Bank of Namibia

Annual Report

2006

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Bank of Namibia

Corporate Charter

VISION

"Our vision is to be a centre of excellence - a professional and credible institution - working in the public interest, and supporting the achievement of the national economic development goals".

MISSION

"In support of economic growth and development our mandate is to promote price stability, efficient payment, systems, effective banking supervison, reserves management and economic research in order to 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".

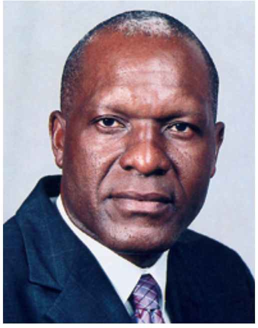
We uphold integrity, impartiality, open communication and transparency. We care for each other's well-being and value teamwork.

In accordance with Section 52(1) of the Bank of Namibia Act No. 15 of 1997, the Bank has submitted to the Minister of Finance this Annual Report, which includes:

(i) a copy of its annual accounts certified by the auditors;
(ii) a report of its operations and affairs; and
(iii) a report on the state of the economy.

TOM K ALWEENDO
GOVERNOR **March 2007**

Board of the Bank of Namibia



Mr. T. Alweendo
Chairperson
(Governor)

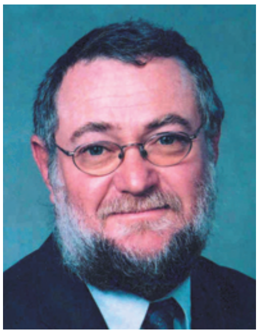
Mr. P. Hartmann
Member
(Deputy Governor)

Mr. F.G. Kisting#
Member

Dr. O. Herrigel*
Member

Ms. L. Shapwa°
Member
(Term expired at the end of 2006)

Mr. R. Ritter+°
Member



Mr. C. Schlettwein
Member
(Permanent Secretary:Finance)

Ms. T. Itenge-Emvula+
Member
(Term terminated in August 2006)

* Chairperson of the Remuneration Committee
\# Chairperson of the Audit Committee
\+ Member of the Remuneration Committee
° Member of the Audit Committee

EXECUTIVE MANAGEMENT OF THE BANK OF NAMIBIA AS AT 31 DECEMBER 2006

Mr. T. Alweendo	**Governor**
Mr. P. Hartmann	**Deputy Governor**
Mr. I. Shiimi	**Assistant Governor and Head of Financial Stability**
Mr. S. Hamunyela	Director of Corporate Services
[Vacant]	Director of Financial Markets
Ms. L. Namoloh	Director of Banking Services
[Vacant]	Director of Research
Mr. J. van der Merwe	Director of Information Technology
[Vacant]	Director of Banking Supervision

Abbreviations and Acronyms

AACB	Association of African Central Banks
BIS	Bank for International Settlement
BoN	Bank of Namibia
CAR	Capital Adequacy Requirement
CBS	Central Statistics Bureau
CMA	Common Monetary Area
CPIX	Consumer Price Index excluding mortgage loans
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FIXBIS	Fixed-interest-bearing Securities
FNB	First National Bank
FoB	Free on Board
FSSA	Financiall System Stability Assessment
FSR	Financial Sector Review
GC05	Government Internal Registered Stock Maturing in 2005
GC07	Government Internal Registered Stock Maturing in 2007
GC08	Government Internal Registered Stock Maturing in 2008
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
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GNDI	Gross National Disposable Income
GNI	Gross National Income
HI	Herfindahl Index
IIP	International Investment Position
IMF	International Monetary Fund
IPPR	Institute of Public Policy Research
IRS	Internal Registered Stock
IRSRA	Internal Stock Redemption Account
IRMC	International Reserves Management Committee

Abbreviations and Acronyms (continued)

JSE	Johannesburg Stock Exchange
MoF	Ministry of Finance
MTEF	Medium-term Expenditure Framework
N$	Namibia Dollar
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NCPI	National Consumer Price Index
NEER	Nominal Effective Exchange Rate Index
NISS	Namibia Interbank Settlement System
NPL	Non-performing Loan
NSX	Namibian Stock Exchange
ODCs	Other Depository Corporations
Q-on-Q	Quarter on Quarter
Q1	Quarter 1
Q2	Quarter 2
Q3	Quarter 3
Q4	Quarter 4
R	Rand
REER	Real Effective Exchange Rate Index
RHS	Right-hand Side (of graph)
RSA	Republic of South Africa
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARB	South African Reserve Bank
T Bill	Treasury Bill
UK	United Kingdom
US(A)	United States (of America)
US$	United States Dollar
VAT	Value Added Tax
ZAR	South African Rand

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PART A

State of the Economy

Report in terms of Section 52 (1)(c) of the Bank of Namibia Act No 15 of 1997

A. Summary of Economic Developments

Notwithstanding a number of downside risks, global economic growth continued to be robust in 2006, with global growth estimated to have expanded at slightly over 5 percent and to continue at close to this pace in 2007. The robust world economic expansion witnessed during the past three years has been the strongest since the Second World War and was supported by ample global liquidity conditions. Key risks to the outlook include a build-up of inflationary pressures in some industrialised countries; tighter conditions in financial markets; high and volatile oil prices; a sharper than expected cooling of the United States of America's housing market; uncertainty about growth in the Euro Area and Japan; and the continuing threat of a disorderly unwinding of global imbalances. In addition, the emergence of protectionist tendencies among some industrialised countries, which led to the collapse of the Doha round of trade negotiations, could be seen as an additional risk to the outlook.

From a regional perspective, global growth became more broad-based in 2006, with almost all regions of the world recording robust growth performance. Increasingly emerging market economies, in particular China and India, became key drivers of world economic growth in 2006. Expansion in the USA, the world's largest economy, remained robust albeit on a declining trend, while the recovery of growth in the Euro Area and Japan became more prominent and sustainable. It is also encouraging to note that growth in Sub-Saharan Africa remained robust in 2006 and is expected to remain strong in the medium term, supported by improved macroeconomic policy frameworks and the ongoing recovery of commodity prices. This has been the longest growth expansion of sub-Saharan Africa, since the weak performance in the 1980s and 1990s. However, growth in this region of the world started from a low base and is still lower than the 7 percent growth required to meet the Millennium Development Goals by 2015.

Notwithstanding inflationary pressures and tighter monetary conditions, real gross domestic product (GDP) growth in Namibia is estimated to have improved moderately in 2006 when compared to the rate of growth in 2005. Growth in 2006 was broad-based, with all key sectors performing relatively well. However, the primary industry, particularly the mining sector, performed better in response to improved commodity prices. Going forward, the economy is projected to continue growing at around 4 percent in the medium term, driven by increased mining output, while the contribution of tourism to total output is also expected to increase significantly. This growth rate, however, will not be sufficient to attain the goals of Vision 2030 and significantly reduce poverty, and more would be required to put the country on a sustained accelerated growth path.

Despite rising international oil prices, inflationary pressures remained relatively contained during 2006, with the average rate of inflation in the low single digits. Nevertheless, in order to prevent second round effects of oil price inflation, the Bank of Namibia, in line with its mandate to promote price stability, acted cautiously and raised interest rates by 200 basis points during the year under review to anchor inflation expectations and to sustain the currency peg to the South African Rand. The cost of borrowing moved in tandem with the increased Bank rate during 2006. Private sector credit growth, however, remained robust during the year. The rate of inflation is expected to peak in the second half of 2007 and to stabilize at 6.0 percent in the medium-term. Although international oil prices declined significantly in the last quarter of 2006, an increase in the price of oil remains a key risk factor to the outlook for prices going forward. Nevertheless, the Bank of Namibia remains committed to the objective of price stability and will not hesitate to adjust policy, should monetary conditions so demand.

Over the past three fiscal years, there has been a conscious effort to consolidate the country's fiscal position. As a result, the fiscal balance as a ratio of GDP moved from a deficit of close to 7 percent in 2003/04 to a deficit of less than 1 percent in 2005/06, while a small surplus is projected for 2006/07. Consequently, the country's overall debt position in relation to GDP is projected to stabilise in the medium term. Much of the fiscal consolidation, however, came from the revenue side as a result of targeted tax audits by the Ministry of Finance, while Southern African Customs Union (SACU) windfall receipts and the partial privatisation of the mobile telecommunications company in 2006 contributed to the improved fiscal position in 2006/07. In order to better anchor the fiscal position, it would be necessary to find durable solutions to strengthen future revenue performance. At the same time, it would also be important to continue reviewing expenditure patterns to bring expenditure as a ratio of GDP closer to Government's fiscal rule of 30 percent of GDP, while freeing up more resources for growth in critical areas.

A significant improvement in the overall balance of the balance of payments was recorded during 2006. Due to a record high mineral export earnings and a surge in SACU receipts, the surplus on the external current account, as a ratio of GDP, which is a measurement for excess gross national savings over gross domestic investment, increased to 18.3 percent. The capital and financial account, on the other hand, recorded a deficit, which was mainly a result of outflows in the category portfolio investments. While this characteristic on the external sector may help to diversify the holdings of institutional investors, it also underscores the importance of deepening the domestic financial sector to retain excess savings for much-needed developmental purposes.

A review of the stability of the financial sector, done this year for the first time, concluded that the banking sector, as evidenced by the level of capitalisation and profitability, is in a position to withstand shocks. However, there are possible risks, including the possibility of a slowdown in the US, which could prove a risk for a broader, global deceleration and heighten the danger of inflationary pressures from more increases in oil prices. A higher South African current account deficit could further weaken the currency and fuel inflation, putting pressure on interest rates to rise. Given the economic and financial ties between the two economies, these effects could also spill over to Namibia. The review, however, did not identify any immediate threats to the banking sector.

Thus, the fundamentals of the Namibian economy remain sound overall, and prospects are favourable. This was also acknowledged by the International Monetary Fund (IMF) in their 2006 Article IV Report for Namibia, as well as by the Fitch Rating Agency, who reaffirmed Namibia's sovereign credit rating at investment grade level. Nevertheless, the challenges remain difficult, including the need to accelerate the process of economic diversification and to put the country on a higher sustainable growth path to enhance faster and deeper poverty reduction. The Bank of Namibia believes that macroeconomic and financial stability are key ingredients towards achieving these ultimate objectives, and remains fully committed to the implementation of prudent monetary and financial policies in the interest of the welfare of all Namibians.

B. Global Economy[1]

The world economy has been in an unprecedented expansion phase in the past three years. A key contributing factor to the robust global expansion has been ample liquidity in the global financial system, driven by strong corporate balance sheets in major industrialised countries, high savings rates in Asian countries, and windfall savings from oil-producing countries. From a regional perspective, global growth became more broad-based in 2006 with most regions of the world recording robust growth rates, although growth in the USA, the world's largest economy, started to slow down towards the second half of 2006. Also noteworthy was the strong growth performance of Sub-Saharan Africa, supported by a surge in oil production by oil-producing countries, while many non-oil-producing countries benefited from stronger commodity prices. Looking ahead, however, there are a number of risk factors. These include the emergence of inflationary pressures in some industrialised and certain oil-importing countries; risks from the tightening of financial conditions; a greater than expected downward trend in the US housing market; high and volatile oil prices; and the continuing threat of a disorderly unwinding of global economic imbalances.

According the IMF's September 2006 *World Economic Outlook*, global economic growth for 2006 was estimated at 5.1 percent, and projected to moderate to 4.9 percent in 2007. Global growth was broad-based in the first half of 2006, with activity in most regions meeting and/or exceeding expectations. Growth in the US was strong in the first quarter of 2006, even though it receded in the second quarter due to the slowdown in the housing market, a tighter monetary policy environment, and rising fuel costs. The expansion gathered momentum in the Euro area, despite a slow start at the beginning of the year in Germany. The Japanese economy also continued to expand. Growth in most emerging market and developing countries remained solid, with resilience of growth in China, India and Russia, which together accounted for two-thirds of the upward revision to global growth in 2005. At 5.2 percent, growth in Sub-Saharan Africa also continued to be above average in world output.

Headline inflation in the advanced economies is estimated to have increased modestly to 2.6 percent in 2006, and is projected to slow down in 2007 as the upward thrust from oil price increases are expected to recede. Inflation pressures are also projected to be contained in emerging market economies and developing countries. Private capital flows to emerging market economies and developing countries slowed from the pace of 2005, but with the overall net current account surplus of these countries rising further, the rate of accumulation of international reserves remained high and contributed to the widening of global imbalances. Oil prices continued to be high and volatile in 2006, with the price of crude oil varying in the range of US$60 to US$75 per barrel. This was attributed to continued strong demand, especially from China and India, rising geopolitical uncertainties in the Middle–East and civil unrest in Nigeria, supply constraints and limited spare capacity, and a projected reduction in Alaskan oil production.

Regional Prognosis

Mature and emerging market economies

GDP growth in the **United States** was expected to moderate to 3.4 percent in 2006, before slowing to 2.9 percent in 2007. The US housing market would continue to reduce private consumption and residential investment; however, corporate investment should be supported by high capacity utilisation and strong profitability. The US current account deficit continued to widen and is projected to be at 6.9 percent of GDP in 2007. The inflation rate decreased to 2.5 percent in 2006, compared to 3.4 percent in the preceding year.

The **Japanese** economy was estimated to grow by 2.7 percent in 2006, driven by business fixed investment and household consumption, before easing to 2.1 percent in 2007. There is an indication that the deflation period in Japan has finally ended, as the inflation rate is estimated at 0.3 percent for 2006.

Growth in the **Euro Area** grew by 3.3 percent in 2006 from 1.3 percent recorded in 2005. This was the highest rate in six years. This growth was driven by higher investment and rising employment in the corporate sector. Indications are that the German economy is set to weather the VAT increases well, which bodes well for Euro Zone recovery in 2007. Inflationary pressure in the Euro Area is building, with an expected average of 2.3 percent in 2006 and 2.4 percent in 2007.

[1] International Monetary Fund, World Economic Outlook, September 2006.

Growth in emerging market economies and developing countries continued to be strong at 7.3 percent in 2006, and is expected to slow marginally to 7.2 percent in 2007. In **China**, real GDP grew by 11.3 percent, year-on-year, in the second quarter of 2006, with a changed acceleration in investment growth and surging net exports. China would retained growth at around 10.0 percent in 2006, whilst India and Russia would also continue to grow rapidly.

The economic expansion in **Latin America** gathered momentum in the first half of 2006, with regional GDP on track to rise by 4.8 percent over the year as a whole, before slowing to 4.3 percent in 2007. While this helped to reduce debt ratios, political uncertainty remains a concern, and many countries continue to be susceptible to sudden deterioration in the external environment.

Table 1 World GDP growth

	2004	2005	2006*	2007*
World	5.3	4.9	5.1	4.9
USA	3.9	3.2	3.4	2.9
Euro Area	2.1	1.3	2.4	2.0
Japan	2.3	2.6	2.7	2.1
Emerging Asian market economies	8.5	8.5	8.3	8.2
China	10.1	10.2	10.0	10.0
Developing countries	7.7	7.4	7.3	7.2
Africa	5.5	5.4	5.4	5.9
Sub-Sahara	5.6	5.8	5.2	6.3
Angola	11.2	20.6	14.3	31.4
Botswana	6.0	6.2	4.2	4.3
Mozambique	7.5	7.7	7.9	7.0
Namibia	6.6	4.2	4.6	4.8
South Africa	4.5	4.9	4.2	4.0

Source: IMF, *World Economic Outlook*, September 2006; IMF, *World Economic and Financial Surveys, Regional Economic Outlook: Sub-Saharan Africa*, September 2006; and Bank of Namibia in the case of Namibia.

* Estimates for 2006 and forecast for 2007.

Sub-Saharan Africa

Growth in Sub-Saharan Africa was expected to ease to 5.2 percent in 2006, from 5.8 percent in 2005. The slowdown in growth was mainly due to a temporary hold-up in oil production in several oil-producing countries. During 2007, growth is expected to accelerate to 6.3 percent. If realised, this will be the strongest economic expansion since the early 1970s. Oil-exporting countries are expected to contribute significantly to this strong performance, mainly as a result of oil output recovery in Nigeria and new oil fields in Angola and Equatorial Guinea.

Increased oil production in a number of countries and the large terms-of-trade gains resulting from the significant rise in oil prices have boosted domestic incomes and spending. Growth in oil-importing countries, although lagging behind that of oil exporters by a substantial margin, has also been surprisingly robust.

Growth of the South African economy, the continent's largest, was projected to slow to 4.2 percent during 2006 and to 4.0 percent in 2007. Nevertheless, there are indicators that suggest growth in the medium term will remain robust with continued support from both public and private sector domestic expenditure, as the country prepares to host the 2010 Soccer World Cup.

Despite the adverse developments in the international oil market, the South African CPI[2] is expected to remain within the South African Reserve Bank's target range of 3 to 6 percent. According to the IMF's *World Economic Outlook*, the expectation for the average CPI in 2007 is 5.7 percent, rising from 4.6 percent in 2006.

During 2006, the deterioration of South Africa's external current account reflected both a sharp increase in private consumption and higher private and public investment. Nevertheless, the current account deficit was fully financed by capital inflows, resulting in an overall balance of payments surplus.

During May and October 2006, the Rand weakened sharply, touching levels last observed in 2003 and early 2004. The direction of the movement was in line with the weakening in commodity prices and the deterioration in the external balance and the negative imaging market sentiments. Nevertheless, by the end of the year the Rand had recovered from the market corrections on account of overall strong fundamentals of the economy.

Risks to the outlook

While strong global economic growth is expected to continue, there are a number of risks to the outlook.

[2] The CPI measures consumer price inflation for metropolitan and urban areas.

Firstly, if oil prices remain high, they may have a more adverse impact on growth (going forward) than they have had in the recent past, particularly if combined with a sharper than expected decline in non-oil commodity prices. For many mineral-based economies, including Namibia, there is the risk that commodity prices could ease in 2007 and affect growth negatively. Secondly, there is also the risk that inflationary pressures could strengthen, requiring monetary policy to be tightened more than currently expected, and that the US housing market could cool more rapidly than expected, triggering a more abrupt slowdown of the US economy.

Thirdly, the potential for a disorderly outcome of global imbalances continues to pose a risk for the global economic outlook. For instance, a rapid depreciation of the US Dollar coupled with an already slowing housing market could significantly reduce domestic demand in the US, with knock-on effects on the global economy. This could be exacerbated by protectionist tendencies among some industrialised countries that have the potential to drive the world economy into a recession.

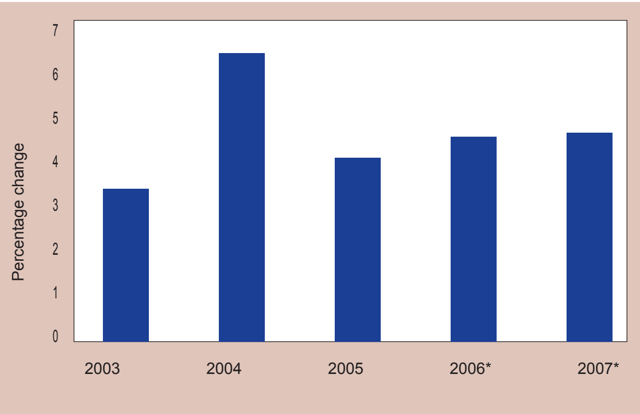
Fourthly, countries that have widening current account deficits and are more dependent on private capital flows, such as South Africa, would be hurt if global financial market conditions deteriorate. Fifthly, an avian flu pandemic could have major implications for Africa, given its relatively poor health care systems. Lastly, political uncertainties and armed conflicts could adversely affect the outlook in a number of countries. For example, ongoing unrest in the Niger Delta presents a downside risk to growth and stability in Nigeria.

C. Domestic Economy

Chapter 1 Real Economic Developments and Outlook

Despite tighter monetary conditions, the Namibian economy was estimated to have performed moderately better in 2006 than in 2005 (Chart 1.1). Real GDP growth was estimated to have increased to 4.6 percent during 2006, compared to a growth of 4.2 percent during 2005. The growth could be attributed to the strong performance in the primary industry, particularly the mining sector that responded to improved international mineral prices, while the agriculture and fishing sectors performed disappointingly. Both the secondary and tertiary industries performed better during 2006 compared to the previous year. The economy is projected to grow at around 4.8 percent in 2007, driven by increased agriculture output, and an improved outlook for the fishing, construction and tourism sectors.

Chart 1.1 Annual changes in real GDP



Source: CBS and BoN estimates for 2006 and projections for 2007.

1.1 Sectoral review

1.1.1 Primary industry

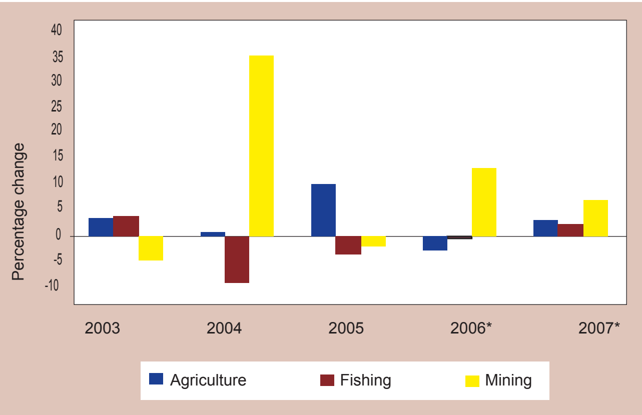
The primary industry, comprising the agricultural, fishing, and mining and quarrying sectors, performed relatively more strongly in 2006 compared to the preceding year, albeit with mixed results among the various sub-sectors. For instance, the mining and quarrying sector performed strongly, while the value added of the fishing sector declined albeit at a slower pace and the performance of the agricultural sub-sector was weak (Chart 1.2). Future prospects are that growth in the primary industry should slow down on account of expected slower growth in diamond production.

The value added of the agricultural sector was estimated to have declined by 2.8 percent during 2006, compared to an increase of 10.7 percent registered in the preceding year. The decline was reflected mainly in the livestock sub-sector. Livestock marketing remains the mainstay of the sector and, as such, the performance of the livestock sub-sector has a bigger impact on the overall agricultural sector. Despite high meat prices, the number of cattle marketed declined by 17.7 percent during 2006 compared to an increase of 27.9 percent in the previous year. This can be explained by the fact that farmers postponed selling some of their livestock for purposes of restocking, after good rainfalls in 2006. The number of small stock (sheep and goats) marketed declined as well, by 7.1 percent during 2006, compared to an increase of 11.1 percent registered during 2005. The cereal production sub-sector performed poorly due to most fields being flooded during the rainy season, which caused destruction to vegetation. Looking ahead, value added of the agricultural sector is projected to grow by 3.2 percent in 2007, mainly on account of increased cattle marketing after successful restocking in 2006.

During 2006, the fishing sector continued the recovery it had experienced in 2005. Preliminary data indicates a slower decline of 0.5 percent in the value added of the sector, compared to a decline of 3.4 percent recorded in 2005. The recovery was reflected in the increase in catches for species such as hake and horse mackerel. The size of landed hake, however, continued to be smaller, contributing to fewer fish cuts, low prices and reduced profitability. The rising cost of fuel also affected the fishing sector significantly due to the high volume of fuel needed for the vessels. Nevertheless, value added of this sector is forecast to expand by 2.5 percent in 2007, due to an improvement in fishing resources.

Performance of the mining sector was robust in 2006 compared to the preceding year, with preliminary data indicating that value added of the sector increased by 13.6 percent compared to a decline of 1.8 percent recorded in 2005. Mainly contributing to this strong performance was the strong demand for diamonds in the world market. Consequently, output of the diamond industry was estimated to have increased by 23.6 percent in 2006 compared to a decline of 4.1 percent during 2005. The value added of base metals and other minerals such as copper, zinc and silver, however, showed a slowdown as most mines experienced strikes and structural changes, although they had aimed at producing beyond their normal targets in order to gain from high international prices. Looking ahead, growth in the value added of the mining sector is forecast to reduce to 7.4 percent in 2007 due to an expected slowdown in diamond production. Although an increase in uranium and copper production is expected, it would not be enough to offset the slowdown in diamond production.

Chart 1.2 Real growth in the primary industry



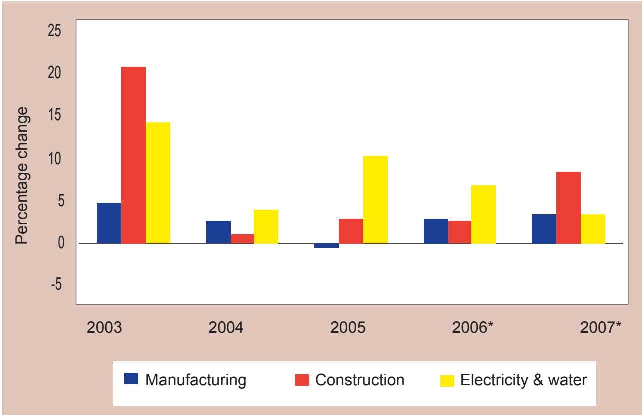
Source: CBS and BoN estimates for 2006 and projections for 2007.

1.1.2 Secondary industry

The secondary industry, comprising the manufacturing, construction and electricity and water sectors, showed a mixed performance in 2006. On the positive side, activities in the manufacturing sector picked up moderately compared to the previous year. The growth in value added in the electricity and water sector, however, slowed down compared to the previous year, while that of the construction sector was estimated to have contracted during the period under review. Looking ahead, the secondary industry is forecast to continue performing well in 2007, on the back of an improvement in the construction and fish processing sectors (Chart 1.3).

The performance of the manufacturing sector was satisfactory in 2006, showing a recovery from the poor performance observed in the preceding year. Growth in value added was estimated at 3.1 percent in contrast to a decline of 0.6 percent during 2005. The growth during 2006 was reflected in the increased output of other manufacturing and food products and beverages sub-sectors, while activities in the meat- and fish-processing sub-sectors declined. The decline in the meat-processing sub-sector could be attributed to the contraction in the number of livestock marketed. The fish-processing sub-sector was affected by the unavailability of fish, as well as the small size of the fish that were landed. Going forward, value added of the manufacturing is forecast to grow by 3.6 percent in 2007, mainly supported by an improvement in fish and meat processing.

Chart 1.3 Real growth in the secondary industry



Source: CBS and BoN estimates for 2006 and projections for 2007.

The value added of the construction sector was estimated to have increased by 2.8 percent during 2006 compared to an increase of 3.2 percent during the previous year. The expansion in value added of the sector was reflected in the rise in cement imports[3] and the number of building plans passed and completed. On the outlook, the value added of the construction sector is projected to grow by 9.3 percent in 2007 on account of Government spending on physical infrastructure, as well as private-sector-related works.

The valued added of the electricity and water sector recorded a slower growth of 7.5 percent during 2006 compared to 11.3 percent recorded during the preceding year. The slower growth during 2006 could be attributed to the high cost of coal inputs in the production of electricity at the Van Eck Power Station, despite the good rainfall to support the flow of the Kunene River, which is necessary for water supply and the generation of electricity. In terms of future prospects, growth in the value added of

[3] This is one of the indicators used to measure the performance of the construction sector.

this sector is forecasted at 3.7 percent, supported by ongoing demand from existing major projects and the new uranium mine.

1.1.3 Tertiary industry

The tertiary industry, which is represented by sectors such as wholesale, retail trade and repairs, transport and communications, hotels and restaurants, and producers of Government services, performed relatively well in 2006. The wholesale, and retail trade and repairs sectors performed relatively well, although at a slower pace than during the preceding year, while the rest of the sectors also indicated positive growth rates during 2006 (Chart 1.4).

Valued added of hotels and restaurants, a proxy for the tourism sector, was estimated to have grown by 4.5 percent during 2006, compared to a moderate expansion of only 0.3 percent registered in the previous year. The estimated increase in 2006 was further confirmed by the preliminary information of other indicators such as foreign arrivals to the country. The sector also benefited from a softer currency, which made travelling to Namibia relatively cheaper. Looking ahead, value added of this sector is forecast to expand by 6.5 percent in 2007 due to economic recovery in the Euro Area, lower oil prices, and a relatively weaker Namibia Dollar.

Preliminary estimates indicate that growth in value added of the wholesale, retail trade and repairs sector moderated to 4.7 percent in 2006 from 7.8 percent recorded in the preceding year. This moderation came mainly from the furniture and vehicle sub-sectors, which reacted to the increase in interest rates during 2006. On the other hand, the clothing and supermarket sub-sectors performed positively. The value added of this sector is projected to grow by a higher rate of 6.5 percent in 2007.

Available data indicates that the value added of the transport and communications sector rose by 9.9 percent during 2006, higher than the 8.7 percent recorded in the previous year. The higher growth of the sector in 2006 resulted from a good performance by the communications sub-sector, especially mobile telecommunications. Mobile telecommunications reported a sharp increase in 2006, resulting from new connections and an increase in airtime purchases, as well as decreasing phone prices. The value added of this sector is expected to grow further by 10.0 percent due to the new mobile operator that is expected to start operating by March 2007.

Chart 1.4 Real growth in the tertiary industry

Source: CBS and BoN estimates for 2006 and projections for 2007.

Growth in value added of the production of Government services moderated in 2006. The valued added of the sector is estimated to have increased by only 2.5 percent in comparison to the growth of 4.9 percent recorded during the preceding year. The slowdown could mainly be attributed to the outsourcing of facilities by Government.

1.2 Gross national income and gross national disposable income[4]

The latest national accounts data indicated that gross national income (GNI) at current market prices increased to N$38.4 billion in 2005 from N$36.7 billion in 2004, while gross national disposable income (GNDI) rose to N$42.7 billion in 2005 compared to N$41.0 billion in 2004. In real terms, GNI recorded a slight increase in growth to 2.7 percent during 2005 from 2.6 percent recorded in the preceding year. During the same period, GDP rose to N$38.6 billion from N$36.2 billion in the preceding year.

In Namibia, the GNDI has always been higher than the GDP. This trend continued during 2005, implying that Namibia received more income from the rest of the world than she had been paying to other countries. SACU transfers also continued to contribute significantly to GNDI, contrary to expectations that these transfers would decline when the new revenue-sharing formula comes into effect and trade liberalisation takes its toll. In 2005, at N$3.9 billion, SACU transfers remained more or less

[4] The analysis of this section is based on 2005 data because the data for 2006 is not yet available. The figures in this section are from the latest national accounts of 2005. Since revisions were made to figures in previous years, 2004 figures may not necessarily correspond with what was quoted in the Bank of Namibia Annual Report for 2005.

the same as in 2004, but increased significantly during 2006 due to windfall receipts that came as a result of the recalculations of previous customs collections from SACU as actual data became available. Huge imports by South Africa recorded during the year also contributed positively to the SACU revenue pool and, hence, to allocations to member countries.

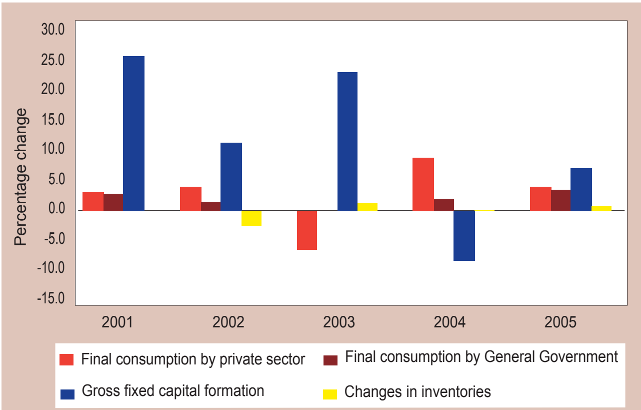
Real GDP per capita, a measure of the income per head of the country's population, increased slightly to N$9,275 in 2005 from N$9,092 the previous year. Likewise, real GNI per capita rose by 0.6 percent in 2005 to N$9,770 from N$9,710 recorded in 2004. This ordinarily would indicate that the standard of living for Namibians improved by N$183 in 2005. Although the level of per capita income in Namibia is still one of the highest in Sub-Saharan Africa, income distribution continues to be skewed. As a result, per capita income is still not a good measure of general wealth and development in Namibia. It is, therefore, encouraging to note that the Gini coefficient for Namibia fell from 0.7[5] to 0.6, according to the 2003/4 Namibia Household Income and Expenditure Survey. Nevertheless, a Gini coefficient of 0.6 is still beyond the threshold of 0.55, which indicates inequality.

1.3 Gross Domestic Expenditure[6]

Gross domestic expenditure (GDE), i.e. expenditure in the form of investment and consumption by residents, indicated an upward movement in 2005 from the level in 2004. In nominal terms, GDE increased by 8.1 percent to N$42.9 billion from the level recorded in 2004. Real GDE in 2005 also increased significantly by 6.0 percent compared to an increase of 2.5 percent in 2004. The expansion in real GDE in 2005 was mainly reflected in the category of investment expenditure, which is composed of gross fixed capital formation (GFCF) and inventories (Chart 1.5). Both categories showed upward movements of 7.6 percent and 1.1 percent, respectively, in 2005. The upward movement in real GFCF was reflected mainly in the private investment category, which rose by 8.4 percent compared to a decline of 13.3 percent recorded in 2004. It was observed that the investment expansion in 2005 was in the form of buildings (both residential and commercial), transport equipment and machinery, and other equipment. The public investment category also grew at a healthy pace of 5.3 percent during the same year, although slightly lower when compared to the level of 7.3 percent recorded in 2004.

Real consumption expenditure registered a slower growth of 4.1 percent in 2005 compared to 7.0 percent recorded in the previous year. The slow growth was observed in the sub-category of private consumption expenditure. Growth in real private consumption expenditure decelerated to 4.3 percent in 2005, from 9.4 percent in 2004. The slowed pace of growth in private consumption expenditure is unexpected in an environment of relatively lower inflation and interest rates, which is supposed to induce consumer spending due to higher household real purchasing power. Real public consumption expenditure, on the other hand, recorded an improved growth of 3.7 percent in the same year from that of 2.1 percent recorded in 2004 (Chart 1.5).

Chart 1.5 Components of real GDE



Source: CBS

The share of private consumption to GDP increased by 0.4 percentage points in 2005 to 58.4 percent from that for 2004, while the share of public consumption went down to 24.3 percent in 2005 from 25.3 percent in 2004. As reported in previous reports, household consumption in Namibia continued to be mainly focused on food, beverages and tobacco, while other goods such as clothing and footwear continued to take the smallest share of the income. Table 1.1 indicates that the share of income on food, beverages and tobacco increased to 41.3 percent in 2005 from 40.3 percent in 2004. The share of the category *other goods* increased slightly to

[5] The Gini coefficient is a widely accepted measure of income distributed. It can flactuate between 0 and 1 with 0 representing a completely equal distribution of income, and 1 a totally unequal distribution. An income distribution with a Gini coefficient above 0.55 is regarded as very unequal.

[6] The analysisof the section is also based on the 2005 data because the 2006 data is not yet available. Figures used in this section are from the latest preliminary national accounts of 2005, and since revisions were made to previous years. 2004 figures may not necessarily correspond with what was quoted in the Bank of Namibia Annual Report for 2005.

24.6 percent in 2005 from 24.3 percent in 2004. The allocation of expenditure on other services went up slightly to 15.7 percent during 2005 compared to 15.5 percent during the preceding year. The portion allocated to clothing and footwear, on the other hand, declined to 4.3 percent in 2005 from 6.0 percent in 2004. From the above, it is clear that Namibians continue to spend much of their income on basic necessities, i.e. food, a situation that is typical for most developing countries.

Going forward, real final consumption is forecast to grow by 3.8 percent in 2006 and 3.7 percent in 2007, mainly on account of a moderate increase in private consumption, which is forecast to grow with the inflation rate. Real investment is forecast to contract by 6.3 percent in 2006, before expanding by 12.5 percent in 2007.

Table 1.1 Household consumption by purpose, (percentage shares)

Consumption purposes	2001	2002	2003	2004	2005
Food, beverages and tobacco	35.9	39.7	38.2	40.3	41.3
Clothing and footwear	4.3	6.4	6.6	6.0	4.3
Housing, water, electricity and fuel	13.8	13.6	14.0	13.8	14.0
Other goods[7]	31.4	24.8	24.4	24.3	24.6
Other services[8]	14.7	15.5	16.8	15.5	15.7
Household consumption on the domestic market	**100**	**100**	**100**	**100**	**100**

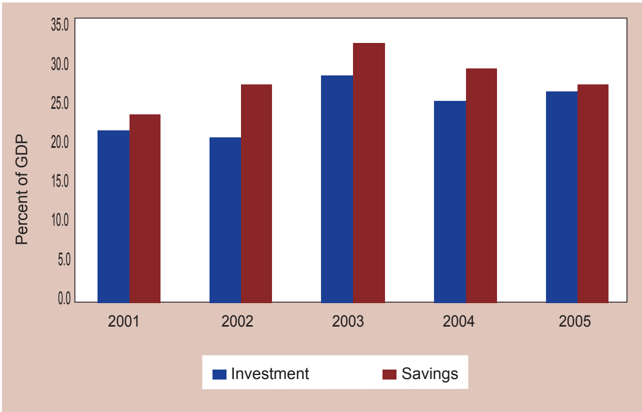
Source: CBS

1.4 Savings and Investment Balance[9]

Namibia continued to experience a position of excess savings over investment, which has been reflected by consistent surpluses on the current account and outflows on the capital and financial accounts of the country's balance of payments.[10] The same situation prevailed in 2005 (Chart 1.6). Namibia's gross national savings decreased slightly by N$0.1 billion to N$10.8 billion during 2005 from N$10.9 billion recorded in the previous year. The level of savings in 2005 represents a ratio of 28.0 percent of GDP in 2005 compared to 30.1 percent in 2004. The decline in savings for 2005 was reflected in gross private sector savings, which contracted to N$9.3 billion during 2005 from N$9.6 billion in 2004. Gross public sector savings, on the other hand, increased slightly to N$1.5 billion in 2005 from N$1.4 billion recorded in the preceding year. GNDI increased by about 4.0 percent in nominal terms during 2005, while final consumption expenditure rose by about 5.8 percent in the same period. As a result, the ratio of final expenditure to GNDI increased to about 74.8 percent in 2005 from 73.4 percent in 2004. The growth in consumption expenditure relative to GNDI could explain the slight decline in national savings.

Gross investment increased to N$10.4 billion in 2005, from N$9.4 billion in 2004. This increase reflects a relatively high level of major investments in the mining and finance, real estate, business services, and the transport and communications sectors. The result has been a narrower gap of N$0.3 billion excess saving compared to N$1.5 billion in the previous year. The existence of this gap confirms the decrease in capital outflows, especially to South Africa, as seen on the country's balance of payments.

Chart 1.6 Savings and investment



Source: CBS

1.5 Inflation

Like other net oil-importing countries, Namibia was confronted by the challenge of stronger inflationary

[7] Leather products, wood products, radios, televisions, watches, clocks, furniture, paper products, chemicals, rubber, plastic products, glass, glass products, fabricated metal products, household appliances and equipment, electricl apparatus and equipment and other unspecified goods and equipment.

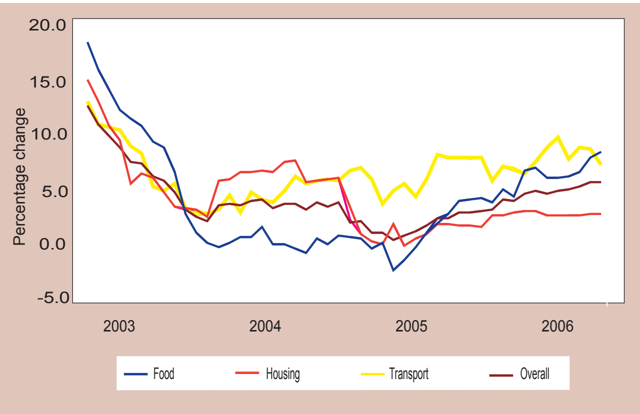
[8] Repair, lodging, food, beverages, sanitation, transport, postal, telecommunications, financial, Government, social , personal ,and domestic services.

[9] The analysis of this section will also focus on developments in 2005, for the same reasons mentioned in the preceding section.

[10] The balance between domestic savings and investment reflects the country's foreign savings position. Excess saving would lead to lending to other countries, reflected by an outflow of capital, while a deficiency in national saving would lead to an import of capital through foreign borrowing.

pressures due to rising and volatile international oil prices. The year started off with an annual inflation rate of 3.6 percent in January, rising to 4.6 percent in March, and further to 5.3 percent in June before rising again to reach the highest level of 6.1 percent, by December 2006. This resulted in an average inflation rate of 5.1 percent for 2006. The average inflation rate is much higher than the rate of 2.2 percent recorded in 2005. The increase has been as a result of the rise in the price indices of the *Transport* category due to hikes in fuel prices as well as the category *Food and non-alcoholic beverages* and *Housing, water, electricity, gas and other fuels* (Chart 1.7). To contain prices and to prevent second-round effects of oil price inflation, the Bank of Namibia significantly tightened monetary conditions by increasing its policy rate by 200 basis points during 2006.The annual rate of inflation for 2007 is forecast at around 6.0 percent.

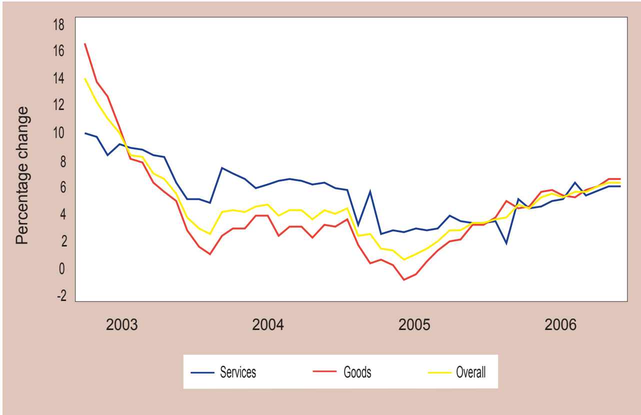
Chart 1.7 Inflation (annual changes)



Source: CBS

Breaking down inflation into goods and services inflation showed that, for 2006, goods inflation was 5.2 percent on average, which is significantly higher than an increase of only 1.4 percent recorded at the same time during the preceding year (Chart 1.8). The increased goods inflation rate emanated mainly from the food and non-alcoholic beverages category, which rose to 6.5 percent during the review period from 1.5 percent during 2005. Likewise, services inflation went up by 1.5 percentage points to reach 4.8 percent during 2006. Some of the service components that increased were education; recreation and culture; transport and housing, water, electricity, gas and other fuels.

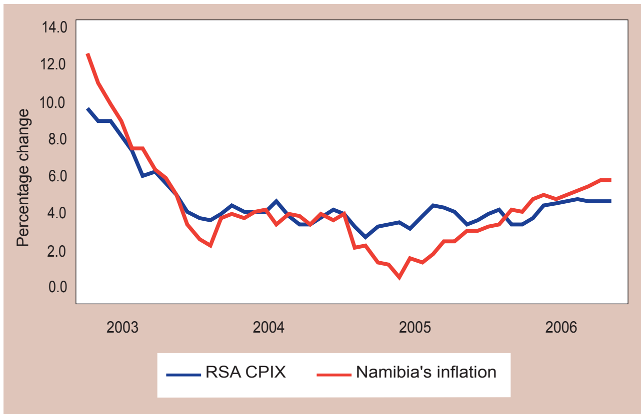
Chart 1.8 Goods and services inflation



Source: CBS

In South Africa, the CPIX also trended upwards during the same period, though it remained lower than the NCPI (Chart 1.9). South Africa's CPIX rose from 4.3 percent in January to 4.9 percent in June, and reached 5.0 percent in December 2006. The result of these developments was an average inflation rate of 4.6 percent for the CPIX during 2006 compared to an average rate of 3.9 percent during 2005. As in Namibia, the rise in the CPIX index was attributed to firm demand and to fuel price increases witnessed during the year.

Chart 1.9 Namibia's inflation vs RSA's CPIX

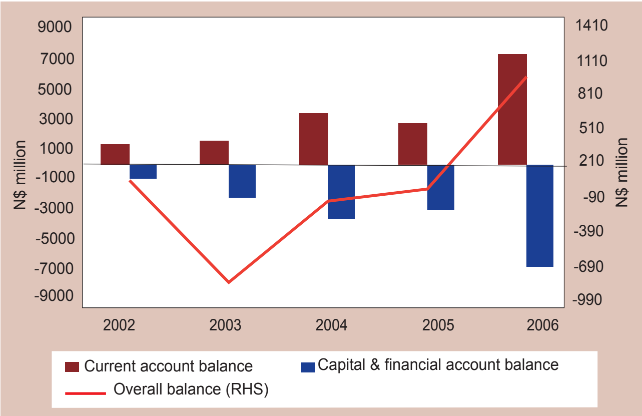


Source: CBS and SARB

Chapter 2 Foreign Trade and Payments

The year 2006 saw a mixed performance by the external sector, with some sub-accounts improving and other deteriorating. The balance of payments recorded a substantial surplus of N$1,078 million when compared to that of N$14 million during 2005. The continuous surplus[11] in the overall balance of the balance of payments is a direct result of the significant current account surplus recorded over the period (Chart 2.1). Namibia became a net exporter during 2006, and consolidated the effect of the significant increase in SACU receipts on the current account.

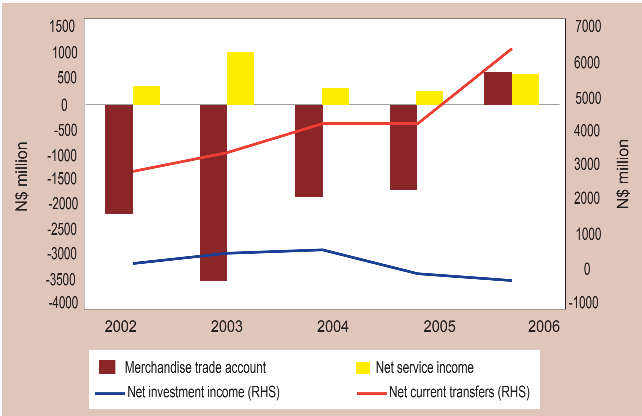
Chart 2.1 Balance of payments (major accounts)



2.1 Current account

The surplus on Namibia's external current account surged strongly in 2006 due to a record high in export earnings and SACU receipts. The current account surplus in 2006 amounted to N$7.8 billion, an improvement over the N$2.8 billion recorded in 2005 (Chart 2.2). The current account surplus in 2006 represented 18.3[12] percent of GDP, much higher than the 7.1 percent recorded in 2005. The improvement observed in the current account surplus was mainly due to current transfers, mainly SACU receipts that recorded a significant increase, year-on-year. Namibia having become a net merchandise exporter in 2006 to the tune of N$0.7 billion compared to being a net importer in many years and the rise in net inflow in services during the year also contributed to the realisation of the substantial current account surplus. While this is a positive development on the external sector, in order to maintain a sustainable current account balance the country should continue devising strategies to promote exports, since SACU receipts, traditionally responsible for the current account surplus, are expected to decline in the medium to long term due to the expected reduction in tariffs on imports, given the free trade agreements between member countries and the rest of the world. Furthermore, the expected Southern African Development Community (SADC) free trade area by 2010 would also have a similar impact.

Chart 2.2 Current account sub-accounts



Observations on the merchandise trade account reflect that Namibia became a net exporter during 2006, recording a surplus of N$0.7 billion. The slightly faster growth in the value of exports, compared to that of imports, contributed to the surplus. This outcome was mainly on account of high commodity prices and a competitive exchange rate for export-oriented industries such as diamonds and other minerals[13]. Though this is a big improvement over a deficit recorded in 2005, it might not be a permanent outcome, and the need to add value to merchandise exports still remains a challenge in Namibia.

11 The surpluses realised in 2005 and 2006 followed a huge deficit of N$862 million in 2003 and a smaller deficit of N$88 million in 2004. The huge deficit in 2003 was on account of a decrease in export earnings caused by the appreciation of the Namibia Dollar, and the liquidation of an offshore diamond company during the previous year.

12 The higher ratio is due to a significant increase in the current account surplus relative to the increase in nominal GDP.

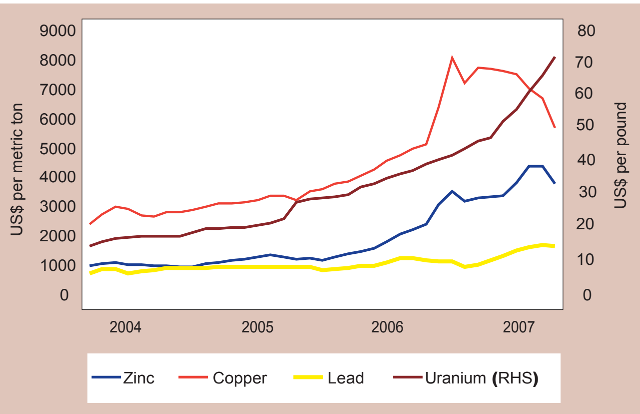
13 This includes exports of copper, gold, unprocessed zinc and lead, etc.

The value of imports and exports were estimated to have grown by 17.0 percent to N$17.3 billion and by 37 percent to N$18.0 billion, respectively. On the export front, it can be noted that apart from the category *Other commodities*[14], export values of all other categories, namely, *Manufactured products*, *Other minerals*, *Diamonds* and *Food and live animals* rose. This has been mainly a result of prevailing high international commodity prices, i.e. the terms of trade moved significantly in Namibia's favour.

The value of manufactured products exported increased by 59.3 percent during the year, recording a total value of N$5.0 billion. This increase was a direct result of relatively high prices for refined zinc, which was further supported by a weakening currency and the zinc refinery reaching full production capacity. The export receipts of other sub-components of manufactured products, like beer and soft drinks, and some processed fish increased at a slower pace in 2006. This slowdown slightly moderated the growth in the overall category.

Mining output continued maintaining the significant role in terms of, amongst others, generating foreign exchange earnings for the country. During 2006, the performance of mineral exports was remarkable due to the improved international mineral prices (Chart 2.3). Diamond exports remained the key export commodity for Namibia, although this category recorded a relatively lower growth of 35.9 percent, to N$7.3 billion during 2006. Exports of other minerals, on the other hand expanded significantly by 83.6 percent to N$3.2 billion during 2006 from the N$1.8 billion recorded during 2005, on account of very high international mineral prices.

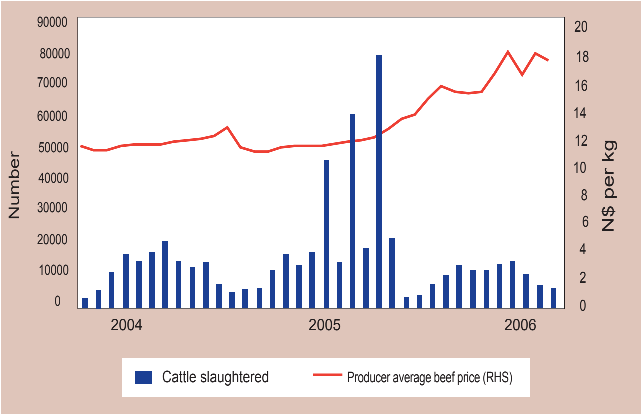
Chart 2.3 Selected mineral prices



Source: IMF

The export value of food and live animals rose by 9.3 percent. Despite the policy of the Ministry of Agriculture, Water and Rural Development to curb the export of live animals, the increase in the value of exports of the *live animals* sub-category came as a result of high export prices. Higher export prices were driven by higher demand in South Africa, as well as higher world market prices due to supply constraints by the main beef exporting countries of Brazil, Australia and Argentina (Chart 2.4).

Chart 2.4 Number of cattle slaughtered for exports and prices



Source: Meat Board of Namibia

Namibia recorded a net export in services of N$626 million in 2006 compared to a smaller surplus of N$277 million in 2005. The rise in the value of net export of services was mainly attributed to the increase in inflows paid for services offered by locally based operators, in particular transportation services[15]. The net inflow in the sub-category travel, mainly for leisure and business, however, continued dominating the overall outcome due to increased tourist arrivals during 2006. The strong growth in tourism seemingly caused receipts from airfares to improve, as did income generated from services rendered in the form of catering and cargo handling on behalf of non-resident airlines. Inflows for transportation services rose to N$691.3 million in 2006 from N$142.6 million in 2005.

