FOOD

**wants**

- PARTY
- NEW SUNGLASSES
- MP3 PLAYER
- DESIGNER CLOTHES

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## NEXT: Spend-wise story

### Characters:



Elton



Benny



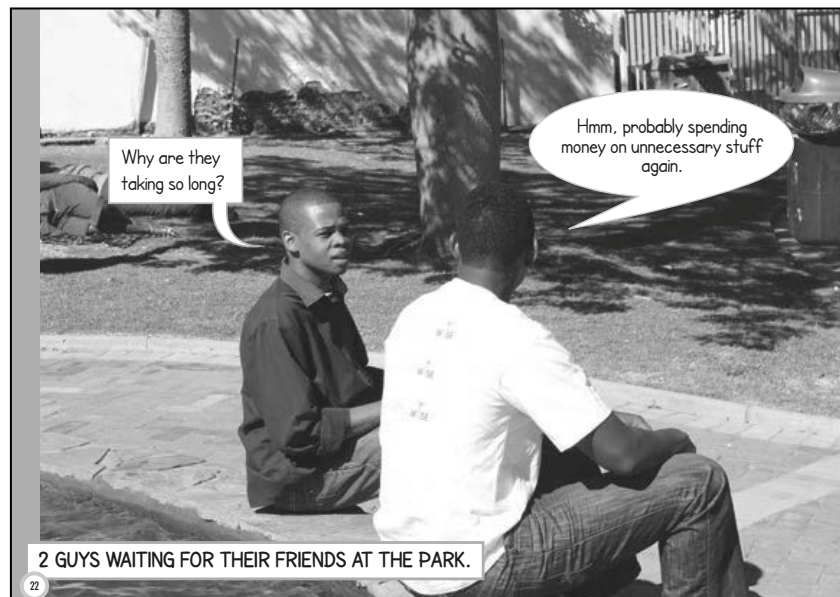
Eric

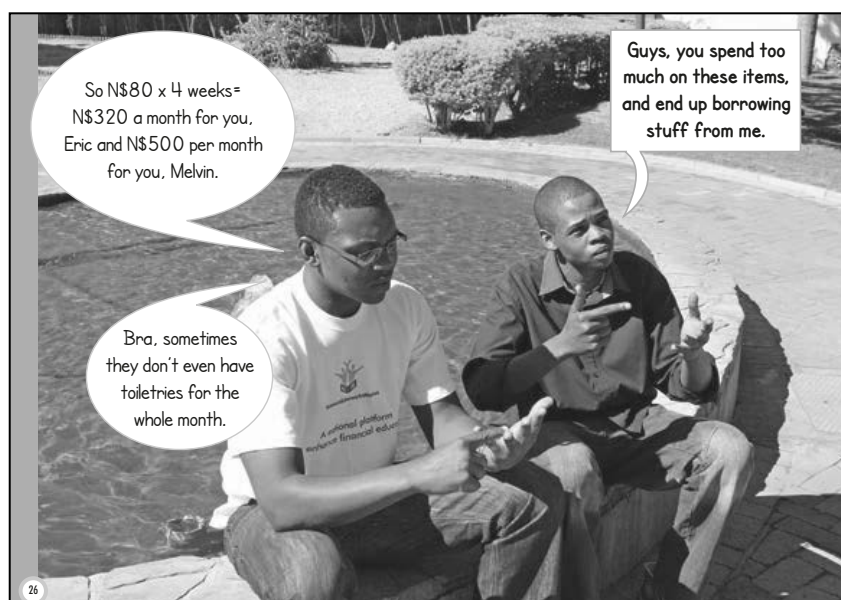
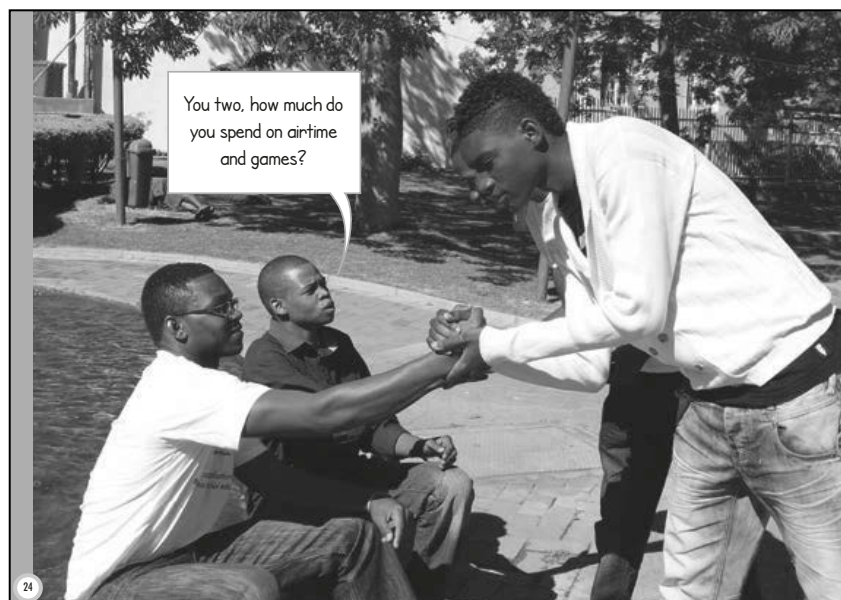


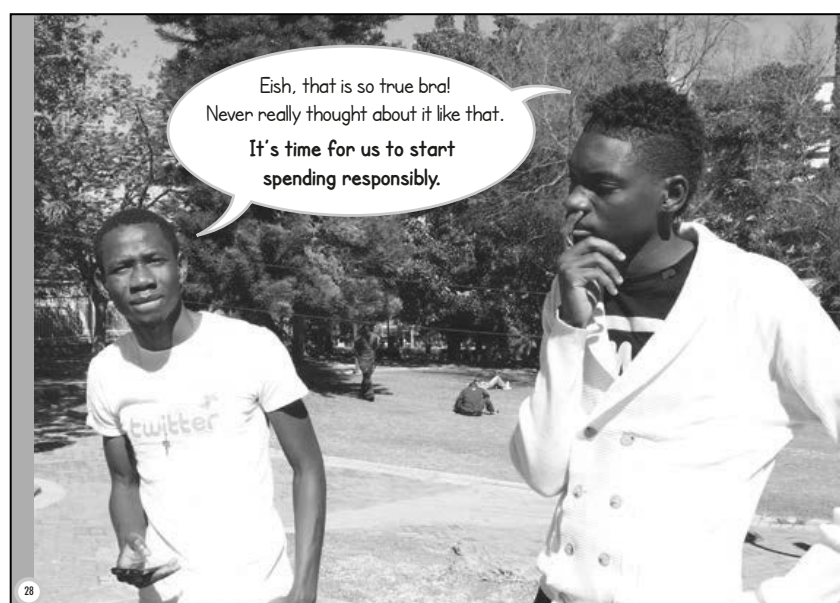
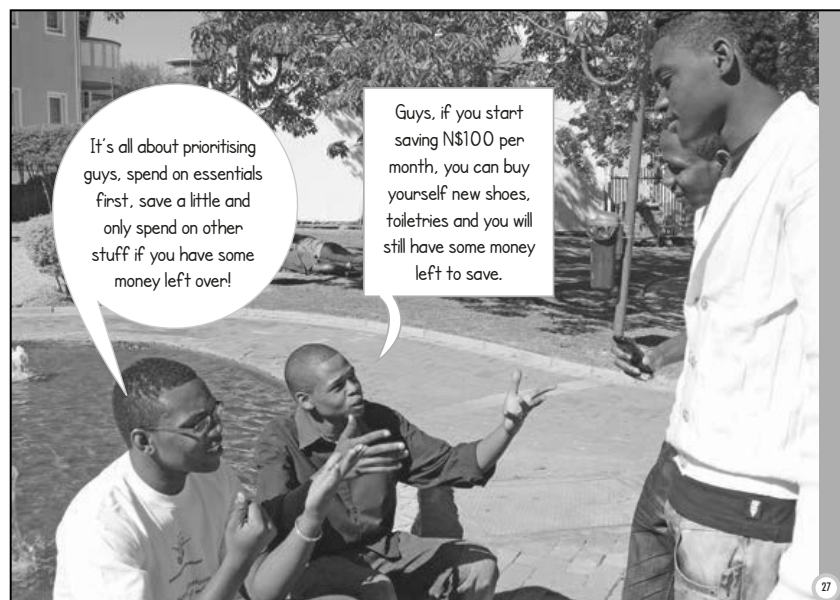
Melvin

Let us have a look at how these friends spend their money...

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## START SAVING, SISTA OR BROTHER :)

Start small because every dollar counts!!!

**What is saving?**  
Saving is putting away or storing money for future use.

Practising the skill of saving and spending is even more useful if **we know the different savings options** that are available to us.

There are **formal and informal systems** of safeguarding money. We need to trust the place(s) where we keep our money.

SaveWise

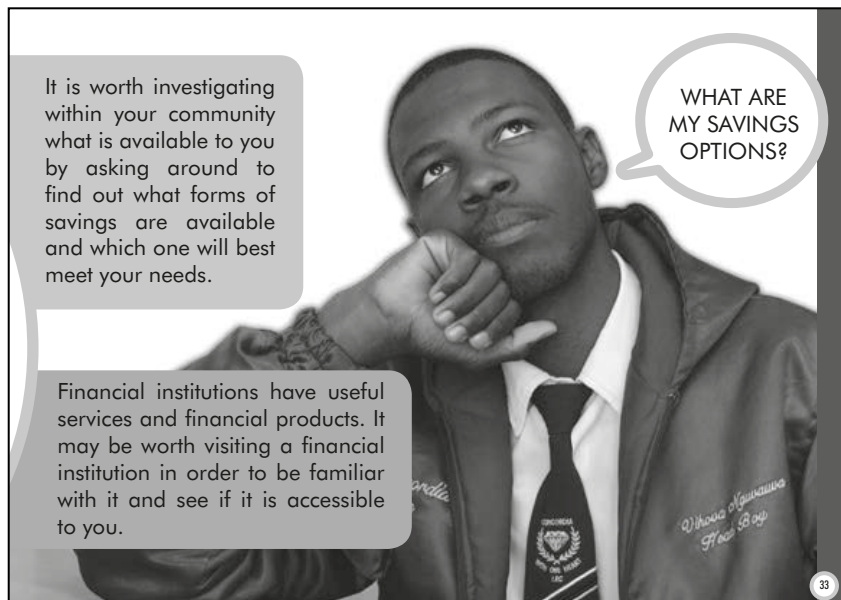
## HOW AND WHERE CAN I DEPOSIT AND SAFEGUARD MY SAVINGS?

Each saving option has its share of advantages and disadvantages. It is up to you to decide which option best meets your needs.

There are

- **banks**
- **micro-finance organisations**
- **school programmes**  
e.g. Junior Achievement / Aflatoun
- **villages (village savings schemes)**
- **postal office**
- **savings & credit co-operatives**
- **other types of financial institutions**, for example **insurance companies, investment houses** etc.

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It is worth investigating within your community what is available to you by asking around to find out what forms of savings are available and which one will best meet your needs.

