ENHANCED BENCHMARK LEVELS FOR NAMIBIA'S FOREIGN LIABILITIES AND ASSETS

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CONTENTS

1. INTRODUCTION

Cross-border capital flows remain an important source of investment for Namibia. Cross-border capital flows encompass both inward investments in the form of equity and/or debt instruments from non-residents into Namibia as well as outward investments by Namibian entities to the rest of the world. Most importantly, cross-border flows are compiled as part of Namibia's External Sector Statistics (ESS), which includes the balance of payments (BoP), external debt, International Investment Position (IIP) and international reserves. The BoP which consists of the current account and financial account, shows the economic transactions between residents and non-residents during a given period while the IIP shows the stock of all external assets and liabilities of Namibia at a point in time based on the prices and exchange rates at that date. External debt is a subset of external liabilities and covers the gross foreign debt of the general government and of all other institutional sectors at a point in time.

Good quality statistics on Namibia's cross-border capital flows are critical in assessing and monitoring Namibia's economic relations with the rest of the world. Cross-border capital flows are important to understanding structural changes in the economy, the penetration of foreign markets as well as revealing the country's external vulnerabilities and exposures. Moreover, Namibia's external sector statistics forms part of the national macroeconomic accounts and has important interlinkages with other domestic economic aggregates such as national income and savings. It further plays a pivotal role in the formulation of macroeconomic policy as well as enabling economic behavioural analysis. Namibia subscribed to the International Monetary Fund's (IMF's) Special Data Dissemination Standard (SDDS) which is principally designed to ensure adequate coverage of all key aggregates and improve the quality and timeliness of participating countries' macroeconomic statistics, ultimately to enhance the assessment of macroeconomic performance and policy. Solid measurement of the country's external assets and liabilities is a key component of this framework. Thus, a comprehensive and up-to-date sample survey with sound coverage of entities involved in cross-border capital flows is imperative for the compilation of Namibia's ESS.

Furthermore, asymmetries currently persist when comparing Namibia's cross-border statistics to that of counterpart economies. The FDI data gap between what Namibia publishes in comparison to what counterpart economies release is substantial. For example, based on the latest IMF's Coordinated Direct Investment Survey (CDIS), Namibia reported approximately US$6.7 billion (N$106.6 billion) worth of inward direct investment during 2021 whereas counterpart economies reported outward investment to Namibia worth US$4.1 billion (N$65.2 billion). Thus, a discrepancy of about US$2.6 billion (N$41.4 billion) exists, which could be attributable to numerous reasons, including different valuation[1] methods, and differences in sample size selections. In addition, the discrepancies can be attributed to the fact that some counterpart economies do not participate in the IMF's outward CDIS, while others do not partake in the CDIS survey at all.

A comprehensive review of the sample of institutions used to measure Namibia's foreign liabilities and assets was conducted in 2021 and 2022 to ensure that the data produced and published captures the relevant economic activities well. Over the years, the country's stock of external liabilities and assets has been compiled mainly using information obtained from the quarterly BoP surveys which are reconciled on an annual basis with information from audited financial statements. Even though the BoP sample has been enhanced periodically, through market intelligence, conducting a regular comprehensive review of the survey sample remains critical as per international best practices. This is vital in ensuring that the statistics produced by the Bank of Namibia reflects the realities on the ground. Furthermore, reviewing the sample also helps in capturing the potential changes in the composition of both inward and outward cross-border capital flows.

1 This can be due to reporting in different valuation such as market value or book value. Preferably, all asset and liability stocks comprising a country's International Investment Position should be measured at market prices, but market price measurement cannot always be implemented due to the absence of revaluations.

2. PURPOSE OF ENHANCED BENCHMARK LEVELS

The aim of this note is to communicate the changes to Namibia's ESS brought about by the comprehensive review of the country's foreign liabilities and assets conducted in 2021 and 2022. The aim was to collect up-to-date, reliable, and comprehensive data on foreign assets and liabilities of enterprises resident in Namibia, which was ultimately used to enhance Namibia's external sector statistics and expand the size of the sample of institutions surveyed to underpin such statistics. The updated sample will be used to improve the coverage and accuracy of data by establishing appropriate ratios for the estimation of the ESS statistics going forward and for the past years where applicable.

