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Bank of Namibia

Corporate Charter

VISION

Monetary and financial stability supportive of sustainable economic development in Namibia.

MISSION

To promote efficient payment mechanisms, effective banking supervision, reserves management and economic research in order to implement appropriate monetary policy and proactively offer relevant financial and fiscal advice to all our stakeholders.

VALUES

Our values guide us to be a center of excellence, and we value our contribution to the organization.

We uphold integrity, impartiality, open communication and transparency.

We care for each other's well-being and value teamwork.

LIST OF ABBREVIATIONS

BoN	Bank of Namibia
CBS	Central Bureau of Statistics
CPI	Consumer Price Index
CPIX	Consumer Price Index excluding mortgage loans (South Africa)
DCs	Depository Corporations survey
EU	European Union
Euro	European Union Currency
Eurostat	European Union Statistical Office
Euro-zone	European Union Area
GC	Government Internal Registered Stock
GC05	Government Internal Registered Stock Maturing in 2005
GC07	Government Internal Registered Stock Maturing in 2007
GC10	Government Internal Registered Stock Maturing in 2010
GC12	Government Internal Registered Stock Maturing in 2012
GC15	Government Internal Registered Stock Maturing in 2015
GC24	Government Internal Registered Stock Maturing in 2024
GDP	Gross Domestic Product
M2	Broad Money supply
MoF	Ministry of Finance
NCPI	National Consumer Price Index
N$	Namibia Dollar
NEER	Nominal Effective Exchange Rate
NSX	Namibia Stock Exchange
ODCs	Other Depository Corporations
Q1	Quarter 1
Q2	Quarter 2
Q3	Quarter 3
Q4	Quarter 4
REER	Real Effective Exchange Rates
Repo	Repurchase Rate
RHS	Right Hand Side
RSA	Republic of South Africa
SACU	Southern Africa Customs Union
SARB	South African Reserve Bank
US	United States
ZAR	South African Rand
VAT	Value Added Tax

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1. SUMMARY OF ECONOMIC CONDITIONS

The growth in real world output decelerated during the second quarter of 2005 compared to the previous quarter as witnessed by the slowdown in economic performance of the dominating economies such as USA, Euro zone, Japan, etc. The deceleration is expected to continue in the third quarter of 2005 due to high oil prices, coupled with the effects of Hurricane Katrina in the United States of America. However, GDP for South Africa, improved further during the second quarter of 2005, driven mainly by the activities in the manufacturing industry.

In line with the developments in industrial economies, GDP for Namibia slowed during the second quarter of 2005, when compared to both the preceding quarter and corresponding quarter of the previous year.

Despite the increases in the petrol price world wide, the annual inflation rate decelerated further to an average of 1.3 percent during the second quarter of 2005, the lowest quarterly average rate in a decade. This was mainly due to the decline in the price indices of food, which recorded a negative growth during the second quarter of 2005.

The monetary policy stance in Namibia during the second quarter of 2005 remained accommodative to support economic growth. Money supply (M2) during this period, however, remained more or less constant around 4.0 percent, increasing slightly from 4.2 percent in the first quarter to 4.3 percent during the second quarter of 2005. However, when measured over a twelve month period, growth in M2 was robust at the end of June 2005 compare to the end of the same month of the previous year.

The slight increase in broad money supply during the second quarter was mainly as a result of the expansion in domestically extended credit by the depository corporations and net other assets and liabilities. The expansion in the credit extended by depository corporations is in line with the prevailing low interest rates environment.

The fiscal position of the Central Government weakened during the first fiscal quarter of 2005/06, registering a deficit compared to a budget surplus witnessed during the preceding quarter. The observed budget deficit during the first quarter of 2005/06 was attributed mainly to the reduction in the revenue collected during the period.

On the external payments front, the current account of the balance of payments for Namibia was characterized by a declining surplus during the second quarter of 2005, while the capital and financial deficit also narrowed, though by a lesser magnitude than the decline in the surplus on the current account. This resulted in a deficit in the overall balance of payments during the second quarter of 2005. This deficit was, however, smaller when compared to both the previous quarter and the corresponding quarter of 2004.

2. INTERNATIONAL OUTLOOK[1]

Growth in real world output decelerated in the second quarter of 2005 compared to the previous quarter, as witnessed by the slowdown in economic performance of the advanced economies. The deceleration is expected to continue in the third quarter of 2005 due to high oil prices as well as the consequences of Hurricane Katrina in the United States of America. This will lead to a US and global economic slowdown as the US economy is already imbalanced with low private savings, large budget and current account deficits.

In the US, real gross domestic product increased at the annual rate of 3.3 percent in the second quarter of 2005, lower than the increase of 3.8 percent during the previous quarter. The slowdown in growth from the previous quarter was primarily reflected by a downturn in private inventory investment, but this was partly offset by a deceleration in imports as well as acceleration in exports. The major contributors to the positive growth in real GDP during the second quarter were increases in personal consumption expenditure, exports, equipment and software, residential fixed investment, as well as government spending.

GDP growth in the Euro zone also slowed down in the second quarter of 2005 compared to the previous quarter. The same is also true for Japan. On the other hand, China's real GDP rose by more than 9.0 percent in 2004 led by a very rapid rise in Chinese real fixed investment.

South African real quarterly GDP increased by 4.8 percent during the second quarter of 2005, following an increase of 3.5 percent in the first quarter of 2005. This growth was mainly due to increases in the real value added by the manufacturing industry (1.2 percent), wholesale and retail trade, hotels and restaurants industry and finance, real estate and business services industry (0.7 percent each); transport, storage and communication industry (0.6 percent); agriculture, forestry and fishing; general government services and personal services (0.3 percent).

Although the Rand was slightly weaker, it remained firm against the US Dollar during the second quarter of 2005. The Rand/Dollar quarterly exchange rate averaged 6.4112 compared to an average level of approximately 5.9987 during the first quarter. Consumer prices as recorded by the CPIX (Consumer Price Index excluding the interest rate on mortgage bonds) remained within the target range of 3 to 6 percent. It recorded an annual percentage change of 3.5 percent in June 2005. Oil prices remain a threat to the relative low inflation environment.

[1] Globalinsight, EU statistics office (Eurostat), Global Market Intelligence, Bureau of Economic Analysis & Statistics South Africa (Stats SA)

3. REAL SECTOR AND PRICE DEVELOPMENT[2]

3.1 REAL ECONOMIC DEVELOPMENTS

The Namibian economic activities slowed down during the second quarter of 2005. The real gross domestic product (GDP) decelerated to 1.1 percent in the second quarter from 2.4 percent observed during the same period of last year and 4.1 percent during the preceding period. The slowdown in economic growth during the second quarter was reflected in almost all the sectors with the exception of the manufacturing, construction and wholesale and retail trade, repairs sectors. The weaker economic growth is in line with the global developments during the same period as is reported under the international outlook section of this report.

3.2 SECTORAL DEVELOPMENTS

Table 3.1 Quarterly GDP Growth Rates for the First and Second Quarters of 2005

Sector	As Published in June 2005 Quarterly Bulletin Q1 (2005)	As Revised in September 2005 Quarterly Bulletin Q1 (2005)[3]	As Published in September 2005 Quarterly Bulletin Q2 (2005)
Agriculture, hunting and forestry	12.6	12.0	0.4
Fishing	-25.5	-18.6	-5.8
Mining and quarrying	5.2	5.3	-5.8
Manufacturing	-10.0	-7.5	5.4
Electricity and water	10.1	10.1	0.3
Construction	1.2	0.8	2.9
Wholesale and retail trade, repairs	17.4	18.1	2.0
Hotels and restaurants	14.0	14.0	-6.8
Transport and communication	8.9	7.1	4.1
GDP at market prices	**2.5**	**4.1**	**1.1**

Source: CBS

3.2.1 Performance of the Primary Sector

This sector consists of the agriculture, fishing, and mining and quarrying sub-sectors. The fishing and mining and quarrying sub-sectors showed negative growth rates during the second quarter of 2005, while the agricultural sub-sector showed a positive, but slower growth.

2 The growth rates stated in this section are year-on-year rates unless otherwise stated.

3 The GDP growth for the first quarter of 2005 had been revised from 2.5 percent to 4.1 percent due to availability of actual data. This upward revision emanated mainly from that made on the fishing, manufacturing and the wholesale and retail trade sector.

Agriculture

The value added of the agricultural sector was subdued during the second quarter of 2005. The growth in this sector is estimated to have slowed down substantially to 0.4 percent during the second quarter of 2005 from that of 12.0 percent recorded in the preceding quarter. However, it is better than a decrease of 4.5 percent observed during the corresponding quarter of 2004.

The slow performance of the sector is attributed to the developments in the livestock industry. The number of cattle marketed locally rose slightly by 0.6 percent, significantly lower than a higher growth of 42.0 percent registered during the previous quarter. When compared to the number marketed during the preceding quarter, a remarkable growth of 55.8 percent was recorded. The remarkable expansion (quarter-on-quarter) in the number of cattle marketed locally is largely attributed to increasing meat prices[4].

The number of small stock marketed locally grew significantly by 239.0[5] percent when compared to the corresponding quarter of 2004. An increase of 129.1 percent was also recorded for this category during the previous quarter. The strong growth indicates a continuing good response to a call by the Government to increase local marketing of small stock since 2004 in order to make full use of the local abattoirs in order to create employment.

In addition, on-hoof cattle marketed to South Africa increased substantially by 71.0 percent from that in the corresponding quarter of the previous year and by 29.5 percent from those in the preceding quarter. This high growth rates is attributed to a high demand for weaners in South Africa .The high demand could be due to low prices of maize in South Africa during the second quarter of 2005. Maize is used for feeding weaners in South Africa. The lower price for maize, therefore, makes it cheaper to import weaners from Namibia and grow them to slaughtable sizes in South Africa. Another reason is that farmers are trying to sell off as much weaners to South Africa in order to avoid a lot of administrative work which will come along with the establishment of the traceability system in the cattle trade. A full traceability system for cattle in Namibia is envisaged to be implemented soon. This means that all animals being transported have to be properly tagged and documented.

On-hoof small stock marketed, on the other hand, dropped by 61.9 percent during the second quarter of 2005 compared to the corresponding quarter of 2004. Likewise, on a quarter-on-quarter basis, on-hoof small stock marketed indicated a decline of 18.2 percent, responding to a greater demand from local abattoirs, largely as a result of the control measures in place to minimize exports of live small stock.

Fishing

The poor performance of the fishing sector observed during the past few quarters continued during the second quarter of 2005, albeit at a slower space. The sector's value

4 Meat prices in Southern Africa have been rising steadily since August 2004.

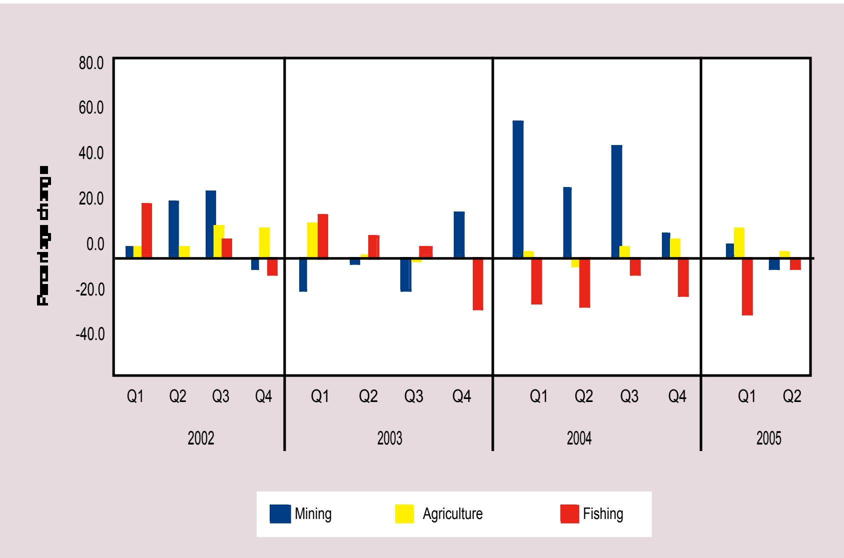
5 The robust growth in small stock did not have a significant impact on the sector due to its smaller weight of contribution to the sector.

added is estimated to have registered a decline of 5.8 percent during the second quarter of 2005, which is lower than a contraction of 13.2 percent recorded during the corresponding quarter of the previous year. This decline is also lower when compared to a fall of 18.6 percent registered during the preceding quarter. The negative growth during the second quarter was due to the lower fish landings of almost all fish species with the exception of rock lobster, crab and pilchards for which landings were higher, but which were not strong enough to offset the slow landings of other fish species. The poor performance of this sector was also aggravated by the lower demand for maritime fish compared to aquaculture fish in the international markets. This is because consumers prefer aquaculture fish since it is assumed to be healthier than the maritime fish.

Mining and quarrying

The mining sector performed poorly during the second quarter of 2005. A decrease of 5.8 percent in the value added was registered during the second quarter of 2005 compared to a significant growth of 30.9 percent recorded during the corresponding quarter of 2004. A weaker performance was also portrayed when compared to an increase of 5.3 percent recorded during the first quarter of 2005. The contraction in the value added of the sector could be due to a decline in the output of both diamond and some other minerals. The output of the diamond sub-sector fell by 5.7 percent during the second quarter of 2005 compared to a growth of 36.0 percent registered during the same period of 2004. The decline, year-on-year, is mainly due to the movement from a high production base in 2004 which was deliberately made to offset the effects of a strong domestic currency. A significant decline in the diamond output of 18.5 percent was also registered on a quarter-on-quarter basis, which is attributed to lower and/or zero production of some major players in the industry whose mining vessels were not operational during the second quarter. Output of other minerals such as gold, zinc, lead and copper, however, recorded positive growth rates, but they could not counteract the decline in the value added of the overall sector.

Chart 3.1 Growth in the Primary Sector



3.2.2 Performance of the secondary sector

The secondary sector consists of the manufacturing, construction and water and electricity sub-sectors. Improvements were observed in the manufacturing and construction sub-sectors during the second quarter of 2005, while growth in the electricity and water sub-sector was subdued.

Manufacturing

The performance of the manufacturing sector is observed to have improved during the second quarter of 2005. The value added of this sector is estimated to have picked up by 5.4 percent during the second quarter of 2005. This compares to a lower rise of 3.1 percent during the corresponding quarter of 2004, and a decline of 7.5 percent recorded during the preceding quarter.

The positive growth during the second quarter of 2005 was mainly due to the increase in the value added of the manufacturing of other food products, other manufacturing[6] and meat-processing sub-sectors. The increase in value added of meat processing could be a result of the same trend observed for the livestock marketed locally during the quarter. On the other hand, the alcoholic and non-alcoholic beverages sub-sector performed poorly due to the prevailing slowdown in the sales, especially to the Angolan market. This could be as a result of a new brewery plant which was set up in Angola as well as high tariff rates imposed by the customs agency at the borders between Namibia and Angola. The fish processing sub-sector also registered a negative growth which can be attributed to the low landings of other fish species, with exception of pilchards, during the quarter.

Construction

Value added of the construction sector improved during the second quarter of 2005. A growth of 2.9 percent was registered, against a decline of 0.8 percent recorded during the preceding quarter and a growth of only 0.8 percent during the corresponding quarter of 2004. Other indicators of the developments in the construction activities, such as the number of building plans passed and completed also showed increases when compared both to the corresponding quarter and the preceding quarter.