Financial institutions have useful services and financial products. It may be worth visiting a financial institution in order to be familiar with it and see if it is accessible to you.

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## Here are some tips to start saving:

- 1** **Decide what you want to save for**, i.e. have a savings goal (new shoes, play station game, new smart phone).
- 2** **Develop a savings plan.** Decide how you will save for the item that you want e.g. are you going to save a certain amount of money every week or month, and for how long will you have to save in order to afford what you want to buy.
- 3** **Save whatever you can afford.** Save your change and money you get unexpectedly from family and friends.
- 4** **Save money that you do not need to spend.**

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- 5** **Decide where you will keep your savings.** Choose an option that's best and most accessible for you.
- When you decide on a savings option, **don't**
- 6** **forget to compare the interest rates and the fees that you will be charged** by the institution to keep your money. Don't feel pressured to sign anything straight away.
- 7** **Ask others how they save and where they save.** This will give you ideas on what the best way to save could be and you can also learn from their experiences.

35

## NEXT: Save-wise story

### Characters:

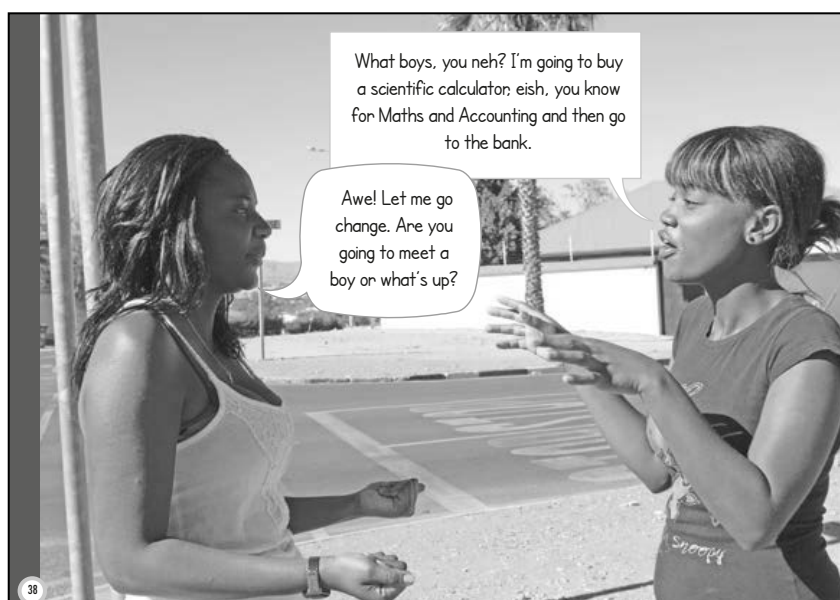


Frieda



Zelda

Let us have a look at how these friends save their money..







## Budget - plan ahead

"Don't tell me what you value, show me your budget, and I'll tell you what you value."  
- Joe Biden

Creating a budget may not sound like the most exciting thing in the world for you to do, but it's a vital step in helping you towards reaching your financial goals. We will show you how to make a budget sheet.

**What is a budget?**  
A budget is a written summary of estimated income and expenses, including savings, over a period of time. It's a plan for spending and saving money wisely.

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## NEXT: Budget-wise story

### Characters:



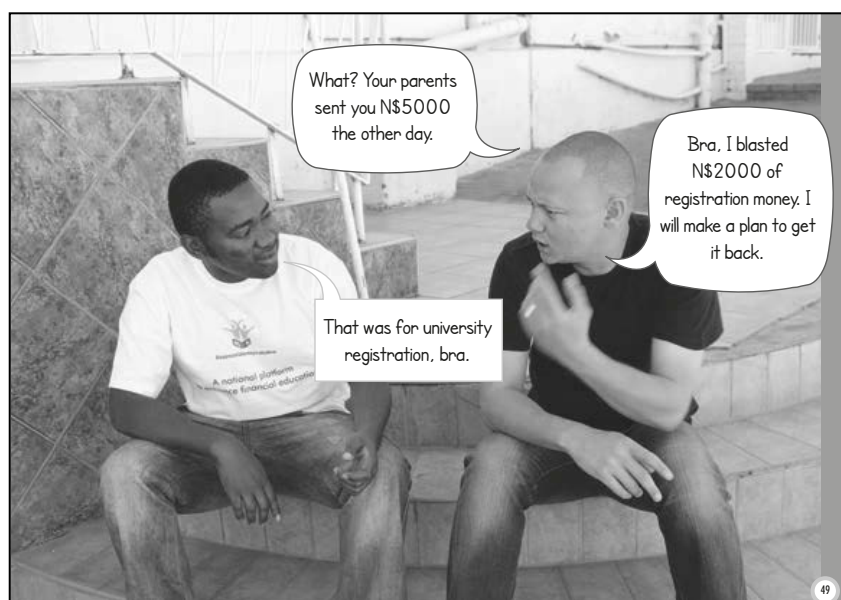
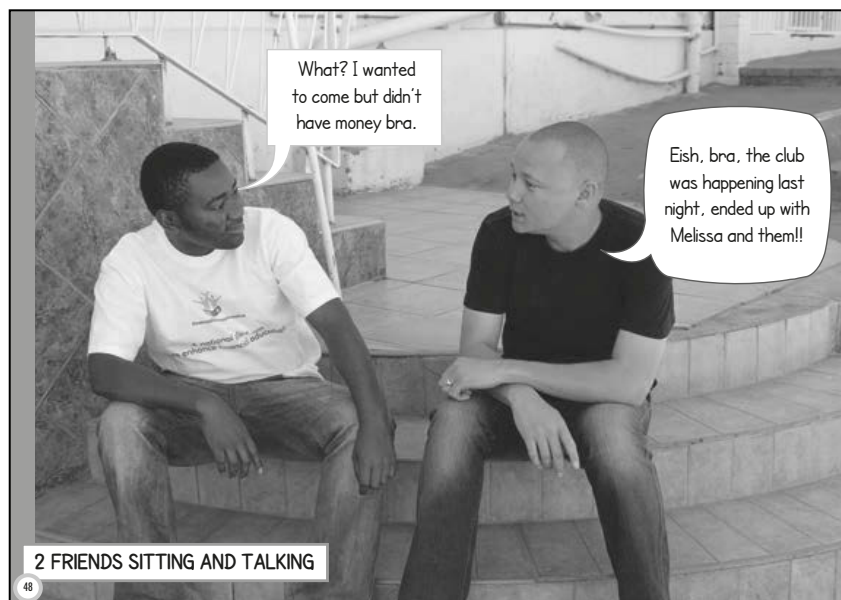
Jimmy

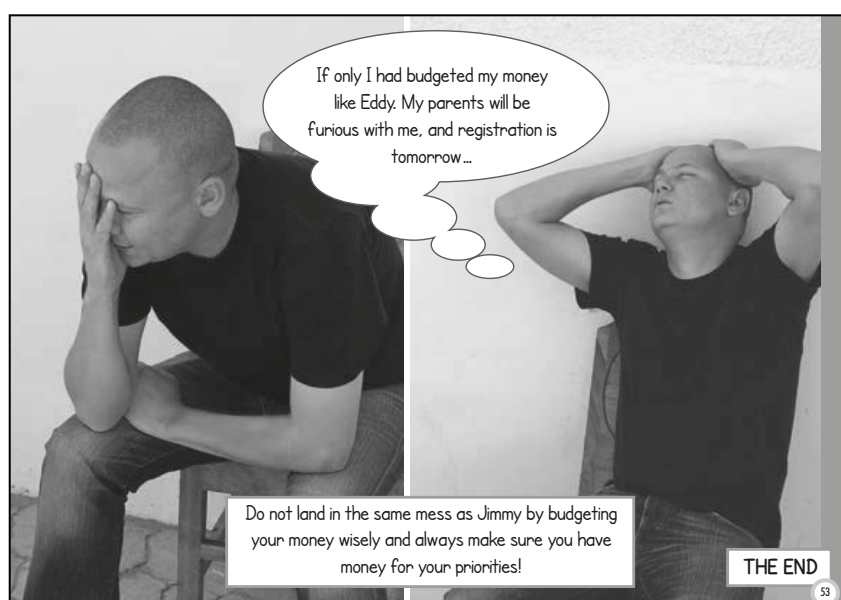
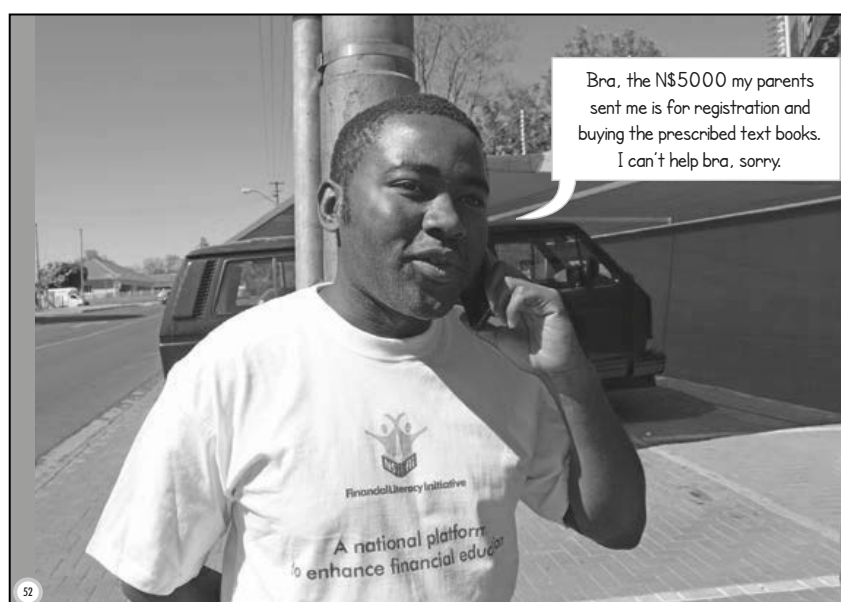


Eddy

Let us have a look at how these friends budgeted their money...

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## How do you draw up your personal budget?

### Step 1

Estimate your expected income over an average week or month including income you receive from work, allowances, gifts or other sources. Calculate your total income.

### Step 2

Estimate your expected expenses over the same period of time.

### Step 3

Subtract your total expenses from your total income to get your total surplus or deficit.

### Step 4

Decide how much to save and where you can cut down on your expenses.