Investment income, a substantial source of income for Namibia, recorded a net inflow of N$122 million during 2006 compared to a net outflow of N$79 million during the previous year. This outcome was realised because of a robust performance of the South African financial

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14 This includes exports of products such as hides and skins, and karakul wool and pelts.
15 These are mainly in form of airfares, catering services used by airlines, cargo handling, fuelling, etc.

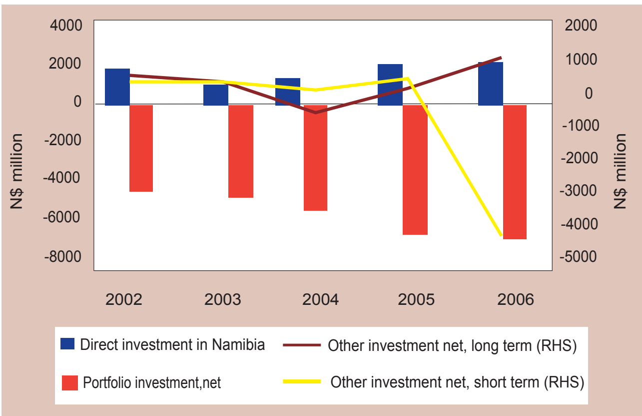
market, the main investment destination for Namibian investments. The net receipts resulted mainly from a significant increase of 12.9 percent in investment income received, while income paid declined by 0.5 percent. The rise in investment income received was caused by the significant increase of 19.2 percent in income received on portfolio investment in South Africa and offshore[16], which offset the payments on direct investment in Namibia.

As usual, net current account transfers recorded a surplus due to inflows under Government transfers. Recording a surplus of N$6.5 billion, current transfers were up by 51.7 percent when compared to the level recorded in 2005, on account of an increase in SACU receipts that rose by 54.5 percent to N$6.1 billion. The rise in transfers paid into the SACU pool moderated the increase in the net current account transfers sub-account, given the growth in Namibia's contribution to the pool of 5.6 percent to N$264 million.

2.2 Capital and financial account

The deficit on the capital and financial account widened to N$6.8 billion in 2006 from N$3.1 billion in 2005, representing an increase of N$3.7 billion. In relation to GDP, it increased from 8.1 percent to 15.9 percent. Mainly responsible for this development was the strong expansion of outflows of the category *Portfolio investments* (e.g. debt and equity) and that of *Other short-term investments,* mainly loans (Chart 2.5).

Chart 2.5 Capital and financial account



Foreign direct investment into Namibia, which is made up of equity capital, reinvested earnings and other capital, remained constant at N$2.2 billion during 2006 when compared to 2005. The unchanged level resulted from an offsetting effect between the components of the sub-account all of which recorded substantial growth in opposite directions. Equity capital, an instrument indicating equity investment in Namibia by foreign direct investors, increased substantially from N$1.2 billion in 2005 to N$2.6 billion in 2006. Outflows in *other capital* also rose to N$1.4 billion from that of N$250 million in 2005. *Reinvested earnings* on the other hand declined, year-on-year, by N$269 million to N$1.0 billion. The developments in the components of equity capital and reinvested earnings of the foreign direct investment in Namibia suggest that subsidiaries in Namibia funded most of their operations by issuing more equity to non-residents than retaining profits. However, the rise in other capital outflows during 2006 shows that non-resident parent companies raised more funds from their subsidiaries in Namibia.

The net outflow in portfolio investment, which is a key sub-account of the capital and financial account for Namibia, increased by 1.3 percent during 2006 to record a level of N$6.7 billion from the level in 2005. The expansion in this sub-account was mainly reflected in the assets in the form of debt instruments, which recorded a growth of 12.7 percent. Excess Namibian savings still flow out in the form of portfolio investment, reflecting mainly the preference of resident investors to invest abroad, especially in South Africa. Although the outflow of funds for investment purposes could have a positive side, given the investment income generated for the country, it would appear to also indicate a lack of attractive investment opportunities in Namibia, underscoring the urgency for financial sector deepening.

Net inflows of N$1.3 billion were recorded for other long-term investment, up by N$1.1 billion on this sub-account from the figures for 2005. Other long-term investments are dominated mainly by long-term loans and reflect drawings and repayments on such loans. While net inflows for both *General Government* and *Banks* continued in 2006, rising by N$31 million and N$474 million, respectively, other sectors turned to net inflow from net outflow positions. This development contributed to the increase in net inflows for this sub-account. An increase in net inflows might be a positive development for the country, provided the loans are for investment expansion.

[16] Offshore in this case refers to investment locations outside the Common Monetary Area.

Other short-term investment, mainly reflecting loan transactions between resident banks and non-resident parent companies, increased substantially during 2006. This sub-account recorded a net outflow of N$4.3 billion compared with the net inflow of N$489 million recorded in 2005. This switch to net outflow was reflected in the significant net outflow for banks of N$3.8 billion, stemming mainly from increased excess liquidity experienced during the second half of 2006 (reported under monetary statistics chapter herein).

The afore-mentioned developments in the current and capital and financial accounts resulted in a relatively high surplus in the balance of payments (Table 2.1). The overall balance of the balance of payments recorded a surplus of N$1.1 billion, which is significantly higher when compared to the surplus of N$14 million in 2005 (Chart 2.6). This also resulted in an improved level of foreign exchange reserves to N$2.9 billion. The level of reserves in 2006 represents 1.9 months of import cover, higher than the 1.3 months recorded in 2005. This increase was mainly attributed to the substantial windfall the Government received from SACU, as well as to the foreign exchange proceeds of the partial privatisation of a mobile telecommunication company.

Chart 2.6 Stock of international reserves and import cover

Some of the reasons for holding reserves are to provide backing for the issue of domestic currency, as per the Common Monetary Area (CMA) agreement, and to enable the funding of international transactions. Reserves are also held to serve a host of other objectives, including maintaining confidence in the country's monetary and exchange rate policies and confirming to the international community that the economy is resilient to external shocks. In this connection, it is worth noting that Namibia's current level of reserves is more than sufficient to meet its CMA obligations and to support the currency peg.

Table 2.1 Balance of payments aggregates (N$ million)

	2002	2003	2004	2005	2006(p)
Current account balance	**1,341**	**1,537**	**3,439**	**2,748**	**7,825**
Merchandise export	11,278	9,463	11,761	13,149	17,958
Net service	390	1,051	352	277	626
Net investment income	252	531	639	-79	122
Net current transfer	2,895	3,467	4,304	4,262	6,466
Capital and financial account balance (excluding reserves)	**-1,021**	**-2,254**	**-3,680**	**-3,114**	**-6,812**
Net capital transfer	429	510	498	505	573
Direct investment in abroad	57	79	143	80	80
Direct investment into Namibia	1,912	1,125	1,459	2,213	2,216
Net portfolio investment	-4,442	-4,792	-5,430	-6,639	-6,725
Net other long term investment	613	418	-501	238	1,320
Net other short term investment	410	406	151	489	-4,277
Net errors and omissions	**-221**	**-144**	**153**	**380**	**66**
Overall balance	**98**	**-862**	**-88**	**14**	**1,078**
Reserve assets	**-98**	**862**	**88**	**-14**	**-1,078**

(p) provisional

2.3 External debt[17]

At the end of 2006, the total stock of foreign debt for Namibia was estimated at N$5.6 billion, which represents a decrease of N$2.9 billion when compared to 2005 (Table 2.2).

The decline in the stock of outstanding foreign debt at the end of 2006 was caused mainly by private sector debt stock, in particular export processing zone (EPZ) companies, which fell to N$1.6 billion from N$5.2 billion during the previous period. Though the outstanding stock of Central Government debt and that for parastatals rose, the magnitudes were not significant enough to offset the effect of the decline in the stock of private sector debt outstanding.

N$220 million during 2006, up from N$157 million during 2005. *Private sector* debt service, on the other hand, declined to N$2.4 billion from N$3.3 billion over the same period. Similarly, debt service of the category *Parastatals* decreased over the same period to N$34 million from N$453 million. Debt service represented 15.0 percent of merchandise exports in 2006, which is significantly lower than the 30 percent recorded in 2005 [19]. The decline was caused by both the rise in merchandise exports and the fall in debt service.

2.4 International investment position

The international investment position (IIP) recorded a net asset position at the end of 2006. The net asset position at the end of 2006 was higher than that for 2005

Table 2.2 Namibia's total foreign debt (N$ million)

	2005		2006			
	Q3	Q4	Q1	Q2	Q3	Q4
Foreign debt outstanding	**5,227**	**8,538**	**9,199**	**6,216**	**6,113**	**5,632**
Central Government	1,951	2,000	1,843	2,381	2,676	2,300
Parastatals	1,308	1,349	1,334	1,442	1,510	1,429
Private sector	1,968	5,189	6,022	2,393	1,927	1,629
Foreign debt services[18]	**1,778**	**595**	**648**	**570**	**688**	**793**
Central Government	22	54	29	46	95	51
Parastatals	410	19	25	5	3	1
Private sector	1,347	522	594	519	590	740
Percentage						
Outstanding debt Q-on-Q	53.0	63.0	7.7	-32.4	-1.7	17.4
Debt service Q-on-Q	177.7	-66.5	8.9	-12.0	20.7	-7.6
Debt service to exports FoB	58.4	15.9	16.6	13.2	14.5	12.6
Memorandum						
Exports FoB	3,046	3,734	3,900	4,315	4,696	5,047

Source: BoN and Ministry of Finance (MoF)

In line with the fall in debt stock, there was a decline in the flow in debt service during 2006 when compared to 2005. Debt service fell to N$2.7 billion in 2006 from N$4.0 billion in 2005. The category *Private sector* contributed to the decline in total debt service, while the *Central Government* debt service and that for *Parastatals* moderated the decline. The *Central Government debt service* rose to

as it stood at N$14.5 billion, representing an increase of N$10.7 billion from the position at the end of 2005 (Table 2.3). A substantial increase in foreign assets, especially the *Portfolio* sub-category, caused the rise in the net asset position at the end of 2006. A net asset position shows the magnitude by which the rest of the world is indebted to the Namibian economy. However,

[17] In this section, external debt comprises that of Central Government, parastatals and the private sector. Figures are preliminary except for Government and are subject to change when actual data becomes available.

[18] Debt service data referred to in the text are cummulative over four calendar quarters.

[19] Debt service as a percentage of merchandise exports is a good measure of the level of serviceable debt.

it is important to point out that, apart from the category of *Portfolio investments*, Namibia is indebted to the rest of the world in other forms of investment, namely direct investments and other investments. Nonetheless, this is a positive outcome, since these types of investments are of a longer-term nature and contribute to economic growth. Furthermore, there is no danger of a quick reversal of flows during times of financial or currency crisis as could be the case with portfolio investment.

As stated above, local investors continued to be attracted to invest in portfolio instruments in the South African and offshore markets. As a result, Namibia's foreign assets were estimated to have increased to N$41.5 billion at the end of 2006, from N$29.8 billion at the end of 2005. Over this period, the stock of portfolio investment assets was estimated at N$31.2 billion (2006), up from N$25.9 billion (2005). Some improvements were also observed in the foreign asset positions of the categories *Direct investment*, *Other investments* and *International reserves* over the same period (Table 2.3).

On the liability side, the category *Direct investment into Namibia*, supported by that of *Other investments*, continued to influence developments on the stock of Namibia's foreign liabilities (Table 2.3). The stock position on the liability side stood at N$27.1 billion at the end of 2006 compared to N$26.1 billion at the end of 2005. The rise observed in the position at the end of 2006 was mainly driven by the category *Direct investment in Namibia*, which increased to N$19.4 billion from N$15.5 billion at the end of 2005.

2.5 Exchange rates[20]

The Namibia Dollar depreciated against global trading currencies like the US Dollar, Pound Sterling and the Euro during 2006, mainly on account of the strengthening of these currencies against the South African Rand. The depreciation was slow at the beginning of the year, but started accelerating during the second half of the year (Chart 2.7).

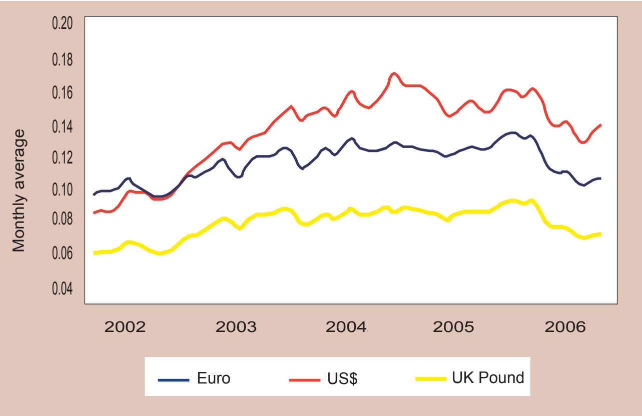
Table 2.3 International Investment Position (N$ million)

	2005				2006(p)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Assets	27,410	26,845	31,461	29,840	35,791	40,622	44,551	41,513
Direct investment abroad	236	259	106	162	198	796	852	51
Portfolio investment	22,476	22,738	27,803	25,901	30,895	34,479	37,204	31,192
Other investment	2,912	2,103	1,935	1,916	2,445	2,853	3,618	7,331
International reserve	1,786	1,744	1,617	1,861	2,253	2,494	2,877	2, 939
Liabilities	24,653	26,338	21,085	26,083	27,908	26,123	26,112	27,065
Direct investment in Namibia	17,070	17,853	14,049	15,518	16,195	16,918	18,052	19,416
Portfolio investment	387	387	387	585	584	584	584	584
Other investment	7,196	8,098	6,649	9,981	11,129	8,621	7,476	7,065
Net asset (+)/Liability (-)	2,757	507	10,376	3,757	7,883	14,499	18,439	14,448

(p) provisional

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

Chart 2.7 Foreign currencies per Namibia Dollar



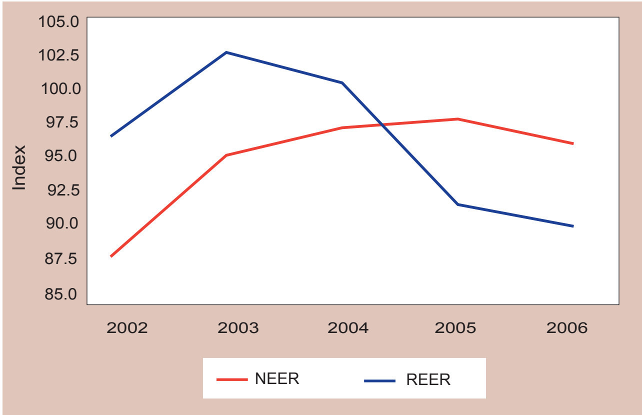
The Namibia Dollar depreciated, year-on-year, in 2006, against the US Dollar, the Pound Sterling and the Euro by 5.5 percent, 6.3 percent and 6.1 percent, respectively. The strengthening of these currencies against the Rand was mainly ascribed to the widening merchandise trade deficit experienced by South Africa during 2006, which caused increased demand for foreign currency, which, in turn, put pressure on the local currency. This has a direct impact on the Namibia Dollar, given the one-to-one peg with the South African Rand.

2.6.1 Trade-Weighted Effective Exchange Rate[21]

The nominal effective exchange rate (NEER) index depreciated during 2006 by 1.8 percent against major trading partners, mainly on account of a weaker Namibia Dollar during the period, causing the index to fall marginally from 97.8 in 2005 to 96.1 in 2006 (Chart 2.8)

The real effective exchange rate (REER) index also declined: it dropped to a level of 90.4 points in 2006, compared to its level of 91.9 points in 2005 (Chart 2.8). This implies that the competitiveness of Namibian products in international markets improved year-on-year.

Chart 2.8 Trade Weighted Effective Exchange Rate Index



[21] The index is based on a geometric formula and the exchange rate is defined indirectly. The nominal effective exchange rate (NEER) index is a trade weighted index of the nominal exchange rate of the Namibia Dollar against the currencies of Namibia's major trading partners, namely the Rand, Pound Sterling, Yen, US Dollar and Euro. The real effective exchange rate (REER) index on the other hand takes the NEER and deflates it with the relative consumer price index, that of Namibia and that of the above-mentioned trading partners.

Bank of Namibia

Research Department

Revision Policy: Balance of Payments

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 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 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.

Revision on the Annual Balance of Payments Data for 2005

The balance of payments data as disseminated to the public each year is subject to revision. As highlighted above in the revision policy on balance of payments, this is due to the nature of the source of data and compilation practice. In light of this, certain items as published in the Annual Report of 2005 are revised in this publication (Table 2.1). This notice, however, only reflects items on which the revisions resulted in significant changes.

Table 2.1 Revision for 2005 data (N$ million)

Item	Annual Report 2005	Annual Report 2006	Discrepancy
Current Account			
Services, net	412	277	-135
Investment income, net	248	-79	-327
Capital and Financial Account			
Portfolio investment, net	-5 511	-6 639	-1 128
Other investment long-term, net	-65	238	303
Other investment short-term, net	172	489	317

On the current account, a downward revision was made to the sub-categories ‘services net’ and ‘investment income net’. The revision on services resulted from the travel sub-item that was revised downwards. This was done after obtaining additional information on the expenditure incurred by residents travelling abroad. As for the investment income, the impoved coverage on portfolio investment and improved response rate on foreign direct investment contributed to revision.The afore-mentioned reasons on investment income also caused the reported changes on the sub-categories under capital and financial account.

CHAPTER 3 MONETARY AND FINANCIAL MARKET DEVELOPMENTS

The low-interest environment that prevailed during 2005 continued during the first half of 2006, before the Bank rate was increased by 200 basis points during the second half of the year. This means that the cost of borrowing remained unchanged during the first half of the year, before moving in tandem with the increased Bank rate during the latter half of 2006. As a result of the rise in interest rates, growth in domestic credit extension by the banking system moderated somewhat during the second half of the year.

Table 3.1 Terminology between the Old and New Framework of Monetary and Financial Statistics

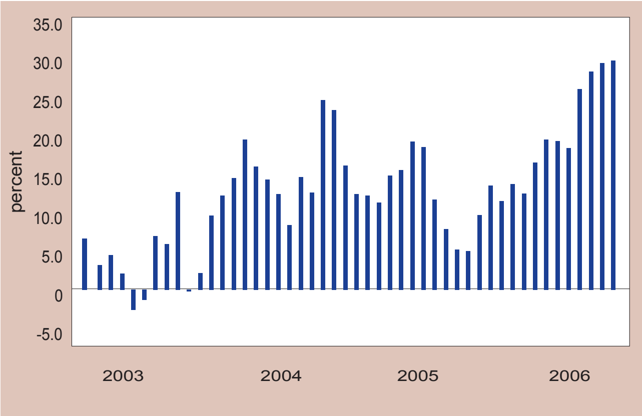
In 2003, the Bank of Namibia implemented the IMF's Monetary and Financial Statistics Manual (MFSM) for the compilation of monetary and financial statistics. This was a change from the old Guide to Money and Banking Statistics in International Financial Statistics, which was used by the Bank prior to 2003. As a result of this change the terminology also changed, as shown in the table below:

Old Terminology	MFSM (New Terminology)
Banking Survey	Depository Corporations Survey (DCS)
Financial Survey	Financial Corporations Survey (FCS)
Deposit Money Banks (DMBs) and Other Banking Institutions (OBIs)	Other Depository Corporations (ODCs)
Non-bank Financial Institutions (NBFIs)	Other Financial Corporations (OFCs)
Capital: net worth	Shares and other equity
Non-financial Public Enterprises, or State Enterprises	Public Non-financial Corporations
Credit to Individuals	Claims on other resident sectors
Credit to Businesses	Claims on other Non-Financial Corporations
Time and Savings Deposits	Other Deposits
Demand Deposits	Transferable Deposits
All sectors excluding Central Government	Other Sector

3.1 MONEY SUPPLY

Growth in broad money supply increased slightly to an average of 14.6 percent during the first six months of 2006, from an average of 14.3 percent recorded during the first half of the preceding year. The increase was mainly driven by the rising net foreign assets of the depository corporations, while domestic credit moderated the growth by slowing down. During the second half of 2006, broad money supply growth accelerated noticeably to a double-digit average of 25.2 percent from a lower average of 9.7 percent during the second half of 2005. The growth in M2 during the second half of 2006 was again driven by net foreign assets as growth of domestic credit slowed.

Chart 3.1 Twelve-month growth rates in broad money supply



In relation to total deposits, the share of transferable deposits increased to 59.4 percent at the end of 2006 from 52.3 percent at the end of the previous year. The rise in the transferable deposits of the other non-financial and other resident sectors mainly contributed to this increase. On the other hand, the share of other deposits to total deposits declined to 40.6 percent in 2006, from 47.7 percent at the end of 2005. This suggests that the preference for liquidity by the public had increased during the same period under review.

3.1.1 Net domestic credit

The average annual growth rate of net domestic claims, comprising other sectors and the net claims on the Central Government, slowed to 19.0 percent during the first half of 2006, compared to an average annual growth of 20.3 percent recorded during the corresponding period of the preceding year. It further slowed to 14.2 percent during the second half of the year, from 20.3 percent recorded during the second half of 2005. Accordingly, the average growth of net domestic claims for 2006 slowed remarkably, to 10.6 percent, from 21.3 percent recorded in 2005. It should, however, be noted that the deceleration in the domestic claims is mainly attributable to a strong decline in net claims on the Central Government during the second half of the year, while claims on other sectors moderated the slowdown by recording a moderate growth during the same period.

Net claims on the Central Government by depository corporations increased strongly by an average of 148.8 percent during the first half of 2006, before revising the trend by recording a decline of 115.4 percent during the second half of the year. The comparative figures were an increase of 177.2 percent during the first half of 2005 and 63.7 percent during the second half of the same year. As a result of the above developments, growth in net claims on the Central Government slowed by 16.7 percent during 2006 compared to an average growth of 120.4 percent during the previous year. The lower growth in net claims on the Central Government is a result of the reduced availability of short-term instruments (Treasury Bills)[22] that was observed during 2006, due to Government's lower net borrowing requirement. Also, Government was liquid over the same period, as was reflected by the State account with the Bank of Namibia having increased by 83 percent in 2006 from its level in 2005.

Claims on other sectors, on the contrary, grew by 20.2 percent during the first six months of 2006 and by an average of 20.1 percent during the second half of the year. This resulted in an annual average of 20.2 percent in 2006, compared to 19.5 percent in the previous year. The higher pace of growth in the claims on other sectors was reflected in the credit extended to other non-financial corporations (businesses), while other resident sectors (individuals), registered a lower growth.

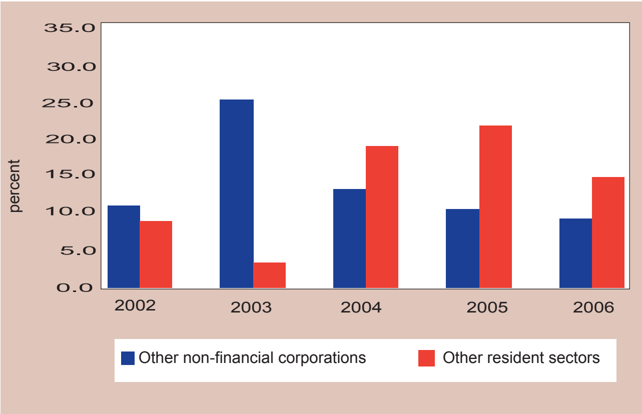
The annual growth rate of claims on other resident sectors slowed to an average of 23.5 percent during the first six months of 2006, from 24.1 percent recorded during the corresponding period of the preceding year. During the second half of 2006, growth in claims on other resident sectors slowed further to 18.9 percent compared to 27.4 percent during the corresponding period of the preceding year. Consequently, other resident sectors recorded a slower average annual growth rate of 21.2 percent, when compared to the 25.7 percent registered in 2005.

Claims on other non-financial corporations, on the other hand, grew by 12.4 percent during the first half of 2006, higher than the 10.5 percent registered during the corresponding period of the preceding year. During the second half of 2006, claims on other non-financial corporations grew further by 14.6 percent, also higher than the 7.4 percent recorded for the same period of the preceding year. As a result, the average annual growth in claims on other non-financial corporations increased to 13.5 percent during 2006 from 8.9 percent in 2005.

[22] This is the market in which ODCs mostly participate, and the reduced availability of these instruments led to reduced borrowing by Government from the ODCs.

The above developments indicate that, while the other resident sectors seem to have reacted to the increasing interest rates during the year, the impact of these developments on the other non-financial corporations was minimal. This suggests that the prevailing level of interest rates is still viewed as being accommodative, and that businesses could still afford to borrow to finance their activities.

Chart 3.2 Claims of other depository corporations



An analysis in terms of asset-backed credit revealed that mortgage loans grew by 25.5 percent during the first six months of 2006 compared to 12.2 percent during the corresponding period of 2005. During the second half of 2006, mortgage loans rose by a further 26.2 percent, which is significant when compared to the 18.1 percent registered during the corresponding period of the preceding year. The increase during 2006 is an indication of high demand for residential dwellings despite the increase in interest rates. Instalment credit, which is mainly directed to financing expenditure on motor vehicles and durable goods, grew by 26.2 percent during the first half of 2006 compared to 19.6 percent during the corresponding period of the previous year. The second half of 2006 showed a slight slowdown to 19.7 percent in the growth of instalment credit, from the 21.2 percent registered during the second half of 2005. Other loans and advances[23], on the other hand, registered a slow growth of 4.2 percent during the first half of 2006 and a decline of 0.8 percent during the second half of the same year. The comparative growth rates for the corresponding period of the preceding year were a significant increase of 119.8 percent for the first half and 27.3 percent for the second half.

In terms of composition, mortage loans accounted for 48.7 percent of the claims on other sectors, followed by instalment credit and other loans and acvances at 16.5 percent and 14.4 percent, respectively. The share of mortgage loans in 2006 was slightly higher than the comparitive shares of 44.6 percent for the previous year., while the share of instalment credit for 2006 was lower than the 14.4 percent registered for the previous year. The increase in the share of mortgage loans implies that a bigger portion of bank lending to other sectors was directed to property financing, while only a small part went to productive sectors.

Sectoral distribution revealed that other resident sectors (individuals) and others continued to take the largest share of total claims on other sectors at 59.5 percent, followed by the commercial services sector at 31.2 percent. The comparative shares for 2005 were 56.7 percent for other resident sectors and others, and 29.9 percent for the commercial services sector. The combined credit extended to the building and construction sector, fishing, agriculture and manufacturing constituted the remaining 9.3 percent of the total other depository corporations claims. This is, however, a decline when compared to the 13.4 percent recorded for combined credit extended during the previous year.

An analysis of sectoral credit extension growth revealed that the manufacturing sector and other resident sectors and others increased their borrowings significantly by 32.0 percent and 17.4 percent, respectively, compared to a decline of 3.7 percent and an increase of 26.1 percent respectively, in 2005. Growth in borrowing by the commercial services sector remained moderated to 16.6 percent in 2006 from 39.9 percent in 2005. In contrast, growth in credit extended to the mining and quarrying sector declined significantly to 71.5 percent in 2006, from an increase of 42.1 percent in the preceding year. Credit extended to the other primary industries (agriculture and fishing) also declined significantly in 2006 (Table 3.1). This is not necessarily a negative development, since the mining and fishing sectors in particular source funds from outside the banking system to finance expansion activities, while extraordinarily high meat prices could explain the decline of credit extended to the agricultural sector. On the other hand, credit extended to the building and construction sector declined by 1.8 percent in 2006. This is, however, a significant improvement when compared to the huge decrease of 72.3 percent recorded in 2005.

[23] Other loans and advances consist of overdraft to individuals and corporate clients as well as structured finance deals (preference shares).

Table 3.1 Sectoral credit extension growth

Sectors	2004	2005	2006
Resident sectors and others	14.8	26.1	17.4
Commercial services	22.1	39.9	16.6
Building and construction	28.5	-72.3	-1.8
Fishing	-8.0	46.6	-35.7
Agriculture	22.9	35.1	-9.6
Manufacturing	-6.9	-3.7	32.0
Mining and quarrying	23.1	42.1	-71.5

3.1.2 Net foreign assets

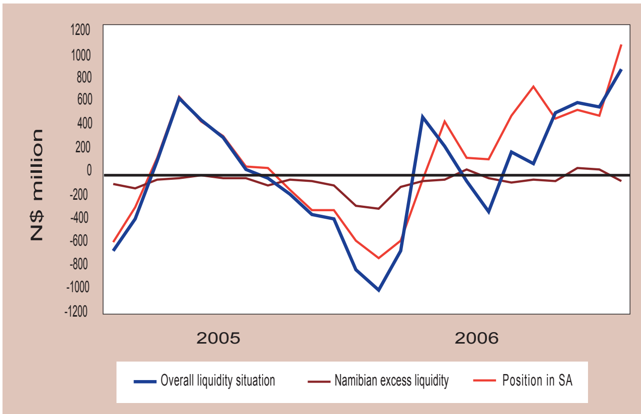
During the year ended December 2006, the net foreign assets of the banking system recovered significantly from the sharp decline recorded during the previous two years. It had declined by 17.2 percent during the first half of 2005, but grew by 311.2 percent during the first half of 2006. The same trend continued in the second half of 2006, when net foreign assets increased by 1300.8 percent compared to the decline of 79.5 percent recorded during the corresponding period of the preceding year. The recovery was marked by a turnaround in the ODCs' net foreign liabilities into net foreign assets. The turnaround was a result of ODCs' transfer of funds abroad in the form of deposits, resulting from the excess liquidity observed during the same period. Also, non-resident deposits with the local ODCs declined during 2006 and, thus, reduced the ODCs' liabilities to the non-residents. The Bank of Namibia's net foreign assets also contributed significantly to the growth in total net foreign assets, after it recorded an increase of 59.4 percent during 2006. The increase in the Bank of Namibia's net foreign assets could mainly be attributed to the rise in SACU inflows, as well as the proceeds received from the partly privatisation of one entity in the mobile communication industry during the same period. As a result, the net foreign assets for Namibian depository corporations reached an all-time high of N$4.8 billion in 2006.

3.2 Liquidity of the Banking System

The overall liquidity position of the other depository corporations, which constitutes the commercial banks' position with the Bank of Namibia as well as their positions in liquid accounts in South Africa, recorded a net short position at the beginning of 2006. This short position, however, reversed gradually and recorded an excess supply of liquidity in the second quarter of 2006 that continued until the end of the year. At the end of January 2006, the overall liquidity position recorded a net short position of N$790.6 million, which had then improved to a net short position of only N$302.6 million by the end of June 2006. At the end of 2006, the overall liquidity position of commercial banks recorded a significant excess supply of liquidity of N$1125.4 million.

The improvement in the overall liquidity position was dominated by the position in South Africa, which moved from a net short position of N$689.3 million at the end of January 2006 to a positive balance of N$233.5 million by the end of June. This excess supply position peaked at N$513.5 million at the end of September before ending the year at N$1166.3 million. The ODCs' position with the Bank of Namibia, on the other hand, remained negative during 2006, recording a shortfall of N$101.4 million in January 2006 before ending the year at an improved position of a shortfall of N$40.8 million (Chart 3.3).

Chart 3.3 Overall liquidity positions of ODCs

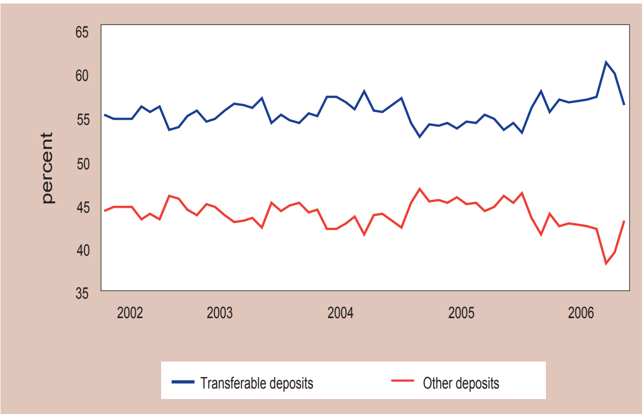


The excess supply of liquidity could be explained by the transfer of funds from the State Account into the internal registered stock redemption account created in March 2006, in which the funds are invested with the ODCs. Transfers made to this account increased gradually, leading to continued excess supply of liquidity in the market. By the end of 2006, the amount held with the ODCs on the bond's redemption account was over N$1.7 billion. Other factors, such as proceeds from trade and investments, also enhanced the observed liquidity during the year under review. The proceeds from the conclusion of the privatisation deal that saw a 34 percent of that company being sold to a foreign entity was one of the most noticeable amongst these. Government's borrowing strategy, which included a net redemption of Treasury Bills to the amount of at least N$630 million during the 2006/07 fiscal year, also made a significant impact on the observed liquidity situation.

3.3 Other depository corporations sources of funds

The total deposits of other depository corporations increased to N$25.5 billion by the end of 2006, from N$20.5 billion mobilised at the end of 2005. The upward movement in total deposits was reflected mainly in transferable deposits, which rose 29.8 percent higher in 2006 compared to the 10.2 percent rise recorded during the preceding year. Other deposits, on the other hand, moderated the growth in total deposits by recording a slow growth of 18.5 percent in December 2006, from a significant increase of 24.5 percent in December 2005 (Chart 3.4). The shift from other deposits to transferable deposits could be due to public expectations of further interest rate hikes that would allow easy movement of portfolios for higher-yield investments. Consequently, the share of transferable deposits in total deposits increased to 56.8 percent at the end of 2006 from 54.6 percent the preceding year, while the share of other deposits declined to 43.2 percent from 45.4 percent a year earlier.

Chart 3.4 Year-on-year composition of deposits of ODCs



The more rapid increase in transferable deposits compared with other deposits could be indicative of the liquidity preference of the general public and the disincentive to save amidst lower deposit rates. This situation is not desirable and could complicate the liquidity of the ODCs as they could be funding long-term borrowing with short-term funds. While maturity transformation is one of the fundamental characteristics of other depository corporations, care should nevertheless be taken to ensure that the balance sheet mismatch between issuing of short-term liabilities and creation of longer-term assets does not lead to financial instability. From the assessment of financial stability in the Banking Supervision and Financial Stability review in this report, this does not appear to be a problem.

3.4 Money market developments

3.4.1 Monetary policy developments

In line with its price stability objective, the Bank of Namibia started to tighten monetary conditions in the second half of 2006 to curb inflationary pressures. In total, the Bank of Namibia's Monetary Policy Management Committee increased the Bank rate by 200 basis points to 9.00 percent during the year under review. Consequently, other depository corporations increased their lending rates by the same magnitude. It is, however, discouraging to note that deposit rates were adjusted by much smaller margins, causing the spread between lending and deposit rates to increase.

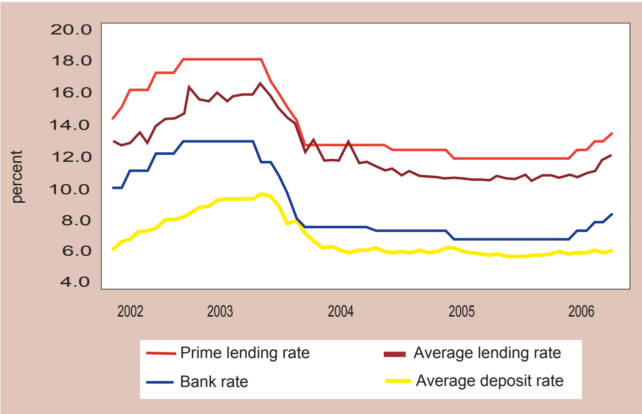
3.4.2 Interest rates developments

Lending rates of other depository corporations moved in tandem with the Bank rate during the period under review. The average nominal prime lending rate and mortgage rate of other depository corporations rose four times during 2006 (Chart 3.5). In June 2006, the average nominal prime lending rate was hiked by 50 basis points from 11.75 percent to 12.25 percent. The average nominal prime lending rate increased again in August 2006 by 50 basis points to 12.75 percent and again by a similar magnitude in October as well as December 2006, to reach 13.75 percent by the end of the period under review. In line with developments in the average nominal prime lending rate, the mortgage rate also increased by 50 basis points to reach 13.75 percent by the end of 2006. The rate charged on loans and advances (average lending rate) by other depository corporations rose by 15 basis points in June 2006, before increasing to 12.43 percent at the end of 2006.

Although deposit rates also increased during the same period, it is discouraging to note that they did not increase by the same magnitude as lending rates. For instance, despite the 200 basis point increase in lending rates, the average deposit rate moved by 76 basis points from 6.09 percent at the beginning of the year to 6.85

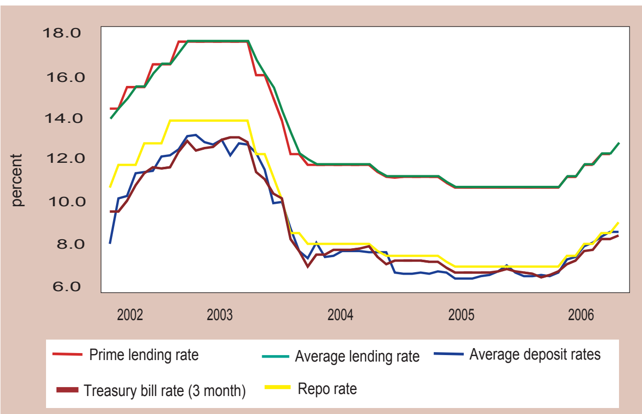
percent by the end of the year. As a consequence of the above, the nominal spread between lending and deposit rates increased from 4.37 percent at the beginning of the year to 5.58 percent by December 2006. In real terms, the average lending rate moved from 7.14 percent to 5.97 percent, while the average deposit rate moved from 2.50 to 0.71 percent during 2006. The real deposit rates, which are trending towards negative, are not desirable as this could discourage depositors from saving.

Chart 3.5 Selected interest rates (Namibia)



Due to Namibia's membership in the CMA, a comparison of the South African and Namibian economies is essential. In South Africa, the Repo rate increased by 200 basis points during the year under review to stand at 9.00 percent in December 2006. As a result, the average prime lending rate and the average lending rate moved from 10.5 percent at the beginning of the year to 12.50 by the end of December 2006. In line with these increasing trends, the South African average deposit rate rose from 6.71 percent in December 2005 to 8.57 percent in December 2006. Consequently, the nominal spread between the average lending rate and deposit rate narrowed to 3.93 percent from 4.29 percent in December 2005 (Chart 3.6).

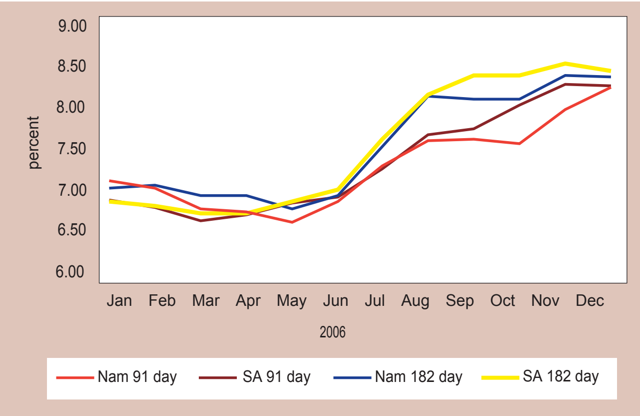
Chart 3.6 Selected interest rates (RSA)



It is worth noting that, while the average lending and average prime lending rates in South Africa (SA) were lower than in Namibia, the average deposits rates were higher in South Africa than in Namibia. The prime lending rate in Namibia stood at 13.75 in December 2006, whereas in South Africa it stood at 12.50 percent. This led to a spread of 1.24 percent between the two rates at the end of December 2006. The deposit rate in Namibia, however, was at 6.85 percent, whereas in South Africa it was 8.57 percent. Again, the above developments led to the nominal spread between these rates for the two countries to increase to 1.72 percent by the end of December 2006, from the 0.66 percent recorded at the end of 2005. This suggests that there could be inefficiency in the Namibian financial sector, as the size of the spread is one of the indicators of efficiency of financial intermediaries in the economy, with a higher spread indicative of relative inefficiency. The widening nominal spread between these rates does not augur well, given the desired convergence within the CMA, and the Bank of Namibia is therefore mindful of this situation.

The tightened monetary policy stance that prevailed from the second half of 2006 was also reflected in the cost of Government borrowing. For example, the average discount rate of Treasury Bills for Namibia increased from 6.90 percent at the end of 2005 to 8.36 percent by the end of 2006 (Chart 3.7). The average discount rates for SA Treasury Bills moved from 7.27 percent to 8.39 percent during the same period. It is worth noting that over the same period, average discount rates for T-Bills in Namibia were lower than in South Africa despite similar interest conditions in the two countries. The divergence in the rates could be attributed to an increased demand for the Namibian short-term debt instruments, given the contraction in the overall supply of Government debt securities during the 2006/07 fiscal year. The oversubscription of T-Bills is a testimony to this phenomenon.

Chart 3.7 Namibia and South Africa average T-bills discount rates

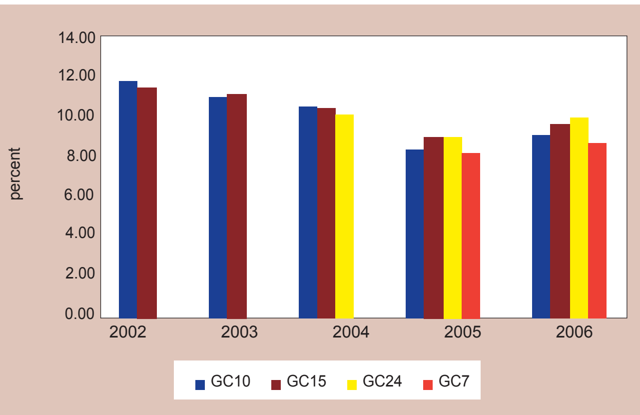


3.5 Bond market developments

3.5.1 Government bond yields

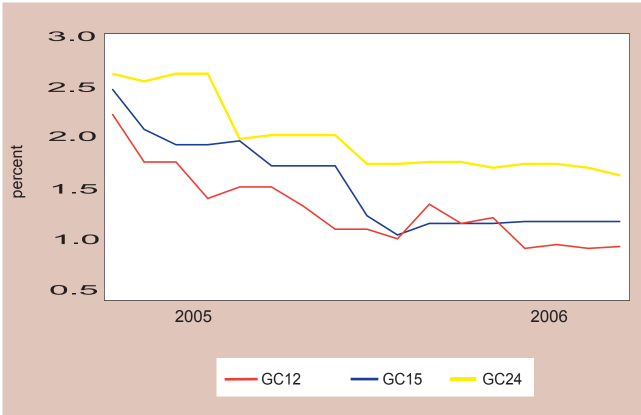
The higher interest rate environment that prevailed in the country during 2006 also influenced the developments in the capital markets, as reflected in the increased yield to maturity. By the end of the year, yields on shorter-dated GC07 and GC08 were 50 and 71 basis points higher year-on-year, at 8.9 and 9.0 percent, respectively. The yields on the GC10 and GC12 were also 69 and 79 basis points higher year-on-year, at 9.27 and 9.69 percent, respectively. The yields on the longer-dated bonds, GC15 and GC24, similarly increased by 69 and 100 basis points year-on-year, respectively, to end the year at 9.9 and 10.2 percent (Chart 3.8).

Chart 3.8 Government bond yields



The average spreads between the Namibian Government bonds and South African Government benchmark bonds narrowed during December 2006, to 140 basis points from 190 basis points during the same period of 2005 (Chart 3.9). This observation is more pronounced in the GC15 as the spread tapered off from the high of 200 basis points recorded in December 2005 to 130 basis points in December 2006. The narrowing spreads benefited from a favourable sovereign domestic rating of BBB and long-term foreign currency credit ratings of BBB – as investors are now pricing in low credit risk for Namibian bonds .

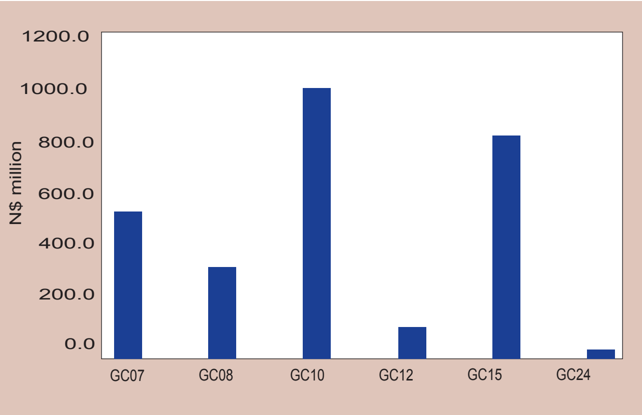
Chart 3.9 Spreads between internal registered stock and benchmark bonds



3.5.2 Secondary market activities in Government bonds

Both the secondary market trading for Government bonds on the Namibian Stock Exchange (NSX) and their transfers registered at the Bank of Namibia have increased steadily over the past few years. The number of secondary trades for Government securities reported on the NSX since 1999 has been on a steady increase. A nominal value of N$3.41 billion trades were recorded as at the end of December 2006, from a mere N$12.1 million during 1999 (Chart 3.10).

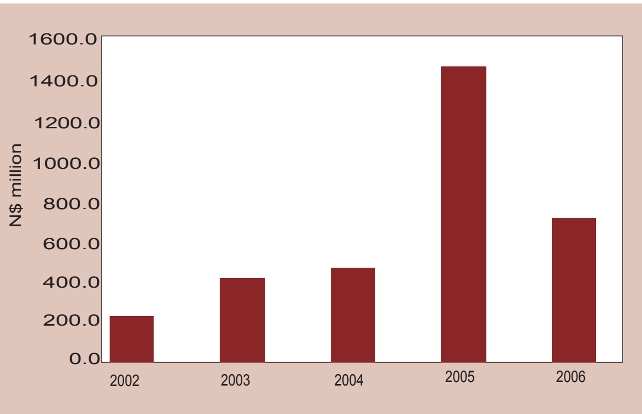
Chart 3.10 Cumulative secondary trades on the NSX per Government bond



Source: NSX

During 2006, total secondary trading in Government securities on the NSX represented 50.7 percent of total Government debt outstanding in the IRS. Although this indicates an increase in the secondary trading ratio when compared to the 46.9 percent in 2005, this ratio is still low. For a good secondary trading ratio, total cumulative trades should at least cover the amount of Government bonds outstanding. The amount of Government bonds outstanding was N$6.74 billion by the end of December 2006 (Chart 3.11). A low trading ratio may be an indication that the Government security market is illiquid.

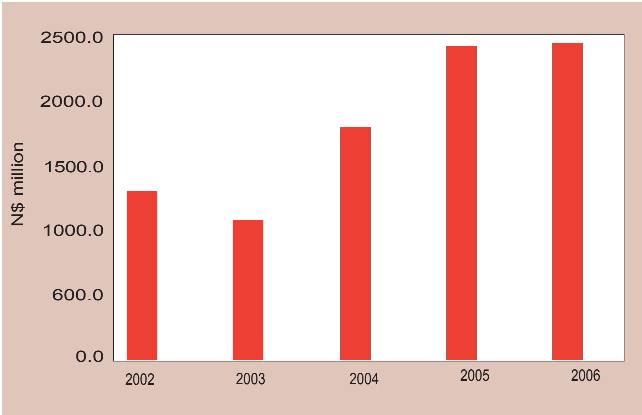
Chart 3.11 Annual secondary trading in IRS



Source: NSX

Other secondary market trading of bonds recorded as transfers in the Government Stock Register kept at the Bank of Namibia indicated that the volume of transfers has gradually increased over the past years (Chart 3.12). Between January and December 2006, about N$2.41 billion in value of trades was recorded. This was just slightly higher than the N$2.38 billion recorded in 2005. The exceptionally high trades recorded on the NSX in 2005 could be attributed to the boom in the equity market, which prompted asset managers to buy Government bonds in order to balance their portfolios. The relatively slower growth in the trades recorded for 2006, compared to 2005, could be attributed to the excess demand for Government securities experienced in the market during the year, due to the low supply as a result of the contractionary fiscal policy envisaged for 2006/07. This short supply might have contributed to a subdued performance in what is largely a buy-and-hold market.

Chart 3.12 Direct secondary transfers at Bank of Namibia



Box A Government bond market development initiatives

Interactive webpage for secondary bond trading

Another effort that the Bank made to enhance efficiency and liquidity in the bond market in Namibia during 2006 was the launching of the Secondary Bond Market Website.

The Secondary Bond Market Website was created to enhance pricing transparency in Government, semi-Government institutions and corporate bonds. The website is not a trading platform, but rather an electronic forum for market participants to indicate their intentions to transact and obtain information about current market activities in all bonds. Registered users submit their bid and offer prices with the intention that interested parties would call them up to initiate a trade with them. Once a trade is concluded, the seller updates the site with the yield to maturity at which the trade was concluded. In so doing, a reliable database is created capturing all reported deals.

Furthermore, registered users also submit their bids and offer prices, thus creating a platform where buyers and sellers can meet. Overall, the website provides information about current market activities and creates a reliable database for all reported deals.

All commercial banks and stockbrokers, as well as the NSX, are registered users of the website. The support for the website from the market is overwhelming, as indicated by the number of deals and hits recorded since its launch in mid-May 2006. At least 204 deals were reported on the website by the end of October, while the cumulative number of hits stood at 1,713 since the site's launch.

Market-making for Government debt securities

As part of ongoing measures to develop local money and capital markets, particularly to enhance liquidity in the market, the Government and the Bank continued to take the necessary measures. The market-making strategy is one of the measures considered. During the year under review, the Bank finalised a study on the feasibility of market-making in Government debt securities. For this measure, a group of institutions needs to be appointed as Primary Dealers, with the exclusive responsibility of making active markets in Government securities in all conditions. In this regard, market-makers play a specialised role in Government securities markets and act as intermediaries between authorities and other market players.

This initiative enhances investment and debt management strategies, as well as lower liquidity premiums and funding costs. Another key benefit of market-making is improved secondary trading: by quoting continuous two-way prices that could lead to the price discovery process in the market, it prepares the foundation for transparent continuous trading in the future.

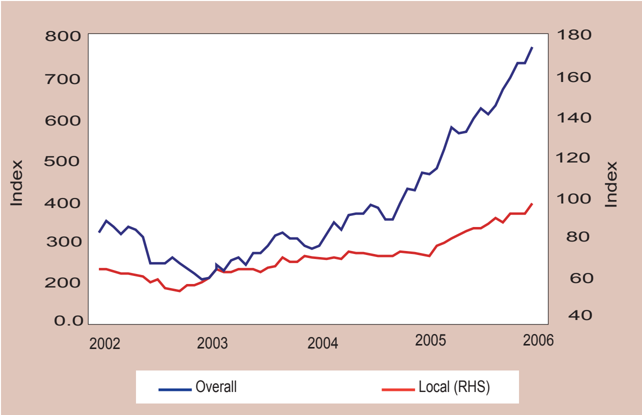
Other countries' experiences in this regard were also studied, and the Bank will follow best practices to introduce the primary dealership system in a manner that will best fulfil the objective of money and capital market development.

3.6 Equity market developments

In line with global financial market conditions, the performance of the NSX was buoyant in 2006. The local price index, which measures the performance only of Namibian companies listed on the NSX, rose from 65.6 points at the end of the previous year to 91.1 points by the end of 2006. Consequently, market capitalisation increased by 44.0 percent to N$3.8 billion, up from N$2.5 billion a year ago. Besides the general appreciation of share prices, the addition of Trustco Namibia to the number of listed companies contributed to the increase in local stock market capitalisation. Similarly, local turnover rose from N$1.6 million in 2005 to N$18.0 million by the end of 2006. The buoyancy of the market was also reflected in the number of deals, which increased to 377 during 2006 as compared to 307 the preceding year.

The overall price index of the NSX rose from 523.7 points at the end of 2005 to 828.4 points by the end of 2006 (Chart 3.13). As a result, overall market capitalisation increased by 60.0 percent, from N$695.3 billion at the end of the previous year to N$1,112.5 billion by the end of 2006. Reflecting these positive developments, the NSX overall turnover closed at N$528.7 billion at the end of 2006, up from N$371.1 billion at the end of the 2005. Also, the number of deals recorded increased to 2 549 during 2006 from 2 372 during the preceding year.