Water and Electricity

The overall performance of this sector was subdued during the second quarter of 2005. The value added of the sector is estimated to have recorded a growth of only 0.3 percent during the second quarter of 2005, the same as registered during the corresponding quarter of 2004. This increase is, however, significantly lower, when compared to an expansion of 10.1 percent recorded during the first quarter of 2005. The lower performance by the overall sector was reflected in the electricity sub-sector, primarily as a result of less flow of the Kunene river and increased demand for electricity during the same period which made it necessary to import more electricity during the second quarter of 2005.

6 This includes textile production, mineral processing, chemical production, leather processing and jewelry making.

3.2.3 Performance of the tertiary sector

The tertiary sector consists of wholesale and retail trade, repairs, transport and communication hotels and restaurants and producers of government services sub-sectors. Most of the sub-sectors indicated positive growth rates during the second quarter of 2005, albeit slow, while the hotels and restaurants sub-sector showed a negative growth.

Wholesale and retail trade, repairs

The growth of the wholesale and retail trade, repairs sector improved slightly during the second quarter. The value added of this sector is estimated to have increased by 2.0 percent during the second quarter of 2005 compared to a low growth of 1.3 percent recorded during the corresponding quarter of the previous year. This growth is, however, much lower when contrasted against a high growth of 18.1 percent recorded during the preceding quarter. The positive growth during the quarter was due to a good performance of the clothing and supermarkets sub-sectors. This good performance in these sub-sectors could be attributed to the general low inflation and interest rates environment prevailing since the first quarter of 2005.

Transport and communication

The transport and communications sector posed a slowdown in performance during the second quarter of 2005. The value added of the sector is estimated to have increased by 4.1 percent during the quarter compared to a higher increase of 10.1 percent recorded during the corresponding quarter of 2004. This growth is also slow when compared to 7.1 percent recorded during the preceding quarter. The weaker growth has been due to the slowdown in activities of the transport sub-sector, while a positive performance was observed in the mobile telecommunications category of the communications sub-sector, which was boosted by the high demand for cell phones due to their decreasing prices.

Hotels and restaurants

The hotels and restaurants sector, a proxy for the tourism sector, performed poorly during the second quarter of 2005. The value added of the sector is estimated to have decreased by 6.8 percent during the second quarter of 2005 from the level recorded during the corresponding quarter of 2004. A growth of 14.0 percent was, however, registered when compared to the level in the preceding quarter. Similarly, another indicator of the tourism sector, tourist arrivals, also showed the same trend reflected by the developments in hotels and restaurants. The tourist arrivals indicated a decline of 8.4 percent during the second quarter of 2005 when compared to the same period of 2004, and an increase of 4.5 percent from the level of the preceding quarter. The positive performance, quarter-on-quarter, might be, amongst others, due to the start of the tourism season, coupled with a softer Namibia Dollar.

Producers of Government Services

A slowdown in the performance by this sector was evident during the second quarter of 2005. The value added of this sector grew by 1.3 percent, relatively lower than the increase of 10.3 percent realized during the corresponding quarter of 2004. This growth is also lower when compared to 2.3 percent during the preceding quarter. The decline in the value added could be attributed to tight measures put in place by the Government in order to control spending as indicated in the Public Finance Section of this report.

BOX A: NOTICE - THE NCPI REPLACES THE ICPI

The Namibia Consumer Price Index (NCPI) is now in use as from February 2005. Data for the NCPI starts from December 2001. It replaces the Interim Consumer Price Index (ICPI) for Windhoek that had been running since January 1993. The NCPI will be produced and published by the Central Bureau of Statistics (CBS) at the National Planning Commission Secretariat, the same institution that had been producing and publishing the ICPI. The main purpose of introducing the NCPI is to have a more reliable and an accurate indicator of consumer price changes at the national level. Table 1 compares the ICPI to the NCPI.

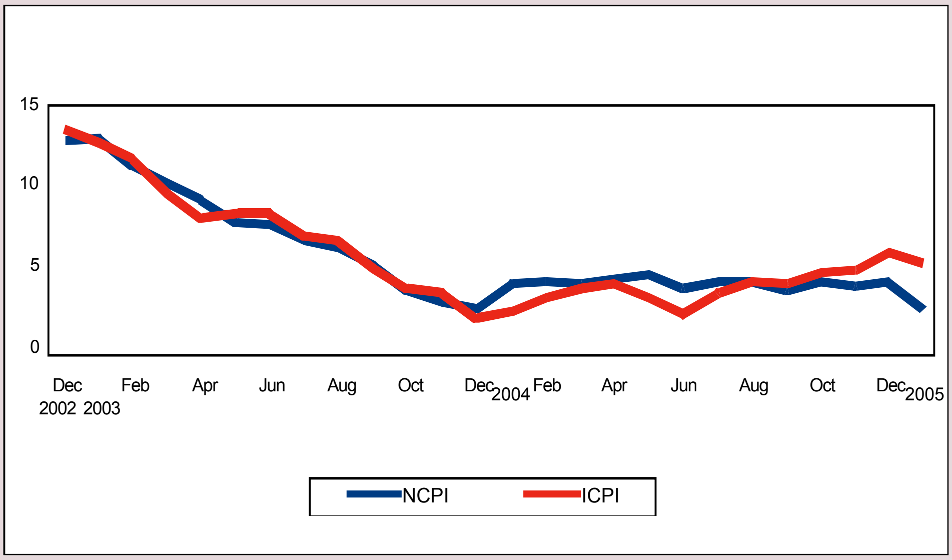
Table 1. Comparing ICPI to NCPI

	ICPI	NCPI
Year of Introduction	**1993**	**2005**
Base year	Dec 1991	Dec 2001
Weights based on household income		
and expenditure survey estimates	1984/5	1993/4
The number of goods and services covered in the sample	183	259 (220 goods and 39 services)
Number of price quotations collected	<600	>7 000
Number of outlets covered	90	>650
Localities Covered	1	8
Number of household covered	800	4 379
Population covered	Windhoek	Namibia
Method used for the calculation of the index	Laspeyres index[7]	Laspeyres index

[7] It is a method of calculating the price index numbers which uses fixed weights for the different items.

BOX A: NOTICE - THE NCPI REPLACES THE ICPI (CONT)

Chart 1. Graphical illustration of the ICPI and NCPI



Source: CBS

From the chart above, it is clear that both NCPI and ICPI are moving closer to each other from December 2002 up to November 2004, although the gap between the two rates widened from December 2004 onwards.

3.3 PRICE DEVELOPMENTS

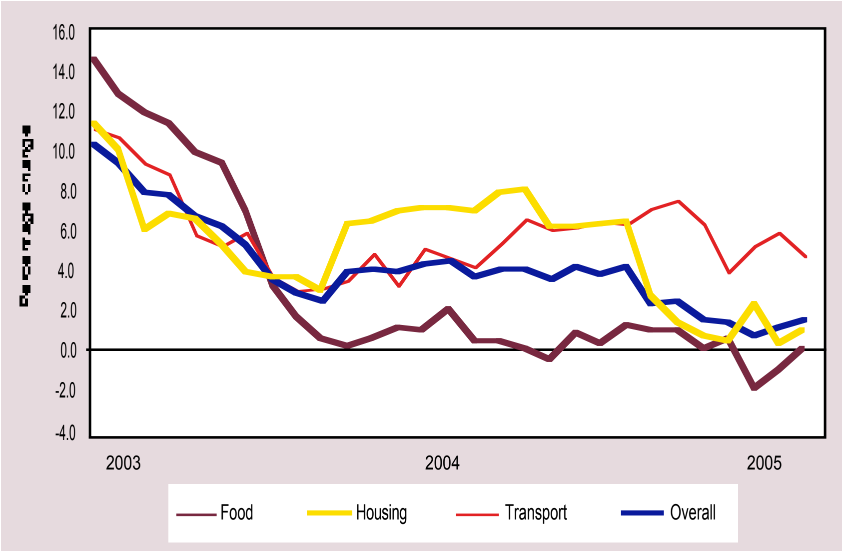
The annual inflation rate continued to decline during the second quarter of 2005. Year-on-year inflation slowed down from 1.6 percent in April 2005 to 0.9 percent in May 2005 before picking up to 1.3 percent in June 2005. This resulted in the lowest quarterly average rate, in a decade, of 1.3 percent during the second quarter of 2005. This rate is lower than 2.3 percent and 4.3 percent recorded during the preceding quarter and the corresponding quarter of 2004, respectively (Chart 3.2).

The decline was observed in most price indices of the major groups of the NCPI basket. The food inflation during the second quarter of 2005, recorded a negative growth of 0.6 percent. This compares to 0.8 percent registered during the preceding quarter and 1.3 percent registered during the corresponding period in 2004. Further, the inflation for the miscellaneous goods and services recorded a negative growth of 1.8 percent relative to 0.1 percent recorded during the preceding quarter and 5.7 percent during the corresponding quarter.

Inflation for the category housing, water, electricity, gas and other fuels recorded 1.2 percent, lower than 7.1 percent registered at the same time in 2004, while that for education also decreased to 3.9 percent from 14.2 percent. In addition, inflation for the categories communications and health declined to 1.2 percent and 0.8 percent, respectively, during the second quarter of 2005 from 2.9 percent and 4.4 percent, respectively, during the same period of 2004 (Chart 3.2). The inflation rates for these categories registered during the preceding quarter were 1.3 percent and 1.8 percent, respectively.

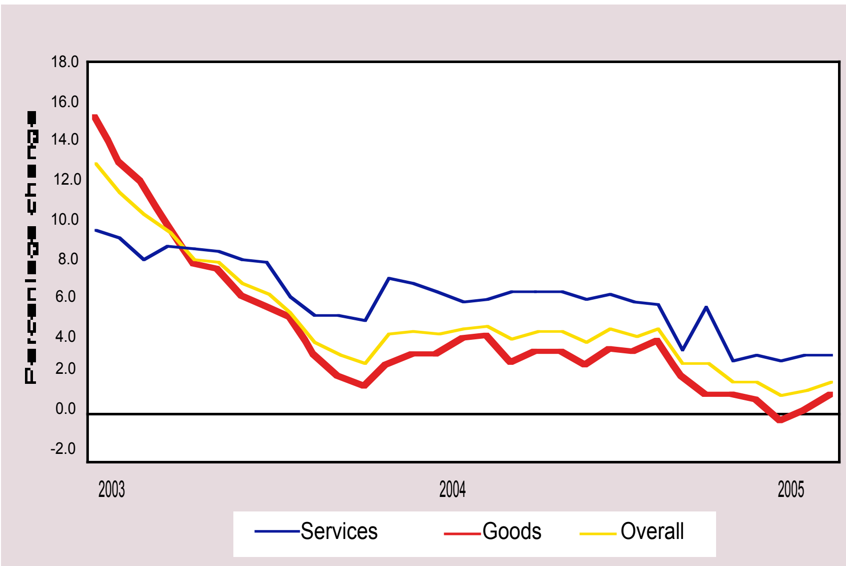
On the other hand, the inflation rate of other categories went up. For example, the inflation for transport increased to 5.1 percent during the second quarter of 2005 compared to 4.7 percent registered during the corresponding quarter of 2004 and 7.0 percent recorded during the preceding quarter. Also, the inflation rate of furnishings, household equipment and routine maintenance of the house registered a higher growth of 1.9 percent compared to 0.4 percent recorded at the same time during 2004 and 0.7 percent registered during the preceding quarter.

Chart 3.2 Annual inflation



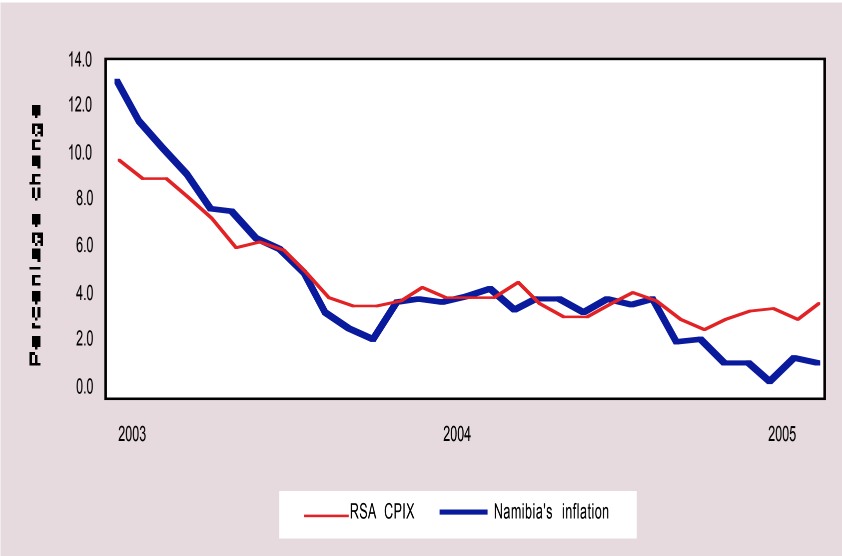
A further analysis of inflation in terms of goods and services reveals that services inflation has been generally higher than goods inflation since May 2003 (Chart 3.3) when the services inflation was 8.4 percent while the goods inflation stood at 7.6 percent. For the second quarter, services inflation recorded a quarterly average rate of 2.9 percent, 2.8 percentage points higher than the quarterly average rate for goods inflation of 0.1 percent. Both rates are, however, lower than 5.9 percent and 3.4 percent recorded for services and goods inflation, respectively during the same period in 2004.The inflation rates are also lower than 3.6 percent and 0.7 percent, respectively, recorded during the preceding quarter.

Chart 3.3 Services vs. Goods Inflation



The South African CPIX (which is comparable to the Namibian inflation) increased from 3.8 percent in April to 3.9 percent in May before declining to 3.5 percent in June 2005. This resulted in a quarterly average rate of 3.7 percent during the second quarter of 2005 (Chart 3.4) higher by 2.4 percentage points than the Namibian CPI recorded during the same period. The CPIX rate is, however, lower than the 4.5 percent and 4.3 percent recorded during the previous quarter and corresponding quarter of 2004. It is observed that the CPIX continue to be above the Namibian inflation and a widening divergence between the two rates was observed from January to May 2005. This could be attributed to the higher increases in the petrol prices in South Africa in April 2005. Recent developments, however, indicate a narrowing gap between the NCPI and CPIX, as the Namibian inflation started picking up, responding to hikes in petrol prices, as well as increases in the tariffs of water and electricity during April and July 2005, respectively.

Chart 3.4 Namibia's inflation vs. South Africa's CPIX



4. MONETARY AND FINANCIAL DEVELOPMENTS

BOX B: REVISION NOTICE: MONETARY AND FINANCIAL STATISTICS

It is a convention that the published monetary and financial statistics are regarded as final. In extreme situations such as changes to methodology (data sources, estimation techniques, etc), however, data revisions are necessary. One such major revision that was due to changes in the compilation of monetary and financial statistics has been embarked upon by BoN.

In June 2003 the BoN adopted the latest international manual for Monetary and Financial Statistics compilation: the IMF Monetary and Financial Statistics Manual 2000. During the implementation stage which was done in conjunction with the Other Depository Corporations (ODCs), it was realized that some items where misclassified and which resulted in some inconsistencies in some data categories. One example of such inconsistencies was observed in the interbank asset/liability positions as well as those between the ODCs and the BoN. This has necessitated a major revision of the statistics, the results of which is to be published starting with the month of September 2005. Further, the changes will bring the Monetary and Financial statistics in line with the new manual. Data will be revised back to June 2003 to account for the required changes. The revised data will be clearly identified and information will be provided on what necessitated such revisions.