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## Personal budget example:

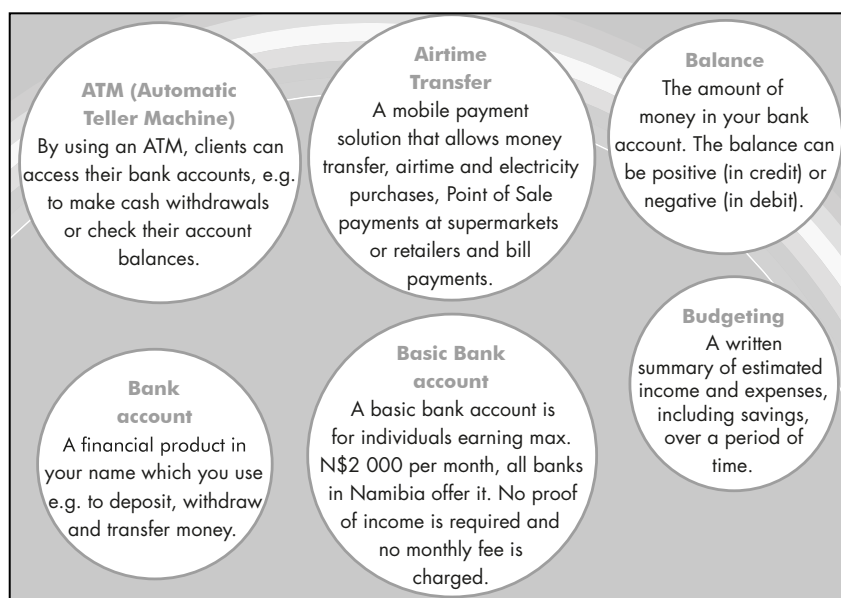
| Personal Budget - Monthly:             |               |                       |               |
|----------------------------------------|---------------|-----------------------|---------------|
| INCOME                                 | N\$           | EXPENSES              | N\$           |
| Waitering                              | 80.00         | Shampoo               | 20.00         |
| Babysitting                            | 50.00         | New Calculator        | 40.00         |
| Pocket Money                           | 100.00        | Entertainment         | 100.00        |
|                                        |               |                       |               |
| <b>TOTAL INCOME</b>                    | <b>230.00</b> | <b>TOTAL EXPENSES</b> | <b>160.00</b> |
| <b>TOTAL INCOME - TOTAL EXPENSES =</b> |               |                       | <b>70.00</b>  |

This budget allows for N\$ 70 of savings each month.

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## Fill in YOUR budget now...

| Personal Budget - Monthly:             |     |                       |     |
|----------------------------------------|-----|-----------------------|-----|
| INCOME                                 | N\$ | EXPENSES              | N\$ |
|                                        |     |                       |     |
|                                        |     |                       |     |
|                                        |     |                       |     |
|                                        |     |                       |     |
|                                        |     |                       |     |
|                                        |     |                       |     |
|                                        |     |                       |     |
|                                        |     |                       |     |
| <b>TOTAL INCOME</b>                    |     | <b>TOTAL EXPENSES</b> |     |
| <b>TOTAL INCOME - TOTAL EXPENSES =</b> |     |                       |     |



**Credit**  
Credit can have different meanings. Credit means buying goods and services now, but paying for them later, often by paying the money back in certain amounts over an agreed period of time and by paying interest. Credit can be a transaction on your bank account that shows money going into the account. It can also mean the amount of money you have.

**Credit card**  
A plastic card that gives direct access to money that you have to pay back over a certain period of time with high interest rates.

**Debit card**  
A plastic card that gives direct access to money in your bank account, e.g. by withdrawing it at an ATM (see also: ATM). A debit card is also used to purchase goods or pay for services.



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**Deposit**  
An amount of money put into a bank account, or money that is left with someone or a company to secure the purchase of an item.

**Electronic banking**  
A way of banking that allows withdrawals, deposits and transfers to be completed and account information to be obtained electronically using facilities such as cellphone, internet and ATMs.

**Collateral**  
A form of security to the lender in case the borrower fails to pay back the loan.



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**Fees/Charges:**  
Fees that are charged by a financial institution for managing your financial product and providing the financial services you use. Fees are charged yearly, monthly or per services you use (e.g. transferring or withdrawing).

**Mobile Banking**  
Mobile banking (or branchless banking) is a term used for banking transactions through a mobile device (e.g. payments, airtime transfer, account balance checks, transactions).

**Interest**  
Money charged or paid for the use of money. For example, a financial institution pays the client an interest rate for money that he/she deposits in a savings account. A financial institution charges interest for money that a client borrows (e.g. loan, credit).



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**Savings**  
Money or assets that you put away for use at a later time. For example, you may save regularly to buy new shoes or a new cellphone in the future.

**Statement**  
A record summarising all transactions that have occurred on your financial account (bank, insurance, retirement, etc.) and any fees charged or interest paid. Statements are sent to you monthly or yearly.

**Savings account**  
A bank account where your savings can be deposited and withdrawn. An interest rate is usually paid for the money deposited and fees are charged by the bank for specific account services.

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**Transactions**  
The name given to movements of money such as deposits and withdrawals, or transferring money between bank accounts, businesses and individuals.

**EFT (Electronic Fund Transfer)**  
Electronic Funds Transfer – moving funds from one bank account to another using an electronic method such as internet banking, debit card or the like.

**Withdrawal**  
To take money out of a bank account. This can be using an ATM, EFT or by cheque.




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**Venture Capital**  
Money provided by investors to startup firms and small businesses with perceived long-term growth potential.

**Investor**  
Someone who allocates capital with the expectation of a financial return.

**Business Plan**  
a written document that describes in detail how a new business is going to achieve its goals. The plan includes the overall budget, current and projected financing, a market analysis and its marketing strategy approach to enable owners to have a more defined picture of potential costs and drawbacks to certain business decisions.



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## BACKGROUND

As part of the promotion of the financial inclusion agenda, the Bank of Namibia in consultation with the banking industry, set specific standards for the introduction of a basic bank account in Namibia. This account is intended for individuals earning N\$ 2 000 per month or less and no proof of income is required to open it. All banking institutions now offer a basic bank account in compliance with the set standards. Banking institutions shall, however, actively monitor these accounts to ensure that those targeted benefit from this account. This initiative is in line with the Financial Sector Strategy.

For more information contact your nearest branch of the following banks:



Introducing the

# BASIC BANK ACCOUNT

One of the key benefits of having a bank account is safety.



Financial Literacy Initiative

A national platform to enhance financial education

### Contact details:

Financial Literacy Initiative Secretariat  
Ministry of Finance, Economic Policy Advisory Services  
Fiscus Building, 10 John Meinert Street  
Private Bag 13295, Windhoek, Namibia  
Tel.: (+264) 61 209 2295, Fax: (+264) 61 245 696

For more information, visit [www.fli-namibia.org](http://www.fli-namibia.org) or contact us at 77077 (40c/sms) or [info@fli-namibia.org](mailto:info@fli-namibia.org)



Financial Literacy Initiative

A national platform to enhance financial education

## PRODUCTS OFFERED BY COMMERCIAL BANKS THAT COMPLY WITH THE BASIC BANK ACCOUNT (BBA) REQUIREMENTS

Nedbank – Nedbank4All

Standard Bank – Basic Blue

Bank Windhoek – EasySave

First National Bank – CardWise Zero

While the product names and some of the services may differ, the above mentioned accounts comply with the minimum standards on BBA as set by Bank of Namibia.



## THESE STANDARDS ARE AS FOLLOWS:

### ACCOUNT OPENING AND ELIGIBILITY

In order to open a basic bank account you must:

- Be a Namibian citizen or permanent resident
- Have a valid identity document
- Earn N\$2000 per month or less

**Note:** An individual is entitled to one BBA per banking institution.

### MONTHLY FEE / ACCOUNT MANAGEMENT FEE

Free (no monthly fee or account management fees are charged)

### FIRST CARD ISSUED FEE

First card issued is free but subsequent cards can be charged.

### DEBIT CARD SERVICE

Debit card service is available and such services can be subjected to charges. This debit card can be used for Automatic Teller Machine (ATM) and Point of Sale (POS) transaction services.

### CHEQUES

No cheque book facility available.

### CASH DEPOSITS

First N\$ 2,000 per month free. Cash deposits above this can be subjected to charges.

### ELECTRONIC DEPOSITS (INCOMING)

Unlimited electronic deposits allowed for free.

### CASH WITHDRAWALS

Cash withdrawal service is available and such services can be subjected to charges.

### DEBIT ORDER (OUTGOING)

Outgoing debit order service is available and such services can be subjected to charges.

### MINIMUM OPENING BALANCE

N\$ 20.00

### MINIMUM ON-GOING BALANCE

N\$ 20.00

### INTERNET BANKING FACILITY

Account holders of banking institutions which have mobile or internet banking services are entitled to have access to these services at no charge. These services should offer unlimited online account enquiries, fund transfers and payment of bills within the same banking institution at no charge. Transactions to other banking institutions can be charged.

### BALANCE ENQUIRY

Balance enquiry service is available free of charge at own ATMs.

### ATM MINI STATEMENT

ATM mini statement service must be available and can be subjected to charges.

### DORMANCY

Only accounts that have had no activity for 12 months are to be considered not active.





Development

Competitive

Effective

Resilient

Inclusive



# Namibia Financial Sector Strategy: 2011-2021

## Towards Achieving Vision 2030

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# ACRONYMS AND ABBREVIATIONS

|         |                                                      |
|---------|------------------------------------------------------|
| ATM     | Automated Teller Machine                             |
| BON     | Bank of Namibia                                      |
| BES     | Book Entry System                                    |
| CMA     | Common Monetary Area                                 |
| EFT     | Electronic Funds Transfer                            |
| GDP     | Gross Domestic Product                               |
| GIPF    | Government Institutions Pension Fund                 |
| NAMFISA | Namibia Financial Institutions Supervisory Authority |
| NDP     | National Development Plan                            |
| NEEEF   | New Equitable Economic Empowerment Framework         |
| NFLWG   | National Financial Literacy Working Group            |
| NFSC    | Namibian Financial Sector Charter                    |
| NFSS    | Namibian Financial Sector Strategy                   |
| NISS    | Namibia Interbank Settlement System                  |
| NPS     | National Payment System                              |
| NSX     | Namibian Stock Exchange                              |
| Repo    | Repurchase Agreement                                 |
| SADC    | Southern African Development Community               |
| SME     | Small and Medium Enterprise                          |
| SOE     | State-Owned Enterprise                               |
| WEF     | World Economic Forum                                 |



## FOREWORD

The Namibian Financial Sector Strategy is a long-term development strategy for the Namibian financial sector. It is expected that the strategy will guide the achievement of the financial sector objectives as set out in the various national development plans (NDPs and Vision 2030); through consolidating them; especially those relating to capital and financial markets development, ownership of financial institutions, access to finance, consumer protection and financial literacy. Ultimately the Strategy should contribute to fostering economic growth and poverty alleviation as well as reducing income inequality. Furthermore, the Strategy takes cognisance of on-going regional initiatives with regard to financial sector development, as well as global initiatives in response to global developments such as those witnessed during the recent global financial crisis.

The successful implementation of the identified strategic initiatives and the outcome of the Strategy will offer significant benefits for Namibia; however this will only be possible with the support and timely interventions from all stakeholders. There should be a continuation of a process that led to the development of this Strategy, which involved a wide-spectrum of industry stakeholders in addition to the working group consisting of officials from the Ministry of Finance, Bank of Namibia and NAMFISA. I would like to extend my sincere gratitude to all of you who gave contributions and supported the formulation of the Strategy.

A handwritten signature in black ink, appearing to read 'Saara Kuugongelwa'.

Saara Kuugongelwa- Amadhila  
Minister of Finance

# EXECUTIVE SUMMARY

The importance of the financial sector to the general economic growth of a country is well documented, especially through the intermediation channel. Where financial services are supplied broadly and efficiently, they accelerate economic growth, increase the efficiency of resource allocation and improve the distribution of wealth. This, in essence, is what Namibia needs taking the aspirations of the country's Vision 2030 into consideration. Achieving a more efficient, competitive and resilient financial system will be vital for securing the prospects for sustainable economic growth and development.