3. METHODOLOGY

The population used to enhance the BoP benchmark levels was made up of all entities involved in foreign transactions between 2018 and 2020 as per administrative records from the Namibia Revenue Agency (NamRA) database as well as the BoP reporting system (BOPCUS) of the Bank. This exercise was guided by the IMF's *sixth edition of the Balance of Payments and International Investment Position Manual (BPM6)*. A comprehensive list of all enterprises engaged in importing and exporting activities between 2018 and 2020 was obtained from the Automated System for Customs Data (ASYCUDA) run by the Namibian authorities, while the data for enterprises involved in cross-border financial flows was obtained from the international transaction reporting system (ITRS) - locally referred to as BOPCUS. From this population, a *stratified random sampling methodology*[2] was used to determine the sample frame needed for an exploratory survey.

A sample frame of about 315 companies was initially created with the objective of representing all enterprises in Namibia that have foreign direct, portfolio and other investment positions and flows. A total of 315 companies with potential foreign transactions were identified, of which about 256 companies were surveyed through an exploratory survey. The 59 enterprises that were not chosen as part of the exploratory survey were either subsidiaries of other entities, or purely local companies. The exploratory survey was administered online via the Bank's secure web-based reporting system called the Integrated Electronic Research System (IERS).

The new benchmark level was obtained by adding new companies identified through the exploratory survey to those already surveyed. All companies were grouped into various sectors of the economy such as mining, financial services, fishing, manufacturing, wholesale and retail trade, construction and transportation. Both the new and currently surveyed companies with a percentage contribution of at least 0.1 percent to the total stock of foreign assets or liabilities were selected to be part of the quarterly sample. However, companies that fall below the identified threshold will be surveyed annually going forward, i.e., entities that make up less than 0.1 percent of total assets and liabilities.

In addition to expanding the BoP survey sample, the ESS revision exercise also involved broadening the coverage of portfolio investment data as well as the services account. The expansion of the BoP survey sample affected the primary income of the current account as well as the direct and other investment of the financial account and IIP. The services account was also enhanced through the inclusion of some categories from the ITRS (BOPCUS) as a data source. In addition, the revisions also involved the inclusion of flow and stock data of Namibian assets abroad that are managed by non-resident asset management companies. This affected the portfolio investment components in the financial account and IIP. In addition, the coverage of exploration expenditure by foreign entities particularly in the mining and petroleum industries was improved to capture recent economic developments.

2 This was done by grouping the entire population (list of importers and exporters) into the different HS sections and choosing those that made up the 65.0 percent threshold while the remaining was selected randomly. The same methodology was applied to the BOPCUS data.

4. MAIN FINDINGS

4.1 BOP

Current account imbalances are normally financed by capital flows recorded in the financial account. The financial account in turn affects the IIP as well as external debt and these transactions leads to net changes in the liability and asset ownership of a nation. In this regard, the revisions affected Namibia's ESS through the BoP (current and financial accounts), IIP and the external debt accounts. Within the current account, revisions were made to the services and primary income accounts (Table 1). For the financial account and IIP, all sub-accounts (direct, portfolio and other investment) were affected by the revisions, except for the financial derivatives account and the reserve assets. The developments within the BoP and IIP subsequently affect the private sector debt position in the external debt account.