Chart 3.13 NSX price indices



Source: NSX

The share of the mining sector in the overall market capitalisation increased from N$285.2 billion at the end of the previous year to N$530.3 billion by the end of 2006. The market capitalisation of the financial sector also increased, from N$328.8 billion at the end of 2005 to N$485.3 billion by the end of December 2006. The financial sector dominated market capitalisation for locally listed companies, to stand at N$3.0 billion.

Chapter 4 Public Finance [24]

Since the 2003/04 fiscal year, when the budget deficit as a ratio of GDP hit an all-time high of 7.3 percent, there has been a commendable effort to consolidate the country's fiscal position. Under the 2004/05 to 2006/07 Medium-term Expenditure Framework (MTEF), the Ministry of Finance, through a combination of revenue and expenditure measures, was able to significantly consolidate the fiscal position. For instance, the overall fiscal balance in relation to GDP moved from a deficit of 3.7 percent in 2004/05 to a projected surplus of 2.2 percent in 2006/07. Consequently, the public debt to GDP ratio moved from 34.2 percent at the beginning of the 2004/05 MTEF period to a projected 30.7 percent at the end of fiscal year 2006/07. This is within striking distance of the Ministry of Finance's debt rule of 25 percent of GDP, which, under current revenue and expenditure trends, could be achieved during the next MTEF period.

4.1 Revenue and grants[25]

Total Government revenue and grants increased significantly, by 14.7 percent, to N$13.1 billion in 2005/06 from the N$11.4 billion recorded in 2004/05 (Table 4.1). As a percentage of GDP, total revenue, including grants, gradually recovered from 28.4 percent in 2003/04 to 31.1 percent and 33.1 percent in 2004/05 and 2005/06, respectively. Despite a decline in SACU receipts during 2004/05, a very strong growth of 59.1 percent in the collection of domestic taxes on goods and services (mainly value added tax, VAT) contributed to the overall increase in revenue. Taxes on income and profits grew by 13.7 percent to stand at N$4.6 billion by the end of the year under review. Mainly responsible for these increases were the forensic tax audits that Government introduced during 2004/05 to enhance tax collection, especially VAT revenue, in order to strengthen tax administration and encourage tax compliance.

Total revenue collected from non-tax sources, accounting for 8.4 percent of total revenue, increased by 24.6 percent to stand at N$1.1 billion during 2005/06. The main contributors to the increase in non-tax revenue during 2005/06 were the sub-categories *Entrepreneurial and property income*, which increased by 10.8 percent, *Administration fees and charges*, which increased by 49.4 percent, and *Fines and forfeitures*, which showed a 3.5 percent growth.

Table 4.1 Total revenue and grants (N$ million)

	Actual					Revised
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
GDP	**28,991.0**	**33,141.0**	**34,427.0**	**36,774.3**	**39,622.1**	**43,983.2**
Tax on income and profits	3,285.6	4,442.3	3,618.5	4,024.2	4,575.7	4,689.0
Taxes on properties	64.1	79.3	75.2	85.9	110.1	122.0
Domestic taxes on goods & services	2,107.4	2,135.7	1,950.8	2,057.3	3,272.4	3,186.1
Tax on international trade	2,641.2	2,596.9	3,035.6	4,206.8	3,891.9	6,471.4
Other Taxes	67.6	75.6	82.8	94.1	113.4	123.0
Total tax revenue	**8,166.0**	**9,329.8**	**8,762.9**	**10,468.3**	**11,963.4**	**14,591.5**
As % of GDP	28.2	28.2	25.5	28.5	30.2	33.2
Entrepreneurial and property income	463.4	703.2	488.8	490	542.9	1,048.9
Fines and forfeitures	18.2	19.6	18.9	17.0	17.6	23.5
Admin. fees and charges	254	382.3	449.3	342.1	512.4	407.3
Return of capital from lending and equity participation	21.4	15.9	13.5	36.8	32.4	66.0
Total non-tax revenue	**757.1**	**1,121.1**	**970.5**	**885.9**	**1,105.3**	**1,545.7**
As % of GDP	2.6	3.4	2.8	2.4	2.8	3.5
Total revenue (own sources)	**8,923.0**	**10,450.9**	**9,733.4**	**11,354.2**	**13,068.7**	**16,137.2**
Grants	**58.1**	**34.4**	**34.2**	**70.4**	**39.0**	**72.0**
Total revenue & grants	**9,097.9**	**10,562.1**	**9,767.6**	**11,424.6**	**13,107.7**	**16,209.2**
As % of GDP	31.4	31.9	28.4	31.1	33.1	36.9

Source: MoF

[24] All estimates on the budgetary developments in this section are done by the MoF.

[25] Grants in this section are received through the MoF.

The afore-mentioned trend is expected to continue in 2006/07, with Government revenue and grants projected at N$16.2 billion or 36.9 percent of GDP. Mainly responsible for the increase will be revenues generated through taxation. Total tax revenue is expected to account for 90.0 percent of total revenue and grants in 2006/07.

4.2 Expenditure

Total actual expenditure in 2005/06 was N$13.2 billion, compared to N$12.8 billion in 2004/05, representing an increase of 6.5 percent (Table 4.2). It is estimated that total expenditure will grow by 15.8 percent to N$15.3 billion in 2006/07. The increase in total expenditure over the afore-mentioned periods is mainly reflected in an increase in current expenditure. This acceleration in current expenditure can be attributed to the rise in statutory expenditure, which reflects the growth rate of interest payments on public debt. Capital expenditure declined during 2005/06, reflecting negatively on Government's priorities of investing in capital projects. It also does not augur well for accelerated economic growth, poverty reduction and the much needed employment creation in the country. In relation to GDP, capital expenditure decreased to 4.2 percent from 5.4 percent in 2004/05. During 2006/07, capital expenditure is, however, projected to rise to N$2.7 billion from N$1.7 billion in 2005/06. As a ratio to GDP, total actual expenditure stood at 33.3 percent during 2005/06, slightly lower than the 34.8 percent of 2004/05. In 2006/07, total expenditure is projected at 34.8 percent of GDP, 4.8 percentage points above the expenditure target of 30.0 percent of GDP set out in the MTEF.

Current expenditure continues to form the biggest share of total Government expenditure, representing 87.5 percent in 2005/06of which the sub-category *Personnel expenditure* represents 51.0 percent. During 2005/06, actual current expenditure increased by 6.5 percent to N$11.5 billion from N$10.8 billion in 2004/05. As a percentage of GDP, personnel expenditure represented 14.9 percent for the period 2005/06 almost the same ratio of 14.8 percent recorded in 2004/05. *Statutory expenditure* rose by 14.0 percent, while *Subsidies and other current transfers* increased by 10.8 percent, compared with increases of 4.4 percent and 1.8 percent, respectively, for the preceding year. Increases in these two subcategories also contributed to the overall rise in current expenditure. In relation to GDP, current expenditure stood at 29.1 percent in 2005/06, slightly lower than the 29.3 percent recorded for the preceding fiscal year. In 2006/07 it is projected that current expenditure would be at 28.5 percent of GDP. Capital expenditure, on the other hand, declined by 16.8 percent, year-on-year,

Table 4.2 Central Government total expenditure (N$ million)

	Actual					Revised
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
GDP	**28,991.0**	**33,141.0**	**34,427.0**	**36,774.3**	**39,622.1**	**43,983.2**
Personnel expenditure	4,325.5	4,708.9	5,117.0	5,527.1	5,888.3	6144.9
Expenditure on goods and other services	1,977.3	1,993.6	2,079.4	1,921.9	1,922.4	2198.8
Statutory expenditure	602.7	907.6	996.0	1,040.2	1,186.3	1478.1
Subsidies and other current transfers	1,769.2	1,892.8	2,255.9	2,296.9	2,544.6	2717.1
Total current expenditure	**8,674.7**	**9,502.9**	**10,448.3**	**10,786.1**	**11,541.6**	**12,538.9**
As % of GDP	29.9	28.7	30.3	29.3	29.1	28.5
Total capital expenditure	**1,627.7**	**1,895.7**	**1,797.0**	**1,984.4**	**1,650.9**	**2,749.0**
As % of GDP	5.6	5.7	5.2	5.4	4.2	6.3
Total expenditure	**10,332.3**	**11,427.3**	**12,275.6**	**12,799.8**	**13,192.5**	**15,287.9**
As % of GDP	35.6	34.5	35.7	34.8	33.3	34.8

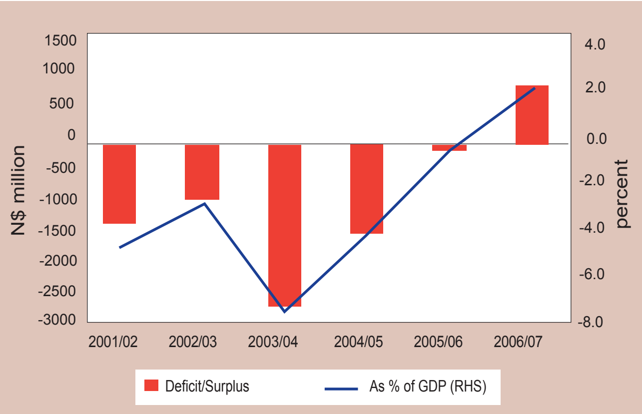
Source: MoF

contrasting the growth of 10.4 percent recorded during the previous fiscal year. Capital expenditure is equivalent to 4.2 percent of GDP in 2005/06.

4.3 Budget deficit and financing

A downward trend has been observed in the budget deficit since the 2003/04 fiscal year. As a ratio to GDP, the budget deficit fell from 7.3 percent in 2003/04 to 3.7 percent in 2004/05, and further to 0.2 percent in 2005/06 (Chart 4.1). Total revenue increased by 14.7 percent, whilst total expenditure increased by only 3.1 percent in the same fiscal year. These positive developments brought about the narrowing deficit in 2005/06. The deficit was financed through the issuance of Government bonds. An overall budget surplus of 2.2 percent is projected for the 2006/07 fiscal year.

Chart 4.1 Fiscal balance



Source: MoF

4.4 Central Government debt

By the end of December 2006, the stock of total debt outstanding increased to N$13.5 billion from N$12.8 billion recorded at the end of December 2005, representing an increase of 5.2 percent (Table 4.3). The increase was attributed to a 26.3 percent rise in foreign debt during the period December 2005 to December 2006. Domestic debt, on the other hand, grew by a moderate 1.3 percent over the same period.

4.4.1 Domestic debt

The Government's borrowing strategy to offer more long-term instead of short-term debt securities over the past two years continued through 2006. A composition skewed towards the short end of the yield curve has the potential to cause cash flow problems and a rollover risk for the Government. Therefore, the borrowing plan for 2006/07 is aimed at reducing the proportion of Treasury Bills in favour of internal registered stock.

Domestic debt continued to comprise the largest share of Namibia's total debt. At the end of December 2006, domestic debt as a proportion of total debt stood at 81.3 percent compared to 84.4 percent in December 2005. This is in line with the Government's objective to minimise exchange rate risk in considering borrowing from the local market instead of foreign markets, and to contribute to the development of the domestic financial market. Domestic debt represented 25.0 percent of GDP at the end of December 2006, lower than the 27.4 percent recorded at the end of December 2005.

Total domestic debt increased by 1.3 percent to N$11.0 billion by the end of December 2006, up from N$10.8 billion recorded at the end of December 2005. Mainly responsible for the increase in domestic debt was the issuance of internal registered stock, which grew at a rate of 17.6 percent when compared to the level of N$5.7 billion reached at the end of December 2005 (Chart 4.2). The issuance of T Bills, on the other hand, has shown a declining trend since 2004/05. As of December 2006, the proportion of T Bills to total domestic debt was 38.7 percent, while the proportion of internal registered stock to total domestic debt was 61.3 percent. This reflects that the Government made a concerted effort during 2006/07 to reduce the share of short-term debt to the target of 37.0 percent, as prescribed in the Borrowing Plan for 2006/07. The latter made provision for the creation of a permanent Internal Registered Stock Redemption Account (IRSRA), to be used for the redemption of maturing bonds.

Chart 4.2 Domestic debt by security

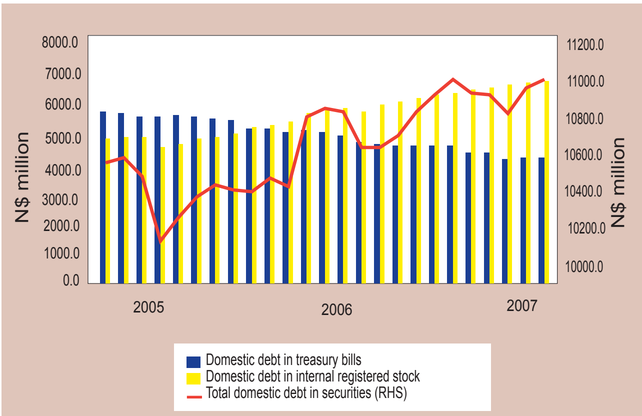


Table 4.3 Central Government debt at end of period (N$ million - actual)

	03/04	04/05	05/06	2006/07 Q1	2006/07 Q2	2006/07 Q3
GDP	**34,427.0**	**36,774.3**	**39,622.1**	**43,983.2**	**43,983.2**	**43983.2**
Foreign debt stock	**1,607.2**	**2,016.0**	**2,000.2**	**2,381.3**	**2,675.6**	**2,526.3**
Bilateral	925.6	1,181.3	1,123.1	1,450.8	1,599.8	1,489.1
As % of total	57.6	58.6	56.1	60.9	59.8	58.9
Multilateral	681.6	834.7	877.2	930.5	1,075.8	1,037.2
As % of total	42.4	41.4	43.9	39.1	40.2	41.1
Foreign debt as % export	10.9	13.6	13.5	16.1	18.1	17.1
Domestic debt stock	**8,606.1**	**10,543.0**	**10,844.0**	**10,862.1**	**10,962.0**	**10,987.8**
Treasury bills	5,041.2	5,615.7	5,117.0	4,655.0	4,425.0	4,250.0
As % of total	58.6	53.3	47.2	42.9	40.4	38.7
Internal registered stock	3,564.9	4,927.3	5,727.0	6,207.0	6,537.0	6,737.8
As % of total	41.4	46.7	52.8	57.1	59.6	61.3
Other	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**10,213.3**	**12,559.0**	**12,844.2**	**13,243.3**	**13,637.6**	**13,514.1**
Proportion of total debt						
Foreign debt stock	15.7	16.1	15.6	18.0	19.6	18.7
Domestic debt stock	84.3	83.9	84.4	82.0	80.4	81.3
In % of GDP						
Foreign debt stock	4.7	5.5	5.0	5.4	6.1	5.7
Domestic debt stock	25.0	28.7	27.4	24.7	24.9	25.0
Total	**29.7**	**34.2**	**32.4**	**30.1**	**31.0**	**30.7**

Source: BoN and MoF

The issuing of long-term bonds increased by 17.6 percent from December 2005 to December 2006. In absolute terms this is an increase to N$6.7 billion from N$5.7 billion. In order to ensure a smooth redemption and rollover of the amount, Government is pursuing a redemption strategy. Part of the strategy is the decision by Government to transfer any excess funds above N$250 million from the State Account to the IRSRA, the latter having been created specifically for the redemption of long-term bonds.

The IRSRA, which is held with local banking institutions, was created on the back of the successful redemption strategy of the GC05. The IRSRA is currently accumulating funds to be used to retire the GC07, which matures in July 2007. The Borrowing Plan for the 2006/07 fiscal year projects that at least N$600 million or 50 percent of the N$1.2 billion outstanding for GC07 will be transferred to the IRSRA by the end of that fiscal year. These funds were raised by means of internal registered stocks' primary auctions, and 50 percent of the proceeds from each auction will be transferred to the IRSRA. In addition, the Government can also transfer excess funds from the State Revenue Fund at any point, as circumstances allow. So far, the accumulation of funds in the IRSRA has exceeded expectations, with over N$1.7 billion already collected by the end of January 2007.

4.4.2 External debt

Government continued to finance selected infrastructure projects through foreign loans in 2006. Some of the projects that benefited from foreign funding in 2006 were the Kamanjab–Omakange road, airports that were upgraded, Phases I and II of the Aus–Rosh Pinah road, and the Trans-Kalahari road. As a result, the stock of external debt increased significantly, by 26.3 percent, to N$2.5 billion by the end of December 2006, from N$2.0 billion registered at the end of December 2005. Foreign debt as a ratio of GDP increased to 5.7 percent by the end of December 2006, from 5.0 percent realised by the end of the December 2005. This expansion was primarily confined to the disbursement of existing loans for capital projects. Bilateral loans formed the largest proportion of total foreign debt, accounting for 58.9 percent, up from the 56.1 percent recorded during December 2005. The share of multilateral loans was lower, at 41.1 percent, down from the 43.9 percent recorded during the previous period.

4.4.2.1 Currency composition of external debt

By the end of December 2006, total foreign loans outstanding denominated in Euro stood at 54.1 percent of total external debt, down from 55.6 percent in the preceding period. These changes in the composition of the Euro were caused by the exchange rate developments of the Namibia Dollar. For the same reason, debt denominated in US Dollars decreased to 6.8 percent from 7.1 percent during the same period . The composition of debt in the Rand and Chinese Renminbi also went down, to 24.1 percent and 6.9 percent, from 24.8 percent and 9.8 percent, respectively, during this period. Contrary to the above, the debt in all other currencies increased to 8.0 from 2.7 percent during the period under review.

4.5 Central Government loan guarantees

Government guarantees are issued to support beneficiaries and projects that are regarded to be in the public interest or of strategic importance. However, they could expose the Government to default risk. As a result, during 2005/06, strict principles governing the issuance of State guarantees were enforced[26], in accordance with the Sovereign Debt Management Strategy. Despite such measures being enforced, total loan guarantees for the Central Government increased by 40 percent during the period December 2005 to December 2006. At the end of December 2006, total loan guarantees stood at N$3.9 billion, up from N$2.8 billion at the end of December 2005 (Table 4.4). An increase of 66.8 percent in the stock of foreign loan guarantees, resulting mainly from the new issuance of guarantees to State-owned enterprises and the effects of fluctuations in the exchange rate, contributed to the increase in total loan guarantees during the period under review. As a ratio to GDP, total Government loan guarantees increased to 8.8 percent in December 2006, from the 7.0 percent recorded during December 2005.

Domestic guarantees increased by 18.7 percent during the period December 2005 to December 2006 to stand at N$1,826 million, up from N$1,538 million. As a ratio to total loan guarantees, domestic guarantees declined from 55.7 percent at the end of December 2006 to 47.3 percent at the end of December 2006. Over the same period, domestic loan guarantees as a percentage of GDP rose to 4.3 percent from 3.9 percent at the end of December 2005.

As a percentage of total guarantees, foreign loan guarantees represented 52.7 percent at the end of December 2006, compared to 44.3 percent at the end of December 2005. As a ratio to GDP, foreign loan guarantees represented 4.6 percent at the end of December 2006.

Table 4.4 Central Government loan guarantees (N$ million)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07		
						Q1	Q2	Q3
GDP	**28991.0**	**33141.0**	**34427.0**	**36774.3**	**39622.1**	**43983.2**	**43983.2**	**43983.2**
Domestic guarantees	828.9	1,004.8	1,135.5	1,379.6	1,537.9	1,494.6	1,505.4	1,826.1
As % of GDP	2.9	3.0	3.3	3.8	3.9	3.4	3.4	4.2
As % of total guarantees	25.0	31.1	35.5	54.3	55.7	41.1	41.2	47.3
Foreign guarantees	2,481.0	2,221.6	2,067.1	1,161.5	1,221.7	2,142.7	2,147.2	2037.4
As % of GDP	8.6	6.7	6.0	3.2	3.1	4.9	4.9	4.6
As % of total guarantees	75.0	68.9	64.5	45.7	44.3	58.9	58.8	52.7
Total guarantees	3,309.9	3,226.4	3,202.6	2,541.1	2,759.6	3,637.3	3,652.6	3,863.5
As % of GDP	11.4	9.7	9.3	6.9	7.0	8.3	8.3	8.8

Source: MoF

[26] One of the strict measures enforced is a 2 percent levy on outstanding loan guarantees by Government.

PART B

Banking Supervision

Chapter 5 Report on Banking Supervision

In line with its responsibility as the regulator and supervisor of banking institutions, the Bank, through the Banking Supervision Department, undertook a number of regulatory and supervisory activities during the year under review. The supervisory activities were aimed at providing the oversight on banking institutions in order to strengthen the stability and soundness of the banking system. The oversight strives to ensure that players in the Namibian banking system are employing internationally recognized best practices and are in compliance with provisions of the Banking Institutions Act of 1998, (Act No. 2 of 1998) and the Bank of Namibia Act of 1997 (Act No. 15 of 1997).

The supervisory activities carried out during the year, were in the form of the normal on-site examinations and off-site surveillance of banking institutions. Through the examinations, the Bank was able to establish that the banking institutions maintained adequate internal control systems, complied with prudential standards and adhered to internal policies and procedures. On the other hand, the Bank made an on-going analysis of the statutory returns, monitoring the financial soundness of individual banking institutions and therefore the stability of the industry as a whole. The analysis performed on the financial data for the period ended 31 December 2006 revealed a stable and sound banking sector.

5.1 Developments in Supervisory Issues

5.1.1 Legal and regulatory framework

One of the key mandates of the Bank of Namibia is to ensure that the stability and soundness of the Namibian financial sector in general and the banking industry in particular are maintained. In discharging this responsibility, the Bank, among others, ensures that the banking regulatory and supervisory legislative requirements remain relevant and are continuously updated.

The Bank continues to keep abreast with the developments in the international markets and strives to adopt best international practices as recommended by the Basel Committee on Banking Supervision, while taking cognizance of local market conditions. In an ongoing effort to strengthen the regulatory framework, the Bank undertook the following activities during 2006.

(a) Towards the implementation of the Basel II Capital Accord

The Bank in collaboration with the banking sector has embraced the principles of the New Capital Adequacy Framework generally referred to as Basel II. These principles are intended to align capital-adequacy requirements of banking institutions in Namibia more closely with the key elements of their risk profiles and to provide a model to enhance their risk management capabilities.

The implementation of Basel II has become necessary due to the shortcomings identified in the Basel 1 Accord of 1988. The latter Accord was described as a “one size fits all” approach and unable to appropriately deal with the increasing innovation and sophistication of financial markets. Basel II is envisaged to be more risk sensitive and provides a number of options for calculating a banking institution’s minimum regulatory capital charges for each category of risk. The implementation of Basel II is one of the Bank’s strategic focus areas for the next two years[27].

The Bank, having considered the various approaches available, decided to implement the Standardized Approach in Namibia. One of the reasons why the Bank has decided on the adoption of the Standardized Approach as opposed to the more Advanced Approach is mainly due to the skills and expertise limitations and/or gaps identified within the banking industry and the regulatory environment. The Bank has also recognised that the level of complexity of the banking environment in Namibia does not warrant the implementation of the Advanced Approach. The Bank envisages a gradual migration to the Advanced Approach as skills and expertise improves in both the banking industry and regulatory environment.

To ensure a well coordinated and smooth implementation of Basel II, the Bank has dedicated the task to a team of four senior officials to assess the impact of these new standards and to provide guidance to the banking

[27] Refer to Annual Report of 2005 for a more detailed summary ot the Basel II Accord.

institutions. A detailed study was undertaken to understand the underlying principles of the new accord and to evaluate the extent to which changes to the current regulatory framework were required. A series of consultative meetings with representatives from the banking institutions were held to discuss implementation concerns.

Subsequently, an implementation plan was designed and communicated to the banking institutions. The following preparatory tasks commenced in order to facilitate the implementation plan:

- The drafting of a position paper that suggest the most appropriate approach for the banking industry to take;
- An assessment of the effectiveness of current risk management practices by banking institutions, in order to identify gaps and key challenges;
- The drafting of the Country Risk and Market Risk Determinations, which are expected to be promulgated during the 2007; and
- The formulation of specific areas of national discretion that provides guidelines on the Quantitative Impact Study (QIS 4). The QIS 4 is used to evaluate the potential impact of the Accord on the capital adequacy levels of the banking institutions.

(b) Consolidated supervision

Over the past few years, Namibia has seen significant structural changes in the financial sector due to the formation of holding companies with business operations across banking, securities and/or insurance sectors. These financial group companies have grown in size, diversity and complexity and consequently present additional challenges to effective supervision of banking institutions.

The Bank of Namibia has taken a deliberate decision to introduce consolidated supervision to complement the current solo supervision of individually regulated banking institutions. Consolidated supervision is described as an essential tool of banking supervision and seeks to evaluate the strength of an entire group - both quantitatively and qualitatively - taking into account all the risks that may affect a bank regardless of whether such risks are carried in the books of the bank or by related entities.

The following are the main activities undertaken towards the implementation of consolidated supervision.

(i) Amendments to the Banking Institutions Act

The proposed amendments to the Banking Institutions Act, 1998, are intended to provide for an appropriate legal framework to enable the supervision of banking groups on a consolidated basis.

The proposed legal framework will, among other things, provide for the registration and de-registration[28] of controlling companies, the power to request for specific information from the banking groups and the power to limit investments made by controlling companies.

(ii) Consolidated supervision framework

The purpose of the consolidated supervision framework is to provide guidelines on how consolidated supervision is envisaged by the Bank. The framework mainly encompasses the following aspects: the legal framework; scope of consolidation; methods and techniques; quantitative and qualitative analyses; lead regulator/supervisor; information sharing, on-site examinations; intervention and enforcement; cross-border establishments; and supervisory policy and research.

All banking groups currently operating in Namibia will be subject to consolidated supervision and will initially be limited to the immediate bank holding company level. The consolidated supervision framework will exclude insurance companies within such groups. The exclusion of insurance companies from consolidated reports is mainly based on the difference in the balance sheets of insurance business compared with those of banking business, specifically the liabilities side. The risks arising from banking business and that of insurance business is thought to be different. Regarding non-financial entities, the risks will be monitored through the evaluation of qualitative information that the Bank may require from time to time.

The framework sets out the accounting techniques which banking groups should use when compiling consolidated reports and/or returns and the calculation of capital

[28] In terms of the proposed amendments, a controlling company can be de-registered if it has failed to establish control over the banking institution in respect of which it is registered; no longer exercises such control; and has voluntarily for such cancellation; or, when the authorization of a banking institution in respect of which a controlling company is registered, is cancelled.

adequacy requirements for the banking group and its subsidiaries. The criteria for the selection and responsibility of lead supervisor and are also addressed. In addition the framework also subscribe two broad categories; that of quantitative and qualitative approaches.

Quantitative consolidated supervision entails the collection, review and analysis of information to assess the financial strength of a banking group. It focuses on capital adequacy; large exposures in respect of a group; connected exposures; group liquidity; group earnings; and market risk.

Qualitative consolidated supervision looks at qualitative information in respect of both the stand-alone banking institution and the group. Such information includes organizational and management structures, Board and Board Committees, strategic plans, risk management, capitalization, information systems and external auditors.

In line with international supervisory standards, the Bank will share material information obtained during the supervisory processes or otherwise with other supervisors, both local and foreign within the provisions of the Banking Institutions Act and/or the relevant agreements with other supervisory bodies. This approach will assist the Bank in promoting safety and soundness across the entire group since it will receive prompt information on developments taking place in other jurisdictions where institutions form part of the supervised group operate.

5.1.2 Banking industry

As the regulatory authority of banking institutions in Namibia, the Bank is charged with the responsibility of vetting all new licenses for consideration and approval. During the period under review, two applications were received. One of the applications was unsuccessful, whilst the other application is pending. Consequently, the number of banking institutions in Namibia remains unchanged, at four with a branch and agency network of 142 (2005:127).

5.2 On-Site Examination Activities

During the year under review, the Bank carried out a full scope examination on one of the banking institutions in accordance with the newly adopted risk based supervision approach. Table 5.1 shows some key differences between traditional and risk-based approach to banking supervision.

Table 5.1 Traditional approach vs. risk-based approach

Traditional approach	Risk-Based approach
• Transactions-based testing • Point-in-time assessments • Standard procedures • Historical performance • Focuses on risk avoidance • Examiners as auditors • Bottom-up approach	• Process-oriented • Continuous assessments • Risk-profile driven procedures • Forward looking indicators • Focuses on risk mitigation • Examiners as analysts • Top-down approach

The risk based approach and examinations are designed to enhance the capital, asset quality, management, earnings, liquidity and sensitivity to market risk (abbreviated as *CAMELS*). This approach evaluates all the risks related to the banking institutions and assesses the quality and ability of management to identify measure, monitor and control these risks in a timely manner through its risk management framework.

The risk based examination conducted focused mainly on the assessment of credit risk; market risk; business risk; liquidity risk; capital; earnings and reserves. It further assessed the effectiveness of internal controls and governance structures of banking institutions. Attention was, therefore, focused on the review and assessment of all banking risks present in the risk profile of the bank in order to ensure prudent and sound banking practices, as well as to establish whether the bank had developed a risk management system that addressed all banking risks with regards to their magnitude, their mitigation thereof and capital set aside for potential losses.

Incidences of illegal banking business in the form of pyramid schemes were also reported and swiftly shutdown. Consequently, the Bank has intensified its awareness campaign to protect the general public against these illegal activities.

Box B Pyramid Schemes and any other illegal deposit-taking

In view of the recent mushrooming of pyramid schemes in Namibia, the Bank of Namibia wishes to educate the public about the dangers of investing or participating in pyramid schemes. In doing so, this short **article** seeks to explain in layperson's terms:

(1) what pyramid schemes are;

(2) how they works and

(3) why they are illegal in Namibia.

What are pyramid schemes?

Pyramid schemes are illegal money-making ventures for individuals at the top of the pyramid who recruit participants who, in turn, recruit other participants to offer something of value, usually money. Recruits are offered the promise of money if they successfully bring in others to pay money to join the pyramid. A typical pyramid scheme would focus on the exchange of money and recruitment. Usually, there is no legitimate product being sold. In other words, there are no underlying assets involved in the transaction.

How do pyramid schemes work?

A single promoter (or small group of promoters) collects money from a certain number of "friends" and instructs them to collect more money from more of their "friends" with a promise of better returns on the initial deposit or "investment" based on the number of people a participant recruits. The cycle goes on from there.

Usually, but not always, pyramid schemes give a certificate of participation to the participant right after he or she has paid the required amount. As the pyramid grows, the number of people involved becomes too large to sustain it. Some people will fail to deposit their money, or recruit the required number of "friends", and the pyramid crumbles. Most people end up at the "bottom" of the pyramid and inevitably lose their initial "investment", which is enjoyed by the top selected few - usually those who started the scheme. The people at the bottom of the pyramid do not get their money back because there is no one beneath them in the pyramid adding new money to the pot.

It must be understood and recognized that losses are inherent in pyramid schemes, and the majority of the participants lose money at the end of the day. In any case the losses will be substantial not to the individual concerned but also to their families and more importantly to the whole society. We recognize the hardship, such as the high unemployment rate, that our people are going through. However, the end result of a pyramid is to make the poor even poorer while it benefits those who started it. It should be noted that those involved in recruiting others are also guilty as they are spreading the impact of the pyramid scheme to the rest of the community.

Apart from pyramid schemes, there may also be other illegal banking activities which may not fit the description of the pyramid schemes presented above. However it is important to note that any institution or person collecting money from the public without the permission of the Bank of Namibia could be involved an illegal activity. The public is therefore encouraged to first enquire from the Bank of Namibia before funds are placed with any person not commonly known as operating as a banking institution.

Why are pyramid schemes illegal in Namibia?

Pyramid schemes are illegal because they violate ***section 5 of the Banking Institutions Act 1998 (No.2 of 1998***. Section 5 prohibits illegal banking business, which can be simply defined as the taking of deposits from the public without being authorized by the Bank of Namibia to do so and without being registered as a bank like other banks in the country. This means that no person is allowed to receive, accept, take or advertise, solicit, procure or attempt to procure a deposit or deposits from the public (which pyramid schemes do) or pretend to be a banking

Box B PYRAMID SCHEMES AND ANY OTHER ILLEGAL DEPOSIT-TAKING (CONTINUED)

institution without being registered as banking institution. Violation of section 5 constitutes an offence that carries a fine not exceeding N$ 1000 000 or to imprisonment for a period not exceeding ten years or to both such fine and such imprisonment, depending on the facts of the case.

To simplify the issue, pyramid schemes are regarded as illegal banking business because:

(1) they receive, accept, take, advertise, solicit or procure deposits from the public without being registered as banking institutions and

(2) they are not and cannot be registered as a banking institution or otherwise be authorized to conduct that kind of business in Namibia or elsewhere in the world.

The Bank of Namibia therefore warns the public against these get-rich quick schemes and others that fit the definition of a pyramid scheme. Furthermore, the Bank appeals to the law-abiding citizens of this country to help the law enforcement officers by reporting such activities immediately to the Bank of Namibia as they become aware of them. This same appeal is extended to the traditional leaders and citizens of influence to assist our people in understanding the impact of these deceptive schemes that are aimed at impoverishing our communities.

Those who are interested in obtaining an authorization to conduct banking business or any other business that they are not sure of, should approach the Bank of Namibia to obtain further information on how to go about it.

5.3 PERFORMANCE OF THE BANKING SECTOR

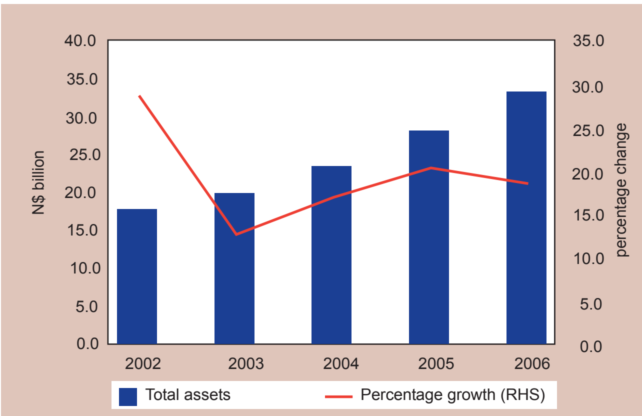
5.3.1 Assets

The banking sector's assets increased to N$33.4 billion from N$28.2 billion reported the previous year. This represents a growth of 18.5 percent compared to 20.4 percent the previous year. Notable increases were recorded under the following categories of assets: *Cash and balances with banks* more than doubled to N$3.5 billion; *Other assets* increased by 38.4 percent to N$1.3 billion; and *Net loans and advances* by 14.1 percent to N$24.4 billion. Net loans and advances contributed 57.7 percent to the overall growth in the banking sector's asset base.

The increase in cash and balances with banks was due to a significant increase in *Balances with banks* specifically those that were denominated in foreign currencies which increased from N$797.8 million recorded the previous year to N$2.2 billion. The increase in *Loans and advances* was caused by substantial increases in the following categories for the year under review: *Other fixed term loans* increased by 22.4 percent to N$1.4 billion; *Loans to non-banks* repayable in foreign currencies by 71.6 percent to N$245.9 million; mortgage loans by 29.6 percent to N$12.4 billion; and installment debtors by 17.1 percent to N$4.7 billion.

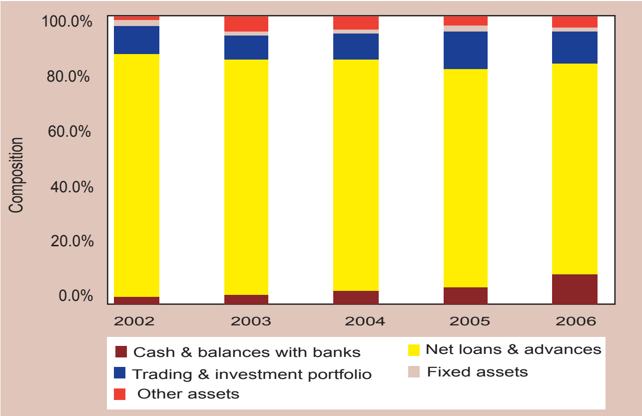
The average yearly growth in assets of the banking sector over the past five years equaled 19.4 percent since 31 December 2002. This situation is depicted in Chart 5.1.

Chart 5.1 Total asset growth (as at year ended 31 December)



The analysis of the composition of assets for the banking sector reveals that net loans and advances continued to take the largest share of total assets, accounting for 73.1 percent compared to 76.0 percent reported the preceding year. The *Trading and investment portfolio* declined in terms of its share of total assets by 2.1 percentage-points to 11.4 percent while *Cash and balances with banks* increased their percentage share by 4.8 percentage-points to 10.4 percent, during the period under review. The share of other categories of assets such as *Fixed assets and other assets* remained almost unchanged from the previous year. Chart 5.2 graphically illustrates the composition of total assets.

Chart 5.2 Composition of total assets (as at year ended 31 December)



5.3.2 Funding structure

Total funding of banking institutions grew by 18.5 percent compared to 20.4 percent the corresponding period the previous year. Non-bank funding contributed the most to the growth of funding if compared to other borrowings, foreign funding and capital and reserves. Interbank funding negatively affected the growth in total funding as it declined by 65.2 percent during the year under review. Overall, the industry increased its deposit-related funding sources by 25.3 percent and stood at N$26.4 billion on 31 December 2006.

The main source of funding remained non-bank funds, which accounted for 76.8 percent of total funding. The share of capital and reserves reduced slightly while interbank funding lost its share to non-bank funding during 2006. Notable change was also observed in other borrowings which increased their share in total funding by 2.9 percentage-points to 4.5 percent as at 31 December 2006. This situation is highlighted in Charts 5.3 (a) and 5.3 (b).

Chart 5.3 (a) Composition of liabilities and capital (as at 31 December 2006)

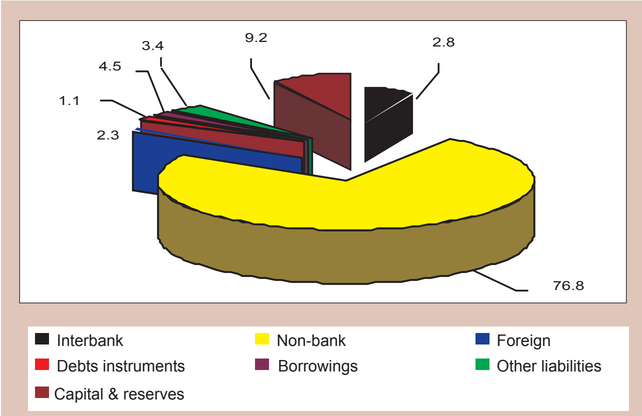
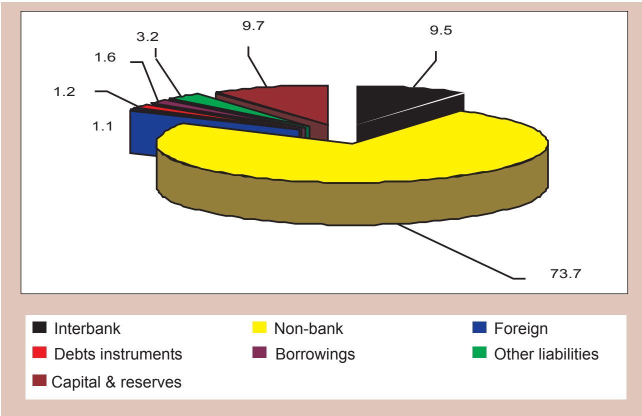


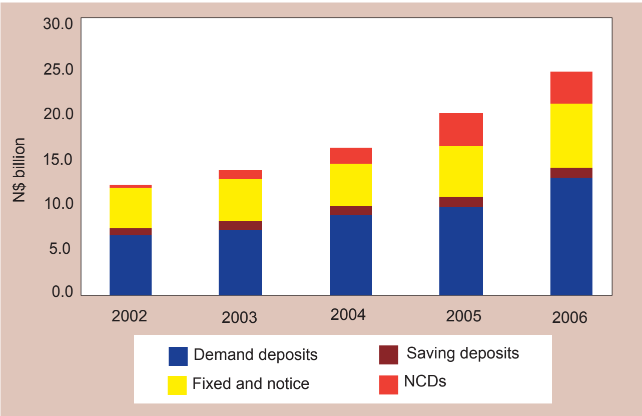
Chart 5.3 (b) Composition of liabilities and capital (as at 31 December 2005)



An analysis of non-bank funding revealed that demand deposits increased its share from 49.3 percent to 52.5 percent, while *Negotiable certificate deposits* decreased its share to 14.2 percent from 18.2 percent. *Fixed and notice deposits* showed a marginal movement from 27.5 percent to 28.7 percent in the current year. As illustrated in Chart 5.4, there was a trade-off between *Demand deposits* and *Negotiable Certificate Deposits*.

An analysis of the maturity structure of non-bank deposits revealed that short-term deposits continued to dominate the composition of non-bank deposits at 68.6 percent compared to 66.4 percent the previous year. The share of medium-term deposits decreased from 26.1 percent to 24.9 percent of total non-bank deposits, while long-term deposits constituted 6.5 percent compared to 7.5 percent the previous year. The fact that short-term deposits dominated may reflect the preference by depositors to hold their deposits short-term to enable them to take opportunities caused by fluctuating market interest rates. This has been a trend for some years and may create problems for the sector should there be liquidity squeeze in the market.

Chart 5.4 Composition of non- bank deposits (as at year ended 31 December)



5.3.3 Capital adequacy

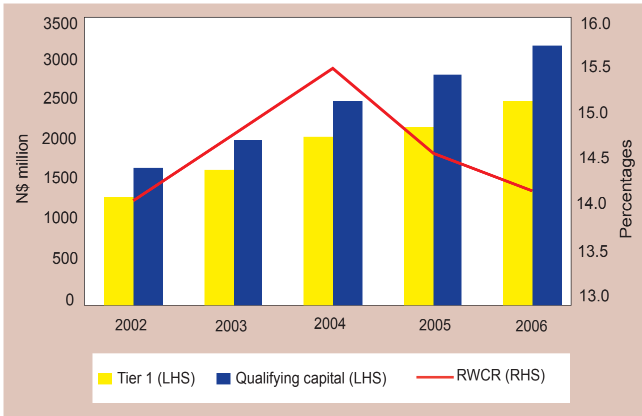
It is imperative for banking institutions to hold an adequate level of capital which is meant to absorb possible losses that banking institutions might incur in their trading and operational activities. Hence, the Bank compels all banking institutions to keep the minimum capital required as set out in the *Banking institutions determination 5* (BID 5) relating to capital adequacy. Maintaining adequate capital does not only provide a cushion against the risks associated with the growth in the banking institutions' asset base, but also provides solid support for expanding their operational activities.

A risk-weighted capital adequacy ratio (RWCR) of at least 10.0 percent of which 7.0 percent should be tier 1 capital or primary capital is one of the requirements. The other measure of capital adequacy is the tier1capital leverage ratio which is set at 6.0 percent for all banking institutions. On an individual basis, all banking institutions complied with the minimum capital requirements as outlined above, throughout the year 2006, with the exception of one banking institution that failed to comply with the tier1capital leverage ratio on 31 December 2006.

At the end of the second quarter of 2006, the banking sector managed to reach N$3 billion mark in total qualifying capital and has since grown to N$3.2 billion as at 31 December 2006. The sector maintained RWCR and tier1 leverage ratio above the required prudential limit at 14.2 and 7.5 percent, respectively, for the year under review. The RWCR showed a marginal decline from 14.6 to 14.2 percent, mainly due to growth in risk-weighted assets.

The composition of total qualifying capital is illustrated in Chart 5.5. The tier 1 capital continued to constitute the major portion of total qualifying capital increasing to 78.5 percent from 77.1 percent. The remaining 21.5 percent of total qualifying capital constituted mainly subordinated debt instruments and general provisions, which qualify as tier 2 or secondary capital.

Chart 5.5 Capital adequacy (as at year ended 31 December)



5.3.4 Credit risk

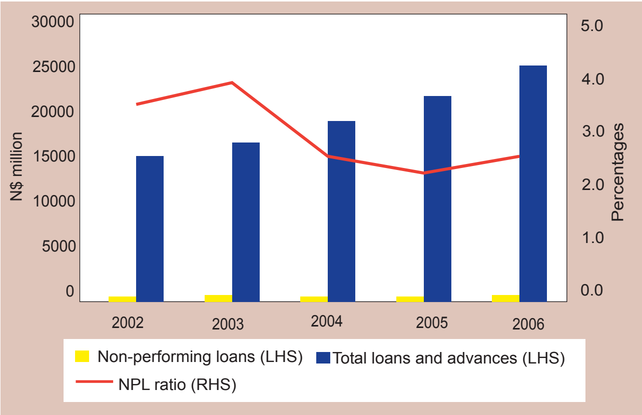
5.3.4.1 Non-performing loans

During the year 2006, the overall quality of banking institutions' loan portfolio deteriorated as evidenced by the significant increase of 28.4 percent in non-performing loans to N$657.8 million. The increase in non-performing loans could be attributed to higher interest rates that prevailed in the market which might have led to increases in the general default rate. In line with the increase in non-performing loans, the ratio of non-performing loans (NPL) to total loans (the NPL ratio) increased to 2.6 percent from 2.3 percent in the previous year. Although this ratio is on the upward trend trending, at this level, it is still considered to be within acceptable range[29]. The comparison of non-performing loans to total loans and advances is depicted in Chart 5.6. The chart illustrates the increase in both non-performing loans and the NPL

[29] In terms of the CAMELS rating system, the NPL ratio of less than 5 percent is considered to be very low.

ratio which is consistent with the movement in general market interest rates.

Chart 5.6 Non-performing loans relative to total loans (as at 31 December)



Mortgages continued to dominate the composition of delinquent loans at 39.5 percent compared with 37.9 percent the previous year. Non-performing overdrafts and installment sales increased to 26.5 percent and 19.5 percent, respectively. Mortgages contributed 45.0 percent while overdrafts contributed 38.2 percent to the overall increase in delinquency. It is also worth noting that increases in non-performing loans were experienced in almost all categories of loans except other fixed/personal loans which declined.

5.3.4.2 Adequacy of provisions[30]

In tandem with the increase in non-performing loans, specific provision increased significantly by 65.3 percent to N$300.3 million, which is an unusual increase when compared to the previous years. As a percentage of non-performing loans, specific provisions increased 10.1 percentage-points to 45.6 percent. Provisions in relation to total loans also increased to 2.4 percent compared to the previous year. Provisions are considered adequate to cater for anticipated and unexpected losses as all banking institutions complied with the provisioning requirements as provided by BID-2.

5.3.4.3 Large exposures

In terms of the Determination on Limits on Exposures to Single Borrowers (BID-4), large exposures[31] should not individually exceed 30 percent and on aggregate 800 percent of a banking institution's capital funds unless exempted in terms of BID-4. During the year under review, the value of large exposures stood at N$4.8 billion compared to N$4.0 billion reported the previous year, representing an increase of 19.1 percent. As a percentage of capital funds, aggregated large exposures also increased to 148.6 percent compared to 140.9 percent reported the previous year. Similarly, large exposures expressed as a percentage of total loans remained relatively unchanged at 18.9 percent compared to 18.7 percent the previous year. Cases of non-compliance with the individual 30 percent limit by some banking institutions were observed and appropriate corrective actions were taken.

5.3.4.4 Interbank exposures

The Determination on Interbank Placements (BID-15) was introduced in 2004 and is intended to limit the potential for contagion risk posed when a bank fails or is otherwise unable to repay its obligations to other banks in a timely manner. Exposures with a settlement period of seven calendar days or less to a single counter-party bank are limited to 50.0 percent of a bank's capital funds, while exposures with a settlement period of more than seven calendar days to a single counter-party bank are limited to 30.0 percent of a bank's capital funds. Individually, all banking institutions complied with the 50.0 percent and 30.0 percent limits for the year under review.

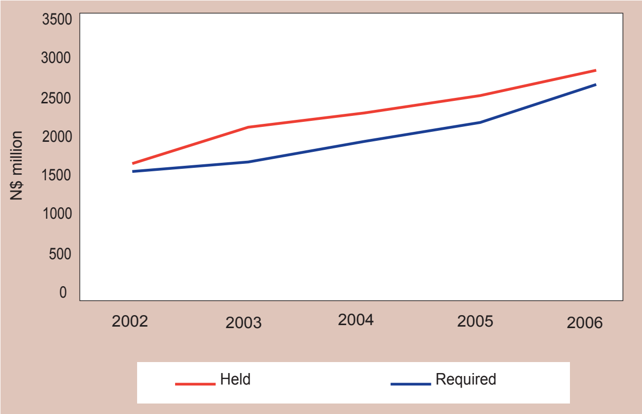
5.3.5 Liquidity

The total liquid assets held, amounted to N$3.0 billion compared to the total amount of N$2.8 billion of liquid assets required. The small margin above the required amount suggests that there is a lack of incentives to invest in liquid assets since they yield a lower income to the banks. Therefore the banking industry mainly holds these assets to meet the statutory liquidity requirements. Chart 5.7 shows that the average daily amount of liquid assets held exceeded the statutory liquid-assets requirement throughout the five year period.

[30] Adequacy of provisions refers to the extent to which total provisions (general and specific), i.e amount set aside to cover any losses that may arise from impairment of assets, cover the non-performing assets (net of interest-in-suspense and collateral).

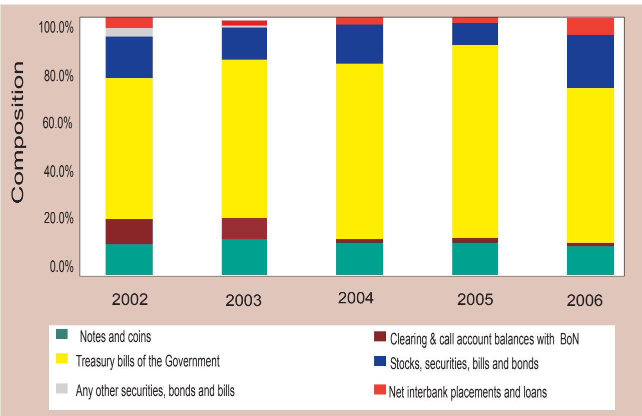
[31] A large exposure refers to any exposure to a single person or group of related persons which, in the aggregate, equals or exceeds 10 percent of a banking institutions capital funds.

Chart 5.7 Statutory liquid assets (as at year ended 31 December)



The percentage share taken up by treasury bills decreased from 75.3 percent to 60.2 percent while the share taken up by other government securities and net inter-bank placements and loans increased from 8.6 and 1.9 percent to 20.7 and 6.2 percent, respectively for the year under review. The significant decrease in treasury bills is in line with the Government's borrowing strategy aimed at lengthening the maturity of the debt to reduce rollover risk. There was no significant change in the share of other liquid assets such as notes and coins, clearing and call account balances which relatively remained the same. Chart 5.8 illustrates the shift in liquid assets, as alluded to above.

Chart 5.8 Liquid assets composition (as at year ended 31 December)



5.3.6 Profitability and earnings

Due to successive interest rate hikes during the year under review, the net interest margin of the banking sector improved which positively contributed to earnings.

Despite the increase in NPLs, the growth in net interest income was sufficient to yield overall growth in the sector's profitability.

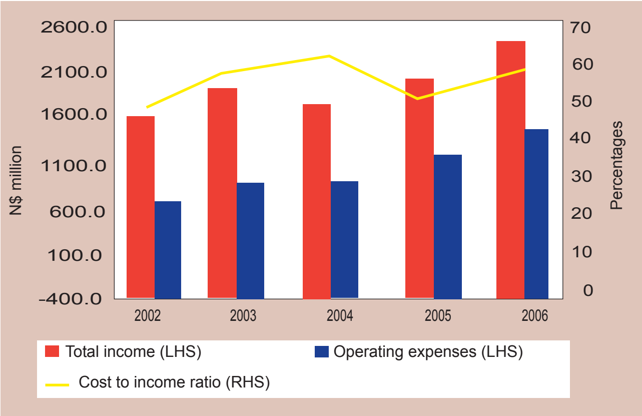
Both interest income and interest expense increased by 23.3 percent and 25.0 percent to N$2.9 billion and N$1.7 billion, respectively. The net result thereof was that net interest income increased by 21.2 percent to N$1.3 billion compared to 17.0 percent in 2005. Interest earned on overdrafts and mortgages were the main contributors to the increase on the income side, whereas interest paid on negotiable certificate of deposits as well as demand, fixed and notice deposits mainly contributed to the increase in interest expense.