A review of Namibia's financial system shows that although the system is sound and well-functioning, there are structural weaknesses that need to be addressed to enable the financial sector to contribute meaningfully to the overall performance of the country's economy. Key weaknesses identified include: a shallow financial market; limited competition, limited financial safety nets, under-developed capital market; inadequate and less effective regulation; limited access to financial services; low financial literacy and lack of consumer protection; lack of consumer activism, limited skills; and low participation by Namibians and thus dominance of foreign ownership.

A ten year strategy has been developed to address the weaknesses in the Namibian financial system, covering the period 2011-2021, which will enable the country's financial sector to transform and contribute meaningfully to the developmental objectives of the country. The purpose of the Strategy is to chart the future direction of the financial system over the next 10 years that will ensure its effectiveness, competitiveness and resilience.

The overall objective of the Namibian Financial Sector Strategy (NFSS) is therefore to develop a more resilient, competitive and dynamic financial system with best practices in order for the sector to realise its full potential in respect of its contribution to the growth of the economy and the achievements of socio-economic objectives of poverty reduction and wealth creation. Further, the strategy envisions the emergence of strong and innovative domestic financial institutions that are more technology driven and ready to face the challenges of globalisation. Threats of the global marketplace are becoming more intensive, as global players and technological advancement are having an unprecedented impact on the business approach of financial institutions. Against this background, it is vital for the financial sector, to prepare and ensure that it remains effective and responsive in the face of a more globalised, liberalised, diversified and sophisticated domestic economy.

Thus, the development of the Namibian Financial Sector Strategy is a national response to address the structural weaknesses in the sector in order to achieve the above-stated national and sector-specific objectives. The Strategy constitutes a single reference document that guides the development of the country's financial sector despite existing national policy documents (e.g., Vision 2030, NDP3 and the NFSC). In particular, it provides the strategic policy guidance for the achievement of goals, including the NFSC

*The financial sector plays an important role in the economy*

*Weaknesses have been identified in the financial system*

*Weaknesses necessitated the development of the Strategy*

*Implementation of the Strategy will result in the sector realizing its full potential*

*Strategy aims to guide the development of the financial sector*

initiatives, within the context of overall national development policies, i.e. the NFSC is in actual fact part of the Strategy. In this regard, the Strategy consolidates and articulates the strategic initiatives contemplated in the sector development and transformation policies. Once fully implemented, the initiatives shall result in a developed and modern financial system for Namibia. To this end, the Strategy entails an Action Plan to implement, monitor and evaluate progress towards the achievement of the outcomes.

The development of the Strategy has become more urgent in view of threats posed by advances in technology that enables financial institutions to develop products that are inherently more risky and can destabilise the financial system. In fact, the recent global financial crisis was mainly attributed to these risky products.

### The Strategy focuses on reforms in the following key areas:

- Financial markets deepening and development
- Financial safety net
- Financial inclusion:
  - Consumer financial literacy and protection
  - Access to financial services and products
- Localisation of the Namibian financial sector
- Skills development in the financial sector

*Strategy has identified  
five (5) reform areas*

# VISION AT A GLANCE

By the end of year 2021, the following should have been achieved:

- a deepened, an efficient and developed financial system;
  - respected, world class and effective regulators;
- a stable, well regulated and competitive financial sector;
  - significant local ownership of financial institutions;
  - an inclusive financial sector; and
- financially literate and protected consumers of financial services and products.

*By having these in place, Namibia would have an effective, efficient, stable, competitive, resilient and inclusive financial system by 2021.*

# INTRODUCTION

1. The Namibian economy has recorded satisfactory and sustained growth since independence. Growth has averaged 3 percent while inflation has remained low at single digits, on average, during the period. The sector has experienced a phase of dynamic growth. Financial intermediation's contribution to GDP grew from 2.0 percent in 1990 to 3.6 percent in 2000 and further to 4.3 percent in 2010. In the next ten years, the financial sector is expected to play a pronounced role in supporting economic growth through an expanded intermediation role.
2. The Namibian financial system remained stable during the global financial crisis started in 2007 and intensified in 2008. The overall direct impact of the crisis on the domestic financial system has been relatively low, thanks in part to limited exposure to sub-prime-related investments by financial intermediaries which was made possible by existing exchange control regime. The 2009 World Economic Forum (WEF) report also appraised the banking sector of Namibia as being sound, ranking in the 7th position in Africa; and thus evidencing the stability of the system. While there has been stability so far, the future is unpredictable and the opportunity is now taken to be forward looking so as to build the necessary foundation that will enable the financial sector to continue playing its important role in the economy and to continue being strong and resilient in facing possible future challenges.
3. An assessment of the current status of Namibia's financial system shows that although the system is sound and well-functioning, there are weaknesses that need addressing to enable the financial sector to contribute more meaningfully to the overall performance of the country's economy. Key weaknesses identified include: a shallow financial market; limited competition, limited financial safety nets, under-developed capital market; inadequate and less effective regulation; limited access to financial services; low financial literacy and lack of consumer protection; absence of effective consumer activism, limited financial management skills; and low participation by Namibians and thus dominance of foreign ownership of financial institutions.
4. To address the weaknesses in the Namibian financial system, a ten-year Strategy covering the period 2011-2021 has been developed which will enable the country's financial sector to transform and contribute more meaningfully to the socio-economic objectives of, amongst others, poverty reduction and wealth creation as contained in the various development plans (NDPs and Vision 2030). The purpose of the Strategy is to provide a road map of the financial system over the next 10 years that will ensure its effectiveness, competitiveness and resilience. This future landscape has been developed against the backdrop of an increasingly global and integrated economic environment and financial markets as well as the socioeconomic objectives of the country. The objective of the Namibian Financial Sector Strategy (NFSS) is therefore to develop a more resilient, competitive and dynamic financial system with best practices, that support and contributes positively to the growth

*There has been increased financial sector contribution to the economy since independence while the sector is expected to even enhance its role further*

*Namibia's financial system has been stable but the future is unpredictable*

*A review of the Namibian financial system revealed key weaknesses*

*A ten-year Strategy is being developed to address the weaknesses*

of the economy, and has strong and innovative domestic financial institutions that are more technology driven and ready to face the challenges of globalisation.

5. While it is acknowledged that there are plans and targets already set in various documents (e.g., NDP3 and NFSC) directed towards the development of the financial sector, the development of the Namibian Financial Sector Strategy is a national response to address the structural weaknesses in the sector in order to achieve the above-stated national and sector-specific objectives. As such, the Strategy constitutes a single reference document that guides the development of the country's financial sector, and the voluntary NFSC should be viewed as part of the Strategy. In the absence of a consolidated strategy and strategic initiatives, sector development impediments and deficiencies might persist.

*The Strategy will serve as a single reference document for financial sector development in Namibia*

# THE NAMIBIAN ECONOMY IN 2021 AND THE ROLE OF THE FINANCIAL SECTOR: VISION UNPACKED

6. According to the Vision 2030, the Namibian economy is expected to grow on average by 6.2 percent. The financial sector is expected to play an important role towards the achievement of the projected growth, with financial intermediation expected to grow on average by 6.3 percent over the next 10 years. As the economy grows, there will be increased demand for finance from companies that are expanding. This demand for financing will be met not only by banks, but increasingly by the capital market as well as venture capital and private equity. At the same time the demand for auxiliary financial services such as insurance will increase. To underpin this, the financial sector will continue to be developed and deepened, through the introduction of new and specialised products that respond to the needs of sophisticated consumers that are increasingly literate.
7. The Namibian financial system will have the ability to create a dynamic set of financial players, which are able to provide support to the domestic economy, and more importantly, which are increasingly more efficient, competitive, and able to facilitate the economic transformation process.
8. The financial system will be more resilient, competitive and dynamic with best practices, which support and contribute positively to the growth of the economy, and has strong and innovative domestic financial institutions that are more technology driven and ready to face the challenges of globalisation. Threats of the global marketplace are becoming more intensive, as global players and technological advancement are having an unprecedented impact on the business approach of financial institutions. Against this background, it is vital for the financial sector, to prepare and ensure that it remains effective and responsive in the face of a more globalised, liberalised and a more complex domestic economy.
9. Going forward, the ability of the financial institutions to deliver products and services in the most efficient and effective manner will be key to determining performance and relevance of the financial sector. The Namibia Financial Sector Strategy, therefore, will ensure a financial system that is best suited to the Namibian economy, given the challenges posed by the environment in which Namibia as a small open economy operates. In this regard, achieving a more efficient, competitive and resilient financial system will be vital for securing the prospects for sustainable economic growth and development.
10. In summary, the overall goal of the Strategy is therefore for Namibia to have a well developed and diversified financial sector which will be characterised by *efficiency, effectiveness and stability*.

*Vision 2030 expects the economy to grow and hence an increase in the demand for finance*

*Namibia will have a more resilient, competitive and dynamic financial system to support sustainable economic growth*

## ***Efficiency***

11. Efficiency will manifest in the form of a range of financial products and services that should be offered at the lowest possible cost to both institutional and individual consumers, namely borrowers, investors, depositors, risk managers, etc. In this regard, improvement in productivity and higher returns on assets for the financial institutions will need to be realised through greater penetration of efficient and low cost delivery channels, procurement and other back-office functions, and leveraging on world-class skills. This operational efficiency can be achieved through greater investment in technology and skills enhancement.

## ***Effectiveness***

12. An effective financial system will require financial institutions to be innovative in coming up with a range of highly differentiated products, services and delivery channels, tailored to meet specific demands of the consumers and the corporate sector.

## ***Stability***

13. Regulatory and supervisory efforts will be geared towards the maintenance of the stability of the financial system. In this regard, robust financial institutions, infrastructure and prudential regulation will be an important necessity. This will be to ensure that the system is able to withstand sudden adverse economic and financial shocks that emanate from within and outside the system without significantly disrupting the intermediary function and the functioning of the economy.

### ***Prudential regulations***

14. Financial institutions will have to be robust, backed by strong prudential regulations and supervision. The robustness of institutions will be demonstrated in having strong risk management capabilities and credit skills in place as well as sound corporate governance. In this regard, the use and application of, among others, financial models and comprehensive risk, liquidity, and credit management frameworks will be necessary, so as the quality and accountability of the board of directors and management of financial institutions.

### ***Robust financial institutions***

15. Amidst the need to provide an environment which is conducive to the development of an efficient and innovative financial system, strong and effective prudential regulations and supervision is necessary as these are the foundation of a strong financial system and efficient regulatory institutions.

## *Infrastructure*

16. Strong infrastructure will have to be available to ensure overall stability of the financial system. This will be achieved through institutional development and capacity building, increasing the competitive environment, the continuous improvement in the existing payments and financial markets infrastructure, and instituting a more market-driven consumer protection framework.
- 17 Against the above objectives, the Strategy identifies outcomes for the financial sector to progressively develop to achieve the broad national objectives and to adapting and adjusting to the forces of change in the domestic and international environment.

