Bank of Namibia

Annual Report

2005

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Bank of Namibia
Corporate Charter

Corporate Charter

VISION

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

MISSION

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

VALUES

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

We uphold integrity, impartiality, open communication and transparency.

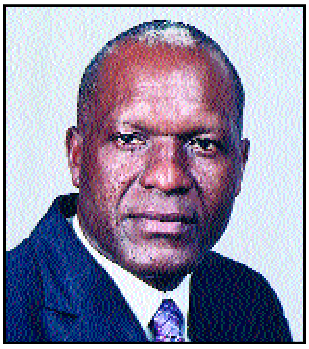
We care for each other's well-being and value teamwork.

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 2006**

BANK OF NAMIBIA BOARD OF DIRECTORS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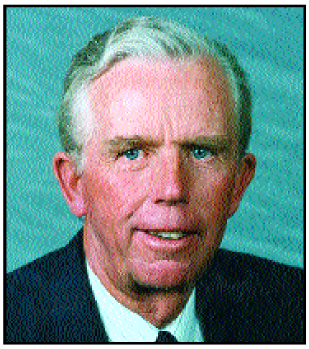
(Governor)


Mr P Hartmann
(Deputy Governor)


Mr F Kisting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BANK OF NAMIBIA MANAGEMENT
AS AT 31 DECEMBER 2005

Governor	**Mr. Tom K. Alweendo**
Deputy Governor	**Mr. P. Hartmann**
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Manager – Corporate Communications	Mr. J. Mutumba
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Senior Manager – Financial Markets	Mr. P. Shiimi

Abbreviations And Acronyms

AGRIBANK	Agricultural Bank of Namibia
AMFI	Association of Microfinance Institutions
AMFIU	Association of Microfinance Institutions in Uganda
ASDSET	Adult Skills Development for Self Employment Trust
ATM	Automatic Teller Machine
BER	Bureau of Economic Research
BID	Banking Institutions Determination
BoN	Bank of Namibia
BOU	Bank of Uganda
BSD	Banking Supervision Department
BWHK	Bank Windhoek Ltd
CAMELS	Capital, Assets quality, Management, Earnings, Liquidity, and Sensitivity
CBS	Central Bureau of Statistics
CERUDB	Centenary Rural Development Bank
CFA	Communaute Financiere Africaine
CFA Franc	Currency for Formerly French-ruled African Countries
CFM	Commercial Microfinance
CMA	Common Monetary area
CPIX	Consumer Price Index Excluding Mortgage Loans
DCS	Depository Corporations Survey
DFID	Department for International Development
EU	European Union
Euro	Currency for the Euro Zone Area
FCS	Financial Corporations Survey
FED	Federal Reserve of the United States
FINCA	Foundation for International and Community Assistance
FIRST Initiative	Financial Sector Reform and Strengthening Initiative
FMD	Financial Markets Department
FNB	First National Bank of Namibia Ltd
FSDP	Financial Sector Development Program
FSDT	Financial Sector Development Trust
FSLTAP	Financial Sector Legal and Technical Assistance Program
FTBs	First Tier Banks
FU	FINCA Uganda
GC	Government Internal Registered Stock
GC05	Government Internal Registered Stock Maturing in 2005

ABBREVIATIONS AND ACRONYMS (CONTINUED)

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
GFCF	Gross Fixed Capital Formation
GNDI	Gross National Disposable Income
GNI	Gross National Income
G-8	Group of Eight Industrialized Countries
IMF	International Monetary Fund
KWFT	Kenya Women Finance Trust
MDI	Microfinance Deposit-taking Institutions
MFEP	Microfinance Outreach Program
MFI	Microfinance Institutions
MIS	Management Information Systems
MoF	Ministry of Finance
MTI	Ministry of Trade and Industry
MU	Uganda Microfinance Union
M2	Broad Money Supply
NBFI	Non-Bank Financial Institutions
NCDs	Negotiable certificate of deposits
NCPI	Namibia Consumer Price Index
NDP 2	National Development Plan 2
NEER	Nominal Effective Exchange Rate Index
NEDB	Ned Bank Namibia Ltd
NEPRU	Namibian Economic Policy Research Unit
NFA	Net Foreign Assets
NGO	Non-Governmental Organization
NGOs	Non-Governmental Organizations
NPL	Non-Performing Loans
NSB	Nampost Savings Bank
NSX	Namibia Stock Exchange
ODCs	Other Depository Corporations
REER	Real Effective Exchange Rate Index

ABBREVIATIONS AND ACRONYMS (CONTINUED)

REPO	Repurchase Agreement
RHS	Right Hand Side
RSA	Republic of South Africa
RWCR	Risk Weighted Capital Adequacy Ratio
SACCO	Savings and Credit Co-operatives
SACU	Southern African Customs Union
SBCGT	Small Businesses Credit Guarantee Trust
SDMS	Sovereign Debt Management Strategy
SME	Small and Medium-sized Enterprises
SNA	System of National Account
STBs	Second Tier Banks
STDB	Standard Bank Namibia Ltd
T-Bills	Treasury Bills
UCSCU	Uganda Co-operative Savings and Credit Unions
US	United States
USD	United States Dollar
VAT	Value Added Tax
VISION 2030	Namibia's National Vision for the year 2030
ZAR	South African Rand

CONTENTS

PART A: STATE OF THE ECONOMY

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

CONTENTS (CONTINUED)

PART A

STATE OF THE ECONOMY

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

STATE OF THE ECONOMY

A. SUMMARY OF ECONOMIC DEVELOPMENTS

Following a strong growth in 2004, the growth in the world economy was expected to ease moderately during 2005. Growth was, however, still anticipated to remain above 3 percent, driven mainly by the US and China. This deceleration in world economic growth was mainly attributed to increasing oil prices, which were widely anticipated to dampen consumer demand although the impact on output was less considerable. Higher oil prices, which led to moderate inflationary pressures, were partly driven by a strong global demand and partly by geo-political factors. The adverse effect of these higher prices had, however, been offset by higher commodity prices in oil importing countries. The prevailing lower interest rates due to low global inflation, might somewhat offset the adverse effects of the higher oil prices.

The rising global imbalances, which largely refers to a large current account deficit of the US and the corresponding large surpluses in a few countries, mainly in Emerging Asia remain a concern. Should the demand of investors for US assets decrease, it could cause the US Dollar to depreciate sharply, interest rates to rise and consequently pose significant risks to the economic stability.

Lower expected growth for 2005 in the sub-Saharan region reflected developments worldwide. By contrast, growth in South Africa during 2005 was expected to increase, relative to 2004 based on strong consumer and export demand.

In line with the expected slowdown in the global economy during 2005, the Namibian economy grew also at a slower pace. The slow growth could mainly be explained by the decline in the value added of the primary industry, particularly due to the poor performance of the mining and fishing sectors, as well as a slight deceleration in the value added of the tertiary industry.

During the year 2005, Namibia experienced the lowest inflation since independence in 1990. An average of 2.3 percent was registered in 2005, much lower than the 4.2 percent recorded in the previous year. The low inflation was reflected in almost all the price indices of the major group items, with the major driving categories being alcoholic beverages and tobacco, and housing, water, electricity, gas and other fuels, whose inflation rates fell during the review period. Although, fuel prices increased substantially during the period under review, their impact on the overall inflation was moderated by a lower inflation of those other categories, whose inflation rates fell as indicated above.

The year 2005 saw an environment of lower interest rates. Commercial banks held the short-term nominal interest rates constant, in line with the Bank rate which remained unchanged at 7.00 percent since April 2005. Then too, the cost of borrowing was held constant by the maintenance of the prime lending rate at the level of 11.75 percent since the change in April 2005. This monetary policy stance resulted in an increase in the net domestic claims during the year.

The budget of the Central Government for the 2004/05 financial year, realized a lower budget deficit relative to the year 2003/04[1]. The deficit during 2004/05 was, however, higher than the figure estimated in the main budget. Despite the fact that Government spending had been contained during this period, the higher deficit was the result of a shortfall in the realized revenue during 2004/05, which was lower than the estimate. By end of December 2005, the Government's outstanding total debt had increased from the level reached in December 2004. Total loan guarantees for the Central Government, on the other hand, had expanded moderately during 2005, mainly due to the increased stock of guarantees on foreign loans, which was complemented by a slight rise in the domestic guarantees.

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

To improve investor confidence, the Government of Namibia invited FitchRatings to conduct an assessment of Namibia's credit worthiness. During 2005, FitchRatings assigned Namibia a favourable sovereign rating of BBB- on its long-term foreign currency. This followed the joint initiatives of the Ministry of Finance and the Bank of Namibia to obtain a credit rating for the country, which was important to determine the credit worthiness of the Government. The outcome for the rating augured well for the economy of the country, in terms of bond and equity market developments and an increasing inflow from foreign direct investments.

On the front of the balance of payments, the current account surplus, in relation to nominal GDP, declined in 2005 from that in the previous year. The deficit in the merchandise trade narrowed while the net inflows from investment income, current transfers and services, declined. The deficit in the capital and financial account was, also estimated to have narrowed during 2005. A significant decrease in the net outflow of other long-term investments was responsible for the narrowing deficit in this account. This decline outweighed the increase in net inflow recorded in capital transfers and direct investments into Namibia.

The above developments indicated clearly, that although the economic fundamentals in Namibia had been conducive, i.e. a lower fiscal budget deficit had been realized, inflation and interest rates had been low, and a surplus in the balance of payments had been registered, the growth had not been satisfactory, and had lagged behind the targets set in the National Development Plan 2 (NDP 2). The year 2006, however, indicated good prospects for the Namibian economy, as the economy was projected to grow at a higher rate than in 2005. The growth in 2006 would be supported by the primary sector, mainly through an increased production in the mining sector. The secondary sector was also expected to contribute positively to the growth in 2006, especially in regard to activities such as the refining of zinc and copper.

B. GLOBAL ECONOMY

Following a strong growth in 2004, the global economy recovered throughout the first half of 2005. The second half, however, was marred by the persistence of high crude oil prices. These developments were expected to result in a slower growth for 2005. The high oil prices were posing downside risks and could have an adverse effect on global growth in 2005.

The global output which grew by 5.1 percent during 2004 was expected to decline to 4.3 percent for both 2005 and 2006. The effects of the increasing oil prices on the global economy were expected to be partly offset by the worldwide environment of relatively lower interest rates.

The US and China remained the main drivers of global economic growth. Despite the US deterioration of current account and fiscal deficits, the US Dollar had, contrary to expectations, been strengthening during 2005. This was due to China, which had been experiencing surplus savings and was channeling these excess funds to the US in a bid to keep interest rates low as well as benefiting from the good returns offered in the US. Consequently, this had given rise to a global imbalance. This situation was of great concern because it reflected substantial gaps in growth performance between the regions of the world and implied movements in capital that were not sustainable[2].

The strong growth recorded in the **United States** during 2004 was sustained during the first half of 2005. The developments in the oil markets during the second half of 2005 had however, continued to have a negative bearing on business confidence and private consumption. The output which had therefore, grown by 4.2 percent during 2004 was expected to slow down slightly to 3.5 percent in 2005. The adverse effect of these higher oil prices, which was to some extent caused by Hurricanes Katrina and Rita which disrupted refinery capacity in the US, was also expected to be extended into 2006. Consequently, the output growth was expected to further weaken to 3.3 percent during 2006. In relation to these developments, the output growth in the US economy was seen to be slowing down. Hurricane Katrina had partly caused zinc prices to increase due to a concern in regard to the availability of regular supplies, as warehouses in New Orleans had stockpiled a significant amount of zinc.

During 2005, the US Dollar had been on a rebound, defying expectations amidst the huge current account and fiscal deficits. The Fed had raised interest rates 11 times since June 2004, while rates in Europe had been constant for over two years. Investors in US securities seemed to worry less about the deficits, preferring the returns which they received.

The US deficits were furthermore, being financed by surplus savings from Asia, especially, China. This phenomenon of excess savings from China was finding its way to the US which was experiencing a savings deficit and was termed a “global imbalances”. These imbalances between economies would pose serious risks to prosperity because they were likely to be unsustainable.

Despite the domestic demand which was slowing down in the **Euro Area** during the second half of 2004, the output grew by 2.0 percent during 2004. The projections for that year had been marked down considerably to 1.2 percent, but were expected to improve to 1.8 percent during 2006, reflecting a stronger contribution from exports (Table 1). A number of country specific risks however, remained. As an example, the German output growth, which had grown by 1.6 percent during 2004, was estimated to grow by only half those levels during 2005. Similarly, Italian growth prospects were poor. Consumer spending in the Euro Area remained weak and the economy was

2 International Monetary Fund, “World Economic Outlook”, September 2005.

susceptible to a stronger currency and external shocks such as most recently, the increase in the oil price. Given the continued weakness of domestic demand, inflationary pressures in the area were easing. Global economic growth was expected to contribute positively to consumption and investment growth as well as further stimulating the growth of exports in the area. Strong export growth had been the main contributor to the gradual recovery of the Euro Area economy. The consistent overestimation of growth in the Euro area in recent years, coupled with the risks that corporate profits were not invested, signified the risks of an extended period of weakness. The Euro area was particularly susceptible to external shocks, including higher oil prices, a renewed sharp appreciation of the Euro, and a rebound in global interest rates. Politically, the rejection of the European Union constitution by France and the Netherlands, and the failure to agree on the EU budget, had so far, contrary to expectation, had a limited effect on the confidence in the European Union, with the financial market impact limited to a small widening of spreads for high debt countries, and a moderate depreciation of the Euro.

Table 1. World GDP growth

	2003	2004	2005*	2006*
World	3.9	5.1	4.3	4.3
United States	3.0	4.2	3.5	3.3
Euro Area	0.5	2.0	1.2	1.8
Japan	2.5	2.7	2.0	2.0
Emerging Asia	7.2	8.2	7.8	7.2
China	9.1	9.5	9.0	8.2
Developing countries	6.1	7.3	6.4	6.1
Africa	4.3	5.3	4.5	5.9
Sub-Sahara	3.7	5.4	4.8	5.9
Angola	3.4	11.1	14.7	27.6
Botswana	5.4	4.9	3.8	3.5
Mozambique	7.1	7.2	7.7	7.4
South Africa	1.9	3.7	4.3	3.9

Source: IMF, "World Economic Outlook", September 2005;
** indicates forecast*

Following a growth rate of 2.7 percent during 2004, the **Japanese economy** expanded significantly during the first half of 2005, mainly driven by an improved domestic demand and satisfactory employment. Output was however, expected to grow by only 2.0 percent during 2005 and 2006 (Table 1). This growth would be fueled by robust private consumption, underpinned by the strengthening labour markets. Export growth was also expected to rebound as the global economic conditions remained supportive. Downside risks to the outlook for 2005 and 2006 included an increase in the oil price and the possibility of the strengthening Yen. Progress had been made in addressing the weaknesses of the banks and corporate sectors which should put the economy in a better position to sustain an expansion.

In Emerging Asia, growth was expected to slow down slightly from 8.2 percent in 2004 to 7.8 percent the year under review. Downside risks are likely to slow this growth even further to 7.2 percent in 2006. Chinese growth, which is estimated to record 9.0 percent in 2005 and 8.2 percent in 2006, is expected to lead economic growth in this group of countries. Growth in India, however, was moderately trailing at 7.1 percent in 2005 and is expected to grow by 6.3 percent in 2006.

Sub Saharan Africa

Following a growth of 5.4 percent during 2004, sub Saharan African growth was expected to slow to 4.8 percent in 2005. The growth in 2004 was underpinned by temporary factors which would not be repeated in 2005. Oil exporting countries saw large increases in output in Angola, Chad and Equatorial Guinea, due to new oil production. Countries with large textile sectors (including Kenya, Lesotho, Madagascar, Mauritius, and Swaziland) were being negatively affected by the elimination of world textile trade quotas. The growth in the region however, continued to be underpinned by the strength of a global demand, improved domestic macro-economic policies, progress with structural reforms and fewer armed conflicts. The recent appreciation of the dollar against the Euro, if sustained, is expected to boost non-oil exports of some of the countries concerned.

During 2006, growth was expected to accelerate to 5.9 percent, which would be the strongest growth in Sub-Saharan Africa since the early 1970s. The overall growth was largely dependent on the specific development of countries which were more responsible for the improvement. In particular, the new oil production facilities in Angola and Mauritania are expected to boost growth in these countries substantially in 2006, while oil production was also expected to increase in Nigeria. The risks to these projections were however, tilted to the downside. The end of the Multi-fibre Agreement and the subsequent worldwide flooding of competitive Chinese textiles, which had a major impact on employment and textile manufacturing in some Sub-Saharan African countries, including South Africa, Swaziland and Namibia, might also continue to impact negatively on these textile producing economies. While the recent commitment by the G-8 to boost aid and debt relief to the region could increase confidence, investment, and growth, an extended period of high oil prices, if combined with a sharp decline in non-oil commodity prices, would adversely affect many countries in the region. With global imbalances widening, a renewed decline of the US Dollar against the Euro could not be ruled out and this would adversely affect the CFA franc zone countries.

South Africa

The South African economic growth of 3.7 percent during 2004 was expected to improve to 4.3 percent during 2005. The improvement in growth would mainly be brought about by a growth in manufacturing, which reflected a rising financial domestic demand and a stronger export demand for certain categories of goods, amidst a somewhat more competitive level of the exchange rate. The growth was however, expected to slow down moderately to 3.9 percent during 2006.

Despite the adverse developments in international oil markets, the South African CPIX was expected to remain within the target range of 3 to 6 percent of the South African Reserve Bank. The expectation for average CPIX inflation in 2005 was 4.7 percent, rising to 5.2 percent in 2006[3]. This trend reflected the impact of higher oil prices on inflation.

The average ZAR/US Dollar exchange rate for 2004 was 6.45. The Rand was expected to remain relatively strong against the US Dollar during 2005 and 2006. A bout of a US Dollar strength this year, could partly be attributed to the rebound of the US Dollar on international foreign exchange markets and the narrowing of the interest rates differential between South Africa and its most important trade partners. The Rand has however, regained some ground since the start of the third quarter. Factors which might have contributed to this appreciation included, firstly, sizeable inflows of portfolio investment into the country; secondly, an upgrade of the credit rating of the country by leading international rating agencies[4]; thirdly, the continued high level of international commodity prices, and finally, the weakness of the US Dollar.

3 Bureau of Economic Research (BER).

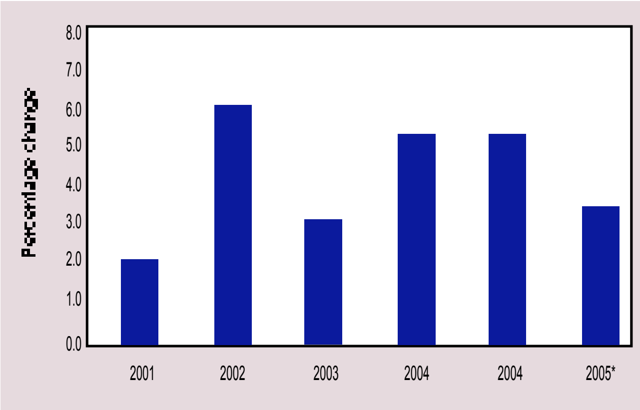
4 After the upgrade by Moody's in January, Standard & Poor's upgraded South Africa's long-term foreign currency rating from BBB to BBB+ and the local currency rating from A to A+ in August. Later in August, Fitch rating agency also upgraded South Africa's foreign currency rating to BBB+ from BBB, short-term rating from F3 to F2, and raised the country's ceiling from BBB+ to A-.

C. DOMESTIC ECONOMY

CHAPTER 1. THE REAL ECONOMY

Following the robust economic growth in 2004, the Namibian economy was estimated to grow at a slower pace during 2005. The real gross domestic product (GDP)[5] was estimated to have slowed to 3.2 percent in 2005 after a robust growth of 5.9 percent realized during 2004. The slow pace of growth during 2005 could mainly be explained by a decline in the value added in total primary industries, particularly due to the poor performance of the mining and fishing sectors and a slight deceleration in the value added growth of the tertiary industries, notably transport and telecommunication, the wholesale and retail trade, repairs and real estate and business services (Chart 1.1).

Chart 1.1 Annual Changes in Real GDP



Source: CBS

1.1 SECTORAL REVIEW[6]

1.1.1 Primary Industry

This industry comprises of agriculture and forestry, fishing and fish processing on board[7] and the mining and quarrying sectors. Overall, the value added of the primary industry was estimated to have declined during 2005, mainly on account of poor performance in the fishing sector, coupled with low diamond production. Conversely, the agricultural sector was estimated to have shown a recovery (Chart 1.3).

The performance of the **agricultural sector** appeared to have started to improve during 2005. The value added of the agricultural sector was estimated to have recorded a strong growth of 3.2 percent during the year 2005, higher than 1.5 percent in the preceding year (Chart 1.3). The good performance of this sector was driven by the commercial sub-sector, especially the improvement in the livestock industry which was reflected in the robust growth of livestock marketed. The number of cattle marketed during 2005 was estimated to have increased significantly by 26.7 percent, compared with a growth of 12.0 percent during the preceding year. Similarly, the number of small stock marketed, also increased by 11.9 percent during the review period, from a decline of 13.7 percent during 2004.

The general increase in the number of livestock marketed during 2005 was mainly due to the high demand and good prices for weaners which prevailed throughout the year in South Africa (Chart 1.2). The high demand for weaners could be due to low prices of maize in South Africa which was used for the feeding of weaners in that country, thereby making it cheaper to import weaners from Namibia and allow them to grow to slaughterable sizes in South Africa.

In contrast to the above developments in the commercial sub-sector, the subsistence sub-sector had shown a slower growth in 2005. The sub-sector was estimated to have registered a growth in value added of only 4.6 percent in 2005 compared with 32.9 percent in 2004. The slow growth in 2005 compared to 2004 should rather be seen as a return to the average growth trend of the sector for the past three years, as

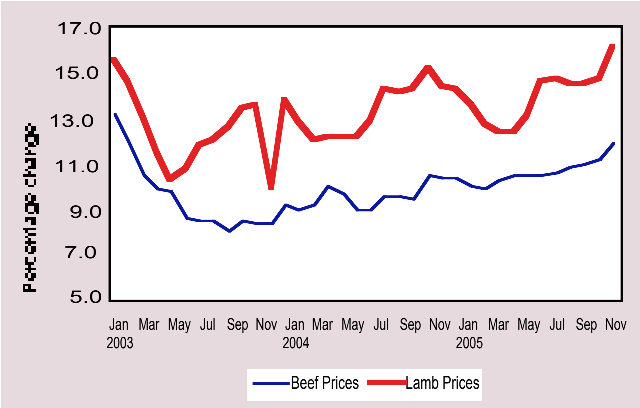
5 GDP measures all the activities in the economy.

6 The figures used in this section are Bank of Namibia's estimates and therefore they are subject to change as the national accounts for 2005 becomes available.

7 According to the System of National Account (SNA), fish processed on board of vessels should be classified as fish and not as manufactured products as in the case of those processed on-shore.

the stronger growth experienced in 2004 was due to the recovery of the sector from a low base in 2003.

Chart 1.2 Price for Beef and Lamb

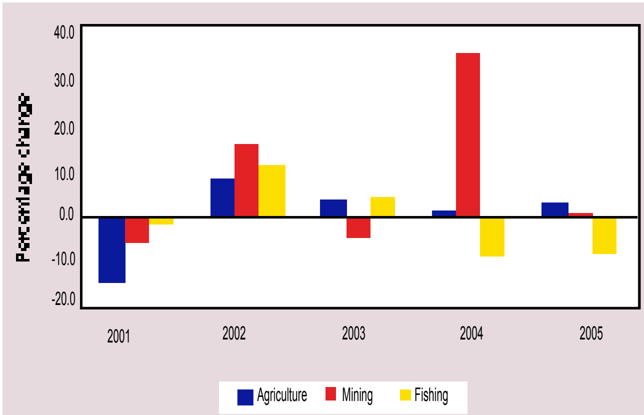


Source: Meatboard

Since the beginning of the year 2005, activities in the **mining sector** had been slowing down compared with those in 2004 (Chart 1.3). Preliminary data showed that growth in value added of the mining sector had decelerated to 3.5 percent during 2005, as opposed to a massive growth of 36.8 percent recorded during 2004. The sluggish performance of this sector in 2005 had been the result of the slowing down in the activities of diamond mining due to the non-operation of some of the mining vessels, as well as the movement from the high production base in 2004, which had been deliberately made to offset the effects of a strong domestic currency. The output of the diamond industry had declined heavily by 6.2 percent in 2005 compared to an increase of 39.1 percent in 2004. The output of other minerals such as copper, zinc and silver had, on the other hand, shown an expansion of 13.6 percent, 24.3 percent and 2.5 percent, respectively, resulting primarily from an improvement in the prices of basic metals.

During the year 2005, the **fishing sector** was estimated to have continued to perform poorly, though at a slightly lesser magnitude than it had been observed to have performed during 2004 (Chart 1.3). Preliminary data indicated a decline of 6.5 percent in the value added of the sector. This was, however, a slight improvement when compared to a contraction of 9.1 percent recorded in 2004. The major contributor to the poor performance of the industry in 2005 was attributed to several factors, including rising operation costs such as fuel and labor costs, as well as lower realized prices, and the unfavorable catch, mix and market conditions such as competition from aquaculture fish and the lackluster economic performance of the Euro Zone, which is the key export market. This was also complemented by low fish landings for most of the major species such as hake, crabs, pilchards, horse mackerel and orange roughy. By contrast, catches for species such as rock lobster and tuna had improved significantly, although they could not offset the weak performance of the other species.

Chart 1.3 Real Growth in the Primary Industry



Source: CBS and BoN estimates for 2005

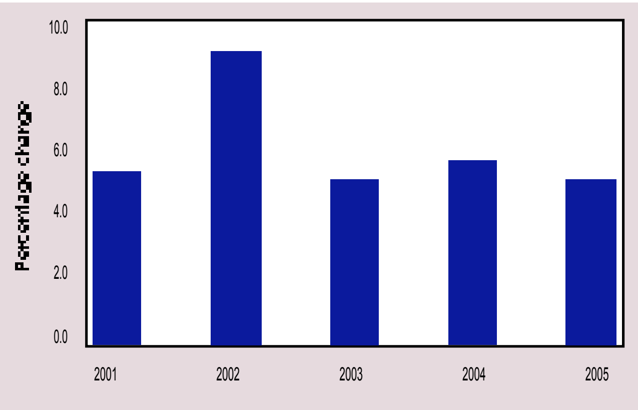
1.1.2 Secondary Industry

The secondary industry consists of the manufacturing, electricity and water and the construction sectors. The combined contribution of these sectors to overall GDP indicated a strong performance during the period under review with the electricity and water sector realizing a much stronger growth.

The performance of the **manufacturing sector** had been good in 2005, though slower than previously, and had continued to maintain the steady performance observed in the preceding year. Growth in the value added of this sector was estimated to have slowed down to 5.3 percent, from a rise of 5.9 percent noted in 2004 (Chart 1.4). The growth observed during 2005 was reflected in the higher growth in value added of the meat processing, other food manufacturing as well as other manufacturing sub-sectors. The increase in the meat processing industry had resulted from the expansion in the number of livestock marketed, as reported under the agricultural sector. The performance of the alcoholic and non-alcoholic beverage products, picked up from the slowdown observed during the preceding year, despite the restructuring of some breweries in Namibia which had aimed at cutting costs and streamlining production. This had resulted in the closure of a brewery plant. Likewise, the processing of basic metals had increased as a result of increasing commodity prices and an improved international demand, as reported in the mining section of this chapter.

By contrast, as expected, the low fish landings reported under the fishing sector, resulted in the falling value added of fish processing. The textiles sub-section also showed a weaker performance due to the closure of several garment factories, following the high competition in the international market which had resulted from the cheaper textile imports from China.

Chart 1.4 Real Growth in the Manufacturing Sector



Source: CBS and BoN estimates for 2005

The value added of the **construction sector** accelerated quite strongly during 2005 as a result of low interest rates environment and the emergence of new players in the industry which had helped to reduce prices for the building materials. The value added of the construction sector has been estimated to have surged by 20.0 percent, compared with a lower increase of 1.7 percent realized during 2004. The buoyant performance of the construction activities had also been supported by the continuation of large-scale capital projects such as the Northern railway project, the State House and other civil construction activities such as the construction of roads. Other indicators in this sector such as the number of building plans passed and completed during the year, also confirmed the good performance of the sector.

The performance of the **electricity, gas and water sector** indicated an improvement during 2005. The sub-sector was estimated to have registered a stronger growth of 5.9 percent in contrast to an increase of only 2.6 percent during the preceding year. The high growth rate was due to good rainfall during the review period.

1.1.3 Tertiary Industry

This industry consists of the hotels and restaurants, the wholesale and retail trade, repair and maintenance, transport and communication, financial intermediation and producers of Government services. The overall output of the tertiary industry was estimated to have slowed down and this was reflected primarily in the transport and communication sector, financial intermediation and the producers of Government services sectors. The wholesale and retail trade, repairs and maintenance, and hotel and restaurant sectors, recovered from the poor performance during 2004.

Activities of the **hotels and restaurants sector** showed a recovery during 2005. The value added of the sector in 2005 was estimated to have risen by 2.5 percent from a contraction of 3.2 percent, registered during the previous year. The estimated increase in 2005 has been further confirmed by preliminary findings in other indicators such as the foreign arrivals to the country.

A rebound in the **retail sector** was also observed as preliminary estimates indicated an increase of 2.4 percent in the value added of the wholesale and retail trade, repair and maintenance sector during 2005. This is significantly higher than the growth of 0.7 percent recorded during the preceding year. The positive performance was reflected in the clothing and supermarkets sub-sectors. An environment of lower interest rates and inflation which prevailed during the year could be the reason for the good performance by the retailing sectors, as it might have left consumers with relatively more income to spend. On the other hand, the furniture and vehicle sub-sectors performed poorly.

The developments in the **transport and communication sector** were positive during 2005 although they were curtailed by the high increases in the petrol prices. Available data indicated that value added of the transport and communications sector rose by 7.2 percent during 2005, slightly lower than 9.3 percent during the previous year. The positive performance of the sector in 2005 was estimated to have resulted from the good performance of the communications sub-sector, especially the mobile telecommunications. The mobile telecommunications reported a remarkable increase during 2005, resulting mainly from new subscriptions.

The activities of the **producers of Government services sector** weakened during 2005, as its growth in the value added was estimated to have decreased to 1.6 percent from 4.9 percent in 2004. This, however, indicated an improvement, in terms of reducing the Government expenditure[8].

1.2 GROSS NATIONAL INCOME (GNI) AND GROSS NATIONAL DISPOSABLE INCOME (GNDI)[9]

The GNI and GNDI of Namibia in 2004 stood at N$37.4 billion and N$41.7 billion, respectively, which represented growth rates of 5.4 percent and 6.9 percent, respectively, from the levels in 2003. Both the GNI and GNDI had been greater than the GDP since 1995 with the exception of the years 1999 and 2001, when the opposite was observed for the GNI. This phenomenon, especially for the GNDI was a result of large regular transfers from the SACU pool. SACU transfers to the Central Government during 2004, increased by 34.5 percent from those in 2003.

The real per capita GDP is an important indicator accepted worldwide, and gives an indication about the standard of living of the population of a country. In Namibia, the real GDP per capita had increased significantly by 3.6 percent during 2004, compared with a mere growth of 1.0 percent in the preceding year, to stand at N$9 000. The GNI per capita also showed an improvement, growing by 1.6 percent from a contraction of 2.9 percent during the previous year. The level of per capita income in Namibia remained amongst the highest in Sub-Saharan Africa. Although the per capita income increased, the income inequality remained amongst the highest in the world. The income distribution in Namibia as measured by the Gini coefficient stood at 0.7 percent[10]. The global average stood at 0.67 percent during the same year.

The increased per capita GDP in 2004 gave an impression that the standard of living of the Namibian people had improved significantly. The recorded high Gini coefficient had, however, indicated that income inequality remained a problem in Namibia. This implied that the per capita income measure might not be a good indicator of the general wealth of the economy and the development for all Namibians.

1.3 GROSS DOMESTIC EXPENDITURE (GDE)[11]

The gross domestic expenditure refers to expenditure in the form of investment and consumption undertaken by the residents of a certain country for a specific period.

Domestic expenditure in Namibia, in nominal terms,

8 The weakened value added of the producers of Government services sector is a positive development for the fiscal side since this indicates a reduction in Government spending on personnel related costs and goods and services. However, on the economic growth side, due to the sectors' importance in the economy, a reduced value added of this sector results in a lower overall GDP growth.

9 The analysis of this section is based on 2004 data because the data for 2005 is not yet available. The figures used in this section are from the latest national accounts of 2004. Since revisions were made to figures in previous years, 2002 and 2003 figures may not necessarily correspond with what was quoted in the Bank of Namibia Annual Report 2004.

10 The Gini coefficient is widely accepted measure of income distribution. It can fluctuate between 0-1, 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. the calculation for the Gine coefficient is based on the 1993-1994 Households Income and Expenditure Survey data as reported in the World Development Indicators Report for 2005, by the World Bank.

11 The analysis of this section is based on 2004 data because the data for 2005 is not yet available. The figures used in this section are from the latest national accounts of 2004. Since revisions were made to figures in previous years, 2002 and 2003 figures may not necessarily correspond with what was quoted in the Bank of Namibia Annual Report 2004.

indicated a decline during 2004. It declined by 0.4 percent compared with an increase of 13.1 percent in 2003. The same trend was depicted in real terms. The real gross domestic expenditure had contracted by 2.9 percent in 2004 as opposed to an increase of 6.1 percent in 2003. The decline during 2004 was reflected mainly in investment expenditure, which was made up of gross fixed capital formation (GFCF) and inventories.

The contraction in investment expenditure, in turn, was mainly caused by a fall in the real GFCF component. The real GFCF contracted by 9.6 percent against a growth of 24.2 percent recorded during 2003. The fall in the real GFCF was recorded, as a result of a decline of 14.5 percent in the category real private investment compared with the expansion of 34.4 percent realized in the previous year. This development suggested the generally low investment projects during 2004, and was a reflection of the lumpiness of investment in Namibia, i.e. some big investment projects in one period would result in a fall in investments during the subsequent period, unless other significant investment projects were implemented. On the contrary, real public investment rose by 7.1 percent, substantially higher than a contraction of 1.2 percent for 2003. The growth in the public investment was, however, not enough to offset the decline in real private investment which constituted 71.3 percent of the total GFCF during 2004. Real public investment accounted for the balance of 28.7 percent. In relation to the GDP, the GFCF slowed to 25.2 percent in 2004 from 29.2 percent during 2003.