The sector reported a slight improvement in other operating income from N$1.08 billion in 2005 to N$1.14 billion in 2006. This increase can mainly be attributed to a significant increase in fee and investment income of N$34.6 million and N$44.7 million, respectively. Operating expenses increased with 20.5 percent driven by higher administration and other overhead expenses and consultancy and management fees. In line with the significant increase reported in NPLs, provision charges increased considerably by N$142.0 million to N$222.5 million. The increase in provision charges could also be as a result of additional impairment of loan portfolios required by the new accounting standards framework, particular, IAS39.

High provisioning charges combined with increased operating expenses caused the banking sector's net income after tax to decline from N$590.1 million reported the previous year to N$541.2 million. As a result, both returns on assets (ROA) and return on equity (ROE) declined from 2.3 percent and 22.2 percent to 1.8 percent and 18.7 percent, respectively.

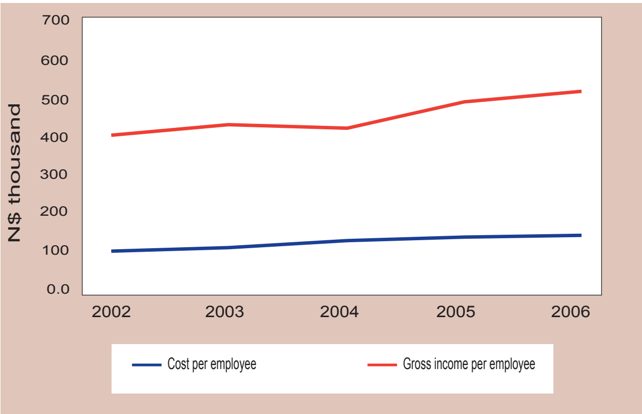
Chart 5.9 depicts the efficiency of the banking sector as measured by the cost-to-income ratio. Expressed as a percentage, operating expenses to total income increased by 3.4 percentage-points to 58.2 percent, which is still below the international benchmark of 60 percent.

Chart 5.9 Efficiency (for the year ended 31 December)



Productivity can be measured by comparing the expenditure on employees with the amount of income generated. Chart 5.10 illustrates the productivity of the banking sector for the past five years. During the year under review, the banking sector's productivity continued to improve as gross income per employee exceeded the cost per employee by N$427 000 compared to N$407 000 in 2005 and N$338 000 in 2004.

Chart 5.10 Industry's productivity (for the year)

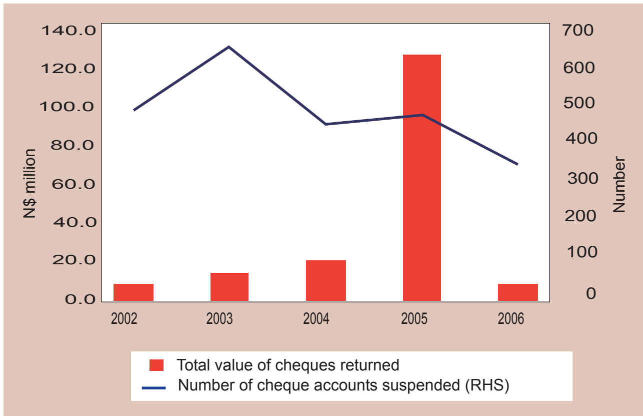


5.3.7 Suspension of cheque account facilities

The Bank of Namibia is responsible for the safety and soundness of the payments system in Namibia. The prevalence of cheques that are referred to drawer due to insufficient funds has been a matter of concern as this impact negatively on the credibility and efficiency of the payment system. The Bank, therefore, issued the Determination on the Compulsory Suspension of Cheque Accounts (BID12), which requires banking institutions to suspend the cheque account facility of any customer, in respect of whom five cheques are referred to drawer due to insufficient funds over a period of three months.

In 2006, the total value of cheques returned amounted to N$9.1 million compared to N$125.5 million in 2005. During 2005 an unusual high value of cheques were returned as a result of one bank returning a cheque with the value of N$106.7 million. The decline should, therefore, be seen as a normalization of the results. The number of cheque accounts suspended totalled 348 compared to 475 in 2005. The fact that both figures reduced during the year may indicate that more bank customers are becoming aware of the negative consequences of having cheques to be returned due to insufficient funds.

Chart 5.11 Value of cheques returned and number of cheque accounts suspended



5.3.8 Fraud

The Determination on Fraud and other Economic Crime (BID 9) requires banking institutions to report all fraudulent activities detected to the Bank. During the year under review, banks, on aggregate, reported fraudulent activities involving N$4.1million reducing from N$5.4 million reported the previous year. Out of the N$4.1 million involved, N$1.7 million was lost by the banking sector.

PART C

Financial Stability Review

Chapter 6 Financial Stability Review – 2006

6.1 The aims of the financial stability review

In terms of section 3(a) of the Bank of Namibia Act, 1997 (No. 15 of 1997), one of the objectives of the Bank is "to promote and maintain a sound monetary, credit and financial system in Namibia and sustain the liquidity, solvency and functioning of that system". Against this background, the Bank felt it necessary to publish its first financial stability review (FSR) in its annual report. Given that this is the first attempt at publishing the FSR, the focus will generally be narrow, but over time and as data improves, the review will evolve into a regular report, covering all the major components of the financial system. The Bank intends to issue an FSR on a half-yearly basis in future.

This FSR has four aims:

(i) To survey, and promote the understanding of, potential financial stability risks and ways to mitigate them

(ii) To encourage informed debate on financial stability issues

(iii) To serve as an accountability instrument, and

(iv) To help provide information that major participants in the financial system may use as part of the input into their own risk assessment procedures.

This FSR assesses the stability of the Namibian financial system with regard to both its role in facilitating economic processes and its ability to withstand adverse shocks. The FSR covers the financial system and focuses on risks and exposures in it. In other words, the focus of the report is on systemic issues rather than on the soundness of individual institutions. This focus of the FSR reflects the Bank's role in the framework of financial sector regulation and supervision. In particular, the FSR is part of the Bank's macro-prudential surveillance (financial stability) function. By providing an overview of sources of risk and vulnerability to financial stability, the review also seeks to play a role in creating awareness about financial vulnerability to ensure financial stability.

6.2 The role of the financial sector

The Namibian financial system is large and becoming increasingly complex. It can be seen as comprised of three separate but closely related components, all of which play a key role. These components include financial intermediaries, financial markets, and financial infrastructure.

Financial intermediaries (e.g. banks, insurance companies, asset managers) mobilise/pool funds (and risk) and then allocate them to their competing uses. In other words, the role of financial institutions within the system is primarily to mediate between those that provide funds and those that need funds, and typically involves transforming and managing risk. For deposit-takers, this risk arises from its role in maturity transformation, where liabilities are typically short-term (e.g. demand deposits), while its assets have longer maturity and are often illiquid (e.g. loans). Increasingly, however, financial institutions provide a range of services, and not just the traditional banking services of taking deposits and making loans.

Financial markets (in which financial assets are priced and traded) provide a forum within which financial claims can be traded and can facilitate the management and transformation of risk. Financial markets directly match savers and investors, e.g. through the issuance and sale of bonds or equities directly to investors. They also play an important role in identifying market prices (price discovery).

Financial infrastructure (that underpins the flow of funds from the buyer to the seller of goods, services and information, such as clearing and settlement systems, and security depositories) comprises both privately and publicly owned and operated institutions. These include clearance, payment and settlement systems for financial transactions, as well as monetary, legal, accounting, regulatory, supervisory and surveillance infrastructures.

It is the combined functions and roles of these three components that together embody the role of the financial sector.

6.3 The importance of reviewing the financial system

FSRs play a key role in safeguarding financial stability. Safeguarding financial stability fundamentally requires a framework to prevent problems from occurring and/or to resolve problems if prevention fails. The FSR is important to financial stability in that it entails early identification of risks to stability and of potential sources of vulnerability in the financial system before they lead to unsustainable and potentially damaging imbalances and consequences. Weaknesses and vulnerabilities could exist in any of the components of the financial system – institutions, markets, infrastructures – and could entail all three simultaneously. Accordingly, financial stability assessments are a key part of detection and prevention.

FSRs are also important because of the linkages between the real economy and the financial system. Inefficiencies or serious disruptions in the financial system could affect the implementation and effectiveness of monetary policy. They may also lead to significant economic cost over time and contribute to a system that is less able to cope with periods of financial stress. Historically, it is the weaknesses in the financial system that has been at the centre of recent economic crises.

6.4 What is *financial stability*?

Broadly defined, *financial stability* is about avoiding financial crises. It is a condition where the financial system is capable of performing all of its normal tasks well and where it is expected to do so for the foreseeable future. For the purpose of this FSR, *financial stability* is defined as a condition where the financial system is strong enough to withstand unforeseen shocks to financial institutions, markets, and infrastructures.

From this perspective, financial stability requires that the principal components of the financial system are jointly capable of absorbing adverse disturbances. It also requires that the financial system facilitates a smooth and efficient allocation of financial resources from savers to investors, which the risks are assessed and priced accurately, and that risks are efficiently managed.

In addition, financial stability has an important forward-looking dimension: inefficiencies in the reallocation of capital or shortcomings in the pricing of risk can, by laying the foundation for future vulnerabilities, compromise future financial system stability.

The analysis of financial stability covers phenomena that impair the functions of the financial system; create vulnerabilities in the financial system; and lead to a negative impact on the financial system and, thereby, on the economy as a whole.

To achieve financial stability, it is necessary to have mechanisms in place that are designed to prevent financial problems from becoming systemic and/or threatening the stability of the financial system and the economic system. These mechanisms should work without undermining the economy's ability to sustain growth and perform its other important functions.

6.5 The financial stability role of the Bank of Namibia

The Bank of Namibia's responsibility to contribute to maintaining the stability of the financial system derives from its responsibility under the Bank of Namibia Act. Central banks have a natural interest in safeguarding financial stability, mainly because financial institutions, notably banks, are issuers of a large component of the money stock. The absence of financial stability also has fiscal cost implications for the taxpayer, e.g. bailing out a failing bank.

Similarly, a stable financial system is needed for the effective transmission of monetary policy and for the smooth operation of payment systems. In addition, the condition of the financial system is inextricably linked with the performance of the economy. For these reasons, the Bank has now started to strengthen its financial stability mandate. In this connection, the Bank created a desk responsible for financial stability, while the Assistant Governor assumed the role of Head of Financial Stability. This function includes monitoring and assessing financial stability, and periodically issuing the Bank's findings to the public. In practice, the Bank of Namibia plays a number of financial stability roles, which are briefly outlined below.

6.5.1 Risk assessment

The Bank continuously monitors current developments both locally and abroad – including links between financial markets and the wider economy, and between different participants within financial markets– to identify key risks to the financial system. For example, the Bank may examine the overall financial position of borrowers and lenders, the link between financial institutions, and the resilience and vulnerability of households, firms, financial institutions and international financial systems to changes in circumstances. The Bank also intends to keep abreast of risk assessments and research on the major developed countries and the main emerging market economies to assess their possible impact on the Namibian financial system.

6.5.2 Risk reduction

The Bank deems it as its responsibility to reduce vulnerabilities and increase the financial system's ability to absorb unexpected events. This increasingly involves the promotion of codes and standards over a wide field, ranging from accounting to improving legal certainty and setting prudential requirements.

The Bank of Namibia has put in place measures to try to reduce risks to the banking system and the national payment system. These include prudential requirements on capital adequacy levels, provisioning, large exposure, interbank exposure, and on liquidity, as well as requiring Namibia Interbank Settlement System (NISS) participants to pledge sufficient security for intraday and overnight credit extension through the repo window.[32] The Bank further subscribes to international standards in preparing its accounts, in supervising banking institutions, and in ensuring a safe and robust national payment system.

6.5.3 Crisis management

Financial problems may arise unexpectedly and spread fast. An important part of the Bank's financial stability responsibility involves preparations for managing a financial crisis and having a contingency plan. This includes its role as lender of last resort; ensuring that the payment system functions effectively at all times; and ensuring that the needs of the economy for banknotes and coins can also be met in extraordinary situations.

Central banks attempt to prevent financial crises from arising and normally have contingency plans to manage such crises. As part of their role in financial crisis management, central banks develop and coordinate information to ensure future financial crises are handled and managed effectively. In undertaking this responsibility, central banks offer advice on and implement policy measures to mitigate risks to the financial system. The Bank of Namibia's policy on banks in distress and the procedures on regulatory response (to be followed when dealing with banks in distress) are in the final stage of finalisation. However, in Namibia, there is a need to review the resilience of the financial system to emergencies such as asset price bubbles, natural disasters, epidemics, and pandemics.

6.5.4 Lender of last resort

A central bank can "create liquidity" or "print money". It will, therefore, be able to play a key role in financial crises. In exceptional circumstances, e.g. when crisis management has failed, a central bank may act as "lender of last resort" to financial institutions in difficulty. This means that the central bank can supply extraordinary liquidity to an individual bank or the banking system when demand for liquidity cannot be met from other sources. The aim of these official operations is to prevent a loss of confidence spreading through the financial system as a whole and/or to limit the risk of problems in, or affecting, particular institutions spreading to other parts of the financial system. Section 32 of the Bank of Namibia act empowers the Bank of Namibia to act as a lender of last resort to banking institutions should it be necessary for the purposes of maintaining a sound financial system. The Bank has internal guidelines in place on how to react when such a facility is needed.

6.6 Financial stability indicators and developments

6.6.1 Global financial market conditions

According to the IMF's September 2006 Global Financial Stability Report, the global financial system continued to be robust in 2006, supported in part by low interest rates in industrialised economies and the strong balance sheets of financial institutions and corporations. Many emerging market prudently used the recent period of strong global growth and supportive financial conditions to improve their fiscal accounts, accumulate reserves, and strengthen public debt systems.

Improved fundamentals in many corporate and emerging market sovereign borrowers have helped them weather

[32] Through the repo window, NISS participants enter into repurchase agreements with the Bank to obtain funds for intraday settlement (through the intraday repo facility), and for overnight accommodation (through the overnight repo facility).

the market volatility observed in May and June 2006, during which international markets corrected from valuations that had become stretched as investors scaled back their exposures to high-yielding assets. Markets subsequently recovered many of their earlier losses, making the correction fairly modest. Going forward, the IMF expects international financial conditions to remain favourable, supported by robust global growth and stable inflation. This would allow corporate earnings growth to remain healthy, with default rates kept low, and emerging market sovereign finances continuing to improve, thereby continuing to support international financial markets.

Despite the relatively sanguine assessment of global financial conditions, the IMF warns of global risks that could lead to international financial markets undergoing more severe corrections going forward. These risks include an intensification of global inflation pressures, requiring more monetary tightening than currently expected; further increases in oil prices because of geopolitical uncertainties; and a more rapid cooling-off in the US housing market, leading to a pronounced slowdown of the US economy. The potential for a disorderly unwinding of global imbalances remains a concern to the outlook. In this connection, the IMF points out that, although the US market remains attractive due to its diversity and performance, there is a low-probability but potentially high-cost risk to the global financial system that a Dollar decline could become self-reinforcing and, hence, disorderly.

Bondholders suffered in 2006, feeling the effects of the interest rate hikes that the US, the United Kingdom, the Euro Area and even Japan experienced. From Table 6.1 below, compared with data from a year ago, two-year note yields in the US, UK, the Euro Area and Japan were 45, 106, 100 and 50 basis points higher, respectively. Correspondingly, the ten-year sector yields were up 31, 66, 61 and 17 basis points respectively in the US, UK, Euro Area and Japan.

Stock markets rallied throughout the year, frequently closing at record levels in the US, Germany, France, the UK and South Africa, ending 16.29, 22, 17.5, 10.7 and 37.7 percent higher respectively than at the beginning of the year. See Table 6.2 below.

The US Government is advocating a weak Dollar. Coupled with the fact that a rate cut vis-à-vis a hike is more eminent during the second quarter in 2007, the Rand and, for that matter, the Namibia Dollar could, therefore, be seen at stronger levels. This could hurt the mining and fishing sectors in both Namibian and South Africa.

Table 6.1 Major industrial countries' bond yields

Country	Two-year note, 2006 (%)	Two-year note, 2005 (%)	Different inc basis points	Ten-year note, 2006 (%)	Ten-year note, 2005 (%)	Difference in basis points
US	4.78	4.33	45	4.68	4.37	31
UK	5.22	4.16	106	4.77	4.11	66
Euro Area	3.88	2.88	100	3.94	3.33	61
Japan	0.81	0.31	50	1.68	1.51	17

Source: Bloomberg

Table 6.2 Performance of major stock exchanges

Exchange	Index	31 Dec 2006	1 Jan 2006	% change
New York	Dow Jones IA	12,463.15	10,717.50	16.29
Frankfurt	Xetra Dax	6,596.92	5,408.26	21.98
Paris	CAC 40	5,541.76	4,715.23	17.53
London	FTSE 100	6,220.80	5,618.80	10.71
Johannesburg	JSE All Share	18,097.00	24,915.00	37.67

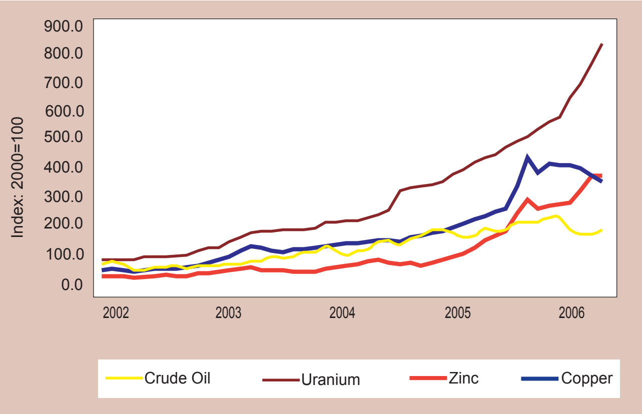
Source: Bloomberg

Commodity price developments

Both fuel and non-fuel commodity prices have risen significantly over the past four years. Prices for non-fuel commodities have risen much faster than oil prices. In fact, the IMF metals index rose by 180 percent since 2002, compared to an increase of 157 percent in the oil price.

The price movement of some of the major commodities on which the Namibian economy relies on the import and export side is depicted in Chart 6.1.

Chart 6.1 Selected commodity prices



Source: IMF

The current upturn in metal prices has been spurred by strong industrial growth, particularly in China. However, the IMF, in its September 2006 *World Economic Outlook*, indicates that metal prices could retreat from their recent high levels, mainly because of new capacity coming on-stream, although they are unlikely to fall back to earlier levels.

6.6.2 Financial developments in South Africa

According to Fitch's (2006) Bank Systemic Risk Report, South Africa is one of the countries ranked as highly vulnerable to potential systemic stress due to rapid lending growth. Rapid growth of household credit can lead to several macroeconomic risks. These include fuelling consumer prices; property price inflation; higher imports and, thus, current account deficits (at 6.4 percent of GDP in the first quarter of 2006); and, when funded by capital inflows, vulnerability to sudden stops.

The Rand depreciated by 16 percent against the US Dollar during 2006. The key factor to this depreciation was the current account deficit, at 6 percent of GDP. A combination of rampant domestic consumption, high fuel costs, a weak Rand, and rising food prices fuelled inflation in South Africa towards the end of the year under review. In order to contain the inflationary pressures, the South African Reserve Bank raised its repo rate by 200 basis points during 2006. However, the South African economy has, in the past, shown considerable resiliency to external shocks. It is expected, therefore, that it will weather any future financial disruptions.

6.7 State of the Namibian financial industry

This section gives an account of the state of the Namibian financial industry, and highlights areas of concern or comfort from a financial stability perspective.

By regional standards, the Namibian financial industry is well developed, diverse and robust. Although there is fairly wide confidence in the Namibian financial industry, certain negative perceptions remain regarding service delivery, such as the following:

- Service charges and fees that are too high
- Inadequate service delivery, especially in undeveloped and rural areas
- Lack of access to bank credit in rural and unproclaimed areas, and
- A lack of education programmes regarding banking and investment product offerings.

The Namibian financial industry has recognised some of these weaknesses and is responding to these and others by adopting a financial sector charter. The charter, which is in draft form, tries to give commitments to challenges such as access, empowerment, and consumer protection and education.

Furthermore, in January 2007, the Bank of Namibia in association with the Bankers' Association of Namibia will launch a public education initiative, Banking Week 2007, aimed at educating the public on banking and finance issues in order to increase the level of financial literacy and awareness in the country.

6.7.1 Assessment of the banking industry

Banks are systemic in nature. This means that adverse shocks originating from the banking sector can spill over both to the rest of the financial system and to the real economy. The assessment of the health, strength and resilience of the banking sector is, therefore, critical to assessing the soundness/stability of the financial system.

The Herfindahl Index (HI) is a measure of concentration in a banking sector. It is calculated as a sum of squares of the market shares of all banks in the sector. The rule of thumb is that an HI below 1,000 indicates relatively limited concentration, while an HI above 1,800 points to a significant concentration. Thus, by this measure (Table 6.3), the Namibian banking structure is highly concentrated. The stability implications for such a structure are not clear, as there are two opposing theories on the impact of bank concentration on financial stability.

The structure-conduct performance theory asserts that, as the market becomes more concentrated, banks tend to collude and act as a monopoly in setting their prices above their competitive levels. The contestability hypothesis, on the other hand, suggests that banks in a highly concentrated system may still behave competitively if a potential free entrant exists that can offer similar services at lower costs.

The Namibian banking industry continued to be profitable and well capitalised in 2006. The strength of the earnings of banking institutions in the year to December allowed them to maintain their capital at healthy levels and set aside buffers. Table 6.3 provides summary statistics on the banking sector. The capital adequacy for the banking sector averaged about 14.4 percent between December 2005 and December 2006, maintaining more than four percentage points above the regulatory requirements of 10 percent. From this perspective, it can be concluded that the capital level of the banking system does not represent a significant source of vulnerability.

However, some concerns remain about the existence of pockets of fragility where profitability declined in 2006. Both the return on assets and the return on equity fell from 2.3 percent and 23.3 percent at the close of 2005 to 1.5 percent and 15.8 percent, respectively, in December 2006. At the same time, NPLs shot up by 30.8 percent in 2006. As a result, the NPL ratio (NPLs to total loans) increased from 2.3 percent (December 2005) to 2.6 percent (December 2006), although an NPL ratio of less than 5 percent is considered very low. The ratio of provisions to NPLs, which fell from 85.3 percent in December 2005 to 65.7 percent in June 2006, improved to 90.3 percent in December, 2006 and all banks still complied with the relevant prudential requirements of BID 2 on asset classification, suspension of interest, and provisioning.

Table 6.3 Key financial soundness indicators for the Namibian banking industry

	Dec 2004	Jun 2005	Dec 2005	Jun 2006	Dec 2006
Structure					
Number of banks	4	4	4	4	4
Total assets of banks (N$ million)	23,399	25,587	28,178	30,130	33,397
Gini Concentration Index	19.45	18.00	16.50	15.35	16.00
Herfindahl Index	2,832	2,789	2,729	2,712	2,730
Capital adequacy (%)					
Tier 1 leverage ratio	8.7	8.4	7.7	8.2	7.5
Tier 1 capital ratio (Tier 1 RBC)	12.7	12.2	11.2	11.8	11.1
Total RBC (regulatory capital to RWAs)	15.4	15.1	14.6	14.8	14.2
Asset quality (%)					
NPLs/Total gross loans	2.5	2.9	2.3	2.9	2.6
Gross overdues/Total loans and advances	3.6	15.7	3.7	3.8	3.3
Provisions/Total loans	2.2	2.4	2.0	2.0	2.4
Provisions/NPLs	80.9	74.7	85.3	65.7	90.3
Specific provisions/Total loans and advances	1.2	0.98	0.81	0.83	1.19
Household (individual) loans/Total loans	51.2	52.4	54.9	57.4	56.4
Earnings and profitability (%)					
Return on assets	1.9	2.3	2.3	2.1	1.5
Return on equity	16.8	22.0	23.3	21.0	15.8
Interest margin to gross income	52.4	48.1	49.9	51.5	53.6
Liquidity					
Liquid assets to total assets (liquidity ratio)	10.4	9.9	9.5	9.5	9.1
Total loans/Total deposits	100.6	91.3	96.0	93.7	92.8

Since this deterioration is asset quality took place in tandem with increases in interest rates, it is to be expected that further rate rises could result in further increases in NPLs.

The banking system is generally stable overall, with adequate capital levels, strong earnings, and good asset quality (low levels of NPL ratios). However, minor weaknesses remain, namely high concentration measured by Herfindahl Index standards, deterioration in asset quality, and declining profitability for the period ended 31 December 2006.

6.7.2 Bond and equity markets

The review of financial stability in Namibia also focuses on the bond and equity markets. The instability in these markets creates uncertainty among market investors, as a result of which the bond and equity market as a source of investments might become less attractive. Extreme volatility could also result in capital flight, as investors seek safer and stable havens. Such a phenomenon could lead to a severe and prolonged financial crisis. It is imperative, therefore, to continuously monitor developments in the money and capital markets.

One positive development during the review period was the narrowing of the spread between Namibian Government bonds and their benchmark, South African Government bonds. For example, the average spread between the GC15 and R157 narrowed to 130 basis points as compared with 200 basis points during December 2005. Partly responsible for the convergence of spreads was the favourable sovereign credit rating granted to the Republic of Namibia in 2005 and reconfirmed in 2006. Also contributing to the narrowing in spreads was the excess liquidity of the financial system and lack of sufficient debt securities. The narrowing of the spread augurs well for financial stability as it implies investor confidence in Namibian bond and equity markets. It also implies that, compared to their South African counterparts, Namibian bonds' risk premium is declining.

Fitch Ratings assigned Namibia a long-term foreign currency rating of BBB, and a long-term local currency rating of BBB. The creditworthiness of Namibia was reaffirmed by the launch of the first international Namibia Dollar bond by the European Investment Bank in March 2006, and by the oversubscription of the syndicated loan contracted by the Bank of Namibia in August 2006.

On the equity market, the NSX continued the strong upward momentum in market indices observed since 2004. The NSX's overall price index reached a record high of 727.4 points by December 2006 from 523.7 points at the end of 2005. The current stock market boom is, in part, inspired by positive performance on the Johannesburg Stock Exchange (JSE). The increase in equity prices was also linked to favourable economic growth, reflected in a strong corporate profit outlook.

In addition, the NSX is strongly linked to the JSE because of dual-listed companies that make up the largest share of the former's market capitalisation. This relationship has an implication for the NSX in the event of any crisis hitting the JSE. Furthermore, the JSE is integrated with other international stock exchanges. As a result, the likelihood of the contagion emanating from those markets and centres being transmitted through the JSE to the NSX and local financial system is probable. However, as demonstrated during the 1997/98 financial markets crisis, the South African financial is resolute enough to withstand such crises.

Overall, developments in the equity market continued to be buoyant, although the support for equity prices from low interest rates may wane in response to tighter monetary policy. Other possible negative factors include inflation concerns, a volatile and depreciating currency, and higher fuel costs.

6.7.3 Exchange rate developments

The exchange rate of the Rand (and, by extension, the Namibia Dollar) became much more volatile in recent months. The reasons for this increased volatility include enhanced risk aversion towards emerging markets, uncertainty about future levels of US interest rates, declining commodity prices, and concern about the high current account deficit in South Africa. In June 2006, the variance between the highest and lowest trading value of the Rand reached almost one Rand per Dollar. However, because the fundamentals in the South African economy remain sound, the primary cause for the exchange rate instability may be ascribed to adverse developments in other emerging markets. Therefore, there is no evidence of a looming currency crisis and also no cause for concern from a financial stability perspective.

6.7.4 External sector

The Guidotti ratio (the ratio of official reserves to short-term Government external debt falling within 12 months) is widely used to assess an economy's vulnerability to external shocks. Table 6.4 gives Namibia's ratios for the period March 2005 to December 2006. As a rule of thumb, countries should hold reserves such that Guidotti ratios are greater than unity. A ratio of 1.05 in the second quarter of 2006, for example, implies that Namibia's reserves were enough to cover 105 percent of the country's short-term foreign obligations if foreign borrowing became inaccessible. By contrast, the country's reserve position deteriorated and by the fourth quarter it had reserves to cover only 81 percent of its foreign short-term debt.

Table 6.4 Guidotti ratio for Namibia

Mar 2005	Jun 2005	Sep 2005	Dec 2005	Mar 2006	Jun 2006	Sep 2006	Dec 2006
0.24	0.26	0.46	0.76	0.19	1.05	0.57	0.81

Although the Guidotti ratio in recent months appears comforting, the variability of the ratio is cause for concern. The accumulation of foreign exchange reserves can lessen the impact of a foreign exchange liquidity crisis, especially if access to foreign borrowing and credit lines are unavailable. The Bank of Namibia recently negotiated uncommitted lines of credit with several international banks and also accessed a syndicated loan. These contingency measures are meant to avoid or at least lessen the impact of a possible crisis.

6.7.5 Insurance industry[33]

Financial stability is increasingly affected by non-bank financial institutions. In particular, the link between the insurance sector and the rest of the financial system make it necessary to assess the sector's financial soundness. Policyholders also have an interest in efficient, fair, safe and stable insurance markets.

There are 16 long-term and 12 short-term insurers in Namibia. The market for long-term (primary) insurance is dominated by three of the country's largest insurance companies in terms of assets and membership. The same companies also take up 85 percent of market share in terms of premium.

The net premium of the primary insurance sector grew by 5.8 percent from N$1.4 billion during 2005 to N$1.7 billion in 2006. Similarly, policy liabilities increased from N$10.8 billion to N$13.2 billion over the same period. The total assets held by the long-term insurance companies grew by 20.3 percent between 2005 and 2006. These asset levels will be boosted by the transfer of Namibian insurance business (totalling over N$687 million) held in South Africa.

The sector observed a steady quarterly increase in new business underwritten, which rose from 40,938 new policies to 55,200 new policies issued by the end of June 2006. The sector also managed to reduce the ratio of policy lapses to new policies from 34 percent in the first quarter of 2006 to 24 percent in the second quarter of 2006. All life assurance companies had healthy solvency ratios during the period under review. The industry Capital Adequacy Requirement (CAR) – or excess of assets over liabilities – rose to N$1.2 billion by the end of June 2006.

Notwithstanding the benign picture, sources of vulnerability remain and the long-term insurance industry in Namibia faces some daunting challenges in the period ahead. Recent consolidations (mergers and acquisitions) reduced the number of market players. This is likely to result in some competition-reducing effects that could result in higher premiums. The biggest threat to the primary insurers and, ultimately, to the financial markets and the economy is the possible impact of HIV/AIDS on life assurance products pricing and claims, as well as challenges associated with decreasing life expectancies that may continue to weigh on future profits.

A study by the Bank of Namibia on the impact of HIV/AIDS on the financial sector concluded that the main risks posed by HIV/AIDS on the insurance industry were that monthly life premiums for life cover would increase significantly. Claims in which HIV/AIDS is the major cause of death have been increasing rapidly. The study also concluded that the insurance industry expected sharp increases in premiums in the foreseeable future. Slow population growth as a result of HIV/AIDS was also viewed by the industry as a risk with negative implications on the growth in the number of policyholders.

[33] This section is partly based on the information supplied by NAMFISA.

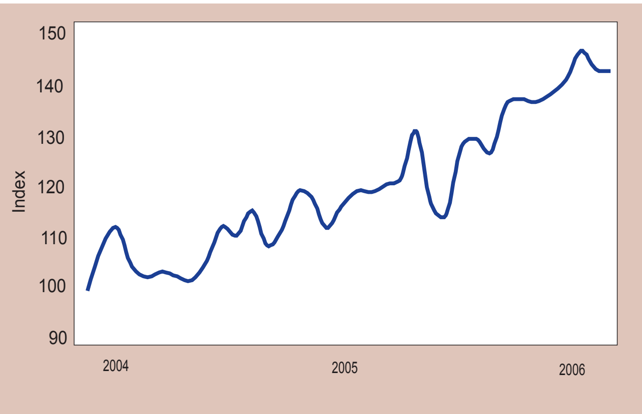
The overall outlook for the long-term insurance industry as a whole continued to improve over the past six months. Total assets and net premium income grew, while the solvency position was also likely to improve further with the expected good economic prospects. From a financial stability perspective, therefore, the operations of long-term insurers do not appear to constitute a threat. However, the impact of HIV/AIDS should be monitored on a continuous basis.

6.7.6 Corporate sector

Banks are exposed to the corporate sector both directly through their credit and indirectly to households that have family members employed by these firms. Therefore, it is important from a stability perspective to analyse and assess the corporate sector's profitability and the robustness of the balance sheets.

The Institute of Public Policy Research (IPPR) Business Climate Index measures the business confidence of the top 50 businesses in Namibia (across all major sectors of the economy) and is based on the results of a monthly survey. The index is a measure of business expectations for conditions 12 months ahead. The index rose steadily from the beginning of the year, the trend of which is reflected in Chart 6.2 below. By October 2006 the index had reached an all-time high, mainly on the grounds of favourable business indicators and a favourable outlook. By November 2006, the index saw a mild reduction on a month-on-month basis.

Chart 6.2 Business Climate Index



Source: Institute of Public Policy Research

Corporate debt was 21.8 percent of GDP in 2005 compared to 15.3 percent in 2002 (Table 6.5). A similar ratio applied for South Africa was 27.9 percent of GDP. As a proportion of national disposable income, corporate debt averaged 26.6 percent between 2003 and 2005. Credit extended to private businesses was up by 10.1 percent between December 2005 and September 2006. By comparison, the ratio was 23.6 percent in South Africa in June 2006. At the same time, loans to non-financial corporations as a proportion of total loans stood at 34.2 percent as at June 2006. While these corporate ratios compare favourably with those in South Africa, they should be interpreted with care given the possible differences in economic conditions in the two countries.

Although there are no indications of significant credit risk posed by the sector, some risks remain. In particular, the sector is exposed to higher production costs resulting from an increase in oil prices. This is particularly pronounced in energy-intensive and energy-sensitive industries/sectors such as agriculture, fishing, and transport and communications. In addition, a further increase in interest rates may cut into corporate sector profitability.

Table 6.5 Corporate sector

	2002	2003	2004	2005	2006
Debt to GDP ratio	15.3	19.2	20.7	21.8	21.9
Debt to net disposable income (excl. general Government)	20.9	25.1	28.7	31.5	NA
Real gross fixed capital formation year-on-year percentage change	30.9	34.4	-13.3	8.4	NA

Source: CBS and BoN
NA stands for not available

6.7.7 Household sector

Banks are the largest providers of household credit, and as a result incur considerable credit risk through lending to the household sector. The balance sheets of households are, therefore, relevant to financial stability. A deterioration in household repayment capacity (and net worth) due to income, interest rate, or exchange rate shocks may translate into higher NPLs. In turn, a rise in NPLs may impair the balance sheet of the financial sector.

Household credit (from the financial sector) expanded modestly in 2006, averaging 2.9 percent and, as such, does not currently pose a significant threat to financial stability (Table 6.6.) However, this growth took place during a period of low inflation and interest rates, combined with economic growth. Thus, household balance sheets may come under pressure if interest rates rise.

As a proportion of GDP, household debt grew from 29.6 percent in 2002 to 40 percent in 2005 (or an average of 32.8 percent over the period) (Table 6.6.) The average household credit to GDP ratio in emerging market countries was about 18 percent in 2005, but ranged widely from about 3 percent to 64 percent, according to the IMF's September 2006 Global Financial Stability Report. These are relatively modest levels of indebtedness and are not likely to increase the vulnerability of households to economic and financial market shocks or impair their repayment capacity. A slightly different picture appears when household debt is expressed as a share of net national disposable income (excluding general Government). By this measure, household debt rose from 50 percent of net national disposable income in 2003 to 56.8 percent in 2005. A comparable ratio for South Africa was 62.4 percent in 2005. Although this is a relatively low level of bank exposure, it needs to be monitored in future. In a scenario of interest rates or slowing economic growth, such rising levels of indebtedness, if continued, might constrain some households in their ability to honour their debt obligations.

6.7.8 Property market

Property market conditions have a significant impact on financial system stability. This primarily flows from the major role of real property as an asset class financed by bank lending, from its widespread use as loan collateral, and from the fact that properties are frequently the most important component of household assets. An increase in property prices that is too rapid may cause lending to expand too quickly. A subsequent slump in property prices could have an adverse effect on the banking sector as the value of previously taken mortgage collateral tumbles. Some known banking crises in history were closely linked to rapid movements in property prices.

Total mortgage loans outstanding at the end of December 2006 stood at N$13.3 billion, which on a year-on-year basis represents a 25.6 percent increase. At the end of September 2006, total mortgage loans (excluding farm mortgage loans) constituted 45 percent of total loans extended. The trend in changes in banks' mortgage loan portfolios is shown in Chart 6.3. The trend indicates that the demand for mortgage loans began abating in recent months mainly in response to the rising bond rate during the latter half of 2006. Further analysis of banks' mortgage loans show that mortgage loans to individuals

Table 6.6 Household sector

	2002	2003	2004	2005	2006
Real household consumption expenditure (% growth)	4.3	7.1	9.8	4.4	NA
National disposable income*(% growth)	21.2	7.5	0.6	2.3	NA
Household consumption expenditure to GDP**	52.6	52.5	54.9	55.4	NA
Housing loans to household debt	-	50.0	54.2	56.8	60.6
Household debt to GDP**	29.6	29.9	32.0	40.0	42.1
Household debt to national disposable income*	40.5	39.1	47.3	57.9	NA
Household credit growth	13.0	3.8	21.8	25.0	16.9

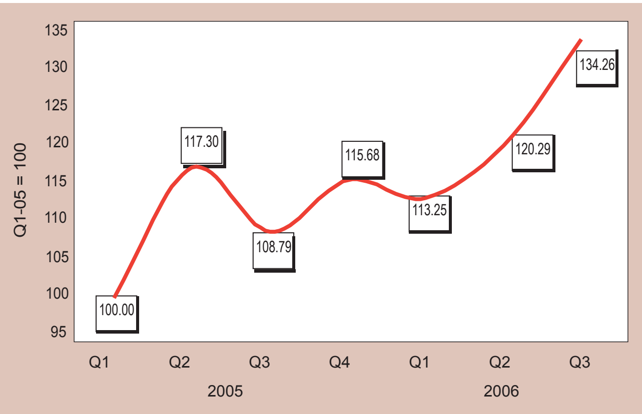
* Excludes General Government
** GDP at current prices
N A stands for not available

(mostly for residential property) change more smoothly over time than mortgage loans to businesses (mostly for non-residential property). This implies that businesses react to rate changes more quickly.

Chart 6.3 Mortgage growths (year-on-year)

The overall quarterly First National Bank (FNB) House Valuation Index for Windhoek increased year-on-year by 23.4 percent and quarter-on-quarter by 11.6 percent in the third quarter of 2006. The index since 2005 is shown in Chart 6.4.

Chart 6.4 House valuation index

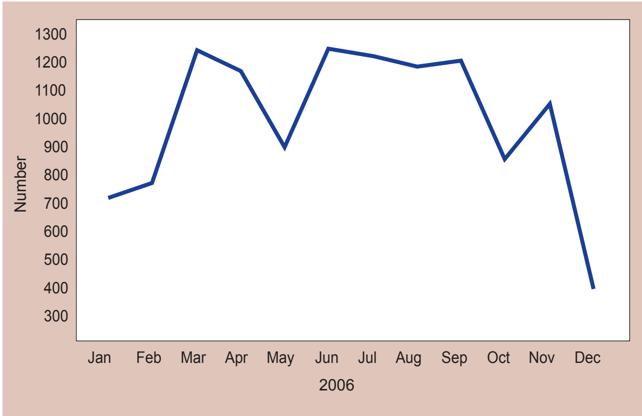


Source: First National Bank

While the housing demand in Windhoek remained firm, as reflected in the steady increase in house prices, the tempo of this rise should abate soon in response to rising bond rates. The FNB House Valuation Index further shows that the rise in different Windhoek suburbs is quite different, which reflects the demand situation in the various price categories over time.

Many Namibian households were fairly indebted during the year under review, although the number of civil court cases for debt-related charges declined in recent months, as indicated in Chart 6.5. Potentially, however, rapid growth of household credit can feed into asset/property price inflation. Rising house prices, in turn, can encourage further credit growth by raising collateral values. An eventual decline in inflated property prices may result in a boom–bust cycle. Furthermore, higher rates are likely to exacerbate indebtedness, with dire consequences for the banking sector.

Chart 6.5 Number of civil debt cases



In addition, intensified competition in the banking industry during 2006 compelled banks to offer easier credit terms/standards to the private sector (households and business firms). It also meant that banks took on greater risk in order to gain market share and boost profitability. This might be creating future difficulties, including deterioration in the quality of banks' credit portfolios. The Bank of Namibia closely monitors trends in the property market and any indicators of price bubbles so as to avoid any of these risks in the periods ahead.

The pace of residential property price increases in Windhoek is also a source of concern for price stability. A surge in property prices could filter through the price system and raise inflation, thereby compromising price stability. Furthermore, in the event of an unexpected surge in interest rates, high property prices might cause an increase in NPLs and homeowners to default on their home loans. This might affect banking profitability negatively, and could lead to financial distress and a slowdown in economic growth.

However, according to a simulation by the Financial System Stability Assessment for Namibia by the IMF team, in which domestic interest rates increase by 5 percent and are assumed to lead to a 30 percent increase in mortgage NPLs, the stress test results suggest that only 25 percent of the banks are vulnerable to such a shock. The Capital Adequacy Ratio in this case falls below the minimum required CAR of 10 percent.

6.7.9 The national payment system

Any assessment of the stability of the financial system must include an appraisal of the functioning of the payment system. The latter is the network through which banks are interconnected and is, thus, at the core of the banking system. A smoothly functioning payment system facilitates an efficient and effective allocation of financial resources, thereby contributing to economic efficiency. An operational mishap, the failure of one bank to pay another bank, or a liquidity problem (in the money market) would, through a domino effect, have systemic consequences with adverse implications for trade/commerce, finance and economic activity. A robust payment system is, therefore, one of the core infrastructures for financial stability.

Major reforms aimed reducing risks in the national payment system

The year under review saw major reform efforts aimed at reducing risks in the National Payment System. These included the assessment of the NISS against Bank for International Settlement's Core Principles for Systemically Important Payment Systems based on Financial Sector Assessment Programme and the introduction of risk reduction measures in the retail payment environment.

The results of the NISS assessment show that, with the exception of core principles 3, 5 and 7, all core principles had been observed. Core principles 3 and 7 were broadly observed, while core principle 5 was not applicable. The recommendation for core principle 3 was that there was an urgent need for a loss-sharing arrangement to be put in place. A loss-sharing arrangement is a process where participants in the settlement system pool funds to enable settlement to take place. The funds will be utilised when one participant is unable to settle their obligations. As part of implementing the recommendation of principle 3, the Bank issued a position paper on risk reduction measures in Payment Clearing House (PCH) batches after consultation with the participants in the retail PCH batches. These measures included further lowering of item limits in the retail batch payment streams, thereby reducing high-value payments in these streams.

The recommendation for core principle 7 was for more regular testing of the secondary site or back-up site. In terms of principle 7, the Bank will, in 2007, introduce regular testing of the secondary/back-up site.

Challenges for the National Payment System

Judging from events emanating from the preceding year, it is prudent to state that the payment system in Namibia does not presently pose a financial stability risk. For example, there were no major disruptions reported on the NISS during the period under review. The uptime or availability rate for the NISS was recorded at 99.1 percent of settlement days in 2006. However, challenges remain that the Bank will attend to in order to continue ensuring the reduction of risk to financial stability:

- Finalisation and implementation of the Payment System Oversight Framework
- Ensuring implementation of risk reduction measures in the retail payment system environment
- Monitoring and reporting on developments in the payment systems
- Performing a self-assessment exercise of the retail payment systems against the Bank for International Settlement (BIS) Core Principles for Systemically Important Payment Systems in the near future
- Striving for a high degree of compliance with the BIS Core Principles for Systemically Important Payment Systems, e.g. by undertaking more regular testing of the NISS contingency environment in line with international best practices
- Putting in place the necessary determinations in terms of the Payment Systems Management Act, 2003 (No. 18 of 2003), that will regulate payment instruments, payment systems, service providers, and system participants, and
- Focus research on emerging payment technologies and initiate regulations.

6.8 Regulatory developments in Namibia

6.8.1 Banking sector

One of the key responsibilities of banking supervision is to ensure that the legal framework for the regulation and supervision of banking institutions and banking groups in Namibia remains relevant and current. Therefore, the legal framework pertaining to banking regulation has to be consistent with international best practices, particularly the Basel Core Principles of Effective Banking Supervision. Consequently, the Bank reviewed the Banking Institutions Act and other related determinations and proposed the necessary amendments.

In particular, the legal framework should be amended as regards the supervision of bank holding companies and financial groups on a consolidated basis; and the regulatory requirements as regards market and country risks. In addition, the Bank implemented risk-based supervision in 2006.

In October 2005, the Bank took a decision in principle to implement the new Capital Accord (Basel II by 2008). By enhancing risk management, capital adequacy and market discipline in banking institutions, the implementation of Basel II is expected to contribute significantly to fostering banking stability and, hence, financial stability in Namibia.

6.8.2 Non-bank financial institutions

The February 2006 Financial Sector Assessment Programme Report by the IMF/World Bank identified various shortcomings regarding the supervision of non-bank financial institutions in Namibia.

NAMFISA is currently addressing these shortcomings through the new NAMFISA Amendment Bill. The proposed revision of the legal framework will address shortcomings regarding market conduct and regulatory requirements in terms of an integrated risk approach. The Public Accountants' and Auditors' Amendment Act, 1990, which regulates the accounting and auditing professions and is administered by NAMFISA, is also part of the amendments.

The industry was widely consulted on the NAMFISA Amendment Bill and it is envisaged that the Bill will be tabled in Parliament during March 2007. With the assistance from the First Initiative, capacity-building began in September 2006. New policies regarding on-site analysis, reporting, licensing and general market conduct requirements will be implemented during 2007.

The Companies Act, was amended in 2004. The changes to the Act include making it easier to finance black economic empowerment transactions, and allowing companies, under certain circumstances, to buy back their shares. The implementation of the new legislation will take place as soon as the regulations are gazetted. This is expected to happen in 2007. (The Companies Act is administered by the Ministry of Trade and Industry.)

6.8.3 Anti-money laundering and combating of financing of terrorism

Reducing risks to the banking sector and the payment system is part of the Bank of Namibia's financial stability role. The latter involves the prevention of financial crimes, and sensitising stakeholders to their obligations in combating money laundering and reporting suspicious transactions. To this end, an awareness-raising workshop was organised by the Bank of Namibia in October 2006 on measure to combat money laundering and the financing of terrorism. Technical training during the workshop was provided by the US Treasury Department's Office of Technical Assistance.

The Bank of Namibia is a financial institution that takes deposits from and extends credit to the Government of the Republic of Namibia and local banking institutions. The Bank also invests the country's foreign exchange reserves by holding foreign securities and investing with credible international financial institutions. In exercising this function, the Bank must take care that it is not consciously or unconsciously involved in money laundering or funding terrorism. Therefore, in its capacity as a financial institution, the Bank adopted a Policy on Compliance with Requirements under Relevant Laws on Anti-money Laundering and Combating of the Financing of Terrorism to serve as a guideline for identifying and reporting suspicious transactions and for properly identifying the Bank's customers.

The Financial Intelligence Act 2006 was passed by the National Assembly in 2006 and will be administered by the Bank of Namibia. The Act addresses the following key provisions, amongst others:

- Defining money laundering
- Creating the Anti-money Laundering Advisory Council
- Laying down obligations for accountable institutions and supervisory bodies, and

- Prescribing money laundering control measures.

In terms of the Act, the Bank of Namibia will be the Financial Intelligence Centre. The principal objective of the Bank, insofar as it is this Centre, is to combat money laundering activities by collecting, analysing and disseminating financial data which may lead to the prosecution of persons involved in money laundering and related activities.

While the Act deals mainly with the procedures for combating money laundering, the criminalisation and penalisation thereof is contained in the Prevention of Organised Crime Act, 2004. The two statutes operate in tandem, therefore.

The Bank dealt proactively with its expected new mandate by assigning to that function staff who have commenced with the drafting of guidelines to be used by accountable institutions to properly identify their customers and to identify suspicious transactions.

6.9 Conclusion

The level of capitalisation and profitability of the banking industry suggests that the banking sector is in a position to withstand shocks. However, there are possible risks. These include the possibility of a slowdown in the US GDP growth, which could prove a risk for a broader, global deceleration. Furthermore, there is the danger of inflationary pressures from more increases in oil prices. A higher South African current account deficit (at 6.4 percent of GDP in the first quarter of 2006) could further weaken the currency and fuel inflation, putting pressure on interest rates to rise. Given the economic and financial ties between the two economies, these effects could also spill over to Namibia. Low economic performance and high interest rates could result in systemic problems within the banking sector.

Looking ahead, market conditions currently signal little concern regarding the banking sector's prospects for future earnings or the resilience of the sector as a whole. At the same time, it would also appear that the major risks identified in this review are currently assessed as being manageable for the sector. There are, therefore, no immediate threats to banking sector stability.

The outlook for the long-term insurance industry continued to improve in 2006. This improvement in performance is to a large extent due to the growth in net premium income. In respect of continued profitability, however, the sector faces daunting challenges posed by HIV/AIDS. These challenges notwithstanding, the long-term insurance sector does not appear to face any immediate stability threats.

Major reforms were introduced to the National Payment System in 2006. The reforms are generally concerned with soundness and efficiency and with controlling systemic risks. Although challenges still remain, the state of the payment system does not at present pose any financial stability risks.

The overall assessment of the outlook for the financial sector is that financial stability in Namibia does not appear to be under any foreseeable threats that could stymie the performance of the financial system. While this conclusion is warranted, it should nonetheless be treated with utmost care, mainly due to data limitations that hampered the full analysis of all the major components of the financial system.

BOX C Financial system stability assessment for Namibia

A joint IMF-World Bank Financial Sector Assessment team visited Namibia in the last quarter of 2005 at the request of the Government of the Republic of Namibia. The principal objective of the mission was to assist the country in assessing and identifying potential vulnerabilities in the financial institutions and markets to macroeconomic shocks, as well as the risks to macroeconomic stability from weaknesses and shortcomings in the financial sector. The team assessed, among others, financial system stability, and reviewed the regulatory and supervisory framework for banks and other financial institutions.

The **Financial System Stability Assessment (FSSA)** concluded that the financial system in Namibia was healthy, well run, and resilient to plausible macroeconomic shocks. Nevertheless, in order to strengthen the system further, the mission recommended that the following measures be undertaken in the immediate, medium or long term:

Upgrading the regulatory and supervisory framework

(Immediate)

- Strengthen the Namibia Financial Institutions Supervisory Authority (NAMFISA) with a view to -

(i) collecting, compiling, and analysing data from non-bank financial institutions;

(ii) carrying out effective on- and off-site supervision, and

(iii) fully implementing current solvency frameworks.

- Address weaknesses in banking supervision such as the lack of skills and consolidated supervision.
- Address the need to supervise deposit-taking specialised financial institutions on the same basis as commercial banks.
- Address the need to amend laws to regularise money market unit trusts and unit-linked insurance products, regulate asset managers, and introduce an “appointed actuary” concept.

(Medium- to longer-term)

- Build capacity to monitor systemic financial stability, as well as more general developments in the sector.
- Adopt a risk-based supervision framework for non-bank financial institutions.
- Amend the NAMFISA Act, in tandem with revisions to Namibia’s financial services laws.

Creating domestic investment

- Promote asset securitisation by enacting the appropriate legal framework.
- Proceed with plans for more active liquidity management.
- Review and remove any impediment to the development of asset managers who specialise in private equity investment.
- Promote leasing and factoring by studying the need for specific legislation or regulation.