# CURRENT STATUS OF THE NAMIBIAN FINANCIAL SYSTEM

18. The Namibian financial system comprises the Bank of Namibia as the central bank, five commercial banks, a number of other banking institutions, a range of non-bank financial institutions such as insurance companies and pension funds, smaller financial intermediaries in the form of stockbrokers and money market funds, and the Namibian Stock Exchange. The financial institutions operating in Namibia are the following:

## (a) Commercial Banks

- First National Bank of Namibia (Ltd.)
- Standard Bank of Namibia (Ltd.)
- Nedbank Namibia (Ltd.)
- Bank Windhoek (Ltd.)
- FIDES Bank (Ltd.)

At the end of 2010, total bank assets, deposits and loans increased from the level recorded in 2009 (see table below).

|                    | Total Assets |            | Total Deposits |            | Total Loans |            |
|--------------------|--------------|------------|----------------|------------|-------------|------------|
|                    | 2009         | 2010       | 2009           | 2010       | 2009        | 2010       |
| Industry<br>(N\$m) | 47,669,192   | 52,501,025 | 41,200,832     | 44,583,831 | 35,418,820  | 38,725,170 |

Source: Bank of Namibia

## (b) Other specialised finance institutions

- Namibia Post Office Savings Bank (a division of NamPost Ltd)
- Agricultural Bank of Namibia Ltd
- National Housing Enterprise Ltd
- Development Bank of Namibia Ltd

### Financial depth

19. The importance of the financial sector to the general economic growth of a country is well documented, especially through the intermediation channel. When financial services are supplied broadly and efficiently, they accelerate economic growth, increase the efficiency of resource allocation and improve the distribution of wealth.
20. Financial depth is measured as deposit resources mobilised and credit extended by the financial system (banking) relative to GDP. In Namibia, domestic credit to

the private sector as a percentage of GDP was recorded at 46 percent in 2010, as was the case in 2009. Broad money supply (M2) as a percentage of GDP was 41 percent in 2010, compared to 40.0 percent in 2009.

21. Although the depth of the Namibian financial system is relatively higher (compared to other countries in the region), there is still room for growth and expansion in order to reach a higher level comparable to the developed nations. This would require growth of the financial sector by reaching those segments of the population currently not served by it.

### **(c) Non-bank financial institutions**

Non-bank financial institutions comprise of insurance, pension funds, investment managers, unit trusts, microfinance institutions, a stock exchange and stock brokers. At the end of 2010, total industry assets<sup>1</sup> were recorded at N\$205,217 million, an increase from N\$172,296 million in 2008, and N\$191,451 million in 2009.

#### **Insurance**

22. At the end of 2010, there were 18 long-term insurance companies and one reinsurance company in Namibia. The industry's assets were N\$25.2 billion, accounting for 29.6 percent of GDP in 2010. During 2010 there were 14 short-term insurers, including one re-insurer, as well as 121 insurance brokers and 395 insurance agents. The industry's assets were N\$2.4 billion, accounting for 2.8 percent of Namibia's GDP<sup>2</sup> in 2010. Access to especially short-term insurance services remains very low for the greater portion of the population. According to the 2007 FinScope survey, less than 10 percent of the population have access to these services.

#### **Pension Funds**

23. Namibia has a high number of registered pension funds. In 2010, there were 167 active registered pension funds (excluding foreign funds), which covered about 161 478 members. There is a need to expand the pension coverage in Namibia, since the existing pension funds do not extend to all Namibians. Therefore, there are efforts underway to establish a National Pension Scheme that will cover all Namibians. The GIPF accounts for the bulk of pension funds assets (around 70%). The assets of the pension funds were N\$63.9 billion in 2010, accounting for 75.1 percent of GDP. Namibia has one of the highest rates of pension assets as a percentage of GDP in the world, the bulk of which is mainly invested outside the

<sup>1</sup> The assets of insurance, pension funds and medical aid funds are included in the assets managed by investment managers and management companies. In addition, a portion of assets managed by management companies are also managed by investment managers. There is, therefore, considerable double counting of assets.

<sup>2</sup> Estimated GDP figure by BoN used, given the absence of final data.

country. Local investment requirements compel pension funds and long-term insurers to invest a minimum of 35 percent of their assets in Namibia so as to curb capital outflow and ensure effective utilization of funds in the local economy.

### **Investment managers**

24. The total registered investment managers or asset management companies in Namibia were 38 in 2010, while the total funds under management was recorded at N\$86.1 billion as at the end of 2010. Investment managers mainly invest the resources from pension funds, long term insurers and unit trust schemes. In 2010, investment managers invested about 55.3 percent of total assets from pension funds and 14.1 percent from long-term insurers.

### **Unit trusts**

25. The unit trust industry in Namibia has shown tremendous growth over the past few years. There were 10 registered unit trust management companies at the end of 2010. The total funds under management increased from N\$13.9 billion in 2007 to N\$25.9 billion in 2010, with most of the inflow and growth recorded in the money market funds.

### **Microfinance institutions**

26. Micro finance institutions have the potential to provide financial services to many people that the banks are not able to serve. The number of micro lending institutions increased from 186 in 2006 to 347 in 2010. Total loans granted by the registered micro lenders amounted to N\$682million during 2008. This represents an increase of 27 percent from N\$538 million granted in 2007. For 2010, loans amounting to N\$1,080 million were issued by micro lenders, an increase of 28 percent, when compared to the 2009 figure. This increase can be attributed to the growth in the number of micro lenders during that period. Microfinance institutions' rates are, however, exorbitant compared to other conventional lenders. Existing microfinance institutions only cater for a certain segment of the population, i.e. salaried individuals, thus there is a need for more microfinance institutions that will cater for the excluded segment of the population who are mainly the poor and also for small-scale entrepreneurs.

### **Stock exchange**

27. The Namibian Stock Exchange (NSX) is the only licensed stock exchange in Namibia in terms of the Stock Exchanges Control Act (No.1 of 1985). Securities listed on the NSX consist of primarily dual-listed South African companies and primary-listed Namibian companies.

| Year                         | 2002    | 2003    | 2004    | 2005    | 2006      | 2007      | 2008    | 2009      | 2010      |
|------------------------------|---------|---------|---------|---------|-----------|-----------|---------|-----------|-----------|
| Local market (N\$ million)   |         |         |         |         |           |           |         |           |           |
| Market capitalisation        | 1 728   | 2 054   | 2 492   | 2 630   | 3 820     | 4 781     | 5 720   | 7 126     | 7 782     |
| Listed securities            | 12      | 11      | 9       | 9       | 9         | 7         | 7       | 7         | 7         |
| Liquidity (%)                | 1.96    | 1.86    | 10.6    | 2.62    | 7.00      | 6.20      | 5.15    | 2.58      | 1.72      |
| Overall market (N\$ million) |         |         |         |         |           |           |         |           |           |
| Market capitalisation        | 386 617 | 460 315 | 573 878 | 769 585 | 1 112 542 | 1 186 365 | 736 456 | 1 047 527 | 1 178 257 |
| Listed securities            | 35      | 35      | 32      | 28      | 28        | 27        | 29      | 33        | 33        |
| Liquidity (%)                | 0.45    | 0.47    | 7.16    | 6.75    | 8.76      | 11.24     | 12.72   | 0.83      | 0.64      |

Source: NSX

28. As can be seen from the above table, the NSX is characterised by low levels of liquidity. This can be ascribed to the buy-and-hold strategy adopted by most investors in Namibia, partly due to a lack of sufficient instruments. The reason for holding on to trading instruments has been often cited to be the need to comply with local investment requirements. There is, however, definitely a case for improving the liquidity on the local exchange.

### Stockbrokers

29. There are 4 registered stockbrokers in Namibia, who act as intermediaries between investors and the stock exchange.

30. From the above, it is clear that the Namibian financial sector is relatively developed, sound and well-functioning. However, there is room for improvement especially in addressing the identified weaknesses. Therefore, the next section gives details of the identified weaknesses and proposes outcomes, which would result in a developed and modern financial system for Namibia.

# REFORM AREAS AND OUTCOMES<sup>3</sup>

The outcome of the proposed reform areas, together with the undertaking by the voluntary Financial Sector Charter, should result in a developed and modern financial system for Namibia.

<sup>3</sup> Due to a lack of baseline data/information, some outcomes have not been quantified as well as timelines for some strategies have not been indicated due to the nature of the strategies. This should however be done once information becomes available.

# FINANCIAL MARKETS DEEPENING AND DEVELOPMENT

31. A deepened financial system stimulates economic growth and lowers the cost of financial intermediation by increasing both the range and variety of financial instruments available to savers and investors. It can also mobilize and channel savings more effectively to productive investments. Such a financial system enjoys increased stability and resilience and can adjust to better absorb internal and external shocks. A fully developed financial system is able to link the domestic and international financial markets and thereby enhance international capital flows and portfolio diversification.

*A deepened financial system stimulates economic growth and lowers the cost of financial intermediation*

## *Current situation assessment and challenges*

32. The Namibian financial system is not considered deep enough, but relatively well developed compared to most financial systems in African countries. However, although the system is sound and well-functioning, there are structural weaknesses that need to be addressed to enable the financial sector to contribute meaningfully to the overall performance of the country's economy. These include a shallow financial market which this chapter aims to address. The shallow financial markets have been manifested in the outlined below.

*The Namibian financial system well developed and sound but is shallow*

33. Though well developed, the available instruments in the money market falls short of expectation. The bonds market on the other hand is Government dominated with only a few public and private institutions, which poses a serious challenge to the development of the primary bonds market as the issuers' base is not well diversified. Furthermore, the secondary market is relatively illiquid, with trading having been by and large constrained by the relatively lower issuance of bonds and this has created a situation whereby holders of these instruments are unwilling to trade in fear of the struggle faced when trying to replace an instrument which is sold. Other factors such as the limited number of issuers in the local capital market and domination of institutional investors as largest holders of debt securities also contributes to the situation somewhat. The NSX has also been faced with a challenge of a lack of liquidity as not much trading has been taking place. There is also only a limited number of local listed companies, and hence the dominance of dual listed companies on the NSX.

*There are insufficient instruments in the money market, bonds market is Government dominated while the secondary market is relatively illiquid*

*There is not much trading at the NSX*

34. Moreover, the banking system is characterized by high concentration and a lack of competition. Attracting new foreign financial institutions could provide a competitive stimulus and help spur innovation in products and practices, and Namibia

*The Banking industry is highly concentrated and lacks competition*

has established a Competition Commission whose role is to enforce competition laws and ensure that there are no competition distortions to all firms operating in the market as well as to potential firms wanting to enter the market.