4.1 MONETARY DEVELOPMENTS

The monetary policy stance in Namibia during the second quarter of 2005 remained accommodative to support economic growth. Money supply (M2) during this period, however, remained more or less constant around 4.0 percent, increasing slightly from 4.2 percent in the first quarter to 4.3 percent during the second quarter. The corresponding period of 2004 registered a decline of 2.7 percent in M2. When measured over a twelve month period, M2 grew to 19.3 percent at the end of June 2005 from a growth rate of 12.4 percent at the end of June 2004.

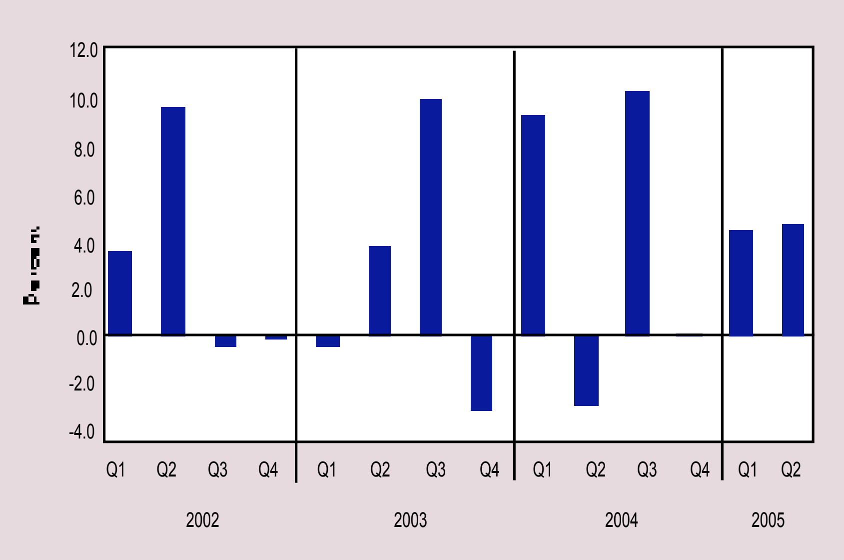
The slight increase in broad money supply during the second quarter was a result of the expansion in domestically extended credit by the depository corporations (i.e. claims on the other sectors and net claims of depository corporations on the Government) and net other assets and liabilities. The expansion in the credit extended by depository corporations is concurrent with the prevailing low interest rates environment. The net foreign assets of the depository corporations, on the other hand, exerted a contractionary effect on broad money supply though not strong enough to result in an overall decline.

4.1.1 Components of Money Supply

The minor increase in M2 during the second quarter of 2005 is echoed in both transferable and other deposits. Transferable deposits increased by 7.2 percent compared to a decrease of 5.3 percent witnessed during the first quarter of 2005. The increase in other deposits was minimal at 0.9 percent compared to 18.2 percent increase recorded in the first quarter of 2005. Currency outside the depository corporations, on the other hand, recorded a decrease of 1.4 percent during the same quarter from a decline of 0.6 percent in the first quarter of 2005. Similarly, currency outside the depository corporations decelerated to 6.4 percent on an annual basis from 12.7 percent during the preceding year.

The share of transferable deposits and currency outside depository corporations in total money supply increased to 56.6 percent during the second quarter of 2005, from 55.1 percent in the previous quarter. Other deposits accounted for 43.4 percent of total money supply, slightly down from 44.9 percent recorded during the first quarter of 2005.

Chart 4.1 Monetary Aggregates M2 (Quarterly Growth Rates)



4.1.2 Determinants of Money Supply

The major factors influencing money supply during the second quarter of 2005 were credit extended to domestic sectors and net other items while net foreign assets exerted a contractionary effect to M2.

Depository Corporation's credit extended to the domestic sectors rose by 6.7 percent, higher than the increase of 4.1 percent registered in the previous quarter. On an annual basis, growth in the domestic credit increased slightly to 21.0 percent at the end of the second quarter of 2005 from 20.1 percent during the corresponding period of 2004. Net claims of depository corporations on the Central Government expanded by 71.4 percent, during the second quarter of 2005, compared to a decline of 6.6 percent in the preceding quarter of the same year. The growth rate of claims on the other sectors, though still positive, slowed down to 4.2 percent compared to 4.5 percent recorded in the previous quarter.

On the other hand, the category net foreign assets of the depository corporations exerted a contractionary effect on the money supply by the magnitude of N$1 481.7 million or 94.0 percent, offsetting most but not all of the increases in the other determinants of money supply as reported in the above paragraphs. As can be observed in the below table (Table 4.1), the net foreign assets is highly volatile, as it is not depicting a specific trend quarter-on-quarter.

As a result of the above developments, broad money supply increased by N$702.7 million or 4.3 percent to N$17.2 billion during the second quarter of 2005 from a level of N$16.5 billion recorded during the first quarter of 2005.

Table 4.1 Determinant of Money Supply, Quarterly Changes

	2004 Q4	2005 Q1	2005 Q2	Quarterly Percentage Change	Contribution to M2
	Absolute Changes				
Total Domestic Credit	935.6	866.2	1473.8	6.7	8.94
Claims on the Other Sector	799.2	923.5	892.6	4.2	5.41
Net Claims on the Central Government	136.4	-57.4	581.2	71.4	3.52
Net Foreign Assets of the Banking System	-547.0	606.1	-1481.7	-94.0	-8.99
Other Items Net	-499.3	-811.8	710.6	0.0	4.31
Overall growth in Broad Money Supply	888.0	2284.1	702.7	4.3	4.3

4.1.2.1 Net Domestic Claims

During the first six months of 2005, as alluded to earlier in the text, monetary policy remained accommodative to support economic activities. During this period, monetary policy was effective in sustaining domestic demand, as low interest rates provided the impetus for consumer demand to remain optimistic for the period. Subsequently, the net domestic claims i.e. the total claims on the other sectors and net claims on Central Government grew quarter-on-quarter to N$1 473.8 million or 6.7 percent during the second quarter of 2005 from a growth rate of 4.1 percent in the previous quarter and 5.5 percent in the corresponding quarter of the preceding year. The growth in the domestic claims was reflected in both the net claims on the Central Government and the claims on the other sectors[8].

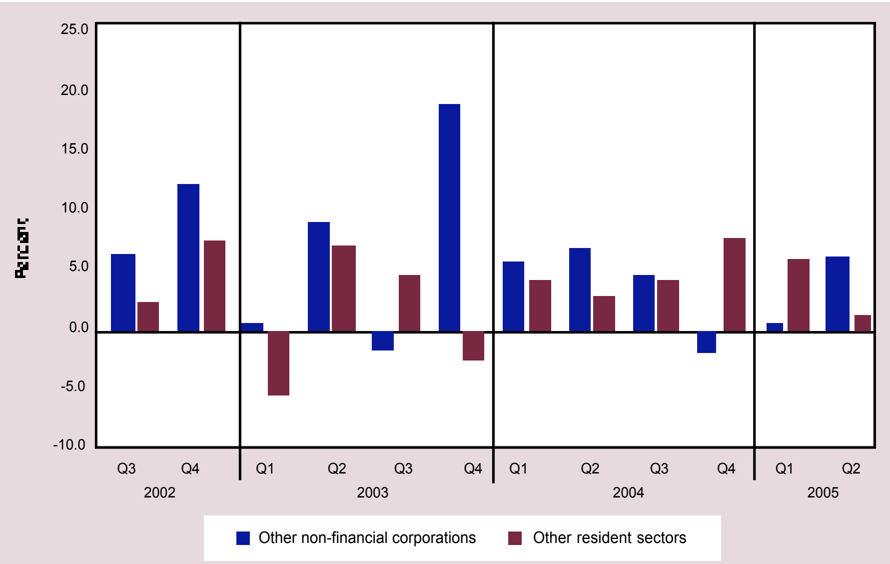
[8] Net claims on the Central Government carries a lesser weight than the claims on other sectors in terms of composition of domestic claims.

Net claims on the Central Government rose by 71.4 percent during the second quarter of 2005 compared to a decline of 6.6 percent recorded during the first quarter of 2005. This growth is also significantly higher than a decline of 6.0 percent recorded during the corresponding quarter of the preceding year. On an annual basis, net claims on the Central Government also recorded a considerable growth of 92.2 percent in June 2005, compared to 64.4 percent recorded in June 2004. This growth in Government's liabilities toward the banking system implies that the government is using this sector to finance budgetary requirements.

Claims on the other sectors also rose by 4.2 percent, albeit a deceleration from growth rates of 4.5 percent witnessed during the first quarter of 2005 and 6.0 percent during the corresponding quarter of the preceding year. Year-on-year, growth in claims on the other sectors slowed to 18.2 percent at the end of June 2005 from 18.9 percent in June 2004.

A closer look at the claims of other depository corporations on other sectors by category indicates that the increase in claims on other sectors during the second quarter came mainly from claims on the other non-financial corporations. Claims on this sector, which represents credit extended to the non-financial companies rose by 8.3 percent during the second quarter of 2005, which is a significant increase when compared to a decline of 0.1 percent recorded in the first quarter of the year. On an annual basis, growth in credit extended to non-financial corporations decelerated from 31.5 percent at the end of June 2004 to 10.7 percent at the end of June 2005. The public non-financial corporations category's claims increased by 3.2 percent during the second quarter, compared to 1.1 percent recorded during the first quarter of 2005. Growth in claims on the other resident sector, on the other hand, slowed down, from an increase of 6.7 percent in the first quarter to a minimal increase of 1.9 percent during the second quarter. On an annual basis, growth in the claims on this sector increased significantly to 23.3 percent during the second quarter of 2005 from 10.3 percent recorded during the second quarter of 2004.

Chart 4.2 Claims on the Other Sectors

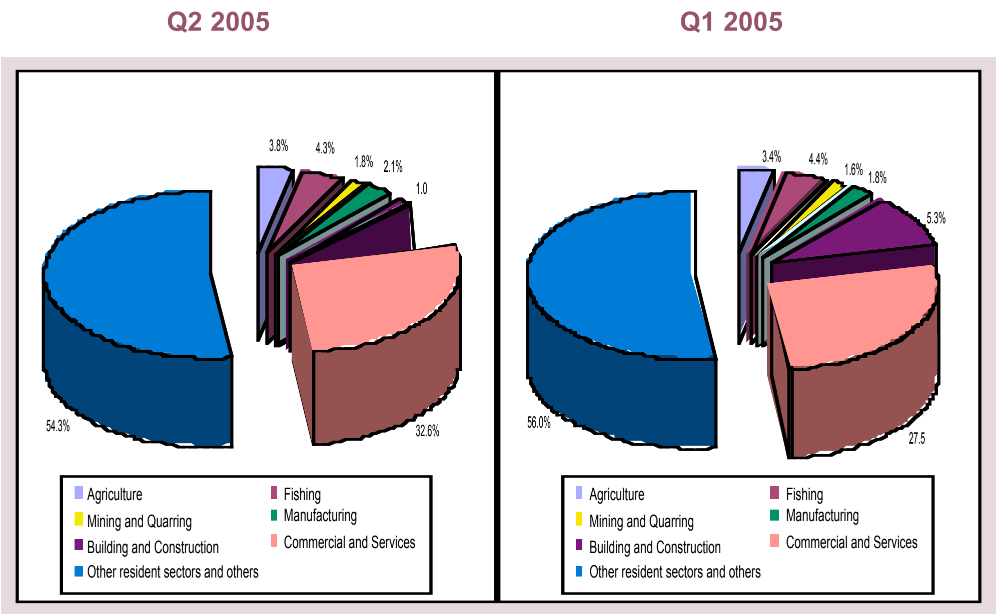


A disaggregated analysis of the other depository corporations' claims on the other sectors by type indicates that collateralized lending continues to take the largest share of credit extension. Mortgage loans grew by 10.0 percent in the second quarter of 2005 which is a significant increase when compared to a decline of 6.0 percent recorded during the first quarter of the year. This development could be indicative of the fact that the lower interest rates made investments in property worthwhile. Similarly, credit extended for installment sales grew significantly in the second quarter, this category which mainly consists of hire purchases rose by 14.3 percent during the second quarter compared to a decline of 3.5 percent witnessed in the first quarter of the year. This growth could also be a direct effect of the prevailing lower interest rates. Other loans and advances[9], on the other hand, grew at a decelerating pace, recording an increase of 5.1 percent after it had risen by 22.1 percent during the first quarter. This slow down could be attributed to priority shifting by consumers as they might have found investment in property more attractive.

Sectoral analysis of other depository corporations' credit reveals that credit extended to the commercial and services sector rose substantially by 24.1 percent from increases of 6.0 percent in the previous quarter and 10.2 percent in the corresponding quarter of the preceding year. The improved lending to commercial and services sector could be a result of the fact that in a lower interest rate environment, businesses source short term financing at cheaper cost in order to take care of operating expenses. ODC's credit to the manufacturing sector rose by 23.0 percent compared to a decline of 12.4 percent recorded in the previous quarter and a decrease of 13.0 percent in the corresponding quarter of 2004. Credit to the mining and quarrying sector rose by 22.0 percent compared to a decline of 20.9 percent during the first quarter of 2005 and a substantial increase of 45.4 percent in the corresponding quarter of the preceding year. Growth in the credit extended to agricultural sector rose by 18.0 percent during the second quarter from a decline of 7.2 percent recorded in the previous quarter and a minimal growth of 0.6 percent recorded in the corresponding period of the preceding year. On the other hand, growth in credit extended to the fishing sector and other resident sector and others slowed down to 2.8 percent and 1.6 percent in the second quarter from 27.1 percent and 2.9 percent in the first quarter of 2005, respectively.Similarly, credit extended to the building and construction sector, dropped by 79.3 percent during the second quarter. This is a substantial decline when compared to growth rates of 1.1 percent recorded during the first quarter of 2005 and 4.1 percent registered in the corresponding quarter of 2004 (Chart 4.3).

9 This category is made up of personal loans extended to other non-financial corporations, other resident sectors and to non-residents.

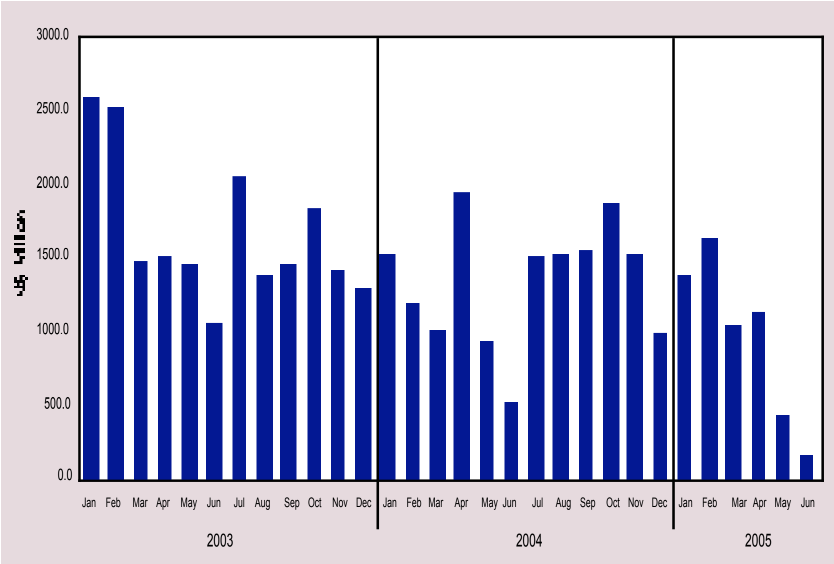
Chart 4.3 Sectoral Composition of Other Depository Corporations' Credit



4.1.2.2 Net Foreign Assets

During the review period, the net foreign assets (NFA) of the depository corporations in Namibia declined significantly by N$1,481.7 million to N$94.8 million, representing a quarterly decrease of 94.0 percent compared to an increase of 62.5 percent recorded in the first quarter of the year. The decrease in the net foreign assets during the second quarter of 2005 emanated from an increase in foreign loans during the same period, which in turn is indicative of a liquidity constraint in the domestic market due to increased demand. The depository corporations increased their foreign liabilities significantly by N$617.5 million to N$2.3 billion from N$1.6 billion at the end of March 2005, representing a rise of 38.0 percent during the second quarter of 2005, compared to a decrease of 29.2 percent in the first quarter. On the other hand, depository corporations in Namibia decreased their claims on the non residents significantly during the same period. Claims on non-residents declined by N$864.2 million or 27.0 percent, compared to only 2.2 percent in the first quarter of the year.