Table 1: Impact of revisions on ESS

ESS account	Affected by revisions? Yes or No	2022Q2 value before revisions (N$ million)	2022Q2 value after revisions (N$ million)
Current account, flows	**Yes**	**-7,294**	**-7,510**
Merchandise Trade	No	-9,838	-9,286
Services account (net)	Yes	153	-219
Primary income account (net)	Yes	-2,018	-1,863
Secondary income account	No	3,858	3,858
Capital Account	No	397	397
Financial Account, flows	**Yes**	**-6,007**	**-6, 442**
Direct investment (net)	Yes	-2,888	-3,637
Portfolio investment (net)	Yes	-1,488	-788
Financial derivatives (net)	No	91	91
Other investment (net)	Yes	-5,275	-5,661
Reserve assets	No	3,553	3,553
International Investment Position (IIP), stocks	**Yes**	**-22,162**	**8,576**
Direct investment (net)	Yes	-99,514	-101,821
Portfolio investment (net)	Yes	68,324	91,013
Financial derivatives (net)	No	53	53
Other investment (net)	Yes	-36,987	-26,614
Reserves assets	No	45,962	45,962
External debt, stocks	**Yes**	**141,404**	**146,011**
Central Government	No	32,496	32,496
State Owned Enterprises/ Parastatals	No	8,855	8,855
Central Bank	No	6,786	6,786
Deposit-Taking Corporations, except the Central Bank	No	14,836	14,836
Other Sectors	Yes	11,241	12,898
Direct Investment: Intercompany Lending	Yes	67,189	70,140

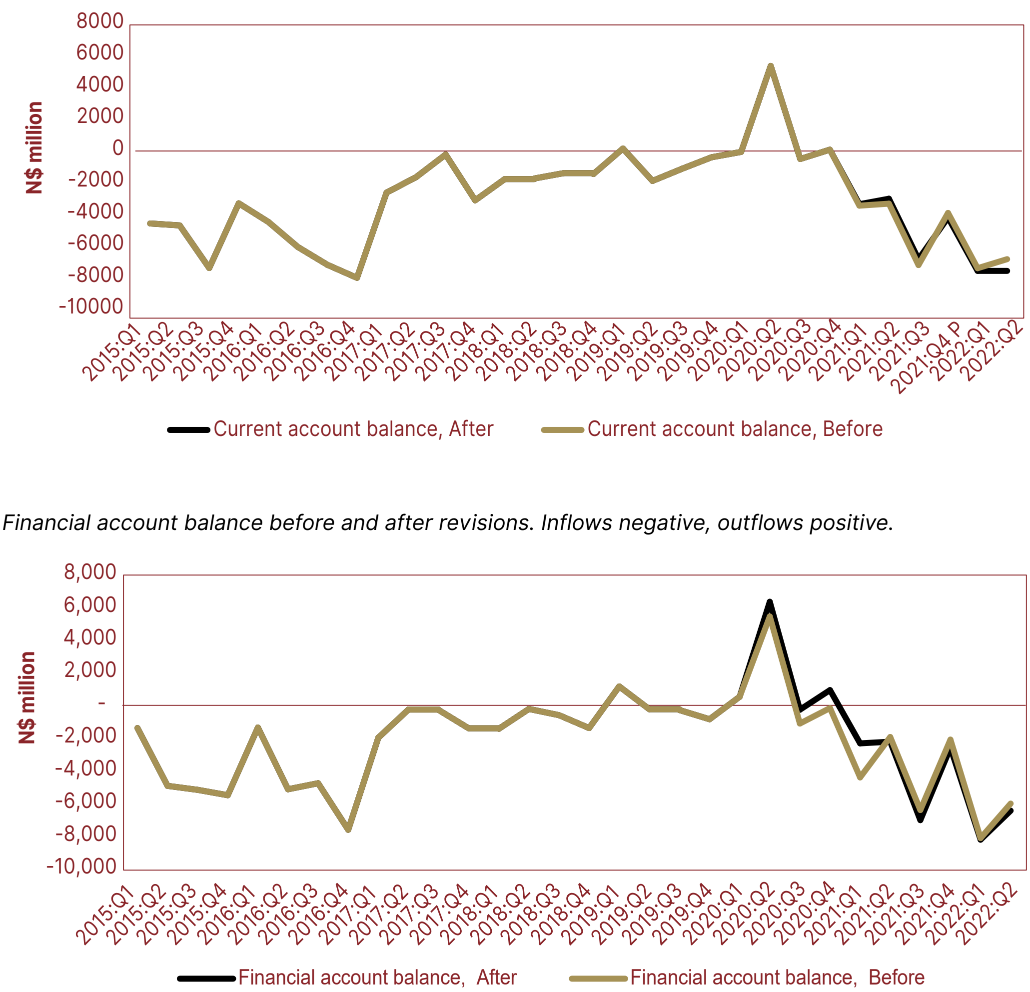
Due to revisions, the current account deficit for the second quarter of 2022 widened slightly. The current account deficit worsened from N$7.3 billion to N$7.5 billion on the back of higher outflows in the services account (Figure 1.a). The higher outflows of services account, which switched from an inflow of N$153 million to an outflow of N$219 million (Table 1), are associated with the expansion of the data source to include BOPCUS. The expansion affected services such as repairs and maintanance, transport and other business services. The merchandise trade, secondary income and capital accounts were not affected by the revisions.