35. There is good local financial services infrastructure, though, with National Payment System as a backbone. With the reform of the National Payment System, the Namibian banking industry managed to establish local payment infrastructure for the clearing and settlement of domestic transactions. The Namibia Inter-bank Settlement System (NISS) facilitates settlement of Namibian interbank transactions, while a payment clearing house (NAMCLEAR) is also in place. The local switch (NAMSWITCH) enables all Namibian inter-bank Automated Teller Machine (ATM) card transactions to be switched locally and settled as well as Point-of-Sale terminals card transactions to be switched locally and settled in NISS. In addition, the Bank of Namibia and the banking industry has recently launched the revised Vision for the Namibian National Payment System which sets strategic objectives for the National Payment System until 2015
36. Other identified issues that are considered as important aspects in the process of striving for the deepening and development of the financial markets in Namibia relates to regulation. This is because financial regulation can have an impact on the structure, size and efficiency of the financial system, operations of the financial institutions and markets as well as the level of competition in the financial system. The Namibian financial sector regulation is generally sound; however, there has been an existence of certain archaic pieces of legislation. Further, as new standards are set globally; Namibia must also follow these trends and update its regulatory structure accordingly.
37. The country has thus in recent years embarked upon reforming certain laws, passed new laws and adopted standards similar to the ones adopted globally. Amongst others, recent pieces of legislation that relates to the financial sector include the introduction of the Financial Intelligence Act and the Prevention of Organised Crime Act and the Combating of the Financing of Terrorism Bill, the implementation of Basel II and the enactment of the Bank of Namibia amendments to the Banking Institutions Act in 2010. These amendments provide for amongst others, consolidated supervision, outlawing pyramid schemes and money laundering, licensing, governance and various financial and operational requirements of banks.
38. In view of the above identified weaknesses, reform is needed so that the ideal situation as suggested by the below outcome is achieved.

*Namibia has good financial infrastructure*

*Financial regulation in Namibia is sound, but archaic laws need to be reformed*

*Legislation reform is in process, new laws have been enacted, amendments to some others have been effected*

## Outcome 1:

Namibia to have an active capital market (securities market) characterised by higher turnover, liquidity and immediacy. In this regard, the NSX local market capitalisation is expected to reach 75% of GDP by 2021.

### Strategies to achieve the outcome

To achieve the above outcome, the following will be undertaken:

- i. **Determine through a Cost and Benefits Analysis Study the possibility of demutualizing the NSX to enable it to be listed on the exchange to segregate its trading rights from its ownership and to enhance its regulatory functions.**
- ii. **The viability of the primary dealership system for the government bond market will be reviewed as well as the secondary market repurchase agreements (repos) operationalized**, i.e. there will be lending through repo market among commercial banks and among third parties to improve liquidity in the interbank market and the bond market. As such, the insolvency law will have to be amended to facilitate repo market transactions.
- iii. **New instruments such as exchange traded funds, securitized securities and derivatives in general, may be developed to facilitate the process of deepening the market.**
- iv. **To lessen the burden on the State, that usually manifest itself in the form of government subsidies and/or guarantees extended to state agencies, certain state agencies (including local authorities) with good balance sheets will be encouraged to issue more corporate papers (both short- and long-term) as an alternative to bank financing.** This will increase the number and size of debt instruments available in the Namibian capital market.
- v. **The Government shall consider working with the private sector to leverage on public private partnerships.** This will increase investment opportunities, efficiency and growth.
- vi. **All Namibian incorporated financial institutions, with an embedded valuation in excess of or upon reaching a certain amount (which is still to be determined), as well as their foreign holding company, if any, will be encouraged to list on the NSX.** With regards to banking institutions, there is envisaged to be a regulation that would prescribe mandatory listing.
- vii. **The infrastructure needed for efficient operation of the stock exchange will**

be supported. These include amongst others a Central Securities Depository (CSD). Thus, the feasibility and viability of having a sustainable CSD shall be investigated so as to design and implement a CSD which will enable electronic trading of Namibian government securities and other securities; achieve international standards and best practices, and facilitate the deepening of the financial market in Namibia. This is so because the existence of the CSD (as opposed to the current Book Entry System (BES) environment) will have the capability to serve the entire securities market in Namibia. It will also be able to be integrated within the Namibia Inter-bank Settlement System (NISS) in order to achieve Delivery versus Payments (DvP) for securities transactions as envisaged in the National Payment System Vision 2015.

- viii. **By virtue of it being a major player in the economy, there shall be a national strategy to enhance the role that the long-term national funds, such as those administered by the Government Institution Pension Fund (GIPF), should play in the development of the market, without compromising the funds' returns or being detrimental to the rest of the market.** In this regard, a study on which the strategy is to be formulated should be carried out by an independent consultant.
- ix. **The amended regulations 15 and 28, which stipulate domestic asset requirements of long-term insurance companies and pension funds, respectively, shall be reviewed and effectively implemented.** Amongst others, the amendments will require mandatory investment in "unlisted investments" as well as a requirement that these institutions should invest a minimum of 35% in Namibia. This will ensure that there are funds available for local economic development.
- x. **In view of the importance to have an enabling regulatory environment that facilitates financial markets deepening and development, the following shall be undertaken:**
  - (a) **The Financial Institutions and Markets (FIM) Bill, which aims to be a flexible, potent and responsive piece of legislation shall be promulgated and implemented.** This will replace the existing legislations and be able to address the dynamics of the modern financial sector.
  - (b) **The regulatory regime of Namibia shall be harmonised and collaboration amongst regulators strengthened/enhanced.** Collaboration and coordination is especially important since financial groups are often regulated and/or supervised by more than one regulator; and in which case effective consultation needs to take place.
  - (c) **Before any regulation or new law is enacted there shall always be a consultative policy paper (comprehensive regulatory impact assessment)**

*Creating enabling regulatory environment is important for financial sector deepening and development*

with the aim to improve the quality of regulations in the country and make them cost-effective, compatible with economic growth objectives, job creation and competitiveness. This exercise will also aim to achieve greater regulatory alignment between government policies so as to avoid possible inconsistencies and enhance trade and investment that the country is striving to achieve.

(d) **There will be continuous review and improvement in prudential standards.**

This will require that the regulators are up to date with latest international standards such as Basel II and those set by the International Association of Industry Supervisors; and adapt them to Namibia. The application of international best practices and standards is necessary to help ensure a stable integrated financial system, although it has to be ensured that international best practices must be adapted to local circumstances and conditions.

(e) For purposes of ensuring the provision of a more conducive climate to investors to start and operate local businesses, **financial regulators shall strive to harmonise the regulations as well as be consistent in their approach on aspects that are under their mandate.** This is envisaged to improve the ease of doing business in Namibia.

# FINANCIAL SAFETY NET

39. The recent financial crisis is not the first one to affect the global financial system. There have been many before this episode and there is no guarantee that the current one will be the last one. Historically financial crises have been precipitated by bank failures, which spread and result in systemic failure of the financial system.
40. To make financial system breakdowns less likely and to limit their costs if they occur, countries have financial safety nets in place. These nets are amalgams of policies including early warning systems, explicit or implicit deposit insurance, the central bank's lending of last resort, bank insolvency resolution procedures, and bank regulation and supervision.

## *Current situation assessment and challenges*

41. At present the Bank of Namibia has in place early warning systems, but these can still be enhanced to make them more robust in order to respond to the ever-evolving technological innovations in the financial system. NAMFISA has made provision for a compensation scheme in the FIM Bill to cater for cases where regulated entities are unable to meet their obligations. Further, the Bank of Namibia has a lender of last resort policy in place aimed at lending support to needy banks, if and when such banks request assistance from the central bank. However it should be noted that the efficacy of the current financial safety net regime has not been robustly tested, as there have been no problem institutions in Namibia in recent years.
42. The challenge facing the Namibian financial system with regard to financial safety nets is to develop a comprehensive and modern safety net regime that includes all elements that allows for early detection and limiting the impact of failing institutions. As such, below is the envisaged outcome.

*Financial safety net is important to limit the costs of crises when they occur*

*There is limited financial safety net for the banking sector*

*Namibia needs a comprehensive and modern safety net regime*

## Outcome 2:

Appropriate safety nets shall be put in place to protect depositors and to ensure and maintain financial stability.

### Strategies to achieve the outcome

The following shall be undertaken in an effort to achieve the outcome:

- i. **The feasibility and format of an appropriate deposit insurance and resolution scheme for Namibia shall be investigated and determined.** The aim is to protect depositors in case of a bank experiencing financial distress such that the impact of bank failures on its depositors as well as the contagious impact of bank failures

is minimised. Deposit insurance in the event of bank closures has the objective of ensuring that the reimbursements of depositors are carried out in an efficient, transparent, and speedy manner, in order to contain the risk of a bank run. This is considered to be relevant as its existence will provide confidence in the system and reduce the risk of a financial system crisis occurring. A resolution scheme will ensure that Systemically Important Financial Institutions should be required to make contributions that is based on the risk profile of such entities and that will serve towards the cost of resolution of such entities in the event of failure.

# FINANCIAL INCLUSION

43. The level of financial exclusion in Namibia is very high. The 2007 FinScope Survey indicates that more than half of the Namibian bankable population is unbanked. SMEs have also experienced difficulties in obtaining financing from formal financial institutions as evidenced by the Namibia Chamber of Commerce and Industry (NCCI) Survey of 2009. Given the negative impact that financial exclusion can have on the economy, Namibia will strive to reduce the exclusion rate through various means. As such, financial inclusion is defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections (i.e. micro- and small enterprises) and low income groups, at an affordable cost.
44. In addition to the establishment of an inter-ministerial Financial Inclusion Council that will provide policy direction and monitor the implementation of strategies to enhance financial inclusion in Namibia, below are other strategies, specific to each individual element of financial inclusion.

*Financial inclusion is important due to its link to economic growth and stability of a country*

## CONSUMER FINANCIAL LITERACY AND PROTECTION

45. The importance of consumer protection and financial education stems from the fact that consumers all over the globe are facing greater financial insecurity, given the dynamism of the financial sector. This has also been evidenced by the recent global economic crisis that originated from problems in the financial sector. Low consumer knowledge regarding rights, financial products and services; deficient protection mechanism and poor personal finance management can lead to adverse impacts on the national economy and its citizens. It is therefore important that the necessary infrastructure is put in place to protect consumers from unfair practices. Education and awareness are essential to ensure that the level of information and guidance to the public is enhanced.

*Consumer protection and financial literacy is important for the economy*

### *Current situation assessment and challenges*

46. A review of the current status in as far as consumer protection is concerned shows that there has not been a fully functional consumer protection law and or policy in existence in Namibia. The current Bank of Namibia Act does not have a provision on consumer protection, though the Bank is in the process of developing recourse mechanisms, especially for the banking sector. NAMFISA has included provisions on consumer protection in its new Bill (the Financial Institutions and Markets Bill) which is yet to be promulgated. Further, the Competition Commission caters for the protection of consumers to a certain degree, while the Ministry of Trade and Industry has also established a Consumer Protection Unit, though the consumer protection law is not yet in place.

*There has not been a fully functional consumer protection law in Namibia, while the level of financial literacy has also been low*

47. In order for consumer protection to be effective, it should be accompanied by consumer literacy on financial matters. In Namibia, the level of consumer and financial literacy among citizens, both old and young is insufficient. Being clearly aware of the need to improve financial literacy in the country, various institutions have been offering public education through the media. These initiatives include activities undertaken by NAMFISA, BoN, while there are also consumer education and protection undertakings by financial institutions through the Namibian Financial Sector Charter (NFSC). The consumer literacy initiatives are thus largely fragmented, often brand-related and suffer from duplication, showing a lack of coordination and inefficient utilisation of resources on a country level. The effectiveness of these efforts is thus yet to be determined. An inter-agency working group, namely the Financial Literacy Initiative (FLI) consisting of stakeholder institutions led by the Ministry of Finance and assisted by GIZ has been set up with the objective to look at broader issues of consumer literacy. The FLI has since been in the process of developing a framework to that effect.