Real consumption expenditure, on the other hand, indicated a moderate increase of 0.6 percent compared with a decline of 4.6 percent recorded in the preceding year. The increase was observed in both private and public consumption expenditure. Real private consumption expenditure increased merely by 0.3 percent in 2004 as against a contraction of 6.7 percent in the preceding year. Similarly, public consumption expenditure expanded by 1.0 percent during the same year. The rise in the private consumption expenditure category could be a result of the surge in the household real purchasing power, due to low consumer inflation relative to the household income. The share of the private consumption expenditure to GDP, on the other hand, decreased by 3.3 percentage points to 52.1 percent during 2004 from 55.5 percent during 2004 while that of public consumption expenditure decreased to 24.5 percent in 2004 from 26.5 percent in 2003.

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 during 2004. Table 1.1 indicates that the share of income on food, beverages and tobacco had declined to 37.1 percent in 2004 from 38.2 percent in 2003. The share of other goods and that of housing, water and electricity, on the other hand, had increased slightly to 24.9 percent and 14.9 percent in 2004 from 24.4 percent and 14.0 percent in 2003, respectively. The portion allocated to clothing and footwear remained the same at 6.6 percent for both 2003 and 2004. From the above, it is clear that Namibians continue to spend much of their income on basic necessities such as food, beverages and tobacco, a common phenomenon that is observed in developing countries.

Table 1.1 Household Consumption by Purpose, Percentage shares

Consumption Purpose	2000	2001	2002	2003	2004
Food, beverages and tobacco	36.8	35.9	39.7	38.2	37.1
Clothing and footwear	4.2	4.3	6.4	6.6	6.6
Housing, Water, electricity & fuel	14.2	13.8	13.6	14.0	14.9
Other goods[12]	30.4	31.4	24.8	24.4	24.9
Other services[13]	14.3	14.7	15.5	16.8	16.6
Household consumption on the domestic market	100	100	100	100	100

Source: CBS

12 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, electrical apparatus and equipment and other unspecified goods and equipment.

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

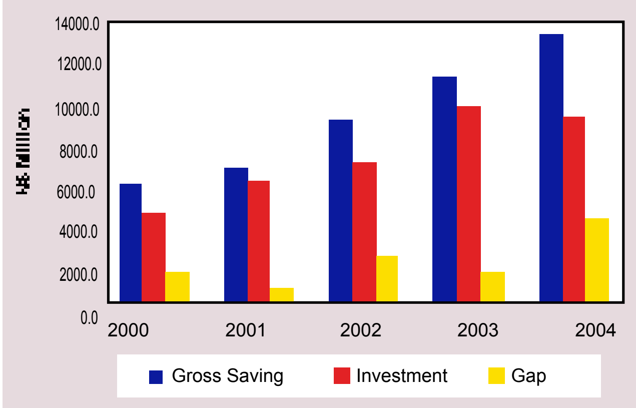
1.4 SAVINGS AND INVESTMENT BALANCE[14]

The balance between gross national savings and investment reflects the foreign saving position of the country. Thus excess saving would lead to lending to other countries, reflected in the outflow of capital while the deficiency in domestic savings would lead to the import of capital through foreign borrowing. Namibia continued to experience a position of excess saving over investment, which had been reflected by consistent surpluses in the current account of the balance of payments of the country.

The gross national savings increased to N$13.4 billion during 2004 from N$11.3 billion in 2003. This represented an increase of 18.4 percent, lower than the higher growth of 22.9 percent recorded during 2003. The level of savings in 2004 represented a ratio of 36.0 percent of GDP, up from 33.0 percent realized in 2003. The growth in savings over the year 2004, was mainly reflected in gross private sector savings, which expanded by 11.2 percent to N$12.7 billion from the level during 2003. The gross public sector savings also increased to N$659 million in 2004 from N$185 million recorded in the preceding year. The expansion in gross domestic savings could be explained by the lower growth in the consumption expenditure relative to that in the gross national disposable income (GNDI) observed during the same period. The GNDI increased by about 6.8 percent in nominal terms during 2004, while the final consumption expenditure rose by only 1.8 percent in the same period.

Although, the level of savings increased, the opposite happened for the level of gross investment. The gross investment decreased in 2004, amounting to N$9.3 billion from N$9.9 billion recorded during 2003 (Chart 1.5). The increase in the savings and the decrease in investment closed with a net balance of N$4.6 billion during 2004, compared with a lower figure of N$1.4 billion registered during 2003. It should, however, be emphasized that the relationship between investments and savings is predetermined by the structure of the economy. In the case of Namibia, most of the savings is channeled out of Namibia instead of being invested locally. The situation is expected to change when Regulation 28 of the Pension Funds Act is revised. This would limit the amount of savings transferred out of Namibia.

Chart 1.5 Saving, Investment and Gap



1.5 INFLATION

The year 2005 had experienced the lowest inflation since independence in 1990. The year started off with an annual inflation rate of 2.5 percent in January, rose to 2.6 percent in February and declined to 0.9 percent in May. It started picking up in June, edging upwards to 1.3 percent and increased further, to reach the highest level during the year of 3.3 percent in December 2005. This resulted in an average of 2.3 percent for the year. This rate was much lower than the 4.2 percent recorded in 2004.

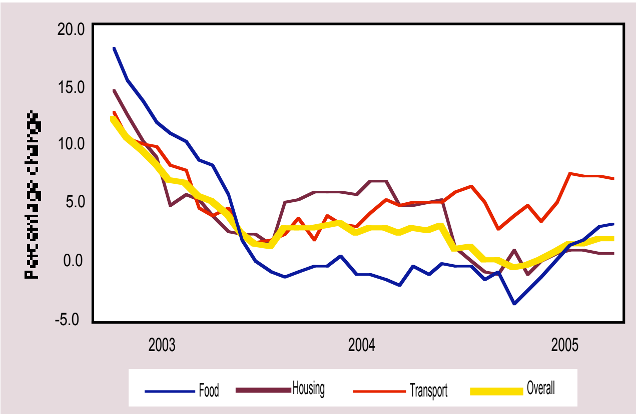
The major contributors to the low inflation were housing, water, electricity, gas, and other fuels and alcoholic beverages and tobacco which dropped to 1.7 percent and 7.4 percent during the period under review, from 6.9 percent and 9.3 percent, respectively. The other groups which contributed to the decline in inflation were clothing and footwear, health, recreation and culture, communications and education.

There were, however three major groups namely, food and non-alcoholic beverages, transport and furnishings, household equipment and routine

14 The analysis of this section will also focus on the developments in 2004, for the same reasons mentioned in the preceding section.

maintenance of the house, where inflation rates had increased. The increase in the inflation rate for transport was mainly due to the increases in fuel prices (Chart 1.6). Although, the fuel prices increased substantially during the period under review, their impact on the overall inflation was moderated by the lower inflation of the other categories, such as food, housing, water, electricity, gas and other fuels, etc.

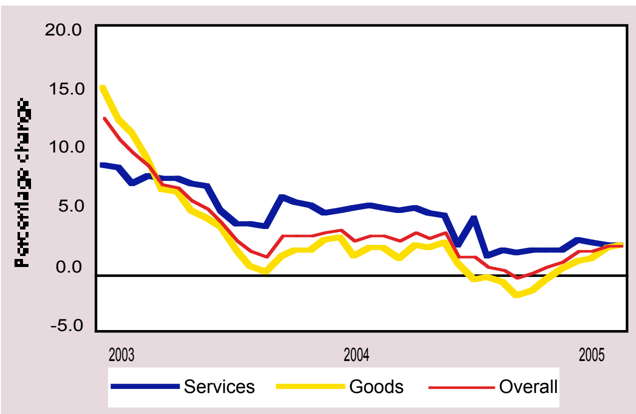
Chart 1.6 Inflation (Annual Changes)



Source: CBS

In classifying the inflation by goods and services, a declining trend had also been observed in both groups (Chart 1.7). The inflation for goods has generally been lower than that of services since 2004 but had dipped further in 2005. The inflation of goods recorded an average rate of 1.4 percent during 2005 from 3.1 percent for the previous year. Similarly, the inflation of services had also declined to 3.5 percent during the period under review, compared with 6.2 percent recorded during the preceding year.

Chart 1.7 Namibia Goods vs. Services Inflation

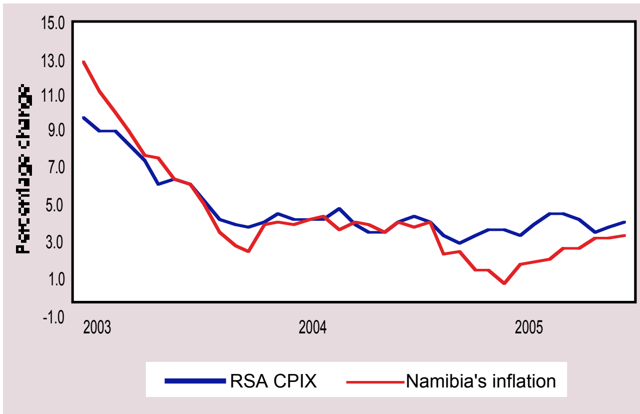


Source: CBS

The downward trend in inflation in Namibia was also observed in South Africa (Chart 1.8). The South African CPIX, however, remained higher than the Namibian inflation from December 2004. The CPIX of South Africa stood at 3.6 percent in January 2005 and declined to 3.1 percent in February, before rising to 4.0 percent in December 2005. The result of these developments was an average inflation rate of 3.9 percent for the CPIX during 2005, lower than an average rate of 4.3 percent during 2004. These rates were generally higher than those in Namibia and a widening divergence between the NCPI and CPIX was observed in 2005.

The divergence between the CPIX and the NCPI during 2005 was primarily due to the hikes in petrol prices in South Africa which were generally higher, especially from January to April 2005. During the second half of the year, however, it was observed that both the NCPI and the CPIX started to follow the same trend.

Chart 1.8 Namibia's Inflation vs. RSA's CPIX



Source: CBS and SARB

CHAPTER 2. FOREIGN TRADE AND PAYMENTS

BOX A REVISION NOTICE:

BALANCE OF PAYMENTS (BOP) AND INTERNATIONAL INVESTMENT POSITION (IIP)

As it was communicated in the December 2005 Quarterly Bulletin of the Bank of Namibia, a survey on Asset Management Companies was conducted to obtain data on Namibian pension, life insurance and unit trust funds. The actual data obtained through the newly conducted survey has necessitated the revision of the old published estimates for the period 2000 to 2004 for BoP and for 2000 to 2003 for IIP, as will be seen in this Annual Report and subsequent Quarterly Bulletins of the Bank. The following items in the two statements (BoP and IIP) have been affected by the incorporation of the new data:

A. BALANCE OF PAYMENTS (BOP)

1. CAPITAL AND FINANCIAL ACCOUNT

Major revisions were made to portfolio- and other long-term investments over the five year period 2000–2004. The new data showed that most of the invested funds were made on either equity assets (such as shares), debt securities (bonds and notes) or money market instruments (NCDs, BAs), but not into loans and other long-term assets, as was previously recorded. This means that most of the investment as reported under the new survey should be classified under portfolio investment. As a result, a major shift can be observed from other investment to portfolio investment, resulting further in much lower data for the sub-account other investment compared with what used to be reported under the same item in the past (Table 1).

Insignificant movements (upward or downward) could also be seen under the direct investment abroad category, brought about by new information obtained on the sub-category of property investment. This is due to the fact that while no data for the sub-category was estimated before, data could now be obtained through the new survey.

The capital and financial account balance has also been affected due to the revised data in the direct investment abroad, portfolio and other long-term investment components.

Table 1. Old and New Data for Affected Items: Capital and Financial Account

	2000	2001	2002	2003	2004
Portfolio investment (net)					
Old	-965	-1 691	-1 975	-2 220	-2 171
New	-3 168	-3 655	-4 439	-4 784	-5 490
Difference	-2 203	-1 964	-2 464	-2 564	-3 319
Other long-term investment (net)					
Old	-2 591	-2 983	-2 047	-3 142	-3 805
New	-90	-100	732	435	-342
Difference	2 501	2 883	2 780	3 577	3 463
Direct investment Abroad					
Old	-18	109	54	73	136
New	-18	110	57	79	143
Difference	0	1	3	6	7

2. CURRENT ACCOUNT

- The investment income received component in the current account has also been affected by the revised data over the review period (Table 2) and therefore, affected the current account balance.

Table 2. Old and New Data for Investment Income

	2000	2001	2002	2003	2004
Investment income (net)					
Old	165	-600	370	1,759	961
New	-417	-974	255	514	642
Difference	-252	-375	-115	-1 245	-319

It is further worth mentioning that some shortcomings in the received data were observed during the data editing and analysis process. The following are the identified shortcomings in the data:

- Non-respondance by some companies to the survey for some periods, especially the historic data (2000–2002) and which caused data gaps.
- Non-provision of data for some important components and or sub-components by some companies surveyed.
- Lack of historical data by companies that were bought over by others. This caused fluctuations in the reported data.

The Bank, in its quest to publish reliable data, will work on the shortcomings in the data during the course of the second quarter of 2006, in consultations with the relevant companies. The outcome of the process might introduce some new changes to the data, although these are not expected to be significant. The Bank will make such changes known to the stakeholders through its publications.

B. INTERNATIONAL INVESTMENT POSITION (IIP)

The availability of the new data also affected the published data of the IIP, mainly the portfolio investment category (Table 3). This is due to the fact that any changes made to the investment components of BoP (transactions) will always affect the IIP which is the stock of the same transactions.

Table 3. Old and New Data for IIP

	2000	2001	2002	2003
Portfolio - Assets				
Old	8 423	11 533	11 147	15 633
New	8 423	11 044	12 028	21 205
Difference	0	-489	881	5 572

It is also worth to mention that the timeliness in the dissemination of the IIP data has also been revisited, i.e. the one year lag has been removed; and the IIP will also now be published on a quarterly basis instead of annual basis, beginning with the March 2006 Quarterly Bulletin. This will enable Namibia to adhere to the IMF General Data Dissemination Standard (GDDS) requirement, to which Namibia committed herself as a member.

In addition to the major revision described above, revisions were also made on some other items' data published in the previous Annual Report, due to other reasons. This means, the data for some items as published in this Annual Report had some discrepancies when compared to the data which was published in the 2004 Annual Report. The discrepancies are shown in Table 4 below. On the current account components, an upward revision was made to the merchandise trade balance. On the capital and financial account components, a downward revision was brought to the data on foreign direct investment into Namibia, while an upward revision was made on other short-term investments. Contributing to the revisions on the estimates published in the 2004 Annual Report, were the actual data received from a number of respondents. Some respondents could not supply the information in time for the publication and estimates were used at the time of the preparation of the 2004 Annual Report. The response rate had, however, improved after the publication which led to changes in the data.

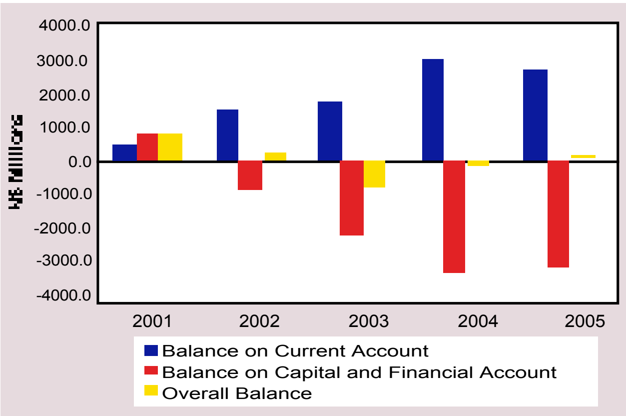
Table 4. Revisions for 2004 data (N$ Millions)

	Annual Report 2004	Annual Report 2005	Discrepancy
Current Account			
Merchandise trade balance	-1 794	-1 829	-35
Capital and Financial Account			
Direct investment into Namibia	1 847	1459	-388
Other short-tern investment, net	42	151	109

2.1 EXTERNAL SECTOR DEVELOPMENTS

The overall balance of the balance of payments in 2005 was estimated to have improved to a surplus of N$14 million from a deficit of N$88 million in the preceding year. This was a result of the narrowing deficit of the capital and financial account, despite the decreasing current account surplus (Chart 2.1). The phenomenon of a surplus on the current account and a deficit on the capital and financial account had always characterized the balance of payments of Namibia and was a reflection of excess gross savings over gross investments.

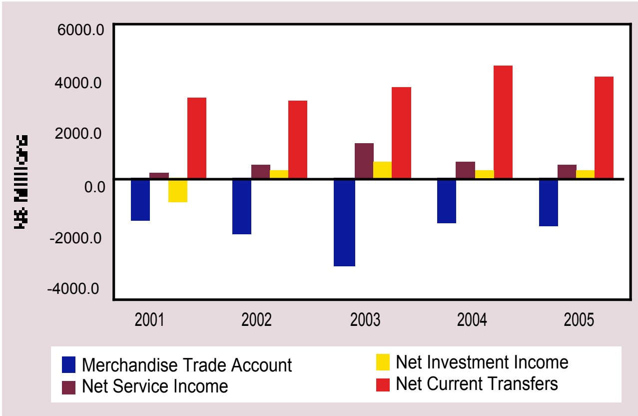
Chart 2.1 Balance of Payments Major Accounts



2.1.1 Current Account

The current account surplus was estimated to have decreased to N$3.2 billion during 2005, from N$3.7 billion during 2004. In relation to the GDP, the current account surplus had decreased to 8 percent in 2005 from 10 percent during 2004. The decrease in the current account surplus was mainly a result of the decline in net inflows from the investment income, current transfers and services, despite the narrowing deficit in the merchandise trade (Chart 2.2).

Chart 2.2 Current Account-Sub Accounts



The merchandise trade deficit was estimated to have narrowed by 8 percent to N$1.7 billion during 2005 from the amount during the previous year. The increase in merchandise exports outweighed the effect of the rise in merchandise imports, contributing to the narrowing deficit in the merchandise trade. The value of total merchandise exports was estimated to have increased by 10 percent to N$13.1 billion in 2005 from N$11.8 billion during the previous year. Similarly, the total value of imports was estimated to have also increased by 9 percent, to N$14.8 billion in 2005 from N$13.6 billion during 2004.

The value of all merchandise export components (diamonds, manufactured products, food and live animals, and other mineral products viz., copper, lead, unprocessed zinc and gold) had increased, year-on-year, in 2005. The value of diamond exports had risen by 2 percent to N$5 397 million during 2005 from N$5 318 million during 2004, while the value of other mineral products had increased by 19 percent from the level attained during the previous year. The value of exports of other mineral products seemed to have been positively affected by the strengthening export prices of minerals such as gold, copper and zinc.

With regard to the value of food and live animals exported, it was estimated to have increased by 30 percent to N$2.0 billion during 2005 from that during 2004. This increase was the result of an expansion in the volume of live cattle exported to South Africa, supported by the export of grapes to the European Union.

Manufactured products, mainly processed zinc, fish, beer, soft drinks, ostrich oil and leather, also performed well during 2005 when compared to the previous year. Like in the previous year when the export value of manufactured products had risen due to an increase in the refined zinc exported, export receipts of refined zinc had risen, year-on-year, during 2005. As a result, the value of exports of manufactured products was estimated to have increased by 14 percent to N$3 120 million during 2005, from N$2 748 million recorded during the previous year. The increase in export earnings of manufactured products seems not to have been affected by the decline in fish landings, as reported under the Real Sector section of this report. The export value of processed fish had declined, year-on-year, by 23 percent to N$668 million. The export value of ostrich oil and leather also dropped, year-on-year, by 27 percent to N$12 million, while that of beer had decreased by 8 percent. The restructuring of some breweries in Namibia, which had aimed at cutting costs and streamlining production, had resulted in the closure of a brewery plant in 2005 as was reported under Chapter 2 of this Report and could have contributed to the decline observed in the export value of beer. The value of soft drinks, on the other hand, exported remained constant at N$61 million.

The balance for the sub-account on services continued to record net inflows during 2005, though this was lower than during the preceding year. During 2005, net inflows in services had declined, year-on-year, by N$166 million to N$412 million. The continuous net inflow in this sub-account was attributable mainly to tourism related travel, which recorded a net inflow of N$1.6 billion, supported by business travel. On the aggregate, travel recorded a net inflow of N$1.7 billion during 2005, representing a year-on-year decline of 19 percent from that registered during 2004.

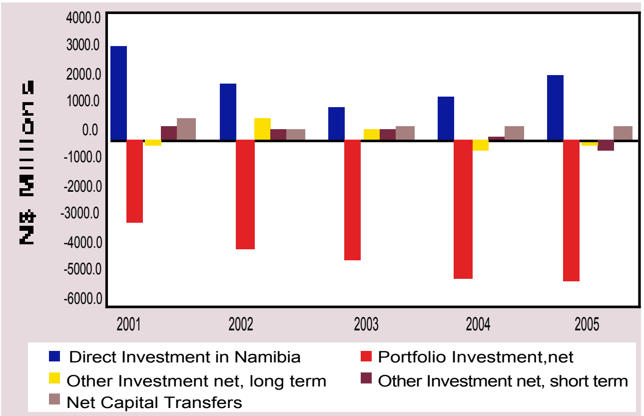
The net inflow of investment income was estimated to have declined, year-on-year, by 61 percent to N$248 million during 2005. The contraction in net inflows recorded during the year under review was attributable to the high income paid on foreign direct investment, mainly in the form of dividends and retained earnings, which slightly outweighed the rise in the corresponding receipts.

Net current transfers receivable had declined, year-on-year, by 0.3 percent to N$4.2 billion in 2005. This decrease was mainly due to the higher transfer payments into SACU pool in 2005 that rose, year-on-year, by 17 percent to N$223 million. Private current transfers (grants and other transfers to NGOs) receivable had decreased, year-on-year, by 8 percent to N$0.1 billion.

2.1.2 Capital and Financial Account

The deficit in the capital and financial account was estimated to have narrowed, year-on-year, by N$482 million (14 percent) to N$3.1 billion in 2005. Significant decreases in net outflows of the category other long-term investments were responsible for the decline in the deficit on this account. Other short-term investments turned around into a net outflow in 2005, while net outflow in portfolio investments rose, year-on-year, by 0.4 percent. Together, they outweighed the net inflows recorded in capital transfers and direct investment into Namibia (Chart 2.3).

Chart 2.3 Capitals and Financial Account Sub-Accounts



During 2005, foreign direct investment into Namibia was estimated to have increased, year-on-year, by 52 percent to N$2.2 billion (Chart 2.3). The increase in direct investment into Namibia was mainly due to a rise in retained earnings and equity capital that rose, year-on-year, by N$0.7 billion and N$0.5 billion, respectively.

Net outflows in portfolio investment were estimated to have increased, year-on-year, by 0.4 percent to N$5.5 billion in 2005 (Chart 2.3). The South African equity and debt instruments continued to be attractive to the Namibian portfolio investors in 2005 and as a result, portfolio investments in South Africa continued. Investments in equity instruments rose, year-on-year, by N$122 million to N$3 305 million, while that in debt instruments was lower by N$105 million.

Other long-term investment[15] continued to be dominated by long-term loans contracted by government and the private sector, mainly banks. The net outflow in other long-term investments was estimated to have decreased, year-on-year, by N$277 million to N$65 million in 2005 (Chart 2.3). During the period under review, the net inflows of the sub-category banks increased, while the net outflow of others in the private sector declined. As a result of the net inflow of banks that rose by N$203 million, year-on-year, to N$322 million in 2005, compared to the net outflow of the private sector that contracted only by N$75 million, to N$440 million, the deficit in other long-term investments narrowed significantly.

Unlike in 2004, other short-term investments turned into a net outflow in 2005. This category mainly reflected transactions between domestic resident banks and their non-resident parent companies in South Africa. Movement in this account was largely determined by the prevailing climate of credit extension by local banks. An increase in the demand for credit was generally mirrored by an inflow of cash into this account, while a depressed demand for credit caused an outflow of funds. During 2005, other short-term

Table 2.1 Balance of Payments Aggregates (N$ Millions)

	2001	2002	2003	2004	2005(p)
Current Account Balance	**432**	**1 444**	**1 722**	**3 667**	**3 238**
Net merchandise exports	-1 711	-2 183	-3 481	-1 829(p)	-1 688
Net services	142	491	1 253	578	412
Compensation for employees	-8	-14	-31	-28	-23
Net investment income	-974	255	514	642	248
Net Current transfers	2 983	2 895	3 467	4 304	4 289
Capital and financial account balance[16]	**792**	**-899**	**-2 229**	**-3 580**	**-3 098**
Net capital transfers	816	429	510	498	505
Direct investment abroad	110	57	79	143	77
Direct investment into Namibia	3 144	1 912	1 125	1 459	2 221
Net portfolio investment	-3 655	-4 439	-4 784	-5 490	-5 511
Other long-term investments, net	-100	732	435	-342	-65
Other short- term investments, net	478	410	406	151	-326
Net errors and omissions	**-500**	**-447**	**-356**	**-175**	**-126**
Overall balance	**723**	**98**	**-862**	**-88**	**14**
Reserve assets	**-723**	**-98**	**862**	**88**	**-14**

(p) provisional

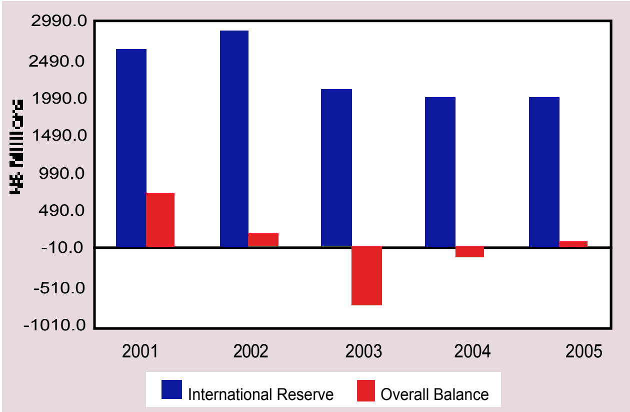
15 Prior to the introduction of the Asset Management Company Survey in 2005, pension and long-term insurance funds were the main investments dominating in the category other long-term investments. It has been established from the results of the survey that such type of funds are being invested in portfolio instruments as indicated in the revision notice.

16 It excludes reserves under the control of the Bank of Namibia.

investments recorded a net outflow of N$326 million compared to a net inflow of N$151 million in 2004.

In summary, after taking into account all balance of payment transactions, viz., the current account, capital and financial account, the year 2005 recorded a surplus in the overall balance of the balance of payments (Table 2.1). Consequently, the stock of international reserves, expressed in terms of the Namibia dollar, had increased, year-on-year, by N$14 million to N$1 861 million by the end of 2005 (Chart 2.4). This level of reserves, when expressed in months of import cover, represents 1.3 months of import cover. This level of import cover is slightly lower than 1.4 months of import cover during 2004. The lower import cover in 2005 was a result of the increase in the import of goods which rose, year-on-year, in 2005 by N$1.4 billion to N$15 billion. The recorded level of the import cover was lower than the 3 months import cover, which serves as an international guideline.

Chart 2.4 Stock of International Reserves and Overall Balance



2.2 EXTERNAL DEBT

The total foreign debt of Namibia at the end of 2005 was estimated to have declined year-on-year by 31 percent to N$4.4 billion. The decline was mainly due to the decline by 72 percent, year on year, in the debt

Table 2.2 Total Foreign debt of Namibia (N$ Millions)

	2001*	2002*	2003*	2004(p)	2005(p)	% of total[17]	% of change[18]
Total Outstanding Debt	**5 010**	**3 892**	**6 693**	**6 378**	**4 405**	**100**	**-30.9**
Central Government	1 612	1 479	1 601	1 917	2 000	45.4	4.3
Parastatals	2 318	1 171	1 491	1 341	378	8.6	-71.8
Private Sector	1 080	1 242	3 600	3 120	2 027	46.0	-35.0
Debt Service							
Total Debt Service	366	441	371	2 485	2 504	100	0.8
Central Government	87	65	88	113	161	6.4	42.8
Parastatals	231	267	32	15	22	0.9	45.0
Private Sector	48	110	251	2 357	2 321	92.7	-1.5
In Percentage							
Debt outstanding to GDP	18.1	11.8	19.8	17.3	11.3		
Debt Service to GDP	1.3	1.3	1.1	6.7	6.4		
Debt service to exports	3.7	3.9	3.9	21.1	19.0		
Debt service to debt	7.3	11.3	5.5	39.0	56.8		

(p) stands for provisional estimates

** Years prior to 2004 recorded lower debt service due to lack of representative coverage in those years.*

17 Foreign debt service and outstanding debt as a percentage of total debt service and total foreign outstanding debt, respectively as at the end of 2005.

18 Year-on-year change between 2005 and the preceding year.

outstanding of the parastatals (Table2.2). Private sector outstanding debt also fell year-on-year by 35 percent while that of government rose by 4 percent. As a ratio to the GDP, the total outstanding debt had declined year-on-year by 6 percentage points to 11 percent during 2005.

The total debt service, however, increased year-on-year by 1 percent to N$2.5 billion. Contributing to this outcome had been the debt servicing by parastatals and Central Government which had risen by 45 percent and 43 percent, respectively. The servicing of debt by the private sector, on the other hand, had dropped, year-on-year, by 2 percent (Table 2.2). As a percentage of the GDP, the total debt service during 2005 had declined, year-on-year, by 3 percentage points to 6 percent from the preceding year.

2.3 INTERNATIONAL INVESTMENT POSITION

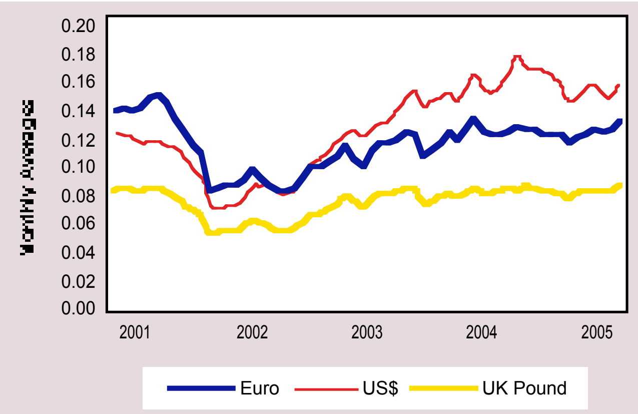
The international investment position (IIP) for Namibia like in the preceding year, continued recording a net asset position at the end of 2005. Year-on-year, the net asset recorded at the end of 2005 increased by N$6.8 billion to N$7.1 billion (Table 2.3). The increase in net assets has been driven mainly by a decrease in foreign direct investment into Namibia, which fell year-on-year, by N$2.1 billion. Contributing to this outcome was a reduction in equity capital and other capital which dropped, year-on-year, by N$4.7 billion and N$3.0 billion to N$14.3 billion and N$1.2 billion, respectively, at the end of 2005.

The foreign asset on portfolio investments, however, rose, year-on-year, by N$3.7 billion. This was the main contributor to the overall increase in total foreign asset position that rose, year-on-year, by N$3.6 billion to N$33.8 billion.

2.4 EXCHANGE RATE DEVELOPMENTS[19]

Responding to the developments on the global front in 2005, the Namibia Dollar had experienced an appreciation, year-on-year, against the major currencies of the world, such as the British Pound, Euro, and the US dollar (Chart 2.5).

Chart 2.5 Foreign Currencies per Namibia Dollar



During 2005, the Namibia Dollar had appreciated by 2.4 percent, year-on-year, against the British Pound and by 1.3 percent against both the US Dollar and Euro. The appreciation of the Namibia Dollar against the United States Dollar reflected the weakening of the US Dollar on international foreign exchange markets and the strong commodity prices and capital inflows to South Africa to which the Namibia Dollar is pegged.

Table 2.3 Namibia's International Investment Position (N$ Millions)

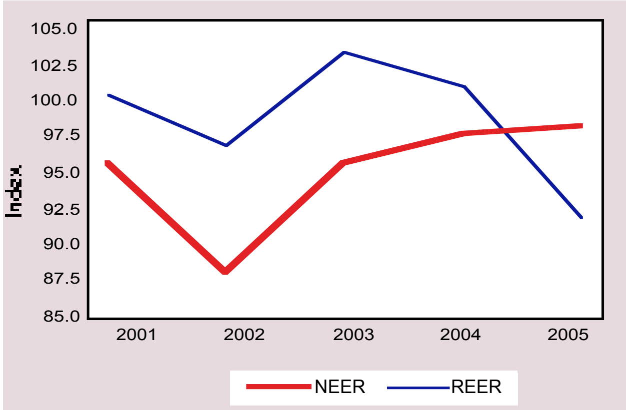
Types of International Investment	2001	2002	2003	2004	2005
Foreign Assets	**15 968**	**19 105**	**25 850**	**30 183**	**33 773**
Direct Investment abroad	174	233	542	567	434
Portfolio Investment	11 044	12 028	21 205	25 894	29 589
Other Investment	2 047	4 044	1 993	1 744	1 766
Reserves	2 703	2 800	2 110	1 978	1 984
Foreign Liabilities	**15 895**	**22 080**	**26 677**	**29 911**	**26 709**
Direct Investment into Namibia	8 671	15 746	19 601	23 198	21 114
Portfolio Investment	330	361	383	387	585
Other Investment	6 895	5 973	6 693	6 326	5 011
Net liability (-) assets (+)	72	-2 975	-827	272	7 063

19 The Namibia Dollar is pegged to the South African Rand on a one-to-one basis. Developments in the South African Rand are therefore fully reflected in the movements of the Namibian Dollar and that is the reason why interchangeable reference does not matter whether South African Rand or Namibia Dollar.

On the trade-weighted front, the nominal effective exchange rate (NEER) index for Namibia had increased to 97.6 points during 2005 from 97.7 in 2004 (Chart 2.6). This indicated a trade-weighted depreciation of the Namibia Dollar by 0.1 percent against the currencies of the major trading partners of Namibia.

The real effective exchange rate (REER) index had decreased to 92.9 points in 2005 from 100.3 points in 2004, representing a decline of 7.3 percent. The decline in the REER showed the magnitude by which certain Namibian exports had gained competitiveness on the international markets.

Chart 2.6 Trade Weighted Effective Exchange Rate Indices



BANK OF NAMIBIA
RESEARCH DEPARTMENT
REVISION POLICY: BALANCE OF PAYMENTS

By their very nature, macro-economic 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 of the underlying transactions often originate from different sources of varying quality, coverage and timeliness. It therefore 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 revisions. This will assist users in assessing the reliability of the original estimates when compared with the revised estimates, and easily identify major revisions to series and their causes. Such revisions will most likely affect data for the year preceding the most recent year under review, but earlier periods could also be affected, especially if a major new source or method had been identified for a particular series. In such cases, the series would be revised as far back as was feasible, to give users the most consistent time series possible. It should also be noted that revisions affected the corresponding quarterly estimates and, if significant, would be made as soon as practicable.