Chart 4.4 Net Foreign Assets of Depository Corporations



Other depository corporations' net foreign assets fell by N$1 443.1 million during the second quarter of 2005, following an increase of N$670.7 million during the first quarter of the year. On the other hand, Central Banks' net foreign assets only declined marginally by 2.0 percent during the second quarter as compared to a fall of 3.3 percent in the first quarter of 2005. As indicated above, it is clear that the huge decrease in net foreign assets emanated mainly from other depository corporations as the Central Bank only recorded a minimal decline in its net foreign assets (Table 4.2).

Table 4.2 Depository Corporations' Foreign Assets and Liabilities

	2003	2004				2005	
Holder	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
A. Other Depository Corporations	-850.7	-845.4	-1279.8	-290.9	-1006.9	-336.3	-1779.3
Foreign Assets	1522.1	1257.9	1297.0	1559.1	1308.8	1295.6	466.3
Foreign Liabilities	2372.8	2103.3	2576.8	1850.0	2315.7	1631.9	2245.6
B. Bank of Namibia	2110.3	1824.1	1783.2	1808.2	1977.3	1912.7	1874.1
Foreign Assets	2117.2	1840.4	1802.2	1823.6	1985.7	1925.3	1890.4
Foreign Liabilities	6.9	16.3	19.0	15.4	8.4	12.6	16.3
NET TOTAL	**1259.6**	**978.7**	**503.4**	**1517.3**	**970.4**	**1576.4**	**94.8**

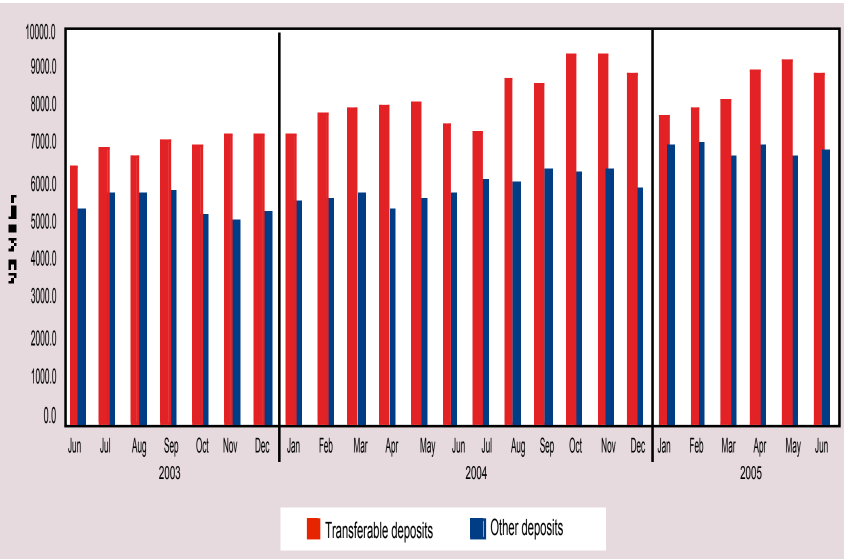
4.1.2.3 Other Depository Corporations Sources of Funds

The total deposits of other depository corporations decelerated by N$547.9 million or 2.8 percent, reaching N$20.1 billion at the end of the second quarter of 2005, compared to an increase of 11.2 percent recorded during the first quarter. Compared to the corresponding period of 2004, the other depository corporations' deposits declined by 0.2 percent.

The slowdown in the other depository corporations' total deposits was mainly reflected in other deposits which slowed from an increase of 18.2 percent in the first quarter to 0.9 percent during the second quarter. The decline in other deposits could have been caused by lower deposit rates which might have discouraged savings on the side of the public. The lower deposit rate is a manifestation of a general lower interest rate environment that is prevailing in the country. Transferable deposits, on the other hand, rose by N$605.7 million or 7.2 percent during the quarter ending June 2005. The above developments resulted in the transferable deposits making up 54.0 percent of the total deposits of other depository corporations, while other deposits contributed 46.0 percent.

A sectoral breakdown of other depository corporations' deposits in the second quarter of 2005 reveals that other non-financial corporations accounted for the largest share of 55.0 percent of the total transferable deposits included in money supply. This is followed by other resident sectors with 22.0 percent and then other financial corporations which accounted for 18 percent. Public non-financial corporations, state and local government combined accounted for 5.0 percent. For other deposits, other resident sector contributed the most with 47 percent, followed by other non-financial corporations with 43.0 percent. Other financial corporations, state and local government and the public non-financial corporations accounted for the remaining 10.0 percent (Chart 4.5).

Chart 4.5 Types of Other Depository Corporations Deposits



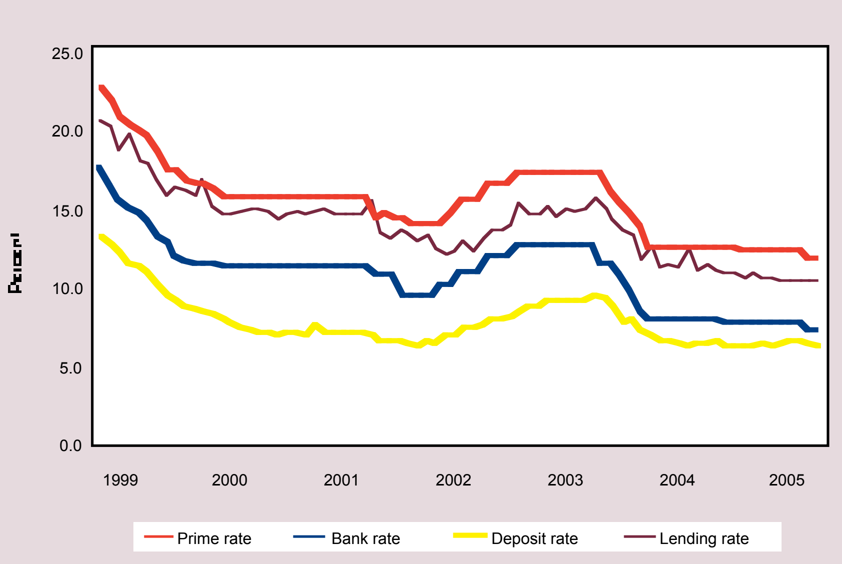
4.2 MONEY AND CAPITAL MARKET DEVELOPMENTS

4.2.1 Money Market Developments

The monetary policy stance in Namibia remained accommodative during the second quarter of the year 2005, as was indicated in the monetary developments section of this chapter. The main policy instrument, the Bank rate, was changed in April by the Monetary Management Committee of the Bank of Namibia after careful considerations of the domestic economic developments. The Bank rate was lowered by 50 basis points from 7.50 percent to 7.00. As was expected, the other depository corporations followed this trend set by the Central Bank by adjusting their interest rates accordingly.

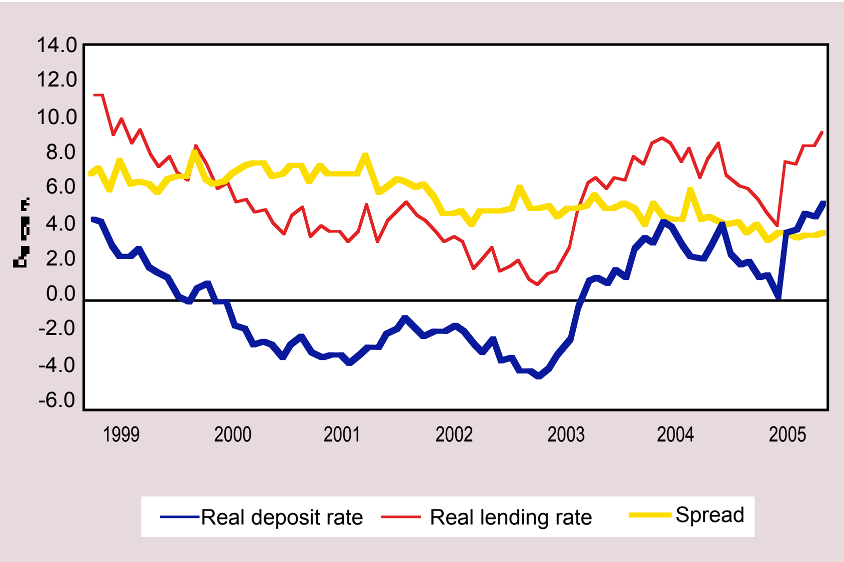
Looking at the quarter-on-quarter developments in interest rates of the ODCs, the average prime lending rate declined by 50 basis points from 12.25 percent at the end of the first quarter to 11.75 percent during the second quarter of 2005. Consequently, the average lending and deposit rates showed a downward trend during the same period. The average lending rate fell from 10.56 percent at the end of March to 10.52 percent at the end of June 2005, representing a decline of 4 basis points. It is worth noting that the average lending rate has been on a declining trend since the fourth quarter of the previous year. The average deposit rate fell by a bigger magnitude of 32 basis points, moving from 6.53 percent during the first quarter of the year to 6.21 percent during the second quarter of 2005. This decline in deposit rates could have discouraged savings on the side of the public, as is evidenced by the slow down in the total deposits of the other depository corporations during the same period. It is evident from the low and declining deposit rates that even in the presence of a liquidity shortage the ODCs are not persuasive enough in a deposit mobilization process. The above developments led to a widening spread between the lending and the deposit rate. The spread widened to 4.31 percent during the second quarter of 2005 from a spread of 4.03 percent during the previous quarter (Chart 4.6).

Chart 4.6 Selected Interest Rates



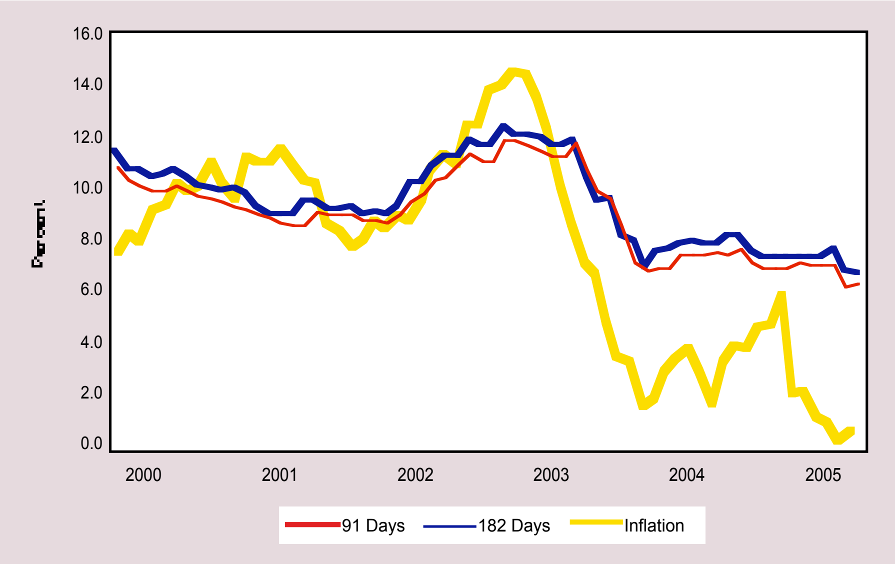
Taking a closer look at the real interest rates, which are the rates after the effects of inflation has been factored in, revealed an increasing trend for both real lending and deposit rates for the second quarter of 2005. The average real lending rate increased by 178 basis points from 7.76 percent during the first quarter of 2005 to 9.53 percent in the quarter under review. Similarly, the average real deposit rate increased by 143 basis points, moving from 3.83 percent in March 2005 to 5.26 percent in June 2005. These movements were greatly caused by the decline in inflation which started during the first quarter of 2005 (Chart 4.7).

Chart 4.7 Real Interest Rates



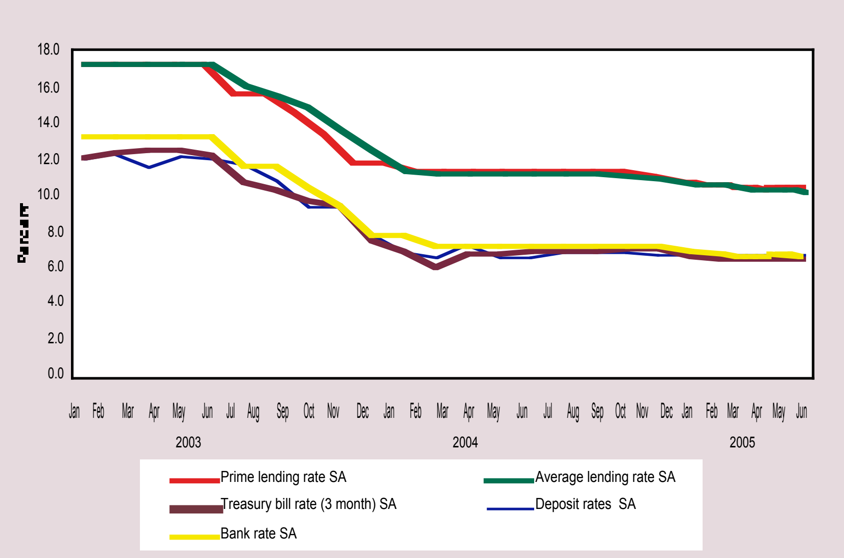
The declining trend observed in the above mentioned money market developments was also experienced in the rates for short term government securities. The effective yields for both the 91-day treasury bills and the 182-day treasury bills fell during the review period. The effective yield for the 91-day bills declined from 7.95 percent at the end of the first quarter to 7.22 percent during the second quarter. Likewise, the effective yield for the 182-day treasury bills fell from 8.22 percent during the previous period to 7.60 percent during the same period (Chart 4.8).

Chart 4.8 Treasury Bills Discount Rates



As South Africa is a very close economic ally to the Namibian economy, an analysis of the South African money market is deemed necessary at this juncture. The scrutiny of interest rates in South Africa showed that the repo rate and the average prime lending rate declined during the second quarter of 2005, similar to the developments in Namibia. The declines in these rates were also effected in April 2005, when both the repo rate and the average prime lending rate declined by 50 basis points from the levels of 7.50 percent and 11.00 percent, respectively that prevailed in the previous quarter (Chart 4.9). Contrary to the previous quarter and in line with the above developments, the average deposit rate fell slightly to 6.48 percent during the second quarter from 6.77 percent during the first quarter of 2005. As a result of the movements in the average prime lending and deposit rates, the spread widened slightly from a level of 3.97 percent in the previous quarter to 4.02 percent during the second quarter of 2005. Although the spread between the lending rates and the deposit rates for both Namibia and South Africa narrowed during the second quarter, it is worth noting that the spread of 4.31 percent for Namibia remains above that of 4.02 percent for South Africa. Therefore, the higher deposit rates in South Africa are likely to attract investor funds to that country, instead of finding its way to fund local investments. The ODCs should then carefully look at their position in terms of the deposit rates in order to attract more funds to remain in the local system. This will also aid in redressing the liquidity shortages that are time and again being experienced by the other depository corporations.