48. The FLI has identified the lack of up-to-date national baseline data that hinders assessment of progress achieved through various consumer education efforts; the non-existence of a clear policy framework that hampers the effectiveness and enforcement of efforts aimed at consumer literacy; as well as the non-inclusion of financial literacy in the Namibian formal education curriculum which does not enable learners to become financial literate during early stages of their lives, as some of the challenges in terms of consumer literacy efforts in Namibia.

49. The Strategy has identified the below to be the ideal outcome, for the consumer financial literacy and protection components of financial inclusion, after implementing relevant initiatives which are also outlined below.

*Effective protection of consumers requires financially literate consumers*

## Outcome 3(a):

Namibia shall have and implement a consumer protection legal framework in the financial sector, which will ensure transparency and disclosure as well as consumer complaints and redress mechanisms.

### Strategies to achieve the outcome

To ensure a solution for consumer protection, the following will be embarked upon:

- i. **Market conduct principles and oversight will be developed and benchmarked to international best practices to ensure consumer protection.** To that effect, the Bank of Namibia will develop guidelines on the protection of consumers of banking services and encourage banks to incorporate such in their code of good banking practice, while NAMFISA also envisages setting up market conduct

standards for the non-banking financial institutions. This is necessitated by the inherent information imbalance between financial service providers and consumers. Once in place, they will not only preserve confidence in the financial system but also encourage responsible dealings on the side of financial service providers. Consumers on the other hand are expected to play their part by making use of available information to choose wisely. Such market conduct codes and standards shall therefore aim to ensure transparency (such that customers know what they are getting into), fair treatment of customers and effective recourse for customer complaints.

- ii. **In line with the undertaking by the voluntary Financial Sector Charter, a financial services complaints adjudicator shall be established** where consumers of financial products and services would be able to launch complaints that cannot be settled by customers and their financial institutions and the adjudication for such can take place.
- iii. **Consumers will be educated on their rights and obligations** as well as the redress provisions, so as to ensure consumer activism in the market. Consumer education should thus also involve debt counseling for consumers of financial products so as to provide advisory services where needed and rehabilitate people who are over-indebted.

## Outcome 3(b):

The national financial literacy rate shall be increased by 2020 from the baseline to be determined by FinScope 2011.

### Strategies to achieve the outcome

The following will be put in place to increase the level of financial literacy in Namibia:

- i. **A clear policy framework for the coordination of financial literacy initiatives will be developed.** This will outline the type of financial literacy programmes to be put in place as well as the necessary institutional arrangements to implement financial literacy programmes. As such, encompassing financial literacy guidelines shall be developed, with various sub-programmes catering for specific target audiences and levels (in terms of the life cycle) of the different groups of the population. It is necessary to have targeted programmes in order to ensure maximum impact on the target groups.
- ii. **A national baseline data on financial literacy shall be developed and updated regularly.** This will assist in measuring progress made by the country in the area of financial literacy.

- iii. **Financial education shall increasingly be incorporated into the school curriculum** so as to empower the would-be financial services consumers. It is a widely accepted view that empowering people with skills and knowledge while they are still young will lead to inculcating in them a sense of being responsible adults in future.
- iv. **The pledge by the industry voluntary Charter for financial institutions to invest 0.2 percent of after tax operating profits in consumer education, shall be one of the sources of funds for purposes of financial literacy.** Other sources of funds for this purpose will have to be explored.
- v. **Mechanisms to monitor and evaluate the effectiveness of the financial literacy programmes will be put in place.** Monitoring and evaluation is necessary so that corrective measures are implemented if programmes are found not to make the intended impact.

## ACCESS TO FINANCIAL SERVICES AND PRODUCTS

50. Access<sup>4</sup> to financial products and services plays an important role in economic growth and development of countries as it contributes to, among others, the reduction of poverty and inequality. However, many people worldwide still do not have access to financial services and products. This lack of access to financial services and products has potential to retard growth and development if not addressed and corrected. Some non-governmental organisations as well as saving and credit cooperatives have been trying to improve access to finance by rural people by running programmes especially in the microfinance field.

### *Current situation assessment and challenges*

51. Limited access to financial products and services in Namibia is well documented and has been recognised as one of the priority areas to be addressed in the five-year national development plans (NDPs) and the Financial Sector Charter. According to the FinScope Namibia survey (2007), 51.7 percent of the Namibian population is financially excluded. The majority of financially excluded are in the rural areas. Some non-governmental organisations as well as saving and credit cooperatives have been trying to improve access to finance by rural people by running programmes especially in the microfinance field.

52. Apart from individuals, small and medium enterprises also face serious access problems. The predicaments faced by the SMEs<sup>5</sup> are two fold: they are considered too small for lending by the commercial banks, in the sense of their ability to repay

<sup>4</sup> Access to finance is hereby defined to refer to access to financial services and products as well access to financial service infrastructure which enables consumers to gain access to financial services and products.

<sup>5</sup> SMEs, in the Namibian context, shall be defined to include all micro-entrepreneurs as well, while it would be ideal to review the existing definitions and determine the exact levels.

*There is a high level of financial exclusion in Namibia*

*The SME sector is important for economic growth and employment creation and needs to be supported*

back the money borrowed and too large for lending by micro-lenders, in the sense that the amount required often exceeds the available credit limits.

53. Financial service providers (banks in particular) have initiated efforts in order to address the lack of access to finance. The Development Bank of Namibia has been channelling funds for SME development through commercial banks. Moreover, commercial banks have established specialised branches dedicated to SME lending and have also initiated mentoring programmes in order to assist SMEs. Furthermore, the NFSC also addresses access issues and has defined principles related to products and contains commitments by financial institutions in respect of access.
54. However, there are challenges that hamper access to financial services especially relating to rural people and SMEs. These include, but not limited to: high transaction/information costs; unmitigated risks, e.g., risk of default by borrowers; lack of appropriate collaterals; regulation, e.g., laws that do not allow financial institutions to offer certain products; oligopolistic bank market structure that inhibits innovation due to limited competitive pressure; and land tenure system that does not recognise assets such as houses in rural areas as collateral.
55. The below has been identified as the ideal situation going forward.

## Outcome 4(a):

Improved access to financial services and products by eligible Namibians by reducing lack of access from the current baseline of 51.7 percent to 26 percent.

### Strategies to achieve the outcome

The below strategies shall be embarked upon to enhance access to financial services and products to the underserved and vulnerable segments of the society. The implementation of these, together with the access principles outlined in the voluntary sector Charter should be able to increase the level of financial inclusion in Namibia.

- i. **The level of exclusion of economic active Namibians from the use of financial services and products shall be determined by FinScope 2011 so as to have an updated indication and assess whether or not there had been an improvement after the 2007 FinScope survey indicated an exclusion rate of 51.7 percent.** To enable implementation of appropriate and targeted policies, such an assessment will have to be detailed such that it provides information on all

indicators that measure access, such as those suggested by relevant international bodies like the Alliance for Financial Inclusion (AFI) and Consultative Group to Assist the Poor (CGAP).

- ii. **The Credit Agreements Act (which is viewed to be out-dated as it is almost 30 years old) shall be revised** so as to capture newer financing instruments; modernize collateral laws and enhance the balance between both debtor's and creditor's rights. The revised legislation will encompass all facets of access, including stronger implementation guidelines.
- iii. **The determination of usury rate thresholds that differentiate between the loans provided by commercial banks and those by microfinance institutions shall be reviewed and aligned with international best practices.** In this regard, a policy paper shall be produced with appropriate recommendations.
- iv. **The regulation on electronic money (e-money) shall be issued in an effort to enhance access to financial services.** The regulation will provide clear guidance to those wanting to provide such services while protecting the funds of the Namibian citizens who would use these services.
- v. **The action plans under the National Payment System (NPS) Vision 2015 that aims to set clear standards for fees and charges as well as other activities resulting from the outcome of the Study on fees and user charges, will be implemented** to achieve financial inclusion, efficiency and cost-effectiveness in the provision of low cost financial services. This will address the issue of high fees and charges that has characterised the Namibian financial system and has to some extent led to financial exclusion of some Namibians not being able to take up financial products and services offered by the sector.
- vi. **In recognition of the need to overcome barriers to financial access, such as collateral requirements, ways and methods that have proven successful elsewhere will be explored.** For example, the possibility of registering movable collateral as done in countries such as China as well as the successful financial support for SMEs in India and Bangladesh would be investigated. Furthermore, the current land tenure system that renders land in communal areas not to qualify as collateral security (mainly due to insecure land rights) could be reviewed with a view to enhance access to credit.
- vii. **The Banking Institutions Act shall be amended to make specific provision for microfinance deposit-taking institutions whose mission will be to serve the poor and low income communities as well as microenterprises that are currently not having access to formal financial services.**
- viii. **A national venture capital fund (risk facility) would be considered** to help increase the financing options for start-up projects in the economy, including

feasibility studies. Once established, this fund would also take advantage of the regulations 15 and 28 that intends making funds available for unlisted investments.

- ix. **Efforts shall be directed to ensuring the availability of micro-insurance products in the country.** This is necessary because due to their low asset bases, low-income people are particularly vulnerable to risk and negative external shocks (e.g. natural disaster, illness and/or death of main breadwinner, etc.). The existence of micro-insurance products will reduce such vulnerability and mitigate the negative effects associated with external shocks on poor households.
- x. **The inherent conflict between financial integrity and financial access shall be guarded to ensure a good balance.** Access to financial services could be affected by the Anti Money Laundering (AML) legislation and thus consideration should be given to reduce access requirements to low risk customers (who in most cases are low income customers), so that access is made possible without compromising the stability of the financial system.

## Outcome 4(b):

Namibia shall have effective institutions in place that will provide sufficient support to SMEs and offer adequate products, services and knowledge to increase access to finance.

### Strategies to achieve the outcome

The following shall be put in place to ensure SMEs get the necessary support and access financing:

- i. **There shall be consideration given to whether there is a need to revise the 1997 SME Development Policy; so as to strengthen implementation and enforcement and to ensure improvement in SMEs access to finance.** A revision to the policy might also be necessary to ensure that it is in line with the new thinking encompassing all facets of SME enterprise development, i.e. to be in line with the new paradigm with respect to SMEs financing and business support. As such, the revised policy could for instance, cover among others:
- The creation of a one-stop unit for SME support that would spur the development of SMEs by providing advisory services, and other support programmes; and thus fill the existing gap with respect to the necessary business support for SMEs in terms of skills required to run a successful business. This unit would therefore serve as a “one-stop shop” for information and advisory services for all SMEs in Namibia.