CHAPTER 3. MONETARY AND FINANCIAL DEVELOPMENTS

The year 2005 saw an environment of low interest rates. Short-term nominal interest rates were relatively stable during 2005, consistent with the unchanged Bank Rate since April 2005. Accordingly, commercial banks held the cost of borrowing constant by maintaining the prime lending rate at the same level since the previous change in April 2005. The low interest rate environment was reflected in an increase in the net domestic claims for the year 2005.

Table 3.1 Terminology between old and new Framework of Monetary and financial Statistics

In 2003, the Bank of Namibia implemented the Monetary and Financial Statistics Manual (MFSM) of the IMF 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. The new manual replaced the old money and banking statistics terminology with the new one as shown in the below table.

Old Terminology	MFSM (New Terminology)
Banking Survey	Depository Corporations Survey (DCS)
Financial Survey	Financial Corporations Survey (FCS)
Deposit Money Banks (DMB's)	Other Depository Corporations (ODC's)
Other Banking Institutions (OBI's)	Other Depository Corporations (ODC's)
Non-bank Financial Institutions (NBFI's)	Other Financial Corporations (OFC's)
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
Time and Savings Deposits	Other Deposits
Demand Deposits	Transferable Deposits
All sectors excluding Central Government	Other Sectors

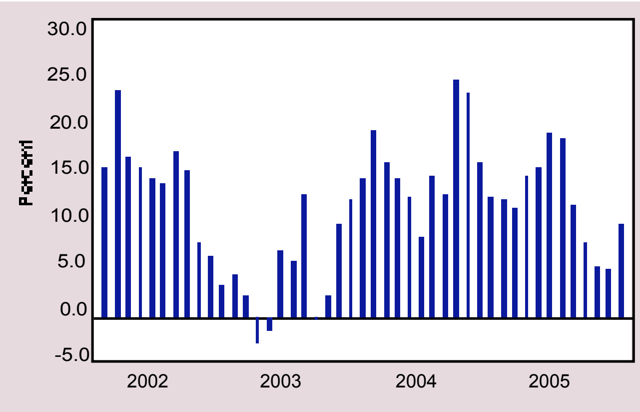
3.1 MONEY SUPPLY

During the first half of 2005, the growth in money supply slowed slightly, moving from an average 14.9 percent, year-on-year, during the first six months of the preceding year to 14.3 percent during the first half of 2005. This slow growth had been mainly caused by a decline in the net foreign asset position of the banking system. Net foreign assets recorded an average decline of 17.2 percent during the first six months of 2005, although this was an improvement when compared to a drop of 30.8 percent during the corresponding period of the preceding year.

The slow growth during the first half of the year continued during the second half of 2005. Growth in the money supply decelerated during the second half of the year to a year-on-year average of 9.7 percent from 16.7 percent during the same period of 2004. As previously, the position of net foreign assets of the banking system had been the main impetus for this slow growth. Net foreign assets had declined by a significant 79.5 percent during the second half of the review period, far down from a drop of only 3.7 percent recorded during the second half of the preceding year. Other items net and the claims on the other sectors, also contributed to the slow growth in money supply during the second half of the year of 2005, recording a slow growth of 20.7 percent[20] and 18.8 percent from 29.4 percent and 20.9 percent, respectively.

The above developments led to an average, year-on-year, slow growth of 11.9 percent in M2 in 2005, compared with the increase of 15.8 percent during the preceding year (Chart 3.1).

Chart 3.1 Twelve-Month Growth Rates in Broad Money Supply



In terms of composition, the share of currency in circulation in total money supply during the year 2005, remained stable at 3.9 percent, while the share of transferable deposits in money supply, declined to 50.25 percent from 56.4 percent during the corresponding period. The share of other deposits in total money supply, on the other hand, had increased to 45.8 percent during 2005, from 39.6 percent at the end of 2004. An assumption could, therefore, be made that the preference for liquidity on the part of the public had declined slightly during the year. This could be an indication that the public might have preferred to fix an investment rate in anticipation of a further decline in deposit rates, given the prevailing lower interest rates.

The financial deepening ratio, which was measured as broad monetary liabilities over the Gross domestic product, had increased during 2005. The ratio had increased from 87.5 percent in 2004 to 96.1 percent during 2005, meaning that there had been an improvement in financial intermediation in the country.

3.1.1 Net Foreign Assets

The decline in the net foreign assets of the depository corporations had slowed during the first half of 2005, following the same trend of the preceding year. The decline in net foreign assets had slowed to an annual average of 17.2 percent during the first half, compared with that of 30.8 percent during the same period of the preceding year. The driving force behind the slowing down during the first half of 2005 had been the improvement in the foreign assets of the other depository corporations. This improved net foreign assets position had, however, worsened during the second half of 2005, registering a huge decline of 79.5 percent when compared with a marginal decline of 3.7 percent during the corresponding period of the previous year. The worsening net foreign assets position during the second half had been caused by the turnaround in the net foreign assets to net foreign liabilities due to increasing net foreign liabilities of other depository corporations by 112.5 percent while Bank of Namibia's net foreign assets only increased slightly by 0.3 percent. As a result of the above developments, the average annual decline in net foreign assets for the year 2005 had been 48.3 percent, compared with a decline of 18.1 percent during 2004. The developments in the net foreign assets reflect a continued deficit in the balance of payments situation as elaborated in Chapter 2 of this report.

3.1.2 Net Domestic Claims

The average annual growth rate of net domestic claims, comprising those of the other sectors and the net claims on the Central Government had increased considerably by 4.4 percentage points to 20.3 percent during the first half of 2005, compared with that of 15.9 percent during the corresponding half of the preceding year. This increase in the net domestic claims during the first half had been reflected in the increase in both components, viz the net claims on the Central Government and the claims on the other sectors. The increase in the net domestic claims had, however, slowed slightly during the second half of the year to

20 The above mentioned slow growth in other items net came as a result of an increase in other liabilities, i.e. other accounts payable of the depository corporations.

20.2 percent from 22.0 percent during the same period of the preceding year. When this was compared with the first half of the year, the claims on the other resident sectors had grown faster by 0.7 percentage points, to reach 20.2 percent during the second half of the year. Consequently, the average growth rate of net domestic claims for 2005 had increased to 20.2 percent from the 19.0 percent recorded in 2004. The rising net domestic claims augured well for the economic development. In terms of shares, the other sectors had taken up 94.5 percent of the total net domestic claims, with the remaining 5.5 percent going to the Central Government.

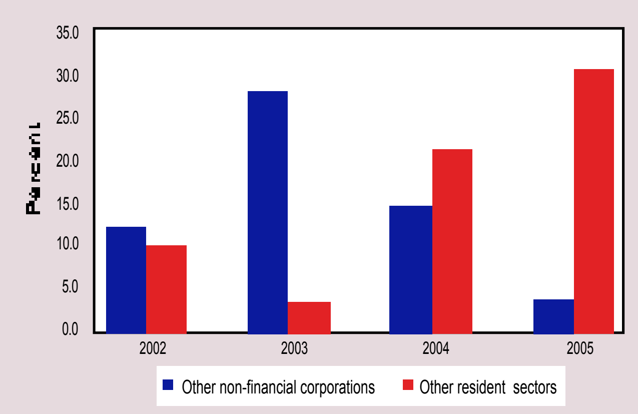
The increase in the net domestic claims during the first half of 2005 had been brought about by an increase in both components. The net claims on the Central Government had increased significantly by 177.0 percent during the first half of the year compared with a much smaller increase of 19.4 percent during the same period of the preceding year. During the second half of the year, however, growth in the net claims on the Central Government had slowed to 63.7 percent. The comparative growth rate for the same period of the preceding year was 40.6 percent. As a consequence of these developments, growth in the net claims on the Central Government had remained considerably higher at 120.4 percent during 2005, compared with an average increase of 30.0 percent during the previous year. The developments in the net claims on the Central Government could be attributed to the increase of 37.7 percent observed in the securities other than shares (T-bills) with the other depository corporations.

The claims on the other sectors had also recorded an increase to 19.4 percent during the first half of 2005 from 15.4 percent during the corresponding period of the preceding year. These had then slowed slightly to 18.8 percent during the second half of the year, compared with 20.9 percent recorded during the corresponding period of the previous year. This had resulted in an increase in the average annual growth rate of 19.1 percent in 2005 from 18.1 percent during the previous year. The increase in the claims on the other sectors during the year could have been ascribed to the environment of low interest rates.

The rise in the claims on other sectors had been reflected in the claims on the other resident sectors (individuals). The annual growth rate of claims on the other resident sector had risen to an average of 24.1 percent during the first half of 2005, compared with an average of 10.9 percent registered during the corresponding period of the preceding year. During the second half of 2005, the pace of claims on other resident sectors had risen further to 27.8 percent, compared with an average growth rate of 29.2 percent during the corresponding period of the preceding year. As a result, the average annual growth rate of the credit extended to the other resident sectors had stood at 25.9 percent during 2005, higher than the 12.9 percent during the previous year. This increase in the growth rate of the claims on the other resident sectors,sectors could have been attributed to the eased monetary stance which had prevailed during 2005. On the contrary, growth in the claims on non-financial corporations (businesses) had slowed to 7.4 percent during the second half of 2005 from 10.3 percent recorded during the first half. The comparative rates for 2004 were 29.2 percent during the second half and 37.3 percent during the first half, respectively. Consequently, the average growth in claims on the non-financial corporations had slowed significantly to 8.9 percent during 2005 from 33.2 percent in 2004 (Chart 3.2). The slow growth, in terms of credit extension to non-financial corporations could be clearly explained by the slowdown in the economic activities, which was reflected in a slower GDP growth rate relative to the preceding year, as discussed under the Real Sector Section of this report.

In summary, the private sector credit from the other depository corporations had remained robust during 2005. The analysis had, however, revealed that a greater proportion of the credit continued to be directed to individuals, implying that consumption credit would crowd out credit to businesses. This does not augur well for the long-term growth of the economy.

Chart 3.2 Claims of Other Depository Corporations



An analysis of claims on the other sectors by type had shown an increase in all types. The other loans and advances[21] had increased significantly with 70.7 percent during the first half of 2005, compared with a massive decline of 58.5 percent during the corresponding period of the previous year. Similarly, installment sales had risen by 21.7 percent during the first half of the year and had remained more or less constant thereafter, registering 21.6 percent during the second half of the year. The comparative growth rates for the corresponding period of the preceding year were 17.4 percent for the first half and 20.9 percent for the second half. In the same way, the average annual growth rate for mortgage loans had remained constant at 19.0 percent, both during the first half and the second half of 2005. This compared with a 52.4 percent during the first half and 18.4 percent during the second half in 2004.

Composition-wise, the category mortgage loans had accounted for 44.6 percent of the claims on the other sectors, followed by the categories overdrafts, installment credit and other loans and advances, with 19.1 percent, 16.1 percent and 15.6 percent, respectively. The comparative shares for these categories in the corresponding period of the previous year had been 44.6 percent for mortgage loans, 15.9 for other loans and advances and 15.6 percent for installment credit, respectively. The remaining share of 4.9 percent had gone to the categories leasing and others. This implied that although its portion had declined, a larger share of bank lending to the other sectors was still directed to property financing, while only a smaller proportion had gone to the more productive activities. This does not augur well for the growth of the economy.

In terms of sectoral distribution, other resident and other sectors, (56.7 percent) had continued to take the major share of the total claims on the other sectors by depository corporations during 2005, followed by the commercial and services sector (29.9 percent). The comparative shares for 2004 had been 56.3 percent for other resident and other sectors and 26.8 percent for commercial and service sectors, indicating marginal increases for 2005. The combined credit was extended to the building and construction as well as to the, fishing, agriculture and manufacturing sectors and constituted the remaining 13.4 percent of the total depository corporation claims, down from the 16.9 percent recorded during the previous year.

Viewed by sector, the strongest growth in the claims on the other sectors during the year had been recorded in the fishing, mining and quarrying and the commercial and services sectors, registering increases of 46.6 percent, 42.1 percent and 39.9 percent respectively, in 2005 compared with a decline of 7.5 percent in the fishing sector and increases of 23.1 percent and 28.4 percent in the mining and quarrying and the commercial and services sector during the previous year. This increase in credit to the fishing sector could mean that this sector was still struggling, as had been confirmed by the development under the Real Sector Section of this report. Similarly, the credit extended to the agricultural sector had risen by 35.1 percent as against an increase of 29.8 percent in the agricultural sector during the corresponding period of the previous year. The developments in the agricultural sector could be explained by the good performance of this sector as indicated under the Real Sector Section of this report. Growth in credit which had been extended to the building and construction sector and the manufacturing sector, had declined by

21 This category is made up of personal loans and student loans extended to other resident sectors and to non-residents as well as preference shares (personal loans) extended to other non-financial corporations.

a significant 76.0 percent and 3.7 percent, respectively, during 2005, compared with an increase of 39.9 percent and a decline of 6.9 percent, respectively, during 2004 (Chart 3.3 (a) (b)). This decline in the credit extension to the building and construction sector could be attributed to the good performance of the sector, as described under Chapter 1, and which could have led to less borrowing by businesses.

Chart 3.3 (a) Direction of ODC Credit, 2005

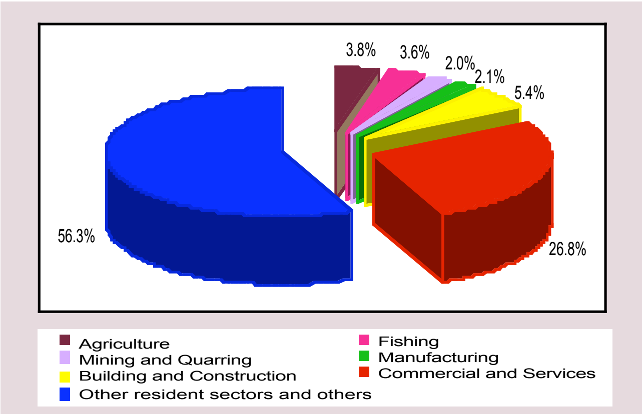
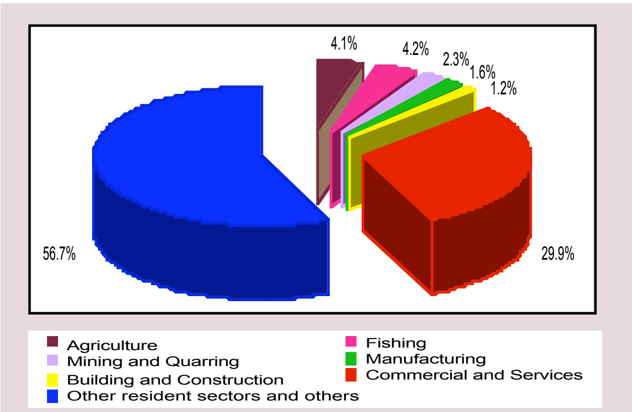


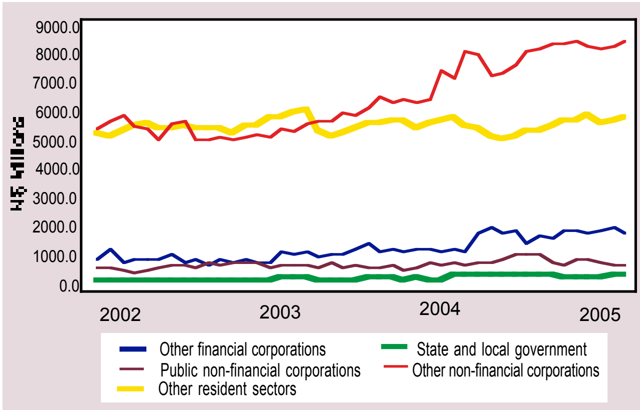
Chart 3.3 (b) Direction of ODC Credit, 2004



3.2 OTHER DEPOSITORY CORPORATIONS SOURCES OF FUNDS

The total deposits, included in broad money, held by the other depository corporations had increased to N$16.6 billion by the end of 2005, compared with N$15.2 billion deposits mobilized at the end of the preceding year (Chart 3.4). Deposits from other non-financial corporations had remained the biggest component of deposits of other sectors with the other depository corporations. The share of the other non-financial corporations had increased by 13.1 percentage points from 46.5 percent during the preceding year to 59.6 percent during 2005. The share of other resident sectors had increased significantly, moving to 40.4 percent during 2005 from 33.2 percent during the corresponding period of the preceding year (Chart 3.4).

Chart 3.4 Deposits of ODCs by Sectors



The deposits mobilized from the financial sector (other financial corporations) had remained constant at 12.8 percent for both reporting periods of 2004 and 2005. The Central Government deposits had declined by 10.7 percent during 2005 to N$311.8 million from N$349.2 million during 2004. This category had represented 2.2 percent of the total deposits of other depository corporations.

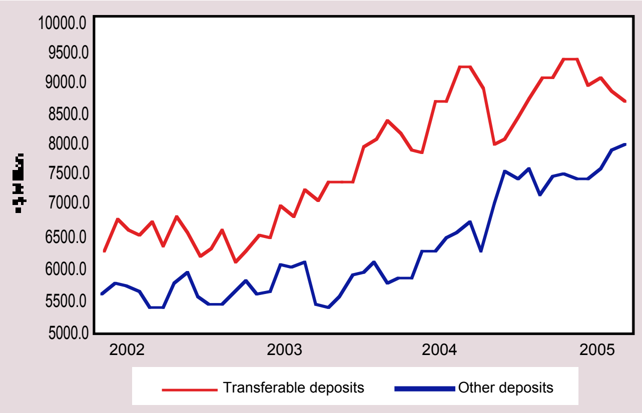
The expansion in the deposits, included in broad money, of other depository corporations during the year 2005, was mainly accounted for by other deposits, recording an increase of 27.2 percent compared with that of 12.8 percent in the preceding year. The growth of transferable deposits had fallen to 2.3 percent from an increase of 19.2 percent during the previous year. In terms of composition, the share of transferable deposits had declined to 52.3 percent during 2005 from 57.6 percent at the end of 2004. As a result, the share of other deposits had increased slightly to 45.2 percent from 42.4 percent during the same period of review.

The total deposits excluded from broad money supply[22] had increased significantly from N$2.4 billion at the end of 2004 to N$3.9 billion at the end of 2005. This had come as a result of an increase in both transferable and other deposits in foreign currency, which had risen from N$190.6 million to N$580.0 million and from N$0 to N$627.2 million, respectively. The share of total deposits excluded from the money supply in the total deposits increased from 13.8 percent at the end of 2004 to 19.0 percent during 2005.

As a result of the above developments, the total deposits of the other depository corporations had increased from N$17.6 billion in 2004 to N$20.5 billion in 2005, indicating a growth rate of 16.3 percent. There seems to have been a turnaround in the trends observed since 1998 in terms of transferable and other deposits. Recent trends show that the share of transferable deposits was declining and that of other deposits was picking up, although this was still lower than that of the transferable deposits. It was however, puzzling that in the prevailing environment of low interest rates, other deposits (savings) were increasing. The opposite was expected, as liquidity is normally preferred when interest rates are low.

Two conclusions could be made from the above analyses. Firstly, depository corporations have been raising a larger portion of deposits from non-bank financial corporations in comparison with deposits from individuals. Secondly, demand deposits have continued to dominate the deposits of the depository corporations, although during 2005, the proportion of other deposits had increased. In this regard, it is important to note that deposits from corporations were relatively more volatile than those of individuals, as the former were mainly held by corporations as working capital. A heavy reliance on demand deposits also reduced the stability of funding for depository corporations as these types of deposits were more liquid than other deposits. This would complicate liquidity management for banks.

Chart 3.5 Year-on-Year Change in Deposits of ODCs by Type



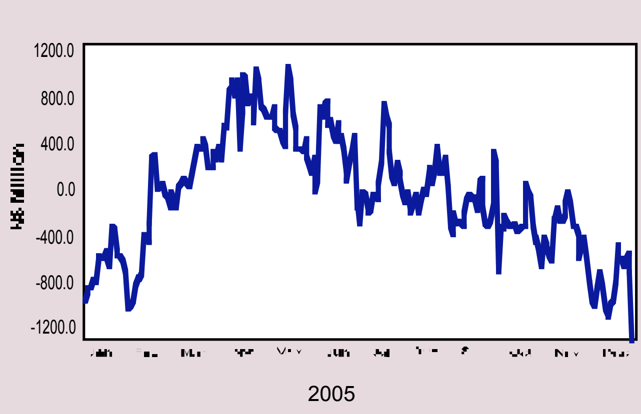
3.3 LIQUIDITY OF THE BANKING SYSTEM

The overall liquidity position of the other depository corporations (commercial banks), which consisted of their position with the Bank of Namibia as well as their position on liquid accounts in South Africa, had displayed mixed developments throughout the year 2005. The ODCs had experienced an average overall liquidity shortage of N$647.7 million in January 2005, which had improved constantly until April, when an average overall liquidity surplus of N$695.3 million (Chart 3.6) was reached. From there on, the average monthly liquidity position had declined, but was still positive until July 2005 (N$68.2 million), before recording a shortage for the months which followed. The overall liquidity position was highly dominated by the position in South Africa, which ranged between a

22 The deposits excluded from broad money supply consist of deposits of Depository Corporations, Central Government and those of non-residents.

positive N$1,004.5 million and a minus N$994.0 million, whereas the position of commercial banks with the Bank of Namibia had fluctuated between a shortage of N$367.6 and a surplus of N$78.0 million, displaying a rather stable behaviour.

Chart 3.6 Overall liquidity position of ODCs



Commercial banks had recorded an average monthly shortage with the Bank of Namibia for all the months of the year, except May 2005. This shortage was caused to a great extent by the net outflow of the Rand to South Africa, draining liquidity from the banking system. Another factor which contributed to the shortage was a gradual increase of currency in circulation, while the decreasing state account balance supplied liquidity to the market. The shortage was reflected in an on-going low settlement of account balances and a high volume of repo transactions. The underlying reasons for changes in the accounts of commercial banks in South Africa could however, not be fully explained as they depended on developments in South Africa. The consolidated position of commercial banks in South Africa had recorded a high surplus between March and May 2005 coming, however, from a shortage of close to N$1 billion during January and February 2005. A gradual decline of the position had been observed after May, leading to average monthly shortages towards the end of the year from September through to December 2005.

To sum up, commercial banks in Namibia had generally experienced a liquidity shortage for the greater part of 2005, which had mainly been financed by loans from their parent companies. This implied that a certain part of the loan books of the banks had been financed by foreign loans, as opposed to the financing of the whole book with domestic deposits. Whether or not this situation was desirable depended on the relative cost of these two sources of funds. Although the Bank continues to monitor the liquidity situation in the banking sector, it is not concerned about this development at present.

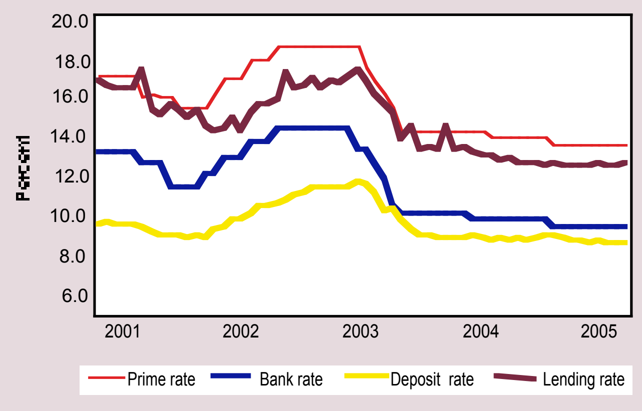
3.4 MONEY MARKET DEVELOPMENTS

The Bank of Namibia uses the bank rate to signal its monetary policy stance. Changes in the bank rate are reflected in the interest rate developments. On 16 April 2005, the Bank of Namibia had reduced the bank rate by 50 basis points to 7.00 percent per annum. This cut had been necessitated by economic conditions in the country, with a particular emphasis on the inflationary outlook.

Other depository corporations had adjusted their interest rates in line with the changes in the Bank rate. Thus, the nominal average prime-lending rate of other depository corporations had moved from 12.25 percent in March 2005 to 11.75 percent in April and had remained unchanged for the remainder of 2005. Following the drop in bank rate in April 2005, other depository corporations had also adjusted their nominal average mortgage rates to 12.00 percent from 12.25 percent in March 2005.

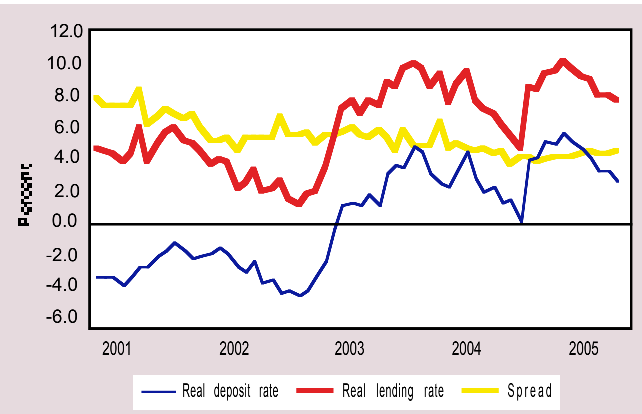
Interest rate charged on loans and advances (average lending rate) by other depository corporations, had fallen from 10.68 percent at the beginning of the year to 10.52 percent in June, before rising to 10.78 percent in December 2005. In contrast, interest rates paid on deposits (average deposits) by other depository corporations had moved from 6.18 percent at the beginning of the year to 6.21 percent in June 2005, before falling to 5.99 percent in December 2005. The nominal spread between the lending and deposit rates had accordingly, fluctuated from 4.50 percent at the beginning of the year to 4.31 percent in June 2005, before increasing to 4.79 percent in December 2005, in accordance with the increasing lending rate and the declining deposits rates. The increase observed in deposit rates in June of 2005 was, however, puzzling as a healthy liquidity position had prevailed during that period. Expectations were, that during periods of a liquidity squeeze, ODCs would increase deposit rates to cater for the shortages. The opposite would apply when there was an excess liquidity.

Chart 3.7 Selected Interest Rates (Namibia)



The average real rate of interest on lending had remained positive throughout 2005, rising from 5.23 percent in December 2004 to 9.53 percent in June 2005, before falling to 7.14 percent in December 2005. Similarly, the average real rate of interest on deposits had also followed the same trend; rising from 1.41 percent in December 2004 to 5.26 percent in June 2005 before falling to 2.50 percent in December 2005. This trend which had been observed in the real deposit rates had come as a result of a decline in nominal deposit rates as well as an upward movement in the inflation rates, especially the rate which had been recorded at the end of December 2005.

Chart 3.8 Selected Real Interest Rates



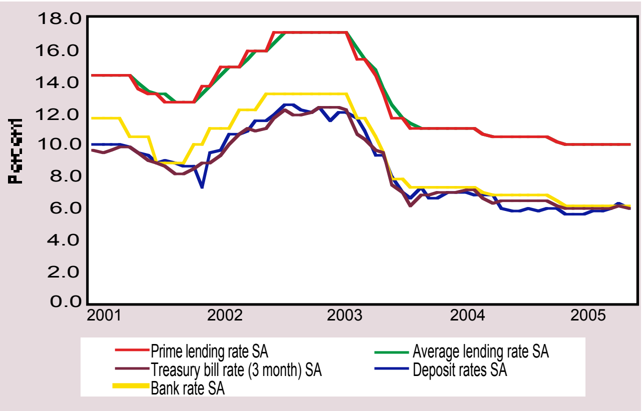
Low interest rates had also been reflected in the cost of government borrowing. The average effective yield of maturities of 91 day T-bills at the primary auction had fallen from 7.49 percent at the end of 2004 to 6.91 percent in June 2005; before it rose to 7.01 percent in December 2005. In the same way, the average effective yield of 182 day T-bills at the primary auction had declined from 7.86 percent at the end of 2004 to 7.22 percent in June 2005 and had then risen to 8.56 percent by the end of December 2005. Similarly, the average effective yield of the 365 day T-bills had fallen from 8.52 percent at the end of 2004 to 7.85 percent in June before increasing to 10.24 percent at the end of December 2005.

The close link between the Namibian economy and the South African economy, mainly due to the CMA membership, made a comparison between the two economies necessary. The repo rate in South Africa, which is equivalent of the Bank rate in Namibia, had also declined during the year 2005. The repo rate had fallen by 50 basis points to 7.00 percent in April 2005 after having remained at 7.50 percent since the beginning of the year. Subsequently, the average prime lending rate and the average lending rate had declined by 26 basis points to 10.50 percent in June from 11.00 percent in January 2005.

The South African deposit rate increased slightly from 6.72 percent in January to 6.75 percent in December 2005. The nominal spread between the average lending rate and deposit rate had declined, moving from 4.28 percent at the beginning of the year to 3.75 percent in December 2005. A close observation of these rates had revealed that the average prime and average lending rates of other depository corporations in Namibia were higher than those of their counterparts in South Africa, while the Namibian deposit rates were lower than the South African deposit rates. As a result of the developments in the rates of the two countries, the spread between the Namibian average prime lending rate and its South African counterpart rate had remained unchanged at 1.25 percent at the end of December 2005, while the spread between the deposit rates of the two countries, had risen to 1.04 percent at the end of December 2005, from 0.35 percent recorded at the end of 2004.

This information indicated similar movements in the spread between the lending and deposit rates of South Africa and the lending and deposit rates of Namibia.

Chart 3.9 Selected Interest Rates (RSA)



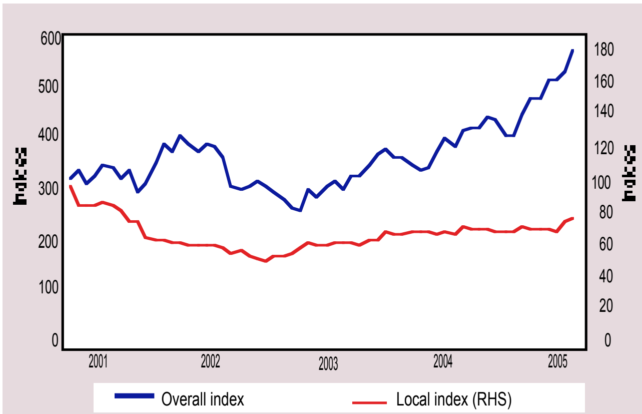
The accommodative monetary policy stance that had prevailed in South Africa was also reflected in the cost of government borrowing in that country. The effective yield for the 91-days treasury bills in South Africa had fallen from 7.29 percent in January to 6.74 in December 2005 (Chart 3.9).

3.5 Capital Market Developments

The performance of the capital market had been rather mixed throughout 2005 as reflected in the trends witnessed on the Namibia Stock Exchange (NSX). Dual listed companies performed relatively better than the locally listed companies. The overall price index had increased from 425 points at the beginning of the year to 450 points in June, before rising substantially to 581.68 points at the end of December 2005 (Chart 3.10). As a result, the overall market capitalization had risen from N$577.2 billion in January to N$594.7 in June and again to N$769.59.3 billion in December 2005. In the same way, the liquidity position of NSX had improved considerably. Judging from the total value traded, the overall turnover had also risen from N$152.0 million in January to N$287.9 million in June and again to N$324.83 million by the end of December 2005. This could have been reflective of the prevailing low interest rates, as a good performance had been witnessed in equity prices of the financial and retail sectors which were interest rate sensitive.

Similarly, the locally listed stocks also recorded upward movements throughout 2005. The local price index had risen slightly from 66 points at the beginning of the year to 67 points at the end of June 2005, before increasing significantly to 72 points at the end of December 2005 (Chart 3.10). As a result, the local market capitalization had also moved upwards during the same period, increasing slightly from N$2.4 billion at the beginning of the year to N$2.5 billion at the end of June 2005 before rising again to N$2.6 billion at the end of December 2005. The increase in the local market capitalization could be attributed to the gain of value in share prices of some companies toward the end of the year. The liquidity in terms of value traded fluctuated during the same period, expanding from N$0.7 billion at the beginning of the year to N$6.6 billion in June, before declining to N$6.5 billion by the end of December 2005.

Chart 3.10 NSX Price Indices

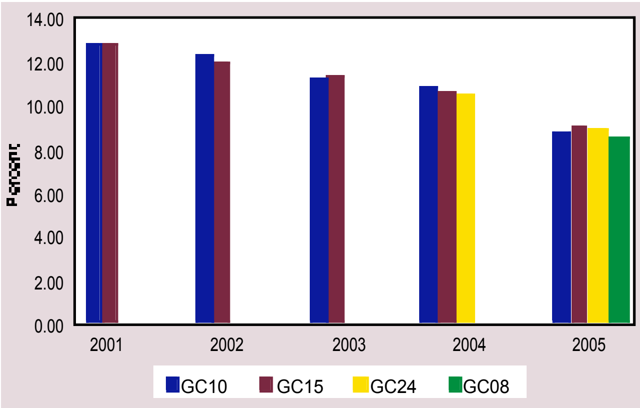


The financial sector (N$354.6 billion) and the mining sector (N$319.6 billion) had continued to dominate the overall market capitalization during 2005. The retail and industrial sectors had accounted for N$49.22 billion and N$34.34 billion of the overall market capitalization, respectively. The contribution of the fishing sector was minimal, at only N$1.8 billion. The financial sector had also dominated the local market capitalization (N$2.2 billion) followed by the retail sector at N$80.0 million. The industrial sector had accounted for N$32 million while the fishing sector had accounted for N$2.0 million of the local market capitalization.

Government Bond Yield

The effective yield for all bonds on issue, namely the GC08, GC10, GC15 and GC24 had declined during the year under review. The effective yield for GC08, which had been issued for the first time in February 2005, had declined from 9.66 percent in February to 8.40 percent in December. In the same way, the effective yield for GC10 had fallen from 10.79 percent at the beginning of the year to 8.61 percent by December 2005. The falling trend had also been observed for the GC15 and GC24. The effective yield for GC15 and GC24 had declined to 9.21 percent and 9.19 percent, respectively in December 2005 from 10.54 percent and 10.33 percent, respectively at the beginning of the year (Chart 3.11). The declining effective yields on all Government consolidated bonds had been in line with the lower money market interest rates environment which had prevailed throughout the year.

Chart 3.11 Government Bond Yield



BOX B: REVISION NOTICE: MONETARY AND FINANCIAL STATISTICS

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

In June 2003 the BoN adopted the latest international manual for Monetary and Financial Statistics compilation: the IMF Monetary and Financial Statistics Manual 2000. During the implementation stage which was done in conjunction with the Other Depository Corporations (ODCs), it was realized that some items where misclassified and which resulted in some inconsistencies in some data categories. One example of such inconsistencies was observed in the inter-bank asset/liability positions as well as those between the ODCs and the BoN. This has necessitated a major revision of the statistics, the results of which is to be published in the June 2006 Quarterly Bulletin of the Bank of Namibia. Further, the changes will bring the Monetary and Financial statistics in line with the new manual. Data will be revised back to June 2003 to account for the required changes. The revised data will be clearly identified and information will be provided on what necessitated such revisions.