Chart 4.9 Selected Interest rates (South Africa)



4.2.2 Capital Market Developments

4.2.2.1 Share prices

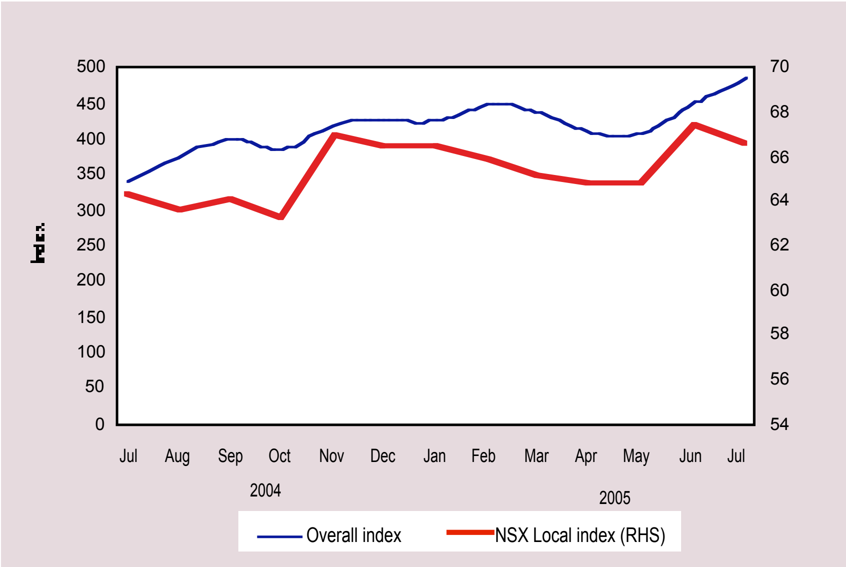
Activity on the Namibia Stock Exchange could be described as having been robust and active during the second quarter of 2005, as both the volumes traded and values increased. In general, the market was driven by a consumer boom in both Namibia and South Africa due to positive consumer sentiment. This was brought about by historically low inflation in the second quarter for Namibia (currently the lowest inflation rate in Africa) as well as favourable interest rates.

The overall index rose by 11.8 percentage points from 438.66 points during the first quarter to 450.55 points during the second quarter of 2005. Consequently, the overall market capitalization increased to N$594.7 billion at the end of the second quarter of 2005 from N$588.8 billion during the previous quarter (Chart 4.9).

In a similar trend, the local index recorded an increase of 2.31 percentage points, from 65.11 points in the first quarter to 67.42 points during the second quarter. As a result, the local market capitalization increased by 12.5 percent from N$2.4 billion at the end of the first quarter to N$2.7 billion in the second quarter of 2005.

Both the volumes and values of all shares increased during the second quarter of 2005. The volumes for the dual listed shares soar from 9.7 million in the previous quarter to 11.0 million in the second quarter of 2005. Likewise, the value traded for the dual listed shares rose by a significant 15.6 percent from N$249.0 million in the preceding quarter to N$287.9 million during the second quarter of 2005. Similarly, the local volumes increased from 299 thousand during the first quarter to 1.3 million during the quarter under review. Consequently, the local turnover increased by a magnificent 21.6 percent from N$299 thousand in the preceding quarter to N$6.6 million (Chart 4.10).

Chart 4.10 NSX Indices

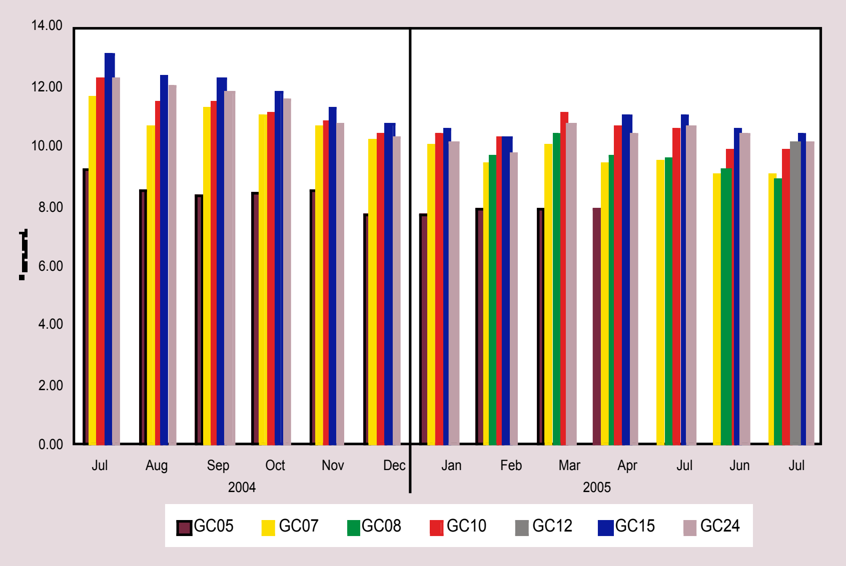


4.2.2.2 Government Bond Prices

The effective yield for all the bonds in circulation, namely the GCO7, GC08, GC10, GC15 and GC24 declined during the second quarter of 2005. The effective yields for GC15 and GC10 declined to 10.58 percent and 9.84 percent in the preceding quarter from 11.47 percent and 11.12 percent, respectively during the second quarter of 2005. Likewise, the effective yields for GC24 and GC08 fell from 10.72 percent and 10.40 percent at the end of the first quarter to 10.39 percent and 9.18 percent, respectively, during the second quarter. The effective yield for GC07 decreased to 9.03 percent during second quarter as against 10.02 percent during the preceding quarter of 2005. The GC12 bond which was first issued in July 2005 and its effective yield stands at 10.10 percent. The GC05 were redeemed in April 2005 (Chart 4.11). The effective yields for the bonds in circulation continued with the declining trend during the month of July, reaching 8.97 percent, 8.84 percent, 9.78 percent, 10.35 percent and 10.10 percent for GC07, GC08, GC10, GC15 and GC24, respectively.

The above developments in the bond prices augur well for Government borrowing. This declining bond returns, however, might discourage potential investors.

Chart 4.11 GC Effective Yields

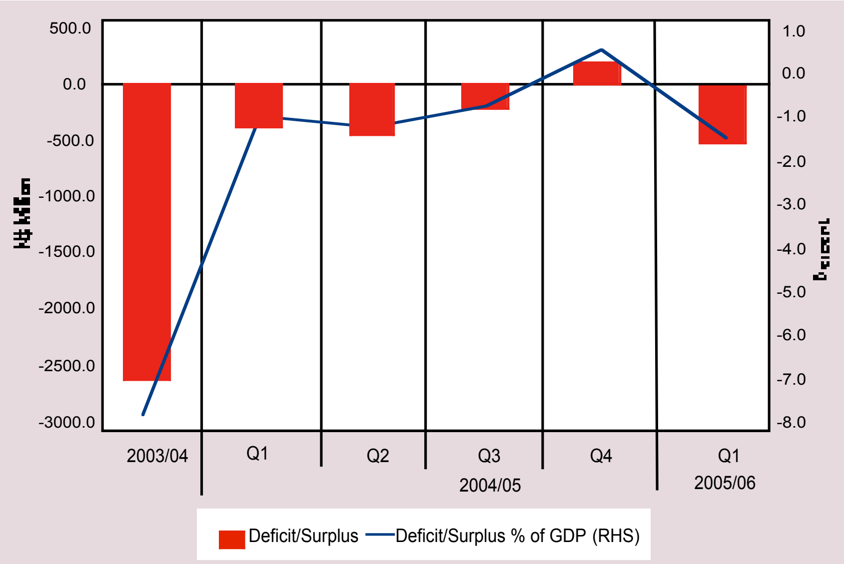


5. PUBLIC FINANCE

5.1 BUDGETARY DEVELOPMENTS[10]

The fiscal position for the Central Government weakened during the first fiscal quarter of 2005/06. The estimated budget deficit for the first quarter of the current fiscal year amounted to N$491.7 million, equivalent to 1.3 percent of GDP (Chart 5.1). This is a turnaround from a budget surplus of 0.6 percent to GDP witnessed during the preceding quarter and is also higher than a budget deficit of 1.0 percent of GDP realized at the same time last year. The observed budget deficit during the first quarter of 2005/06 was attributed mainly to the reduction in the revenue collected, especially the tax revenue during the period that declined by 27.5 percent. The total expenditure, however, decreased by 8.7 percent during the same period, though it could not offset the decline in the revenue collected.

Chart 5.1 Quarterly Budget Deficit/Surplus



Source: BoN and MoF

5.2 REVENUE

The total revenue and grants for the Central Government decreased during the first quarter of 2005/06. The amount of total revenue and grants declined to N$2.5 billion from N$3.5 billion during the fourth quarter of 2004/05. This level of revenue is also lower than N$2.7 billion recorded during the corresponding quarter of the previous fiscal year (Table 5.1). In terms of contribution to GDP, total revenue and grants for the first quarter of 2005/06 was 6.5 percent.

10 Budgetary developments are compiled on the fiscal year basis that starts on 1 April of the current year to 31 March of the next year.

The level of tax revenue collection during the first quarter of 2005/06 stood at N$1.5 billion. This is a significant decrease of 27.5 percent from the level of N$2.1 billion recorded during the fourth quarter of 2004/05. The contribution of tax revenue from individuals dropped down significantly to 23.8 percent from 29.2 percent realized during the preceding period. The fall in income taxes from individuals may be linked to the reduction of the pool of tax payers, which declined somehow given the lay offs or retrenchments that were experienced by some companies. In addition, revenue collected from VAT, although continued to be one of the key sources of Government income, contributed 24.4 percent to total revenue, lower than 25.6 percent in the preceding quarter. There was no income tax from the diamond mining companies for the first quarter of 2005/06, as this tax is only due in July and that falls outside the scope of the quarter under review. The revenue contribution from SACU increased to 31.7 percent from 29.8 percent during the preceding quarter and remained the major source of Government revenue during the first quarter of 2005/06. The income tax from non-mining companies contributed 8.9 percent to total revenue during the first quarter of 2005/06.

It should also be noted that a total of N$371.5 million in tax collections was refunded to tax payers during the first fiscal quarter, of which 91.9 percent of the refunds was in the form of VAT refunds. The VAT refunds is normal, however, the collection during the same period is lower than expected, mainly because of tax evasion by some tax payers. Nevertheless, the VAT has started showing strong signs of recovery during the second fiscal quarter, following the Government's efforts to pursue those responsible.

Table 5.1 Actual Fiscal Position, (N$ Million)

	Q4 -04/05	April	May	June	Q1-05/06
Tax Revenue	**2109.0**	608.1	505.4	416.3	**1529.9**
SACU Revenue	**1051.7**	807.0	0.0	0.0	**807.0**
Other Revenue	**364.8**	100.8	34.3	71.5	**206.6**
Total Revenue	**3525.5**	1515.9	539.8	487.8	**2543.5**
Total Expenditure	**3325.5**	1340.5	938.4	756.2	**3035.2**
Surplus/ Deficit	**200.0**	**175.4**	**-398.7**	**-268.4**	**-491.7**
as % of GDP	**0.6**	**0.5**	**-0.6**	**-1.3**	**-1.3**

Source: MoF

5.3 EXPENDITURE

It is interesting to note that the total Government expenditure followed the same trend as total revenue by declining from the level of the previous fiscal quarter. The total Government expenditure declined by 8.7 percent during the first quarter of 2005/06, contrasting the higher growth of 13.7 percent observed during the fourth quarter of 2004/05. This could be attributed to the control measures on spending implemented during the current financial year, notably, the freezing of vacant positions and new recruitments, cutting down on foreign and local trips and restrictions for usage of telephones. In relation to GDP, total expenditure for the first quarter of 2005/06 stood at 7.8 percent, down from 8.5 percent in the preceding financial period.

The total spending went down despite the provision made for the votes to operate on the continuation authorization until the approval of the National Budget[11]. Although, spending went down, it could not result in an improved fiscal position for the Government during the quarter given the lower revenue collected at the same time.

5.4 BUDGET DEFICIT FINANCING

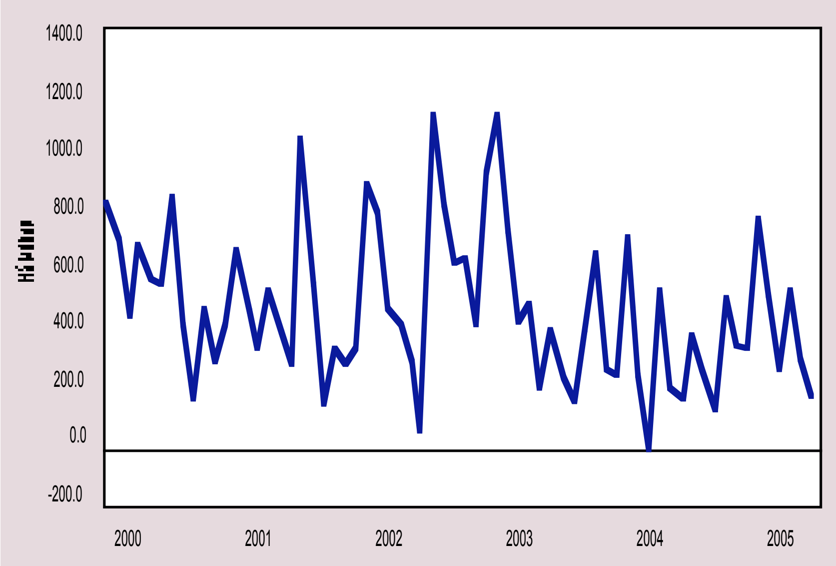
The overall fiscal developments of the Central Government weakened during the first quarter of 2005/06 (as indicated in Section 5.1), reflected in a budget deficit of 1.3 percent of GDP. This budget deficit is relatively higher than the budget deficit of 1.2 percent of GDP estimated for the entire financial year. Although, the overall budget deficit seems high during the period under consideration, this is expected to stabilize as extra SACU receipts[12] is to be received during the third and fourth quarters of 2005/06, respectively.

As a result of higher financial requirements for the first quarter, largely due to the redemption of the Government bond, GC05 on 15 April 2005, the total Government issue for the first quarter of 2005/06 rose by 35.3 percent to N$2.3 billion from the level of the previous quarter. The total redemption for the Government securities rose by 33.3 percent to reach N$2.4 billion. This resulted in a net repayment of N$107.9 million, lower than N$130.1 million noted during the final quarter of 2004/05. The net repayment of N$107.9 million during the first quarter of 2005/06 reduced the stock of outstanding domestic debt by 1.0 percent during the same period. As a result, the cash balances at the Bank of Namibia went down by N$114.6 million to end the first quarter of 2005/06 at N$168.3 million (Chart 5.2).

11 The continuation authorization provision means that votes can spend up to one third of the previous year's budget until the National Budget of the current year is approved.