- ii. **A study will be undertaken to determine the viability of a Credit Guarantee Scheme in Namibia** as there may be a need for such to guarantee loans and improve access to finance for SMEs as well as shield the credit providing entities against the perceived/inherent default risk associated with SMEs.
- iii. **There shall be a legislation created to enable the establishment of a credit bureau. The creation of the law will be preceded by a study that will look at how such a credit bureau can be organized.** The credit bureau will be an avenue for information about both positive and negative credit track records of individuals and SMEs and will thus allow a platform for information sharing among all entities supporting SMEs. As such, financiers and other credit grantors shall be able to retrieve credit information and ratings for credit evaluation which will lead to the reduction of the credit risk of lenders and prevent over-indebtedness on the side of borrowers. The Bureau could also incorporate an Invoice Clearing function to enable a platform for validating invoices flowing into the Namibian economy. Entrepreneurs, especially SMEs that engage in tender based activities, will stand to benefit from invoice clearing as it will enhance and facilitate easy access to working capital.
- iv. **A specialised SME bank shall be created to cater for the financial needs of viable SME projects/businesses.**
- v. **It will be investigated how best the existing various initiatives (such as the existence of funds/programmes, which are housed under several ministries, aimed at assisting small entrepreneurs (micro, small and medium enterprises (MSMEs)), can be coordinated so as to yield optimum results.**
- vi. **The mandate of the Namibia Post Savings Bank (NAMPOST Bank) could be reviewed to enhance its contribution to financial inclusion.** This will be done to enable the NAMPOST Bank to extend the required services, given its already established extensive branch network country wide.
- vii. **All credit providing entities such as DBN and commercial banks, as well as other financial institutions shall be encouraged to provide SME advisory services** and/or make use of other bodies that provide such services and lend to priority sectors.

# LOCALISATION OF THE NAMIBIAN FINANCIAL SECTOR

56. Financial intermediation plays an important role in economic development, therefore, it is essential that financial institutions are owned and controlled by locals as locals are better suited to respond to the needs of the country.

## *Current situation assessment and challenges*

57. The Namibian financial services sector has been historically characterised by dominance of foreign ownership. Most of the financial service providers operating in the country are majority owned by South African parent companies, with no or very little local ownership. There is a need to have a mix of locally owned and foreign owned institutions so as to ensure the developmental needs of the country are addressed. Usually local institutions would be familiar with the needs of the country and would be attracted to making a contribution to its developmental needs.
58. The sector is further characterised by low numbers of indigenous/previously disadvantaged Namibians in management positions. This phenomenon has been in the past attributed to low skill levels among previously disadvantaged Namibians. In order to address this deficit, there is a need to implement human resource development programmes so as to ensure that there is a strong pool of Namibians with the requisite skills to work in the financial sector.
59. The Government has constantly urged the financial sector to transform in order to become more inclusive. The financial sector has heeded Government's call and adopted a voluntary Charter for the sector which spells out the sector's transformation agenda. It is expected that the industry will carry out the commitments as given in the Charter in order to achieve transformation.
60. As per the agenda set out in the National Development Plans and the Government's New Equitable Economic Empowerment Framework (NEEEF) and in line with the transformation agenda of the Financial Sector Charter, it is important that the NFSS, being the main guiding document on the development of the financial sector, leads to genuine transformation of the sector. Identified under outcome 5(a) and (b) below is the ideal situation for Namibia.

*There is low participation by Namibians in ownership, control and management of local financial institutions, a situation that needs to be addressed.*

## Outcome 5(a):

There shall be increased Namibian ownership of financial institutions.

### Strategies to achieve the outcome:

In line with and in addition to the provisions under NEEEF and the undertaking by the voluntary Namibia Financial Sector Charter (NFSC) to improve and/or reduce the inequitable distribution of ownership and control of financial institutions through transformation, the strategies below aim to consider a much wider scope of ensuring increased ownership of financial institutions by Namibians with the emphasis on institutional ownership.

- i. **Regulators will recommend to the Minister of Finance to issue the appropriate level of Namibian ownership of financial institutions** under their respective jurisdictions. This could be achieved through a relevant regulatory framework.

## Outcome 5(b):

There shall be significant representation of Namibians at Board and management level of financial institutions.

### Strategies to achieve the outcome

In order to ensure the attainment of this outcome, the following will be implemented:

- i. **Regulators will monitor the implementation of the provisions under various initiatives, such as the NEEEF, NFSS as well as the sector voluntary Charter and advise the Minister of Finance accordingly.**

# SKILLS DEVELOPMENT IN THE FINANCIAL SECTOR

61. A well-functioning financial sector is essential for economic development. Importantly, a robust financial sector, however, depends not only on the effective institutional infrastructure, but also on the capability of its human resources. Human capital plays a critical role in the growth and development of the financial sector. Investments in human capital is instrumental in shaping the improvements to the financial services industry where knowledge, skill, competencies and capabilities have become key strategic drivers of productivity, competitiveness and growth.

62. With globalisation and integrated financial markets, the need for capacity development in any countries' financial sectors becomes even more important to ensure that professionals within the sector will be able to keep up with the dynamism and expectations of the new developments. In the next decade, there are likely to be many changes in the type of skills needed by the financial services industry. New roles will be created and existing roles modified or expanded. As such, it is crucial that the financial services sector constantly improve the quality of its workforce and ensure an adequate supply of qualified human capital. This is because employees working at all levels in financial services organisations will need relevant skills in the new and changing environment. Examples of such skills that will be needed are: risk management and compliance skills, which will be driven by greater regulation of financial services companies and demand for transparency among stakeholders; product knowledge and advice skills so as for financial institutions to be able to assist and provide advice on the 'new generation products' to the less affluent clients; and cultural and language skills which will become more important as financial services are extended more and more to the previously excluded and less fortune segments of the population, and as the client base becomes more diverse and sophisticated and which will raise the need to engage in specialized financial transactions.

## *Current situation assessment and challenges*

63. One area of concern in the Namibian economy cited by many players in the financial sector is the lack of appropriate skills and this has restrained to a great extent innovations and aggressive entrepreneurship. It has further resulted in a lack of meaningful representation of Namibians on the board and executive management structures of financial institutions.

64. This has been the case despite tertiary institutions having produced graduates since independence, i.e. despite courses offered by existing tertiary institutions, many still lack skills needed to work in the financial sector. This might be a reflection of the general lack of skills to the requirements of the job market experienced by the country as was found by surveys carried out by the Ministry of Labour in 2006,

*Skilled human resources important for financial sector development*

*There is a lack of appropriate skills in the Namibian financial sector*

followed by that of NEF/IPPR in 2010, both of which revealed the existence of vacancies hard to fill due to skills and qualification shortages. It was clear from the surveys that Namibia is experiencing a shortage of skilled workers. Also while Namibia has managed to maintain a middling position over the last few years on the global Competitiveness' Index of the World Economic Forum, the country is ranked very low in terms of innovation and the availability of specialised skills.

65. All of the above calls for both the government and the private sector to make concerted efforts to enhance the country's human resource development with the view to improve skills, especially in the areas of finance and entrepreneurship.

*There is a need to develop the current and future skills required by the sector*

## Outcome 6:

**Skills needed by the financial sector shall be identified and developed.**

### Strategies to achieve the outcome:

In line with, and in addition to the provisions under the Government's education and training sector improvement programme (ETSIP) as well as the undertaking by the Namibia Financial Sector Charter to build and develop skills needed by the financial sector, the following strategies will be implemented:

- i. **A sector Skills and Training Plan, proposed to be called the Financial Sector Skills Enrichment Programme, shall be designed** which will have the objective to address the shortage of skills in the financial services industry and produce highly trained industry professionals. The programme will be funded by the financial industry players and regulators, while other sources of funds, including initiatives such as the newly introduced skills levy will be explored.
- ii. **To match up with changes and new developments in the financial sector, existing courses offered by tertiary institutions such as the Polytechnic of Namibia and University of Namibia will be reviewed to determine their relevance and adequacy,** and if found not to meet the requirements of the sector, relevant courses and/or modules will be developed in conjunction with those institutions. The courses so developed will also address the strategic skills demand of stakeholders in the financial sector.
- iii. **Various professional qualification institutes, including the Institute of Bankers (IOB) in Namibia shall be strengthened to build up the skills of financial sector professionals** (bankers, insurers, securities brokers and issuers, and accountants and auditors, among others); while also building up the capacity of financial sector professional associations. This will help develop the infrastructure, institutions, systems and processes required to support expanding financial markets. Partnering with institutions of high learning should also be considered.

- iv. **As a short-term solution, the financial sector will engage relevant authorities, such as the Ministry of Home Affairs, on putting in place a strategy pertaining to the acquisition of work permits for foreign employees with critical skills.**

The strategy will aim to allow the import of skilled persons where needed, as has happened in other developing countries, as well as to ensure that skills so imported result in skills transfer to Namibians. The long-term solution, which should be a top priority of the industry, however, is to train more people and have the needed local skills.

# INSTITUTIONAL ARRANGEMENT, MONITORING AND EVALUATION OF THE NFSS

66. The Strategy shall be owned by the Government of the Republic of Namibia, under the custody of the Ministry of Finance.
67. Monitoring and evaluation will be vital to ensure the successful implementation of the Strategy. As such, an Implementing Committee consisting of the Permanent Secretary of the Ministry of Finance, the Governor of the Bank of Namibia and Chief Executive Officer of NAMFISA shall be set up to ensure the implementation of the NFSS.
68. To facilitate a smooth implementation process, Working Groups shall be created where relevant, identifying lead agencies and other stakeholders to be involved in the implementation of a strategy/specific action plan.
69. Given the special nature of the reform areas relating to financial inclusion as set out in this NFSS, there shall be established a Financial Inclusion Council, which will be responsible for the implementation of the financial inclusion agenda. The Council will be chaired by the Prime Minister of the Republic of Namibia, with Ministers/Heads of the following Ministries/Institutions as members:
- (a) Ministry of Finance
  - (b) Ministry of Trade and Industry
  - (c) National Planning Commission
  - (d) Ministry of Education
  - (e) Ministry of Agriculture, Water and Forestry
  - (f) Ministry of Youth and Sport
  - (g) Ministry of Labour and Social Welfare
  - (h) Ministry of Gender Equality and Child Welfare, and
  - (i) Ministry of Information, Communication and Technology
70. An Advisory Body to the Council shall be formed, composing of relevant institutions, agencies and/or bodies, members of which shall be allowed to attend meetings of the Council. The Head of the following institutions will form the Advisory Body:

*Monitoring and evaluation is key for successful implementation of the Strategy*

- (a) Bank of Namibia
- (b) NAMFISA
- (c) Development Bank of Namibia
- (d) Agricultural Bank of Namibia
- (e) Namibia Post Ltd (NAMPOST)
- (f) Social Security Commission
- (g) Namibia Competition Commission
- (h) Bankers Association of Namibia
- (i) Non-banking industry Representative:
  - Association of Asset Managers
  - Association of retirement funds
  - Association of Long-term Insurers
  - Association of Short-term Insurers
- (j) Namibia Consumer Trust
- (k) Namibia Chamber of Commerce and Industry
- (l) Joint Consultative Council
- (m) Namibia Business Innovation Centre
- (n) Institute of Bankers in Namibia

71. The Implementing Committee referred to in paragraph 67 above shall report to the Minister of Finance and to the Prime Minister in the case of financial inclusion matters, on a half yearly basis, who in turn will report the progress of implementation to Cabinet.

[illegible]

Note:

[illegible]

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