CHAPTER 4. PUBLIC FINANCE[23]

The 2004/05 financial year had realized a budget deficit of 3.6 percent of the GDP, which was lower than the 7.2 percent noted during 2003/04[24]. The actual outcome during 2004/05 was, however, higher than the 1.7 percent which was estimated in the main budget. This was the result of lesser revenue collected than the estimate in the main budget for 2004/05, while, Government spending was contained over the same period. The budgetary operation for the Central Government during 2005/06 was estimated to improve towards a lower budget deficit of 1.1 percent on the back of a tightening Government expenditure.

The joint initiatives of the Ministry Finance and the Bank of Namibia had led to the obtaining of a credit rating of BBB-(long-term foreign currency) for Namibia, during the year under review. This rating has augured well for the economy of the country, in terms of bond and equity market developments and increasing flows from foreign direct investments. Further details about the rating process and its outcome for Namibia, are presented in Box 4.1.

4.1 REVENUE AND GRANTS

The actual total revenue and grants for the Central Government during 2004/05 had increased significantly by 17.0 percent, to stand at N$11.4 billion from N$9.8 billion during the previous year (Table 4.1 and Chart 4.1). The reason for this trend was mainly the increases in SACU receipts and taxes from diamond mining companies. There was also a slight increase in the estimated Central Government revenue and grants which were expected for the year 2005/06. The total revenue and grants for 2005/06 is estimated to increase by 7.9 percent to N$12.3 billion from N$11.4 billion in 2004/05. This is largely expected to be on the back of a brisk performance by taxes on domestic goods and services and which was partly on account of the introduction of tax audits during 2005/06. The tax audit is expected to, amongst others, enhance tax collection especially VAT revenue, strengthen tax administration and encourage compliance among tax payers. In addition, the extra SACU revenue from the adjustments and residual receipts of the old sharing formula showed a strong performance. This additional SACU revenue was received during August and October 2005, while the remaining balance for the 2005/06 was expected in January 2005/06. In relation to the GDP, the estimated revenue and grants for 2005/06 are expected to be slightly lower at 30.0 percent against 30.6 percent during 2004/05.

The taxes on income and profits were expected to be the major source of total revenue and grants at 35.5 percent during 2005/06 financial year, slightly higher than the 35.2 percent registered during 2004/05. The second largest source of revenue would be the taxes on international trade and transactions, consisting mostly of SACU receipts, and would account for 33.2 percent of the total revenue and grants. This was, however, lower than the 36.8 percent obtained in the previous fiscal year. The other major contributor was the domestic tax on goods and services, contributing up to a 24.6 percent share of the total revenue from 18.0 percent over the same period. The increase in this category was attributed primarily to a rise in VAT revenue which was projected to increase, following Government efforts to increase measures to expand the tax base and reduce tax evasion among the existing tax payers.

The total actual non-tax revenue stood at N$890.8 million during 2004/05, accounting for 7.8 percent of the total revenue and grants. The share of non–tax revenue is, however, estimated to have declined to 6.9 percent during 2005/06. The main contributors to the decrease in the actual non-tax revenue during 2004/05 were the sub-categories entrepreneurial and property, and administration fees and charges, accounting for a combined staggering 94.0 percent of total non-tax revenue.

23 All the estimates on the budgetary developments in this section are done by MoF.

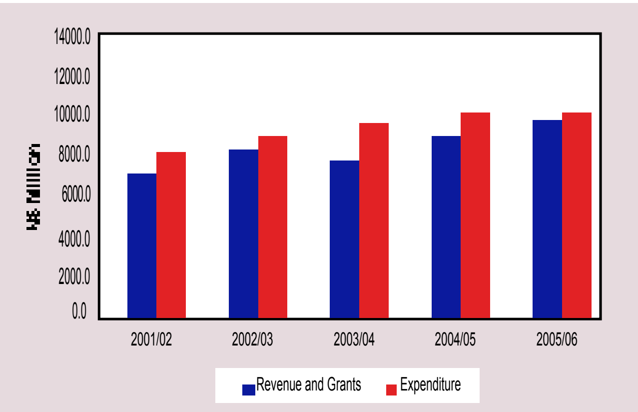
24 Budgetary developments are compiled on the fiscal year basis that starts on 1 April of the current year to 31 March of the next year.

Table 4.1 Revenue Components (N$ Millions)

REVENUE COMPONENTS	Actual 2001/02	Actual 2002/03	Actual 2003/04	Actual 2004/05	Estimate 2005/06
Taxes on income and profits	3285.6	4442.3	3618.5	4024.0	4385.9
As % of GDP	11.7	13.4	10.5	10.8	11.0
Taxes on property	64.1	79.3	75.2	86.0	100.1
As % of GDP	0.2	0.2	0.2	0.2	0.2
Domestic taxes on goods and services	2107.4	2135.7	1950.8	2057.1	3041.9
As % of GDP	7.5	6.4	5.6	5.5	7.4
Taxes on international trade	2641.2	2596.9	3035.6	4207.0	3728.8
As % of GDP	9.4	7.8	8.8	11.2	9.1
Other taxes	67.6	75.6	82.8	94.0	98.1
As % of GDP	0.2	0.2	0.2	0.3	0.2
Non-tax revenue	757.1	1121.1	970.5	890.8	846.4
As % of GDP	2.7	3.4	2.8	2.4	2.1
Grants	58.1	34.4	34.2	70.4	153.2
As % of GDP	0.2	0.1	0.1	0.2	0.4

Source: MoF

Chart 4.1 Total Revenue and Grants, and Expenditure



Source: MoF

4.2 EXPENDITURE

The actual total expenditure for the Central Government stood at N$12.8 billion in 2004/05, higher by 4.2 percent over the previous fiscal year (Table 4.2). This was attributed to the rise in both the current and capital expenditure by 4.2 percent and 4.7 percent, respectively. As a ratio to the GDP, the total actual expenditure stood at 34.2 percent during 2004/05, slightly lower than the 35.4 percent for 2003/04. It should be noted that this ratio was still above the expenditure target of 30.0 percent of the GDP set-out in the medium term expenditure framework.

The estimated expenditure for 2005/06 showed an increase of 0.3 percent over the actual expenditure for 2004/05. The estimated current expenditure formed a greater part of the total expenditure of the Central Government, representing more than 80.0 percent. Capital expenditure, on the other hand, is expected to decline by 4.5 percent. In relation to the GDP, current expenditure is expected to stand at 26.8 percent in 2005/06, lower than the 28.9 percent in the preceding fiscal year. Capital expenditure, on the other hand, would amount to 4.4 percent, slightly lower than the 5.3 percent in 2004/05. The main reason for the estimated slight increase in the current expenditure was the rise in the expenditure on subsidies and other current transfers, and statutory expenses which were budgeted to increase by 7.9 percent and 10.2 percent, compared with increases of 1.8 percent and 4.4 percent, respectively.

Personnel expenditure also would contribute to the increase in the total current expenditure in 2005/06, moving upwards by 0.1 percent, compared with the strong growth of 8.0 percent experienced during 2004/05. The share of personnel expenditure to total current expenditure was, however, estimated to decline marginally to 49.8 percent from 50.8 percent during 2004/05. As a percentage of GDP, personnel expenditure was estimated at 13.5 percent for 2005/06 compared with a higher ratio of 14.8 percent in 2004/05. The category subsidies and other current transfers were budgeted to increase by 7.9 percent during 2005/06 and similarly, its share to the GDP to 6.0 percent from the 6.1 obtained in 2004/05. The statutory expense was also estimated to increase to 2.8 percent of the GDP during the same period, slightly higher than the 2.7 percent realised during the previous year.

Table 4.2 Government Expenditure (N$ Millions)

ITEMS	Actual 2001/02	Actual 2002/03	Actual 2003/04	Actual 2004/05	Estimate 2005/06
Total Current Expenditure	8674.7	9503.0	10448.3	10786.0	11006.0
% of GDP	30.8	28.7	30.2	28.9	26.8
Statutory	602.7	907.6	996.0	1040.2	1146.8
% of GDP	2.1	2.7	2.9	2.7	2.8
Total Capital Expenditure	1627.7	1895.7	1796.9	1984.5	1796.9
% of GDP	5.8	5.7	5.2	5.3	4.4
TOTAL EXPENDITURE	10302.4	11398.7	12245.2	12770.5	12802.9
% of GDP	36.6	34.4	35.4	34.2	31.1

Source: MoF

Looking at Government expenditure in terms of functional classification, educational affairs and services still took up the largest share of total spending at 20.0 percent in 2005/06, although this was lower than the 20.8 percent obtained during 2004/05 (Table 4.3). This was followed by the general public service which was expected to account for 12.7 percent, lower than the 13.8 percent during 2004/05. The share of health affairs and services had increased to 9.9 percent of the main budget during 2005/06, from 9.3 percent during the previous fiscal year. Defence affairs and services were expected to increase from 8.7 percent in 2004/05 to 9.5 percent in 2005/06. The social security and welfare would also increase to 8.5 percent during 2005/06 from 8.2 percent in 2004/05, whilst housing and community amenity affairs and services were budgeted to expand from 8.1 percent to 9.1 percent in fiscal year 2005/06. This showed the on-going commitment of the Government towards its social responsibilities and the improvement of the standard of living of the Namibian people.

Table 4.3 Summary of Expenditure by functional Classification (percentage)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
General Government Services	**32.3**	**33.3**	**36.3**	**32.5**	**31.6**	**31.3**
General Public Services[25]	15.7	17.6	18.8	14.9	13.8	12.7
Defense	7.3	7.3	8.3	8.1	8.7	9.5
Public Order and Safety	9.3	8.4	9.2	9.4	9.1	9.1
Community and Social Services	**49.7**	**49.5**	**48.1**	**49.8**	**48.3**	**49.9**
Education	23.3	21.3	21.0	21.6	20.8	20.0
Health	11.0	10.0	9.7	9.8	9.3	9.9
All other	15.4	18.2	17.4	18.3	18.2	20.0
Economic Services[26]	**11.7**	**10.6**	**7.0**	**10.5**	**10.7**	**9.8**
Expenditure not classified	**6.3**	**6.6**	**8.5**	**7.2**	**9.4**	**9.0**
TOTAL EXPENDITURE	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: MoF

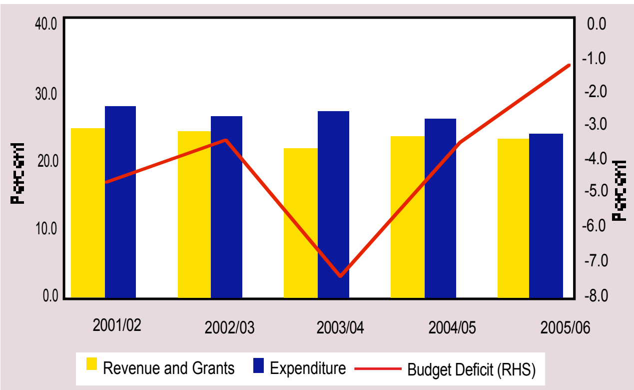
25 This includes those activities required for the Government of the country that cannot be associated with services to persons or to business. It includes overall fiscal services, defensive activities, public order and safety, etc.

26 Covers services rendered by the Government to industries for economic development, employment opportunities, research, etc.

4.3 BUDGET DEFICIT AND FINANCING

The actual budget deficit for the 2004/05 financial year had improved to N$1.3 billion, down from the N$2.5 billion noted during 2003/04. This represented 3.6 percent of the GDP, lower than 7.2 percent of the GDP recorded during 2003/04, but higher than the 1.7 percent estimated in the main budget. The estimated budget deficit during 2005/06 showed a further lower deficit of N$448.5 million, which was a great improvement of 66.6 percent from the actual deficit in the previous fiscal year. As a ratio to the GDP, the budget deficit was expected to decline to 1.1 percent in 2005/06 (Chart 4.2). The increase in the estimated total revenue was responsible for the decline in the estimated budget deficit which is to expand by 3.9 percent in 2005/06, whilst the total expenditure would increase by only 0.4 percent in the same fiscal year. This expected improvement in revenue would result from the measures of the Government to expand the tax base and reduce tax evasion among the existing tax payers. The deficit was financed with the issuance of Government securities.

Chart 4. 2 Budget Deficit, Expenditure and Revenue as percentage of GDP



Source: MoF

4.4 CENTRAL GOVERNMENT DEBT

The Central Government continued to finance its current expenditure from its own sources and the borrowing conducted for 2005 was mainly intended for capital and infrastructural developments. By end of December 2005, the stock of outstanding total debt had increased by 2.0 percent, lower than the strong expansion of 25.6 percent recorded during December 2004, to stand at N$12.8 billion (Table 4.4). The slowing down in growth of the total Government debt emanated mainly from the deceleration in the growth of the domestic debt. This was a result of the redemption of the GC05, which had matured during April 2005.

Similarly, the developments in foreign debt followed the same trend as the domestic debt, rising moderately over the same period. As a ratio to the GDP, the total Central Government debt fell to 31.3 percent from the 33.6 percent recorded at the end of December 2004.

Table 4.4 Central Government Debt (N$ Millions)

	Actual 00/01	Actual 01/02	Actual 02/03	03/04	04/05	Actual 05/06 Q1	Q2	Q3
Foreign Debt Stock	970.1	1,560.5	1,212.3	1,607.2	2,016.0	2,060.5	1,950.6	2,002.2
Bilateral	625.9	888.7	743.1	925.6	1,181.3	1,138.6	1,061.6	1123.1
As % of Total	64.5	56.9	61.3	57.6	58.6	55.3	54.4	52.2
Multilateral	344.3	671.8	469.2	681.6	834.7	922.0	889.0	877.2
As % of Total	35.5	43.1	38.7	42.4	41.4	44.7	45.6	47.8
Foreign Debt as % Export	10.6	15.9	10.7	10.9	13.6	13.9	13.2	13.5
Domestic Debt Stock	**4,731.3**	**5,946.9**	**6,712.1**	**8,606.1**	**10,543.0**	**10,435.1**	**10,464.1**	**10,844.0**
Treasury Bills	2,495.1	3,211.1	3,618.4	5,041.2	5,615.7	5,586.0	5,206.0	5,117.0
As % of Total	52.7	54.0	53.9	58.6	53.3	53.5	49.8	47.2
Internal Registered Stock	2,236.2	2,735.8	3,093.7	3,564.9	4,927.3	4,849.0	5,258.0	5,727.0
As % of Total	47.3	46.0	46.1	41.4	46.7	46.5	50.2	52.8
Other	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.0**	**0.0**	**1.0**
Total	**5,701.4**	**7,507.4**	**7,924.3**	**10,213.3**	**12,559.0**	**12,495.6**	**12,414.7**	**12,794.6**
Proportion of Total Debt								
Foreign Debt Stock	17.0	20.8	15.3	15.7	16.1	16.5	15.7	15.2
Domestic Debt Stock	83.0	79.2	84.7	84.3	83.9	83.5	84.3	84.8
In % of GDP								
Foreign Debt Stock	3.9	5.6	3.9	4.6	5.1	5.0	4.7	4.9
Domestic Debt Stock	17.9	20.1	21.3	24.5	28.5	25.4	25.4	26.4
Total	**21.8**	**25.7**	**25.2**	**29.1**	**33.6**	**30.4**	**30.1**	**31.3**

Source: BoN and MoF

4.4.1 Domestic Debt[27]

The strong expansion in the domestic debt witnessed during the past two years slowed significantly during 2005. The total domestic debt had increased by 1.6 percent to N$10.8 billion by the end of December 2005 from the rates of increase of 27.5 percent and 28.1 percent recorded for 2004 and 2003, respectively. These developments emanated mainly from the redemption of the GC05, which had matured during April 2005.

The proportion of the long-term dated instruments to total debt had risen to 51.0 percent at the end of December 2005 from 45.0 percent at the end of December 2004. This turnaround could be attributed to the Borrowing Plan of the Government for 2005/06 which was aimed at reducing the proportion of short-term Government debt and shifting these into long-term. This strategy focuses on smoothing out the maturity profile for the Government with reduced refinancing or rollover risk. This is achieved by financing the budget deficit with long dated instruments instead of short-term ones. This Plan bore fruit, as reflected in the falling of the short-term domestic debt to 49.0 percent as a proportion to the total domestic debt by the end of 2005, from a high of 55.0 percent in 2004.

In terms of the GDP, the level of the total domestic debt had declined from 28.5 percent of GDP at the end of December 2004 to 26.4 percent at the end of December 2005. This decline in domestic debt, as a ratio of GDP, was a positive development and augured well for the achievement of the thresholds as spelt out in the Debt Management Strategy[28].

27 Domestic debt recorded in nominal terms.

28 The objective of Sovereign Debt Management Strategy (SDMS) is to minimise the cost of government borrowing, consistent with an acceptable degree of risk. This strategy document is intended to serve as an action plan for managing the costs and risks associated with Namibia's sovereign debt. The SDM sets the benchmark on domestic debt at 20.0 percent of GDP.

4.4.2 External Debt[29]

The stock of external debt of the Central Government had increased slightly during 2005. The external debt rose moderately by 4.3 percent compared with a higher increase of 15.7 percent witnessed during 2004. This led to a total external debt amounting to N$2.0 billion by the end of 2005. It was worth noting that the current level of external debt of the Central Government was much lower when on-lending loans were excluded. Excluding on-lending loans, the external debt liabilities for the Central Government came down to N$1.5 billion, 23.1 percent lower than the initial stock, including on-lending foreign loans.

As was the case before, bilateral loans still formed the largest portion of the total foreign debt, accounting for 56.2 percent, although this was down from the 57.9 percent recorded during the preceding period. The share of multilateral loans was higher at 43.8 percent, from 42.1 percent at the end of December 2004. The reduction in bilateral loans was primarily caused by the repayments of some of the key bilateral creditors for Namibia. Traditionally, the larger proportion of multilateral loans was meant to be favourable to developing countries as this was delivered on concessional terms. Namibia had, however, taken a different route by deciding to borrow more from the bilateral creditors as these creditors provided concessional and interest free loans to the country.

Foreign debt declined as a ratio of the GDP to 4.9 percent by end of 2005 from the 5.1 percent realized by the end of the corresponding period of 2004. This was mainly a result of the real growth rate of the economy which was growing faster than the accumulation of foreign debt.

4.4.3 Currency Composition of External Debt

The currency composition of the external debt of the Central Government was skewed towards the Euro. This was, however, still safe for Namibia as the country earned most of its foreign assets from trading with the Euro area. By end of December 2005, the total outstanding foreign loans denominated in the Euro stood at 55.6 percent of the total external debt, up from 54.3 percent in the preceding period. Responsible for the increase in the Euro denominated loans the new disbursements for capital projects such as, the upgrading of airports and the construction of the fisheries surveillance vessels. The Rand continued to gain prominence as the second most important currency in the foreign portfolio of the external debt of the Namibian Government. This currency denominated debt had increased to 24.8 percent from 21.5 percent in 2004. The increase in Rand denominated loans augured well for the Government in reducing the exchange rate risk. The debt denominated in Chinese Yuan went down to 9.8 percent, lower than the previous level of 13.2 percent. The debt denominated in U.S Dollar had increased to 7.1 percent from 6.6 percent. Other currencies remained more or less the same at the end of the period under review.

Table 4.5 Currency Composition of External Debt (percentage)

Currency	Dec 2004	Dec 2005
Yuan Renminbi	13.2	9.8
Euro	54.3	55.6
Rand	21.5	24.8
USD	6.6	7.1
Other	4.4	2.7

Source: MoF

4.5 CENTRAL GOVERNMENT LOAN GUARANTEES

Total loan guarantees for the Central Government had contracted moderately during 2005. Loan guarantees had decreased by 0.7 percent during 2005 to N$2.5 billion from the level in 2004 (Table 4.6). The decline in the loan guarantees during 2005 was mainly caused by a decrease in the stock of domestic guarantees. Domestic guarantees contracted by 5.7 percent whilst foreign loan guarantees had risen by 5.2 percent at the end of 2005. This increase in foreign guaranteed loans was due to new issues that were made to secure foreign loans by the State Owned Enterprises during 2005.

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

As a ratio to GDP, total Government loan guarantees declined to 6.2 percent in 2005 from 6.8 percent during 2004 (Table 4.6). Domestic loan guarantees as a percentage of the GDP increased to 3.2 percent from 3.7 percent at the end of December 2004. Foreign loan guarantees, on the other hand, fell to 3.0 percent of the GDP from 3.1 percent at the end of the previous year. The greatest portion of the total loan guarantees was still held by domestic loan guarantees although it had receded to 51.6 percent at the end of 2005. This represented a fall from the previous level of 54.3 percent at the end of December 2004. Foreign loan guarantees increased their portion of total loan guarantees to 48.4 percent at the end of the period under review from 45.7 percent at the end of the previous year.

4.6 CREDIT RATING

The joint initiatives of the Ministry of Finance and the Bank of Namibia had led to the obtaining of a credit rating by Namibia during the year under review. These efforts included, among others, the identification and appointment of a credible rating agency, provision of all the necessary data and information to the agency, as well as facilitating the meetings of representatives of the agency and various stakeholders, in Namibia. At end of the process Namibia was awarded a favourable rating i.e. BBB- for long-term foreign currency and a BBB for the long-term local currency. More details about the rating process and its outcome in Namibia have been presented in Box 4.1.

Table 4.6 Central Government Loan Guarantees

	2001/02	2002/03	2003/04	2004/05	2005/06 Q3
Domestic Guarantees	828.9	1004.8	1135.5	1341.0	1301.0
As % of GDP	2.9	3.1	3.2	3.6	3.2
Foreign Guarantees	2481.0	2221.6	2067.1	1096.7	1221.7
As % of GDP	8.8	6.9	5.9	2.9	3.0
Total Guarantees	3309.9	3226.4	3202.6	2437.7	2522.7
As % of GDP	11.8	10.0	9.1	6.5	6.1

Source: MoF

BOX C SOVEREIGN CREDIT RATING FOR NAMIBIA 2005

Background

In recent years, the demand for sovereign credit rating has gained momentum as more Governments, public institutions and the private sector have intended to access international markets to borrow in foreign currencies. The task of a credit rating agency is to assess the ability of the Government to service its foreign loans and show a willingness to generate the foreign exchange necessary to meet its obligations. A credit rating enables many Governments, some with a prior history of debt defaults, to gain access to international markets. This means that a sovereign rating is most crucial for the whole country even if the Government itself may not want to access the international financial markets.

To gain access to international capital markets and attract foreign capital, the Government of the Republic of Namibia sought Shadow Credit Rating in 2005 from the FitchRatings Agency. This was to determine the credit worthiness of the Government, which could then serve as a benchmark for others in the private sector.

Assessment

FitchRatings conducted wide range of assessments in the country during 2005, looking at political, economic and social issues. Generally, this process among others, involved an assessment of the trends of economic performance, gross national savings and investment and their implications for the current account of the Balance of Payments, dynamism of the private sector, formulation and implementation of policies, external assets and liabilities, etc. Interviews were also conducted with policy makers, in order to understand the fiscal- and monetary policy, which are essential leading indicators of the current account and debt problems.

Rating scales ranges from AAA to D, with AAA assigned in cases of exceptionally strong capacity for timely payment of financial commitments and denoted the lowest expectation of credit risk. D is the lowest rating scale, representing a default.

Rating Scales

	Fitch and Standard & Poor	Moodys
Investment Grade		
Highest Grade	AAA	Aaa
Strongest Grade	AA+	Aa1
	AA	Aa2
	AA-	Aa3
Upper Medium Grade Quality	A+	A1
	A	A2
	A-	A3
Medium/Low Grade Quality	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
Sub Investment Grade		
Speculative	BB+	Ba1
Distinctly Speculative	B+	B1
Highly Speculative	CCC	Ca
Default	D	D

Rating Outcome

The table above outlines the different rating grades which a country can obtain in a descending order. Fitch assigned a Long-term foreign currency rating of ‘BBB-’ and a Long-term local currency rating of ‘BBB’ to the Republic of Namibia. The rating was underpinned by a stable policy environment and sound macro-economic fundamentals, – a low public and external debt, high domestic savings and current account surpluses, macro-economic stability and a relatively robust growth. The country has the advantage of an abundance of mineral resources which have been well managed and is politically stable, which further supported the ratings.

Prudent management of public finances has resulted in a low public debt burden, which at 34 percent of the GDP at the end FY2004/05 (April to March) is slightly better comparing with countries in the same grade. The country has high domestic savings, and sustained current account surpluses, which have resulted in low overall external debt. Growth has been relatively robust, averaging 5.4 percent over the past three years, underpinned by value-added enhancing investment and the expansion of a natural resource output. Despite low official reserves, external liquidity is comfortable, reflecting the low level and favourable maturity profile of external debt.

The key weakness identified by the rating agency relates to persistent capital outflows to South Africa, owing to insufficient of domestic investment opportunities in Namibia for its sizeable domestic savings. Despite mitigating factors due to the membership of the country in the Common Monetary Area (CMA), its reserves are low in the context of a pegged exchange rate regime. Other issues relate to the heavy reliance of the economy on the primary sector, which accounts for 20 percent of the GDP and 60 percent to income from exports, leaving it vulnerable to external shocks, the cautious approach to structural reforms and a “weak administrative capacity”. Social challenges including a high income inequality, land reform, HIV/Aids and high unemployment, are tougher problems than those faced by its rating peers.

The outlook is Stable. Improvements in creditworthiness will hinge on structural reforms to strengthen domestic investment opportunities and on a deepening of the domestic capital market. These will strengthen the ability of the Government to deploy savings domestically and thus help to reduce capital outflows and build reserves. The ratings which Namibia has obtained in the different categories, as well as the overall ratings of peer countries, are summarized below.

Ratings

Foreign Currency

Long-Term BBB-

Short-Term F3

Outlook Stable

Local Currency

Long-Term BBB

Outlook Stable

Country Ceiling A-

Peer Group (foreign currency; long-term)

A2	Botswana
BBB+	South Africa
BBB	Aruba
	Bulgaria
	Mexico
	Russia
	Tunisia
BBB-	Namibia
	Croatia
	Kazakhstan
	Romania
BB+	Egypt
	El Salvador
	India
	Panama
BB-	Lesotho
B	Uganda
	Mozambique

Source: www.fitchratings.com

Namibia currently is ranked third with the best rating in Africa after Botswana and South Africa, among the countries which have been rated. This rating is expected to have positive spin-offs on the economy of the country, particularly on the bond and equity markets and on the flows from foreign direct investment. Besides the sovereign rating, NamPower, the City of Windhoek and Bank Windhoek were also assigned favourable ratings of BBB-, za-BBB and AA, respectively.

CHAPTER 5. OUTLOOK FOR 2006

The Namibian economy is projected to grow by 3.9 percent during 2006, compared with the estimated rate of 3.2 percent during 2005. The growth in 2006 would be supported by increasing production of the Elizabeth Bay diamond mine. The secondary sector such as manufacturing, construction and electricity and water is also expected to contribute positively to the growth of the economy in 2006, especially with activities such as the refining of zinc and copper.

BOX D OUTLOOK ASSUMPTIONS

The following assumptions and information were used to forecast key sectoral growth rates for the Namibian economy in 2006:

- Actual diamond output production figures for the first nine month of 2005 were obtained from the Ministry of Mines & Energy, which in total indicated a slightly lower production than 2004's 2,042 million carats. A slight increase is assumed for 2006 on the back drop of an increase in diamond production, due to the commissioning of the new treatment at the Elizabeth Bay mine[30].
- Another mining output is projected to be sustained on the back of the new zinc mine when it reaches full production capacity. Other base metals such as gold, copper, lead and silver are also assumed to contribute positively to the mining sector.
- Agricultural growth for 2006 rests upon normal to below-normal rainfall in the beginning of 2005/06 (November/December) wet season. A normal to above normal rainfall is forecast for 2006 (January/April) raining season, which will contribute positively to the output of the agricultural sector.
- The fishing sector is assumed to improve slightly, but may still remain in contraction during 2006. This is on the back of a slight improvement but still depressed fish catches.
- Growth in manufacturing is assumed to be led by increased copper and zinc processing, which have led to a significant positive growth in other manufacturing for the past five years.
- Positive growth in the construction sector is assumed to depend on government projects (Greenscheme, the upgrading of airports, road & rail construction, etc.) as well as private sector activities such as the new uranium mine.
- The transport and communication sector will grow positively on the back of the positive performance of the mobile telecommunications category of the communication sub-sector, due to high demand for cell phones and their decreasing prices.

30 The plant was inaugurated in August 2005 and expected to extend Elizabeth Bay's life by some eight years by extracting diamonds from previously untreatable wet, cemented and clay-based material The mine is expected to produce some 400,000 carats per year over the next three years which is three times the mine's previous capacity.

Hotels and restaurants, a proxy of tourism, are expected to be affected positively by world income. There are however, downside risk factors such as the relatively strong Namibia dollar, high oil prices and the high price of tourist facilities which could affect the projected growth.

Government value added growth is assumed to grow in line with employment volumes of the civil service which has grown at an average rate of 3.0 percent during the past five years.

5.1 REAL ECONOMY

The mining sector is projected to recover by 3.8 percent in 2006 after an estimated decline of 3.5 percent in 2005. The growth in 2006 stems from an increase in diamond production due to the extension of the Elizabeth Bay mine[31]. Other base metals, such as uranium, zinc, and copper are also forecast to perform positively.

The value added in the agriculture sector is predicted to grow moderately by 2.9 percent in 2006, compared with an estimated 3.2 percent in 2005. This moderate growth is attributed mainly to an increase in cattle to be marketed in 2006. The diversification efforts such as aquaculture, pig farming, marketing, grape and date production and ostrich farming, are expected to contribute positively to the output of this sector. The downside risks might be posed by a strong Namibia Dollar, which could affect such efforts in this sector negatively.

The fishing sector is projected to recover slightly during 2006 though at negative 0.8 percent growth rate from a higher decline of about 6.5 percent during 2005, mainly due to an expected improvement in fish catches.

The manufacturing sector is predicted to grow by 6.2 percent in 2006, after recording an estimated growth rate of 5.3 percent during 2005. This growth will be mainly supported by other manufacturing activities, such as the refining and smelting processes of copper and zinc. The cutting and polishing of gemstones as well as other activities such as meat processing and beverages industries will further support the growth of this sector during 2006.

Table 5.1 Selected Sectoral Growth patterns (percentages)

	2004 Actual	2005 Estimates	2006 Forecast
Agriculture	1.5	3.2	2.9
Fishing	-9.1	-6.5	-0.8
Mining	36.8	-3.5	3.8
Manufacturing	5.9	5.3	6.2
Construction	1.7	20.0	7.2
Hotels and Restaurants	-3.3	2.5	3.0
Government Services	4.9	1.6	2.3
All Other Serivices	1.3	1.8	2.4
Real GDP	**5.9**	**3.2**	**3.9**

Source: CBS (Actual 2004), and Bank of Namibia (Estimates 2005 and 2006 Forecasts)

Government spending on infrastructural development such as the construction of roads, the state house and the northern railway extension, as well as private sector related works, are expected to sustain the growth of the construction industry at 7.2 percent for 2006. The low interest rate which is currently prevailing, may also aid in sustaining positive growth for the construction industry.

The hotel and restaurant industry, a proxy for the tourism industry, is expected to grow moderately at 3.0 percent in 2006, due to a global economic recovery compared with an estimated growth rate of about 2.5 percent in 2005. This growth rate could, however, be negatively affected by the strong Namibia Dollar, especially if it continues to remain strong against the Euro and the US Dollar.

The growth in transport and communications sector's

31 The plant was inaugurated in August 2005 and expected to extend Elizabeth Bay's life by some eight years by extracting diamonds from previously untreatable wet, cemented and clay-based material. The mine is expected to produce some 400,000 carats per year over the next three years which is three times the mine's previous capacity.

value added is predicted to be around 9.1 percent in 2006, slightly above the estimated 7.2 percent for 2005. This sustained growth is due to the post and telecommunications sub-sector, which is mainly driven by the expansion of the cell phone and the Internet communication. Other sub-sectors such as the postal services, rail, port, and aviation facilities, are also expected to perform moderately during 2006.

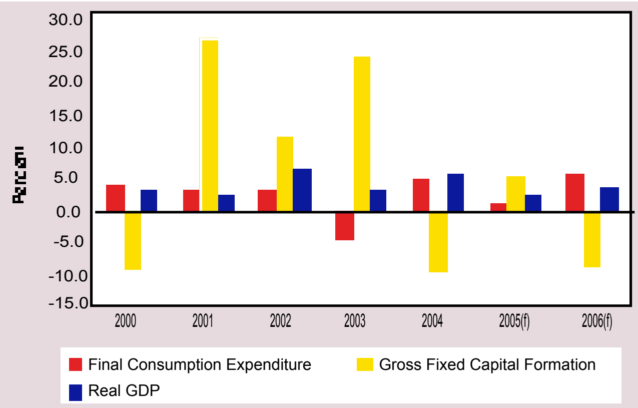
The electricity and water sector is projected to grow at 7.5 percent in 2006, compared with 5.9 percent in 2005. The strong growth pattern in 2006 is mainly due to a high domestic demand, coupled with a good rainy season which is expected to contribute to an increase in the value added of the electricity.

Other sectors such as the real estate and business services are expected to grow at a moderate rate of around 3.0 percent in 2006. The estimated moderate growth is the result of an increase in the output of the real estate and retail sectors, as well as the financial services sectors. This is due to relatively low interest rates regime, though expected to increase slightly. The Government sector is also expected to grow moderately at 2.3 percent in 2006.

5.2 Investment and Consumption

In real terms, the final consumption expenditure is expected to grow by 5.8 percent during 2006, after recording an estimated growth of 1.2 percent during 2005 (Chart 5.2). This sustained real growth would be mainly due to a moderate increase in the private consumption expenditure.