Improving the reach and effectiveness of the financial system

(Immediate)

- Improve transparency of banks’ fees and charges.
- Encourage banks to introduce products targeted at low-income and rural customers.

BOX C Financial system stability assessment for Namibia (Continued)

- Foster greater competition in the sector by continuing to be open to new reputable entrants, leveraging on PostBank's reach, and supporting the emergence of credit unions.

(Medium- to longer-term)

- Abolish the Usury Act, or raise the usury ceiling substantially; alternatively, introduce a Consumer Credit Act with truth-in-lending provisions.
- Clarify the legal status of long-term leases so they can be collateralised.
- Consider securitisation to meet local Government's financial needs.
- Strengthen the Small Business Credit Guarantee Trust to reduce moral hazards and improve performance.
- Examine the effectiveness and revisit the role and rationalisation of specialised financial institutions.
- Encourage credit bureaus to collect positive information.

Section 7 herein presents action already taken on some of the above recommendations.

PART D

Operations and Affairs of the Bank of Namibia

Report submitted in terms of Section 52 (1)(b) of the Bank of Namibia Act No. 15 of 1997

Chapter 7 Operations and Affairs of the Bank of Namibia

7.1 Governance and accountability

"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals … [The aim is to align as nearly as possible the interests of individuals, corporations and society."

Sir Adrian Cadbury
Corporate Governance Overview, 1999
World Bank Report

In terms of section 3 of the Bank of Namibia Act, 1997 the Bank's key responsibilities are to –

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

Besides the fulfilment of these statutory duties, the Bank is committed to uphold the principles of good corporate governance, as further elaborated in this report. In pursuit of these objectives, the Bank, in terms of section 3B of the Act, is required to perform its functions independently, subject to regular consultations with the Minister of Finance.

7.1.1 Board of the Bank of Namibia

The Board of the Bank is responsible for the policy, internal controls, risk management and general administration of the Bank. The Board consists of the Governor (Chairperson) and the Deputy Governor as the Executive Board Members, as well as the Permanent Secretary of Finance, one staff member from the Public Service, and four other persons as non-executive Board members. The role of non-executive Board members is to scrutinise the performance of the executive management in meeting agreed goals and objectives. All Board members are appointed by the President of the Republic of Namibia.

During 2006, the Board met five times with the main purpose of overseeing and monitoring the finances, operations and policies of the Bank. The Board members of the Bank have the typical fiduciary duties that most board directors normally fulfil, but are also charged with other duties that relate to the policies and operations of the central bank.

7.1.2 Board Committees

The Board has two committees, namely the Audit Committee and the Remuneration Committee, whose aim is mainly to assist it with discharging its duties and responsibilities. Both committees provide an effective communication link between the Board and the Management of the Bank. However, the delegation of authority to such committees does not in any way mitigate or dissipate the discharge by the Board and its directors of their duties and responsibilities.

The **Audit Committee** is responsible for evaluating the adequacy and efficiency of the Bank's corporate governance practices, including internal control systems, risk control measures, accounting and governance practices, information systems, and auditing processes.

The **Remuneration Committee** is charged with the responsibility of overseeing and coordinating the remuneration function of the Bank and of ensuring that the Bank remunerates its staff fairly and equitably in order to attract and retain a high-quality human capital complement. The Committee also makes recommendations to the Minister of Finance to approve the remuneration of the Governor and Deputy Governor as well as the Board members.

Membership of both the Audit Committee and the Remuneration Committee is composed only of non-executive Board members. The Bank's External Auditors and its Chief Internal Auditor attend Audit Committee meetings, while relevant staff members may also attend meetings of both Committees on invitation. Only the non-executive members of the Committees may vote on any resolutions to be taken.

7.1.3 Management Committee

To meet organisational, strategic and operational challenges, the Bank's Management Committee (MC) focuses on key priorities and continuously identifies the resources necessary for achieving its objectives. The MC, therefore, plays an important role in policy formulation and implementation. It also ensures that the operations of the Bank are focused on the execution of its constitutional and legal mandates, as well as the achievement of its strategic objectives. The MC meets weekly under the chairmanship of the Governor, and its membership includes the Deputy Governor, Assistant Governor, all Directors (Heads of Departments), the Chief Internal Auditor, and the Head of Corporate Communications.

7.1.4 Monetary Management Committee

In line with the Bank's mandate to ensure price stability, the Bank's Monetary Management Committee (MMC) creates a forum for considering and adopting an appropriate monetary policy stance to be pursued by the Bank. The MMC consists of the Governor, Deputy Governor and Assistant Governor, as well as the Directors for Financial Markets and Research. The MMC, which is chaired by the Governor, met six times in 2006, during which period the Bank rate was raised by 200 basis points. All decisions taken by the MMC are by consensus. The MMC makes its monetary policy decision publicly known through a press statement and conference.

The decision-making process of the MMC is based on a thorough review and assessment of current and expected economic developments in the world, the southern African region, and Namibia. Particular emphasis is put on developments on the demand and supply side of the economy, as well as monetary, price and exchange rate developments. The determination of the monetary policy stance is further enhanced by an inflation-forecasting model maintained by the Bank's Research Department. The key objective of Namibia's monetary policy is to maintain the fixed exchange rate arrangement with the South African Rand to ensure price stability.

7.1.5 International Reserves Management Committee

The International Reserves Management Committee (IRMC) meets monthly to review the level and adequacy of Namibia's foreign exchange reserves. The Committee consists of the Governor (Chairperson), Deputy Governor and Assistant Governor, as well as the Directors of Financial Markets and Research. While the Board approves the International Reserves Management Policy, the IRMC has a mandate to review the investment guidelines for final approval by the Governor. The IRMC is also required to ensure that the investments comply with the approved policy and take appropriate action, as prescribed in the Act, should the country's reserve position be considered inadequate.

7.1.6 Risk Management Committee

As part of the Bank's code of best practice on corporate governance, the Risk Management Committee (RMC) implemented an effective risk management policy throughout the Bank, which enables management and staff to identify, control and monitor all types of risks in a well-structured and efficient manner. The RMC, which is chaired by the Deputy Governor, considers quarterly departmental submissions to ensure that risk management and internal control efforts are adequate. A risk management report is presented to the Audit Committee on a quarterly basis and any concern regarding undue risk exposure is brought to that Committee's attention. The Audit Committee may, in turn, bring any undue risk exposure to the Board's attention and demand remedial actions to be taken to eliminate or contain that risk.

7.1.7 Code of Ethics and staff conduct

During the year under review, the Bank adopted a Code of Ethics with the main purpose of promoting principled behaviours at all levels, building sound labour relations, and pursuing a culture of performance excellence. Moreover, during 2006, the Bank required its staff and management to acknowledge the receipt of the Code of Ethics and pledge adherence to its provisions. All Bank employees were also required to declare any material and other beneficial interests that they might have so as to avoid a situation where any external interests conflict with their responsibilities towards the Bank.

7.2 International financial cooperation

The Bank recognises that globalisation will continue to reinforce the interdependencies between different countries and regions. In this context, the Bank interacted with regional and international financial institutions to promote financial and monetary cooperation. Some of these institutions are detailed below:

7.2.1 Association of African Central Banks

The Bank continued to participate actively in the activities and programmes of the Association of African Central Banks (AACB), which was established for the purpose of enhancing monetary policy coordination at continental level. The Association was also intended to contribute towards the realisation of African Union goals, particularly economic integration and the establishment of a monetary union within the African continent.

The Bank hosted the Thirtieth Ordinary Meeting of the Assembly of Governors in Windhoek, on 18 August 2006. The deliberations focused on the implementation of the African Monetary Cooperation Programme and the issue of cooperation between the African Union Commission and the AACB. The Assembly meeting was preceded by a symposium entitled “Domestic capital markets and mobilisation of resources for growth and poverty reduction”. This event brought to the fore the need to develop viable bond and equity markets in order to harness potential medium- to long-term financial resources. The Governor of the Bank was elected as the Chairperson of the AACB for a period of one year as from August 2006.

7.2.2 SADC and SACU

Through the SADC Treaty and the Regional Indicative Strategic Development Plan, SADC member states have sought to strengthen their economic and political ties. Accordingly, SADC member states have set out milestones to be achieved over the next 20 years. These include establishing a Free Trade Area by 2008, a Customs Union by 2010, a common market, and monetary union by 2016, and the launching of a single currency by 2018. These arrangements will have far-reaching implications for both SACU and Namibia.

During the year under review, the Bank assisted the Ministry of Finance in assessing the implications of a SADC Customs Union on SACU and on Namibia. Policy advice was also provided on SACU-related issues at meetings of the SACU Technical Liaison Committee and the Council of Ministers.

7.2.3 Committee of Central Bank Governors in SADC

Through the Committee of Central Bank Governors in SADC, and together with other central banks in SADC, the Bank continued with the implementation of the SADC agenda for moving towards regional economic integration in financial and monetary areas. During the period under review, a number of activities were undertaken, mostly related to the following ongoing projects, amongst others:

- Monetary and financial statistics database
- Integrated paper on recent economic evelopments
- Payment, clearing and settlement systems for SADC countries, and
- Legal and operational frameworks of SADC central banks.

The **Monetary and Financial Statistics Database** was developed to serve the SADC region, and to be used as source of information for consultations, policy formulation, research work and use by other stakeholders. The database is updated regularly. Furthermore, an Integrated Paper on Recent Economic Developments in SADC was prepared as a means to monitor performance towards macroeconomic convergence in SADC.

With respect to the **Payment, Clearing and Settlement Systems Project**, the focus in 2006 was to assist SADC central banks to implement real time gross settlement (RTGS) systems. So far, seven SADC countries, including Namibia, have successfully implemented such systems. Efforts to assist the remaining countries with the implementation of RTGS systems, including capacity-building, through training of personnel in payment systems, will be carried out in the coming months.

The **Legal and Operational Frameworks Project** aims at attaining convergence in and harmonisation of the legal and operational frameworks of SADC central banks. During the period under review, the Committee of Central Bank Governors continued with the drafting of the Model Central Bank Bill. Once approved, the Bill will serve as a guide to central banks' legislation in individual SADC member states. It will also inform the drafting of common central bank legislation for the envisioned SADC regional central bank to be established in 2016.

7.2.4 The Common Monetary Area

Namibia is a member of the CMA, along with Lesotho, South Africa and Swaziland. Monetary and exchange rate polices form the basis for Namibia's participation in the CMA. The CMA arrangement has so far served Namibia well as it has helped to ensure monetary and financial stability.

Namibia's participation in the CMA arrangement is crucial in the context of monetary and exchange rate policy. During the period under review, Governors of CMA central banks met regularly to exchange views on recent economic and financial developments in their respective countries. The exchange of economic information between the Governors of CMA central banks helps to enhance the understanding of economic conditions within the CMA.

7.3 Services provided by the Bank

The Bank provides a number of services to the Government, banking institutions and the general public. Apart from policy advisory services, public debt management and the management of international reserves, specific business services offered included the following:

- The provision of banking services to the Namibian Government and to banking institutions
- The operation of Namibia's (high-value) payment system, as well as a real-time gross settlement system– the NISS, and
- The supply of Namibia's national currency.

7.3.1 Banking

The Bank manages the State Account on behalf of the Namibian Government. This service includes the acceptance of deposits, processing of high-value domestic payments, foreign transfers, cheque reconciliation and verification, bank statement processing, and clearing and settling of Government cheques. Interest is paid on credit balances on the State Account when an agreed threshold is exceeded. The Bank offers a limited short-term overdraft facility to the Namibian Government.

Banking institutions keep certain accounts at the Bank of Namibia. These include the Reserve Account, in which interest-free balances are required to be kept; a Settlement Account, where funds are held for settlement purposes; and a Call Account. Currently, no interest is paid on any of these accounts. However, the Call Account may be used as a liquidity management tool to stem outflows from the banking system by offering interest to banking institutions as a way to retain funds in Namibia. During the year under review, this instrument was not used.

7.3.2 RTGS and Other Settlement Services

The Bank of Namibia provides the real-time interbank payment and settlement service to Namibian banks or system participants through the NISS. All high-value (>N$5 million) interbank payments must be made through the NISS. Other payments that are currently settled through the NISS are domestic cheques and electronic funds transfers, while efforts are under way to settle all card transactions as well.

The Bank offers intraday and overnight credit to NISS participants through a repo facility. Through this facility, a NISS participant may upon the pledge of eligible securities to the Bank obtain credit from the Bank on an intraday and overnight basis. The facility is governed by a repurchase agreement, in terms of which a NISS participant agrees to repurchase eligible securities from the Bank during the day, but not later than the next settlement day. While no interest is charged on intraday credit, overnight repo attracts interest at the ruling Bank rate.

7.3.3 Performance of the NISS

Table 7.1 sets out the value and volume of transactions settled through the NISS.

Table 7.1 NISS transactions

Year	Value settled – N$ billion			Number of transactions
	Total value settled	Value settled – gross	Value settled in bulk	
2003	220.2	181.4	38.9	38,176
2004	242.4	188.7	53.7	37,804
2005	231.1	154.8	76.3	37,009
2006	292.6	202.3	90.3	27,011

During 2006, about 27,000 transactions were settled through the NISS, amounting to N$293 billion. Compared to 2005, the value increased by about 26.5 percent, while the volume of transactions declined by 27 percent. The value increase and volume decrease imply that the average value of each transaction increased. In 2006 the average value per transaction stood at N$10.8 million, compared to an average value of N$6.2 million in 2005.

In 2006, 69 percent of all transactions were settled on a gross basis, while 31 percent were settled in bulk. Settlement in bulk refers to electronic financial transfers and CLC transactions that are cleared by Namclear and then settled in the NISS.

The value of daily credit extended on an overnight repo basis totalled about N$28.3 billion for 2006. This is an average of about N$94 million per settlement day. The use of overnight credit for settlement purposes slowed down considerably during the course of 2006, which is a good indicator of the much-improved liquidity in the payment system.

The Bank is confident that the NISS remains a safe, robust and adaptable system that meets international standards. This feature will go a long way towards instilling confidence in the National Payment System.

7.3.4 Oversight of the national payment system

The responsibility for payment system oversight in Namibia is provided for under the Payment System Management Act, which empowers the Bank of Namibia to oversee all aspects of the system. The Bank's oversight framework, which recently underwent final revision, spells out the practical means and procedures on how the Bank should carry out its oversight role.

As detailed out in the financial stability report, various oversight activities were carried out in the year under review. An assessment was made on whether or not the NISS met the BIS Core Principles for Systemically Important Payment Systems. The findings showed that the NISS was robust, and had been managed in line with international standards and best practices. The Bank envisages doing more tests on the NISS contingency environment at frequent intervals so as to be prepared in the event of an emergency. Other oversight activities included periodic performance reviews and monitoring of the NISS, clearing systems and participants' behaviour as a way of anticipating, monitoring, identifying and minimising risks in the National Payment System.

7.3.5 Issue of the national currency

During the year under review the Bank adopted a new Namibia Dollar procurement policy, which involves prescribing a model supply contract, detailed paper and printing specifications that include layout sheets and print registration designs, and quality control requirements. The procurement policy is based on practices followed by other central banks and relevant standards of the International Organization For Standardization (ISO). The adoption of the new approach towards banknote procurement resulted in some delay in the supply of new stock during the year, due to longer contract negotiations and physical quality controls at the printing works. As a result, the quality of the N$10 and N$50 banknotes deteriorated rapidly towards the latter half of 2006. New supplies of N$50 banknotes were delivered and put in circulation from November 2006, while reprinted N$10 banknotes would be delivered early in January 2007.

During the year under review, the demand for N$1 coins rose sharply, but it was not possible to determine the origin of the sudden demand, apart from the knowledge that the coin is used extensively in vending and gambling machines throughout the country. As a result, the Bank replenished this particular denomination in February 2006.

The Bank feels comfortable with the current stock levels of the national currency and with the quality of the banknotes. During the year under review, the Bank also started the process to taking banknotes of inferior quality out of circulation and replacing them with good quality notes.

The respective value and volume of banknotes in circulation at the end of 2005 and 2006 are shown in Table 7.2.

Table 7.2 Composition of currency in circulation (outside the Bank of Namibia) at year-end

Denomination	2005		2006		% Value change
	Value (N$ million)	Volume (million)	Value (N$ million)	Volume (million)	
5-cent coin	3.12	62.34	3.44	68.71	10.2
10-cent coin	6.10	60.97	6.44	64.37	5.6
50-cent coin	6.03	12.06	6.37	12.73	5.5
N$1 coin	34.02	34.02	39.51	39.51	16.1
N$5 coin	20.58	4.12	22.67	4.53	10.2
All coins	**69.85**	**173.51**	**78.42**	**189.86**	**12.3**
N$10 note	44.92	4.49	38.91	3.89	-13.4
N$20 note	73.46	3.67	90.78	4.54	23.6
N$50 note	127.97	2.56	139.05	2.78	8.7
N$100 note	595.65	5.96	716.23	7.16	20.2
N$200 note	115.00	0.57	109.96	0.55	-4.4
All notes	**957.00**	**17.26**	**1,094.92**	**18.92**	**14.4**
Total	**1,026.85**	**190.77**	**1,173.34**	**208.78**	**14.3**

At the end of 2006, the value of currency in circulation was more than 14 percent above the level a year before, compared with an increase of 8.6 percent in 2005. The 2006 increase is mainly ascribed to inflation build-up towards the latter part of 2006. In terms of volumes, the number of coins in circulation rose in 2005 to almost 190 million pieces by the end of 2006, while the number of notes rose to about 18.9 million pieces over the same period. All denominations, except for the N$10 and N$200 notes, increased their circulation. Circulation of the N$10 note probably fell due to its scarcity whilst fresh supplies were awaited, while the lower circulation figures for the N$200 note evidence that it is not widely used. The N$100 note remains the most popular, with a circulation of more than 7 million notes or 38 percent of all circulating notes, while the 5-cent coin is the highest circulating coin, with 68.9 million pieces or 36 percent of all circulating coins.

The value of Rand notes in circulation in Namibia has continued to rise steadily since 2003, judging from the Rand currency that the Bank repatriates to South Africa on a regular basis. As shown in Table 7.3, the Rand currency repatriated in 2006 amounted to almost R750 million, compared to a stock increase in Namibia Dollar of about N$146 million.

Table 7.3 Rand repatriation and Namibia Dollar in circulation

Calendar Year	Value of Rand repatriated		Increase in value of N$ in circulation	
	R million	% change	N$ million	% change in stock
2000	200.1	1,120.1	-35.7	-5.1
2001	240.0	19.9	126.8	19.2
2002	220.0	-8.3	32.0	4.1
2003	338.1	53.7	99.7	12.2
2004	396.7	17.3	26.9	2.9
2005	512.6	29.2	81.1	8.6
2006	749.7	46.3	146.5	14.3

In percentage terms, the Rand repatriated in 2006 rose by a massive 46 percent from the 2005 figures, compared to an increase of only 14 percent in the value of Namibia Dollar in circulation from 2005 and 2006.

7.3.6 Administration of exchange control

Namibia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, which signifies that the country maintains an exchange system free of restrictions on the making of transfers and payments of current account transactions. In line with the Bank's stated objective to gradually liberalise capital account transactions, a number of exchange controls were eased during 2006, including the following:

- The offshore individual investment allowance was increased from N$750,000 to N$2 million per person.
- Institutional investors, such as insurance companies, pension funds and unit trust management companies, were allowed to increase their offshore exposure limit from 15 percent to 20 percent of assets under management.
- The foreign capital allowance per emigrating family unit was increased from N$1.5 million to N$4 million.
- Subject to certain prudential requirements, the exchange control limit applicable to approved offshore investments by Namibian corporate entities was abolished.

The Bank maintains a Cross-Border Foreign Exchange Transaction Reporting System, which is designed to capture all foreign transactions processed by authorised dealers through an electronic data interchange. All foreign transactions processed by authorised dealers are captured on a database and are available for exchange control and research purposes. During the year under review, all authorised dealers were required to capture all inward and outward transactions on the system (including those with the CMA), thus making the database of foreign transactions much more representative and reliable.

During the year under review, the Bank processed 1,809 exchange control applications that were filed by authorised dealers. This number is 19 percent lower than the applications processed in 2005. The decline in the number of applications is attributed to exchange control liberalisation generally, and to more approval functions being delegated to authorised dealers in particular.

7.3.7 International reserves management

The Bank is the principal agent of the Namibian Government for holding and managing the country's foreign currency reserves.

Currently, foreign reserves are held in three main currencies, namely the South African Rand (ZAR), the United States Dollar (USD) and the Euro (EUR). The share of the ZAR, being the main liability currency in the currency mix, is a fixed or notional amount of total reserves. The residual of the total reserves, i.e. total reserves less ZAR holdings, is held in proportions of 60 percent and 40 percent in EUR and USD, respectively. Up to 80 percent of ZAR holdings continued to be invested in short-term money market instruments of up to overnight. The remaining 20 percent was invested in term deposits of up to two weeks.

During 2006, the benchmark portfolios for both the USD and EUR were reviewed and approved by the Board and successfully implemented. Table 7.4 shows the change in the EUR and USD benchmark portfolios.

Table 7.4 Changes to the Bank's USD and EURO investment benchmarks

Old		New	
Type of instrument	Benchmark weights (%)	Type of instrument	Benchmark weights (%)
USD Portfolio			
Auto Investment	11	Auto Investment	10
3-month T Bills[34]	40	12-month FIXBIS[35]	40
6-month T Bills	40	6-month T Bills	34
2-year T Note[36]	9	2-year T Note	16
	100		**100**
EURO Portfolio			
Sight Account	10	Sight Account	10
3-month FIXBIS	32	1-month FIXBIS	40
6-month FIXBIS	40	2-year BIS MTI[37]	12
12-month FIXBIS	18	12-month FIXBIS	38
	100		**100**

[34] US Government Treasury Bills.
[35] Fixed-interest-bearing securities (FIXBIS) are money market instruments by the BIS.
[36] US Government Treasury Notes.
[37] Medium-term instruments issued by BIS

The benchmarks are considered to be the optimal, yet passive, portfolios for the management of the reserves, and are constructed to reflect the strategic investment risk preferences of the Board. These benchmarks are neutral in that they do not have any bias towards any market conditions.

7.3.8 Bank of Namibia debut facility in the international capital markets

During 2006, the Board resolved to allow the Bank to borrow US$50 million for the purpose of launching a debut facility in the form of loan syndication that would serve as a benchmark for the Bank's future borrowing needs. The US$50 million Syndicated 364-day Term Loan Facility was signed in London on 9 August 2006. The purpose of the loan was to create a credit record for the Bank with international lenders as a means of creating a future strategic contingency borrowing capability if or when there is a need to supplement the Bank's foreign exchange reserves. The facility followed Namibia's long-term foreign currency rating of BBB-.

The facility was oversubscribed by some 90 percent and priced at a competitive margin of 22.5 basis points per annum over the London Interbank Offered Rate (LIBOR). Three leading international banks were mandated to arrange the facility, i.e. Barclays Capital – "Barclays – the Investment Banking Division of Barclays Bank PLC (acting through its affiliate ABSA Capital, a division of ABSA Bank Ltd and a member of the Barclays Group), WestLB AG – "WestLB", and Citibank NA – "Citigroup". The three banks acted as joint book runners, while 13 banks participated at co-arranger level.

7.3.9 Policy research and advice

By virtue of its mandate to act as financial advisor and fiscal agent to Government and to assist in the attainment of national economic goals, the Bank of Namibia undertook a number of research projects during 2006, focusing on how to improve macroeconomic management and accelerate economic growth. These included unleashing the potential of the agricultural and manufacturing sectors, assessing the impact of the HIV/AIDS pandemic on the financial sector, and examining the viability of establishing a public investment house in Namibia.

The study that evaluated the potential of the agricultural sector concluded that the sector faced a number of constraints. However, a number of agricultural products were identified with significant potential for growth, and in terms of which Namibia enjoyed a comparative advantage.

A similar study identified a number of existing and new products that could enhance the growth potential of the manufacturing sector, and it highlighted the constraints and challenges that the sector faced.

A third study attempted to identify a tool to quantify the effects of changes in trade policies on the economy. The aim of the study was to review different models used elsewhere in order to capture the effects of trade policy. These findings were used to develop a suitable trade policy model for Namibia.

7.4 Management of the Bank of Namibia

7.4.1 Bank assets and liabilities

When analysing the liability side of the Bank's balance sheet, it is possible to determine the sources of funds with which the Bank sustains its operations. These are reflected in Table 7.5.

Table 7.5 Composition of monthly average liabilities of the Bank of Namibia

Financial year	2002	2003	2004	2005	2006
N$ million					
Capital and reserves	1,342	819	688	648	835
Currency in circulation	732	789	856	939	1,017
Government deposits	687	483	486	509	1,633
Bank deposits	233	250	276	294	355
Other	101	194	191	195	335
Total	**3,096**	**2,535**	**2,497**	**2,585**	**4,175**
% composition					
Capital and reserves	43.3	32.3	27.5	25.1	20.0
Currency in circulation	23.7	31.1	34.3	36.3	24.4
Government deposits	22.2	19.0	19.5	19.7	39.1
Bank deposits	7.5	9.9	11.1	11.4	8.5
Other	3.3	7.6	7.7	7.6	8.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 7.5 indicates that capital and reserves have become a declining source of funds for the Bank since 2002, mainly because of the major translation losses incurred through the rapidly appreciating currency since 2002. In 2006, a slight improvement was registered due to some translation gains posted in view of the currency depreciation during the year. Therefore, since 2002, currency in circulation has become a much more prominent source of funds than capital and reserves. However, during 2006, Government deposits were the most important source of funds, mainly on the grounds of extraordinary SACU revenue collections and a slower rise in Government spending.

Table 7.6 gives a few main categories of the Bank's assets. As a central bank it is normal that the bulk of the Bank's assets take the form of foreign investments. Since 2002, the share of foreign investments as a percentage of total assets fell, once again due to the appreciation of the external value of the Namibia Dollar. In 2006, the value of foreign investments expressed in local currency improved considerably due to reasons elaborated elsewhere in this report.

Table 7.6 Composition of monthly average assets of the Bank of Namibia

Financial year	2002	2003	2004	2005	2006
N$ million					
Foreign investments	2,833	2,259	2,004	1,995	3,056
Loans and advances	54	67	262	309	781
Fixed assets	165	162	155	158	146
Other assets	44	47	77	122	192
Total	**3,096**	**2,535**	**2,497**	**2,585**	**4,175**
% composition					
Foreign investments	91.5	89.1	80.2	77.2	73.2
Loans and advances	1.8	2.6	10.5	12.0	18.7
Fixed assets	5.3	6.4	6.2	6.1	3.5
Other assets	1.4	1.8	3.1	4.7	4.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

It is also observed that the share of loans and advances have begun to rise strongly in monetary terms and as a percentage of total assets since the introduction of the NISS in 2002, through which banking institutions have obtained overnight credit through a repo facility. The opposite is true for the value of fixed assets in relation to total assets: the value has fallen due to the annual depreciation charged against the value of the Bank's assets.

7.4.2 Bank income

As outlined in Table 7.7, all sources of the Bank's income performed quite well between 2004 and 2006. In absolute terms, net interest earned on the Bank's investments remained the most important source of income. However, since 2004, the Bank has increasingly begun to share in the compensation that the South African Government pays for Rand circulating as legal tender in Namibia. As the latter income source began to increase in absolute terms and as a proportion of total income, net interest earnings reduced its share in total income.

Table 7.7 Sources of income for the Bank of Namibia

Income component	2004		2005		2006	
	N$ million	%	N$ million	%	N$ million	%
Interest received	88.8	79.6	104.5	68.5	165.0	74.6
Less: Interest paid	-14.8	-13.3	-6.7	-4.5	-31.3	-14.2
Net interest earned	74.0	66.4	97.8	64.0	133.7	60.5
Realised gains/ (losses)	-5.1	-4.6	-1.9	-1.3	-5.4	-2.4
Rand seigniorage	36.0	32.3	50.2	33.2	87.6	39.6
Other income	6.6	5.9	4.3	4.1	5.2	2.4
Total income	**111.5**	**100.0**	**150.4**	**100.0**	**221.1**	**100.0**
Annual increase (% p.a.)		***12.4***		***34.9***		***47.0***

7.4.3 Bank operating costs

Because the Bank maintains strict control over all expenditure and works within the budget limits approved by the Board, it was possible to contain the annual rise in operating expenses between 2004 and 2006 well below the inflation rate. Table 7.8 shows that staff costs in relation to total operating costs have gradually risen since 2004, and in 2006, this cost component fell slightly as percentage of total operating expenses mainly due to a high staff turnover during the year. Depreciation charges, on the other hand, have fallen gradually due to the depreciating value of the Bank's fixed assets.

Table 7.8 Composition of operating costs

Cost component	2004		2005		2006	
	N$ million	%	N$ million	%	N$ million	%
Staff costs	61.0	63.3	64.7	66.8	67.2	65.5
Currency expenses	6.8	7.1	4.3	4.4	5.5	5.4
Depreciation charges	10.8	11.2	10.8	11.1	9.1	8.9
Other operating expenses	17.7	18.4	17.1	17.6	20.8	20.3
Total operating expenses	**96.3**	**100.0**	**96.9**	**100.0**	**102.6**	**100.0**
Annual increase (% p.a.)		***0.6***		***0.6***		***5.9***

7.4.4 Staffing

The total staff complement of the Bank (including vacancies) for 2006 stood at 281, of which only an average of 260 positions remained filled at the end of the year. The composition of the staff complement at the Bank for the past four years is shown in Table 7.9.

Table 7.9 Employment at the Bank at year-end

Staff category	2003	2004	2005	2006
General staff	241	239	240	232
Management	30	26	27	25
Executive management	3	3	3	3
Total	274	268	270	260

During 2006, the Bank recorded a staff turnover of 27 terminations, which represents 10.2 percent of the total staff complement of 260. The turnover rate of 10.2 percent was relatively high, especially if compared to 2005, when the rate stood at 4.9 percent. Despite this high turnover rate, there were no adverse effects on the operations of the Bank or on the achievement of its objectives. In addition, the effects of these terminations were mitigated by the appointment of 17 new employees during the year under review.

7.4.5 Capacity-building

The Bank of Namibia is committed to the building of the necessary capacity through continuous improvement in the areas of performance management, succession planning, training, employee wellness, and the development of a value-driven workforce and appropriate ethics. These were largely achieved in 2006 through the following:

- Conducting and providing training courses in the areas of central banking, leadership and teamwork
- Developing an Employee Wellness Programme and establishing a strategy for the Bank to provide care and support for staff directly or indirectly affected by HIV/AIDS, and
- Internalising the Code of Ethics, with all staff members subscribing to the espoused principles of ethical behaviour.

7.4.6 Facilities management

Section 2(2) of the Bank of Namibia Act provides for the Bank to establish such facilities as are necessary for the achievement of its objectives. Arising from this mandate, the Bank has its head office in Windhoek and a branch at Oshakati to serve the northern regions of the country. The northern Regions (Caprivi, Kunene, Ohangwena, Okavango, Omusati, Oshana and Oshikoto) are home to more than 62 percent of Namibia's total population. The decision to establish a branch at Oshakati, therefore, directly supports the national decentralisation policy/ strategy.

These two premises (i.e. the head office and the Oshakati branch) are sufficient to meet the Bank's operational needs for the foreseeable future. However, the Bank currently leases a property to accommodate its disaster recovery site.

7.5 Risk Management

The Bank's current risk management approach is quite solid, with strong emphasis on effective internal controls in key performance areas, stringent internal and external audit intervention to ensure compliance with and adequacy of controls and standards, and risk management structures and initiatives to identify and mitigate risks. The Bank's current risk management efforts can be summarised as follows:

- The Board of the Bank assumes overall responsibility for instituting internal controls and risk management in terms of the Bank of Namibia Act.
- The Board's Audit Committee expresses its opinion on risk-mitigating efforts and reports any concerns to the Board.
- An Internal Audit function in the Bank assumes responsibility for determining the adequacy of internal controls and risk-mitigating actions.
- The Risk Management Committee, consisting of senior management, assumes responsibility for identifying and mitigating risks and reports these to the Board's Audit Committee.
- Effective procedures are in place to prevent known risks through, for example, access control, computer data back-up, operational procedures and staff rules.
- Typical central bank functions are managed in terms of the provisions of the Bank of Namibia Act, the Banking Institutions Act, the Payment Systems Management Act, the Currencies and Exchanges Act, 1933, and the regulations, determinations, policies and rules issued under these pieces of legislation. Any risks and concerns resulting from the application of these laws are reported directly to the Board.
- A framework for business continuity management in the Bank was adopted during the year under review.

The Bank's approach to risk management is to consider risk treatments both proactively, by designing and implementing controls to prevent risk events from occurring, and reactively, by mitigating the consequences of such events if they occur.

The Bank of Namibia regards the following risk categories as the key risk exposures in respect of **financial instruments**:

7.5.1 Interest rate risk

The Bank is not exposed to any significant interest rate risk as its foreign investments are predominantly invested in short-term money market instruments, which can be easily disinvested in the short term.

7.5.2 Market price risk

Foreign exchange reserves are mainly invested in short-term money market securities, with the longest maturity capped at two years (a two-year US Treasury Note). The relatively shorter maturity is chosen based on the Board's risk/return profile.

An exchange rate risk may also arise if the currency composition of international reserves is sub-optimal (if not properly aligned with the Investment Policy objectives). For this reason, the Bank has approved benchmarks for the currency mix and portfolio security.

7.5.3 Credit risk

Credit risk is the possibility of loss due to a counter-party's or issuer's default or inability to meet contractual payment terms. The amount of credit risk equals the replacement cost (also referred to as *current exposure*) of an identical instrument. The replacement cost is established by assessing the instrument's current market value rather than its value at inception. The Bank has instituted credit rating limits, which the middle office monitors independently. Compliance or non-compliance is reported monthly to the IRMC.

Other non-financial risk elements to which the Bank is exposed are those related to the Bank's **operations, structures, systems and procedures**. These include the following:

7.5.4 Reputation risk

Reputation risk is a derivative of other risks such as non-compliance with statutes, regulations, and legal provisions, or with good business practices and corporate governance provisions, as well as weaknesses in internal control systems – all of which could result in bad or negative public opinions. Various internal control and checking mechanisms, policies, procedures and best practice standards have, therefore, been implemented by the Bank at all levels of operation to prevent this risk from occurring.

7.5.5 Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, ineffective internal controls, fraud, and human error. The possibility of fraud, through loss or theft of cash and assets, misappropriation of funds or abuse of the Bank's regulatory powers, is minimised through various forms of controls at different levels. These include physical and electronic surveillance, strict enforcing of adherence to procedure manuals, dual control in the handling of currency, and separation of raising and authorising transactions. Internal Audit carries out regular independent routine and surprise checks and counts, while the Risk Management Committee and the Audit Committee concern themselves with the adequacy and effectiveness of various controls and measures and enforce remedial actions.

The Bank is also exposed to the risk of losing information through system failure and inability to deliver agreed stability, functionality and data integrity. Hence, a Corporate Communications Policy is in place to prevent confidential information being leaked to unauthorised parties. Most of the Bank's electronic information is protected through regular computer application upgrades, firewalls and back-up facilities, while some critical systems are replicated at a disaster recovery site.

7.5.6 Human resources risk

The failure to recruit, develop and retain employees or manage relations can result in considerable risk exposure. Loss of key staff and a lacklustre and unqualified workforce may lead to serious business disruptions. The Bank has, therefore, made capacity-building a key priority by having staff undergo internal and external training, by having them attend professional conferences, by attaching staff to other relevant institutions, and by rotating staff among operational units. A sprit of open communication and teamwork and the early and amicable resolution of conflict and grievances are promoted, while the Bank also strives to offer a good reward system to ensure key personnel are retained.

7.5.7 Supervisory and regulatory risk

The Bank acknowledges that any weakness in properly supervising the banking system and overseeing the National Payment System can have serious systemic consequences. As a supervisory body and policymaking institution, therefore, the Bank is exposed to the risk of being taken to task or even sued for certain actions or inactions related to the performance of the economy, the functioning of the banking system, and the integrity of the payment system. To prevent such risks, the Bank regularly monitors economic performance and considers possible policy intervention. The Bank has also adopted a policy on regulatory responses to weak banks, together with the attendant procedures. In addition, the Bank has implemented a framework for proper oversight of the National Payment System.

7.5.8 Internal control and compliance

The Bank has adopted a risk-based internal audit approach, focusing its efforts and resources more on those areas posing the highest risk to the Bank. The adequacy and effectiveness of internal control systems are regularly assessed.

7.5.9 Business continuity management

During the period under review the Bank adopted the Framework for Business Continuity Management at the Bank of Namibia. Based on this framework, six response/recovery teams were assigned to draft specific plans on how to deal with Bank-wide and/or function-specific, as follows:

- Emergency Response Team
- Disaster Recovery Team
- Human Resource Recovery Team
- Facilities and Telecommunications Recovery Team
- Finance and Accounting Recovery Team
- Currency and Banking Recovery Team

While some plans were completed during the period under review, such as the Emergency Response Plan, the Emergency Communication Plan and the Disaster Recovery Plan, others were still in progress by year-end.

7.6 The Bank of Namibia in the community

7.6.1 Stakeholder relationships

The Bank of Namibia is accountable to Parliament, to whom the Bank's Annual Report is tabled three months after the end of each financial year. The Governor may, on invitation by the Minister of Finance, appear before Parliamentary Select Committees on matters that the Bank deems appropriate. Senior executive staff members serve on the Boards of various public institutions and participate in Government and public forums.

As part of building relationships with stakeholders and enhancing their knowledge on Bank operations, the Bank held a number of events during the year under review. The Annual Symposium for 2006 dealt with the topic "The assessment of foreign direct investment vs domestic investment in Namibia", and was attended by over 100 participants. The Bank also hosted the Governor's Annual Address under the theme "Money laundering: Its economic consequences and the policy response".

With the intended establishment of the Financial Intelligence Centre, the Bank showed its commitment to educating stakeholders on issues related to money laundering. A workshop on financial investigation was hosted in partnership with the Embassy of the United States and was attended by representatives from law enforcement agencies, Government institutions, and financial regulators.

Box D Assessment of Foreign Direct Investment vs Domestic Investment in Namibia

Background

The Bank of Namibia held its Eighth Annual Symposium on 20 September 2006 under the theme, "The assessment of foreign direct investment vs domestic investment in Namibia". Its objective was to assess the potential impact of foreign direct investment (FDI) on the Namibian economy; and to attempt to answer whether there was a deliberate policy bias towards the promotion of FDI vis-à-vis domestic investment in Namibia. The Symposium also attempted to address the concern of why Namibia should rely on FDI whereas it could retain local savings and translate them into productive investment and, therefore, realise a higher rate of economic growth.

Outcome of the Symposium

The Symposium concluded that FDI supplemented domestic investment; it brought along organisational and managerial skills, new production technology and market access; it stimulated employment and exports; and brought about overall economic development.

The Symposium also observed that, in Namibia, FDI crowded in domestic investment rather than squeezed it out, and that it supported capital formation. They believed that policymakers should devise alternative strategies to stimulate domestic investment as a key to stimulating economic growth, development and industrialisation. These strategies should focus on efficiently utilising domestic investment in the medium to long term in order to improve infrastructure, develop human resources, entrench local entrepreneurship, and realise the full potential of what the economy could offer. The Symposium further proposed a number of policy strategies and interventions to improve the investment environment in Namibia, including the following:

- Safeguard of property rights, as these formed the foundation of any strategy to promote FDI.
- Expedite the formulation of legal framework for black economic empowerment, which had dragged on for five years now.
- Develop a credible, competitive and comprehensive long-term tax strategy to promote FDI, which would require a change in approach and a more regular assessment of tax regimes in other countries.
- Undertake efforts to minimise the likelihood of transfer pricing taking place by ensuring that tax regimes were competitive, effectively enforceable, and complied with.
- Investigate the scope for unilaterally accelerating further liberalisation of capital controls.

- Improve the competitiveness of Namibia's scarce local skilled labour, e.g. by relaxing restrictions on foreign skilled labour, which would have a beneficial effect on overall productivity and economic growth.
- Find a viable long-term energy solution to Namibia's current energy crisis.
- Promote FDI by setting out a clear energy strategy that is credible to investors, and which would not only take account of business regulations, but also carefully monitor Namibia's regulatory environment, making regular comparisons with other countries
- Have Namibians play a greater role in major investments and become genuine partners in FDI projects by funding these investments. Institutions such as the Development Bank of Namibia, the NSX and the Mineral Development Fund as well as private banks and equity funds should gear their activities to enable this to take place.
- Include the implementation of the recommendations of the Investor Road Map, which requires the serious attention of policymakers and significant regular monitoring to ensure it takes place.
- Ensure the timely release of documents relating to past investigations into corrupt practices.
- Focus the work of the Anti-corruption Commission on larger damaging cases of corruption rather than on small ones that can be adequately dealt with by other bodies.
- Actively encourage the media to investigate corruption cases.
- Hold people to account for corrupt practices, regardless of their position.
- Have Government regularly take stock of the reports being written about Namibia by credible international institutions including the World Bank, the IMF, the World Economic Forum, Transparency International, and the Economist Intelligence Unit, in order to improve Namibia's image as an investment destination, and
- Engage the free press constructively; make more active use of electronic media and the Internet; deploy genuine, useful and user-friendly public relations officials; and ensure the timely release of Government and parastatal reports provide the information needed by foreign investors.

7.6.2 Social responsibility

The Bank has extensive arrangements in place to ensure it portrays a good corporate image and is socially responsible. These take the form of being active in community initiatives by hosting or supporting public and official events, maintaining cordial media relationships and supporting various causes with particular reference to the furtherance of education and capacity-building in the country. The Bank also maintains a successful bursary scheme in which at least ten students are supported financially each year. The Board decided that this support should gradually increase so as to double the number of students that receive financial support.

During the year under review, the Bank continued to support the established computer centres at two Namibian schools, namely Nuuyoma Senior Secondary and Wennie du Plessis Senior Secondary, in line with its five-year commitment to educational upliftment. This undertaking was part of the Bank's commitment to spend a total of N$1 million between 2005 and 2010 to support computer literacy. The two schools received support on how best to utilise the equipment, and technical and teacher training was provided.

Besides the formalised relationship with two schools over an extended period, the Bank supported other rural schools in the northern part of the country. In line with the good working relationship between the Bank and law-enforcing institutions, the Bank also made computer equipment available to the Namibian Police.

In terms of other educational activities, further support from the Bank took the form of donating cash awards to two students who excelled at the Polytechnic of Namibia and the University of Namibia, respectively. This was part of an ongoing programme to reward outstanding performances in Economics, Banking and other finance-related fields.

7.6.3 Employment equity

The Bank is committed to complying with the national legal requirements of the Affirmative Action initiative and the related terms and conditions. The Bank also fully supports a policy of equal employment opportunities for all employees and job applicants, and is working towards achieving the goals set in the Affirmative Action Plan.

The Bank faced the challenge of ending the year with 25 percent female representation at management level, but it only achieved 21 percent.

The number of voluntary and non-voluntary terminations created certain vacant positions toward the end of the year, especially at management level, making it relatively difficult for the Bank to meet employment targets. The uniqueness of central banking business also limits the pace of replacement of lost skills from the local labour market, especially with persons from the relevant designated groups. However, human resource policies, procedures and employment practices are regularly reviewed in order to ensure compliance with the provisions of the national Affirmative Action Policy and the Affirmative Action (Employment) Act, 1998 (No. 29 of 1998).

7.6.4 Health, safety and wellness

The Bank of Namibia is required, in accordance with the Labour Act, 1992 (No. 6 of 1992) and its Regulations to comply with the prescribed health and safety standards. In terms of a health and safety policy, the Bank is committed to preventing occupational injuries and diseases, and uses every means available to identify the causes of accidents so that remedial or preventative steps can be taken to reduce work-related injures and staff ailments.

Furthermore, the Bank has an Emergency Response Plan in place, and conducts regular evacuation drills to determine the duration of the evacuation process and reduce it where possible.

INCOME STATEMENT COMPARISONS

FINANCIAL YEARS 31 DECEMBER - 2001 TO 2006

	2006 N$'000	2005 N$'000	2004 N$'000	2003 N$'000	2002 N$'000	2001 N$'000
Interest income	164,964	104,481	88,870	137,844	135,976	131,128
Interest expense	(31,291)	(6,677)	(14,828)	(40,088)	(47,046)	(29,445)
Net interest income	133,673	97,804	74,042	97,756	88,930	101,683
Net realised gains/(loss) on portfolio investments	(5,403)	(1,944)	(5,098)	(4,069)	7,498	9,717
Other income	92,780	54,598	42,560	5,569	2,589	540
TOTAL INCOME	**221,050**	**150,458**	**111,504**	**99,256**	**99,017**	**111,940**
OPERATING EXPENSES	**102,580**	**96,903**	**98,149**	**95,722**	**80,769**	**71,019**
NET PROFIT/(LOSS)	**118,470**	**53,555**	**13,355**	**3,534**	**18,248**	**40,921**
DISTRIBUTION OF PROFIT						
General reserve	46,273	18,555	3,790	2,474	7,465	10,230
Building reserve	10,000	0	0	0	0	0
Development fund reserve	10,000	15,000	5,000	0	5,309	9,691
Transfer to reserves	**66,273**	**33,555**	**8,790**	**2,474**	**12,774**	**19,921**
Distribution - State Revenue Fund	**52,197**	**20,000**	**4,565**	**1,060**	**5,474**	**21,000**

BALANCE SHEET COMPARISONS

FINANCIAL YEARS 31 DECEMBER - 2001 TO 2006

	2006	2005	2004	2003	2002	2001
	N$'000	N$'000	N$'000	N$'000	N$'000	N$'000
ASSETS						
Non-current assets	**179,687**	**237,133**	**186,027**	**212,438**	**212,122**	**192,805**
Propery, plant and equipment	141,655	147,779	150,748	159,261	166,339	161,033
Intangible assets - computer software	1,851	1,564	2,601	0	0	0
Currency inventory - notes and coins	12,544	4,771	8,437	10,425	15,837	5,283
Loans and advances	23,637	83,019	24,241	42,752	29,946	26,489
Current assets	**5,099,892**	**2,404,586**	**2,546,332**	**2,156,047**	**2,970,417**	**2,788,481**
Investments	3,348,505	1,906,463	1,902,286	2,090,925	2,842,966	2,682,587
Loans and advances	1,509,450	402,723	555,400	42,259	18,972	24,758
Rand cash	133,087	41,067	47,246	13,210	38,504	19,320
Other inventory - stationary and spares	2,086	945	1,690	0	0	0
Other assets	106,764	53,388	39,710	9,653	8,286	7,012
Bankers current	0	0	0	0	61,689	54,804
TOTAL ASSETS	**5,279,579**	**2,641,719**	**2,732,359**	**2,368,485**	**3,182,539**	**2,981,286**
EQUITY AND LIABILITIES						
Capital and reserves	**940,223**	**647,427**	**600,205**	**727,220**	**1,084,767**	**1,607,777**
Share capital	40,000	40,000	40,000	40,000	40,000	40,000
General reserve	292,842	246,569	228,014	239,756	237,282	203,739
Revaluation reserve	587,381	345,858	312,191	432,464	792,485	1,324,347
Building reserve	10,000	0	0	0	0	30,000
Development fund reserve	10,000	15,000	20,000	15,000	15,000	9,691
Non-Current liabilities	**14,940**	**14,190**	**11,973**	**0**	**0**	**0**
Provision for post-employment benefits	14,940	14,190	11,973	0	0	0
Current liabilities	**4,324,416**	**1,980,102**	**2,120,181**	**1,641,265**	**2,097,772**	**1,373,509**
Notes and coins in circulation	1,173,345	1,026,846	945,758	918,686	818,980	787,255
Deposits	3,132,352	945,324	1,162,657	665,819	1,270,535	566,436
Provision for post-employment benefits	420	247	292	0	0	0
Trade and other payables	18,299	7,685	11,474	56,760	8,257	19,818
TOTAL EQUITY AND LIABILITIES	**5,279,579**	**2,641,719**	**2,732,359**	**2,368,485**	**3,182,539**	**2,981,286**

PART E

Annual Financial Statements

for the financial year

ended 31 December 2006

Report in terms of Section 52(1)(a) of the Bank of Namibia Act No.15 of 1997

ANNUAL FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

31 DECEMBER 2006

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF THE BANK OF NAMIBIA

We have audited the annual financial statements of the Bank of Namibia, which comprise the balance sheet at 31 December 2006, and the income statement, the statement of changes in equity and cash flow statement for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 84 to 104.

Board members' responsibility for the financial statements

The Bank of Namibia's board members are responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting set out in the accounting policies on pages 89 to 94 and in the manner required by the Bank of Namibia Act (Act No. 15 of 1997). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statements presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in the accounting policies and in the manner required by the Bank of Namibia Act (Act No. 15 of 1997).

Without qualifying our opinion, we emphasise that the basis of accounting and the presentation and disclosures contained in the financial statements do not comply with all the requirements of International Financial Reporting Standards, of which material departures are disclosed in the notes to the financial statements.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (Namibia)
Per DJ Cilliers
Partner
23 March 2007

BOARD'S STATEMENT OF RESPONSIBILITIES

The main statutory provisions relating to the role and duties of members of the Board are covered under Section 8(1) of the Bank of Namibia Act, No 15 of 1997, we confirm that:

1. The Board members are responsible for the preparation of the annual financial statements and for the judgements used therein.

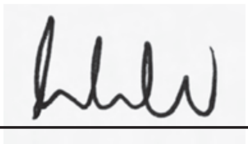
2. The Board has overall responsibility for the system of internal financial control in the Bank, which is designed to safeguard the assets of the Bank, prevent and detect fraud and other irregularities. To discharge this responsibility an appropriate organisational structure has been established. In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

3. The Board is satisfied that the accounting policies which incorporate IFRS principles, in line with the nature of central banking activity have been consistently applied and are supported by reasonable judgements and estimates.