After the revisions, Namibia's financial account balance recorded a higher net borrowing from the rest of the world. In this regard, because of the revisions, the balance on the financial account widened slightly from N$6.0 billion to N$6.4 billion for the second quarter of 2022 (Figure 1.b). The widening of the financial account balance was attributable to the expansion of the survey sample, which resulted in higher foreign liabilities flows particularly in the form of foreign direct investments.

Figure 1(a &b): Impact of revisions on BoP

a. Current account balance before and after revisions.

b. Financial account balance before and after revisions. Inflows negative, outflows positive.



4.2 INTERNATIONAL INVESTMENT POSITION (IIP)

The movements in the IIP considers both the financial flows as well as the revaluations. The net position in the IIP improved significantly as the revisions had a major impact on Namibia's investments abroad since 2015. The revisions were mainly concentrated in portfolio flows in the form of foreign asset investments made by Namibian institutional investors as well as revaluation gains and losses on those portfolios. Moreover, enhancement was made to the foreign liability position through the inclusion of new entities from the new BoP survey sample. As a result, the IIP switched to a net lender position from a net borrower position between 2015 and 2022 (Figure 2a). Due to the revisions, the IIP recorded a net lender position of N$8.6 billion from a net borrower position of N$16.0 billion during the second quarter of 2022.

Total foreign liability and asset stocks

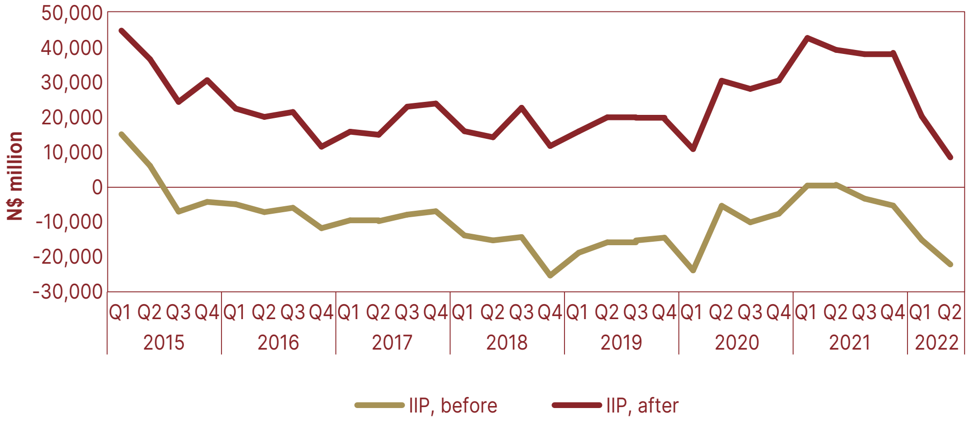
The stocks of Namibia's foreign liabilities and assets were both higher with the inclusion of the exploratory survey data. Prior to the revisions total foreign liabilities at the end of the second quarter of 2022 were N$192.6 billion and rose to N$201.0 billion. Similarly, total foreign assets also rose by 22.9 percent from N$170.5 billion to N$209.5 billion as at end of the second quarter of 2022. This was attributed to the revisions in direct, portfolio and other investments as discussed in the above section. The results of the newly surveyed companies indicate that their liabilities are mainly sourced from South Africa, China, Mexico, the United Arab Emirates and the United Kingdom, and mainly concentrated in the manufacturing, tourism, mining as well as the agriculture sectors. The foreign assets abroad on the other hand, were mostly financial investments in South Africa and offshore listed securities.