12 Extra SACU revenue from the adjustments and residual receipts of the old sharing formula.

Chart 5.2 Monthly State Account Balances



Source: BoN

5.5 CENTRAL GOVERNMENT DEBT

The stock of total debt outstanding for the Central Government increased slightly during the first quarter of 2005/06. Total outstanding debt rose marginally by 0.2 percent to N$12. 6 billion from the level of the final quarter of 2004/05. As a percentage of GDP, total debt, however, declined to 32.3 percent by the end of the first quarter of 2005/06 from 35.1 percent recorded during the preceding quarter[13] (Table 5.2). Domestic debt remained the major part of the Central Government debt, accounting for 82.9 percent, albeit, lower than 83.9 percent realized during the previous quarter. On the other hand, the proportion of external debt increased by one percentage point to 17.1 percent from 16.1 percent observed during the fourth quarter of 2004/05.

[13] The estimated GDP growth rate was higher than the growth in stock of total debt.

Table 5.2 Central Government Debt (N$ Million)

	04/05				05/06
	Q1	Q2	Q3	Q4	Q1
Foreign Debt Stock	**1,787.5**	**1,853.8**	**1,917.4**	**2,016.0**	**2,155.2**
Bilateral	1,044.2	1,080.4	1,110.3	1,181.3	1,138.6
As % of Total	58.4	58.3	57.9	58.6	52.8
Multilateral	743.2	773.4	807.2	834.7	1,016.6
As % of Total	41.6	41.7	42.1	41.4	47.2
Foreign Debt as % Export	12.1	12.5	13.0	13.6	14.6
Domestic Debt Stock	**9,147.6**	**10,159.3**	**10,673.1**	**10,543.0**	**10,435.1**
Treasury Bills	5,070.9	5,596.9	5,841.5	5,615.7	5,586.0
As % of Total	55.4	55.1	54.7	53.3	53.5
Internal Registered Stock	4,076.7	4,562.4	4,831.5	4,927.3	4,849.0
As % of Total	44.6	44.9	45.3	46.7	46.5
Other	**0.0**	**0.0**	**0.0**	**0.0**	**1.0**
Total	**10,935.1**	**12,013.1**	**12,590.5**	**12,559.0**	**12,590.3**
Proportion of Total Debt					
Foreign Debt Stock	16.3	15.4	15.2	16.1	17.1
Domestic Debt Stock	83.7	84.6	84.8	83.9	82.9
In % of GDP					
Foreign Debt Stock	5.0	5.2	5.4	5.6	5.5
Domestic Debt Stock	25.6	28.4	29.8	29.5	26.8
Total	**30.6**	**33.6**	**35.2**	**35.1**	**32.3**

5.5.1 Domestic Debt[14]

The reduction in Central Government domestic debt observed during the last quarter of 2004/05 continued into the first quarter of 2005/06. The total domestic debt contracted by 1.0 percent during the first quarter of 2005/06, following a reduction of 1.2 percent at the end of the final quarter of 2004/2005 (Table 5.2). Responsible for the contraction in the outstanding stock of the domestic debt was the net repayment of N$107.9 million for the Government securities. Likewise, the stock of domestic debt as a percentage of GDP declined from 29.5 percent registered during the corresponding quarter to 26.8 percent during the first fiscal quarter of 2005/06.

The proportion of bonds outstanding to total domestic debt reduced slightly to 46.5 percent during the first quarter of 2005/06 from a level of 46.7 percent during the preceding quarter. This reduction is, however, higher than 44.6 percent registered during the same period of 2004/05. It is worthwhile to note that there was a redemption of the GCO5 during the first quarter of 2005/06, contributing to the reduction in the total domestic debt outstanding.

On the other hand, the proportion of treasury bills to total domestic debt rose slightly to 53.5 percent in the current quarter under review from 53.3 percent by the end of the fourth

14 Domestic debt recorded in nominal terms.

quarter of 2004/05. The 365-day treasury bills accounted for the major share of short-term debt and represented 73.9 percent, slightly up from 73.5 percent at the end of the fourth fiscal quarter of 2004/05. The increase in the issuing of short term debt may raise the rollover risk of Government securities. The remaining share of 21.1 and 5.0 percent was taken up by the182-day and 91-day treasury bills, respectively.

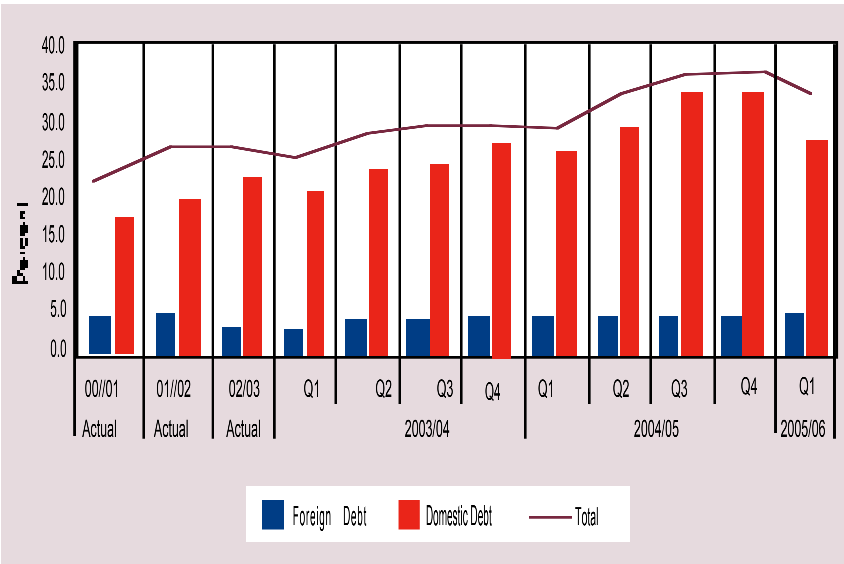
5.5.2 External Debt[15]

The total external debt outstanding continued to increase during the first quarter of 2005/06. The stock of external debt rose by 6.9 percent to reach an amount of N$2.2 billion from the level of N$2.0 billion in the preceding fiscal quarter. The expansion during the first quarter of 2005/06 was largely driven by multilateral loans that increased by 21.8 percent during the period, while the bilateral loans went down by 3.6 percent.

The rise in the multilateral loans resulted from increased disbursements from the new external loans. In terms of composition, bilateral loans continued to dominate the external debt portfolio, although its share declined. Bilateral debt obligations for the Central Government stood at N$1.1 billion and contributed 52.8 percent to total external debt, lower than 58.6 percent recorded for the previous quarter. The share of the stock of debt owed to multilateral creditors, on the other hand, expanded to 47.2 percent from 41.4 percent during the previous fiscal quarter (Table 5.3). Traditionally, multilateral creditors deliver low-cost loans to developing countries, as opposed to bilateral creditors. In the case of Namibia, however, it seems the opposite given the magnitude of concessional or interest free foreign loans the country contracted, especially with the Chinese Government.

As a percentage of GDP, external debt decreased slightly to 5.5 percent during the first quarter of 2005/06 from 5.6 percent recorded in the preceding fiscal quarter (Chart 5.3).

Chart 5.3 Central Government Debt as Percentage of GDP[16]



15 Includes loans earmarked for on-lending to third parties.

16 The GDP for 2004 is a provisional estimate.

Currency Composition of External Debt

The foreign loans contracted in the Euro maintained its position as a dominant currency in the total external debt portfolio. This currency contributed 54.4 percent, albeit lower than 55.9 percent realized during the fourth fiscal quarter of 2004/05 (Table 5.3). The share of the US Dollar, on the other hand, rose to 7.7 percent from 6.4 percent over the same period. Likewise, the Rand denominated loans increased its share in total external debt to 25.6 percent from 20.7 percent in the previous fiscal quarter. The increase in the Rand denominated loans is beneficial to the economy because there is no risk involved in case of fluctuations in the exchange rate due to the fact that the Rand is pegged to the Namibia Dollar. On the other hand, the proportion of the Chinese Yuan fell to 9.2 percent from 12.7 percent at the end of the fourth quarter of 2004/05. The fall in the loans denominated in the Yuan was largely ascribed to principal repayments of existing loans despite the revaluation of that currency against the US Dollar during the period. The remaining balance of 2.9 percent was taken up by other currencies[17], a drop from about 4.3 percent noted during the preceding quarter.

Table 5.3 Currency Composition of External Debt

Currency	Mar-05 (N$ Million)	Percent of Total External Debt	Jun-05 (N$ Million)	Percent of Total External Debt
Swiss Francs	18.8	0.9	18.5	0.9
Yuan Renminbis	210.1	12.7	199.1	9.2
Euro	1213.0	55.9	1171.5	54.4
Pound Sterling	6.6	1.2	6.5	0.3
Thousands of Yen	5.8	0.3	5.7	0.3
Kuwaiti Dinar	10.4	0.1	13.2	0.6
United States Dollars	143.2	6.4	165.9	7.7
Special Drawings Rights	5.9	1.8	23.7	1.1
Rands	402.3	20.7	551.2	25.6
Namibia Dollars	2016.0	100.0	2155.3	100.0

Source: MoF

5.6 Central Government Loan Guarantees

The stock of the central Government loan guarantees went up, reversing the downward trend observed since the second quarter of 2004/05. By the end of the first quarter of 2005/06, total loan guarantees increased further to N$2.6 billion from the level of N$2.4 billion in the fourth quarter of 2004/2005. This amount is, however, lower than N$3.2 billion

17 Other currencies include Kuwaiti Dinar, Swiss Francs, Pound Sterling, Japanese Yen and the Special Drawing Rights

recorded at the same time last year (Table 5.4). The upward movement during the quarter under review was due to an increase in the foreign guarantees, while domestic guarantees remained the same when compared to the preceding quarter. To this effect, the ratio of government loan guarantees to GDP went down slightly to 6.6 percent from 6.8 percent in the preceding quarter.

The stock of foreign loan guarantees rose to N$1.2 billion during the first quarter of 2005/06 from N$1.1 billion recorded during the preceding quarter. This level is higher by N$0.1 billion when compared to the level recorded during the fourth quarter of 2004/05. In terms of contribution to GDP, the stock of foreign loan guarantees remained at the same level of 3.1 percent as it was the case during the preceding quarter. This level is, however, lower than 5.5 percent observed at the same time in 2004. The increase in foreign loans guarantees may be as a result of the new loan guarantees entered into by the Government.

Table 5.4 Central Government Loan Guarantees

	Q1 2004/ 2005	Q2 2004/ 2005	Q3 2004/ 2005	Q4 2004/ 2005	Q1 2005/ 2006
Domestic Guarantees (N$ mil)	1237.1	1001.1	1379.6	1341.0	1340.6
As % of GDP	3.5	2.8	3.9	3.7	3.4
Foreign Guarantees (N$ mil)	1976.7	2164.5	1161.5	1096.7	1221.7
As % of GDP	5.5	6.0	3.2	3.1	3.1
Total Guarantees (N$ mil)	3213.8	3165.6	2541.1	2437.7	2562.3
As % of GDP	9.0	8.8	7.1	6.8	6.6

Source: MoF

The domestic loan guarantees remained the same at N$1.3 million during the first quarter of 2005/06 and the preceding quarter. This level is, however, higher when compared to N$1.2 million registered at the same time of the preceding year. As a percentage of GDP, the domestic loan guarantees went down to 3.4 percent from 3.7 percent witnessed during the previous quarter of 2004/5.

6. FOREIGN TRADE AND PAYMENTS

BOX C: REVISION NOTICE: BALANCE OF PAYMENTS (BOP)

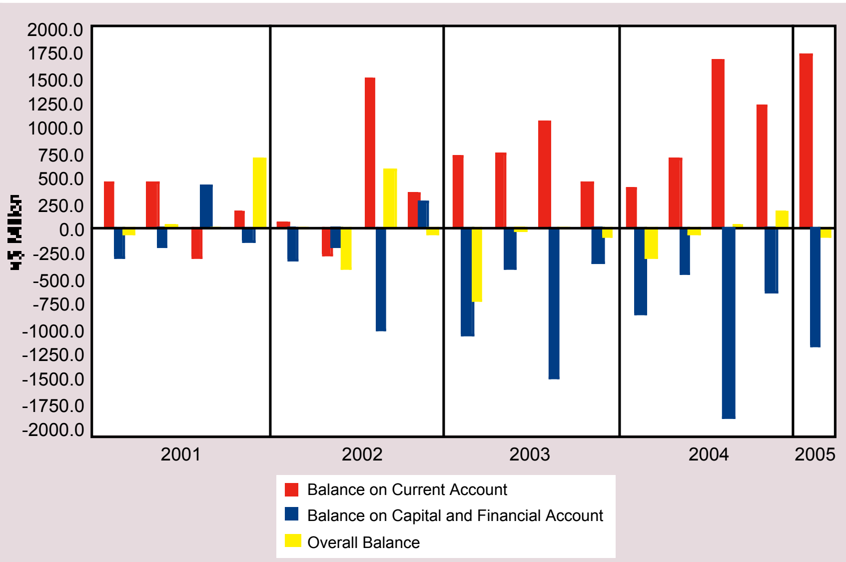
Since the year 1990, the Bank of Namibia used to conduct surveys on Namibian pension, life insurance and unit trust funds invested abroad. This survey, however, ceased in 2000 due to the fact that most of the surveyed companies indicated that they had no direct dealings with external economies in terms of investments of these funds.

Shortly after the establishment of the Namibia Financial Institutions Supervisory Authority (NAMFISA) in 2003, the Statistics and Publications Division of the Research Department made concerted efforts to obtain these needed data from the local fund managers through a coordinated survey with NAMFISA. The data that was requested from these institutions dates back to 2000 to replace the estimated data that the Bank published during those periods. The availability of these data has necessitated a revision of the published data in terms of data presentations and classifications of some items in the BOP. The revised data is envisaged to be published in the *December 2005 Quarterly Bulletin* and detailed information will be provided on the affected items.

6.1 OVERVIEW OF THE BALANCE OF PAYMENTS

The current account of the balance of payments for Namibia was characterized by a declining surplus during the second quarter of 2005, while the capital and financial account deficit also narrowed. This resulted in a deficit of N$39 million in the overall balance of payments. The deficit is smaller by 40 percent and 5 percent when compared to the levels recorded in the previous quarter and corresponding quarter of 2004, respectively (Chart 6.1).