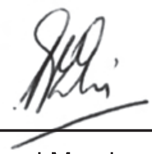
4. The Board members confirm that they are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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

The annual financial statements on pages 84 to 104 were approved by the Board and are signed on its behalf by:



Chairman
1 March 2007



Board Member
1 March 2007

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 N$'000	2005 N$'000
Net interest income		133 673	97 804
Interest income	2	164 964	104 481
Interest expense		(31 291)	(6 677)
Net losses on portfolio investments		(5 403)	(1 944)
Other income	2	92 780	54 598
Total income		221 050	150 458
Operating expenses		102 580	96 903
Profit for the year	2	118 470	53 555
Transfers to reserves		66 273	33 555
General reserve	12	46 273	18 555
Development fund reserve	14	10 000	15 000
Building reserve fund	15	10 000	-
Distribution to State revenue fund		52 197	20 000

BALANCE SHEET AS AT

31 DECEMBER 2006

	Notes	2006 N$'000	2005 N$'000
ASSETS			
Non-Current Assets		179 687	237 133
Property, plant and equipment	3	141 655	147 779
Intangible assets – computer software	4	1 851	1 564
Currency inventory – notes and coins	5	12 544	4 771
Loans and advances	6	23 637	83 019
Current Assets		5 099 892	2 404 586
Investments	7	3 348 505	1 906 463
Loans and advances	8	1 509 450	402 723
Rand cash		133 087	41 067
Other inventory – stationery and spares	9	2 086	945
Other assets	10	106 764	53 388
TOTAL ASSETS		5 279 579	2 641 719
EQUITY AND LIABILITIES			
Capital and Reserves		940 223	647 427
Share capital	11	40 000	40 000
General reserve	12	292 842	246 569
Revaluation reserve	13	587 381	345 858
Development fund reserve	14	10 000	15 000
Building reserve fund	15	10 000	-
Non-Current Liabilities		14 940	14 190
Provision for post employment benefits	19	14 940	14 190
Current Liabilities		4 324 416	1 980 102
Notes and coins in circulation	16	1 173 345	1 026 846
Deposits	17	3 132 352	945 324
Provision for post employment benefits	19	420	247
Trade and other payables	18	18 299	7 685
TOTAL EQUITY AND LIABILITIES		5 279 579	2 641 719

TOM K. ALWEENDO
GOVERNOR
1 March 2007

PAUL W. HARTMANN
CHIEF FINANCIAL OFFICER
1 March 2007

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share Capital N$'000	Accumulated Profit & loss account N$'000	General Reserve N$'000	Revaluation Reserve N$'000	Distribution State Revenue Fund N$'000	Building Reserve Fund N$'000	Development Fund Reserve N$'000	Total N$'000
Balance at 31 December 2004	40 000	-	228 014	312 191	-	-	20 000	600 205
Net foreign exchange gains	-	-	-	33 667	-	-	-	33 667
Profit for the year	-	53 555	-	-	-	-	-	53 555
Disbursement Development Fund	-	-	-	-	-	-	(20 000)	(20 000)
Appropriation of net profit for the year	-	(53 555)	18 555	-	20 000	-	15 000	-
Reclassification to current liability	-	-	-	-	(20 000)	-	-	(20 000)
Balance at 31 December 2005	40 000	-	246 569	345 858	-	-	15 000	647 427
Net foreign exchange gains	-	-	-	241 523	-	-	-	241 523
Profit for the year	-	118 470	-	-	-	-	-	118 470
Disbursement Development Fund	-	-	-	-	-	-	(15 000)	(15 000)
Appropriation of net profit for the year	-	(118 470)	46 273	-	52 197	10 000	10 000	-
Reclassification to current liability	-	-	-	-	(52 197)	-	-	(52 197)
Balance at 31 December 2006	40 000	-	292 842	587 381	-	10 000	10 000	940 223

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 N$'000	2005 N$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (utilised by)/generated from operations	A	(154 331)	8 552
CASH FLOWS FROM INVESTING ACTIVITIES		42 832	(65 075)
Proceeds on disposals of property, plant & equipment		92	783
Purchase of property, plant & equipment		(3 170)	(5 491)
Purchase of currency inventory		(12 325)	-
Purchase of intangible asset – computer software		(1 147)	(1 589)
Decrease/(increase) in loans and advances		59 382	(58 778)
CASH FLOWS FROM FINANCING ACTIVITIES		111 499	56 523
Distribution to the State revenue fund	B	(20 000)	(4 565)
Distribution to the Development Bank of Namibia		(15 000)	(20 000)
Notes and coins issued		146 499	81 088
	1.13	-	-

NOTE:

A. RECONCILIATION OF PROFIT FOR THE YEAR TO CASH (UTILISED BY)/GENERATED FROM OPERATIONS

	2006	2005
Profit for the year	118 470	53 555
Adjusted for:		
Depreciation	8 233	8 148
Currency inventory amortisation cost	4 552	3 666
Provision post employment obligation	923	2 172
Amortisation of computer software	849	2 626
Loss on disposal of property, plant & equipment	16	33
Profit on disposal of property, plant & equipment	(54)	(504)
Operating cash flows before movements in working capital	132 989	69 696
(Increase)/decrease in loans and advances	(1 106 727)	152 677
(Increase)/decrease in Rand cash	(92 020)	6 179
Increase in other assets	(53 376)	(13 678)
(Increase)/decrease in inventory	(123)	745
Movement in inventory	(1 141)	745
Reclassification of inventory	1 018	-
Increase/(decrease) in deposits	2 154 831	(232 768)
Increase/(decrease) in trade and other payables	10 614	(3 789)
(Increase)/decrease in investments	(1 200 519)	29 490
	(154 331)	8 552

B. TRANSFER TO STATE REVENUE FUND

	2006	2005
Opening balance included in deposits	(20 000)	(4 565)
Appropriations of net profit for the year	52 197	20 000
Closing balance included in deposits	(52 197)	(20 000)
Paid for the year	(20 000)	(4 565)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2006

1. ACCOUNTING POLICIES

The Bank's annual financial statements are prepared in accordance with the going concern principle under the historical cost basis, except for financial assets and liabilities where the fair value and amortised cost basis of accounting is adopted. The annual financial statements have also been prepared to comply with the requirements of the Bank of Namibia Act, 1997 and the accounting policies as set out in Note 1 to the annual financial statements. The principal accounting policies, which have been consistently applied in all material respects with the previous year and comply with the requirements of International Financial Reporting Standards (IFRS). Material non compliance of the Bank's accounting policies to the requirements of IFRS is detailed below.

Gains and losses arising from the revaluation of foreign currencies resulting from changes in the official exchange rates are posted directly to the Revaluation Reserve which is not in compliance with the requirements of IAS 21 "Effect of Changes in Exchange Rates" . The Standard requires that gains and losses should be charged through the income statement and not taken directly to the reserves. This non compliance was due to the requirements of the Bank of Namibia Act which specifically prohibits this accounting treatment.

1.1 NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

As at the date of authorisation of these financial statements, the following Standards and interpretations were in issue but not yet effective:

New International Financial Reporting Standards	**Issued/Revised**	**Effective date**
<u>IFRS 7</u> *Financial Instruments Disclosures*	2005	Annual periods beginning on or after 1 January 2007
<u>IFRS 8</u> *Operating segments*	2006	Annual periods beginning on or after 1 January 2009
Revised International Accounting Standards	**Revised**	**Effective date**
<u>IAS 1</u> *Presentation of Financial Statements* Added disclosures about an entity's capital	2005	Annual periods beginning on or after 1 January 2007

Effective dates of Recent Interpretations		
	IFRIC Interpretation	**Effective date**
<u>IFRIC 7</u>	*Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*	Annual periods beginning on or after 1 March 2006
<u>IFRIC 8</u>	*Scope of IFRS 2*	Annual periods beginning on or after 1 May 2006
<u>IFRIC 9</u>	*Reassessment of Embedded Derivatives*	Annual periods beginning on or after 1 June 2006
<u>IFRIC 10</u>	*Interm Financial Reporting and Impairment*	Annual periods beginning on or after 1 November 2006

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

1. ACCOUNTING POLICIES (CONTINUED)

1.1 New International Financial Reporting Standards (continued)

IFRIC 11	*Interim Financial Reporting and Impairment*	Annual periods beginning on or after 1 March 2007
IFRIC 12	*Service Concession Arrangements*	Annual periods beginning on or after 1 January 2008

The Bank has reviewed the above detailed statements and anticipate that IFRS 7 and IAS 1 will have an impact on the Bank's financial statements especially in as far as disclosures is concerned. At present it would be difficult to predict the financial impact.

1.2 Revenue recognition

Interest income is recognized on a time proportioned basis, taking account of the principle outstanding and the effective interest rate over the period to maturity. The effective interest rate takes into account all directly attributable external costs, discounts or premiums on the financial assets. Rand compensation income is received from the South African government as compensation for the Rand currency in circulation in Namibia. The Bank accounts for this income on an accrual basis.

1.3 Financial instruments

Financial instruments as reflected on the Bank's balance sheet include all financial assets and financial liabilities. Management determine the appropriate classification at initial recognition of the financial instrument. The instruments are initially measured at cost which includes transaction costs. The Bank classifies its financial instruments as follows:

Classification - Financial assets

Loans and Receivables

- Loans and advances
- Repurchase agreements
- Amounts due from the Government
- Accounts receivable

Held for trading financial assets

- External money market investments
- External portfolio investments

Classification - Financial liabilities

- Notes and coins issued
- Amounts due to the Government
- Commercial bank deposits
- Other liabilities
- Accounts payable

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Financial instruments (continued)

Recognition

The Bank recognises financial instruments held for trading on the date it becomes party to the contractual provisions to purchase the asset and applies trade date accounting for "regular way" purchases and sales. Subsequent to initial recognition, all instruments are measured at fair value which is determined by instrument type based on accepted valuation concepts. Loans and advances, other receivables and other financial liabilities are recognised on the day they are transferred to the Bank or on the day the funds are advanced.

Measurement

Financial instruments are initially measured at cost which includes transaction costs.

Subsequent measurement

Held for trading financial assets – are carried at fair value. Fair values for the various classes are determined as follows:

- External money markets investments

  The fair value of external money market investments is based on quoted bid rates excluding transaction costs.

- External portfolio investments

  The fair value of marketable securities within the portfolio are obtained from quoted market prices and for unquoted securities acceptable valuation techniques are used to determine the fair value.

- Loans and advances, receivables and non-trading liabilities

  These are measured at amortised cost and re-measured for impairment losses except as set out below:

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

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

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

Impairment of financial assets

A review for impairment is carried out at each financial year end. A financial asset is impaired if its carrying value is greater than its estimated recoverable amount.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income statement of the period in which it arises.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Financial instruments (continued)

De-recognition

The Bank de-recognises a financial asset only when the contractual rights to the cash flows from the asset expires or the financial asset is transferred and the transfer qualifies for de-recognition in accordance with the provisions of IAS 39: Financial Instruments: Recognition and measurement.

1.4 General reserve

The general reserve is established in terms of Section 16 of the Bank of Namibia Act, 1997 and may only be used for the purpose specified below:

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

The amount maintained in this account relates to the annual appropriation of distributable profits determined by Section 15 of the Bank of Namibia Act. The Act prescribes that not less that 30% of the net profits of the Bank for a financial year be transferred to the General Reserve Account.

1.5 Foreign currency activities and Revaluation reserve

The Revaluation reserve has been created in accordance with Section 31 of the Bank of Namibia Act and is used to accommodate any net gains or losses in any financial year of the Bank arising from any change in the book value or realised value of the Bank's Assets or Liabilities denominated in currencies or units of account other than the Domestic Currency, such as gold, special drawing rights and foreign currencies. Any change in the value of such currencies or units of account in terms of the currency of Namibia, shall be credited to the Revaluation Reserve Account.

Assets and liabilities in foreign currencies are translated to Namibia Dollars at year-end exchange rates. In terms of Section 31 of the Bank of Namibia Act, 1997, exchange gains and losses of the Bank are for the account of the Government and are consequently transferred to the Revaluation Reserve Account.

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost and are depreciated on the straight-line method over their estimated useful lives at the following rates:

Freehold buildings	2.0 %
Computer hardware	50.0 %
Motor vehicles	25.0 %
Furniture, fittings and equipment	20.0 %
Note Sorting Machines	10.0 %

The residual value on building is benchmarked to similar structures in the country and did not call for any adjustment in residual value both in the previous year and the current year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

1. ACCOUNTING POLICIES (CONTINUED)

1.7 Intangible assets – Computer software

On acquisition the software is capitalised at purchase price. The useful life has been set at three years and the assets are amortised on a straight line basis with zero residual value. This policy is consistent with prior years.

1.8 Investments

Investments in marketable securities are stated at market value and include realised and unrealised capital appreciation, or depreciation, which is taken into account to reflect changes in market value. Realised capital appreciation and depreciation as well as unrealised capital appreciation and depreciation are recognised in the income statement.

Investments are adjusted to take account of discounts earned or premiums paid, over their remaining life, so that book value at maturity equals the redemption value.

Other investments are initially stated at cost and subsequently measured at fair value where applicable. Any foreign exchange rate movements are accounted for through the Revaluation Reserve Account.

Interest from investments is accounted for on the accruals basis.

1.9 Inventory

Currency

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

Stationery and spares

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

1.10 Pension fund

It is the policy of the Bank to contribute to the retirement benefits for employees. Contributions to the provident fund are charged against income in the year in which they become payable.

1.11 Impairment of assets

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

1. ACCOUNTING POLICIES (CONTINUED)

1.12 Post-employment medical benefits

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

1.13 Cash flow statement

The definition of cash in the standard is not wholly appropriate to the Bank. Due to its role in the creation and withdrawal of currency, the Bank has no cash balances on its balance sheet. However the Bank has the ability to create cash when needed.

1.14 Provisions

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

1.15 Transactions on behalf of Government

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

1.16 Borrowing costs

Borrowing costs are primarily interest and other costs incurred by the Bank in connection with the borrowing of funds. In as far as the Bank of Namibia is concerned borrowing costs are recognised on a time proportioned basis, taking account of the principle outstanding and the effective interest rate over the period of the loan.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

2. PROFIT FOR THE YEAR

Profit for the year is arrived at after taking the following items into account:

	2006 N$'000	2005 N$'000
Interest income		
Interest earnings	163 892	103 035
Unwinding of present value adjustments	1 072	1 446
	164 964	104 481
Other income		
Rand compensation income	87 288	50 200
Profit on disposal of property, plant and equipment	54	504
Sundry income	5 438	3 894
	92 780	54 598
Operating expenses		
Depreciation	8 233	8 148
Amortisation of computer software	849	2 626
Currency inventory amortisation costs	4 552	3 666
Other inventory expensed	454	1 482
Salaries and related personnel costs	67 166	64 685
Staff training and development	1 428	1 123
Social responsibility	1 054	1 478
Board members' fees - for services as directors	216	208
Auditors' remuneration - audit fees	514	326
Membership fees	168	102
Building and other maintenance costs	4 312	3 803
Loss on disposal of property, plant and equipment	16	33
Fair value adjustments of new loans	1 801	1 266
Number of employees	260	270

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

3. PROPERTY, PLANT AND EQUIPMENT

2006 **Cost**	**Freehold land and buildings** **N$'000**	**Computer hardware** **N$'000**	**Furniture fittings & equipment** **N$'000**	**Motor vehicles** **N$'000**	**Total** **N$'000**
At 1 January 2006	141 394	9 919	52 365	1 209	204 887
Additions	959	507	1 529	175	3 170
Reclassifications to inventory	-	-	(1 018)	-	(1 018)
Disposals/write-offs	-	(853)	(225)	(93)	(1 171)
At 31 December 2006	142 353	9 573	52 651	1 291	205 868
Accumulated depreciation					
At 1 January 2006	15 783	8 945	31 276	1 104	57 108
Current year charge	2 755	694	4 665	119	8 233
Disposals/write-offs	-	(847)	(189)	(92)	(1 128)
At 31 December 2006	18 538	8 792	35 752	1 131	64 213
Carrying value					
At 1 January 2006	125 611	974	21 089	105	147 779
At 31 December 2006	123 815	781	16 899	160	141 655
2005					
Cost					
At 1 January 2005	140 824	9 159	48 675	1 209	199 867
Additions	673	860	3 958	-	5 491
Transfers	173	-	(173)	-	-
Disposals/write-offs	(276)	(100)	(95)	-	(471)
At 31 December 2005	141 394	9 919	52 365	1 209	204 887
Accumulated depreciation					
At 1 January 2005	13 040	8 268	26 814	997	49 119
Current year charge	2 743	777	4 521	107	8 148
Disposals/write-offs	-	(100)	(59)	-	(159)
At 31 December 2005	15 783	8 945	31 276	1 104	57 108
Carrying value					
At 1 January 2005	127 784	891	21 861	212	150 748
At 31 December 2005	125 611	974	21 089	105	147 779

A register containing details of land and buildings is available for inspection at the registered office of the Bank.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

4. INTANGIBLE ASSETS - COMPUTER SOFTWARE	N$'000
2006	
Cost	
At 1 January 2006	16 534
Additions	1 147
Transfers	-
Disposals/write-offs	(25)
At 31 December 2006	17 656
Amortisation	
At 1 January 2006	14 970
Current year charge	849
Disposals/write-offs	(14)
At 31 December 2006	15 805
Carrying value	
At 1 January 2006	1 564
At 31 December 2006	1 851
2005	
Cost	
At 1 January 2005	14 945
IFRS – Adjustments	1 589
Additions	-
Disposals/write-offs	-
At 31 December 2005	16 534
Amortisation	
At 1 January 2005	12 344
Current year charge	2 626
Disposals/write-offs	-
At 31 December 2005	14 970
Carrying value	
At 1 January 2005	2 601
At 31 December 2005	1 564

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

		2006	2005
		N$'000	N$'000
5.	**CURRENCY INVENTORY - NOTES AND COINS**		
	Opening balance	4 771	8 437
	Purchases current year	12 325	-
	Amortisation current year	(4 552)	(3 666)
	Closing balance	12 544	4 771
6.	**LOANS AND ADVANCES**		
	Staff loans	18 738	16 300
	Less: Present value adjustment for off-market staff loans	(3 198)	(2 470)
		15 540	13 830
	Other loans	8 097	69 189
	Closing balance	23 637	83 019
7.	**INVESTMENTS**		
	Rand currency	1 226 329	1 269 983
	Other currencies	2 122 176	636 480
		3 348 505	1 906 463
8.	**LOANS AND ADVANCES**		
	Local banks	1 394 601	-
	Repurchase agreements – local banks	114 849	402 723
		1 509 450	402 723

Local banks relate to investments held with the commercial banks on behalf of the Government for the debt management programme. Repurchase agreements are over night loan facilities granted to the commercial banks to cover for temporary liquidity shortages.

		2006	2005
9.	**OTHER INVENTORY - STATIONERY AND SPARES**		
	Opening balance	945	1 690
	Purchases current year	493	737
	Inventory adjustment	1 102	-
	Issues current year	(454)	(1 482)
		2 086	945
10.	**OTHER ASSETS**		
	Rand compensation receivable - government	87 600	50 200
	Accounts receivable	18 969	3 025
	IMF – special drawing rights	195	163
		106 764	53 388

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

		2006 N$'000	2005 N$'000
11.	**SHARE CAPITAL**		
	Authorised share capital		
	100 000 000 ordinary shares of N$1 each	100 000	100 000
	Issued share capital		
	40 000 000 ordinary shares of N$1 each	40 000	40 000
12.	**GENERAL RESERVE**		
	Opening balance	246 569	228 014
	Appropriation of net profit for the year	46 273	18 555
	Closing balance	292 842	246 569
13.	**REVALUATION RESERVE**		
	Opening balance	345 858	312 191
	Net foreign exchange gains	241 523	33 667
	Closing balance	587 381	345 858

The Revaluation reserve has been created in accordance with Section 31 of the Bank of Namibia Act. The Act requires that both realised and unrealised gains and losses be transferred to the revaluation reserve account.

		2006 N$'000	2005 N$'000
14.	**DEVELOPMENT FUND RESERVE**		
	Opening balance	15 000	20 000
	Disbursement	(15 000)	(20 000)
	Appropriation of net profit for the year	10 000	15 000
	Closing balance	10 000	15 000

This reserve has been created to provide a grant to the Development Bank of Namibia on its formation. The Bank has committed a total of N$45 million for this purpose, however it is to be noted that even though these amounts have been appropriated from the Bank's profits, a precondition to the disbursement is the running of Development Bank of Namibia in accordance with their strategic document and good governance.

		2006 N$'000	2005 N$'000
15.	**BUILDING RESERVE FUND**		
	Appropriation of net profit for the year	10 000	-
	Closing balance	10 000	-

This reserve has been created to provide funds for the construction of the Bank's disaster recovery site.

		2006 N$'000	2005 N$'000
16.	**NOTES AND COINS IN CIRCULATION**		
	Notes	1 094 925	957 000
	Coins	78 420	69 846
		1 173 345	1 026 846

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

	2006 N$'000	2005 N$'000
17. DEPOSITS		
Government of the Republic of Namibia	2 317 335	474 164
Domestic bankers' reserve account	283 350	228 139
Domestic bankers' current account	75 719	117 583
Other	455 948	125 438
	3 132 352	945 324

Banker's reserve and current account balances have no fixed maturity and attract no interest.

Interest is payable to the Government of the Republic of Namibia on deposits in excess of N$250 million (2005: N$250 million) at the 91 day Treasury Bill rate less a discount of 4.5%. Deposits other relate mainly to the syndicated loan facility obtained during the year under review.

18. TRADE AND OTHER PAYABLES

	2006 N$'000	2005 N$'000
Sundry creditors	18 299	7 685

19. PROVISION FOR POST EMPLOYMENT BENEFITS

The Bank provides post-retirement medical aid benefits to retired staff members. A provision for the liability has been created which covers the total liability i.e. the accumulated post-retirement medical benefits at fair value as at 31 December 2006.

	2006 N$'000	2005 N$'000
Opening liability	14 437	12 265
Interest costs	1 770	1 504
Current service costs	1 070	960
Benefit payments	(320)	(292)
Actuarial gains	(1 597)	-
Closing liability	15 360	14 437
Current portion of post-retirement benefits obligation	(420)	(247)
Non-current portion of post-retirement benefits obligation	14 940	14 190

Key assumptions

Discount rate	10 % p.a
Medical inflation	7.32 % p.a
Valuation date	31 December 2006

20. GUARANTEES

The Bank guarantees a percentage of housing loans granted to employees by certain financial institutions. Twenty percent of the bond value is guaranteed by the Bank. Ten percent is given by way of collateral security in the form of deposits at the respective financial institutions and the other ten percent by way of written obligation from the Bank. As at the end of 31 December 2006 the total obligations due by the Bank as regards to collateral securities for housing loan guarantees amounted to N$339 534 (2005: N$671 000).

21. CONTINGENT LIABILITY

There is a claim of US$2 917 015 against the Bank which relates to a guarantee issued by the Bank in 1993. The total possible loss, including costs may amount to not less than N$20.3 million (2005: N$18.5 million). The Bank views the case as having no substance and is addressing it in conjunction with its legal advisors.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

22. RETIREMENT FUND

Retirement benefits are provided for employees by a separate Provident Fund, known as the Bank of Namibia Provident Fund, to which the Bank contributes. The Provident Fund is administered under the Namibian Pension Fund Act, No. 24 of 1956. The Fund was converted from a Defined Benefit Pension Fund to a Defined Contribution Provident Fund as at 1 March 2000. All employees contribute to the Fund. Total Bank contributions for the year amounted to N$8 832 343 (2005: N$6 623 029).

23. TAXATION

No provision for taxation has been made in the annual financial statements as the Bank is exempted from taxation in terms of Section 57 of the Bank of Namibia Act, No. 15 of 1997.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The risk management policies of the Bank regarding financial instruments are dealt with in regular reviews of the Bank's reserve management policies. The main risk areas are market, liquidity, credit and interest rates. For the specific risks as identified above the Bank has mitigating strategies as detailed below:

24.1 MARKET RISK

Market price risk is the risk of loss resulting from changes in market conditions and prices. In extending credit to banking institutions, this risk is substantially reduced by a rigorous repurchase agreement, by applying a hair-cut to the valuation of purchased securities and by using modern technology and appropriate organisational structures and procedures.

24.2 LIQUIDITY RISK

Liquidity risks are posed in two areas, i.e. the liquidity of international reserves and liquidity in the banking system. The Bank's Foreign Exchange Reserves Management and Investment Policy is structured in such a way that ensures sufficient liquidity in the investment portfolio to be able to service the country's external liabilities as and when they fall due. This is done by maintaining well funded liquid investments to meet the transaction requirements. This tranche is funded with call balances only to ensure that investments are liquidated efficiently without undue costs.

The Bank monitors the daily liquidity situation in the banking system and extends intraday and overnight repo credit to commercial banks to meet their settlement obligations. The Bank is not yet participating in the open market to provide or absorb liquidity through buying or selling of liquidity instruments, but the liquidity monitoring and forecasting framework of the Bank is aimed at providing the basis for open-market operations in future.

24.3 CREDIT RISK

It is the risk of losing money resulting from a default by the counterparty on its obligations. Transactions regarding treasury bill obligations are in a book entry format, rather than in physical certificate form. This enables the accurate registration and transfer of securities thus minimising the possibility of default. The Bank's investment policy only allows placement of funds in highly rated institutions and instruments to reduce any default risk. Credit to banking institutions is extended in the form of a repurchase agreement, giving immediate ownership of repurchased instruments to the Bank in case of default.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

25. INTEREST RATE REPRICING

The following table summarises the Bank's interest rate exposure in the form of an interest rate repricing table. This shows that when the interest rate earned or charged on assets and liabilities are expected to change. The table can therefore be used as the basis for an assessment of the sensitivity of the Bank's net income to interest rate movements.

As at year ended 31 December 2006

	0-3 Months	3-12 Months	1-5 Years	Non Interest Bearing	Total
N$'000					
Assets					
Property, plant and equipment	-	-	-	141 655	141 655
Intangible assets	-	-	-	1 851	1 851
Inventory	-	-	-	14 630	14 630
Loans and advances	-	-	23 637	-	23 637
Investment	2 505 207	698 178	145 120	-	3 348 505
Loans and advances – current	1 509 450	-	-	-	1 509 450
Rand cash	-	-	-	133 087	133 087
Other assets	-	-	-	106 764	106 764
Total Assets	4 014 657	698 178	168 757	397 987	5 279 579
Equity and Liabilities					
Shareholders' equity	-	-	-	940 223	940 223
Post-retirement medical liability	-	-	-	15 360	15 360
Note and coins in circulation	-	-	-	1 173 345	1 173 345
Deposits	2 317 335	-	-	815 017	3 132 352
Trade and other payables	-	-	-	18 299	18 299
Total Equity & Liabilities	2 317 335	-	-	2 962 244	5 279 579
Interest rate repricing gap	1 697 322	698 178	168 757	(2 564 257)	

-

A positive repricing gap means that more assets than liabilities reprice in this period. A negative repricing gap indicates the reverse.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

As at year ended 31 December 2005

	0-3 Months	3-12 Months	1-5 Years	Non Interest Bearing	Total
N$'000					
Assets					
Property, plant and equipment	-	-	-	147 779	147 779
Intangible assets	-	-	-	1 564	1 564
Inventory	-	-	-	5 716	5 716
Loans and advances	-	-	83 019	-	83 019
Investment	1 805 874	81 791	18 798	-	1 906 463
Loans and advances - current	402 723	-	-	-	402 723
Rand cash	-	-	-	41 067	41 067
Other assets	-	-	-	53 388	53 388
Total Assets	2 208 597	81 791	101 817	249 514	2 641 719
Equity and Liabilities					
Shareholders' equity	-	-	-	647 427	647 427
Post-retirement medical liability	-	-	-	14 437	14 437
Note and coins in circulation	-	-	-	1 026 846	1 026 846
Deposits	474 164	-	-	471 160	945 324
Trade and other payables	-	-	-	7 685	7 685
Total Equity & Liabilities	474 164	-	-	2 167 555	2 641 719
Interest rate repricing gap	1 734 433	81 791	101 817	(1 918 041)	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2006

26. CAPITAL COMMITMENTS

	2006 N$' 000	2005 N$'000
Contracted	975	3 092

These capital commitments will be funded from internal resources.

27. RELATED PARTY INFORMATION

During the year the Bank, in its ordinary course of business, entered into various transactions. These transaction were under taken on commercial terms and conditions. The Bank of Namibia Act prescribes that the emoluments of the Governor, Deputy Governor and Board members be determined by the Minister of Finance. The emoluments of the Board members are primarily sitting fees and the annual stipend. The Governor and the Deputy Governor's emoluments is an all inclusive package which comprises of salaries, pension contributions, medical aid, leave pay, etc. The gross emoluments of executive, senior management and Board members are detailed below:

Gross Emoluments

	Salaries N$'000	Retirement Benefit N$'000	Medical Aid Benefit N$'000	Total 2006 N$'000	Total 2005 N$'000
Executive Board					
Governor/Deputy Governor	2 401	368	51	2 820	2 401
Senior Management	4 294	629	177	5 100	6 267
Non-Executive Board					
Dr O Herrigel				63	49
Mr R Ritter				72	57
Ms T Emvula-Itenge				29	50
Mr F Kisting				53	52
Ms L Shapwa				-	-
Mr C Schlettwein				-	-

There were no other related party transactions with both the Executive and Non-Executive Board members.

8. STATISTICAL APPENDIX

8.1 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 creditlasset 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 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

The current account of the balance of payments covers all transactions (other than those in financial account) that involve economic values, (i.e; real transactions) and occur between residents and non-resident entities. Also covered are offsets to current economic values provided or acquired without a quid pro quo. Included are goods, services, income and current transfers. The balance on goods, services, income and current transfers is commonly referred to as the "current balance" or "current account balance".

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 nonresident is excluded from income and is classified under services such as travel.

Merchandise Trade Balance

This is net balance of the total export and import of goods excluding transactions in services between residents and non-residents. Trade balance is the net balance of the total export and import of goods including transactions in services between residents and non-residents.

Net Errors and Omissions

The balance of payment accounting framework requires a balancing item as the measure of the difference between recorded credits/debits and omissions. This is called net errors and omissions'. Theoretically, it measures quality though in practice a zero/lower net errors and omissions could imply not necessarily good quality data but that debits and credits just cancelled each other.

Other Investment

Other investment covers all financial instruments other than those classified as direct investment, portfolio investment or reserve assets.

Overall Balance of Payments

A balance simply refers to the difference between the sum of credits and debit entries. The overall balance is a very simple concept but a powerful analytical tool often used by analysts. In the balance of payment, overall balance refers to the balance between the sum of the current account balance, the capital and financial account balance and net errors and omissions.

Portfolio Investment

Portfolio investment includes trading in equity and debt securities (other than those included in direct investment and reserve assets). These instruments are usually traded (or tradable) in organized and other financial markets, including over-the-counter (OTC) markets.

Reserve Assets

Reserve assets consist of those external assets that are readily available to and controlled by the monetary authority for the direct financing of payments imbalances, for indirectly regulating the magnitude of such balances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes.

Residency

In the balance of payments, the concept of residency is based on a sectoral transactor's center of economic interest. Country boundaries recognized for political purposes may not always be appropriate for economic interest purposes. Therefore, it is necessary to recognize the economic territory of a country as the relevant geographical area to which the concept of residence is applied. An institutional unit is a resident unit when it has a center of economic interest in the territory from which the unit engages in economic activities and transactions on a significant scale, for a year or more.

MONETARY AND FINANCIAL STATISTICS

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, 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.

8.2 STATISTICAL TABLES

I National Accounts

II Monetary and Financial Developments

III Public Finance

IV Balance of Payments

Table 1.1 Aggregate economic indicators

	2001	2002	2003	2004	2005
Current prices					
GDP (N$ mil.)	27686	32908	33842	36181	38560
% Change	16.9	18.9	2.8	6.9	6.6
GNI (N$ mil.)	27677	33264	35574	36181	38560
% Change	15.7	20.2	6.9	1.7	6.6
GDP per capita (N$)	14853	17220	17293	18081	18874
% Change	16.7	15.9	0.4	4.6	4.4
GNI per capita (N$)	14848	17406	18178	18351	18781
% Change	15.6	17.2	4.4	1.0	2.3
Constant 1995 prices					
GDP (N$ mil.)	15462	16494	17069	18193	18949
% Change	2.4	6.7	3.5	6.6	4.2
GNI (N$ mil.)	17541	19054	18942	19429	19960
% Change	5.6	8.6	-0.6	2.6	2.7
GDP per capita (N$)	8295	8631	8722	9092	9295
% Change	2.3	4.1	1.1	4.2	2.0
GNI per capita (N$)	9410	9970	9679	9710	9770
% Change	5.5	6.0	-2.9	0.3	0.6

Source: Central Bureau of Statistics

Table I.2 Gross domestic product and gross national income
Current prices - N$ million

	2001	2002	2003	2004	2005
Current prices - N$ million					
Compensation of employees	10616	12012	13051	13903	14477
Consumption of fixed capital	3561	4073	5303	5932	6651
Net operating surplus	11015	13793	12525	12878	13645
Gross domestic product at factor cost	**25192**	**29878**	**30879**	**32713**	**34773**
Taxes on production and imports	3158	3582	3104	3681	4056
Subsidies	-663	-552	-140	-213	-269
Gross domestic product at market prices	**27686**	**32908**	**33842**	**36181**	**38560**
Primary incomes					
- receivable from the rest of the world	1704	1803	2123	1483	1490
- payable to rest of the world	-1714	-1447	-391	-944	-1682
Gross national income at market prices	**27677**	**33264**	**35574**	**36181**	**38560**
Current transfers					
- receivable from the rest of the world	3297	3202	3670	4529	4548
- payable to rest of the world	-312	-308	-203	-225	-259
Gross national disposable income	**30661**	**36158**	**39041**	**41023**	**42658**
Current prices - N$ per capita					
Gross domestic product at market prices	14853	17220	17293	18081	18874
Gross national income at market prices	14848	17406	18178	18351	18781
Constant 1995 prices - N$ millions					
Gross domestic product at market prices	**15462**	**16494**	**17069**	**18193**	**18949**
- Annual percentage change	2.4	6.7	3.5	6.6	4.2
Real gross national income	**17541**	**19054**	**18943**	**19429**	**19960**
- Annual percentage change	5.6	8.6	-0.6	2.6	2.7
Constant 1995 prices - N$ per capita					
Gross domestic product at market prices	**8295**	**8631**	**8722**	**9092**	**9295**
- Annual percentage change	2.3	4.1	1.1	4.2	2.0
Real gross national income	**9410**	**9970**	**9679**	**9710**	**9770**
- Annual percentage change	5.5	6.0	-2.9	0.3	0.6

Source: Central Bureau of Statistics

Table I.3 National disposable income and saving
Current prices - N$ million

	2001	2002	2003	2004	2005
Disposable income and saving					
Gross national disposable income	**30661**	**36158**	**39041**	**41023**	**42658**
Consumption of fixed capital	3561	4073	5303	5932	6651
Net national disposable income	**27100**	**32085**	**33738**	**35091**	**36006**
All other sectors	19879	24102	25899	26066	26662
General government	7221	7983	7839	9025	9345
Final consumption expenditure	**23949**	**26981**	**27766**	**30131**	**31892**
Private	16094	18289	18797	20980	22524
General government	7856	8692	8969	9151	9368
Saving, net	**3151**	**5104**	**5973**	**4960**	**4115**
All other sectors	3785	5813	7102	5085	4138
General government	-634	-708	-1130	-125	-23
Financing of capital formation					
Saving, net	3151	5104	5973	4960	4115
Capital transfers receivable from abroad	45	431	512	501	509
Capital transfers payable to foreign countries	-2	-4	-3	-3	-3
Total	**3194**	**5532**	**6482**	**5458**	**4620**
Capital formation					
Gross fixed capital formation	6073	6964	9867	9365	10434
All other sectors	4969	5876	8764	7974	8793
General government	1104	1087	1103	1391	1641
Consumption of fixed capital	-3561	-4073	-5303	-5932	-6651
All other sectors	-2649	-3065	-4118	-4624	-5183
General government	-912	-1008	-1185	-1308	-1468
Changes in inventories	412	-468	220	175	544
Net lending (+) / Net borrowing(-)	270	3109	1697	1851	293
All other sectors	990	3733	2746	2040	576
General government	-720	-624	-1049	-189	-284
Discrepancy on GDP 1)	968	-77	2790	1256	2300
Net lending/borrowing in external transactions	1237	3032	4487	3107	2593
Total	**3194**	**5532**	**6482**	**5458**	**4620**

Source: Central Bureau of Statistics

1) This is the discrepancy in Table 1.6

Table I.4 (a) Gross domestic product by activity
Current prices - N$ million

Industry	2001	2002	2003	2004	2005
Agriculture and forestry	1137	1687	1814	1873	2404
Commercial	711	1309	1353	1294	1718
Subsistence	425	378	461	579	686
Fishing & fish processing on board	1445	1608	1757	1547	1916
Mining and quarrying	3663	4565	2975	3489	3317
Diamond mining	2854	3427	2630	3048	2708
Other mining and quarrying	809	1138	345	441	609
Primary industries	**6244**	**7859**	**6546**	**6909**	**7637**
Manufacturing	2604	3305	3870	4001	4118
Meat processing	142	143	139	126	119
Fish processing on shore	494	703	876	753	466
Manufacture of other food products and beverages	1215	1515	1650	1690	1785
Other manufacturing	753	944	1205	1434	1749
Electricity and water	620	854	1003	1199	1345
Construction	789	725	1029	1118	1249
Secondary industries	**4013**	**4884**	**5901**	**6318**	**6712**
Wholesale and retail trade, repairs	3004	3428	3987	3985	4036
Hotels and restaurants	477	576	648	653	670
Transport, and communication	1533	2083	2382	2649	2838
Transport and storage	975	1289	1409	1497	1548
Post and telecommunications	558	794	973	1152	1290
Financial intermediation	964	1088	1249	1213	1475
Real estate and business services	2497	2832	3156	3542	3677
Owner-occupied dwellings	1317	1449	1593	1748	1819
Other real estate and business services	1180	1382	1563	1794	1858
Community, social and personal services	216	244	281	282	346
Producers of government services	5810	6553	6863	7142	7328
Other producers	487	558	606	647	678
Tertiary industries	**14989**	**17361**	**19172**	**20113**	**21049**
Less: Financial services indirectly measured	330	359	432	394	444
All industries at basic prices	**24916**	**29747**	**31187**	**32950**	**34954**
Taxes less subsidies on products	2771	3161	2655	3234	3606
GDP at market prices	**27686**	**32908**	**33842**	**36181**	**38560**

Source: Central Bureau of Statistics

Table I.4 (b) Gross domestic product by activity
Percentage contributions

Industry	2001	2002	2003	2004	2005
Agriculture and forestry	4.1	5.1	5.4	5.2	6.2
Commercial	2.6	4.0	4.0	3.6	4.5
Subsistence	1.5	1.1	1.4	1.6	1.8
Fishing	5.2	4.9	5.2	4.3	5.0
Mining and quarrying	13.2	13.9	8.8	9.6	8.6
Diamond mining	10.3	10.4	7.8	8.4	7.0
Other mining and quarrying	2.9	3.5	1.0	1.2	1.6
Primary industries	**22.6**	**23.9**	**19.3**	**19.1**	**19.8**
Manufacturing	9.4	10.0	11.4	11.1	10.7
Meat processing	0.5	0.4	0.4	0.3	0.3
Fish processing	1.8	2.1	2.6	2.1	1.2
Manufacture of other food products and beverages	4.4	4.6	4.9	4.7	4.6
Other manufacturing	2.7	2.9	3.6	4.0	4.5
Electricity and water	2.2	2.6	3.0	3.3	3.5
Construction	2.8	2.2	3.0	3.1	3.2
Secondary industries	**14.5**	**14.8**	**17.4**	**17.5**	**17.4**
Wholesale and retail trade, repairs	10.8	10.4	11.8	11.0	10.5
Hotels and restaurants	1.7	1.7	1.9	1.8	1.7
Transport, and communication	5.5	6.3	7.0	7.3	7.4
Transport and storage	3.5	3.9	4.2	4.1	4.0
Post and telecommunications	2.0	2.4	2.9	3.2	3.3
Financial intermediation	3.5	3.3	3.7	3.4	3.8
Real estate and business services	9.0	8.6	9.3	9.8	9.5
Owner-occupied dwellings	4.8	4.4	4.7	4.8	4.7
Other real estate and business services	4.3	4.2	4.6	5.0	4.8
Community, social and personal services	0.8	0.7	0.8	0.8	0.9
Producers of government services	21.0	19.9	20.3	19.7	19.0
Other producers	1.8	1.7	1.8	1.8	1.8
Tertiary industries	**54.1**	**52.8**	**56.6**	**55.6**	**55.6**
Less: Financial services indirectly measured	1.2	1.1	1.3	1.1	1.2
All industries at basic prices	**90.0**	**90.4**	**92.2**	**91.1**	**90.6**
Taxes less subsidies on products	10.0	9.6	7.8	8.9	9.4
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bureau of Statistics

Table I.5(a) Gross domestic product by activity
Constant 1995 prices - N$ millions

Industry	2001	2002	2003	2004	2005
Agriculture and forestry	899	975	1010	1019	1128
Commercial	589	723	755	681	753
Subsistence	310	252	255	338	375
Fishing & fish processing on board	631	703	732	666	643
Mining and quarrying	1117	1296	1237	1688	1658
Diamond mining	803	942	909	1260	1208
Other mining and quarrying	314	355	328	428	450
Primary industries	**2647**	**2974**	**2979**	**3372**	**3430**
Manufacturing	1657	1816	1911	1968	1957
Meat processing	107	109	97	88	95
Fish processing on shore	204	183	277	269	256
Manufacture of other food products and beverages	808	875	872	885	935
Other manufacturing	538	648	665	726	671
Electricity and water	228	230	266	278	310
Construction	527	459	564	570	588
Secondary industries	**2412**	**2505**	**2741**	**2817**	**2855**
Wholesale and retail trade, repairs	1496	1607	1674	1801	1942
Hotels and restaurants	292	316	332	321	322
Transport, and communication	1196	1332	1372	1536	1671
Transport and storage	725	837	753	816	835
Post and telecommunications	471	494	619	720	836
Financial intermediation	498	514	564	646	788
Real estate and business services	1393	1494	1572	1683	1722
Owner-occupied dwellings	711	740	759	778	797
Other real estate and business services	682	754	813	906	925
Community, social and personal services	133	137	144	135	152
Producers of government services	3281	3408	3475	3663	3842
Other producers	298	307	310	318	326
Tertiary industries	**8586**	**9114**	**9444**	**10104**	**10765**
Less: Financial secvices indirectly measured	158	155	178	206	233
All industries at basic prices	**13488**	**14439**	**14986**	**16087**	**16815**
Taxes less subsidies on products	1974	2055	2083	2106	2134
GDP at market prices	**15462**	**16494**	**17069**	**18193**	**18949**

Source: Central Bureau of Statistics

Table I.5 (b) Gross domestic product by activity
Annual percentage changes

Industry	2001	2002	2003	2004	2005
Agriculture and forestry	-14.9	8.5	3.6	0.9	10.7
Commercial	-9.2	22.7	4.5	-9.9	10.6
Subsistence	-24.0	-18.6	0.9	32.7	11.0
Fishing	-1.5	11.4	4.2	-9.1	-3.4
Mining and quarrying	-6.1	16.0	-4.6	36.5	-1.8
Diamond mining	-5.1	17.3	-3.5	38.6	-4.1
Other mining and quarrying	-8.5	12.9	-7.5	30.6	5.0
Primary industries	**-8.3**	**12.4**	**0.2**	**13.2**	**1.7**
Manufacturing	5.5	9.6	5.2	3.0	-0.6
Meat processing	6.4	2.1	-11.6	-8.6	7.0
Fish processing	-15.3	-10.1	51.1	-3.0	-4.7
Manufacture of other food products and beverages	4.4	8.3	-0.3	1.4	5.6
Other manufacturing	18.3	20.5	2.6	9.2	-7.6
Electricity and water	-23.8	1.1	15.6	4.4	11.3
Construction	53.1	-13.1	22.9	1.2	3.2
Secondary industries	**9.0**	**3.8**	**9.4**	**2.8**	**1.4**
Wholesale and retail trade, repairs	2.8	7.4	4.1	7.6	7.8
Hotels and restaurants	8.4	8.4	4.9	-3.2	0.3
Transport, and communication	13.9	11.4	3.1	11.9	8.7
Transport and storage	8.1	15.5	-10.0	8.4	2.2
Post and telecommunications	24.3	5.0	25.2	16.3	16.1
Financial intermediation	1.7	3.3	9.6	14.6	22.0
Real estate and business services	4.1	7.2	5.2	7.1	2.3
Owner-occupied dwellings	2.5	4.1	2.5	2.5	2.5
Other real estate and business services	5.8	10.5	7.9	11.3	2.1
Community, social and personal services	0.2	2.9	5.6	-6.5	12.4
Producers of government services	1.4	3.9	2.0	5.4	4.9
Other producers	2.2	2.8	1.2	2.5	2.5
Tertiary industries	**3.9**	**6.2**	**3.6**	**7.0**	**6.5**
Less: Financial secvices indirectly measured	4.5	-1.9	15.1	15.5	13.5
All industries at basic prices	**2.1**	**7.1**	**3.8**	**7.3**	**4.5**
Taxes less subsidies on products	4.5	4.1	1.4	1.1	1.4
GDP at market prices	**2.4**	**6.7**	**3.5**	**6.6**	**4.2**

Source: Central Bureau of Statistics

Table I.6 (a) Expenditure on gross domestic product
Current prices - N$ million

Expenditure category	2001	2002	2003	2004	2005
Final consumption expenditure	23949	26981	27766	30131	31892
Private	16094	18289	18797	20980	22524
General government	7856	8692	8969	9151	9368
Gross fixed capital formation	6073	6964	9867	9365	10434
Changes in inventories	412	-468	220	175	544
Gross domestic expenditure	**30434**	**33476**	**37853**	**39671**	**42870**
Exports of goods and services	12446	16320	17396	16757	18472
Imports of goods and services	14226	16966	18617	18992	20482
Discrepancy	-968	77	-2790	-1256	-2300
Gross domestic product at market prices	**27686**	**32908**	**33842**	**36181**	**38560**

Source: Central Bureau of Statistics

Table I.6 (b) Expenditure on gross domestic product
Percentage contributions

Expenditure category	2001	2002	2003	2004	2005
Final consumption expenditure	86.5	82.0	82.0	83.3	82.7
Private	58.1	55.6	55.5	58.0	58.4
General government	28.4	26.4	26.5	25.3	24.3
Gross fixed capital formation	21.9	21.2	29.2	25.9	27.1
Changes in inventories	1.5	-1.4	0.7	0.5	1.4
Gross domestic expenditure	**109.9**	**101.7**	**111.9**	**109.6**	**111.2**
Exports of goods and services	45.0	49.6	51.4	46.3	47.9
Imports of goods and services	51.4	51.6	55.0	52.5	53.1
Discrepancy	-3.5	0.2	-8.2	-3.5	-6.0
Gross domestic product at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bureau of Statistics

Table I.7 (a) Expenditure on gross domestic product
Constant 1995 prices - N$ million

Expenditure category	2001	2002	2003	2004	2005
Final consumption expenditure	14429	14927	14245	15239	15871
Private	9827	10248	9564	10460	10914
General government	4601	4679	4680	4780	4957
Gross fixed capital formation	4295	4806	5967	5455	5869
Changes in inventories	213	-171	52	81	287
Gross domestic expenditure	**18936**	**19562**	**20264**	**20776**	**22027**
Exports of goods and services	6331	7216	8878	8514	8710
Imports of goods and services	9619	9945	10514	10555	10718
Discrepancy	-186	-338	-1559	-542	-1070
Gross domestic product at market prices	**15462**	**16494**	**17069**	**18193**	**18949**

Source: Central Bureau of Statistics

Table I.7 (b) Expenditure on gross domestic product
Annual percentage changes

Expenditure category	2001	2002	2003	2004	2005
Final consumption expenditure	3.3	3.5	-4.6	7.0	4.1
Private	3.4	4.3	-6.7	9.4	4.3
General government	3.0	1.7	0.0	2.1	3.7
Gross fixed capital formation	27.1	11.9	24.2	-8.6	7.6
Changes in inventories	0.1	-2.5	1.4	0.2	1.1
Gross domestic expenditure	**7.9**	**3.3**	**3.6**	**2.5**	**6.0**
Exports of goods and services	-2.1	14.0	23.0	-4.1	2.3
Imports of goods and services	9.8	3.4	5.7	0.4	1.5
Discrepancy	-0.2	-1.0	-7.4	6.0	-2.9
Gross domestic product at market prices	**2.4**	**6.7**	**3.5**	**6.6**	**4.2**

Source: Central Bureau of Statistics

Table I.8 Gross fixed capital formation by activity
Current prices - N$ million

Industry	2001	2002	2003	2004	2005
Agriculture	299	326	392	414	434
Fishing	238	249	262	275	281
Mining and quarrying	958	874	3084	1919	2298
Manufacturing	464	1751	1629	1690	1707
Electricity and water	1217	285	796	709	309
Construction	176	205	258	280	286
Wholesale and retail trade; hotels, restaurants	307	281	250	326	344
Transport, and communication	606	1120	1029	1127	1452
Finance, real estate, business services	728	801	1077	1252	1683
Community, social and personal services	20	28	32	32	34
Producers of government services	1059	1042	1058	1340	1606
Total	**6073**	**6964**	**9867**	**9365**	**10434**
Percent of GDP	21.9	21.2	29.2	25.9	27.1

Source: Central Bureau of Statistics

Table I.9 Gross fixed capital formation by activity
Constant 1995 prices - N$ million

Industry	2001	2002	2003	2004	2005
Agriculture	219	230	243	259	269
Fishing	172	187	164	174	176
Mining and quarrying	697	638	1971	1189	1409
Manufacturing	333	1212	979	998	969
Electricity and water	848	186	465	395	162
Construction	132	149	162	177	179
Wholesale and retail trade; hotels, restaurants	218	194	152	196	202
Transport, and communication	420	803	599	643	814
Finance, real estate, business services	509	526	624	696	873
Community, social and personal services	15	21	20	21	22
Producers of government services	731	660	588	707	795
Total	**4295**	**4806**	**5967**	**5455**	**5869**

Source: Central Bureau of Statistics

Table I.10 Gross fixed capital formation by type of asset
Current 1995 prices - N$ million

Type of asset	2001	2002	2003	2004	2005
Buildings	1639	2019	1908	2298	2801
Construction works	1600	1170	1994	2024	2100
Transport equipment	903	1789	2037	1972	2045
Machinery and other equipment	1682	1840	3665	2599	3011
Mineral exploration	249	146	264	472	477
Total	**6073**	**6964**	**9867**	**9365**	**10434**

Source: Central Bureau of Statistics

Table I.11 Gross fixed capital formation by type of asset
Constant 1995 prices - N$ million

Type of asset	2001	2002	2003	2004	2005
Buildings	1143	1321	1079	1243	1410
Construction works	1054	705	1070	987	935
Transport equipment	614	1274	1185	1145	1176
Machinery and other equipment	1313	1409	2460	1771	2038
Mineral exploration	171	97	174	309	310
Total	**4295**	**4806**	**5967**	**5455**	**5869**

Source: Central Bureau of Statistics

Table I.12 Gross capital formation by ownership
Current prices - N$ million

Ownership	2001	2002	2003	2004	2005
Public	2417	2052	2383	2673	2945
Producers of government services	1059	1042	1058	1340	1606
Public corporations and enterprises	1358	1010	1325	1333	1339
Private	3656	4912	7484	6692	7489
Total	**6073**	**6964**	**9867**	**9365**	**10434**

Source: Central Bureau of Statistics

Table I.13 Gross fixed capital formation by the ownership
Constant 1995 prices - N$ million

Ownership	2001	2002	2003	2004	2005
Public	1677	1378	1361	1461	1539
Producers of government services	731	660	588	707	795
Public corporations and enterprises	946	718	773	754	744
Private	2617	3428	4606	3994	4331
Total	**4295**	**4806**	**5967**	**5455**	**5869**

Source: Central Bureau of Statistics

Table I.14 Fixed capital stock by activity
Current prices - N$ million

Industry	2001	2002	2003	2004	2005
Agriculture	4626	5077	5811	5977	6190
Fishing	1163	1306	1736	1894	2068
Mining and quarrying	6399	6460	10023	11108	12663
Manufacturing	2981	4507	6275	7480	8803
Electricity and water	5167	5615	6808	7664	8319
Construction	729	757	889	905	912
Wholesale and retail trade; hotels, restaurants	2269	2429	2755	2849	3013
Transport, and communication	6677	7536	8864	9427	10211
Finance, real estate, business services	9866	10980	13371	14747	16951
Community, social and personal services	403	424	485	498	520
Producers of government services	28752	31130	35176	38135	41691
Total	**69033**	**76221**	**92193**	**100685**	**111340**

Source: Central Bureau of Statistics

Table I.15 Fixed capital stock by activity
Constant 1995 prices - N$ million

Industry	2001	2002	2003	2004	2005
Agriculture	3163	3181	3198	3207	3205
Fishing	843	979	1086	1195	1301
Mining and quarrying	4361	4532	5937	6523	7301
Manufacturing	2108	3046	3679	4256	4730
Electricity and water	3465	3487	3763	3949	3893
Construction	544	545	555	563	557
Wholesale and retail trade; hotels, restaurants	1593	1617	1588	1588	1579
Transport, and communication	4500	4854	4942	5011	5173
Finance, real estate, business services	6883	7193	7579	8014	8600
Community, social and personal services	286	287	288	288	287
Producers of government services	19346	19349	19258	19249	19285
Total	**47093**	**49072**	**51873**	**53845**	**55910**

Source: Central Bureau of Statistics

Table 1.16 (a) National consumer price index (December 2001 = 100)

	Food & non alcoholic beverages	Alcoholic bewerages and tobacco	Clothing and footwear gas & other	Housing, water, electricity, & maintenance	Furnitures Household equipment	Health	Trans-port	Communi-cation	Recreation & culture	Education	Hotels cafes & restau-rants	Misce-goods & service	All Items	All items Annual percentage change
Weights	**29.63**	**3.26**	**5.13**	**20.59**	**5.61**	**1.51**	**14.79**	**0.9**	**2.5**	**7.36**	**1.62**	**7.11**	**100**	
2003	**121.6**	**110.9**	**108.8**	**114.6**	**110.7**	**108.8**	**117.7**	**104.4**	**109.0**	**118.6**	**114.1**	**104.7**	**115.4**	**7.3**
2004	**122.6**	**121.2**	**109.3**	**122.4**	**111.3**	**111.8**	**123.9**	**107.4**	**110.3**	**135.5**	**120.9**	**109.5**	**120.2**	**4.2**
2005														
Jan	122.9	124.1	109.8	123.8	112.5	113.4	128.7	108.6	110.7	138.8	124.9	109.4	121.7	2.5
Feb	123.0	124.2	109.7	122.6	112.5	113.6	129.7	108.5	111.7	140.8	126.0	109.5	121.9	2.6
Mar	122.8	127.3	109.4	122.6	112.4	113.1	128.2	108.5	110.1	140.8	125.6	107.5	121.3	1.7
Apr	123.7	129.5	109.4	122.3	112.5	113.3	129.1	108.5	110.9	140.8	126.3	108.2	121.8	1.6
May	121.8	130.6	108.8	122.3	112.8	113.7	130.0	108.5	111.9	140.8	126.3	108.0	121.4	0.9
Jun	122.2	131.2	108.6	122.4	113.5	113.6	130.5	108.5	111.3	140.8	126.7	107.8	121.6	1.3
Jul	123.1	131.9	108.6	125.3	113.8	113.6	130.5	108.5	111.2	140.8	127.5	108.1	122.6	1.7
Aug	124.3	132.1	108.6	126.0	114.6	113.3	133.8	108.5	110.7	140.8	127.8	107.6	123.5	2.2
Sep	125.7	132.3	106.6	126.1	115.0	113.8	136.6	108.5	110.9	140.8	127.7	107.5	124.2	2.9
Oct	127.2	132.4	107.0	126.1	115.7	109.5	136.7	108.8	111.0	140.8	128.5	107.3	124.5	2.9
Nov	127.9	132.5	106.2	126.1	116.2	109.9	136.7	108.8	111.2	140.8	129.1	107.5	124.8	3.4
Dec	128.2	133.3	105.3	126.3	115.7	109.9	136.6	108.8	112.2	140.8	129.1	107.5	125.0	3.4
Average	**124.4**	**130.1**	**108.2**	**124.3**	**113.9**	**112.6**	**132.3**	**108.5**	**111.1**	**140.6**	**127.1**	**108.0**	**122.9**	**2.3**
2006														
Jan	128.7	133.8	104.7	126.4	115.4	110.0	137.6	108.8	112.2	149.9	130.5	109.7	126.1	3.6
Feb	128.3	134.3	104.2	126.5	115.6	109.6	137.9	109.0	111.8	149.9	131.4	114.2	126.4	3.7
Mar	129.5	137.5	103.5	126.5	115.7	109.7	138.0	109.0	112.8	149.9	131.7	114.3	126.9	4.6
Apr	129.7	138.8	103.9	126.5	115.9	110.2	138.8	109.0	112.9	149.9	132.1	114.6	127.2	4.4
May	130.6	139.2	104.5	126.6	115.8	110.1	138.9	109.0	113.1	149.9	132.9	114.6	127.5	5.1
Jun	131.3	139.6	104.1	126.7	116.1	110.0	141.0	109.1	113.4	149.9	133.9	113.6	128.0	5.3
Jul	131.2	140.4	103.6	129.3	116.1	110.0	142.5	109.1	114.3	149.9	134.6	115.4	128.9	5.1
Aug	132.4	141.7	105.9	129.9	116.5	110.1	147.5	109.1	114.5	149.9	134.9	115.7	130.2	5.4
Sep	134.2	142.6	106.7	130.2	118.5	110.1	147.8	109.1	114.9	149.9	135.9	116.1	131.0	5.5
Oct	136.1	142.7	106.2	130.2	118.6	110.5	149.2	109.3	115.4	149.9	136.7	116.2	131.7	5.8
Nov	138.6	143.0	106.2	130.3	118.7	110.6	149.2	109.8	115.6	149.9	136.7	116.8	132.4	6.1
Dec	139.5	143.2	106.6	130.5	119.2	110.9	147.2	109.8	115.8	149.9	137.3	116.9	132.5	6.1
Average	**132.5**	**139.7**	**105.0**	**128.3**	**116.9**	**110.1**	**143.0**	**109.2**	**113.9**	**149.9**	**134.0**	**114.8**	**129.1**	**5.1**
2007														
Jan	**140.6**	**143.1**	**107.0**	**130.9**	**119.2**	**114.2**	**146.4**	**109.9**	**117.6**	**158.9**	**138.9**	**117.1**	**133.7**	**6.0**

*Calculated as a percentage change of the all items index for a given month in relation to that of the same month of the preceding year.
Source: Central Bureau of Statistics

Table 1.16 (b) National Consumer Price Index
Goods and Services (December 2001 = 100)

	Services			Goods		
	Index	Monthly inflation rate	Annual inflation rate	Index	Monthly inflation rate	Annual inflation rate
2002	**105.2**	**0.8**		**109.2**	**1.2**	
2003	**112.9**	**0.4**	**7.3**	**116.9**	**0.1**	**7.2**
2004	**119.8**	**0.5**	**6.1**	**120.6**	**0.3**	**3.1**
2005						
Jan	122.3	1.2	3.3	121.3	0.3	1.9
Feb	125.0	2.2	5.4	119.9	-1.1	0.7
Mar	121.7	-2.6	2.6	121.1	1.0	0.9
Apr	122.4	0.6	2.9	121.5	0.3	0.6
May	122.4	0.1	2.7	120.7	-0.6	-0.4
Jun	123.1	0.5	3.0	120.7	0.0	0.0
Jul	123.9	0.7	2.9	121.8	0.9	0.8
Aug	124.2	0.2	3.0	123.0	1.0	1.5
Sep	125.2	0.9	3.8	123.5	0.4	2.2
Oct	125.0	-0.2	3.5	124.2	0.6	2.3
Nov	124.9	-0.1	3.4	124.8	0.4	3.2
Dec	125.0	0.1	3.4	124.9	0.1	3.3
Average	**123.7**	**0.3**	**3.3**	**122.3**	**0.3**	**1.4**
2006						
Jan	126.6	1.3	3.5	125.8	0.7	3.7
Feb	127.5	0.7	2.0	125.7	-0.1	4.8
Mar	127.6	0.1	4.9	126.5	0.7	4.4
Apr	127.7	0.1	4.4	126.9	0.3	4.5
May	128.0	0.2	4.5	127.2	0.3	5.4
Jun	128.9	0.7	4.8	127.5	0.2	5.6
Jul	130.0	0.8	4.9	128.2	0.6	5.2
Aug	131.6	1.3	6.0	129.2	0.8	5.1
Sep	131.7	0.1	5.2	130.5	0.9	5.6
Oct	132.0	0.2	5.6	131.4	0.8	5.8
Nov	132.1	0.1	5.8	132.6	0.9	6.3
Dec	132.2	0.1	5.8	132.8	0.2	6.3
Average	**129.7**	**0.5**	**4.8**	**128.7**	**0.5**	**5.2**
2007						
Jan	133.9	1.3	5.7	133.5	0.5	6.1

*Calculated as a percentage change of the all items index for a given month in relation to that of the same month of the preceding year.