Chart 5.1 Domestic Demand

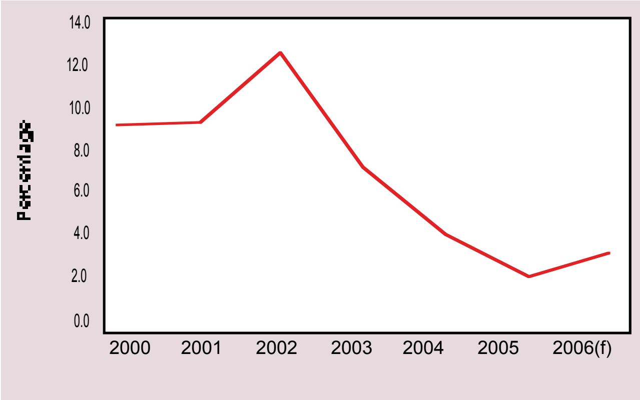


Real investment is projected to contract by 8.7 percent in 2006 from an estimated growth rate of about 5.3 percent during 2005 (Chart 5.1). This growth pattern is reflective of the lumpiness of investment in Namibia, which means that some large investment projects during one period would result in a decrease in investment in the subsequent period unless other significant investment projects were implemented.

5.3 Price Developments

The average inflation rate (year-on-year) for 2004 was 4.2 percent (see Chart 5.1). The average annual Namibian inflation rate is projected to be around 3.3 percent during 2006 compared with an estimated 2.2 percent during 2005. Downside risks on the inflationary outlook could be posed by a weakening exchange rate and still relatively high oil prices.

Chart 5.2 Inflation Rate



Source: Central Bureau of Statistics; Bank of Namibia

5.4 External Sector

Real exports are projected to grow at about 1.6 percent during 2006, from a growth rate of -1.5 percent in 2005. An improved growth rate in 2006 will be due to a slightly higher projected increase in diamond and uranium production. The increase in the world demand as a result of the global recovery, could contribute positively to the export of goods and services. As a percentage of the GDP, exports are therefore projected to remain at 44.0 percent during 2006, almost similar to the 43.4 percent in 2005.

Real imports, on the other hand, are projected to show a robust growth of 11.0 percent in 2006 from 3.5

percent during 2005. The higher growth in 2006 will be largely due to a continuing improvement in the domestic demand, coupled with the import of capital goods, as a result of construction activities by the new uranium mine. As a percentage of the GDP, nominal imports are projected to increase to about 45.7 percent during 2006, from 44.8 percent in 2005.

Table 5.2 Key Macro-economic Indicators (Percentage)

Macro-economic indicators	2004 Actual	2005 Estimate	2006 Forecast
Nominal GDP (N$ millions)	36,901	38,744	41,779
% Change Total Real Consumption	0.6	1.2	5.8
% Change Total Real Investment	-9.6	5.3	-8.7
Exports of goods and services	17,080	16,686	18,138
% GDP	46.3	43.4	44.0
Import of goods and service	16,622	17,377	19,106
% GDP	45.0	44.8	46.0
Trade balance	458	-690	-968
% GDP	1.2	-1.8	-2.3
Current account balance	4,022	4,417	4,930
% GDP	10.9	11.4	11.8
NCPI (%)	4.2	2.2	3.3

Source: CBS (2004) & BON (2005-2006)

As a result of these developments, the Namibian trade deficit is predicted to deteriorate to –2.3 percent of GDP in 2006 from –1.8 percent of the GDP in 2005 (see Table 5.2). The current account surplus as a percentage of the GDP is set to increase slightly from 11.4 percent in 2005 to 11.8 percent in 2006, due to an expected increase in SACU receipts.

In summary, the economy is projected to grow by about 3.9 percent in 2006 on the back of a continuing development in the mining sector, due to an increase in the production of both diamond and other mining activities. The sustained moderate growth in the manufacturing, construction, electricity and water sectors are also other contributing factors. The Namibian economy being vulnerable to external shocks, however, faces downside risks to the growth forecast, which includes a decline world demand for the exports from Namibia (diamond, fish and meat products), high oil prices as well as the appreciation of the local currency against the major currencies.

PART B
BANKING SUPERVISION

CHAPTER 6. REPORT ON BANKING SUPERVISION

In line with its responsibility as the regulator and supervisor of banking institutions, the Bank of Namibia (the Bank) through the Banking Supervision Department, undertook a number of regulatory and supervisory activities during the year under review. The activities were aimed at providing the supervisory oversight on banking institutions in order to strengthen the stability and soundness of the banking system. The supervisory oversight strives to ensure that players in the Namibian banking system are employing internationally recognized best practices and are in compliance with the 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 had maintained adequate internal control systems, had complied with prudential standards and had 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 2005 revealed a healthy and sound banking sector.

6.1 TOWARDS IMPLEMENTATION OF RISK-BASED SUPERVISION

To date, the supervisory approach of the Department has been one of traditional supervisory practices, focusing on the internal operations of individual banking institutions and utilizing the CAMELS (Capital, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk) approach. The approach was based mainly on the assessment of the financial position and compliance with applicable laws and regulations, internal controls, policies and procedures. Compiling information for the drawing of risk profiles of banking institutions was not attempted, while on-site examinations were mainly transaction-based.

In order to enhance its supervisory efficiency and to achieve its statutory objectives successfully, the Bank intends to introduce a risk-based supervision during 2006. Risk-based supervision is a supervisory approach which focuses on the quality of risk management systems in banking institutions and therefore provides the basis for the supervisors to effectively deploy resources to those significant activities of banking institutions, which pose the greatest risks. It is based on an understanding and assessment of the adequacy of the risk management systems of a banking institution, in regard to identification, measurement, monitoring and the control of risk in an appropriate and timely manner. The Basel core principle 13 also requires that supervisors should be satisfied that banking institutions have a comprehensive risk management process in place, to identify, measure, monitor and control all material risks, and where appropriate, to hold capital against these risks. These risks include but are not limited to credit, liquidity, interest rate, foreign exchange, market, reputation, strategic, and legal risks.

The following are the primary objectives of risk-based supervision:

- To evaluate the present and projected condition of the banking institution through an assessment of its risk management systems, rather than of its transactions;
- To adopt management systems, rather than transactions;
- To link supervisory process to institutional risk profiles.

Supervisors, who implement this approach, are faced with a number of requirements which the Bank must satisfy to implement Risk-based supervision successfully. There must be:

- A more intensive pre-examination planning;

- A greater interaction with the top banking institution management;
- A clear understanding of risks and risk management systems;
- The capacity to assess the quantity, quality and direction of risks;
- The ability to communicate in a clear and concise manner both CAMELS and Risk Ratings;
- Corrective actions which are to be carried out, upon identifying excessive risk taking
- A continuous supervision.

On the other hand, Risk-based supervision requires banking institutions boards to take an active responsibility for the running of their institutions. It also requires comprehensive risk management programmes to cover all risks. Risk-based supervision further, requires a formal risk management structure which must include self assessments and independent reviews.

6.2 DEVELOPMENTS WITH THE NEW CAPITAL ACCORD

Since June 1998, the Bank has adopted a risk-based capital framework to regulate the amount of capital which banking institutions should hold as a cushion against credit risk. This framework is based on the 1988 Capital Accord. In terms of this Accord banking institutions are required to risk weight their on- and off-balance sheet exposures and to maintain capital of not less than 8 percent of the risk-weighted assets. Experience and further studies have however, revealed some weaknesses in the 1988 Accord. For example, the current Accord does not assess capital adequacy in relation to the true risk profile of a banking institution, as it is focuses mainly on credit risk with no explicit-recognition of other risks nor does it provide proper incentives for credit risk mitigation techniques, to mention but few points. In view of these weaknesses and the desire to make the capital framework more risk sensitive, the Bank is considering the adoption of the new Basel II Capital Accord. Basel II consists of the following three pillars:

PILLAR 1: MINIMUM CAPITAL REQUIREMENTS

This pillar deals with the measurement of the capital adequacy ratio as determined by the three risk components namely: credit risk, market risk and operational risk, each of which is marked by a different approach to the measurement of the capital adequacy requirement.

PILLAR 2: SUPERVISORY REVIEW PROCESS

The importance of Pillar 2 is not only to ensure that banking institutions have adequate capital to support all banking risks (including those risks not covered in Pillar 1 such as concentration risk, strategic risk, interest rate risk in the banking book), but also to encourage them to develop and use better risk management techniques in monitoring and managing their risks. The Basel Committee on Banking Supervision (the committee) has therefore developed 4 principles referring to supervisory review, risk management guidance, supervisory transparency and accountability, in respect of banking risks and the assessment of the overall capital adequacy. In addition, guidelines include, but are not limited to the treatment of interest rate risk in the banking book, credit risk, operational risk, enhanced cross-border communication and cooperation and securitization.

PILLAR 3: MARKET DISCIPLINE

Pillar 3 is intended to give banking institutions a strong incentive to conduct their business in a safe, sound and efficient manner. It brings disclosure and transparency into the forefront of the capital adequacy issue.

The Committee has set out disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, risk exposures, risk assessment processes, and the capital adequacy of an institution.

The Banking Supervision Department, in collaboration with the banking sector, has embraced the principles of Basel II, while the supervisory objectives and strategies for its implementation will be developed during 2006.

Planning for the implementation of Basel II will have a significant impact on the processes and organizational structures of both banking institutions and supervisors. The process will entail the understanding of the provisions of Basel II, enhancing supervisory processes and the development of complementary tools (which include but are not limited to i.e. the introduction of operational risk capital, the encouragement of a better risk methodology, the enhancement of supervisory standards and market discipline) to discharge the supervisory role within the new framework effectively.

Basel II aims to work on the basis that a sound foundation has been laid for prudent capital regulation, supervision and market discipline, whilst enhancing further risk management practices by providing incentives for banks to move to the more advanced approaches. Risk Based Supervision can be used as a tool to determine the Basel II readiness of banking institutions. This will in turn, encourage banking institutions to improve their risk management systems and avail themselves of the more sophisticated approaches under Basel II. Risk Based Supervision will also enhance the skills of supervisors in validating and monitoring the advanced approaches of Basel II such as the internal ratings systems and models.

6.3 INDUSTRY AND REGULATORY DEVELOPMENTS

During 2005, several enquiries were made regarding the licensing requirements of banking institutions. One of these enquiries has translated into an actual application for a banking license. The application was being processed at the time of this publication. The number of authorized banking institutions in Namibia has however, remained unchanged at four. The number of branches decreased from 132 to 127 as a result of one banking institution reporting incorrect number of branches. This error was only corrected in 2005.

6.4 ON-SITE EXAMINATION ACTIVITIES

The examinations were conducted in terms of the Banking Institutions Act, 1998 (Act No. 2 of 1998). The primary objective of the examinations was to ascertain the overall soundness of the banking institutions, based on on-site review.

During the year under review, three banking institutions were examined, while the examination of a fourth banking institution which had been carried over from the previous year was finalized.

All examinations were performed in terms of the full scope methodology[32]. Specific focus was on the review of systems and internal controls, internal policies and procedures, analysis of the financial condition and profitability trends and the verification of the transactions of capital, asset quality, management, earnings, liquidity and market risk, as well as compliance with the statutory requirements.

The bank examinations which were conducted provided assurances that the financial performance of the examined banking institutions and their compliance with statutory requirements were generally satisfactory.

In addition to the conducting of bank examinations, the Bank also conducts investigations relating to instances where individuals or institutions conduct banking business without prior authorization from the Bank. Conducting banking business as defined in the Banking Institutions Act 1998, without the approval of the Bank, is a violation of the law and is illegal. During the year under review, no instances of illegal conduct of banking business were investigated during the year.

32 Full scope methodology, as opposed to limited scope, means that the on-site examination concentrates on all CAMELS components, that is, Capital, Asset Quality, Management, Earnings, Liquidity and Rate Sensitivity to Market Risk.

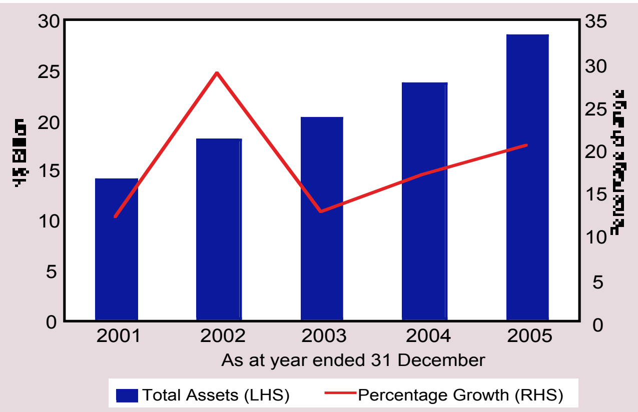
6.5 PERFORMANCE OF THE BANKING SECTOR

6.5.1 Assets

The total assets of the Namibian banking sector grew by 20.4 percent in 2005 to N$28.2 billion compared to 16.9 percent reported the previous year when total assets stood at N$23.4 billion. Although all asset components recorded reasonable increases during the year under review, notable increases were recorded in net loans and advances that increased by 14.1 percent to N$21.4 billion, followed by trading and investment portfolio which increased by 74.0 percent to N$3.8 billion during the year under review. The increase in loans and advances was dominated by substantial increases in mortgages 21.0 percent to 9.5 billion and overdrafts 43.0 percent to N$4.8 billion at 31 December 2005, while the increase in the trading and investment book was mainly reflected under treasury bills. It is also worth noting that cash and balances[33] significantly increased by 46.8 percent to N$1.6 billion and ranked third among other components of assets at 31 December 2005.

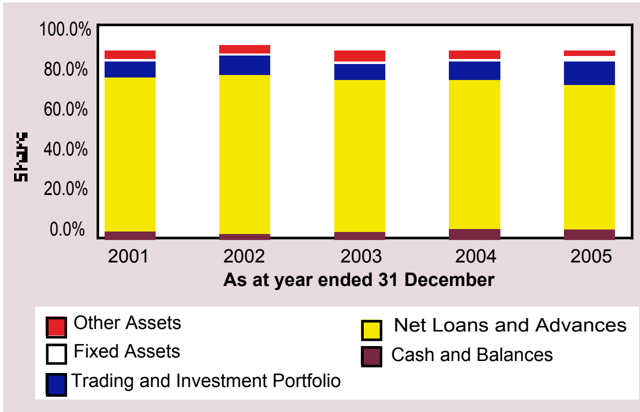
Over the past five year period, the total assets of the banking sector have doubled as depicted in Chart 6.1 below.

Chart 6.1 Total Assets' Growth



As in the year 2004, the aggregated banking industry continued to hold most of its assets in loans and advances, accounting for 76.0 percent compared with 80.2 percent reported the preceding year. The percentage share lost in loans and advances went mainly to trading and investments which increased their share by 4.2 percentage-points to 13.5 percent as at 31 December 2005. Other categories of assets, except for other assets category, also registered increases in their shares in total assets, though marginal. Chart 6.2, which follows, illustrates the change in composition as already described.

Chart 6.2 Composition of Total Assets



6.5.2 Funding Structure

The growth in total funding[34] was reported at 20.4 percent to which non-bank deposits contributed 82.7 percent. The increase in non-bank deposit funding was mainly observed in demand deposits and negotiable certificates of deposits (NCDs), although savings and fixed and notice deposits also registered marginal increases. The industry increased its deposit funding sources tremendously by 22.2 percent to N$21.1 billion at 31 December 2005. All other categories of funding increased except for foreign funding that declined during the year under review.

During 2005, capital and reserves lost its share in total funding to non-bank deposits, while all other components of total funding remained relatively unchanged. This situation is highlighted in Charts 6.3 (a) and 6.3 (b).

33 These balances include balances with other banks and balances with Bank of Namibia

34 Total funding comprises of all liabilities to the public and capital and reserves and has also been referred to as "Liabilities and capital"

Chart 6.3 (a) Composition of Liabilities and Capital as at 31 December 2004

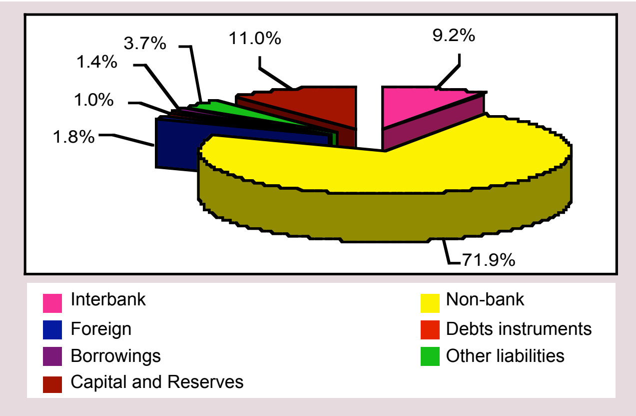
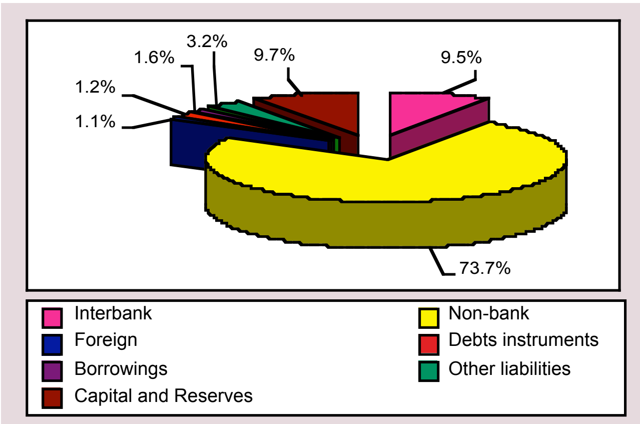
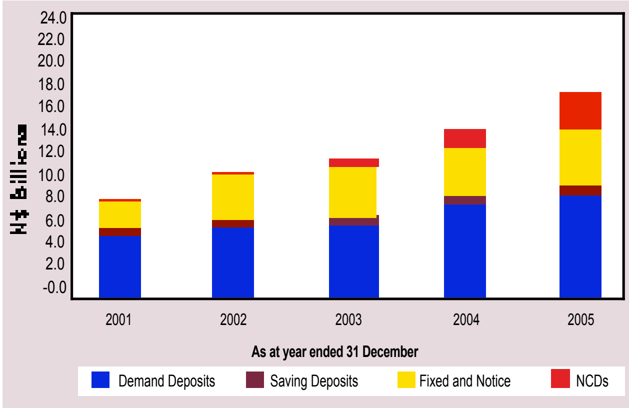


Chart 6.3 (b) Composition of Liabilities and Capital as at 31 December 2005



NCDs continued to increase their share as funding source for the industry. During the year, NCDs as funding source increased from 9.9 percent to 18.2 percent of non-bank deposits. As illustrated in chart 6.4, the share taken by NCDs had been trending upwards since 2002. Demand deposits accounted for 49.3 percent during 2005 compared with 55.1 percent during 2004, of the total non-bank deposits. Demand deposits lost its share to NCDs issued, which doubled during 2005. Savings and fixed and notice-deposits, as a percentage of non-bank deposits, declined from 5.8 and 29.3 percent to 5.0 and 27.5 percent, respectively. This could be explained by the fact that depositors had no incentives to keep their savings in the banks for longer periods as interest earned from those deposits had been negatively affected by the low interest rates.

Chart 6.4 Composition of Non-bank Deposits

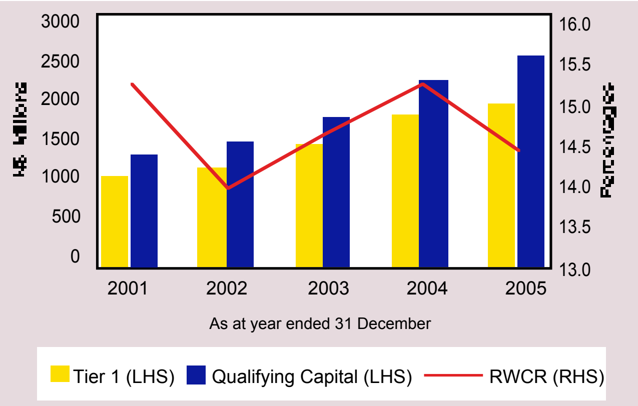


Capital Adequacy

All banking institutions are compelled to keep a risk-weighted capital adequacy ratio (RWCR) of at least 10.0 percent of which 7.0 percent should be tier 1 capital or permanent capital. As at 31 December 2005, banks maintained RWCR above the required prudential limit and ranging between 12.3 percent and 17.3 percent. The average RWCR declined from 15.5 percent reported last year to 14.6 percent, due to the fact that the industry capital growth was outpaced by the growth in risk-weighted assets. Banks are also required to maintain a tier 1 leverage ratio of 6.0 percent. All banks, individually, complied with the leverage ratio. The industry recorded an average leverage ratio of 7.7 percent as at 31 December 2005.

The composition of total qualifying capital in terms of primary or tier 1 capital and secondary or tier 2 capital is illustrated in Chart 6.5. The tier 1 capital of the industry continued to constitute the major portion of the total capital, though its percentage share declined from 82.1 percent reported last year to 78.3 percent. Such high percentages of tier 1 capital indicated a better quality capital which enabled them to ensure adequate cushioning against the risks associated with the growth in their asset base.

Chart 6.5 Capital Adequacy

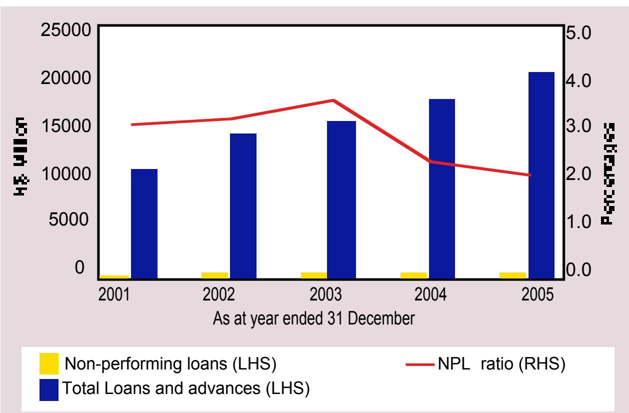


6.5.4 Credit Risk

6.5.4.1 Non-performing loans

Non-performing loans have fluctuated over the past five years ranging between N$406.3 million and N$662.6 million. As at 31 December 2005, an increase of 8.3 percent was recorded, bringing the total non-performing loans to stand at N$512.2 million compared with N$472.9 million in 2004. As at reference date, the non-performing loans ratio stood at 2.3 percent representing an improvement when compared with the 2.6 percent reported in the previous period. The asset quality of the banking sector continued to be at satisfactory levels, which was indicative of effective credit risk management practices applied by the industry. The comparison of non-performing loans to total loans and advances has been reflected in Chart 6.6. The chart clearly shows that a significant drop was observed in the NPL ratio between 2003 and 2004, consistent with the movements in interest rates.

Chart 6.6 Non-performing Loans relative to Total Loans



The distribution of delinquent loans continued to be dominated by mortgages at 37.9 percent compared with the 48.2 percent reported in the previous year. The share of delinquent installment sales, overdrafts, personal loans and other loans, all increased to 15.9 percent, 23.2 percent, 18.1 percent and 5.0 percent, respectively.

6.5.4.2 Adequacy of Provisions

Although non-performing loans increased during the year under review, specific provisions dropped by 22.7 percent to N$181.7 million. This movement caused specific provisions cover ratio to fall from 49.7 percent recorded last year to 35.5 percent in 2005. Despite the fall in this ratio, specific provisions could be considered adequate to cater for delinquent loans, given the low level of such loans. Total provisions as a percentage of total loans and advances also declined from 2.3 percent to 2.0 percent as at 31 December 2005.

6.5.4.3 Large Exposures

Large exposure refers to any exposure to a single person or group of related persons which, in aggregate, equals or exceeds 10 percent of the capital funds of a banking institution. All individual large exposures are limited to 30 percent of the capital funds of a banking institution unless they are exempted in terms of the Determination on Limits on Exposures to Single Borrowers (BID 4). The aggregate of all large exposures of a banking institution is limited to 800 percent of the capital funds of a banking institution.

The value of large exposures granted by the banking sector increased by 7.1 percent to N$4.0 billion during the year under review. The large exposures accounted for 140.9 percent of the total industry's capital funds and were far below the permissible maximum percentage of 800 percent of the capital funds.

Large exposures are calculated on the basis of the higher of the outstanding loan and the facility granted. The outstanding amounts of the industry, accounted for 72.7 percent of total large exposures at N$2.9 billion.

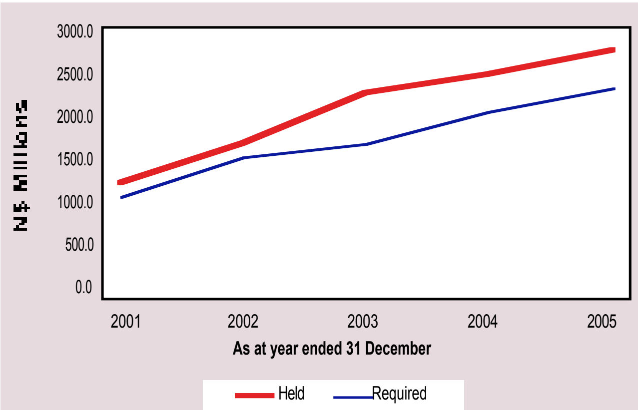
6.5.4.4 Interbank Exposures

To limit the potential for contagion risk posed when a bank fails or is otherwise unable to repay obligations to other banks in a timely manner, a Determination on Interbank Placements (BID-15) was introduced two years ago. In this regard, banks are required to report all interbank exposures on a quarterly basis to the Bank. As at 31 December 2005, interbank exposures with a settlement period of less than seven calendar days increased significantly to N$994.9 million compared with N$270.2 million reported in the previous year, while exposures having maturities of more than seven calendar days increased by 13.6 percent to N$269.9 million. These increases did not raise any concern as both categories of interbank exposures (i.e. less than seven days and more than seven days) remained well below the prudential limits of 50 percent and 30 percent of capital funds, respectively.

6.5.5 Liquidity

Banking institutions are required to hold an average daily amount of liquid assets of at least 10 percent of their average total liabilities to the public. Chart 6.7 shows that the average daily amount of liquid assets held exceeded the statutory liquid-asset requirement throughout the five year period. Liquid assets held increased by 10.8 percent to N$2.7 billion as at 31 December 2005 but the gap between liquid assets held and liquid assets required narrowed as at 31 December 2005. This narrowing as depicted by the chart below is normal and does not raise any supervisory concern as the gap is still wide.

Chart 6.7 Statutory Liquid Assets



The percentage share taken up by treasury bills increased from 68.6 percent to 75.3 percent while the share taken up by other government securities decreased from 15.2 percent to 8.6 percent during the year under review. The share of other components of liquid assets such as notes and coins, clearing and call account balances, and interbank placements and loans, remained relatively unchanged. Chart 6.8 illustrates the shifts in liquid assets.

Chart 6.8 Liquid assets composition

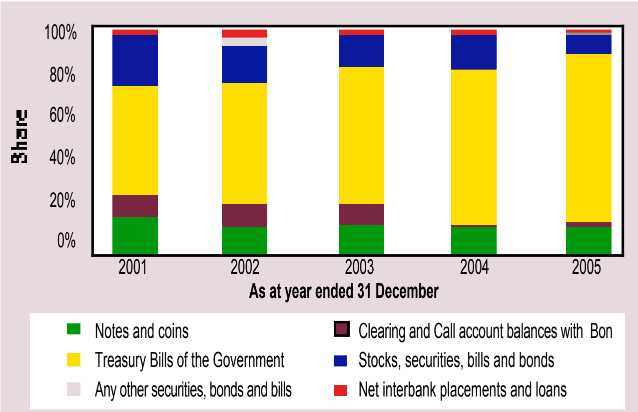


Table 6.2 Liquidity ratios (Percent)

	2001	2002	2003	2004	2005
Liquid assets ratio[35]	8.8	9.4	11.0	10.4	9.5
Loans to deposits ratio	118.1	121.4	117.3	115.1	106.0

Liquid assets as a percentage of total assets continued to decline during the year under review to reach 9.5 percent. Loans to deposits ratio which measures the extent to which loans are financed by core deposits continued to decline to reach the lowest level of 106.0 percent during the period of the past five years. Although the decrease in the ratio was a good indicator, it showed that banks on average were still using other funds, apart from core deposits, to fund their loan books.

6.5.6 Profitability and Earnings

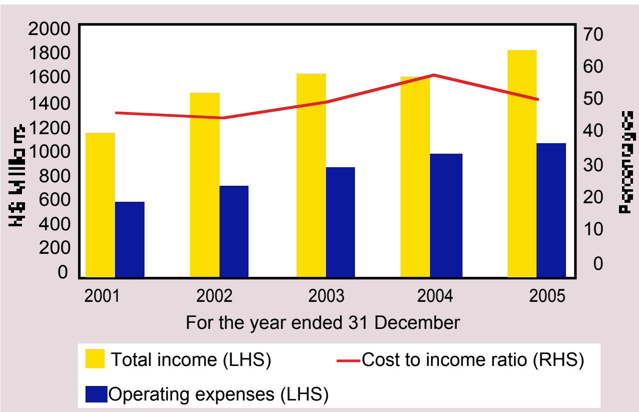
The banking sector continued to post better results in terms of profits for the year 2005. These results were

35 Liquid assets ratio represents liquid assets as a percentage of total assets

on the back of significant improvement in income, both interest and non-interest, during the year 2005. Interest income generated from lending operations increased by 14.7 percent compared with a decline of 14.4 percent which was reported in the previous year. The most notable increase was reported in interest earned from mortgages which improved by 38.6 percent to N$962.1 million. As a result, the net interest income was also reported to have increased notably by 17.0 percent to N$1.0 billion. Non-interest income, which had been trending upwards, recorded a 25.2 percent increase to N$1.1 billion during the year under review. The composition of non-interest income was dominated by transaction-based fee income which accounted for 59.8 percent. This scenario caused the total gross income for the sector to hit the two-billion mark when it increased from N$1.8 billion to N$2.1 billion, despite the low interest rate regime experienced during the past year.

Operating costs increased by 7.4 percent compared with 13.8 reported the preceding year. Due to a combination of lower increases in operating costs and a significant growth in income as noted, the cost-to-income ratio declined notably from 61.8 percent reported in the preceding year to 54.8 percent, a level which was more in line with the international benchmark. Chart 6.9 depicts the efficiency of the banking sector as it was effectively measured by the cost-to-income ratio.

Chart 6.9 Efficiency



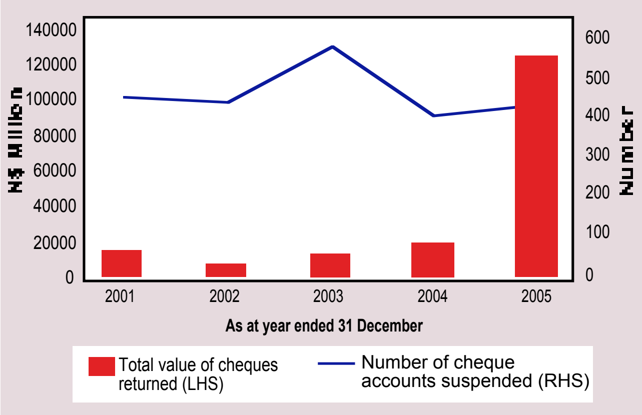
A significant improvement was reported in earnings when the industry posted net profit after tax of N$590.1 million compared with N$404.6 million reported the preceding year. This represented an increase of 45.8 percent compared to a decline of 19.6 percent reported last year. This indicated that, unlike during the preceding year, the sector seemed to have coped well with low interest rates during the year under review. The good performance by the sector was also reflected in both the return on assets and the return on equity to improve from 1.9 percent and 16.6 percent to 2.3 percent and 22.2 percent for the year 2005, respectively.

6.5.7 Suspension of Cheque Account Facilities

The credibility of the payment system is of paramount importance. In order to have a safe and sound payment system in Namibia, banking institutions are required to suspend any cheque account in respect of which five cheques are referred to drawer as a result of insufficient funds over a period of three months. This is done in accordance with the provisions of the Determinations on the Compulsory Suspension of Cheque Accounts (BID 12).

During the year 2005, the banking sector suspended 475 cheque accounts compared with 451 last year. Although this number increased, it remained below the average (511) maintained over the past five years, which may signify some awareness of the determination by users of cheque account facilities. The cheque accounts suspended involved the value of cheques returned to the tune of N$125.5 million compared to N$20.7 reported in the preceding year. This hasty increase was a result of one bank suspending a cheque account involving the value of N$106.7 million of cheques returned. The fact that the increase in the total number of cheque accounts suspended is not significant may indicate that more cheque account users are becoming aware of the consequences of the Determination or that banks are educating their customers on the proper conduct in regard to cheque accounts.

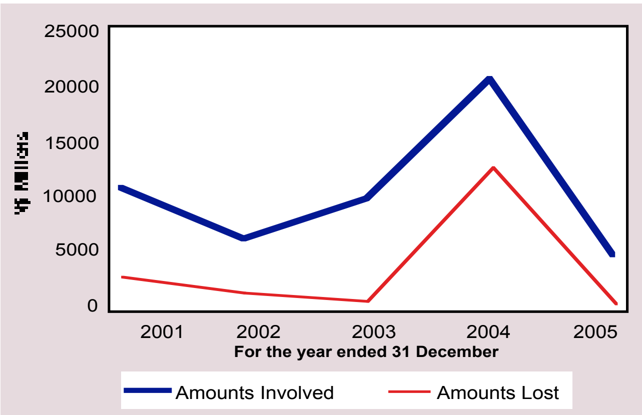
Chart 6.10 Suspended Cheque Account Facilities



6.5.8 Fraud

In terms of the Determinations on Fraud and other Economic Crime (BID 9), banks are required to report all fraudulent activities detected to the Bank. During the year under review, the banking sector reported a huge decrease in amounts involved in fraudulent activities from N$20.2 million reported the previous year to N$5.5 million of which N$1.2 million was reported to have been lost.

Chart 6.11 Fraud



6.5.9 Money Laundering

In line with the Determinations on Money Laundering[36] and "Know Your Customer Policy" (BID 3) and as well as the subsequent Circular BIA 2/02 issued by BON, banking institutions are required to complete and submit a form for reporting of suspicious activities / transactions (Form SATR) to the BON and the criminal prosecuting authority as soon as they become aware of suspicious activities or transactions which might indicate possible money laundering activities.

The number of suspicious transactions reported by the banking sector increased from five to a total of seven during the year 2005. The amount involved, however, declined from N$11.1 million reported last year to N$5.2 million. Last year, a drastic increase was reported which was due to one transaction involving N$8.4 million. It was therefore difficult to compare the information for the two years.

As reported in the previous year, the enactment of the Financial Intelligence Bill would provide the Financial Intelligence Centre with the necessary powers to collect, assess and analyze financial intelligence data. Any contraventions or failure to comply with the proposed Bill once enacted, could lead to the prosecution of money launderers and other similar criminals. It is expected that the Financial Intelligence Bill together with the Drugs Control Bill and the Combating of Terrorist Financing Bill will be enacted during the course of 2006. Once enacted, the three bills, the Prevention of Organized Crime Act of 2004 and the Anti Corruption Act of 2003 should provide the necessary legal basis for the national anti-money laundering regime to combat organized crime.