External Debt Developments

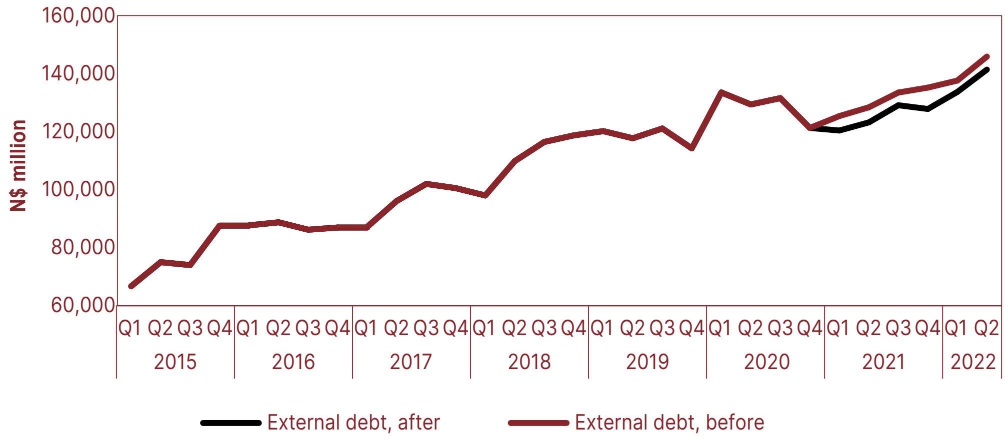
External debt on the other hand rose on the back of higher liabilities due to the expansion of the BoP survey sample coupled with the higher revaluations recorded in IIP. The expansion of the BoP survey sample resulted in higher direct and other investment liabilities as well as higher revaluations recorded in IIP due to the depreciation of the local currency over the review period. Consequently, external debt rose from N$141.0 billion recorded before revisions, to N$146.0 billion after revisions as at the end of the second quarter of 2022.

Figure 2(a & b): Impact of revision on IIP and external debt

a. IIP before and after revisions



b. External debt before and after revisions



5. CONCLUSION AND THE WAY FORWARD

The revisions to Namibia's foreign liabilities and assets were mainly concentrated in direct and portfolio investment. The results of the revisions indicate that the inward Foreign Direct Investment (FDI) stock outweighs the outward FDI stock, and that the stock of outward portfolio investments outweighs the inward portfolio investment stock. Based on the revisions, Namibia's foreign assets and liabilities were raised by 22.9 percent and 4.3 percent to N$209.5 billion and N$201.0 billion, respectively, as at the end of the second quarter of 2022. Namibia's external debt was also raised as a result of increased market values and revaluations on the back of the expanded BoP sample survey. Moreover, this exercise facilitated a reduction in the gaps in the reported data between Namibia and the countries from which FDI was sourced or countries in which Namibian investments were made, thus narrowing the asymmetries that previously existed in cross-border direct investment statistics.

Going forward, the external sector statistics compilers will use the expanded survey sample and update it on an ongoing basis. Market intelligence and information from the BOPCUS and ASYCUDA systems will be utilised to keep track of developments and expand the sample of institutions surveyed, as needed. Every ten years a more comprehensive exercise will be undertaken to re-benchmark key external sector statistics and provide additional assurance that the sample of institutions surveyed is up to date and representative.