Source: Central Bureau of Statistics

TABLE II.1(a) Central bank survey
(end of period in N$ million)

	2005									2006											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Assets																					
Net foreign assets	**2303.8**	**2107.1**	**1874.1**	**2354.7**	**2159.1**	**1818.2**	**2245.0**	**1902.2**	**1983.9**	**2705.5**	**2696.0**	**2457.7**	**3129.7**	**2973.0**	**2677.9**	**3313.1**	**2760.7**	**3119.2**	**4104.4**	**3495.2**	**3164.3**
Claims on nonresidents	**2320.6**	**2125.7**	**1890.4**	**2369.2**	**2169.3**	**1832.8**	**2258.1**	**1916.5**	**1998.0**	**2718.3**	**2708.4**	**2470.0**	**3142.0**	**2986.6**	**2688.3**	**3323.1**	**3130.7**	**3517.0**	**4495.2**	**3877.7**	**3573.6**
Monetary gold and SDR holdings	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Foreign currency	54.1	84.5	57.9	32.8	70.2	112.2	88.4	59.6	41.1	94.4	75.2	146.7	130.2	113.1	96.7	107.0	117.1	111.2	116.8	132.8	133.1
Deposits	2265.3	2013.4	1799.3	2297.3	2054.9	1671.2	2119.8	1807.6	1906.0	2565.7	2616.3	2299.2	2981.2	2835.6	2546.0	3162.6	2948.3	3337.7	4299.9	3661.7	3348.9
Securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.0	27.6	33.0	38.9	44.0	49.3	49.8	49.2	50.8	58.0	16.7	23.9	30.4	37.8	45.4	53.2	65.1	67.9	78.2	83.0	91.4
less: Liabilities to nonresidents	**-16.8**	**-18.6**	**-16.3**	**-14.5**	**-10.2**	**-14.6**	**-13.1**	**-14.3**	**-14.1**	**-12.8**	**-12.4**	**-12.2**	**-12.3**	**-13.5**	**-10.4**	**-9.9**	**-369.9**	**-397.8**	**-390.8**	**-382.5**	**-409.3**
Deposits	-18.2	-18.6	-16.3	-14.5	-10.2	-14.6	-13.1	-14.3	-14.1	-12.7	-12.3	-12.2	-12.3	-13.5	-9.6	-9.5	-14.1	-11.0	-7.8	-19.2	-17.7
Securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.0	-0.7	-0.5	-355.8	-386.7	-383.0	-363.3	-391.5
Claims on other depository corp	**105.7**	**158.4**	**235.1**	**131.8**	**159.1**	**244.7**	**214.0**	**228.9**	**515.2**	**278.6**	**125.5**	**181.6**	**672.8**	**622.5**	**833.1**	**1093.0**	**1027.2**	**1099.2**	**1031.8**	**980.8**	**1333.0**
Net claims on Central Govt	**-758.8**	**-483.3**	**-334.5**	**-763.0**	**-458.9**	**-194.4**	**-652.9**	**-287.1**	**-608.1**	**-1208.3**	**-969.0**	**-843.1**	**-1912.1**	**-1523.3**	**-1348.2**	**-2227.7**	**-1531.0**	**-1766.1**	**-2729.6**	**-2106.6**	**-2093.3**
Claims on Central Government	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
less: Liabilities to Central Govt	-758.8	-483.3	-334.5	-763.0	-458.9	-194.4	-652.9	-287.1	-608.1	-1208.3	-969.0	-843.1	-1912.1	-1523.3	-1348.2	-2227.7	-1531.0	-1766.1	-2729.6	-2106.6	-2093.3
Deposits	-758.8	-483.3	-334.5	-763.0	-458.9	-194.4	-652.9	-287.1	-608.1	-1208.3	-969.0	-843.1	-1912.1	-1523.3	-1348.2	-2227.7	-1531.0	-1766.1	-2729.6	-2106.6	-2093.3
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on other sectors	**14.6**	**14.4**	**14.5**	**13.9**	**14.0**	**13.6**	**13.5**	**13.2**	**13.4**	**14.0**	**13.7**	**13.6**	**13.1**	**13.6**	**13.7**	**13.6**	**14.0**	**14.5**	**15.1**	**15.7**	**15.8**
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other resident sectors	14.6	14.4	14.5	13.9	14.0	13.6	13.5	13.2	13.4	14.0	13.7	13.6	13.1	13.6	13.7	13.6	14.0	14.5	15.1	15.7	15.8

TABLE II.1(b) Central bank survey
(end of period in N$ million)

	2005									2006											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Liabilities																					
Monetary base	**1170.5**	**1222.8**	**1231.6**	**1176.0**	**1320.7**	**1339.6**	**1233.9**	**1312.5**	**1372.6**	**1262.9**	**1284.9**	**1270.0**	**1320.0**	**1329.0**	**1330.2**	**1378.9**	**1398.9**	**1459.0**	**1445.3**	**1492.1**	**1532.4**
Currency in circulation	**905.0**	**917.5**	**906.4**	**916.2**	**1009.2**	**954.5**	**975.6**	**1029.9**	**1026.8**	**963.3**	**927.4**	**922.8**	**951.1**	**982.2**	**976.4**	**1009.4**	**1067.1**	**1041.3**	**1072.1**	**1121.0**	**1151.4**
Liabilities to other depository corporations	**265.5**	**305.3**	**325.2**	**259.8**	**311.5**	**385.1**	**258.3**	**282.6**	**345.7**	**299.6**	**321.3**	**347.2**	**368.9**	**346.8**	**353.7**	**369.4**	**331.8**	**417.6**	**373.2**	**371.2**	**381.0**
Reserve deposits	265.5	305.3	325.2	259.8	311.5	385.1	258.3	282.6	345.7	299.6	321.3	347.2	368.9	346.8	353.7	369.4	331.8	417.6	373.2	371.2	381.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits incl in broad money	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**36.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Transferable deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	36.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares, included in broad money	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deposits excl from broad money	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
of which: Other financial corps	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Securities other than shares, excluded from broad money	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
of which: Other financial corps	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
of which: Other financial corps	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
of which: Other financial corps	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credit and advances	**10.4**	**12.5**	**4.1**	**4.2**	**5.4**	**2.9**	**4.4**	**3.9**	**3.2**	**4.0**	**4.3**	**2.1**	**3.2**	**3.3**	**2.8**	**1.9**	**4.2**	**4.0**	**4.4**	**3.9**	**4.9**
of which: Other financial corps	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	**638.8**	**716.1**	**708.2**	**710.8**	**701.1**	**691.3**	**733.4**	**690.9**	**667.1**	**661.2**	**666.1**	**676.0**	**719.9**	**889.8**	**979.2**	**947.5**	**1013.4**	**1153.5**	**1121.6**	**1039.9**	**997.9**
Funds contributed by owners	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Retained earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	53.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General and special reserves	250.0	235.0	235.0	235.0	235.0	235.0	235.0	235.0	228.0	228.0	281.6	261.6	261.6	246.6	246.6	246.6	246.6	246.6	246.6	246.6	246.6
SDR allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation adjustment	344.0	408.1	395.2	389.9	374.5	359.4	400.8	361.0	345.9	327.5	324.4	345.7	379.1	553.4	633.7	589.0	643.8	772.7	727.6	634.4	586.6
Current year result	4.9	33.1	38.0	45.9	51.7	56.9	57.6	54.9	53.2	12.1	20.0	28.7	39.2	49.8	59.0	72.0	83.0	94.2	107.4	119.0	124.7
Other items (net)	**-154.3**	**-154.9**	**-154.7**	**-153.6**	**-153.8**	**-151.6**	**-152.1**	**-150.1**	**-138.4**	**-138.3**	**-89.0**	**-138.3**	**-139.6**	**-136.2**	**-135.8**	**-136.2**	**-145.5**	**-149.6**	**-149.7**	**-150.8**	**-115.4**
Other liabilities	16.3	15.2	15.0	15.2	15.2	15.2	15.2	15.1	18.9	18.8	18.5	18.4	18.5	18.4	18.5	18.3	18.4	18.3	18.3	18.4	24.3
less: Other assets	-170.6	-170.1	-169.8	-168.9	-169.0	-166.8	-167.3	-165.3	-157.3	-157.2	-107.5	-156.8	-158.1	-154.7	-154.2	-154.5	-163.9	-167.9	-168.0	-169.2	-139.7

TABLE II.2(a) Other depository corporations survey
(end of period in N$ million)

	2005									2006											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Assets																					
Net foreign assets	**-1206.7**	**-1834.0**	**-1779.3**	**-1611.9**	**-1668.4**	**-1884.6**	**-1545.0**	**-1564.3**	**-2140.3**	**-1814.1**	**-2277.6**	**-1734.5**	**-1295.0**	**-1272.4**	**-1218.9**	**-1017.2**	**-767.8**	**825.0**	**1341.4**	**1130.5**	**1680.2**
Claims on nonresidents	**439.4**	**435.0**	**466.3**	**400.0**	**448.2**	**292.3**	**325.4**	**289.0**	**285.6**	**297.7**	**261.5**	**914.6**	**1390.8**	**890.7**	**1029.3**	**1188.2**	**1061.1**	**1795.4**	**2427.2**	**2173.9**	**2742.2**
Foreign currency	30.9	71.0	46.8	44.8	65.7	41.6	51.1	49.1	58.4	51.6	40.4	65.4	46.6	64.5	59.0	64.2	48.9	52.0	56.8	56.9	52.4
Deposits	330.6	319.1	340.4	306.0	301.4	209.0	197.2	185.3	171.9	187.0	167.3	798.0	1299.7	782.2	924.7	1077.3	970.0	1700.0	2330.5	2075.8	2643.6
Securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	77.9	44.9	79.1	49.2	81.1	41.7	77.1	54.6	55.3	59.1	53.8	51.2	44.5	44.0	45.6	46.7	42.2	43.4	39.9	41.2	46.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
less: Liabilities to nonresidents	**-1646.1**	**-2269.0**	**-2245.6**	**-2011.9**	**-2116.6**	**-2176.9**	**-1870.4**	**-1853.3**	**-2425.9**	**-2111.8**	**-2539.1**	**-2649.1**	**-2685.9**	**-2163.1**	**-2248.3**	**-2205.4**	**-1828.9**	**-970.4**	**-1085.8**	**-1043.4**	**-1062.0**
Deposits	-1271.1	-1552.9	-1574.5	-1519.3	-1325.3	-1339.5	-1083.8	-1070.0	-1152.5	-1212.4	-1168.8	-1594.7	-1986.5	-1631.5	-1846.9	-1360.6	-1129.5	-588.0	-703.1	-515.0	-384.5
Securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.7	-101.4	-102.1	-100.7	-227.5	-164.6	-165.0	-165.4	-456.2
Loans	-374.9	-716.0	-671.1	-492.6	-791.2	-837.4	-786.6	-783.3	-1273.4	-899.4	-1370.3	-1054.3	-598.7	-430.3	-299.2	-744.1	-471.9	-217.9	-217.7	-363.0	-221.4
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on central bank	**456.5**	**521.2**	**557.8**	**514.7**	**655.1**	**479.2**	**538.7**	**595.4**	**672.4**	**596.2**	**584.2**	**588.0**	**480.5**	**644.2**	**587.1**	**632.8**	**816.9**	**671.9**	**666.2**	**649.0**	**747.0**
Currency	208.5	240.6	250.1	204.6	326.0	256.7	307.1	323.8	346.8	316.4	264.4	241.8	236.4	303.4	249.7	282.0	299.7	255.7	300.2	281.3	388.1
Reserve deposits	208.1	214.4	218.1	220.6	223.7	222.5	226.0	227.0	228.1	258.2	306.3	311.1	244.1	340.8	337.4	298.2	512.6	416.2	366.0	367.7	358.9
Other claims	40.0	66.2	89.6	89.5	105.4	0.0	5.6	44.7	97.5	21.5	13.4	35.0	0.0	0.0	0.0	52.5	4.5	0.0	0.0	0.0	0.0
Net claims on Central Govt	**1392.4**	**1450.8**	**1730.1**	**1595.4**	**1611.3**	**1528.6**	**1507.1**	**1383.4**	**2013.8**	**2029.2**	**1746.9**	**1931.3**	**1742.8**	**1817.0**	**1958.6**	**1858.3**	**1631.0**	**1949.7**	**2051.0**	**2115.0**	**2206.6**
Claims on Central Govt	**1876.1**	**1920.2**	**2203.0**	**2094.1**	**2113.7**	**2082.5**	**2079.7**	**2007.4**	**2586.1**	**2419.1**	**2155.8**	**2528.4**	**2426.7**	**2543.8**	**2661.9**	**2555.8**	**2563.6**	**2464.0**	**2578.7**	**2571.8**	**2767.3**
Securities other than Shares	1765.4	1841.3	2040.8	2013.9	2043.1	2079.4	2079.2	2006.4	2585.2	2415.7	2153.1	2527.5	2425.6	2542.0	2660.3	2553.6	2561.1	2462.4	2577.5	2558.6	2750.0
Other claims	110.8	78.9	162.3	80.2	70.5	3.2	0.5	1.0	0.8	3.4	2.8	0.9	1.2	1.7	1.6	2.2	2.5	1.6	1.1	13.2	17.3
less: Liabilities to Central Govt	**-483.7**	**-469.4**	**-472.9**	**-498.7**	**-502.3**	**-553.9**	**-572.6**	**-624.0**	**-572.2**	**-389.9**	**-408.9**	**-597.1**	**-683.9**	**-726.8**	**-703.3**	**-697.4**	**-932.6**	**-514.3**	**-527.6**	**-456.8**	**-560.7**
Deposits	-444.0	-429.7	-433.2	-458.9	-462.6	-514.2	-532.9	-584.2	-532.5	-350.2	-369.1	-543.5	-630.2	-673.1	-649.5	-643.7	-878.9	-463.2	-463.5	-392.6	-496.3
Other liabilities	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-53.7	-53.7	-53.7	-53.7	-53.8	-53.8	-51.1	-64.1	-64.2	-64.4
Claims on other sectors	**21634.7**	**22049.5**	**22099.3**	**22556.9**	**22837.4**	**23076.2**	**23315.9**	**23768.2**	**24251.0**	**24322.0**	**25031.7**	**25441.7**	**25972.5**	**26638.4**	**27037.8**	**27541.4**	**27767.7**	**27742.0**	**28175.7**	**28313.0**	**28268.4**
Other financial corporations	59.6	58.4	59.3	60.8	60.0	21.4	23.2	22.1	30.1	26.7	31.2	285.2	327.5	562.7	831.0	625.3	780.4	731.9	759.8	852.8	619.4
State and local government	16.0	8.0	8.2	8.0	8.1	13.1	21.7	21.9	22.4	28.3	32.1	28.7	29.5	31.9	25.0	20.8	23.5	31.3	37.6	40.0	48.2
Public nonfinancial corps	361.2	362.6	367.2	370.7	237.7	238.5	243.1	300.1	289.5	288.0	285.4	393.2	394.4	415.6	404.9	403.0	395.2	204.0	198.4	168.1	180.0
Other nonfinancial corps	7893.9	8138.1	8181.7	8162.2	7821.2	8081.5	8213.0	8325.4	8478.8	8479.0	8964.2	8636.3	8889.5	9099.5	9033.6	9385.1	9356.7	9264.8	9499.8	9340.2	9373.7
Other resident sectors	13304.1	13482.4	13483.0	13955.2	14710.4	14721.6	14814.8	15098.8	15430.2	15499.9	15718.7	16098.3	16331.7	16528.8	16743.3	17107.2	17211.9	17509.9	17680.1	17911.9	18047.1
Unclassified shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

TABLE II.2(b) Other depository corporations survey
(end of period in N$ million)

	2005									2006											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Liabilities																					
Liabilities to central bank	**331.7**	**382.5**	**458.3**	**354.3**	**379.2**	**512.0**	**121.0**	**123.9**	**408.8**	**323.2**	**169.4**	**157.6**	**393.8**	**290.1**	**430.6**	**795.8**	**1085.0**	**1230.0**	**1145.4**	**1193.0**	**1548.2**
Deposits included in broad money	**16302.7**	**16245.3**	**16534.1**	**16862.0**	**16771.0**	**16384.9**	**16653.4**	**16761.5**	**16690.2**	**17149.5**	**17523.0**	**18060.7**	**18298.4**	**19028.7**	**19796.2**	**20221.4**	**19843.5**	**20719.0**	**21460.4**	**21771.9**	**21748.8**
Transferable deposits	**8738.8**	**9092.7**	**9068.4**	**9368.4**	**9357.5**	**8961.4**	**9063.7**	**8882.0**	**8728.8**	**9213.5**	**9657.4**	**10751.9**	**10618.4**	**11228.6**	**11350.2**	**11727.2**	**11531.3**	**12063.8**	**13562.3**	**13412.6**	**12915.6**
Other financial corporations	1389.1	1379.7	1631.1	1685.3	1654.3	1655.8	1791.9	1583.4	1558.9	1647.5	1702.5	2294.6	1717.6	1817.0	2229.7	1712.7	1567.8	1461.0	1832.8	1934.3	1672.4
State and local government	154.5	183.6	160.5	156.9	160.9	169.7	158.6	153.4	165.0	189.8	162.0	168.8	192.2	178.2	193.7	200.4	223.2	215.3	225.0	191.2	189.1
Public nonfinancial corporations	472.1	331.2	296.9	328.0	449.3	230.7	239.1	200.1	213.9	409.0	456.4	649.0	677.7	696.6	733.0	593.7	561.0	781.9	964.3	1007.6	913.5
Other nonfinancial corporations	4853.8	5117.0	4957.6	5152.6	4937.4	4878.4	4866.1	4957.8	4881.7	4984.0	5214.8	5422.5	5708.9	6313.6	6034.2	6774.2	6703.1	6696.2	7635.4	7303.9	7027.7
Other resident sectors	1869.4	2081.1	2022.4	2045.7	2155.6	2026.7	2008.0	1987.3	1909.3	1983.1	2121.7	2217.0	2322.0	2223.2	2159.7	2446.3	2476.2	2909.3	2904.7	2975.7	3113.0
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other deposits	**7563.9**	**7152.7**	**7465.7**	**7493.6**	**7413.5**	**7423.5**	**7589.7**	**7879.5**	**7961.4**	**7936.0**	**7865.6**	**7308.9**	**7679.9**	**7800.1**	**8446.0**	**8494.2**	**8312.2**	**8655.2**	**7898.1**	**8359.3**	**8833.3**
Other financial corporations	322.4	226.9	223.9	179.6	155.5	189.3	184.3	212.8	212.2	218.8	135.4	317.1	409.4	394.4	391.9	472.5	724.1	334.2	344.8	297.9	367.1
State and local government	156.2	123.7	104.5	101.3	86.6	88.5	136.1	149.3	146.8	112.2	116.3	168.1	175.4	183.6	177.7	147.7	160.3	141.6	160.8	166.0	198.8
Public nonfinancial corporations	549.9	441.8	433.0	517.9	462.4	518.5	496.6	500.2	505.9	566.5	676.5	833.6	773.8	768.2	687.7	867.4	880.9	398.4	274.1	248.6	564.3
Other nonfinancial corporations	3165.9	3020.3	3206.1	3147.7	3121.4	3146.5	3202.9	3322.3	3396.2	3361.4	3198.9	2933.7	3133.2	3229.8	3700.8	3675.2	3161.3	4314.4	3765.0	4088.7	4119.4
Other resident sectors	3369.5	3340.0	3498.2	3547.1	3587.5	3480.7	3569.7	3694.9	3700.2	3677.1	3738.5	3056.4	3188.2	3212.2	3475.7	3319.2	3373.3	3443.2	3334.4	3543.6	3571.9
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.8	12.3	12.3	12.3	23.6	19.0	14.6	11.7
Securities other than shares, included in broad money	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**11.5**	**11.5**	**9.5**	**9.5**	**8.0**	**5.8**	**5.8**	**5.9**	**5.9**	**5.9**
Deposits excl From broad money	**-587.4**	**-562.3**	**-452.6**	**-483.0**	**-263.3**	**313.0**	**-233.8**	**-216.0**	**-441.4**	**-234.6**	**-87.6**	**414.6**	**182.9**	**206.2**	**267.5**	**441.6**	**382.2**	**767.8**	**1069.0**	**854.1**	**1090.9**
Securities other than shares, excluded from broad money	**86.2**	**408.6**	**379.8**	**437.4**	**420.5**	**430.3**	**327.4**	**344.9**	**408.4**	**389.3**	**377.3**	**3913.8**	**4246.7**	**4181.9**	**3967.9**	**3864.9**	**3905.5**	**4018.8**	**4080.4**	**4108.6**	**4076.9**
Of which: Other financial corps	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	3399.7	4115.7	4050.8	3726.0	3334.7	3362.9	3463.9	3112.2	3152.0	3103.3
Loans	**2370.0**	**2105.0**	**2044.4**	**2056.6**	**2252.0**	**2452.1**	**2648.8**	**2658.9**	**2819.1**	**2866.2**	**2696.4**	**5.2**	**5.6**	**5.2**	**5.6**	**5.6**	**5.7**	**5.6**	**2.2**	**5.3**	**5.3**
Financial derivatives	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Trade credit and advances	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**84.1**	**0.0**	**0.0**
Shares and other equity	**3965.7**	**4059.9**	**3862.4**	**3919.4**	**3972.6**	**4092.3**	**4148.2**	**4225.6**	**4174.4**	**4203.0**	**4277.0**	**4164.7**	**4254.7**	**4320.3**	**4300.7**	**4313.6**	**4289.9**	**4265.0**	**4344.1**	**4368.6**	**4355.3**
Funds contributed by owners	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	279.4	279.4
Retained earnings	284.6	381.1	177.1	151.8	161.9	238.7	276.6	304.9	239.2	143.5	162.8	1227.0	1232.7	1248.7	1221.0	1117.7	1162.3	1154.9	1145.7	1181.7	1176.3
General and special reserves	3402.6	3400.3	3406.8	3478.1	3496.9	3540.4	3546.4	3584.2	3584.9	3696.5	3741.3	2512.6	2538.2	2564.4	2614.1	2711.1	2717.5	2693.4	2721.4	2655.3	2687.3
Valuation adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current year result	0.0	0.0	0.0	11.0	23.5	34.8	46.7	58.1	71.8	84.6	94.3	146.7	205.3	228.7	187.1	206.4	131.6	138.2	198.5	252.3	212.4
Other items (net)	**-191.9**	**-451.4**	**-218.6**	**-91.6**	**-84.8**	**-771.1**	**151.6**	**284.0**	**737.7**	**427.2**	**129.7**	**-501.7**	**-492.7**	**-214.6**	**-413.4**	**-635.6**	**-69.8**	**176.6**	**43.0**	**-100.0**	**70.8**
Other liabilities	1752.3	1713.8	1785.7	1409.5	1654.0	1531.6	1474.8	1541.9	1400.4	1369.7	1365.4	1347.1	1322.0	1391.1	1516.3	1498.1	1683.0	1827.6	1696.9	2125.2	1966.7
less: Other assets	**-1878.2**	**-2052.5**	**-2041.2**	**-1674.0**	**-1642.5**	**-1907.3**	**-1852.2**	**-1939.7**	**-1781.0**	**-1803.2**	**-2114.0**	**-1839.9**	**-1815.9**	**-1592.9**	**-1898.2**	**-2132.8**	**-1754.5**	**-1651.0**	**-1569.8**	**-2143.1**	**-1806.8**
plus: Consolidation adjustment	**-66.0**	**-112.7**	**36.9**	**172.9**	**-96.2**	**-395.4**	**529.0**	**681.8**	**1118.3**	**860.7**	**878.3**	**-8.9**	**1.3**	**-12.7**	**-31.5**	**-0.9**	**1.8**	**0.0**	**0.0**	**2.0**	**-4.9**

TABLE II.3 Depository corporations survey
(end of period N$ million)

	2005									2006											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net foreign assets	2222.8	1359.2	679.1	1509.1	1062.6	708.3	1188.3	858.1	427.0	1563.3	833.4	723.3	1834.6	1700.7	1459.0	2295.9	1993.0	3944.3	5445.8	4625.8	4844.5
Claims on nonresidents	3893.2	3631.5	3062.2	3543.7	3170.0	2876.4	3097.4	2752.1	3039.7	3674.0	3371.0	3384.6	4532.8	3877.3	3717.6	4511.2	4191.8	5312.4	6922.4	6051.6	6315.8
less: Liabilities to nonresidents	-1670.4	-2272.3	-2383.1	-2034.6	-2107.4	-2168.1	-1909.1	-1894.0	-2612.7	-2110.7	-2537.6	-2661.3	-2698.2	-2176.6	-2258.6	-2215.3	-2198.8	-1368.2	-1476.6	-1425.8	-1471.3
Domestic claims	22678.1	23475.7	23995.1	23946.2	24500.4	24953.3	24760.9	25413.2	27114.0	25599.4	26330.1	26543.4	25816.3	26945.7	27661.9	27185.6	27881.6	27940.1	27512.2	28337.1	28397.5
Net claims on central government	718.9	1120.4	1666.7	1171.2	1375.0	1594.6	1161.7	1401.1	1673.3	931.1	900.5	1088.2	-169.3	293.7	610.4	-369.4	100.0	183.6	-678.6	8.4	113.3
Claims on central government	2001.2	2107.0	2506.3	2471.6	2372.9	2379.4	2419.2	2346.9	2881.1	2714.1	2464.0	2528.4	2426.7	2543.8	2661.9	2555.8	2563.6	2464.0	2578.7	2571.8	2767.3
less: Liabilities to central government	-1282.3	-986.6	-839.6	-1300.4	-998.0	-784.8	-1257.5	-945.8	-1207.8	-1783.0	-1563.5	-1440.3	-2596.0	-2250.1	-2051.4	-2925.1	-2463.6	-2280.4	-3257.3	-2563.4	-2654.0
Claims on other sectors	21959.2	22355.3	22328.4	22775.0	23125.4	23358.8	23599.2	24012.0	25440.7	24668.4	25429.7	25455.3	25985.6	26652.0	27051.4	27555.0	27781.6	27756.5	28190.8	28328.7	28284.2
Other financial corporations	95.4	55.7	100.4	63.0	283.1	150.3	103.3	27.3	117.8	146.2	197.7	285.2	327.5	562.7	831.0	625.3	780.4	731.9	759.8	852.8	619.4
State and local government	16.0	8.0	8.2	8.0	8.1	13.1	21.7	21.9	22.4	28.3	32.1	28.7	29.5	31.9	25.0	20.8	23.5	31.3	37.6	40.0	48.2
Public nonfinancial corporations	482.8	501.9	408.9	443.5	342.7	349.3	332.9	412.2	388.0	387.5	387.3	393.2	394.4	415.6	404.9	403.0	395.2	204.0	198.4	168.1	180.0
Other nonfinancial corporations	7949.8	8195.7	8013.6	8212.8	7871.9	8048.9	8252.4	8376.5	8531.7	8532.5	8947.3	8636.3	8889.5	9099.5	9033.6	9385.1	9356.7	9264.8	9499.8	9340.2	9373.7
Other resident sectors	13415.2	13594.1	13797.3	14047.7	14619.6	14797.2	14889.0	15174.2	16380.7	15573.9	15865.3	16111.9	16344.7	16542.3	16757.0	17120.8	17225.9	17524.4	17695.2	17927.7	18062.9
Unclassified shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Broad money liabilities	17125.3	16714.8	16796.2	17260.5	17014.5	16790.9	17016.0	16939.7	16912.8	17060.8	17477.2	18754.2	19132.8	19717.0	20548.8	20973.0	20629.4	21511.9	22238.1	22617.5	22540.2
Currency outside depository corps	696.5	676.9	653.9	709.2	683.2	697.8	668.5	706.1	680.0	646.9	663.0	681.0	714.6	678.8	726.7	727.4	767.4	785.6	772.0	839.7	763.4
Transferable deposits	8923.1	9256.2	9098.1	9531.6	9424.2	9160.8	9176.6	8869.4	8952.8	9322.9	9802.0	10752.9	10726.7	11228.7	11366.5	11743.4	11544.1	12065.2	13562.1	13412.7	12937.7
Other financial corporations	1405.4	1378.2	1494.0	1684.6	1654.3	1655.8	1791.9	1583.4	1558.9	1647.5	1702.5	2294.6	1717.6	1817.0	2229.7	1712.7	1567.8	1461.0	1832.8	1934.3	1672.4
State and local government	154.5	183.6	160.5	156.9	160.9	169.7	158.6	153.4	165.0	189.8	162.0	168.8	192.2	178.2	193.7	200.4	223.2	215.3	225.0	191.2	189.1
Public nonfinancial corporations	585.1	446.3	413.5	443.9	562.1	344.0	353.6	200.1	456.7	530.3	546.3	649.0	677.7	696.6	733.0	593.7	561.0	781.9	964.3	1007.6	913.5
Other nonfinancial corporations	4908.5	5166.7	5007.7	5200.3	4926.0	4949.3	4864.3	4945.1	4870.1	4972.1	5233.1	5422.5	5708.9	6313.6	6034.2	6774.2	6703.1	6696.2	7635.4	7303.9	7027.7
Other resident sectors	1869.6	2081.3	2022.4	2046.0	2155.9	2026.9	2008.2	1987.4	1902.2	1983.1	2158.0	2217.0	2322.0	2223.2	2159.7	2446.3	2476.2	2909.4	2904.7	2975.7	3113.0
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: Central bank float	0.0	0.0	0.0	0.0	-35.0	15.0	0.0	0.0	0.0	0.1	0.1	1.0	108.3	0.1	16.3	16.2	12.7	1.4	-0.1	0.1	22.1
Other deposits	7168.7	6705.3	6982.5	6982.2	6871.6	6897.1	7135.9	7333.1	7217.3	7079.5	7000.6	7308.9	7679.9	7800.1	8446.0	8494.2	8312.2	8655.2	7898.1	8359.3	8833.3
Other financial corporations	344.6	250.8	303.2	268.6	240.7	293.4	289.9	325.0	317.7	332.5	264.3	317.1	409.4	394.4	391.9	472.5	724.1	334.2	344.8	297.9	367.1
State and local government	203.2	178.8	166.2	163.4	155.9	159.7	219.1	219.7	217.3	177.2	190.8	168.1	175.4	183.6	177.7	147.7	160.3	141.6	160.8	166.0	198.8
Public nonfinancial corporations	744.6	696.8	653.6	759.8	681.1	619.3	628.7	739.6	630.4	690.3	848.2	833.6	773.8	768.2	687.7	867.4	880.9	398.4	274.1	248.6	564.3
Other nonfinancial corporations	2888.7	2694.5	2872.9	2822.1	2790.4	2817.3	2938.3	2921.1	2946.9	2842.2	2664.9	2933.7	3133.2	3229.8	3700.8	3675.2	3161.3	4314.4	3765.0	4088.7	4119.4
Other resident sectors	2987.6	2884.5	2986.6	2968.2	3003.5	3007.3	3059.9	3127.7	3104.9	3025.7	3029.0	3056.4	3188.2	3212.2	3475.7	3319.2	3373.3	3443.2	3334.4	3543.6	3571.9
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.6	3.3	0.0	0.0	11.8	12.3	12.3	12.3	23.6	19.0	14.6	11.7
Securities other than shares, included in broad money	337.0	76.3	61.8	37.5	35.6	35.1	35.0	31.1	62.7	11.6	11.7	11.5	11.5	9.5	9.5	8.0	5.8	5.8	5.9	5.9	5.9
Deposits excl from broad money	236.8	208.8	252.7	291.3	232.3	569.0	201.5	243.6	615.7	342.1	300.8	414.6	182.9	206.2	267.5	441.6	382.2	767.8	1069.0	854.1	1090.9
Securities other than shares, excluded from broad money	2308.1	2752.3	2667.2	2714.4	2898.7	3108.4	3270.8	3504.5	3778.3	3937.8	3750.0	3913.8	4246.7	4181.9	3967.9	3864.9	3905.5	4018.8	4080.4	4108.6	4076.9
Loans	328.7	5.8	5.8	5.8	5.8	5.5	5.5	5.5	0.0	5.5	5.5	5.2	5.6	5.2	5.6	5.6	5.7	5.6	2.2	5.3	5.3
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credit and advances	10.4	12.5	4.1	4.2	5.4	2.9	4.4	3.9	3.2	4.0	4.3	2.1	3.2	3.3	2.8	1.9	4.2	4.0	88.5	3.9	4.9
Shares and other equity	4498.5	4905.6	4765.7	4822.6	4688.3	4824.2	4937.5	4949.8	5113.6	4893.1	5004.7	4840.8	4974.5	5210.1	5279.9	5261.1	5303.3	5418.4	5465.7	5408.6	5353.2
Other items (net)	393.2	235.1	182.5	356.6	718.2	360.8	513.6	624.4	1117.4	899.8	619.5	-664.0	-894.8	-677.3	-951.7	-1066.6	-355.6	157.8	14.1	-35.2	170.6
Other liabilities (incl central bank float)	1502.1	1722.1	1463.3	1355.1	1651.4	1482.5	1598.1	1669.2	1577.0	1491.3	1497.9	1364.5	1232.1	1409.5	1518.5	1500.3	1688.6	1844.5	1715.3	2143.4	1968.9
less: Other assets	-1800.2	-2224.8	-1938.3	-1903.1	-1800.7	-2048.1	-2008.5	-2104.2	-1963.1	-1960.1	-2233.7	-1996.7	-1974.0	-1747.6	-2052.4	-2287.4	-1918.4	-1819.0	-1821.9	-2396.3	-2030.6
plus: Consolidation adjustment	691.3	737.8	657.4	904.6	867.5	926.4	924.0	1059.4	1503.5	1368.7	1355.3	-31.9	-153.0	-339.1	-417.7	-279.5	-125.8	132.3	120.7	217.7	232.3
Memoranda: Central bank float	0.0	0.0	0.0	0.0	35.0	-15.0	0.0	0.0	0.0	-0.1	-0.1	-1.0	-108.3	-0.1	-16.3	-16.2	-12.7	-1.4	0.1	-0.1	-22.1

Table II.4 Other depository corporations claims on domestic sectors (end period in N$ million)

	2005									2006											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Loans	**21735.0**	**22038.7**	**22202.7**	**22549.2**	**22856.8**	**23193.8**	**23293.5**	**23724.1**	**24198.4**	**24282.0**	**24982.9**	**25190.8**	**25670.8**	**26100.9**	**26198.1**	**26912.0**	**27001.9**	**27069.9**	**27492.0**	**27551.2**	**27750.0**
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other depository corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	159.6	158.3	160.3	128.6	130.3	151.0	133.6	148.2	149.9	151.9
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central government	104.8	75.1	156.9	75.2	70.5	3.2	0.5	1.0	0.8	3.4	2.8	0.9	1.2	1.7	1.6	2.2	2.5	1.6	1.1	13.2	17.3
State and local government	16.0	8.0	8.2	8.0	8.1	13.1	21.7	21.9	22.4	28.3	32.1	28.7	29.5	31.9	25.0	20.8	23.5	31.3	37.6	40.0	48.2
Public nonfinancial corporations	356.2	360.3	364.8	368.4	234.6	233.0	237.9	294.9	284.2	283.7	283.5	289.4	290.6	311.8	301.1	299.2	291.4	100.2	100.2	69.9	81.8
Other nonfinancial corps (buss)	**7876.0**	**8068.1**	**8110.8**	**8093.2**	**7751.4**	**8010.8**	**8141.5**	**8252.9**	**8405.5**	**8407.5**	**8891.9**	**8563.1**	**8816.2**	**9024.5**	**8957.7**	**9311.8**	**9283.3**	**9251.6**	**9486.6**	**9326.9**	**9360.2**
Loans and advances	**5702.8**	**6439.8**	**6516.5**	**6468.4**	**6124.6**	**6362.3**	**6489.3**	**6554.9**	**6575.5**	**6563.5**	**7024.1**	**6728.9**	**6953.2**	**7135.2**	**7127.9**	**7455.5**	**7410.0**	**7201.7**	**7439.3**	**7231.5**	**7255.6**
Farm mortgage loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other mortgage loans	1154.5	1159.9	1188.7	1222.1	671.3	609.6	699.1	674.7	687.1	689.7	692.5	746.3	755.4	743.7	746.3	786.4	827.0	1459.2	1289.2	1650.5	1662.5
Dwellings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1154.5	1159.9	1188.7	1222.1	671.3	609.6	699.1	674.7	687.1	689.7	692.5	746.3	755.4	743.7	746.3	786.4	827.0	1459.2	1289.2	1650.5	1662.5
Overdrafts	2918.7	2951.0	2988.6	2858.6	2996.9	3251.0	3267.9	3402.8	3426.7	3413.3	3833.3	3551.3	3682.9	3873.8	3842.7	4017.2	3989.2	3680.4	3778.2	3449.3	3422.7
Other loans and advances	1629.6	2328.9	2339.2	2387.7	2456.5	2501.8	2522.4	2477.4	2461.7	2460.4	2498.4	2431.3	2514.9	2517.7	2538.9	2651.9	2593.8	2062.2	2371.8	2131.7	2170.4
Leasing	40.7	42.7	35.6	38.6	41.2	43.2	42.7	42.8	39.7	39.5	39.2	40.2	40.6	40.3	39.9	41.2	40.7	40.8	41.0	39.7	35.3
Instalment credit	906.4	921.2	932.2	943.1	947.4	958.0	971.6	984.5	1020.4	1027.6	1049.3	1077.1	1084.0	1099.1	1106.6	1117.0	1122.0	1299.6	1307.7	1331.6	1346.8
Other	1226.0	664.5	626.4	643.2	638.2	647.3	637.9	670.7	769.8	776.8	779.4	717.0	738.4	749.9	683.3	698.1	710.5	709.5	698.7	724.0	722.5
Other resident sectors (indiv)	**13304.1**	**13482.4**	**13483.0**	**13955.2**	**14711.1**	**14892.0**	**14814.8**	**15098.8**	**15430.2**	**15499.9**	**15718.7**	**16097.9**	**16330.6**	**16526.5**	**16738.6**	**17101.0**	**17208.1**	**17508.2**	**17678.3**	**17910.1**	**18044.3**
Loans and Advances	**10219.1**	**10352.6**	**10279.6**	**10677.6**	**11726.6**	**11877.5**	**11705.9**	**11939.3**	**12255.0**	**12234.6**	**12378.5**	**12699.0**	**12904.3**	**13044.8**	**13245.2**	**13556.9**	**13606.1**	**14069.4**	**14172.2**	**14353.1**	**14464.2**
Farm mortgage loans	292.9	292.9	292.9	292.9	292.9	292.9	713.3	713.3	708.0	709.5	706.7	672.1	718.3	752.1	720.6	719.1	720.7	719.1	701.8	701.8	716.6
Other mortgage loans	7353.8	7488.8	7619.4	7774.9	8465.6	8796.7	8810.0	9028.4	9189.7	9242.6	9329.3	9586.1	9772.5	9868.2	10026.4	10281.1	10328.0	10513.3	10592.4	10811.1	10935.2
Dwellings	6941.4	7072.3	7202.8	7358.4	8049.0	8382.0	8392.1	8610.5	8771.7	8824.9	8908.6	9586.1	9772.5	9868.2	10026.4	10281.1	10328.0	10513.3	10592.4	10811.1	10935.2
Other	412.4	416.5	416.5	416.5	416.5	414.7	418.0	418.0	418.0	417.7	420.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overdrafts	649.2	696.9	668.6	896.4	919.0	937.2	953.7	949.9	1116.1	1016.8	1048.4	1070.0	1062.5	1098.5	1130.0	1144.2	1167.8	1122.3	1147.7	1057.7	1026.5
Other loans and advances	1923.2	1873.9	1698.7	1713.3	2049.1	1850.7	1228.8	1247.6	1241.2	1265.7	1294.1	1370.8	1351.1	1325.9	1368.3	1412.4	1389.5	1714.7	1730.4	1782.5	1785.9
Leasing	70.3	70.5	67.8	65.3	63.8	61.1	62.5	58.7	60.3	59.3	60.8	59.8	59.5	60.0	59.2	63.7	65.9	67.2	75.2	73.3	72.9
Instalment credit	2410.4	2445.8	2491.9	2558.7	2619.9	2653.3	2743.1	2798.4	2810.5	2895.6	2965.0	3022.5	3043.6	3098.0	3108.2	3150.3	3202.9	3035.8	3100.4	3147.2	3165.3
Other	604.3	613.5	643.6	653.6	300.7	300.1	303.3	302.4	304.4	310.4	314.4	316.6	323.1	323.7	326.0	330.2	333.2	335.7	330.5	336.5	341.9
Nonresidents	**77.9**	**44.9**	**79.1**	**49.2**	**81.1**	**41.7**	**77.1**	**54.6**	**55.3**	**59.1**	**53.8**	**51.2**	**44.5**	**44.0**	**45.6**	**46.7**	**42.2**	**43.4**	**39.9**	**41.2**	**46.2**
Loans and Advances	**77.9**	**44.9**	**79.1**	**49.2**	**81.1**	**41.7**	**77.1**	**54.6**	**55.3**	**59.1**	**53.8**	**51.2**	**44.5**	**44.0**	**45.6**	**46.7**	**42.2**	**43.4**	**39.9**	**41.2**	**46.2**
Farm mortgage loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other mortgage loans	62.2	32.6	62.6	37.9	62.1	28.9	61.1	35.5	36.8	38.1	49.8	47.2	26.4	28.8	29.2	31.7	26.9	27.8	24.1	25.2	30.0
Dwellings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	36.1	31.7	0.0	28.8	29.2	31.7	26.9	27.8	24.1	25.2	30.0
Other	62.2	32.6	62.6	37.9	62.1	28.9	61.1	35.5	36.8	38.1	13.8	15.5	26.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overdrafts	11.8	8.1	12.4	7.2	14.8	8.6	12.1	15.0	14.4	16.9	0.0	0.0	14.3	11.5	12.5	11.2	11.9	12.2	12.4	12.8	13.1
Other loans and advances	3.9	4.1	4.1	4.1	4.2	4.2	3.9	4.1	4.1	4.1	4.0	4.0	3.8	3.8	3.8	3.8	3.5	3.5	3.4	3.2	3.2
Leasing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Instalment credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table II.5 Deposits of other depository corporations (end period in N$ million)