36 Money Laundering is the process by which large amounts of illegally obtained money (from drug trafficking, terrorist activity or other serious crimes) is given the appearance of having originated from a legitimate source.

THEME CHAPTER

VIABILITY OF SECOND TIER BANKS IN NAMIBIA[37]

1. INTRODUCTION

The banking industry plays a crucial role in the economy, acting as an intermediary between savers and borrowers. At the macro-economic level this promotes efficiency in resource allocation, as funds are pooled and channeled from households and businesses with surplus to those with deficit. Economic theory suggests that competition helps to promote and enhance efficiency and the best allocation of resources, for the mere reason that clients will prefer to use banks which provide services best suited to their needs. Despite this crucial role played by the banking sector in the economy, access to banking services remains limited for Small and Medium Enterprises (SMEs) and low income households in Namibia.

Previous studies have established that there is a problem of access to financial services amongst the low income and rural residents in Namibia[38]. Furthermore, the Bank of Namibia 2003 study on the extent of competition in the Namibian banking sector found that competition in the Namibian banking industry is limited and thus there is a need to develop measures aimed at encouraging competition[39]. Moreover, another study on SMEs conducted by the Ministry of Trade and Industry (MTI) in 1998 found that the majority of SMEs have no access to bank credit[40]. The study also found that many SMEs had never applied for bank loans because of the complicated loan application procedures employed by banks. Commercial banks in Namibia are mainly based in urban or peri-urban centres and only cater for salaried people and formal businesses. These banks are not keen on accessing the lower end of the market since it is apparently costly and non- profitable for them to do so. Low income households also find it difficult to meet the stringent lending and service criteria of the banks

Against this background, the objective of this chapter is to evaluate the viability of second tier banks[41] in Namibia. This objective is based on the assumption that if viable, second tier banks would increase access to financial services for the low-income households and SMEs as well as increasing competition in the banking sector. In this regard, this chapter considers the critical success factors which are necessary for the establishment of second tier banks to succeed, such as macro-economic and political stability, population size and density, availability of investment opportunities, culture of entrepreneurship as well as infrastructure development.

This chapter is structured as follows: Its starts by introducing the concept of second tier banks, and reviews the critical success factors for second tier banks. It then surveys the banking and the non-banking sectors in Namibia with reference to their involvement in financing SMEs. It further presents the analysis of the survey findings conducted in the Ohangwena, Oshana and Caprivi regions as well as lessons for Namibia from the fact finding missions to Kenya and Uganda, respectively. Finally, the chapter provides a summary of the findings on the viability of second tier banks in Namibia and maps the way forward on how to enhancing of access to financial services for the low income households and SMEs.

1.1 What are Second Tier Banks?

Second tier banks can mainly be explained as banks with the following characteristics:

37 This theme chapter is a summarized version of a major study titled: "Viability of Second Tier Banks in Namibia", Banking Supervision Department, Bank of Namibia, June 2005.

38 For a detailed analysis on this issue please see, Kaakunga E et al (2004), "Viability of Commercial Bank Branches in Rural Communities in Namibia". Bank of Namibia Occasional Paper OP-2/2004, Research Department and Finscope Survey (2003) conducted by NEPRU.

39 For more information, please, see "Competition in the Namibian Banking Sector: Possible Measures for Enhancement" – Internal Research Paper by Banking Supervision Department, Bank of Namibia.

40 For more information, please see, "The Small Business Baseline Survey 1998: The Four Northern Regions" – by the Ministry of Trade and Industry.

41 Second tier banks refer to banks subjected to lower initial entry and supervisory requirements compared to first tier banks. These smaller banks traditionally cater for the financial needs of the SMEs and low income customers, a niche market which is inadequately served by the first tier bank

- They are subject to less stringent prudential requirements than the first tier banks as well as to lower initial entry requirements.
- The primary target market for second tier banks are low income households and SMEs.
- Unlike typical banks, second tier banks will not insist on a conventional form of collateral, but will consider alternative forms of collateral which the poor are able to provide.

Given their characteristics, it is expected that second tier banks, if viable, will be able to meet the banking service needs of the low-income households, rural communities as well as the SMEs in Namibia.

1.2 Critical Success Factors

In their quest for satisfying the demand for financial services for the low income households and the SMEs, various countries have embarked upon alternative models of banking such as village banks, rural banks and community banks. Consequently, factors which are necessary for the success of these banks are discussed as a key output from literature reviews. Moreover, the relevant literature reveals that the following critical success factors are highly significant for the proper implementation of a second tier banking regime in any country:

Macro-economic stability: Empirical evidence is in overwhelming support of macro-economic stability as an important and necessary condition for economic growth. This implies that if an economy is not growing fast on a sustained basis and suffers from high and volatile inflation, such enterprises will not flourish. Similarly, in the absence of a faster growth coupled with unstable prices, second tier banks are unlikely to succeed. The evidence from literature,literature shows that countries such as Kenya and Uganda which have successfully implemented a second tier banking system, are characterized by a stable macro-economic environment, with relatively low inflation rates and robust economic growth rates. Compared with these countries, Namibia has performed relatively well with a low inflation rate and moderate economic growth rates. This implies that macro-economic stability in Namibia is unlikely to have a constraining impact on emerging businesses and thus on the viability of second tier banks, for which they form the basis of lending.

Political stability: A stable political environment is considered to be conducive for business and economic prosperity. Large international and regional banks are therefore more likely to enter and do business in politically stable countries. Thus political stability is an important success factor for banks in general. Given the fact that Namibia is considered to have enjoyed political stability since Independence, second tier banks are likely to prosper.

Profitable Investment Opportunities: Second tier banks are businesses like any other businesses and the country essentially needs profitable businesses or markets in order to succeed. In a nutshell, without profitable investment opportunities in a country, there could be no viable market for second tier banks. The question here is whether or not second tier banks can find profitable lending opportunities in order to expand the capital base, operations and thus have an impact on poverty. Unlike in Namibia, the micro-conditions in the three comparative countries namely, Ghana, Kenya and Uganda were opportune for the development of micro-financing institutions/second tier banks. In Uganda and Ghana, for example, the macro-economic collapse of the 1970s and 1980s had destroyed much of the formal economy and banking sector. The result was that the vast majority of employment and economic activities are now conducted by micro-enterprises, representing a significant market for micro-financing. In addition, thousands of small farmers in Uganda are involved in the production of crops (tea and coffee) for export. The picture is quite different in Namibia, where the economy is dominated by large formal enterprises and subsistence farmers who produce very little marketable surplus.

Population Size nd Density: To have a sustainable microfinance operation/second tier banks, a critical mass of clients needs to be committed, in order to achieve economies of scale and to keep operating costs low. Namibia is almost unique in the world for its very low population density (2.2 people per square kilometre). All the comparative countries reviewed, have both populations and population densities which are at least five times higher than that of Namibia.

Savings Clubs: The presence of a culture of savings clubs is a good indication of the savings culture in a particular country and is an important base on which to develop second tier banks. Based on the high level of deposit mobilization and the variety of savings accounts at banks and the Nampost Savings Bank, Namibia appears to have a well developed savings culture. A sound savings culture would be beneficial for the prospective second tier banks, enabling them to meet their liquidity needs and ensure their ability to extend credit to prospective borrowers.

2. SURVEY ON NAMIBIAN BANKS

In evaluating the feasibility of second tier banks in Namibia, the Bank of Namibia conducted a survey amongst the four commercial banks during the third quarter of 2004, to evaluate the extent of their financial services to SMEs, and to assess the challenges banks experience in serving SMEs, as well as exploring the expansion plans of the banks and their strategies to improve access to banking services for the areas which are underutilized by banks and low income households. The survey on local commercial banks covered the following areas:

- Information required for credit extension to SMEs,
- Reasons why commercial banks did not provide loans to SMEs,
- Credit/Loan products,
- Forms of collateral,
- Deposit mobilization and products,
- Frequency of deposits,
- Lending and deposit rates,
- Number of branches, service centres and agencies in different areas,
- Strategies to promote financial services and diversification strategies,
- The cost of doing business in rural areas.

(a) Information Required for Credit Extension to SMEs

Currently, a number of banks operate micro- loan portfolios, which provide small loans to individuals who have salaries and to SMEs through the Small Business Credit Guarantee Trust (SBCGT). The SBCGT was introduced by the Namibian Government to assist formally registered SMEs with collateral in order to access bank loans.

It is a business practice of banks in Namibia to require certain information from borrowers, including SMEs, before credit is extended. This information includes "bankable" business plans, the ability to provide a 10 percent deposit, personal financial statements, proof of a business registration, bank records, guarantees and adequate security or collateral. Notwithstanding the necessity and purpose for requiring such information, it is recognized that these requirements are too "strict" for some SMEs to meet. The information required by banks can however, be "strict" in the following sense:

- A business plan, the registration of a business, and guarantees, might not be met by SMEs which are not registered with the Ministry of Trade and Industry (informal SMEs);
- The production of bank records, personal financial statements and the ability to provide at least 10 percent deposit, is strict because some informal SMEs might not have a bank savings account and keep proper financial records and;
- It is only well established SMEs which can provide acceptable security/collateral.

The SBCGT has enabled a number of SMEs to acquire bank loans. It has however, neglected informal SMEs which obviously have more than just the issue of collateral to contend with. SMEs must first pass the lending criteria of the banks, which are "strict", before benefiting from the SBCGT.

Due to the stringent lending measures employed by banks, many SMEs in Namibia have failed to access banking services. The introduction of second tier banks could change the current status quo, because such banks would employ banking-with-the-poor approaches which have been used successfully in other countries. Some of these techniques include group-lending methodologies as opposed to traditional forms of collateral required by first tier banks. This would enable SMEs which currently cannot meet traditional lending conditions to access banking services.

(b) Credit Extension to SMEs

Commercial banks offer various credit products to SMEs which include short-term, long-term advances, overdrafts, credit cards and letters of credit. While the level of preference for short-term advances, long-term advances and overdrafts is average, fair and good, that of credit cards and letters of credit is poor. All commercial banks have extended loans to SMEs during 2003. This is a corollary of the fact that they have established micro-financing divisions/ departments which cater for the micro- borrowers.

During 2003, as shown in Table 1 below, commercial banks extended a total of about N$449 million loans to SMEs across the country. The figure was spread over 10,206 loan accounts and represented 2.7 percent of the gross loan portfolio of the entire banking sector.

While commercial banks have made inroads in lending to SMEs, a lot still needs to be done to cater for the numerous SMEs, especially in the informal sector, which are currently not catered for by banks. Looking at the total number of SMEs surveyed in the country (33, 403)[42] compared with the number of SME loan accounts (10, 206) at banks, it is clear that about 69.4 percent of the SMEs are still not obtaining credit from banks. The reason why many SMEs do not acquire loans from banks could be twofold. Firstly, and for various reasons, some SMEs might not have approached banks for loans, and secondly many more might not have met the required conditions to warrant their obtaining credit from banks.

Table 1. Commercial Banks SMEs Loans by Region

Regions	Total Loans of to SMEs (N$)	Total number of Loan Accounts SMEs
Caprivi	524,957	5
Kavango	3,468,689	61
Otjozondjupa	45,597,639	710
Oshikoto	7,921,484	247
Oshana	36,232,812	813
Ohangwena	155,000	5
Omusati	1,921,928	45
Kunene	8,727,401	169
Erongo	61,698,107	1,217
Karas	18,977,352	452
Hardap	9,864,725	417
Omaheke	11,170,291	290
Khomas	243,352,344	5,775
Total	**449,612,729**	**10,206**

Source: Bank of Namibia

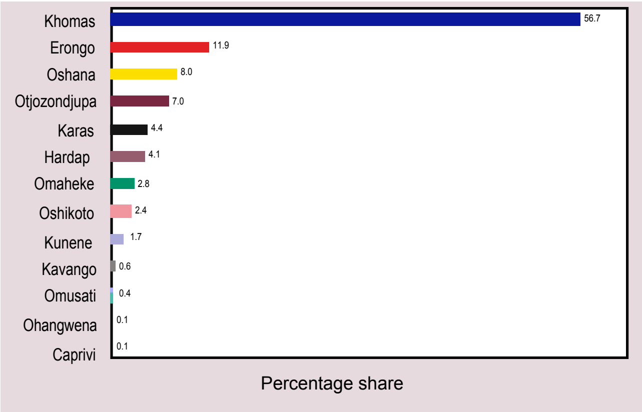
The failure of most SMEs to obtain loans from commercial banks and the insignificant proportion of SMEs loans to gross loans of the banking sector (2.7 percent), signifies the limited banking services to these businesses. This conclusion is in line with other studies which have shown a high unsatisfied demand for financial services from SMEs in Namibia. It has been suggested that second tier banks could improve the status quo by employing unconventional banking approaches to serve the poor and the SMEs effectively,

In terms of credit extension to SMEs, commercial banks have not established themselves well in regions with highest population and growing population density such as Oshana, Ohangwena and the Caprivi. It is also in these regions where second tier banks are most likely to succeed and prosper. Chart 1 shows the extension of credit to SMEs by region. These selected regions for second tier banks have received about 8.1 percent of the total loans granted to SMEs whilst the remainder of the regions (all other regions excluding

[42]Nepru. 2003. The Finscope Namibia 2003 Survey. Nepru Viewpoints No.51-53. Please note that the number reflects only those SMEs surveyed in Namibia and does not include the total registered SMEs with banks or the Ministry of Trade and Industry.

Khomas) received 35.4 percent. These figures underline the dearth of financial services, especially, to SMEs in the regions in which second tier banks might be more likely to succeed.

Chart 1 Percentage share of loan accounts of SMEs per Region (2003)



Source: Bank of Namibia

(c) Type of Collateral Required by Commercial Banks

Commercial banks require various forms of collateral for their loans. Table 2 apportions these forms of collateral into "strict" and "less formal" collateral. Strict forms of collateral are the forms of collateral which are only required by commercial banks. Less formal collateral is collateral that is required by both commercial banks and rural/community banks (in other countries).

Table 2. Forms of Collateral

Strict	Less formal/Normal
Insurance	Joint Collateral
Salary/Income	Savings
Investment	Physical Assets
Guarantees (SBCGT)	

Source: Commercial Banks (Namibia, Kenya and Uganda)

Commercial banks generally insist on the "Strict" form of collateral than the "less formal" form and SMEs, especially those in the informal sector, find it difficult to meet this requirement. Although the "Strict" forms of collateral are important for commercial banks to cushion against default risk, they are prohibitive for most SMEs and are, therefore, creating a skewed allocation of credit towards well established businesses. Second tier banks typically make use of a group-lending methodology and would usually require the "less formal" form of collateral, thus allowing SMEs which are currently neglected by the banking system, to access credit.

(d) Deposits from SMEs

Commercial banks offer several deposit products to SMEs. These include savings accounts, deposit accounts, fixed deposits, time deposits as well as unit trust accounts. While the preference for the first four products is average and good, unit trust accounts are poorly preferred by the SME sector. Unawareness of this product could be the reason why it is not favoured. SMEs deposit their money with commercial banks on a daily, weekly and monthly basis. This frequency of deposits, if maintained for second tier banks, would be beneficial to prospective second tier banks in Namibia because it would enable them to meet their day-to-day liabilities and extend much needed finance to potential borrowers.

Table 3. Total Deposits of SMEs (2003)

Regions	Deposits in Value (N$	Number ofr SME Accounts
Caprivi	-	-
Kavango	603,68	70
Otjozondjupa	24,998,910	968
Oshikoto	9,238,643	325
Oshana	59,368,163	1,239
Ohangwena	700,000	30
Omusati	820,000	80
Kunene	18,488,619	239
Erongo	73,260,670	1,468
Karas	12,279,871	624
Hardap	11,952,017	565
Omaheke	7,651,600	448
Khomas	254,727,017	6,487
Total	**474,089,194**	**12,543**

Source: Bank of Namibia

As indicated in Table 3, commercial banks received over N$474 million in deposits from SMEs, spread over 12,543 accounts. SME deposits as a percent of the total core deposits of the banking sector in 2003 stood at 3 percent of the total assets. This was a very low proportion, which could be ascribed to the smallness of the sector, amongst other reasons. The average SMEs deposit mobilization in selected regions for second tier banks is 27 percent of the total SMEs deposits from other regions, except Khomas.

(e) Interest Rate Policies

Lending rates

Interest rates charged by commercial banks on loans to SMEs differ from one bank to another. Two commercial banks charge prime rates (12.5 percent:2003) plus 3 percent, one bank charges a prime rate plus 4 percent, while the lending rates of the other bank varies, depending on whether the SMEs are involved in the SBCGT and Adult Skills Development for Self Employment Trust (ASDSET).

The rates charged are far lower than those prevailing for loans from money lenders (Micro-lenders) in Namibia, whose rates hover around 30 percent or even more. As could be deduced from the literature, for second tier banks to succeed, their lending rates should vary between rates charged by commercial banks and those prevailing at informal lenders.

Deposit rates

Generally, rates paid by banks on SMEs deposits, vary according to the amount and type of deposits. These rates range between 6 percent and 7 percent whilst some banks pay an average 3.5 percent in deposit rates.

(f) Commercial Banks Regional Outreach

Commercial banks are generally based in the town centres of the regions. As shown in Table 4 above, rural regions, such as the Caprivi, Ohangwena, Omusati, the Kavango etc, have the least number of bank branches and highest number of persons per branch than urban regions like Khomas, Erongo, Karas, and Otjozondjupa. The urban region of Khomas, for instance, has the highest branch network of 34 branches and agencies and the second lowest number of persons per branch, 7,361. By contrast, the regions selected for second tier banks with a combined population of 470,127, have a branch network of 22, and 21,369 persons per branch, and lag behind the Khomas region in terms of the number of bank branches.

The low branch representation of banks in selected areas for second tier banks supports the argument that existing first tier banks are reluctant to enter rural areas due to the apparently low profitability prospects. The corollary is that there is no demand for banking in these areas. While this presumption could be true, the flipside could be that the products and services of these banks are not compatible with the needs of the low income households.

Table 4. Commercial Banks Branch Network (2005)

Region	Branches (1)	Agencies/Service Centres (2)	Total (3) (1+2)	Population of regions (2001 Census)	Number of Branches/Agecies/Service Centres (Population/3)
Caprivi	2	1	3	79,826	26,609
Okavango	3	1	4	202,694	50,674
Omusati	1	0	1	228,842	228,842
Oshikoto	3	1	4	161,007	40,252
Oshana	9	8	17	161,916	9,524
Ohangwena	1	1	2	228,384	114,192
Kunene	4	2	6	68,735	11,455
Erongo	11	5	116	107,663	6,729
Khomas	21	13	34	250,262	7,361
Karas	13	6	19	69,329	3,649
Hardap	7	2	9	68,249	8,531
Omaheke	3	0	3	68,039	22,680
Otjozondjupa	11	1	12	135,384	11,282
Total	**89**	**41**	**130**	**1,830,330**	**541,780**

Source: BoN

(g) Commercial banks' strategies to improve access to financial services to the currently unbanked / underbanked areas

Commercial banks have reported various approaches which are planned to be undertaken as a means of improving access to banking services. Banks mainly plan to use marketing and promotion tools for marketing education, banking services and product awareness campaigns, and for the delivery of services through the existing branch network. Only two banks plan to open new branches in the north-western regions of Namibia i.e. the Omusati, Kunene, and Ohangwena regions. Of these two banks, one has also proposed to introduce, without being specific, new products at these branches. Since most banks are not proposing to design products and services customized to meet the needs of informal SMEs and the poor, it is questionable whether the additional availability of bank branches in rural regions, would address the needs of the SMEs who are currently failing to meet the stringent lending requirements of banks.

(h) Commercial banks cost of doing business in rural areas

As a part of the survey, commercial banks were asked to indicate the average cost per credit customer (of SMEs and rural areas in general) and the average cost per deposit customer incurred in 2003. This information is crucial in determining how much, on average, it costs to provide banking services to SMEs and to run a profitable bank branch in the rural areas. Unfortunately, none of the commercial banks provided responses to this question, giving as the reason, that this data was not available.

Nonetheless, Kaakunga E et al (2004) states that: banks have indicated that they find it costly to establish fully-fledged bank branches in rural/under-banked areas. Typically, these costs are associated with the erection of physical infrastructure and buildings, staffing and training, security, lack of support services, and languages. Commercial banks consider these areas not to be profitable due to the few transactions that would take place daily. Moreover, it is maintained that it takes about three years for a branch in these areas to break-even. High operating costs and non-profitability are regarded by banks as the main factors in preventing commercial banks from penetrating the rural areas.

In summary, the existing banks are more active in urban and peri-urban areas of Namibia. These areas have also received the highest number of bank loans extended to SMEs during the period 2001-2003. Banks impose strict lending requirements on prospective SMEs borrowers. As a result SMEs who were unable to meet these criteria, particularly informal SMEs, failed to receive loans from banks. Lack of proper collateral and "bankable" business plans, were cited as some of the reasons that many SMEs failed to qualify for bank loans.

In an effort to encourage bank lending to SMEs, the government introduced the SBCGT scheme, which aimed at providing security/collateral to qualifying SMEs wishing to access bank loans. While many SMEs benefited from this scheme, many more could not meet the SBCGT requirements.

Generally, commercial banks are making inroads into the currently un/under-banked areas of Namibia by opening-up new branches in these areas. The majority of banks have however, not indicated any plans to introduce new products and services tailored to cater for the unique needs of the SMEs, specifically those in the informal sector and the rural poor. It is therefore doubtful whether the availability of bank branches in rural areas, without the provision of the right product mix, which is customized to suit the needs of the poor, would improve the status quo adequately. Banks are furthermore, seemingly reluctant to become involved with any venture beyond their usual traditional credit evaluation process (Genesis Analytics, 2003:6). The reason for this is that transaction costs associated with the screening of loan applications and business proposals, the recovery of Non Performing Loans (NPLs), as well as the risks inherent in the low segment of the market, are too high. These disincentives are preventing banks from providing financial services to SMEs and the poor, and are therefore, leaving them neglected.

The gap left by commercial banks could potentially be filled by adopting non-traditional banking techniques. This, according to Genesis Analytics, 2003:6, includes the use of the group-lending methodology, which has not been widely used in Namibia, or by applying co-operative models. Considering the reluctance of banks to renounce their traditional banking techniques however, the following section will examine whether or not other players such as cooperatives or micro-lenders, could be transformed into second tier banks to improve access to finance by low income households and SMEs. In addressing this issue, the Namibian experience as well as the experiences of Kenya and Uganda which have successfully introduced second tier banks specialized in servicing the rural poor and informal SMEs, have been investigated and lessons for Namibia were derived.

3. SURVEY ON NON-BANKS

In the exercise of assessing the viability of second tier banks in the country, research teams visited candidate institutions in the North-Eastern and North-Western regions of Namibia. In the Oshana and Ohangwena regions, the team conducted interviews with Micro-lenders, Co-operatives and NGOs. The team also conducted interviews with Micro-lenders and Co-operatives in the Caprivi region. In Windhoek, information was collected from NSB, and the Commercial Banks.

3.1 Cash Loans

The salient findings from the local survey indicate that cash loan companies (micro-lenders) are mainly based in urban areas/towns and extend credit to salaried individuals with bank accounts. This business has been reported to be profitable. Lending to this category of borrowers is not considered to be the primary target for second tier banks. There is very little lending in the form of cash loans to micro-enterprises and SMEs, except for cases where an employed individual owns such a business. Cash Loans face critical problems such as poor record keeping, a lack of funds (limited source of funding), poor business management skills, incomplete and unreliable financial statements.

Cash Loans do not have a sufficient capacity at this stage to transform into second tier banks. Transformation into second tier bank status would only be viable once, inter alia, the problems which Cash Loans are experiencing at present have been remedied. In addition, it would be disastrous to give regulatory approval to institutions with very poor record keeping and an inadequate capacity to take public deposits.

3.2 Co-operatives

The feasibility of transforming co-operatives into second tier banks has also been assessed. Unlike Cash Loans, the interviewed co-operatives were mainly based in rural villages but also operated on a small scale. The majority is struck by hard times and is on the verge of collapse. Co-operatives do not operate throughout the year except during the rainy season and are therefore financially distressed.

Although legally mandated, most co-operatives do not offer savings and credit services to their members. Many co-operatives are involved in providing agricultural services and in selling farm produces for the members. A few who have implemented savings and credit co-operatives (SACCO) have ceased operating these because of financial constraints.

A number of challenges face the development of co-operatives into fully-fledged institutions and entail the following: A poor membership base, the composition of a membership which consists mainly of old people, aged between 40 and 60, poor record keeping, a lack of funds to extend loans to co-operative members, a dependency on donor grants, a lack of business management skills and a lack of proper corporate governance procedures.

Although the board members are usually elected from the membership, academic qualifications are not a part of the selection criteria. As a result, co-operatives are managed by people without proper knowledge and skills to ensure success.

All co-operatives interviewed indicated that their members had productive/profitable activities which could be funded if funds were available. These activities included: the funding of tractors, a working capital, a start-up capital, the purchase of livestock. From 2004, three out of four SACCOs extended 157 loans worth N$57, 349 (an average of N$ 365 per loan) to their members.

From the interviews it transpired that co-operatives were not profitable, had no financial statements and lacked a basicbasic collateral required by banks.

3.3 Non Governmental Organisations (NGOs)

Although the head offices of the NGOs interviewed were based in Oshakati, they served a number of northern Regions. NGOs typically provided technical assistance, information on training for capacity building, and consultancy services to community groups and clubs. They rarely had sufficient resources to offer financial assistance. Like co-operatives, NGOs are heavily dependent on donor funds. Their inability to mobilize savings, severely handicaps their ability to provide any meaningful financial services.

3.4 NAMPOST Savings Bank (NSB)

Nampost, a public postal services company, has a large number of branch outlets in all rural and urban town centres of Namibia. In 2004, Nampost had 115 branches and a full-time staff complement of over 500 countrywide (16 branches and about 53 staff are located in second tier regions i.e. Oshana, Ohangwena, and Caprivi regions). Nampost also runs a savings bank, which provides financial services to currently under/unbanked rural areas, through its widespread branch network.

The NSB offers an array of savings and investment products to low and medium income earners. Because of its advanced infrastructure and extensive branch network NSB has also been used as a service delivery channel by commercial banks and other companies seeking to access remote and under/unbanked areas. These services include:

- Money transfers,
- Payment services (insurance; pension settlements etc),
- Account payment services (telephone; municipal bills etc),
- Salary/wage services,
- Collection services (FINED; NHE loans etc),
- Deposits/withdrawals,
- Premium collections (Legal Shield; MNet; Old Mutual etc).

During 2004, NSB had about 230 000 savings accounts and over N$300 million in deposits, of which about N$90 million were mobilized from the second tier regions. This represented over 100 000 transactions per month. NSB offers affordable banking services to its clients. Its transaction delivery costs, however, exceeds its income substantially. This is attributable to the use of the NSB savings books which are costly to maintain and administer.

The legislation of the NSB does not allow it to offer credit, but the size of the NSB allows it to play the role of a loan agent for commercial banks. The whole loan application process is handled by the commercial bank itself. In this case, the arrangement is limited to loan disbursement and collection services without the NSB assuming any associated credit risks. Lately, the NSB has also been involved in talks with a micro-lender, to provide loan agency services.

In an effort to reduce transaction costs and provide an effective alternative to traditional banking to the currently under/un-banked people, the NSB has, in partnership with a local commercial bank and a South African technology company, planned to install a new IT system which will allow the NSB to offer a wide range of products and services to both its clients and on behalf of third parties. This system would enable the use of stored value cards with biometric fingerprint identification capabilities.

The wide capacity and well established infrastructure of the NSB makes it suitable for the conversion to a second tier bank. The NSB has however, indicated that it would not consider acquiring a banking license under the current conditions since this would impose a cost structure which might remove the tax benefits that the NSB currently enjoys. Nonetheless, the NSB could apply for a banking license if the following conditions were in place:

- The existing tax advantages,
- No liquid asset requirements,
- A limited banking license,
- Provision to utilize smart cards,
- Provision to use technology as a banking facility vehicle,
- Provision to provide banking and financial services to the current clientele,
- Provision that NSB did not have to carry the credit risks.

Some of the aforementioned conditions, such as the items 3 and 6, are the typical features distinguishing the proposed second tier banks from conventional first tier banks and would therefore, be accommodated by the framework of a second tier. Since the NSB was already conducting one arm of the banking structure by mobilizing public deposits, the adoption of a lending arm would not be much of a problem for the NSB. In other countries where post banks have engaged in credit extensions, this has often ended in tears. Either poor risk selection resulted in large losses, or the commercial banks complained that the strategy was in competition with them and that it was unfair, since the post bank did not face the same operational constraints namely the required rate of return on capital, or level of capitalization.

4. LESSONS FROM OTHER COUNTRIES EXPERIENCES[43]

During May 2005, a team from the Bank of Namibia conducted a study tour in Kenya and Uganda. The purpose of the mission was to acquire an insight into the planning, implementation and operation of second tier banks, in countries with comparable characteristics to Namibia. The insights for Namibia are as summarised below:

- In Kenya and Uganda the micro-enterprise culture is the key foundation for the Micro Finance Institutions (MFI's). In these countries, many of these activities are concentrated on highly productive farming/semi-urban areas in which the population densities are very high. MFI's are also very supportive of micro-businesses and bookkeeping and financial management skills amongst MFI's are well developed. These insights are however, contrary to developments in Namibia in respect of population density, the micro-enterprise culture and financial management skills.

- Low population densities in Namibia will present an additional challenge and will probably drive up operating costs relative to Kenya and Uganda. MFI's and Government would need to find ways of overcoming the cost of operating in less densely populated areas. Even in Kenya and Uganda which are countries with a relatively high population density, the large MFI's are only just covering operating costs and are not profitable in the normal sense of earning return on equity of more than twenty percent. Thus, their survival depended on further non-commercial injections of funds.

- The MFI industry in Kenya and Uganda has developed due to a high level of co-ordination and co-operation between the Government, the central bank, donors and co-operatives. The donors have provided funds to drive the industry and support its development. This works out at about US$5 million per successful MFI.

- Collateral shortages have been overcome through group-based lending methodologies or through chattel mortgages. In Kenya, the Kenya Rural Enterprise Program (K-REP) facilitates the formation of five-member groups called watanos. The group normally guarantees the loan or helps ensuring loan recovery and has therefore been used an alternative to the collateral system.

MFI's which qualified as Micro Deposit Institutions (MDIs) had sufficient capital to be registered as banks in Namibia without a reduction in the minimum capital

43 This section is based on observations obtained from fact finding missions to Kenya and Uganda by Bank of Namibia, Banking Supervision Department.

requirement. The MFI's in Kenya and Uganda had a capital ranging between N$10 million to N$13 million. Thus minimum capital requirement was not a barrier to entry for MFI's and lowering it would not result in more MFI's registering as banks.

The costs of regulating MFI's were high as they often needed onsite assistance due to weak systems and a poor reporting capacity. The meeting of the regulatory requirements had furthermore, required a substantial investment on behalf of the micro-finance institutions, including expenditure on: training; the upgrading of systems and equipment; management information systems (MIS) and data reporting; branch upgrading; and additional staffing (one to three people).

The governments sKenya and Uganda recognized the important role SACCOs in micro-financing. As a result, the Central Banks and Ministries of Finance of both countries identified the need to work closely with relevant stakeholders, to improve the effectiveness and sustainability of SACCOs. This involved distinguishing between the financial and non-financial co-operatives and providing support to improve governance and capacity.

5. FINDINGS

From this analysis it can be inferred that second tier banks are at present, not feasible in Namibia as an appropriate approach to expand access to the financial services for the poor and the SMEs and to improve competition in the banking sector.

The main reason is that the key conditions for establishing successful second tier banks have not been fulfilled in Namibia.

- Firstly, the absence of a vibrant and thriving small and medium enterprise sector in Namibia is likely to limit the lending activities of second tier banks. This in turn will affect the sustainability of micro-lenders for which micro-enterprises form the foundation for lending, and therefore impacts negatively on the viability of second tier banks in the country. Empirical evidence from Kenya and Uganda indicate that, for a second tier banking industry to flourish, the presence of vibrant micro-entrepreneurs and small scale farmers is highly essential.

- Secondly, Namibia is almost unique in the world for its very low population density (2.2 people per square kilometre) resulting in a low volume of business which is unable to support a large number of micro-entrepreneurs and SMEs. Evidence from Kenya and Uganda shows that these countries are characterized by economic activities concentrated in highly productive farming / semi-urban areas in which population densities are very high. There is no such proliferation of micro-enterprises in Namibia.

Consequently, potential demand of second tier banking is low. There is a an implied lack of profitable banking opportunities in the lower end of the market, and private sector players are unlikely to be drawn into this market. It would be challenging to achieve a profit in this market for a number of reasons:

- A good communication infrastructure exists in the rural areas and mainstream banks do operate there already – albeit not in low-income and SME lending segments of the market. The presence of banks with advanced infrastructure would however, make it difficult for second tier banks to establish a foothold in these areas.

- The cost of banking staff is high in Namibia and most people would be reluctant to work in remote areas. This is in contrast to Uganda and Kenya, where there is a wide pool of educated, low cost labour available.

- Even if there were profitable banking opportunities it appears that there is a lack of capacity in the potential STB entrants surveyed. The MFI's surveyed, had very small operations, exhibiting poor record keeping and business management skills.

- Similarly co-operatives were in a weak position, and many of those surveyed, were on the verge of collapse, whilst less than half of those interviewed offered deposit/saving facilities to their members. They also suffered from a poor membership base with membership mostly made up of older people (who were not a strong entrepreneurial demographic group). They also displayed a weak corporate governance and dependency on donor grants to sustain business. It was unlikely that co-operatives would be profitable STBs. Moreover, the survey encountered no obvious NGOs who would be likely STB candidates.

In summary, STBs were not a viable route in Namibia, and were unlikely to be so in the near future without substantial state intervention and support.

6. THE WAY FORWARD

The study concludes that STB would not be a viable proposition warranting implementation in Namibia. The study, however, recommends that since the existing banks have indicated their willingness to open more branches in rural areas and to provide more banking services to the hitherto poor communities which lacked banking facilities, the Bank of Namibia and other relevant authorities should provide guidelines regarding the expected content and outcomes to be derived from the banking/financial charter which is being developed by the banking and financial sector. The banking/financial charter aims at developing mechanisms for the improvement of access to financial services and the empowerment of the formerly disadvantaged communities.