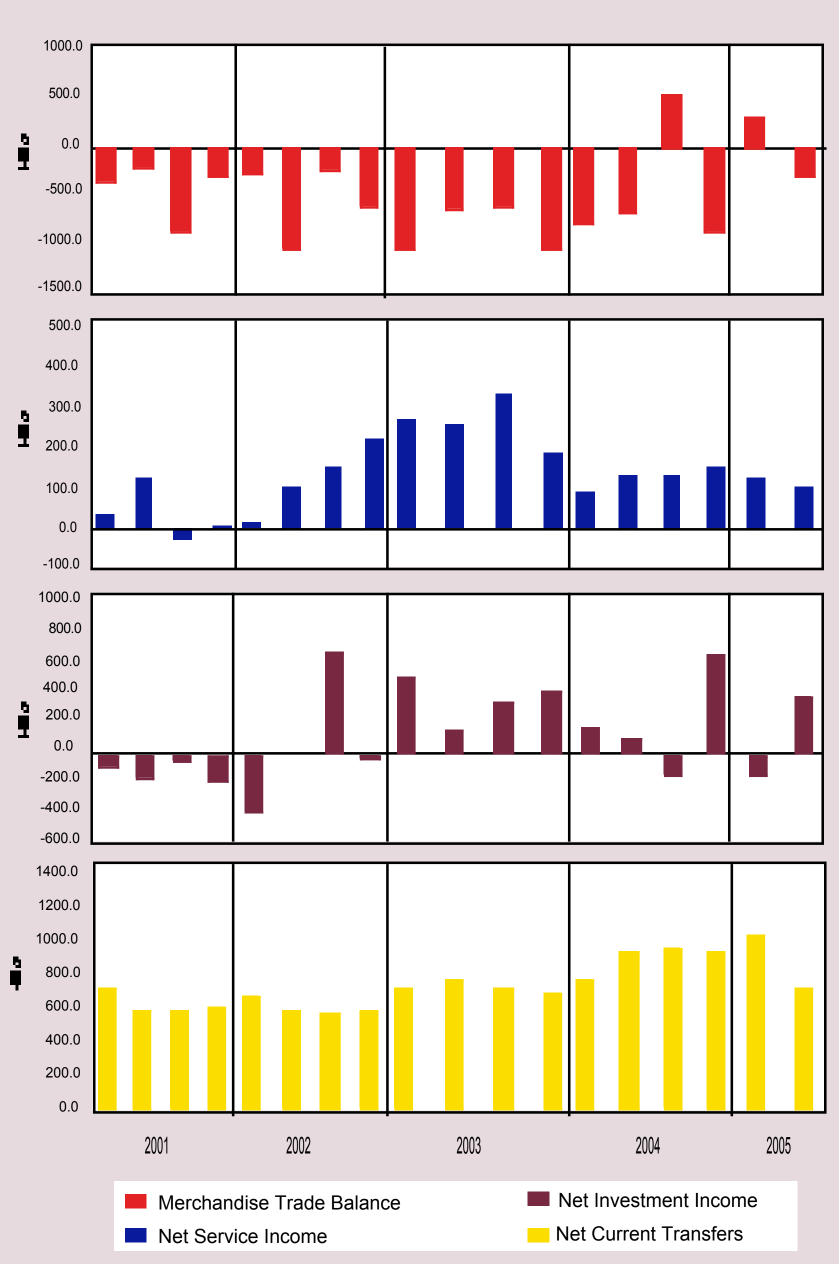
Chart 6.1 Balance of Payments Major Accounts



6.2 CURRENT ACCOUNT

The current account surplus during the second quarter of 2005 decreased by 24 percent to N$1 180 million from the level observed in the previous quarter. It, however, increased by 70 percent when compared to a surplus of N$693 million during the corresponding quarter of 2004. The lower surplus during the second quarter of 2005, relative to the preceding quarter, is mainly as a result of a decrease in net current transfers by 31 percent from the level recorded during the previous quarter. Also, the recorded deficit in the merchandise trade contributed to the decline in the current account surplus (Chart 6.2).

Chart 6.2 Balance of Payments: Current Account Sub-Accounts



The surplus on the merchandise trade recorded during the first quarter of 2005 turned into a deficit in the second quarter. The deficit on the merchandise trade balance was N$283 million during the second quarter of 2005. This compares to a surplus of N$336 million during the previous quarter and a deficit of N$694 million in the corresponding quarter of 2004. Contributing to the deficit in the merchandise trade during the second quarter was a significant decrease in the merchandise export receipts, while expenses on imports increased.

Total merchandise export earnings decreased by 9 percent from the level in the preceding quarter to N$3 032 million during the second quarter of 2005. It, however, rose significantly by 15 percent when compared with N$2 645 million recorded during the corresponding period of 2004. The decrease in the value of merchandise exports during the second quarter of 2005 was a result of a substantial drop in export earnings from diamonds and other commodities. This drop was more if compared to an increase in the receipts from food and live animals[18], manufactured products as well as the category other mineral products[19].

During the second quarter of 2005, the value of diamonds exported fell by 33 percent to N$1 114 million when compared to the preceding quarter. It, however, increased by 11 percent when compared with N$1 007 million in the corresponding quarter of 2004. The decline in the value of diamond exports, quarter-on-quarter, during the second quarter of 2005 was mainly due to the decrease in the volume of diamonds exported, driven by the decline in production by some key players in the diamond mining industry as is reported under the Real Sector section of this report.

The value of the category other exports[20] also declined to N$247 million during the second quarter from N$295 million recorded during the previous quarter of 2005. Manufactured products (which include mainly processed zinc, fish, beer, soft drinks, ostrich oil and leather) increased, quarter-on-quarter, by 12 percent to N$684 million in the second quarter of 2005. When compared to the corresponding quarter of 2004, earnings from this category declined by 9 percent. The increase in manufactured products, quarter-on-quarter, was on account of a rise in the volume of canned fish and other manufactured products exported during the second quarter of 2005.

Likewise, food and live animals exported increased, quarter-on-quarter, by 24 percent to N$564 million during the second quarter of 2005. The increased exports of this category have been driven mainly by the expansion in the value of beef cuts exported to the rest of the world during the same period. The value of beef cuts exported increased drastically by 148 percent from N$94 million in the preceding quarter. This increase is mainly on account of slow operations of abattoirs during the first quarter of every year, which picks up from the second quarter onwards. This trend has been observed for the last 3 years.

18 Consists of live animals, cattle cuts, small stock carcasses, canned beef, ostrich meat and bone meals, unprocessed fish, lobsters, crabs and grapes.

19 Such as gold, zinc, copper and lead.

20 Consist of Karakul skins, hides, wool and electricity.

Exports of other primary commodities, in particular non-precious mineral products such as copper, lead, gold and zinc also rose, quarter-on-quarter, by 29 percent to N$424 million during the second quarter of 2005. The rise was mainly on account of an upward trend in the volume of zinc and other industrial minerals[21] exported. When compared with the corresponding period of the previous year, non-precious mineral products exported increased by a minimal 3 percent.

Imports, on the other hand, are estimated to have gone up by 11 percent from the level recorded during the preceding quarter, to N$3 315 million during the second quarter of 2005. When compared to N$3 340 million in the corresponding quarter of the preceding year, imports decreased by 1 percent. The increase in imports, quarter-on-quarter, is in line with developments during the previous years, showing faster growth from the second quarter onwards, while the slower rate of imports normally observed during the first quarter are attributed to some companies only opening for business towards mid January each year.

The services account surplus during the second quarter of 2005 is estimated to have declined to N$127 million from N$154 million during the preceding quarter. It was also a decrease when compared to N$162 million recorded during the corresponding quarter of the previous year. The main components contributing to the decrease in net inflow in services during the quarter was the increases in net outflows in other private services and the transportation category. The decline in net services during the second quarter of 2005, also contributed to the lower current account surplus recorded during the same period.

Net investment income during the second quarter of 2005 recorded an inflow of N$482 million, reflecting an increase in Namibia's liabilities with foreign investors. The inflow during the second quarter compares to an outflow of N$182 million in the preceding quarter and an inflow of N$107 million in the corresponding quarter of 2004. Contributing to this phenomenon was the inflow of N$43 million in retained earnings of foreign direct investors during the second quarter of 2005.

Net current transfers received decreased significantly to N$859 million during the second quarter of 2005 from N$1 238 million in the preceding quarter. This reduction in net current transfers received is mainly a result of the fall in receipts from SACU by N$245 million from the level in the previous quarter. Private current transfers also declined by 39 percent during the same period to N$22 million. The significant decrease in grants received, by NGO's of about 48 percent contributed mostly to this decline. When compared with the corresponding period of 2004, net current transfers decreased by 24 percent from N$1 125 million.

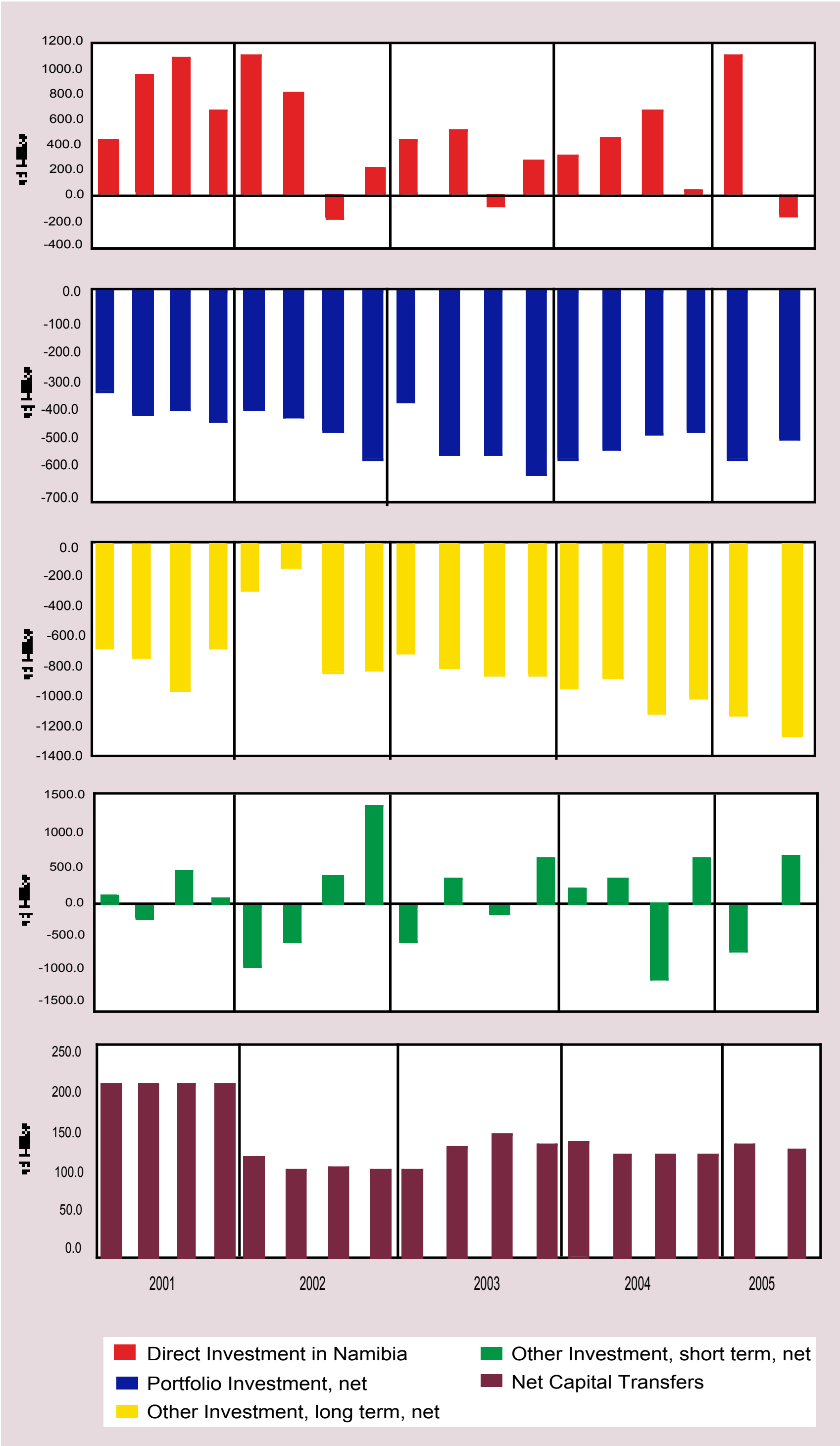
6.3 Capital and Financial Account

The capital and financial account deficit is estimated to have narrowed by 7 percent to N$1 037 million during the second quarter of 2005, from the deficit in the preceding quarter. The deficit in the financial account during the second quarter is, however,

21 Other industrial minerals include fluorspar, sand stone, rock salts, marble, dolomite, aragonite, etc.

significant when compared to that of N$447 million recorded during the corresponding quarter of 2004. The main contributing factor to the decrease in the deficit quarter-on-quarter during the second quarter of 2005 was the net inflow in other short-term investment (Chart 6.3). Further, the categories other long-term investments and portfolio investments continued recording net outflows. Direct investment into Namibia also recorded a net outflow for the first time since the third quarter of 2003.

Chart 6.3 Capital and Financial Account Sub-Accounts



During the second quarter of 2005, as previously mentioned, the direct investment into Namibia recorded a net outflow for the first time since the third quarter of 2003. Direct investment into Namibia recorded a capital outflow of N$171 million compared to inflows of N$1 107 million during the preceding quarter of 2005 and an inflow of N$463 million during the corresponding quarter of 2004 (Chart 6.3). The outflow in other capital of N$403 million recorded during the second quarter of 2005 contributed significantly to the outflow recorded for direct investment into Namibia. This means that resident companies repaid more of their debts with their parent companies.

Direct investment abroad turnaround from an inflow of N$24 million during the first quarter of 2005, to an outflow of N$69 million during the second quarter. The turn around was caused by the same trend in the sub category other capital. This outflow is an increase when compared with the outflow of N$24 million recorded during the corresponding quarter of the previous year.

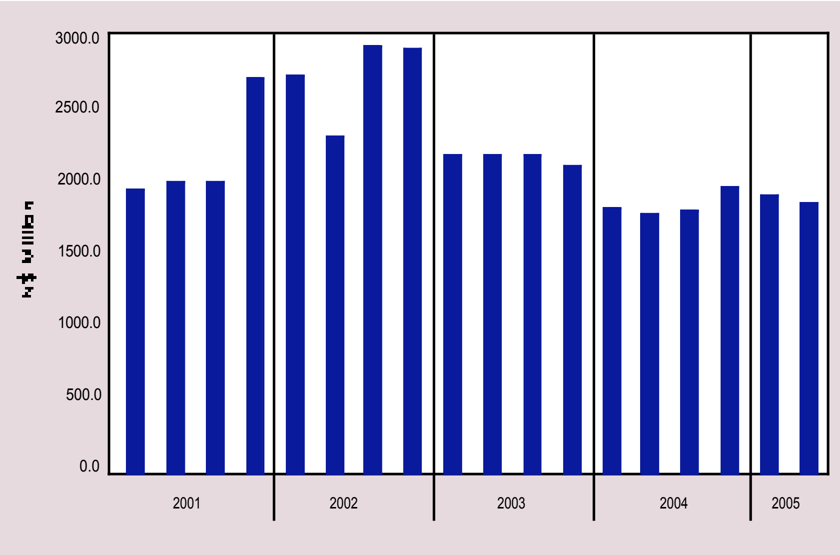
Net outflows in portfolio investment narrowed slightly to N$530 million during the second quarter of 2005 from N$597 million in the preceding quarter and N$564 million in the corresponding quarter of the previous year (Chart 6.3). The reduction was mainly on account of a decline in outflows in equity, especially in the resident holdings of the South African unit trust.

Net outflows of other long-term investments increased by 12 percent to N$1 216 million during the second quarter of 2005, from the level in the preceding quarter. When compared to N$847 million in the corresponding quarter of the previous year, this represents a growth of 44 percent. The observed growth in net outflows in long-term investments was due to repayments of loans by other sectors during the second quarter.

Net short-term investment recorded an inflow of N$687 million during the second quarter of 2005 compared with a net outflow of N$647 million in the preceding quarter and a net inflow of N$356 million in the corresponding quarter of the previous year. The net inflow in short-term investments during the second quarter of 2005 can be attributed to the drawings on the loan facilities of other depository corporations (ODCs) witnessed during the quarter. This drawing is indicative of a liquidity constraint in the market due to increased demand as explained by the net foreign asset position of ODCs, under the section on monetary and financial developments.

The foregoing developments resulted in the decrease in the stock of international reserves in Namibia Dollar terms at the end of the second quarter of 2005. International reserves decreased to N$1 874 million during the second quarter of 2005, down by 2 percent from the stock level at the end of the first quarter. It was, however, an increase when compared to N$1 783 million at the end of the corresponding period of the preceding year (Chart 6.4). The level of import cover (i.e. the value of gross international reserves expressed in relation to the value of imports of goods and services) declined to 6.8 weeks. This level in the second quarter compares to 7.7 weeks and 6.6 weeks of import covers during the preceding quarter and the corresponding period of 2004, respectively. While this import cover improved when compared to that of the corresponding period, it is still low when compared to the international standards for import cover of 12 weeks.