	2005									2006											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
LoansTotal deposits	**19435.7**	**19511.9**	**19760.9**	**20207.3**	**19309.0**	**19666.6**	**19384.9**	**19519.7**	**19886.4**	**19673.2**	**19970.2**	**20895.8**	**21831.0**	**22137.2**	**23354.0**	**23884.6**	**23599.2**	**24042.4**	**25163.2**	**25166.9**	**25578.8**
Deposits included in broad money	**16091.7**	**15961.5**	**16080.6**	**16513.7**	**16330.8**	**16042.9**	**16312.5**	**16202.5**	**16170.1**	**16402.3**	**16766.3**	**18060.7**	**18298.4**	**19028.7**	**19796.2**	**20221.4**	**19843.5**	**20719.0**	**21460.4**	**21771.9**	**21748.8**
Transferable deposits	**8923.1**	**9256.2**	**9098.1**	**9531.6**	**9459.2**	**9145.8**	**9176.6**	**8869.4**	**8952.8**	**9322.8**	**9765.8**	**10751.9**	**10618.4**	**11228.6**	**11350.2**	**11727.2**	**11531.3**	**12063.8**	**13562.3**	**13412.6**	**12915.6**
In national currency	**8923.1**	**9256.2**	**9098.1**	**9531.6**	**9459.2**	**9145.8**	**9176.6**	**8869.4**	**8952.8**	**9322.8**	**9765.8**	**10751.9**	**10618.4**	**11228.6**	**11350.2**	**11727.2**	**11531.3**	**12063.8**	**13562.3**	**13412.6**	**12915.6**
Other financial corporations	1405.4	1378.2	1494.0	1684.6	1654.3	1655.8	1791.9	1583.4	1558.9	1647.5	1702.5	2294.6	1717.6	1817.0	2229.7	1712.7	1567.8	1461.0	1832.8	1934.3	1672.4
State and local government	154.5	183.6	160.5	156.9	160.9	169.7	158.6	153.4	165.0	189.8	162.0	168.8	192.2	178.2	193.7	200.4	223.2	215.3	225.0	191.2	189.1
Public nonfinancial corporations	585.1	446.3	413.5	443.9	562.1	344.0	353.6	200.1	456.7	530.3	546.3	649.0	677.7	696.6	733.0	593.7	561.0	781.9	964.3	1007.6	913.5
Other nonfinancial corporations	4908.5	5166.7	5007.7	5200.3	4926.0	4949.3	4864.3	4945.1	4870.1	4972.1	5233.1	5422.5	5708.9	6313.6	6034.2	6774.2	6703.1	6696.2	7635.4	7303.9	7027.7
Other resident sectors	1869.6	2081.3	2022.4	2046.0	2155.9	2026.9	2008.1	1987.4	1902.2	1983.1	2121.8	2217.0	2322.0	2223.2	2159.7	2446.3	2476.2	2909.3	2904.7	2975.7	3113.0
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In foreign currency	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other deposits	**7168.7**	**6705.3**	**6982.5**	**6982.2**	**6871.6**	**6897.1**	**7135.9**	**7333.1**	**7217.3**	**7079.5**	**7000.6**	**7308.9**	**7679.9**	**7800.1**	**8446.0**	**8494.2**	**8312.2**	**8655.2**	**7898.1**	**8359.3**	**8833.3**
In national currency	**7168.7**	**6705.3**	**6982.5**	**6982.2**	**6871.6**	**6897.1**	**7135.9**	**7333.1**	**7217.3**	**7079.5**	**7000.6**	**7308.9**	**7679.9**	**7800.1**	**8446.0**	**8494.2**	**8312.2**	**8655.2**	**7898.1**	**8359.3**	**8833.3**
Other financial corporations	344.6	250.8	303.2	268.6	240.7	293.4	289.9	325.0	317.7	332.5	264.3	317.1	409.4	394.4	391.9	472.5	724.1	334.2	344.8	297.9	367.1
State and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	160.8	166.0	198.8
Public nonfinancial corporations	744.6	696.8	653.6	759.8	681.1	619.3	628.7	739.6	630.4	690.3	848.2	833.6	773.8	768.2	687.7	867.4	880.9	398.4	274.1	248.6	564.3
Other nonfinancial corporations	2888.7	2694.5	2872.9	2822.1	2790.4	2817.3	2938.3	2921.1	2946.9	2842.2	2664.9	2933.7	3133.2	3229.8	3700.8	3675.2	3161.3	4314.4	3765.0	4088.7	4119.4
Other resident sectors	2987.6	2884.5	2986.6	2968.2	3003.5	3007.3	3059.9	3127.7	3104.9	3025.7	3029.0	3056.4	3188.2	3212.2	3475.7	3319.2	3373.3	3443.2	3334.4	3543.6	3571.9
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.6	3.3	0.0	0.0	11.8	12.3	12.3	12.3	23.6	19.0	14.6	11.7
In foreign currency	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Unclassified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.6	3.3	0.0	0.0	11.8	12.3	12.3	12.3	23.6	19.0	14.6	11.7
Deposits excluded from broad money	**3343.9**	**3550.4**	**3680.4**	**3693.5**	**2978.3**	**3623.8**	**3072.4**	**3317.3**	**3716.3**	**3270.9**	**3203.9**	**2835.1**	**3532.6**	**3108.5**	**3557.8**	**3663.3**	**3755.7**	**3323.4**	**3702.8**	**3395.0**	**3830.0**
Transferable deposits	**1802.9**	**1622.6**	**1627.1**	**1807.4**	**1323.9**	**1977.4**	**1607.4**	**1844.6**	**2018.4**	**1645.6**	**1509.8**	**1436.3**	**1617.2**	**1469.6**	**1967.8**	**1946.2**	**2026.4**	**1827.7**	**1995.1**	**1820.9**	**1625.5**
In national currency	1564.7	1408.9	1374.2	1510.7	1084.0	1397.3	1393.6	1588.6	1687.1	1294.9	1170.0	1014.2	1424.6	1257.3	1462.9	1495.9	1636.0	1337.3	1393.1	1159.1	1129.3
In foreign currency	238.2	213.7	252.9	296.7	239.9	580.0	213.8	256.0	331.4	350.7	339.8	422.0	192.6	212.4	504.9	450.2	390.4	490.4	602.0	661.8	496.2
Other deposits	**1541.0**	**1927.8**	**2053.3**	**1886.1**	**1654.3**	**1646.4**	**1465.0**	**1472.7**	**1697.9**	**1625.4**	**1694.1**	**1398.8**	**1915.4**	**1638.9**	**1590.0**	**1717.1**	**1729.3**	**1495.6**	**1707.7**	**1574.1**	**2204.4**
In national currency	929.2	1006.4	1027.1	1016.7	942.7	1020.4	982.3	960.1	1256.5	1160.5	1256.1	981.9	1508.2	1564.3	1478.1	1669.6	1679.1	1441.8	1494.4	1346.0	1837.6
In foreign currency	611.8	921.4	1026.2	869.4	711.6	626.0	482.7	512.6	441.4	464.9	437.9	416.9	407.2	74.6	111.8	47.5	50.2	53.8	213.3	228.1	366.8

Table II.6 Selected interest rates: Namibia and South Africa

		Prime lending		Average lending		Treasury bill rate (3 month)		Deposit rate		Bank rate	Repo rate
		Namibia	RSA	Namibia	RSA	Namibia	RSA	Namibia	RSA	Namibia	RSA
2000		**15.90**	**14.50**	**15.11**	**14.50**	**9.62**	**10.20**	**7.63**	**10.65**	**11.25**	**12.00**
2001		**14.00**	**13.00**	**13.76**	**13.00**	**9.13**	**9.20**	**6.48**	**9.25**	**9.25**	**10.50**
2002		**17.50**	**17.00**	**15.15**	**17.00**	**11.93**	**12.27**	**8.96**	**12.52**	**12.75**	**13.50**
2003		**12.50**	**11.50**	**12.91**	**11.75**	**7.35**	**7.01**	**6.88**	**7.40**	**7.75**	**8.00**
2004	Jan	12.50	11.50	11.54	11.50	7.90	7.56	6.48	8.05	7.75	8.00
	Feb	12.50	11.50	11.61	11.50	8.00	7.56	6.56	7.45	7.75	8.00
	Mar	12.50	11.50	11.49	11.50	8.20	7.76	6.38	7.48	7.75	8.00
	Apr	12.50	11.50	12.82	11.50	8.01	7.76	6.25	7.48	7.75	8.00
	May	12.50	11.50	11.40	11.50	7.98	7.76	6.38	7.48	7.75	8.00
	Jun	12.50	11.50	11.59	11.50	8.07	7.83	6.38	7.71	7.75	8.00
	Jul	12.50	11.50	11.38	11.50	8.02	7.89	6.48	7.62	7.50	8.00
	Aug	12.25	11.00	11.10	11.00	8.13	7.44	6.29	7.23	7.50	7.50
	Sep	12.25	11.00	11.16	11.00	7.66	7.12	6.20	6.84	7.50	7.50
	Oct	12.25	11.00	10.79	11.00	7.48	7.28	6.26	6.76	7.50	7.50
	Nov	12.25	11.00	10.06	11.00	7.55	7.25	6.20	6.71	7.50	7.50
	Dec	12.25	11.00	10.73	11.00	7.49	7.27	6.36	6.71	7.50	7.50
2005	Jan	12.25	11.00	10.68	11.00	7.67	7.29	6.18	6.72	7.50	7.50
	Feb	12.25	11.00	10.66	11.00	7.58	7.23	6.18	6.71	7.50	7.50
	Mar	12.25	11.00	10.56	11.00	7.58	7.20	6.53	6.77	7.50	7.50
	Apr	11.75	10.50	10.66	10.50	7.59	6.95	6.5	6.77	7.00	7.00
	May	11.75	10.50	10.58	10.50	6.8	6.75	6.31	6.48	7.00	7.00
	Jun	11.75	10.50	10.52	10.50	6.16	6.76	6.21	6.48	7.00	7.00
	Jul	11.75	10.50	10.52	10.50	7.11	6.73	6.13	6.48	7.00	7.00
	Aug	11.75	10.50	10.50	10.50	6.71	6.73	6.06	6.48	7.00	7.00
	Sep	11.75	10.50	10.77	10.50	6.75	6.74	6.13	6.66	7.00	7.00
	Oct	11.75	10.50	10.55	10.50	6.93	6.79	5.98	6.82	7.00	7.00
	Nov	11.75	10.50	10.54	10.50	6.93	6.89	60.2	7.06	7.00	7.00
	Dec	11.75	10.50	10.78	10.50	7.01	6.82	5.99	6.75	7.00	7.00
2006	Jan	11.75	10.50	10.46	10.50	7.03	6.74	6.09	6.59	7.00	7.00
	Feb	11.75	10.50	10.69	10.50	6.94	6.68	6.1	6.58	7.00	7.00
	Mar	11.75	10.50	10.78	10.50	6.67	6.53	6.11	6.62	7.00	7.00
	Apr	11.75	10.50	10.58	10.50	6.63	6.65	6.31	6.59	7.00	7.00
	May	11.75	10.50	10.80	10.50	6.5	6.80	6.13	6.75	7.00	7.00
	Jun	12.25	11.00	10.61	11.00	6.77	7.11	6.24	7.32	7.50	7.50
	Jul	12.25	11.00	10.93	11.00	7.23	7.28	6.18	7.46	7.50	7.50
	Aug	12.75	11.50	11.01	11.50	7.56	7.69	6.34	7.92	8.00	8.00
	Sep	12.75	11.50	11.71	11.50	7.57	7.75	6.22	8.08	8.00	8.00
	Oct	13.25	12.00	11.97	12.00	7.52	8.22	6.37	8.36	8.50	8.50
	Nov	13.25	12.00	12.2	12.00	7.95	8.23	6.64	8.57	8.50	8.50
	Dec	13.25	12.50	12.43	12.50	7.95	8.39	6.85	8.57	9.00	9.00

TABLE III. 1 Allotment of Government of Namibia treasury bills
N$ million

Date Issued	Date Due	Deposit Money Banks I	Other Banking Institutions II	Banking Sector I+II=III	Non - banking Financial Institutions A	Other Public Enterprises B	Private Sector C	TOTAL A+B+C+III	Amount Outstanding
2006									
Jan	04/06	25.0	0.0	25.0	0.8	0.0	0.0	25.8	5,112.8
Jan*	07/06	45.3	0.0	45.3	4.7	0.0	0.0	50.0	5,082.8
Jan**	01/06	40.0	0.0	40.0	0.0	0.0	0.0	40.0	5,072.8
Feb	05/06	48.2	0.0	48.2	0.0	0.0	1.8	50.0	5,062.8
Feb*	08/06	172.5	0.0	172.5	25.4	0.0	2.1	200.0	5,032.8
Feb**	02/06	89.8	0.0	89.8	10.3	0.0	0.0	100.0	4,982.8
Mar	06/06	130.1	0.0	130.1	20.0	0.0	0.0	150.0	4,932.8
Mar*	09/06	300.0	0.0	300.0	0.0	0.0	0.0	300.0	4,712.8
Mar*	09/06	59.6	0.0	59.6	40.4	0.0	0.0	100.0	4,812.8
Mar**	03/07	200.0	0.0	200.0	0.0	0.0	0.0	200.0	4,712.8
Mar**	03/07	30.0	0.0	30.0	0.0	0.0	0.0	30.0	4,742.8
April	07/06	26.5	0.0	26.5	3.5	0.0	0.0	30.0	4,747.0
Apr**	04/06	100.0	0.0	100.0	0.0	0.0	0.0	100.0	4,727.0
April**	04/06	100.0	0.0	100.0	0.0	0.0	0.0	100.0	4,675.0
May	08/06	50.0	0.0	50.0	0.0	0.0	0.0	50.0	4,675.0
May*	11/06	130.0	0.0	130.0	0.0	0.0	0.0	130.0	4,675.0
May**	05/06	225.0	0.0	225.0	23.0	0.0	2.0	250.0	4,655.0
May**	05/06	140.0	0.0	140.0	10.0	0.0	0.0	150.0	4,655.0
Jun	09/06	137.7	0.0	137.7	10.5	0.0	1.8	150.0	4,655.0
Jun*	12/06	111.4	0.0	111.4	8.6	0.0	0.0	120.0	4,655.0
Jun**	06/07	186.6	0.0	186.6	6.9	0.0	6.4	200.0	4,725.0
Jun**	06/07	123.3	0.0	123.3	6.7	0.0	0.0	130.0	4,655.0
Jul	10/06	40.9	0.0	40.9	9.1	0.0	0.0	50.0	4,675.0
Jul*	01/07	47.0	0.0	47.0	3.0	0.0	0.0	50.0	4,675.0
Jul**	07/07	192.3	0.0	192.3	7.7	0.0	0.0	200.0	4,625.0
Aug	11/06	96.3	0.0	96.3	3.7	0.0	0.0	100.0	4,675.0
Aug*	02/07	178.3	0.0	178.3	20.0	0.0	1.7	200.0	4,675.0
Aug**	08/07	150.0	0.0	150.0	0.0	0.0	0.0	150.0	4,625.0
Aug**	08/07	139.8	0.0	139.8	10.2	0.0	0.0	150.0	4,625.0
Sep	12/06	125.0	0.0	125.0	23.2	0.0	1.8	150.0	4,625.0
Sep*	03/07	100.0	0.0	100.0	0.0	0.0	0.0	100.0	4,425.0
Sep*	03/07	215.0	0.0	215.0	34.9	0.0	0.0	250.0	4,575.0
Sep**	09/07	105.7	0.0	105.7	44.2	0.0	0.0	150.0	4,525.0
Sep**	09/07	326.9	0.0	326.9	23.0	0.0	0.0	350.0	4,425.0
Oct	01/07	41.4	0.0	41.4	8.5	0.0	0.0	50.0	4,425.0
Oct**	10/07	45.0	0.0	45.0	5.0	0.0	0.0	50.0	4,375.0
Nov	02/07	77.0	0.0	77.0	23.0	0.0	0.0	100.0	4,375.0
Nov*	05/07	53.7	0.0	53.7	96.3	0.0	0.0	150.0	4,395.0
Nov**	11/07	269.5	0.0	269.5	30.5	0.0	0.0	300.0	4,195.0
Nov**	11/07	100.0	0.0	100.0	0.0	0.0	0.0	100.0	4,195.0
Dec	03/07	126.4	0.0	126.4	21.8	0.0	1.8	150.0	4,195.0
Dec*	06/07	196.0	0.0	196.0	4.0	0.0	0.0	200.0	4,275.0
Dec**	12/07	205.4	0.0	205.4	44.6	0.0	0.0	250.0	4,250.0
2007									
Jan	04/07	40.0	0.0	40.0	10.0	0.0	0.0	50.0	4,250.0
Jan*	07/07	50.0	0.0	50.0	0.0	0.0	0.0	50.0	4,250.0
Jan**	01/07	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4,210.0

91 days
*182 days
**365 days

TABLE III. 2 Allotment of Government of Namibia Internal Registered Stock
N$ million

Date issued	Date due	Coupon rate [%]	Banking			Non-banking			Total non-banking A+B+C=D	Total III+D	Amount outstanding
			Deposit money banks I	Other banking inst II	Total banking sector I+II=III	Non-bank financial institutions A	Other public enterprises B	Private sector C			
2006											
Jan	04/15	13.00	37.0	2.3	39.3	0.0	0.0	0.7	0.7	40.0	5767.0
Jan	10/24	10.50	0.0	0.0	0.0	40.0	0.0	0.0	40.0	40.0	5807.0
Feb	10/12	10.50	26.3	13.7	40.0	0.0	0.0	0.0	0.0	40.0	5847.0
Feb	10/24	10.50	32.0	7.3	39.3	0.7	0.0	0.0	0.7	40.0	5887.0
Mar	10/12	10.50	26.3	13.7	40.0	0.0	0.0	0.0	0.0	40.0	5927.0
Apr	04/15	13.00	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	5967.0
Apr	10/24	10.50	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6007.0
May	10/12	10.50	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6047.0
May	04/15	13.00	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6087.0
Jun	10/12	10.50	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6127.0
Jun	04/15	13.00	16.5	23.5	40.0	0.0	0.0	0.0	0.0	40.0	6167.0
Jun	10/24	10.50	32.0	0.0	32.0	0.0	0.0	8.0	8.0	40.0	6207.0
Jul	10/12	10.50	39.8	0.0	39.8	0.3	0.0	0.0	0.3	40.0	6247.0
Jul	04/15	13.00	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6287.0
Jul	10/24	10.50	37.0	0.0	37.0	3.0	0.0	0.0	3.0	40.0	6327.0
Aug	10/12	10.50	38.4	0.0	38.4	1.6	0.0	0.0	1.6	40.0	6367.0
Aug	10/24	10.50	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6407.0
Sep	10/12	10.50	31.5	0.0	31.5	3.0	0.0	0.0	3.0	34.5	6441.5
Sep	04/15	13.00	31.5	0.0	31.5	6.0	0.0	0.0	6.0	37.5	6478.8
Sep	10/24	10.50	59.0	0.0	59.0	0.0	0.0	0.0	0.0	59.0	6537.8
Oct	10/12	10.50	0.0	17.0	17.0	23.0	0.0	0.0	23.0	40.0	6577.8
Nov	10/12	10.50	27.1	0.0	27.1	12.8	0.0	0.0	12.8	40.0	6617.8
Nov	10/24	10.50	33.7	0.0	33.7	6.3	0.0	0.0	6.3	40.0	6657.8
Dec	10/12	10.50	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6697.8
Dec	10/24	10.50	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0	6737.8
2007											
Jan	10/24	10.50	35.0	0.0	35.0	5.0	0.0	0.0	0.0	40.0	6777.8
Jan	10/12	10.50	0.0	29.6	29.6	10.4	0.0	0.0	0.0	40.0	6817.8

* Switch of GCO5 into GC07, GC10 & GC15

Table III.3 Central Government revenue and expenditure
N$ million

	Actual							Revised
Revenue	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Taxes on income and profits	2315.0	2610.0	3285.6	4442.3	3618.5	4024.2	4575.7	4689.0
Taxes on property	47.0	63.0	64.1	79.3	75.2	85.9	110.1	122.0
Domestic taxes on goods and services	1944.0	1945.0	2107.4	2135.7	1950.8	2057.3	3272.4	3186.1
Taxes on international trade	2241.0	2877.0	2641.2	2596.9	3035.6	4206.8	3891.9	6471.4
Other taxes	51.0	55.0	67.6	75.6	82.8	94.1	113.4	123.0
Total tax revenue	**6598.0**	**7550.0**	**8166.0**	**9329.8**	**8762.9**	**10468.2**	**11963.5**	**14591.5**
Entrepreneurial and property income	402.7	461.9	463.4	703.2	488.8	490.0	542.9	1048.9
Fines and forfeitures	10.9	21.4	18.2	19.6	18.9	17.0	17.6	23.5
Administration fees and charges	171.6	231.8	254.0	382.3	449.3	342.1	512.4	407.1
Return on capital from lending and equity	20.1	20.9	21.4	15.9	13.5	36.8	32.4	66.0
Total non-tax revenue	**605.3**	**736.0**	**757.1**	**1121.1**	**970.5**	**885.8**	**1105.3**	**1545.5**
Total revenue (own sources)	**7203.3**	**8286.0**	**8923.0**	**10450.9**	**9733.4**	**11354.0**	**13068.8**	**16137.0**
Grants			**58.1**	**34.4**	**34.2**	**70.4**	**39.0**	**72.0**
Loans earmarked for on-lending	**68.5**	**56.9**	**116.8**	**76.8**	**0.0**	**0.0**	**0.0**	**0.0**
Total revenue and grants	**7271.8**	**8342.9**	**9097.9**	**10562.1**	**9767.6**	**11424.5**	**13107.8**	**16209.0**
Expenditure								
Current Expenditure								
Personnel expenditure	3618.7	3964.9	4325.5	4708.9	5117.0	5527.1	5888.3	6139.4
Expenditure on goods and other services	1583.3	1637.3	1977.3	1993.6	2079.4	1921.9	1922.4	2198.5
Statutory	512.9	512.0	602.7	907.6	996.0	1040.2	1186.3	1478.1
Subsidies and other current transfers	1168.8	1510.5	1769.2	1892.8	2255.9	2296.9	2544.7	2722.8
Total current expenditure	**6883.7**	**7624.7**	**8674.7**	**9503.0**	**10448.3**	**10786.0**	**11541.7**	**12538.8**
Capital expenditure								
Capital expenditure	918.0	929.0	1267.0	1158.7	1293.4	1401.1	1337.4	1848.2
Capital transfers	30.0	32.6	25.0	87.2	103.6	217.4	106.0	248.4
Total lending and equity participation	121.0	122.0	335.7	649.7	400.0	365.9	207.5	652.4
Total capital expenditure	**1069.0**	**1083.6**	**1627.7**	**1895.7**	**1797.0**	**1984.5**	**1650.9**	**2749.0**
Total expenditure	**7952.7**	**8708.3**	**10302.4**	**11398.7**	**12243.4**	**12770.5**	**13192.6**	**15287.8**
Overall deficit (-) /surplus (+)	**-680.9**	**-365.4**	**-1204.5**	**-836.6**	**-2475.8**	**-1346.0**	**-84.8**	**921.2**
Total financing								
Net borrowing	829.0	280.0	1206.5	699.3	1788.3	2441.5	36.2	1024.2
Decrease (+)/increase (-) in cash balances	-148.0	85.0	-2.0	137.3	689.3	-1095.5	48.7	-1945.5
Total financing	**681.2**	**365.1**	**1204.5**	**836.6**	**2477.6**	**1346.0**	**84.9**	**-921.3**

* Switch of GCO5 into GC07, GC10 & GC15

Table IV.A Major balance of payments aggregates
N$ million

	2002	2003	2004	2005(p)	2006(p)
Merchandise trade balance	**-2183**	**-3481**	**-1829**	**-1688**	**651**
Exports fob	11278	9463	11761	13149	17958
Imports fob	-13461	-12944	-13590	-14837	-17307
Services (net)	**390**	**1050**	**352**	**277**	**626**
Credit	2849	3115	3058	2615	3582
Debit	-2459	-2065	-2706	-2338	-2957
Compensation of employees (net)	**-14**	**-31**	**-27**	**-23**	**-40**
Credit	45	53	56	67	67
Debit	-59	-83	-83	-90	-106
Investment income (net)	**252**	**531**	**639**	**-79**	**122**
Credit	1371	1570	1492	1495	1688
Debit	-1118	-1039	-853	-1574	-1566
Current transfers in cash and kind (net)	**2895**	**3467**	**4304**	**4262**	**6466**
Credit	3206	3670	4529	4548	6771
Debit	-310	-203	-225	-286	-306
Current Account Balance	**1341**	**1537**	**3439**	**2748**	**7825**
Net capital transfers	**429**	**510**	**498**	**505**	**573**
Credit	431	512	501	509	576
Debit	-2	-3	-3	-3	-3
Direct investment	**1969**	**1204**	**1602**	**2293**	**2296**
Abroad	57	79	143	80	80
In Namibia	1912	1125	1459	2213	2216
Portfolio investment	**-4441**	**-4792**	**-5430**	**-6639**	**-6725**
Assets	-4310	-4621	-5298	-6685	-6773
Liabilities	-132	-171	-133	46	48
Other investment - long term	**612**	**418**	**-501**	**238**	**1320**
Assets	-204	-9	-91	-211	75
Liabilities	816	426	-410	448	1245
Other investment - short term	**410**	**406**	**151**	**489**	**-4277**
Assets	154	29	396	499	-2520
Liabilities	256	377	-245	-9	-1757
Capital and financial account excluding reserves	**-1021**	**-2254**	**-3680**	**-3114**	**-6812**
Net errors and omissions	**-221**	**-144**	**153**	**380**	**66**
Overall balance	**98**	**-862**	**-88**	**14**	**1078**
Reserve assets	**-98**	**862**	**-1078**	**-14**	**-1078**

(a) Debit (negative) entries are used to record imports of goods and services, investment income payable, the counterpart to transfers received from non-residents, and a deficit. Credit (positive) entries record exports of goods and services, income receivable, the counterpart to transfers made to non-residents, and a surplus.

(p) Provisional

Table IV.B Supplementary table: balance of payments-services
N$ million

	2002	2003	2004	2005(p)	2006(p)
Services, Net	**390**	**1050**	**352**	**276**	**626**
Credit	**2849**	**3115**	**3058**	**2614**	**3582**
Transportation	374	407	163	143	691
Travel	2281	2498	2605	2211	2601
Insurance	2	0	0	0	12
Communication	42	64	100	106	105
Construction	16	0	0	0	0
Financial	14	0	0	0	0
Computer and information	0	0	0	0	8
Royalties and license Fees	40	0	0	0	0
Administrative and business	4	2	3	3	2
Professional and technical	0	0	12	0	4
Others, not included elsewhere	0	23	48	12	22
Government	77	119	127	138	136
Debit	**-2459**	**-2065**	**-2706**	**-2338**	**-2957**
Transportation	-775	-457	-872	-829	-1019
Travel	-678	-759	-790	-686	-806
Insurance	-124	-131	-115	-60	-130
Communication	-2	-2	-2	-2	-2
Construction	-193	-18	-28	-25	-173
Financial	-14	-41	-20	-60	-30
Computer and information	-91	-91	-95	-83	-146
Royalties and license fees	-18	-27	-21	-11	-21
Administrative and business	-185	-257	-186	-172	-189
Professional and technical	-249	-152	-394	-292	-331
Others, not included elsewhere	-32	-74	-122	-60	-51
Government	-98	-56	-59	-59	-59

Table IV.C Supplementary table: balance of payments- investment income
N$ million

	2002	2003	2004	2005(p)	2006(p)
Compensation of employees, net	**-14**	**-31**	**-27**	**-23**	**-40**
Credit	45	53	56	67	67
Debit	-59	-83	-83	-90	-106
Investment income, net	**252**	**531**	**639**	**-79**	**122**
Credits	**1371**	**1570**	**1492**	**1495**	**1688**
Direct investment	13	22	37	49	6
Portfolio investment	703	1041	1052	1032	1230
Other investment	655	506	402	413	452
Debit	**-1118**	**-1039**	**-853**	**-1574**	**-1566**
Direct investment	-900	-708	-493	-1237	-1255
Portfolio investment	-82	-82	-151	-161	-168
Other investment	-137	-248	-209	-176	-143

Table IV.D Supplementary table: balance of payments- transfers
N$ million

	2002	2003	2004	2005(p)	2006(p)
Current transfers, net	**2895**	**3467**	**4304**	**4262**	**6466**
Credits	**3206**	**3670**	**4529**	**4548**	**6771**
Government	**3053**	**3479**	**4353**	**4384**	**6587**
Grants from foreign governments, etc	282	325	317	321	319
SACU receipts	2608	2926	3914	3915	6049
Witholding taxes	79	25	36	53	67
Other transfers received	84	204	87	96	152
Private	**152**	**191**	**176**	**163**	**185**
Grants received by NGO's	48	47	40	40	63
Other transfers received	104	144	136	123	121
Debit	**-310**	**-203**	**-225**	**-286**	**-306**
Government	**-272**	**-171**	**-194**	**-255**	**-275**
Grants to foreign governments, etc	-3	-4	-5	-5	-11
SACU receipts	-269	-167	-189	-250	-264
Witholding taxes	0	0	0	0	0
Other transfers	0	0	0	0	0
Private	**-38**	**-32**	**-31**	**-31**	**-31**
Grants received by NGO's	0	0	0	0	0
Other transfers received	-38	-32	-31	-31	-31
Capital transfers, net	**429**	**510**	**498**	**505**	**573**
Credit	**431**	**512**	**501**	**509**	**576**
Government	424	487	475	483	550
Private	7	25	26	26	26
Debit	**-2**	**-3**	**-3**	**-3**	**-3**
Government	0	0	0	0	0
Private	-2	-3	-3	-3	-3

Table IV.E Supplementary table: balance of payments-direct investment
N$ million

	2002	2003	2004	2005(p)	2006(p)
Direct investment abroad	**57**	**79**	**143**	**80**	**80**
Equity capital	10	9	8	10	38
Reinvested earnings	11	13	14	-13	7
Other capital	36	57	122	84	36
Direct investment in Namibia	**1912**	**1125**	**1459**	**2213**	**2216**
Equity capital	1425	842	839	1175	2546
Reinvested earnings	151	-546	491	1288	1019
Other capital	335	829	129	-250	-1349

Table IV.F Supplementary table: balance of payments-portfolio investment
N$ million

	2002	2003	2004	2005(p)	2006(p)
Portfolio investment, net	**-4441**	**-4792**	**-5430**	**-6639**	**-6725**
Equity	**-2620**	**-3002**	**-3184**	**-4774**	**-4623**
Assets	-2707	-3032	-3213	-4806	-4654
Liabilities	87	30	29	32	32
Debt	**-1821**	**-1790**	**-2247**	**-1865**	**-2102**
Assets	-1603	-1589	-2085	-1879	-2119
Liabilities	-219	-200	-162	14	16

Table IV.G Supplementary table: balance of payments-other investment
N$ million

	2002	2003	2004	2005(p)	2006(p)
Long-term, net	**612**	**418**	**-501**	**238**	**1320**
General Government	872	283	54	53	84
Assets	-24	-32	-40	-40	-40
Liabilities	896	315	94	93	124
Of which: Drawings	921	367	124	199	202
Repayments	-24	-52	-30	-106	-79
Monetary authorities	0	0	0	0	0
Assets	0	0	0	0	0
Liabilities	0	0	0	0	0
Banks	0	7	119	322	796
Assets	0	6	114	-21	7
Liabilities	0	0	5	343	789
Other sectors	-259	128	-674	-137	440
Assets	-179	17	-165	-150	108
Liabilities	-80	111	-509	13	332
Short-term, net	**410**	**406**	**151**	**489**	**-4277**
General Government	0	0	0	0	0
Assets	0	0	0	0	0
Liabilities	0	0	0	0	0
Banks	639	383	220	469	-3843
Assets	347	51	277	359	-2479
Liabilities	293	332	-57	110	-1364
Other sectors	-229	23	-69	20	-433
Assets	-193	-22	119	140	-40
Liabilities	-37	45	-188	-120	-393

Table IV.H International foreign exchange reserves (end of period)
N$ million

	2000	2001	2002	2003	2004	2005	2006	2007
January	2078	2320	3258	2907	2614	2164	2521	4295
February	1938	2005	3054	2454	1935	1874	2571	
March	1638	1923	2705	2081	1751	1786	2253	
April	2136	2189	2566	2183	2276	2213	2934	
May	1948	1880	2396	1959	1787	1957	2785	
June	1865	1950	2317	2032	1678	1744	2494	
July	2347	2664	3373	2016	1881	2240	3111	
August	1865	2281	3220	1798	1853	2001	2593	
September	2069	1962	2905	2080	1731	1617	2877	
October	2141	2303	2834	2198	2075	2070	3883	
November	1936	2382	2392	2015	1891	1762	3392	
December	1976	2699	2797	2044	1847	1861	2939	

Table IV.I (a) International investment position N$ million

	2005												2006											
	Q1			Q2			Q3			Q4			Q1			Q2			Q3			Q4		
	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Others	Total
Foreign assets	**21928**	**5482**	**27410**	**21476**	**5369**	**26845**	**25169**	**6292**	**31461**	**23872**	**5968**	**29840**	**28633**	**7158**	**35791**	**32498**	**8124**	**40622**	**35653**	**8913**	**44566**	**33211**	**8303**	**41513**
Direct investment	**189**	**47**	**236**	**207**	**52**	**259**	**85**	**21**	**106**	**130**	**32**	**162**	**158**	**40**	**198**	**636**	**159**	**796**	**693**	**173**	**866**	**41**	**10**	**51**
1.1 Equity capital	118	30	148	160	40	199	64	16	80	109	27	137	90	22	112	623	156	779	681	170	852	30	8	38
1.2 Other capital	**71**	**18**	**88**	**48**	**12**	**60**	**21**	**5**	**26**	**21**	**5**	**26**	**68**	**17**	**86**	**13**	**3**	**16**	**12**	**3**	**15**	**11**	**3**	**13**
Long-term	71	18	88	19	5	24	21	5	26	7	2	9	7	2	9	13	3	16	12	3	15	11	3	13
Short-term	0	0	0	29	7	36	0	0	0	14	3	17	61	15	77	0	0	0	0	0	0	0	0	0
Portfolio investment	**19427**	**3049**	**22476**	**19224**	**3514**	**22738**	**24060**	**3743**	**27803**	**22081**	**3820**	**25901**	**23541**	**7354**	**30895**	**26316**	**8163**	**34479**	**28339**	**8865**	**37204**	**27833**	**3359**	**31192**
2.1 Equity securities	13692	2481	16173	12732	2626	15358	17459	2777	20236	15764	3067	18831	17555	5492	23047	19851	5871	25722	21190	6497	27687	21176	1910	23086
2.2 Debt securities	5735	568	6303	6492	888	7380	6601	966	7567	6317	753	7070	5986	1862	7848	6465	2292	8757	7149	2368	9517	6657	1448	8105
Other investment	**2329**	**582**	**2912**	**1683**	**421**	**2103**	**1548**	**387**	**1935**	**1532**	**383**	**1916**	**1956**	**489**	**2445**	**2283**	**571**	**2853**	**2894**	**724**	**3618**	**5865**	**1466**	**7331**
3.1 Claims of resident non-bank companies	**395**	**99**	**494**	**486**	**122**	**608**	**200**	**50**	**250**	**341**	**85**	**426**	**204**	**51**	**255**	**367**	**92**	**459**	**182**	**45**	**227**	**177**	**44**	**221**
3.1.1 Short-term loans and trade finance	20	5	25	486	122	608	177	44	222	288	72	360	152	38	191	223	56	279	103	26	129	113	28	141
3.1.2 Long-term loans	375	94	469	0	0	0	22	6	28	53	13	66	52	13	65	144	36	180	78	20	98	64	16	80
3.2 Claims of resident banks	**368**	**92**	**460**	**345**	**86**	**431**	**539**	**135**	**674**	**233**	**58**	**292**	**159**	**40**	**199**	**690**	**173**	**863**	**875**	**219**	**1093**	**2728**	**682**	**3410**
3.2.1 Short-term loans	47	12	59	295	74	368	516	129	645	204	51	255	134	34	168	134	34	168	184	46	230	1872	468	2340
3.2.2 Long-term loans	321	80	401	50	13	63	23	6	29	29	7	37	25	6	32	556	139	695	691	173	863	856	214	1070
3.3 Claims of resident parastatal companies	**19**	**5**	**24**	**5**	**1**	**7**	**5**	**1**	**6**	**7**	**2**	**9**	**11**	**3**	**14**	**15**	**4**	**18**	**24**	**6**	**30**	**26**	**7**	**33**
3.3.1 Short-term loans and trade finance	16	4	20	2	1	3	2	1	3	0	0	0	8	2	10	12	3	14	21	5	26	23	6	29
3.3.2 Long-term loans	3	1	4	3	1	4	3	1	4	7	2	9	3	1	4	3	1	4	3	1	4	3	1	4
3.4 Claims of local government authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3.4.1 Short-term loans and trade finance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3.4.2 Long-term loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3.5 Claims of central government	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3.5.1 Long-term loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3.6 Currency and deposits reported by Namibian banks	976	244	1220	310	77	387	201	50	251	184	46	230	676	169	845	787	197	984	1398	349	1747	1994	498	2492
3.7 Other assets	**571**	**143**	**714**	**537**	**134**	**671**	**603**	**151**	**754**	**767**	**192**	**958**	**905**	**226**	**1131**	**423**	**106**	**529**	**417**	**104**	**521**	**940**	**235**	**1175**
3.7.1 Other assets*	571	143	714	537	134	671	603	151	754	767	192	958	905	226	1131	423	106	529	417	104	521	940	235	1175
Reserve Assets	**1429**	**357**	**1786**	**1395**	**349**	**1744**	**1294**	**323**	**1617**	**1489**	**372**	**1861**	**1803**	**451**	**2253**	**1995**	**499**	**2494**	**2302**	**575**	**2877**	**2351**	**588**	**2939**
4.1 Monetary gold	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4.2 Special drawing rights	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3 Reserve position in the IMF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4 Foreign exchange	1429	357	1786	1395	349	1744	1294	323	1617	1489	372	1861	1802	451	2253	1995	499	2494	2302	575	2877	2351	588	2939
4.5 Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

* These are items such as re-insurance and bonds.

Table IV.I (b) International foreign investment position N$ million

	2005												2006											
	Q1			Q2			Q3			Q4			Q1			Q2			Q3			Q4		
	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Other	Total	SA	Others	Total
Foreign liabilities	19722	4931	24653	21070	5268	26338	16868	4217	21085	20867	5217	26083	22326	5582	27908	20898	5225	26123	20890	5222	26112	20796	6270	27065
Direct investment	13656	3414	17070	14282	3571	17853	11239	2810	14049	12414	3104	15518	12956	3239	16195	13534	3384	16918	14442	3610	18052	16754	2662	19416
1.1 Equity capital	10309	2577	12886	11180	2795	13974	10264	2566	12830	11436	2859	14294	11956	2989	14945	11779	2945	14724	12945	3236	16182	14501	2099	16600
1.2 Other capital	3346	837	4183	3103	776	3878	975	244	1219	979	245	1224	1000	250	1250	1755	439	2194	1496	374	1870	2253	563	2817
Long-term	2698	674	3372	2461	615	3076	453	113	566	348	87	434	575	144	718	735	184	919	748	187	935	1133	283	1416
Short-term	649	162	811	642	161	803	522	130	652	631	158	789	425	106	531	1021	255	1276	748	187	935	1120	280	1401
Portfolio investment	309	77	387	309	77	387	309	77	387	468	117	585	467	117	584	467	117	584	467	117	584	467	117	584
2.1 Equity securities	31	8	39	31	8	39	31	8	39	79	20	98	78	20	98	78	20	98	78	20	98	78	20	98
2.2 Debt securities	278	70	348	278	70	348	278	70	348	389	97	486	389	97	486	389	97	486	389	97	486	389	97	486
Other Investment	5757	1439	7196	6479	1620	8098	5320	1330	6649	7985	1996	9981	8904	2226	11129	6897	1724	8621	5981	1495	7476	3575	3491	7065
3.1 Liabilities of resident non-bank companies	358	89	447	629	157	786	251	63	314	308	77	385	302	75	377	400	100	500	333	83	417	384	96	480
3.1.1 Short-term loans	72	18	91	93	23	116	56	14	70	90	22	112	84	21	106	129	32	161	227	57	283	123	31	154
3.1.2 Long-term loans	285	71	356	536	134	669	196	49	245	218	54	272	217	54	272	272	68	340	107	27	133	261	65	326
3.2 Liabilities of resident banks	1217	304	1521	1628	407	2035	1160	290	1450	584	146	729	1256	314	1570	569	142	712	264	66	330	676	169	845
3.2.1 Short-term loans	18	4	22	13	3	17	269	67	336	500	125	625	402	100	502	4	1	5	75	19	94	277	69	347
3.2.2 Long-term loans	1199	300	1499	1615	404	2019	891	223	1114	84	21	104	854	214	1068	566	141	707	189	47	236	398	100	498
3.3 Liabilities of resident parastatal companies	1159	290	1449	1084	271	1355	1046	262	1308	1079	270	1349	1067	267	1334	1154	288	1442	1208	302	1510	1181	295	1477
3.3.1 Short-term loans and trade finance	28	7	35	30	7	37	38	9	47	1034	259	1293	1015	254	1269	1094	273	1367	61	15	77	1102	275	1377
3.3.2 Long-term loans	1131	283	1413	1054	264	1318	1009	252	1261	45	11	56	52	13	65	60	15	75	1147	287	1434	80	20	100
3.4 Liabilities of local government authorities	229	57	287	229	57	286	229	57	286	232	58	290	232	58	290	232	58	290	232	58	290	232	58	290
3.4.1 Short-term loans and trade finance	229	57	287	229	57	286	229	57	286	232	58	290	229	57	287	229	57	287	3	1	4	229	57	287
3.4.2 Long-term loans	0	0	0	0	0	0	0	0	0	0	0	0	3	1	4	3	1	4	229	57	286	3	1	4
3.5 Liabilities of Central Government	1613	403	2016	1649	412	2061	1561	390	1951	1600	400	2000	1475	369	1843	1905	476	2381	2140	535	2676	186	2340	2526
3.5.1 Long-term loans	1613	403	2016	1649	412	2061	1561	390	1951	1600	400	2000	1475	369	1843	1905	476	2381	188	2488	2676	186	2340	2526
3.6 Currency and deposits reported by Namibian banks	0	0	1477	1260	315	1575	1072	268	1340	922	231	1153	1312	328	1640	1692	423	2115	858	215	1073	914	229	1143
3.7 Liabilities of EPZ companies	0	0	0	0	0	0	0	0	0	3260	815	4075	3260	815	4075	945	236	1181	945	236	1181	1	304	304
3.7.1 Short-term loans and trade finance	0	0	0	0	0	0	0	0	0	131	33	164	131	33	164	647	162	809	647	162	809	15	61	76
3.7.2 Long-term loans	0	0	0	0	0	0	0	0	0	3129	782	3911	3129	782	3911	297	74	372	297	74	372	61	243	303
3.8 Other liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3.8.1 Short-term loans and trade finance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3.8.2 Long-term loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Foreign Assets (+)/Liabilities(-)	2206	551	2757	406	101	507	8301	2075	10376	3005	751	3757	6306	1577	7883	11599	2900	14499	14751	3688	18439	11558	2890	14448

Table V.J Foreign exchange rates
Foreign currency per Namibia Dollar
Period averages

Period		US Dollar	UK Pound	Germany Mark	Japan Yen	Switzerland Franc	Spain Peseta	EU ECU
2001		**0.0866**	**0.0602**	**0.1897**	**11.0865**	**0.1431**	**16.1290**	**0.0970**
2002	Jan	0.0861	0.0601	0.1906	17.3611	0.1437	16.2075	0.0975
	Feb	0.0871	0.0612	0.1958	11.6279	0.1479	16.6667	0.1000
	Mar	0.0870	0.0612	0.1939	11.4025	0.1459	19.7628	0.0994
	Apr	0.0903	0.0629	0.1019	11.8064	0.1514	0.1019	0.1019
	May	0.0985	0.0675	0.1074	12.4533	0.1565	0.1074	0.1074
	Jun	0.0986	0.0665	0.1032	12.1803	0.1538	0.1032	0.1032
	Jul	0.0989	0.0636	0.0996	11.6686	0.1457	0.0996	0.0996
	Aug	0.0944	0.0614	0.0966	11.2360	0.1413	0.0966	0.0966
	Sep	0.0943	0.0606	0.0961	11.3766	0.1409	0.0961	0.0961
	Oct	0.0968	0.0622	0.0987	11.9904	0.1446	0.0987	0.0987
	Nov	0.1036	0.0659	0.1035	12.5945	0.1519	0.1035	0.1035
	Dec	0.1116	0.0704	0.1096	13.6240	0.1609	0.1096	0.1096
2003	Jan	0.1152	0.0713	0.1085	13.6799	0.1586	0.1085	0.1085
	Feb	0.1204	0.0748	0.1118	14.3678	0.1665	0.1118	0.1118
	Mar	0.1243	0.0785	0.1149	14.7275	0.1687	0.1149	0.1149
	Apr	0.1298	0.0825	0.1196	15.5521	0.2000	0.1196	0.1196
	May	0.1305	0.0804	0.1128	15.2905	0.1770	0.1128	0.1128
	Jun	0.1265	0.0762	0.1085	15.1515	0.1671	0.1085	0.1085
	Jul	0.1326	0.0816	0.1165	15.7233	0.1802	0.1165	0.1165
	Aug	0.1353	0.0848	0.1213	16.0772	0.1869	0.1213	0.1213
	Sep	0.1365	0.0849	0.1218	15.7233	0.1884	0.1218	0.1218
	Oct	0.1436	0.0857	0.1227	15.7233	0.1899	0.1227	0.1227
	Nov	0.1486	0.0880	0.1269	16.2338	0.1980	0.1269	0.1269
	Dec	0.1532	0.0878	0.1252	16.5563	0.1946	0.1252	0.1252
2004	Jan	0.1446	0.0794	0.1146	15.3846	0.1794	0.1146	0.1146
	Feb	0.1477	0.0791	0.1168	14.3885	0.1838	0.1168	0.1168
	Mar	0.1501	0.0825	0.1214	16.3666	0.1925	0.1214	0.1214
	Apr	0.1526	0.0846	0.1271	16.3934	0.1977	0.1271	0.1271
	May	0.1474	0.0825	0.1227	16.5017	0.1889	0.1227	0.1227
	Jun	0.1553	0.0850	0.1280	17.0068	0.1944	0.1280	0.1280
	Jul	0.1632	0.0886	0.1329	17.8253	0.2030	0.1329	0.1329
	Aug	0.1549	0.0851	0.1272	19.8020	0.1957	0.1272	0.1272
	Sep	0.1527	0.0852	0.1251	16.8067	0.1930	0.1251	0.1251
	Oct	0.1566	0.0866	0.1253	17.0358	0.1933	0.1253	0.1253
	Nov	0.1651	0.0889	0.1272	17.3010	0.1936	0.1272	0.1272
	Dec	0.1745	0.0862	0.1301	19.2308	0.1998	0.1301	0.1301
2005	Jan	0.1675	0.0892	0.1276	17.3010	0.1974	0.1276	0.1276
	Feb	0.1662	0.0881	0.1277	17.4216	0.1978	0.1277	0.1277
	Mar	0.1664	0.0872	0.1259	17.4825	0.1949	0.1259	0.1259
	Apr	0.1625	0.0858	0.1255	17.4520	0.1943	0.1255	0.1255
	May	0.1579	0.0851	0.1244	16.8350	0.1922	0.1244	0.1244
	Jun	0.1481	0.0814	0.1217	16.1031	0.1873	0.1217	0.1217
	Jul	0.1492	0.0852	0.1238	16.6945	0.1930	0.1238	0.1238
	Aug	0.1547	0.0862	0.1258	17.0940	0.1954	0.1258	0.1258
	Sep	0.1573	0.0870	0.1283	17.4520	0.1988	0.1283	0.1283
	Nov	0.1502	0.0865	0.1273	17.7936	0.1968	0.1273	0.1273
	Dec	0.1573	0.0900	0.1326	18.6567	0.2052	0.1326	0.1326
2006	Jan	0.1642	0.0930	0.1355	18.9394	0.2099	0.1355	0.1355
	Feb	0.1635	0.0935	0.1368	19.2678	0.2132	0.1368	0.1368
	Mar	0.1599	0.0917	0.1330	18.7617	0.2086	0.1330	0.1330
	Apr	0.1647	0.0933	0.1343	19.3050	0.2115	0.1343	0.1343
	May	0.1582	0.0847	0.1239	17.6678	0.1929	0.1239	0.1239
	Jun	0.1438	0.0779	0.1134	16.4745	0.1770	0.1134	0.1134
	Jul	0.1412	0.0765	0.1112	16.3132	0.1745	0.1112	0.1112
	Aug	0.1438	0.0760	0.1122	16.6667	0.1770	0.1122	0.1122
	Sep	0.1350	0.0716	0.1060	15.7978	0.1679	0.1060	0.1060
	Oct	0.1262	0.0672	0.0998	14.9289	0.1588	0.0998	0.0998
	Nov	0.1174	0.0628	0.0936	14.0600	0.1497	0.0936	0.0936
	Dec	0.1086	0.0584	0.0874	13.1911	0.1406	0.0874	0.0874

Table V.K Effective exchange rate indices

		Nominal effective exchange rate indices			Real effective exchange rate indices		
		Import trade weighted	Export trade weighted	Total trade weighted	Import trade weighted	Export trade weighted	Total trade weighted
2001		**99.1**	**91.1**	**95.3**	**102.3**	**96.9**	**99.7**
2002		**97.8**	**78.2**	**88.3**	**103.3**	**89.2**	**96.6**
2003	Jan	98.5	83.7	91.4	105.5	99.3	102.6
	Feb	98.5	86.0	92.6	105.1	101.5	103.5
	Mar	98.9	88.4	94.0	104.6	103.9	104.3
	Apr	99.2	91.2	95.5	104.3	106.5	105.3
	May	99.0	89.5	94.6	105.2	105.5	105.3
	Jun	98.8	86.8	93.1	106.3	103.5	105.0
	Jul	99.1	90.5	95.9	133.7	109.0	99.5
	Aug	99.3	92.7	96.9	133.1	111.2	100.3
	Sep	99.3	93.0	97.0	133.4	111.4	100.4
	Oct	99.4	93.2	97.1	132.8	111.3	100.3
	Nov	99.6	94.9	97.9	134.5	113.9	101.4
	Dec	99.7	94.8	97.9	132.2	112.9	101.0
2004	Jan	99.2	89.2	95.3	132.3	107.0	98.0
	Feb	99.2	88.9	95.1	132.4	106.7	97.7
	Mar	99.5	91.7	96.5	133.3	110.4	99.1
	Apr	99.6	93.2	97.1	132.7	111.9	99.6
	May	99.5	91.8	96.5	132.4	110.1	99.0
	Jun	99.7	93.7	97.4	132.4	112.3	99.8
	Jul	99.9	96.2	98.6	136.6	117.3	101.9
	Aug	99.8	94.6	97.9	137.6	115.8	101.6
	Sep	99.6	93.5	97.3	137.5	114.4	100.9
	Oct	99.7	94.3	97.7	138.1	115.7	101.4
	Nov	99.9	95.8	98.5	139.8	117.9	102.2
	Dec	100.0	95.3	98.2	140.5	117.6	102.5
2005	Jan	99.9	95.9	98.5	106.2	102.4	93.2
	Feb	99.9	95.4	98.3	106.1	101.9	93.0
	Mar	99.8	94.9	98.0	103.6	100.1	91.8
	Apr	99.8	94.1	97.7	103.7	99.2	91.4
	May	99.7	93.5	97.3	102.4	97.9	90.7
	Jun	99.4	91.1	96.1	102.6	95.7	89.8
	Jul	99.6	93.4	97.2	103.1	98.5	90.8
	Aug	99.7	94.2	97.7	104.1	99.8	91.4
	Sep	99.8	94.9	98.0	106.3	101.5	92.8
	Oct	99.7	94.4	97.7	105.0	100.4	91.7
	Nov	99.7	94.7	97.9	105.9	101.1	92.0
	Dec	99.9	97.2	99.0	107.0	104.2	94.0
2006	Jan	100.1	99.0	99.9	107.5	106.6	94.0
	Feb	100.2	99.4	100.1	107.5	107.1	94.2
	Mar	100.0	98.1	99.5	107.6	105.7	93.6
	Apr	100.1	99.1	100.0	107.3	106.6	94.0
	May	99.7	93.5	97.4	106.5	100.2	91.3
	Jun	99.1	88.2	94.8	105.9	94.5	88.8
	Jul	99.1	87.7	94.6	106.0	94.3	88.4
	Aug	99.1	87.6	94.5	107.6	94.8	88.7
	Sep	98.8	84.4	92.9	108.5	91.8	87.4
	Oct	98.6	83.0	92.2	109.2	90.6	86.9
	Nov	99.4	85.1	93.5	111.2	93.2	88.5
	Dec	98.9	85.2	93.4	110.0	93.0	88.4

8. Bank of Namibia Publications

Annual Report

Quarterly Bulletin

Occassional Papers

How can Namibia further benefit from Agoa

Property rights and Access to Credit

Private Equity - Lesson for Namibia

Viability of Commercial Bank branches in Rural communities in Namibia

Potential for Diversifying Namibia's Non-Mineral Exports

The structure and nature of savings in Namibia

Savings and Investment in Namibia

Modelling Inflation in Namibia

Estimating the Demand for Money in Namibia

Efficiency of Commercial Banks in Namibia

Namibia Macroeconometric Model (NAMEX)

Working Papers

Promoting Microfinance activities in Namibia

Central Government Debt Sustainability

Public Expenditure in Namibia

Monetary Policy Transmission Mechanism in Namibia

Electronic Commerce Implication for the financial system

Assessing the impact of the EU-SA Agreement on Trade, Development and Cooperation (ATDC) on Namibia's Public Revenue