PART C

OPERATIONS AND AFFAIRS OF THE BANK OF NAMIBIA

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

CHAPTER 7. OPERATIONS AND AFFAIRS OF THE BANK OF NAMIBIA

The main responsibilities of the Bank of Namibia, as prescribed by Section 3 of the Bank of Namibia Act (Act 15 of 1997), are to promote and maintain a sound monetary and financial system in Namibia, promote an efficient payment mechanism; serve as the Banker of the Government, be a financial and fiscal adviser and fiscal agent and assist in the attainment of national economic goals. This mandate of the Bank of Namibia as well as the economic conditions described in Part A of this report has shaped the strategic focus and other activities of the Bank of Namibia during the year under review. These issues are highlighted in the sections which follow.

7.1 STRATEGIC FOCUS OF THE BANK

The Bank of Namibia has remained focused on the achievement of its vision and mission in line with its statutory mandate. To achieve this, the Bank of Namibia has adopted a long-term focus. This focus is generated and re-articulated annually at the strategic planning and review sessions of the Bank of Namibia, where its performance and external environment are critically evaluated and assessed for the challenges which lie ahead. The latest strategic plan of the Bank of Namibia extends over the period 2005 to 2007, and departmental business plans and areas of concentration have been crafted into projects and programmes for 2006 and beyond. The following subsections outline some of the identified milestones which have been achieved in meeting the strategic goals for the period under review.

7.1.1 Meeting the challenges of globalization and regionalisation

(a) Participation in the Common Monetary Area (CMA)[44]

The Bank of Namibia has continued to participate in various forums and projects co-ordinated under the auspices of the Common Monetary Area (CMA).

During the past year, the Bank of Namibia participated in various consultative meetings aimed at enhancing the co-ordination of monetary policy within Common Monetary Area (CMA), as provided for in the CMA bilateral and multilateral agreements. The exchange of economic information at these forums has assisted with the formulation of monetary policies in the respective four CMA countries. This forum is seen to be necessary in order to harmonize the monetary policy ultimately, within the four economies concerned. The CMA Governors exchanged views concerning the upgrading of economic statistics and the establishment of a closer co-operation between the four central banks.

A key milestone of the forum of the Governors for this year was the finalization of a study on the desirability and feasibility of establishing a common central bank for the CMA. The study concluded that a common central bank is feasible in the CMA. The findings of this study were shared with the respective Ministers responsible for finance within the CMA.

(b) Committee of Central Bank Governors in SADC

The Bank of Namibia participated actively in the activities and programmes of the Committee of Central Bank Governors in SADC (CCBG), a body established in 1995 by the SADC Ministers for Finance, to spearhead the regional agenda of economic integration in the financial and monetary area in SADC. Good progress has been made with projects related to the harmonization and standardization of the processes and systems in the recent past. During the period under review, the activities of the CCBG were characterized by a deeper focus on the achievement of the basic building blocks for a regionally integrated SADC, while securing an alignment with the continental programmes for the establishment of a monetary union.

[44] The CMA membership is consisting of South Africa, Namibia, Lesotho and Swaziland. The main feature of the CMA are that capital flows freely among member states and the national currencies of the last three member states are pegged to the South African rand through bilateral agreements. All member states apply the same exchange controls.

Substantial progress was made in the compilation of the monetary and financial statistics database, the information bank on policies and structure of the SADC central banks and the payment, clearing and settlement systems. Progress made in the payment, clearing and settlement systems for the SADC countries included the implementation of a real-time gross settlement (RTGS) system for most of the SADC countries. In addition, several workshops were held to define a co-ordinated regional approach to facilitate the settlement of intra-regional payments. These efforts should further enhance intra-regional trade.

As part of the efforts to create a harmonised legal environment for central banks, a Memorandum of Understanding (MoU) on the Harmonisation of Legal and Operational Frameworks of the SADC Central Banks, was signed by Ministers responsible for Finance. It was expected that this MOU would be endorsed by the Council in due course.

During the year under review, Namibia was elected to chair the CCGB subcommittee on exchange controls. The main purpose of the committee was to harmonise and co-ordinate the terms and conditions of exchange controls in the SADC region, with the purpose of gradually removing all the controls between member states.

The CCBG Sub-committee of Bank Supervisors (SSBS) was established early in 2005, following the dissolution of the East and Southern Africa Banking Supervisors Group (ESAF). Among its activities, the SSBS had already held a workshop to formalise guidelines for its operations, objectives and work programme, which included the preparation and drafting of a MoU on banking regulations and supervision for submissions to the CCBG.

To pursue the goals of monetary and financial integration in SADC and to learn from one another's experiences, the Governors of Central Banks in SADC held a meeting with the European Central Bank (ECB) during February 2005 in an effort to familiarize themselves with the challenges to be encountered during the process of establishing a common monetary zone in SADC. Similar meetings between the ECB and CCBG would be held as the need arose, to continue the exchange of views on the process leading towards monetary integration.

In the years ahead, the CCBG would continue to lead the process of monetary and financial integration in the region, spurred by the desire to modernise and harmonises the SADC systems. This was done with an intent of moving towards a macro-economic convergence and the achievement of a monetary union by the year 2016, as outlined in the Regional Indicative Strategic Plan. According to this plan, efforts are underway to define macro-economic targets and indicators which would serve as future benchmarks for member countries.

(d) South African Customs Union (SACU[45])

A significant development during the year under review was the implementation of the new 2002 SACU Agreement. The 2002 agreement is a modern and flexible treaty which sets the broad framework for an enhanced economic integration between member states. The new approach rendered SACU as a quasi-supra-national organisation, which was mandated to design trade and other related policies and take decisions on behalf of all member countries on these issues. Unlike the old agreement where all the major policy decisions were left to South Africa, the new framework has created a platform where decisions are taken jointly by all member states.

During this period, SACU's agenda was focused on operational issues concerning the establishment of the SACU Secretariat and the application of the new revenue sharing arrangement. It is expected that the future SACU agenda should concentrate more on policy issues concerning trade and agricultural and industrial development and establish a common negotiation mechanism for bilateral and multilateral negotiating forums.

45 The SACU membership is consisting of Botswana, Lesotho, Namibia, South Africa and Swaziland.

In respect of the new revenue sharing formula, it was worth noting that there had been an active process for the achievement of trade data standardisation and reconciliation to apply the new revenue sharing formula to the satisfaction of all SACU members. To this effect, the Bank of Namibia continued to assist and offer technical and policy advice to the Ministry of Finance in determining the revenue share due to Namibia under the new arrangement. It was important to note that under the new revenue sharing formula, the revenue could not be adjusted retrospectively, as had been the case under the old formula. Once the revenue shares have been determined and approved by the highest policy authority of the SACU – the SACU Council of Ministers – member states could not argue for revised shares according to new statistical data. This calles for all SACU members to ensure the accuracy and timeliness of the trade and the GDP data for the purpose of revenue sharing.

(d) International Reserves Management

All official foreign currency reserves of the Republic of Namibia are held and managed by the Bank of Namibia. The Board sets the investment objectives. The investment objectives are specified in terms of the risk and return preference, as well as by the constraints that are expressed quantitatively per currency and assets benchmarks. In terms of the Investment Policy, the Governor, who is tasked with implementation process of this Policy, established Investment Guidelines[46]. The Governor is assisted by the International Reserves Management Committee (IRMC), which he chairs. The IRMC members consist of the Deputy Governor, General Manager, Head of Research and the Head of the Financial Markets Department (FMD). The daily reserve management operations are delegated to the Head of FMD who is the Chief Investment Officer in charge of three operative units, namely the Front, Middle and Back Offices.

Following the termination of investment agreements with external portfolio managers in 2004, FMD constructed customised benchmark portfolios for US Dollar and Euro portfolios according to which reserves are managed. At the same time the FMD developed an internal capacity to ensure the successful implementation of the benchmark portfolios. The benchmark portfolios were approved by the Board in November 2004 and were successfully implemented in February 2005. Benchmarks are considered to be optimal passive portfolios for the management of the reserves and constructed to reflect the strategic investment risk preferences of the Board. As such, benchmark portfolios represent a neutral view in that the FMD does not actively react to or take a position in regard to changes in market conditions.

In terms of the Investment Policy the Bank of Namibia's foreign exchange reserves are held in three currencies, namely; the South African rand (ZAR), the United States of America Dollars (USD) and the Euros (EUR). ZAR, the main liability in the currency mix, continued to be invested in short term money market instruments restricted to call deposits, overnight deposits and fixed deposits for up to 2-weeks. The benchmark portfolios were restricted only to the USD and the EUR. These benchmark portfolios were invested in highly rated and liquid instruments. The USD portfolio benchmark consisted of cash, US Treasury Bills with maturities of up to 6 months and US Government Treasury notes with a maximum maturity of 2 years. Investments in the EUR benchmark portfolio, on the other hand, were made up of cash, fixed interest bearing securities (FIXBIS), which are money market instruments issued by the Bank for International Settlement (BIS).

(e) Foreign Exchange Reserves Level

Reserves are held primarily to facilitate payments for international transactions of the Republic of Namibia and as a backing for the issue of domestic currency in terms of Article 4 of the bilateral monetary agreement between the Republic of Namibia and the Republic of South Africa. To achieve these objectives, the Bank of Namibia is compelled to hold adequate reserves. Therefore, the adequacy of reserves is evaluated in terms of their ability to cover the stated objectives.

46 The current Investment Guidelines were approved in May 2005.

The international foreign exchange reserves position of the Bank of Namibia barely changed, recording a slight increase to N$1. 861 billion at the end of 2005 from N$1. 848 billion at the end of 2004 (Chart 7.1). The relatively small increase in Namibia dollar terms could be attributed to the fact that despite a sizeable increase in commercial bank net foreign transfers in 2005 (Chart 7.2) compared to 2004, a windfall in SACU revenue and the Namibia dollar depreciation versus Euro and USD neutralised the impact. In US dollar terms, the reserves declined to U$293 million from U$324 million.

Chart 7.1 Foreign Reserves

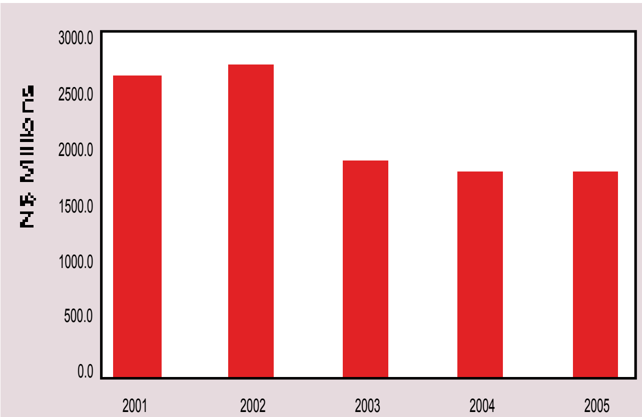
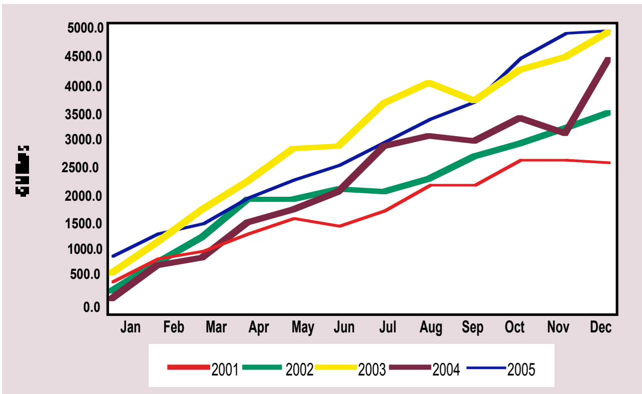


Chart 7.2 Cumulative Outflows



7.1.2 Enhancing the development of the financial system

(a) Management of Public Debt

- **Borrowing strategy 2005/06**

The Ministry of Finance and the Bank of Namibia had been concerned about the composition of the domestic Government debt securities, which were predominated by the short-term debt securities, namely the Treasury Bills. This composition could cause potential cash flow problems and a rollover risk for the Government. As a result, strategies were devised to reduce the composition of short-term debt in the total domestic debt and increase that of long-term debt securities, i.e. Internal Registered Stock (IRS). The need and intention to shift from Treasury bills to bonds were highlighted during the tabling of the 2005/06 budget statement by the Minister of Finance.

To this end, the Borrowing Plan for 2005/06 fiscal year was aimed at implementing the commitment of the Government to reduce the composition of short-term domestic debt in the composition of total domestic debt, and to increase the proportion of long-term debt. This would ensure that Government would rely more on long-term domestic debt securities financing to support the funding of capital expenditure. The Borrowing Plan for 2005/06 had therefore involved strategies which were aimed at the restructuring of a sizeable portion of short-term Government debt into more extended instruments in order to have a maturity profile for the Government with a reduced refinancing risk. As part of the implementation of the 2005/06 Borrowing Plan, the proportion of the bonds to total domestic debt had risen to 51 percent at the end of 2005 compared with only 45 percent at the end of 2004, while the Treasury bills had declined to 49 percent from 55 percent over the same period. With three months remaining before the end of fiscal year 2005/06, the Government is on course to reach its intended target.

- **GC05 redemption**

One of the highlights in public debt management during 2005 was the successful redemption of GC05 on 15 April 2005. The original outstanding balance on GC05 amounted to N$1.068 billion during February 2004.

In order to ensure a smooth redemption of GC05, a two pronged strategy was pursued, consisting of Switch Auctions and a Sinking fund. Under the first strategy a portion of bonds was switched into other bonds prior to the maturity of the GC05, thus reducing the outstanding balance. The second strategy entailed the establishment of a Sinking Fund as a provision to redeem the GC05 at maturity as it was assumed that some GC05 holders would opt not to rollover their holdings into other bonds, but rather receive cash. The funds for the Sinking Fund were raised through primary auctions and were invested in local banking institutions. This two-pronged strategy proved to be successful as the GC05 was redeemed without any difficulties.

- **Introduction of new instruments**

As a replacement of the GC05, a semi-annual coupon of Internal Registered Stock (8.5 percent) – GC08 – maturing in July 2008 was issued in January 2005, i.e. prior to the GC05 redemption in April 2005. The new GC08 bond was also issued to ensure that Government made available investment opportunities for investors at the short end of the yield curve. This gap resulted from the redemption of the GC05 in April 2005 and closed the GC07 issues, due to an already extended total outstanding amount.

During July 2005, the Government issued another new semi-annual coupon on Internal Registered Stock (10.5 percent) – GC12 – maturing in October 2012. The intention was to fill the gap between the GC10 and the GC15, following the decision to cease the issuance of GC10 in the primary market.

The decision to cease the issuance of the GC10 was based on the need to avoid the overloading of this bond which was already standing at N$1.7 billion. Another reason for this decision was the need to cater for medium term investors as the next available instruments, i.e. the GC15 and the GC24, had much longer maturity periods.

These new bonds increased the total number of Government bonds in issue to six, i.e. the GC07, GC08, GC10, GC12, GC15 and GC24. The Government was, however, only left with four active bonds from which it could issue, as both GC07 and GC10 were currently no longer issued.

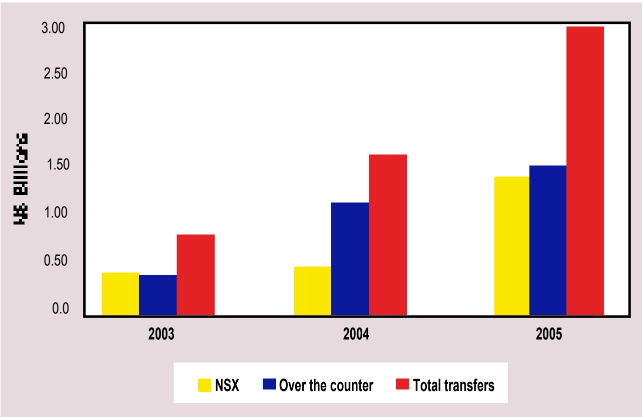
- **Secondary market activities in Government Bonds**

There was a noticeable improvement in the secondary market trading activities reflected in the increased nominal value of transfers recorded in the Government Bond Register kept at the Bank of Namibia. The volume of trades nearly doubled to N$3.0 billion in 2005 from N$1.64 billion in 2004 and from a mere N$838 million recorded in 2003.

One basic indicator for improved secondary market trading is the trade ratio, which measures the volume traded in the secondary market relative to the total outstanding debt of Government bonds. According to this ratio, the secondary market trading in the Government bonds had picked up significantly since 2004, surging to 52 percent in 2005 from 34 percent in 2004.

Secondary trading of Government bonds (Chart 7.3) is still concentrated more in over-the-counter market when compared to trading activities through the NSX. However, recent developments indicated that the behaviour of investors/traders was changing as shown by an increase in volume of trades that took place through the NSX. In 2005, total volume of trades through NSX increased to 48.0 percent of total volume of secondary market trades from 29.0 percent in 2004.

Chart 7.3 Secondary Market trading of Government Bonds



- **Government Bond market development efforts**

The Bank of Namibia and the Ministry of Finance, in conjunction with market participants, had continued looking into various market development efforts to improve the bond markets in the country. The possibility of introducing "market making" for Government securities was one of the recommendations made at the Namibian Bond Market Symposium (August 2004). During 2005, the Bank of Namibia had conducted a survey among market participants to obtain their views on the feasibility of market making in the Internal Registered Stock or bonds of the Government of the Republic of Namibia. The response was that there was a definite need for market making, to stimulate liquidity and improve the pricing of Government Bonds. A number of market participants had moreover, indicated a willingness to play a role in market making. Currently, the Bank of Namibia, in conjunction with the Ministry of Finance, are at an exploratory phase of studying appropriate models which might suit the Namibia bond market better.

In the meantime to improve transparency in the Government Bond market, the Bank of Namibia had developed a web-site where market players could indicate their intentions to buy and/or sell bonds. On this site, market participants would also be able to report their transaction details, i.e. securities bought or sold as well as the price of the transaction. Such a site was at an advanced stage of development and final refinements were being made to incorporate comments from the NSX and some market participants. The web-site shall be donated to the market and hosted by NSX.

(b) Deepening the Namibian financial system

With the intention of enhancing the development of the financial system in Namibia, the Governor of the Bank of Namibia and the Minister of Finance had jointly invited the IMF/World Bank to conduct an assessment on the soundness and robustness of the Namibian financial system. This assessment was undertaken under the Financial Sector Assessment Program (FSAP). The FSAP had been introduced by the IMF/World Bank in 1999 and sought to identify the strengths and weaknesses of the financial system of a country by determining how key sources of risk are being managed. This is done by ascertaining the developmental and technical assistance needs of the financial sector and, finally, by assisting with the development and prioritisation of possible policy responses.

The IMF/World Bank team visited the country between 14 October and 4 November 2005 to discuss issues related to the Namibian financial system with various stakeholders. Typically, the FSAP entailed a country being assessed against the following core principles:

- The core principles for effective banking supervision;
- The insurance core principle;
- Objective and principles of regulations;
- The core principle for systematically important payment systems;
- The code of good practice on transparency;
- The code of monetary and financial policies;
- Recommendations for the settlement system for securities
- Standards for anti-money laundering;
- The countering of the financing of terrorism.
- National and occupational pension fund core principles

The outcome of the assessment is a FSAP report was provided to the Namibian authorities for implementation at their discretion.

(c) The National Payment System

One of the Bank of Namibia's statutory obligations is "to promote and maintain internal and external monetary stability and an efficient payments mechanism". This mandate involves the creation of the enabling and transparent environment that is conducive to the sound and orderly development of the financial sector. The payment system, in turn, is an essential part of the financial infrastructure in a market economy, where the organization and operation of the monetary, banking and payments systems are largely determined by the needs of the markets, with official oversight, to ensure stability and safety.

Table 7.1 sets out the value and volume of transactions settled through the Namibia Interbank Settlement System (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	220.25	181.36	38.89	38,176
2004	242.42	188.75	53.67	37,804
2005	231.10	154.81	76.29	37,009

As indicated, the total value of transactions settled through the NISS during 2005 amounted to N$231 billion, which was 4.7 percent lower than the value settled in 2004. It is worth mentioning that the value of transactions settled on a gross basis (high-value interbank transactions) had fallen moderately, while transactions settled in bulk (EFT and cheque transactions) had risen strongly. The volume of transactions settled through the NISS had remained roughly at the same level over the past three years.

Significant milestones in the payment system reform process have already been achieved, such as the establishment of the real-time gross settlement (RTGS) system and the setting up of an electronic clearing house. During the year under review, a further payment system reform took place, namely the cheque clearing and settlement system. The cheque processing reform was necessitated by the need to improve payment services offered to Namibian customers through the establishment of a common cheque processing platform and standards for the banking industry.

In this regard, the Namibian banking institutions had implemented a multi-bank electronic Cheque Processing System (CPS) on 18 July 2005. The CPS entailed the setting up of a shared, centralised and interlinked infrastructure for the electronic code-line-clearing of cheques. The CPS solution had replaced the manual cheque clearing system with the Code Line Clearing (CLC) system. The CLC system enabled banking institutions to capture information of deposited cheques by electronically reading the magnetic code line on each cheque and by transmitting the information captured via Namclear to the paying bank for settlement before the paper cheque was delivered to the paying bank for final approval.

The remaining and final phase of the clearing project was to establish a local infrastructure for all ATM, debit and credit cards and point-of-sale transactions, which were currently still processed in South Africa by South African service providers.

Oversight of payment systems is seen as a public policy activity focused on the efficiency and safety of the entire payment system. In this regard, the Payment System Management Act, 2003 was promulgated and gazetted on 15 May 2004. The Act gives the Bank of Namibia the necessary legal powers to oversee the national payment system, to ensure the financial and technical integrity of the system, including its overall robustness against shocks and its overall efficiency and cost effectiveness.

One way of carrying out the payment system oversight function of the Bank, was to assign a payment system management body to supervise the technical side of the payment system. The Bank of Namibia had issued a certificate of recognition to the Payments Association of Namibia (PAN) on 11 August 2005. The PAN serves as the payment system management body of Namibia and is constituted with representatives of the four banking institutions and the Bank of Namibia. Given its oversight and regulatory role in the national payment system, the Bank is a non-voting member of the PAN. The functions the PAN are limited to the determination and administration of all payment system operational and technical policies. The PAN must lay down criteria, conditions and standards, including instrument standards, electronic notification and message standards, as well as formats for electronic files that would be exchanged between system participants and payment systems.

7.1.3 Improving the effectiveness of macro-economic management

The Bank of Namibia undertook a number of studies during the year in the area of enhancing macro-economic management. These research activities focused on key strategic issues such as the exploitation of the opportunities presented by the AGOA regime, the viability of the export credit guarantee scheme and the cost and benefit of the investment incentives of Namibia. Further work was carried out with the aim of improving the capacity of measuring the performance of the economy correctly. This included the continuation of the construction of business cycle indicators, the creation of the inflation forecasting framework and the investigation into whether or not money market unit trusts were a part of the money supply. Additionally, the Bank of Namibia had prepared a paper which assessed the constraints and the potential in the main sectors of the Namibian economy. This served as a contribution to the discussions of the Cabinet retreat.

The assessment of the potential of the AGOA regime concluded that there were still a number of untapped opportunities which Namibia could exploit within this framework. It was found that mineral products such as polished diamonds, processed zinc, and polished marble could enter the US market on preferential terms as a result of the AGOA. Agricultural products such as cotton seeds, raisins, hides and beef were also eligible export commodities.

Another study focused on the viability of an export credit guarantee scheme in Namibia. This study was prompted by NDP II as a strategy to enhance access to financial services. The study further established the value of an export guarantee scheme which would be able to bolster the growth of export produce in the country. The need to enhance the growth of exports was borne from the reality that the domestic market of the country was too small to support the level of economic development necessary to create sufficient gainful employment and to reduce poverty. The economic expansion of the country would therefore, mainly depend on the growth of the export sector. This study indicated that there might not be a need for such a scheme for exports destined to developed countries as there were a number of sufficient commercial instruments which catered for these markets. If Namibia however, had to diversify its exports by directing its exports to emerging and developing countries, the guarantee scheme might be required. Discussions on this issue with relevant stakeholders were continuing.

The Bank of Namibia was also examining the cost and benefits of the various investment incentives of Namibia, in order to understand whether or not the country derived net gains from these concessions. Work on this study was progressing actively and was being conducted jointly with the Ministry of Finance. The results of some of these projects would be shared with the relevant stakeholders.

With the intention to strengthen the capacity of measuring the trends in the economy correctly, the Bank of Namibia had started developing a set of indicators which were aimed at providing signals on the cyclical movements in economic activities, the so-called Business Cycle Indicators. Since such indicators would need more research time before reliable indicators could be developed, this project would only reach finality by the end of 2007. In the same vein, the Bank of Namibia was also working on the framework of forecasting inflation. This would serve as a contribution to the formulation and implementation of a monetary policy.

The rapid expansion of money market unit trusts meant that the number of instruments which had been included so far, in the money supply aggregate, should be reconsidered. This was because money market unit trusts appeared to exhibit all the characteristics of money in terms of liquidity and stability in value and could, therefore, qualify as instruments which would represent money. It was against this background that an investigation was being conducted.

The study confirms that these instruments have all the properties of money and should therefore form part of the money supply aggregates of Namibia. The framework of collecting data in this respect was being established.

7.1.4 Building capacity, organisational culture and shared vision

(a) Capacity Building

The Bank of Namibia had engaged itself for the past year with a continuous improvement in the areas of performance management, training provision, employee wellness and the code of ethics through the:

- revision of the performance management policy;
- conducting of in-house courses in the areas of central banking, leadership, teamwork, character building and emotional intelligence;
- establishment of a support group for staff caring for people with HIV/AIDS, who also served as resource persons in addressing HIV/AIDS challenges at the Bank of Namibia; and
- drafting of the Code of Ethics which would eventually replace the existing Code of Conduct.

(b) Affirmative Action

For the past few years, the Bank of Namibia was challenged in raising the number of females into management levels, in terms of its affirmative action plan. The Bank had persisted in its efforts to recruit, promote and develop females in order to redress the imbalance. These efforts had resulted in raising of the percentage of female employees at managerial levels from 11.5 percent in 2004 to 20.7 percent in 2005.

7.1.5 Strengthening stakeholder relationships

In line with its strategic priorities over the past three years, the Bank of Namibia had fast-tracked its stakeholder engagements to establish and consolidate relationships with strategic stakeholders. This was encouraged by the need for a broad social communication with stakeholders, to enhance the understanding and knowledge of the operations of the Bank.

As part of stakeholder engagements, the Bank had held two major events which had become part of the annual events of the Bank of Namibia, namely, the Annual Address of the Governor, and the Annual Symposium. The annual address of 2005 had drawn key political and business personalities from all parts of the country. The topic of the address was "Investment Management: The role of regulatory bodies in Namibia". Another platform where the major economic players and stakeholders had the opportunity to deliberate on economic issues, was the Annual Symposium, which dealt with the subject: "The benefits of regional integration for smaller economies".

On other fronts, the Governor hosted working dinners for newly appointed government officials and other political office bearers with whom information about the operations of the Bank of Namibia was shared. The initiative was further extended to other captains of industry across the country. Outreach visits to major economic activities in the country were carried out, especially targeting the mining and fishing companies.

It was also important to point out that during the year under review; the Bank of Namibia had experienced a heightened level of internal stakeholder interaction. The Intranet facility, the in-house journal and other forms of internal communication had been upgraded, to enhance effective internal communication. An Internal Communication Audit which was carried out over the annual period revealed that over seventy percent of the internal stakeholders were happy with the communication efforts of the Bank of Namibia.

7.1.6 Social Responsibility

The Bank of Namibia continues to uphold its commitments towards social investment. During the reporting period the Board approved and availed an amount totaling one million Namibia dollars spread over a period of five years to support computer literacy programmes in Namibian schools. Two secondary schools, from previously disadvantaged communities will become beneficiaries of this initiative. These schools were selected on the basis of the criteria set by the Bank of Namibia in consultation with the Ministry of Education. The schools were the Wennie du Plessis Senior Secondary School and the Nuuyoma Senior Secondary School in the Omaheke and Omusati regions, respectively.

In addition, the Bank of Namibia supported other rural schools with computers and other electronic equipment to be used for teaching and learning purposes. The Bank had also donated money in support of other educational activities. Financial support was extended to the Junior Achievement Namibia to introduce entrepreneurial education programmes at the Tsumkwe Junior Secondary School, a rural school in Otjizondjupa region.

The University of Namibia's Chemistry department was also supported with an amount of N$35 000.00 towards the organization of a National Chemistry Conference/workshop in the country.

The Bank of Namibia again donated a cash amount of N$5000 each to the best performing students of the Polytechnic of Namibia and the University of Namibia, as part of an ongoing support to reward best performance in Economics, Banking and Finance related fields.

7.1.7 Infrastructure Enhancements

As a part of the strategy of the Bank of Namibia, to develop and maintain information, and a dissemination infrastructure, the Bank of Namibia had replaced its manually operated library system with an electronic system known as In-Magic. The replacement was necessary to ensure efficiency of operation and the provision of information services that met the needs of both internal and external stakeholders.

The installation of the In-Magic had enhanced the management and dissemination of the diverse information resources. The Information Centre is now able to capture a variety of resources that are housed there, such as newspaper articles, photos, electronic and printed materials. The system could also be used to analyse information needs and guide the development of future services.

As part of the strategy to enhance the efficiency and effectiveness of the information dissemination activities of the Bank of Namibia some interventions, such as training were presented to the staff of the Information Centre to enable them to operate the new system. The Information Centre Webpage had also been launched on the local Intranet. This contributes to two of the programmes of the Bank of Namibia i.e. to enhance and promote electronic communication and to implement an employee self-service system. Both programmes were under the strategic priority of the Bank of Namibia to develop and maintain information captured for a dissemination infrastructure. Once activated, the web page would enable the staff of the Bank of Namibia to have access to a variety of electronic databases and library catalogues as well as to request online services.

The information technology (IT) is important to the core function of any organisation and the Bank of Namibia had therefore undertaken to upgrade its information technology systems during 2005. One of the major Developments in Information Technology improvement during 2005 was the automation of the Banking Supervision function of the Bank of Namibia. The Bank had joined the ESAF/SADC development of a data collection and analysis system which automated most the Banking Supervision function. The Bank of Namibia had implemented this system at the beginning of 2005. The system had improved the collection of electronic data considerably, and had enhanced the banking analysis process.

7.2 OTHER ACTIVITIES DURING THE YEAR

7.2.1 Staffing position at Bank of Namibia

Staffing levels had remained at an average level of 270 over the past three years. The composition of the staff complement of the Bank of Namibia is depicted in Table 7.2.

Table 7.2 Staff numbers at year end

Staff category	2003	2004	2005
General staff	241	239	240
Managerial	30	26	27
Executive	3	3	3
Total	**274**	**268**	**270**

For this reporting period, the turnover of staff of the Bank of Namibia had remained below the market norm of 6 percent. The overall staff turnover rate at 31 December 2005 was 4.9 percent. The turnover rate (excluding deaths and retirements) was 1.9 percent.

7.2.2 Currency and banking activities

During 2005, the Bank through its manual cheque clearing operations processed a total of 306 223 cheques. This number is significantly lower than the 800 002 cheques of 2004. This decrease in volume was due to the automation and outsourcing of the cheque clearing system which had started on 21 July 2005, as discussed elsewhere in this report.

Table 7.3 indicates the composition of the national currency in circulation during the past two years. During 2005 the value of currency in circulation had risen by 8.6 percent, compared with a 2.9 percent value increase in 2004. In volume terms, the number of units (notes and coins) had risen by 6.0 percent in 2005 to 190.8 million units. In 2004 the volume increase was 9.4 percent. As indicated in Table 7.3, all denominations, except for the N$10, N$20 and N$50 notes, recorded an increase in circulation.

Table 7.3 Composition of currency in circulation

Denomination	2004 Value (N$'m)	Volume (N$'m)	2005 Value (N$'m)	Volume (million)	% Value Change
5 cent-coin	2.82	56.32	3.12	62.34	10.7
10 cent-coin	5.93	59.29	6.10	60.97	2.8
50 cent-coin	5.69	11.38	6.03	12.06	6.0
N$1-coin	32.23	32.23	34.02	34.02	5.6
N$5-coin	19.57	3.91	20.58	4.12	5.2
N$10-note	45.85	4.59	44.92	4.49	-2.0
N$20-note	77.87	3.89	73.46	3.67	-5.7
N$50-note	137.25	2.75	127.97	2.56	-6.8
N$100-note	506.51	5.07	595.65	5.96	17.6
N$200-note	112.04	0.56	115.00	0.57	2.6
TOTAL	**945.76**	**179.98**	**1,026.85**	**190.77**	**8.6**

In terms of the Bilateral Monetary Agreement between Namibia and South Africa, the rand is a legal tender in Namibia. The value of the Rand repatriated annually, continues to exceed the annual value of Namibia Dollar placed in circulation, by a considerable margin. This is reflected in Table 7.4. The net value of Namibia Dollar placed in circulation during 2005 was only N$81 million, compared with the value of the Rand repatriated to the value of R513 million during the same year.

Table 7.4 – Rand repatriation and N$ in circulation

Calendar year	Value of Rand Repatriated		Increase in value of N$ in circulation	
	R' million	% change	N$' million	Annual % change in stock
2000	200.1	1120.1	-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

The strong increase in the Rand which was repatriated was the result of a growing cross-border trade between Angola and border towns in northern Namibia. These activities generated foreign exchange for Namibia as the repatriated Rand contributed to the foreign exchange earnings of the country.

7.3 CORPORATE GOVERNANCE AND RISK MANAGEMENT

The Bank of Namibia remains committed to comply with the provisions of its enabling legislation and generally accepted corporate governance principles and practices. In terms of the Bank of Namibia Act, 1997 (as amended) the Bank is required to have a mission statement, spelling out clearly the main purpose and vision of the Bank, based on the objectives provided in the Act. In fulfilling its statutory obligations and living up to its corporate charter, the Bank relies on a strategic plan, which is reviewed annually to determine the course of action of the Bank, its policy direction and the strategic areas of concentration.

The Board, in turn, is responsible for the policy, internal controls, risk management and general administration of the Bank. The efforts of the Board to determine the adequacy of internal controls and risk management in the Bank are dealt with by the Audit Committee. Both the Chief Internal Auditor and the Chairperson of the Risk Management Committee report quarterly to the Audit Committee on risk treatments in the Bank and their adequacy. The Chairperson of the Audit Committee reports any concerns to the Board.

The Bank has adopted a comprehensive risk management framework, which includes the management of risks emanating from its policy and regulatory functions, as well as risks of a pure organizational and operational nature. In addition, a framework for business continuity management was adopted during the year under review to assist in managing the risks to which the Bank is exposed and to serve as a proactive way of carrying out the mandated functions of the Bank effectively and with the least possible interruption and interference. As part of business continuity management, the Bank has adopted an emergency response plan and a business continuity plan.