Chart 6.4 Stocks of International Reserves



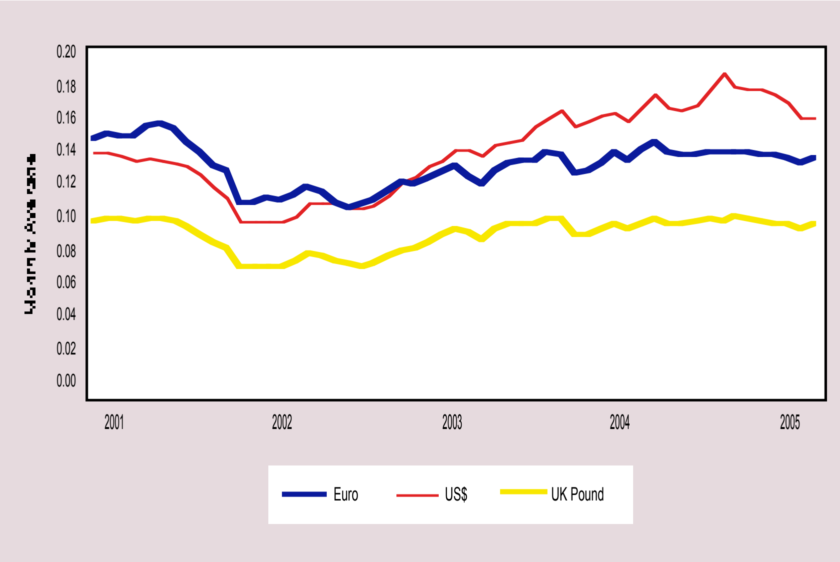
6.4 EXCHANGE RATES[22]

During the second quarter of 2005, the Namibia Dollar started to depreciate quarter-on-quarter against major international currencies, viz the US Dollar, Pound Sterling and Euro. The Namibia Dollar depreciated on a quarterly basis by 6.9 percent, 4.8 percent and 2.6 percent against the US Dollar, Pound Sterling and Euro, respectively (Chart 6.5). The depreciation continued against the US Dollar and the Euro in July, trading at N$6.7035 and N$8.0744 compared to N$6.4112 and N$8.0733 recorded during the second quarter of 2005, respectively. This depreciation can partially be explained by the recovery in the US Dollar, somewhat lower international commodity prices and the interest rate cut in April by the Bank of Namibia Monetary Management Committee (MMC). The Namibia Dollar, however, appreciated against the Pound Sterling in July to trade at N$11.7407 compared to the average of N$11.8944 during the second quarter 2005.

The external value of the Namibia Dollar appreciated by 2.7 percent and 0.1 percent against the US Dollar and Pound Sterling, respectively, while against the Euro, it depreciated by 1.6 percent when compared to the corresponding quarter of 2004.

[22]The Namibia Dollar (NAD) trade one to one against the South African Rand (ZAR) and therefore is referred to interchangeably. The rates being referred to in this section are mid rates in foreign cents, unless mentioned otherwise. These rates are period averages for the respective exchange rates.

Chart 6.5 Foreign Currency per Namibia Dollar



6.4.1 Trade Weighted Effective Exchange Rate[23]

On a trade-weighted front, the nominal effective exchange rate index (NEER), which is a measure of exchange rates of several currencies against the domestic currency, depreciated, quarter-on-quarter, by 0.3 percent. The level recorded in the second quarter of 2005 is lower when compared to an appreciation of 0.2 percent in the previous quarter. When compared to the corresponding quarter of 2004, the NEER appreciated by 0.1 percent to 98.0 points during the second quarter of 2005 from 97.0 points recorded during the same period of the preceding year.

The real effective exchange rate index (REER) also depreciated by 0.6 percent during the second quarter of 2005 (Chart 6.6). The depreciation in the REER which is a measure of competitiveness of the country's products in international markets implies that Namibian products exported gained competitiveness in international markets during the second quarter of 2005. When compared with the corresponding quarter of 2004, the REER depreciated by 7.4 percent to 92.1 points.

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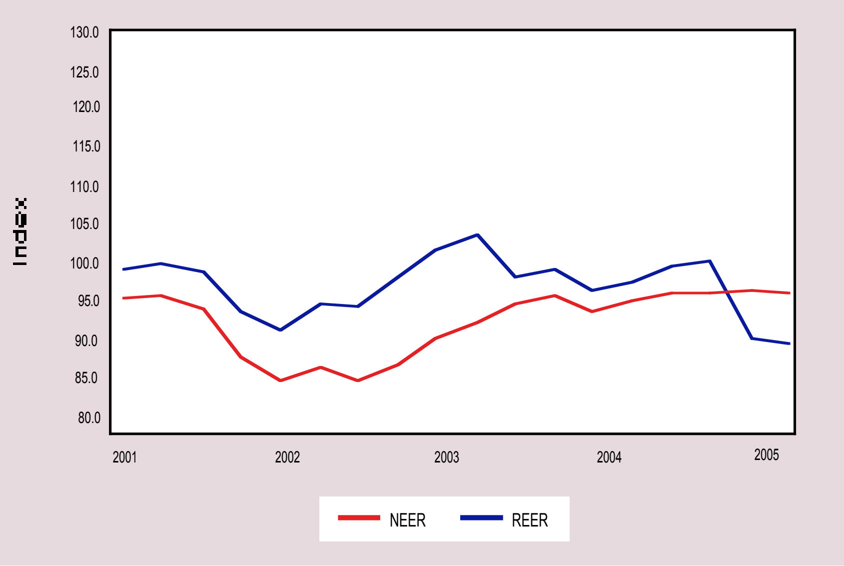
23 The index is based on a geometric formula and the exchange rate is defined indirectly.

Chart 6.6 Quarterly Trade Weighted Effective Exchange Rate Index



REVISIONS POLICY FOR BALANCE OF PAYMENTS DATA

By their very nature, macroeconomic statistics such as the balance of payments statistics are derived from a variety of sources and methods. This means that, while these statistics are compiled using standard double-entry accounting concepts, the two sides to the underlying transactions often originate from very different sources of varying quality, coverage and timeliness. It follows that, not only will there be differences in the sum of the corresponding debit and credit entries in the resulting data (leading to net errors and omissions in the accounts), but inevitably there will also be revisions to the data as new or improved data come to hand over time. These revisions will be published in either the quarterly bulletin or the annual report in a separate table and will be clearly identified, together with the reasons for the revision. This will assist users in assessing the reliability of the original estimates when compared with the revised estimates, and to easily identify major revisions to series and their causes. Such revisions will most likely affect data for the year preceding the latest year, but earlier periods could be affected especially if a major new source or method has been identified for a particular series. In such cases, the series will be revised as far back as is feasible to give users the most consistent time series possible. It should also be noted that revisions affect the corresponding quarterly estimates and, if significant, will be made as soon as practicable after they have been identified. This means that revisions to the affected series may be reflected first in the Quarterly Bulletin, and tables in the latter publication will now show annual data for the latest three years as the corresponding sum of quarters for the relevant balance of payments series.

REVISIONS ON QUARTERLY BALANCE OF PAYMENTS DATA FOR Q1-2005

A number of revisions have been made to the balance of payments data as originally published in the June 2005 Quarterly Bulletin (Volume 14 Number 2), and as a result affected data for the first quarter of 2005. While a number of items have been revised, some of the revisions were not significant and only significant changes are reflected in this revision statement. The details are shown in Table 6.1 below at major component level.

Revisions were made to some items in both the current account and the capital and financial account. The most significant revisions were the following: the outflow on net investment income in the current account was revised upwards, while in the capital and financial account an upward revision was also made on the inflow of the direct investment into Namibia. These revisions were caused by the availability of actual data.

Table 6.1 Balance of Payments Revisions: First Quarter 2005 (N$ Million)

Major Items	As Published in June 2005 Quarterly Bulletin	As Revised in September 2005 Quarterly Bulletin	Difference
Current Account			
Investment Income, net	-60	-182	-122
Capital and Financial Account			
Direct investment into Namibia	946	1107	161

7. Statistical Appendix

7.1 METHODS AND CONCEPTS

Balance Of Payments

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 nonresidents, 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.

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 liabilities of an economy consist claims of non-residents on residents. The primary basis for classification of the financial account is functional: direct, portfolio, other investment, financial derivatives and reserve assets.

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).

Current Account Balance

The current account of the balance of payments covers all transactions (other than those in financial items) 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".

Current Transfers

Current transfers are all transfers of real resources or financial items without a quid pro quo and excludes 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 affects the level of disposable income and should influence the consumption of goods and services.

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 percent 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 conversion 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 nonresidents: (i) those involving compensation of employees, which is paid to non-resident workers (eg., 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, financial derivatives 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 DEVELOPMENT

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.

Bank rate

The rate charged by the Bank of Namibia on advances on specific collateral to Other Depository Corporations. The Bank 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.

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 seven financial intermediaries classified as financial intermediaries in Namibia, i.e. First National Bank of Namibia, Standard Bank of Namibia, Nedbank Namibia and Bank Windhoek, Agribank of Namibia, National Housing Enterprise and the Namibia Post Office Savings Bank.

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 (eg. 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.

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.

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.

PUBLIC FINANCE

Budget proposal or estimates

A request presented by the executive to the legislature or legislating executive council for spending authority, accompanied by an estimate for expected revenue whose collection must also be authorised in some countries. The request may be subject to revision by the legislature, which can be unlimited or limited by such constitutional provisions as the requirement that revenue be increased to match any increase in the expenditure.

Budget year

The period of time for which a budget makes appropriations. Actual allocations, commitments, deliveries, and payments for particular budget's expenditure programs may extend well past the year in which they were originally appropriated. In some budgetary systems, assignments of such transactions to the budget of original appropriation may continue for years. In others, such assignment back to the original budget year may not exist or may be limited to a complementary period of relatively short duration. For purposes of this definition, government receipts and payments should be included in the time period in which they actually take place rather than being assigned to the budget year in which they were authorised.

Capital expenditure

Expenditure for acquisition of land, intangible assets, government stocks, and non-military, no financial assets, of more than a minimum value and to be used for more than one year in the process of production; also for capital grants. Capital expenditure is frequently separated (in some cases along with certain revenue) into a separate section or capital account of the budget or into an entirely separate budget for capital expenditure that is the capital budget. This separation may sometimes follow different criteria, however.

Capital grants

No repayable, unrequited transfers received by government from governments or international organisations for the purpose of financing the acquisition of no financial capital assets by the recipients, compensating the recipients for damage or destruction of capital assets, or increasing the financial capital of the recipients. The term grant is used to refer only to transfers between governments or international organisations.

Capital revenue

Proceeds from the sale of non-financial assets, including land intangible assets, stocks, and fixed capital assets of buildings, construction and equipment of more than a minimum value and usable for more than one year in the process of production, and receipts and unrequited transfers for capital purposes from non-governmental sources.

Central government

All government elements that are agencies or instruments of the central authority of a country whether covered in or financed through ordinary or extraordinary budgets or extra-budgetary funds. This includes funds at the central government level, decentralised agencies, departmental enterprises, social security funds operating at national level and relevant nonprofit institutions attached to the central authority and geographical extensions of central government authority that may operate at regional or local levels without the attributes necessary for existence as a separate government.

Current expenditure

Expenditure other than for capital transfers or the acquisition of land, intangible assets, government stocks, or non-military durable goods of greater value than a minimum amount and to be used in the process of production for more than a period of one year. Current expenditure is frequently separated (in many cases along with current revenue) into a separate section or current account of the budget or into an entirely separate budget for current expenditure, that is, the current budget.

Current revenue

All revenue from taxes and from no repayable or no repaying receipts other than grants, from the sale of land, intangible assets, government stocks, or fixed capital assets, or from capital transfers from non-governmental sources.

Debt

The outstanding stock of recognised, direct liabilities of the government to the rest of the economy and the world generated by government operations in the past and scheduled to be extinguished by government operations in the future or to continue as perpetual debt. This excludes intra-governmental or intergovernmental debt of the sub sector or sector of government being measured, currency issues and other monetary authorities debt, dormant or repudiated debt not being serviced, and any floating debt of unpaid obligations.

Deficit or surplus

The deficit or surplus is defined as revenue plus grants received less expenditure less lending minus repayments. The deficit or surplus is also equal, with an opposite sign, to the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes.

Expenditure

All no repayable and non-repaying payments by government, whether requited or unrequited and whether for current or capital purposes. Expenditure is shown net of recoveries on past expenditure and net of other adjustment transactions. It is otherwise shown gross with the exception of departmental enterprises' transactions, for which sales to the public are offset against corresponding operating expenditures.

Financing

The means by which a government provides financial resources to cover a budget deficit or allocates financial resources arising from a budget surplus. It includes all transactions involving government liabilities other than for currency issues or demand, time, or savings deposits with government or claims on others held by government for purposes of liquidity rather than public policy objectives, and changes in government holdings of cash and deposits.

Fiscal year

The regular annual budget and accounting period for which provision of revenue and expenditure is made, and for which accounts are presented, excluding any complementary period during which the books may be kept open after the beginning of the next fiscal period.

General government sector

The combination of all government units operating in a country, and hence constituting one of the five institutional sectors in a country's economy. The sub sectors that may comprise the general government sector are (1) central government; (2) state, provincial, or regional governments; (3) local governments including municipalities, school boards, etc.; and (4) any supranational authorities exercising tax and governmental expenditure functions within the national territory. Social security funds form a part of the level of government at which they operate. No financial public enterprises and public financial institutions do not from a part of general government.

Government

A generic term applying to all instrumentalities of the republic authorities of any territorial area or its parts, established through political processes, exercising a monopoly of compulsory powers within the territorial area or its parts, motivated by considerations of public purposes in the economic, social, and political spheres, and engaged primarily in the provision of public services differing in character, cost elements, and source of finance from the activities of other sectors. For the purpose of this definition, government embraces (1) the primary non-commercial functions of its various parts, agencies, and instrumentalities; (2) social security arrangements for large sections of the community imposed, controlled or financed by the government; (3) pension funds of government employees whose reserves are invested entirely with the employing government; (4) a limited range of unincorporated industrial activities encompassing either ancillary functions, that is, meeting internal government needs, or selling of the public, but on a smaller scale; (5) a limited range of financial bodies comprising lending bodies deriving all their funds from government and savings bodies automatically channelling to government the proceeds of liabilities to the public in forms other than demand, time, or savings deposits; (6) other nonprofit institutions serving households or business enterprises which are wholly, or mainly, financed and controlled by the public authorities or which primarily serve government bodies; (7) the operations within the country of any supranational authorities empowered to levy taxes in the territory of more than one country.

Grants

Unrequited, no repayable, non-compulsory payments between governments or international institutions. The term is sometimes also used to refer to transfers of this nature made by government to all types of recipients. In determination of the deficit/surplus, by this definition, grants are grouped with revenue and expenditure rather than with financing.

Revenue

All no repayable and non-repaying receipts, whether requited or unrequited, other than those non-compulsory, no repayable and no repaying, unrequited receipts which come from other governments, domestic or foreign and international institutions. Revenue is shown net of refunds and other adjustment transactions. Revenue is otherwise shown gross except for the proceeds of departmental enterprise sales to the public, which is netted against the corresponding operating expenditures.

7.2 STATISTICAL TABLES

I National Accounts

II Monetary and Financial Developments

III Public Finance

IV Balance of Payments