The Bank of Namibia regards the following risk categories as the key risk exposure to its operations, structures, systems and procedures:

- Reputation Risk
- Operational Risk
- Supervisory and Regulatory Risk
- Human Resources Risk
- Liquidity Risk
- Settlement Risk
- Credit Risk
- Market Price Risk

For each of these risk categories, the Bank has designed preventative, mitigating and remedial measures which are regularly assessed according to their effectiveness and adequacy.

The Bank of Namibia has adopted a risk based audit approach, focusing its efforts more on those areas which pose the highest risk to the Bank of Namibia. The Bank of Namibia has assessed the adequacy and effectiveness of internal control systems and procedures over the high-risk operations. The interventions by Internal Audit have resulted in critical reviews of existing controls and procedures and the strengthening of the same.

PART D
ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

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 2005

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBER OF THE BANK OF NAMIBIA

We have audited the annual financial statements of the Bank of Namibia set out on pages 88 to 110 for the year ended 31 December 2005. These financial statements are the responsibility of the Board of Directors of the Bank. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Bank of Namibia's policy is to prepare the financial statements on the basis of accounting as set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in Note 1 and in the manner required by the Bank of Namibia 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 are not intended to, and do not, comply with all the requirements of International Financial Reporting Standards.

Deloitte & Touche
Chartered Accountants (Namibia)
WINDHOEK
16 March 2006

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 and members of Management 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 certain IFRS principles in line with the nature of central banking activity, have been consistently applied with the exception of the changes in accounting policy as documented as part of the annual financial statements and are supported by reasonable and prudent 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 they continue to adopt the "going concern" basis for 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 their approval by the Board of Directors. 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 88 to 110 were approved by the Board and are signed on its behalf by:

CHAIRMAN	**BOARD MEMBER**
2 March 2006	**2 March 2006**

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Notes	2005 N$' 000	Restated 2004 N$' 000
Net interest income		96 358	74 042
Interest income		103 035	88 870
Interest expense		(6 677)	(14 828)
Net realised losses on portfolio investments		(1 944)	(5 098)
Other income	2	56 044	42 560
Total income		150 458	111 504
Operating expenses		96 903	98 149
Profit for the year	2	53 555	13 355
Transfers to reserves		33 555	8 790
General reserve		18 555	3 790
Development fund reserve	14	15 000	5 000
Distribution to State revenue fund		20 000	4 565

BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	2005 N$' 000	2004 N$' 000
ASSETS			
Non-Current Assets		237 133	186 027
Property, plant and equipment	3	147 779	150 748
Intangible Assets	4	1 564	2 601
Currency inventory	5	4 771	8 437
Loans and advances	6	83 019	24 241
Current Assets		2 404 586	2 546 332
Investments	7	1 906 463	1 902 286
Loans and advances	8	402 723	555 400
Rand cash		41 067	47 246
Inventory	9	945	1 690
Other Assets	10	53 388	39 710
TOTAL ASSETS		2 641 719	2 732 359
EQUITY AND LIABILITIES			
Capital and Reserves		647 427	600 205
Share capital	11	40 000	40 000
General reserve	12	246 569	228 014
Revaluation reserve	13	345 858	312 191
Development fund reserve	14	15 000	20 000
Non-Current Liabilities		14 190	11 973
Provision for post employment benefits	18	14 190	11 973
Current Liabilities		1 980 102	2 120 181
Notes and coins in circulation	15	1 026 846	945 758
Deposits	16	945 324	1 162 657
Provision for post employment benefits	18	247	292
Trade and Other payables	17	7 685	11 474
TOTAL EQUITY AND LIABILITIES		2 641 719	2 732 359

TOM K. ALWEENDO
GOVERNOR
2 March 2006

PAUL WALTER HARTMANN
CHIEF FINANCIAL OFFICER
2 March 2006

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 DECEMBER 2005

	Share Capital N$'000	Accumulated Profit & loss a/c N$'000	General Reserve N$'000	Revaluation Reserve N$'000	Distribution State Revenue Fund N$'000	Development Fund Reserve N$'000	Total N$'000
Balance at 1 January 2004 as previously stated	40 000		229 336	432 464	1 060	15 000	717 860
Change in accounting policy	-		(5 112)	-	-	-	(5 112)
Balance at 1 January 2004 As re-stated	40 000		224 224	432 464	1 060	15 000	712 748
Net foreign exchange losses	-			(120 273)		-	(120 273)
Profit for the year		13 355					13 355
Appropriation of net profit for the year	-	(13 355)	3 790	-	4 565	5 000	-
Reclassification to current liability					(5 625)		(5 625)
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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 N$'000	Restated 2004 N$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	A	8 552	(28 589)
CASH FLOWS FROM INVESTING ACTIVITIES		(65 075)	2 577
Proceeds on disposals of fixed assets		783	86
Purchase of fixed assets		(5 491)	(11 815)
Purchase of currency inventory		-	(4 090)
Purchase of intangible assets		(1 589)	(115)
Decrease/(increase) in loans and advances		(58 778)	18 511
CASH FLOWS FROM FINANCING ACTIVITIES		56 523	26 012
Distribution to the State revenue fund	B	(4 565)	(1 060)
Distribution to the Development Bank of Namibia		(20 000)	-
Notes and coins issued		81 088	27 072
	1.13	-	-

NOTE:

A. RECONCILIATION OF PROFIT FOR THE YEAR TO CASH UTILISED BY OPERATIONS

	2005	2004
Profit for the year	53 555	13 355
Adjusted for:		
Depreciation	8 148	9 487
Amortization of currency	3 666	6 078
Provision post employment obligation	2 172	1 845
Amortisation of computer software	2 626	3 172
Loss on disposal of fixed assets	33	3
Profit on disposal of fixed assets	(504)	(18)
Operating cash flows before movements in working capital	69 696	33 922
Decrease/(increase) in loans and advances	152 677	(513 141)
Decrease/(increase) in rand cash	6 179	(34 036)
Increase in other assets	(13 678)	(30 323)
Decrease/(increase) in inventory	745	(1 424)
(Decrease)/increase in deposits	(232 768)	493 333
Decrease in trade and other payables	(3 789)	(45 286)
Increase In investments	29 490	68 366
	8 552	(28 589)

B. TRANSFER TO STATE REVENUE FUND

	2005	2004
Opening Balance included in deposits	(4 565)	(1 060)
Appropriations of Profit	20 000	4 565
Closing Balance included in deposits	(20 000)	(4 565)
Paid for the year	(4 565)	(1 060)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 DECEMBER 2005

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, except for changes in accounting policies as discussed in Note 1.1 below.

1.1 Change in accounting policies

In the current year under review the Bank adopted the principles of IAS 16: Property, Plant and Equipment. The adoption of these principles have resulted in changes to the Bank's accounting policies with regards to the impact of IAS 16. In line with the principles adopted of IAS 16, the Bank has re-evaluated the estimated useful life of certain operational assets. The currency processing machines which had a useful life of five years has been extended to ten years. In addition the Bank's buildings were componentised and reclassified to other assets categories. The impact of these reclassifications has resulted in a prior year adjustment. It is to be further noted that these adjustments have had no impact on the Cash flow statement of the prior period. The adjustment as processed is detailed below:

Income Statement Impact	**'General Reserve N$'000**
Balance at 1st January 2004 as previously stated	229 336
Change in accounting policy	(5 112)
Restated opening Balance	224 224

The effect on the income statement for the year 2004 is as follows:

	N$'000
Net profit as previously stated	15 217
Increase in depreciation charge	(1 862)
Re- stated Net profit at 31st December 2004	13 355

Balance Sheet Impact	**Property, Plant & Equipment N$'000**
Net book value at 1st January 2004 as previously stated	153 603
IAS- 16 adjustments	(5 112)
Net book value restated as at 1st January 2004	148 491
IAS – 16 adjustments	(1 862)
Other net movements	4 119
Net book value restated as at 31st December 2004	150 748

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) 31 DECEMBER 2005

1. ACCOUNTING POLICIES (CONTINUED)

1.1 Continued

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	Effective date
IFRS 4	Insurance Contracts Amended for financial guarantee contracts	2005	Annual periods beginning on or after 1 January 2006
IFRS 7	Financial Instruments Disclosures	2005	Annual periods beginning on or after 1 January 2007
Revised International Accounting Standards		**Revised**	**Effective Date**
IAS 1	Presentation of Financial Statements Added disclosures about an entity's capital	2005	Annual period beginning on or after 1 January 2007
IAS 19	Employee Benefits	2004	Annual periods beginning on or after 1 January 2006
IAS 39	Financial Instruments: Recognition and Measurement Amended for hedges of forecast intra group transactions	2004	Annual periods beginning on or after 1 January 2006
IAS 39	Financial Instruments: Recognition and Measurement Amendment for fair value option	2005	Annual periods beginning on or after 1 January 2006
IAS 39	Financial Instruments: Recognition and Measurement Amendment for financial guarantee contracts	2005	Annual periods beginning on or after 1 January 2006.

IFRIC Interpretation		Effective date
IFRIC 4	Determining whether an arrangement contains a lease	Annual periods beginning on or after 1 January 2006
IFRIC 7	Applying the Restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies	Annual periods beginning on or after 1 March 2006

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2005

1. ACCOUNTING POLICIES (CONTINUED)

1.1 Continued

The Bank has reviewed the above detailed statements and anticipate that IFRS 7, IAS 1, IAS 39 will have an impact on the Bank's financial statements especially in as far as disclosure is concerned. At present it would be difficult to predict the financial impact.

1.2 Revenue recognition

Interest income is recognised on a time proportioned basis, taking account of the principle outstanding and the effective rate over the period to maturity. The effective 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 fair value which includes transaction costs. The Bank classifies its financial instruments as follows:

Classification - Financial Assets

- 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

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Continued

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, 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 accounts etc 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.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

1. ACCOUNTING POLICIES (CONTINUED)

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 than 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. All such movements shall be credited to the Revaluation Reserve Account.

Assets and liabilities in foreign currencies are translated to Namibian 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 %

During the current year in line with the requirements of IAS -16 Property, Plant and Equipment, the Bank reviewed the residual values of certain assets used for the purpose of depreciation calculation. The review resulted in the revision of the estimated useful life of our currency processing machines from five to ten years. The residual value on Buildings was bench marked to similar structures in the country and did not call for any adjustment in residual value both in the current and prior year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

1. ACCOUNTING POLICIES (CONTINUED)

1.7 Intangible Assets – Computer Software

In line with the principles of IAS 38: Intangible assets, computer software costs were reclassified from Property, Plant & Equipment to Intangible assets. On acquisition the software is capitalised at purchase price. The useful life has been set at three years and the assets is 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.

Stationary and Spares

Stationary and spares stocks are 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 capitalised and issued using the weighted average costs

1.10 Pension fund

It is the policy of the bank to provide retirement benefits for employees. Contributions to the pension 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

1. ACCOUNTING POLICIES (CONTINUED)

1.11 Impairment of assets (continued)

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.

1.12 Post- retirement 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 liabilities 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 balances 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. Borrowing costs are accounted for as an expense in the period in which they are incurred.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

	2005 N$' 000	Restated 2004 N$' 000
2. NET PROFIT FOR THE YEAR		
The net profit for the year is arrived at after taking the following items into account:		
Income		
Rand compensation income	50 200	36 000
Profit on disposal of property, plant and equipment	504	18
Unwinding of present value adjustments	1 446	1 658
Other Income	3 894	4 884
	56 044	42 560
Expenditure		
Depreciation	8 148	7 625
Amortisation of computer software	2 626	3 172
Realised losses on portfolio investments	1 944	5 098
Currency Inventory amortisation costs	3 666	6 078
Other Inventory expensed	1 482	694
Salaries and related personnel costs	64 685	60 955
Staff training and development	1 123	972
Social responsibility	1 478	1 019
Board members' fees - for services as directors	208	176
Auditors' remuneration - audit fees	326	220
- other services	-	25
Membership fees	102	134
Building and other maintenance costs	3 803	4 119
Loss on disposal of property, plant and equipment	33	3
Fair value adjustments of new loans	1 266	1 188
Number of employees	270	268

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

3. PROPERTY, PLANT AND EQUIPMENT

2005 Cost	Freehold buildings N$' 000	Computer hardware N$' 000	Furniture fittings & equipment N$' 000	Motor vehicles N$' 000	Total N$' 000
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
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
Book 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
2004					
Cost					
At 1 January 2004	155 464	8 571	22 978	1 209	188 222
Change in accounting policy adj:	(14 734)	-	14 734		-
Additions	96	630	11 089	-	11 815
Disposals/write-offs	(2)	(42)	(126)	-	(170)
At 31 December 2004	140 824	9 159	48 675	1 209	199 867
Depreciation					
At 1 January 2004	11 223	6 502	16 057	837	34 619
Change in accounting policy adj:	(1 209)	-	6 321	-	5 112
Restated opening balance	10 014	6 502	22 378	837	39 731
Current year charge	3 026	1 791	4 510	160	9 487
Disposals/write-offs	-	(25)	(74)	-	(99)
At 31 December 2004	13 040	8 268	26 814	997	49 119
Book value					
At 1 January 2004	144 241	2 069	6 921	372	153 603
At 31 December 2004	127 784	891	21 861	212	150 748

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 2005

4. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	Computer Software N$'000
2005	
Cost	
At 1 January 2005	14 945
Additions	1 589
Transfers	-
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
Book value	
At 1 January 2005	2 601
At 31 December 2005	1 564
2004	
Cost	
At 1 January 2004	14 830
Additions	115
Disposals/write-offs	-
At 31 December 2004	14 945
Amortisation	
At 1 January 2004	9 172
Current year charge	3 172
Disposals/write-offs	-
At 31 December 2004	12 344
Book value	
At 1 January 2004	5 658
At 31 December 2004	2 601

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

		2005 N$'000	2004 N$'000
5.	**INVENTORY NOTES AND COINS**		
	Opening Balance	8 437	10 425
	Purchases current year	-	4 090
	Amortization current year	(3 666)	(6 078)
	Closing Balance	4 771	8 437
6.	**LOANS AND ADVANCES**		
	Staff Loans	16 300	16 676
	Less: Present value adjustment for off-market staff loans	(2 470)	(2 650)
		13 830	14 026
	Other loans	69 189	10 215
	Closing balance	83 019	24 241
7.	**INVESTMENTS**		
	Rand currency	1 269 983	1 242 907
	Other currencies	636 480	659 379
		1 906 463	1 902 286
8.	**LOANS AND ADVANCES**		
	Investments – local Banks	-	419 581
	Repurchase agreements – local Banks	402 723	135 819
		402 723	555 400

Investments – 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.

		2005 N$'000	2004 N$'000
9.	**OTHER INVENTORY: STATIONERY & SPARES**		
	Opening Balance	1 690	266
	Purchases current year	737	2 118
	Issues current year	(1 482)	(694)
		945	1 690
10.	**OTHER ASSETS**		
	Rand compensation receivable - government	50 200	36 000
	Accounts receivable	3 025	3 556
	IMF – special drawing rights	163	154
		53 388	39 710
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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
31 DECEMBER 2005

	2005 N$' 000	Restated 2004 N$' 000

12. GENERAL RESERVE

	2005 N$' 000	Restated 2004 N$' 000
Opening balance	228 014	229 336
Prior year Adjustment (Note 1.1)	-	(5 112)
Transfer from profit	18 555	3 790
Closing Balance	246 569	228 014

13. REVALUATION RESERVE

	2005 N$' 000	Restated 2004 N$' 000
Opening balance	312 191	432 464
Net foreign exchange gains/(losses)	33 667	(120 273)
Closing balance	345 858	312 191

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 be transferred to the revaluation reserve account.

14. DEVELOPMENT FUND RESERVE

	2005 N$' 000	Restated 2004 N$' 000
Opening balance	20 000	15 000
Settlement	(20 000)	-
Transfer from accumulated profit	15 000	5 000
Closing balance	15 000	20 000

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 pre-condition to the disbursement is the running of DBN in accordance with their strategic document.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

	2005 N$' 000	2004 N$' 000
15. NOTES AND COINS IN CIRCULATION		
Notes	957 000	879 526
Coins	69 846	66 232
	1 026 846	945 758
16. DEPOSITS		
Government of the Republic of Namibia	474 164	723 585
Domestic bankers' reserve account	228 139	200 955
Domestic Bankers' current account	117 583	91 911
Other	125 438	146 206
	945 324	1 162 657

The Government of the Republic of Namibia has access to an overdraft facility of N$250 million (2004: N$250 million) with the Bank of Namibia, of which interest is payable at the ruling Treasury Bill rate plus 2% at the time the facility is made available.

Interest is payable to the Government of Namibia on deposits in excess of N$250 million (2004: N$250 million) at the 91 day Treasury Bill rate less a discount of 4.5%.

17. TRADE AND OTHER PAYABLES

	2005	2004
Sundry creditors	7 685	11 474

18. 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 31st December 2005.

	2005	2004
Opening liability	12 265	10 420
Interest costs	1 504	1 277
Current service costs	960	815
Benefit payments	(292)	(247)
Closing liability	14 437	12 265
Current portion of post retirement benefits obligation	(247)	(292)
Non Current portion of post retirement benefits obligation	14 190	11 973

Key assumptions

Discount rate	11.5 % p.a.
Medical inflation	9.5% p.a.
Valuation date	31 December 2004

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

19. 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 2005 the total obligations due by the Bank as regards to collateral securities for housing loan guarantees amounted to N$ 671 000.

20. 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$18.5 million. (2004: N$18 million). The Bank views the case as having no substance and is addressing it in conjunction with its legal advisors.

21. 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$ 6 623 029 (31 December 2004: N$5 877 391)

22. 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.

23. 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:

23.1 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 applied to the valuation of purchased securities and by using modern technology and appropriate organisational structures and procedures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

23.2 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 the fall due. This done by maintaining a 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 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.

23.3 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 repoed instruments to the Bank in case of default.

24. INTEREST RATE REPRICING

The following table summarises the Bank's interest rate exposure in the form of an interest rate repricing table. This shows when the interest rate earned or charged on assets and liabilities can 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2005

As at year ended 31st December 2005

N$'000	0 – 3 Months	3 – 12 Months	1 - 5 Years	Non Interest Bearing	Total
Assets					
Property, Plant and Equipment	-	-	-	147 778	147 778
Intangible Assets	-	-	-	1 564	1 564
Inventory	-	-	-	5 717	5 717
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)	-

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 2005

As at year ended 31st December 2004

	0 – 3 Months	3 – 12 Months	1 - 5 Years	Non Interest Bearing	Total
N$'000					
Assets					
Property, Plant and Equipment	-	-	-	150 748	150 748
Intangible Assets	-	-	-	2 601	2 601
Inventory	-	-	-	10 127	10 127
Loans and advances	-	-	24 241	-	24 241
Investment	1 891 348	10 863	75	-	1 902 286
Loans and advances - current	135 819	419 581	-	-	555 400
Rand cash	-	-	-	47 246	47 246
Other Assets	-	-	-	39 710	39 710
Total Assets	2 027 167	430 444	24 316	250 432	2 732 359
Equity and Liabilities					
Shareholders' equity	-	-	-	600 205	600 205
Post-retirement medical liability	-	-	-	12 265	12 265
Note and coins in circulation	-	-	-	945 758	945 758
Deposits	723 585	-	-	439 072	1 162 657
Trade and Other payables	-	-	-	11 474	11 474
Total Equity & Liabilities	723 585	-	-	2 008 774	2 732 359
Interest rate repricing gap	1 303 582	430 444	24 316	(1 758 342)	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2005

25. CAPITAL COMMITMENTS

	2005 N$' 000	2004 N$'000
Contracted	3 092	15 842
Not contracted	-	2 674
	3 092	18 516

These capital commitments will be funded from internal resources.

26. 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 for the comparative years are detailed below:

Gross Emoluments

	Salaries N$'000	Retirement Benefit N$'000	Medical Aid Benefit N$'000	Total 2005 N$' 000	Total 2004 N$'000
Executive Board					
Governor/Deputy Governor	2 010	346	45	2 401	2 226
Senior Management	5 345	724	198	6 267	4 725
Non-Executive Board					
Dr O Herrigel				49	41
Mr R Ritter				57	53
Ms T Itenge-Emvula				50	41
Mr F Kisting				52	43
Ms L Shapwa				-	-
Mr C Schlettwein				-	-

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

PART E

STATISTICAL APPENDIX

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 credit/asset or a debit/liability. A credit/asset transaction is one that leads to the receipts of payment from non-residents. Conversely, the debit/liability leads to a payment to non-residents.

Capital and Financial Account

In the balance of payments, the capital account covers capital transfers and the acquisition or disposal of non-produced non-financial items such as patents. The financial account of the balance of payments consists of the transactions in foreign financial assets and liabilities of an economy. The foreign financial assets of an economy consist of holdings of monetary gold, IMF Special Drawing Rights and claims on non-residents. The foreign liabilities of an economy consist claims of non-residents on residents. The primary basis for classification of the financial account is functional: direct, portfolio, other investment and reserve assets.

Capital Transfers

Capital transfers in kind consists of the transfers without a quid pro quo of the (1) ownership of a fixed asset or (2) the forgiveness, by mutual agreement between creditor and debtor, of the debtor's financial liability when no counterpart is received in return by the creditor. Capital transfer in cash, on the other hand, is linked to or conditional on, the acquisition or disposal of a fixed asset by one or both parties to the transaction (e.g., an investment grant).

Current Account Balance

The current account of the balance of payments covers all transactions (other than those in financial 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 non-resident is excluded from income and is classified under services such as travel.

Merchandise Trade Balance

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

Net Errors and Omissions

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

Other Investment

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

Overall Balance of Payments

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

Portfolio Investment

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

Reserve Assets

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

Residency

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

MONETARY AND FINANCIAL DEVELOPMENT

3-Month BA rate

The interest rate on a time draft (bill of exchange) drawn on and accepted by Other Depository Corporations on which it was drawn; the bank accepting the draft assumes the obligation of making payment at maturity on behalf of its client.

Bank Rate

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

Depository Operations 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 in circulation, transferable and other deposits of the other non-financial 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)

These are financial intermediaries, which incur as their primary activity liabilities in the form of deposits that are freely transferable on demand without penalty and freely usable as a means of payment. There are currently seven financial intermediaries classified as financial intermediaries in Namibia, i.e. First National Bank of Namibia, Standard Bank of Namibia, Nedbank Namibia and Bank Windhoek, Agribank of Namibia, National Housing Enterprise and the Namibia Post Office Savings Bank.

Deposit rate

The deposit rate refers to the weighted average deposit rate of the ODC's i.e. the rate that ODC's declare on other deposits (eg. time deposits).

Dual-listed Companies

Refer to those companies listed and trading on two stock exchanges, such as the Johannesburg Stock Exchange as well as on the NSX.

Lending rate

The lending rate refers to the weighted average lending rate, i.e. the rate charged by ODC's to borrowers.

Local Market in terms of NSX

Only local (Namibian) companies listed on the NSX.

Market Capitalisation

Market Capitalisation is the total market value of a company's issued share capital. It is equal to the number of fully paid shares listed on the NSX multiplied by the share price.

Market Turnover

Volume of shares traded on the NSX multiplied by the share price.

Market Volume

The number of shares traded on the NSX.

Money Market rate

The money market rate refers to the inter-bank interest rate; the rate at which ODC's extend credit to each other.

Mortgage rate

The rate charged on a loan for the purpose of financing construction or purchasing of real estate.

Overall Market in terms of NSX

Refers to all companies, local as well as foreign, listed on the NSX.

Prime rate

The rate of interest charged by Other Depository Corporations (ODC's) for loans made to its most credit-worthy business and industrial customers; it is a benchmark rate that banks establish from time to time in computing an appropriate rate of interest for a particular loan contract.

Real Interest rate

The rate of interest adjusted to allow for inflation; the nominal interest rate less the rate of inflation for Namibia, is the real interest rate.

PUBLIC FINANCE

Budget proposal or estimates

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

Budget year

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

Capital expenditure

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

Capital grants

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

Capital revenue

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

Central government

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

Current expenditure

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

Current revenue

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

Debt

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

Deficit or surplus

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

Expenditure

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

Financing

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

Fiscal year

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

General government sector

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

Government

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

Grants

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

Revenue

All no repayable and non-repaying receipts, whether

Revenue

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

8.2 STATISTICAL TABLES

I NATIONAL ACCOUNTS

II MONETARY AND FINANCIAL DEVELOPMENTS

III PUBLIC FINANCE

IV BALANCE OF PAYMENTS

Table I.I AGGREGATE ECONOMIC INDICATORS

	2000	2001	2002	2003	2004
Current Prices					
GDP (N$ mil.)	23690	27686	32908	33840	36901
% Change	14.5	16.9	18.9	2.8	9.0
GNI (N$ mil.)	23920	27677	33264	35572	37383
% Change	16.2	15.7	20.2	6.9	5.1
GDP per capita (N$)	12723	14853	17220	17292	18442
% Change	11.0	16.7	15.9	0.4	6.7
GNI per capita (N$)	12846	14848	17406	18177	18682
% Change	12.7	15.6	17.2	4.4	2.8
Constant 1995 Prices					
GDP (N$ mil.)	15100	15462	16494	17068	18084
% Change	3.5	2.4	6.7	3.5	5.9
GNI (N$ mil.)	16606	17541	19054	18941	19686
% Change	7.2	5.6	8.6	-0.6	3.9
GDP per capita (N$)	8110	8295	8631	8722	9037
% Change	0.3	2.3	4.1	1.1	3.6
GNI per capita (N$)	8918	9410	9970	9679	9838
% Change	4.0	5.5	6.0	-2.9	1.6

Source: Central Bureau of Statistics

Table I.2 GROSS DOMESTIC PRODUCT AND GROSS NATIONAL INCOME

	2000	2001	2002	2003	2004
Current prices - N$ million					
Compensation of employees	9352	10616	12012	13064	13846
Consumption of fixed capital	3103	3561	4073	5304	5922
Net operating surplus	9174	11015	13793	12561	13666
Gross domestic product at factor cost	**21629**	**25192**	**29878**	**30929**	**33434**
Taxes on production and imports	2671	3158	3582	3051	3680
Subsidies	-610	-663	-552	-140	-213
Gross domestic product at market prices	**23690**	**27686**	**32908**	**33840**	**36901**
Primary incomes					
- receivable from the rest of the world	1721	1704	1803	2123	2374
- payable to rest of the world	-1491	-1714	-1447	-391	-1892
Gross national income at market prices	**23920**	**27677**	**33264**	**35572**	**37383**
Current transfers					
- receivable from the rest of the world	3272	3297	3202	3670	4528
- payable to rest of the world	-262	-312	-308	-203	-225
Gross national disposable income	**26930**	**30661**	**36158**	**39039**	**41686**
Current prices - N$ per capita					
Gross domestic product at market prices	12723	14853	17220	17292	18442
Gross national income at market prices	12846	14848	17406	18177	18682
Constant 1995 prices - N$ millions					
Gross domestic product at market prices	**15100**	**15462**	**16494**	**17068**	**18084**
- Annual percentage change	3.5	2.4	6.7	3.5	5.9
Real gross national income	**16606**	**17541**	**19054**	**18941**	**19686**
- Annual percentage change	7.2	5.6	8.6	-0.6	3.9
Constant 1995 prices - N$ per capita					
Gross domestic product at market prices	**8110**	**8295**	**8631**	**8722**	**9037**
- Annual percentage change	0.3	2.3	4.1	1.0	3.6
Real gross national income	**8918**	**9410**	**9970**	**9679**	**9838**
- Annual percentage change	4.0	5.5	6.0	-2.9	1.6

Source: Central Bureau of Statistics

Table I.3 NATIONAL DISPOSABLE INCOME AND SAVING

Current prices - N$ million	2000	2001	2002	2003	2004
Disposable income and saving					
Gross national disposable income	**26930**	**30661**	**36158**	**39039**	**41686**
Consumption of fixed capital	3103	3561	4073	5304	5922
Net national disposable income	**23827**	**27100**	**32085**	**33735**	**35764**
All other sectors	17426	19879	24199	26137	27364
General government	6401	7221	7886	7599	8400
Final consumption expenditure	**21026**	**23949**	**26981**	**27763**	**28284**
Private	14196	16094	18289	18794	19235
General government	6830	7856	8692	8969	9049
Saving, net	**2801**	**3151**	**5104**	**5973**	**7480**
All other sectors	3230	3785	5910	7343	8129
General government	-430	-634	-806	-1370	-649
Financing of capital formation					
Saving, net	2801	3151	5104	5973	7480
Capital transfers receivable from abroad	93	45	431	512	501
Capital transfers payable to foreign countries	-2	-2	-4	-3	-3
Total	**2892**	**3194**	**5532**	**6482**	**7978**
Capital formation					
Gross fixed capital formation	4460	6073	6964	9867	9286
All other sectors	3465	4969	5876	8764	7901
General government	995	1104	1087	1103	1384
Consumption of fixed capital	-3103	-3561	-4073	-5304	-5922
All other sectors	-2284	-2649	-3065	-4119	-4614
General government	-819	-912	-1008	-1185	-1308
Changes in inventories	171	412	-468	220	120
Net lending (+) / Net borrowing(-)	1364	270	3109	1698	4495
All other sectors	1924	990	3831	2988	5205
General government	-560	-720	-722	-1289	-710
Discrepancy on GDP 1)	659	968	-77	2790	1246
Net lending/borrowing in external transactions 2)	2023	1237	3032	4488	5741
Total	**2892**	**3194**	**5532**	**6482**	**7978**

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	2000	2001	2002	2003	2004
Agriculture and forestry	1299	1137	1687	1814	1846
Commercial	792	711	1309	1353	1258
Subsistence	507	425	378	461	589
Fishing & fish processing on board	1044	1445	1608	1757	1470
Mining and quarrying	2610	3663	4565	2975	3837
Diamond mining	1934	2854	3427	2630	3444
Other mining and quarrying	677	809	1138	345	393
Primary industries	**4953**	**6244**	**7859**	**6546**	**7153**
Manufacturing	2371	2604	3305	3870	4519
Meat processing	121	142	143	139	125
Fish processing on shore	548	494	703	876	920
Manufacture of other food products and beverages	1090	1215	1515	1650	1670
Other manufacturing	612	753	944	1205	1805
Electricity and water	605	620	854	1003	1166
Construction	473	789	725	1029	1124
Secondary industries	**3448**	**4013**	**4884**	**5902**	**6808**
Wholesale and retail trade, repairs	2682	3004	3428	3987	4147
Hotels and restaurants	403	477	576	648	651
Transport, and communication	1383	1533	2083	2382	2516
Transport and storage	877	975	1289	1409	1418
Post and telecommunications	506	558	794	973	1098
Financial intermediation	833	964	1088	1246	1236
Real estate and business services	2235	2497	2832	3156	3405
Owner-occupied dwellings	1194	1317	1449	1593	1734
Other real estate and business services	1041	1180	1382	1563	1672
Community, social and personal services	201	216	244	281	301
Producers of government services	5071	5810	6553	6863	7107
Other producers	437	487	558	606	637
Tertiary industries	**13244**	**14989**	**17361**	**19168**	**20001**
Less: Financial services indirectly measured	273	330	359	431	413
All industries at basic prices	**21372**	**24916**	**29747**	**31185**	**33549**
Taxes less subsidies on products	2318	2771	3161	2655	3353
GDP at market prices	**23690**	**27686**	**32908**	**33840**	**36901**

Source: Central Bureau of Statistics

Table I.4(b) GROSS DOMESTIC PRODUCT BY ACTIVITY
Percentage Contributions

Industry	2000	2001	2002	2003	2004
Agriculture and forestry	5.5	4.1	5.1	5.4	5.0
Commercial	3.3	2.6	4.0	4.0	3.4
Subsistence	2.1	1.5	1.1	1.4	1.6
Fishing	4.4	5.2	4.9	5.2	4.0
Mining and quarrying	11.0	13.2	13.9	8.8	10.4
Diamond mining	8.2	10.3	10.4	7.8	9.3
Other mining and quarrying	2.9	2.9	3.5	1.0	1.1
Primary industries	**20.9**	**22.6**	**23.9**	**19.3**	**19.4**
Manufacturing	10.0	9.4	10.0	11.4	12.2
Meat processing	0.5	0.5	0.4	0.4	0.3
Fish processing	2.3	1.8	2.1	2.6	2.5
Manufacture of other food products and beverages	4.6	4.4	4.6	4.9	4.5
Other manufacturing	2.6	2.7	2.9	3.6	4.9
Electricity and water	2.6	2.2	2.6	3.0	3.2
Construction	2.0	2.8	2.2	3.0	3.0
Secondary industries	**14.6**	**14.5**	**14.8**	**17.4**	**18.4**
Wholesale and retail trade, repairs	11.3	10.8	10.4	11.8	11.2
Hotels and restaurants	1.7	1.7	1.7	1.9	1.8
Transport, and communication	5.8	5.5	6.3	7.0	6.8
Transport and storage	3.7	3.5	3.9	4.2	3.8
Post and telecommunications	2.1	2.0	2.4	2.9	3.0
Financial intermediation	3.5	3.5	3.3	3.7	3.3
Real estate and business services	9.4	9.0	8.6	9.3	9.2
Owner-occupied dwellings	5.0	4.8	4.4	4.7	4.7
Other real estate and business services	4.4	4.3	4.2	4.6	4.5
Community, social and personal services	0.8	0.8	0.7	0.8	0.8
Producers of government services	21.4	21.0	19.9	20.3	19.3
Other producers	1.8	1.8	1.7	1.8	1.7
Tertiary industries	**55.9**	**54.1**	**52.8**	**56.6**	**54.2**
Less: Financial services indirectly measured	1.2	1.2	1.1	1.3	1.1
All industries at basic prices	**90.2**	**90.0**	**90.4**	**92.2**	**90.9**
Taxes less subsidies on products	9.8	10.0	9.6	7.8	9.1
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$ Million

Industry	2000	2001	2002	2003	2004
Agriculture and forestry	1056	899	975	1010	1025
Commercial	648	589	723	755	687
Subsistence	408	310	252	255	338
Fishing & fish processing on board	641	631	703	732	666
Mining and quarrying	1190	1117	1296	1237	1692
Diamond mining	847	803	942	909	1264
Other mining and quarrying	343	314	355	328	428
Primary industries	**2887**	**2647**	**2974**	**2979**	**3383**
Manufacturing	1570	1657	1816	1911	2024
Meat processing	101	107	109	97	86
Fish processing on shore	241	204	183	277	271
Manufacture of other food products and beverages	774	808	875	872	874
Other manufacturing	455	538	648	665	792
Electricity and water	299	228	230	266	273
Construction	344	527	459	564	573
Secondary industries	**2214**	**2412**	**2505**	**2741**	**2870**
Wholesale and retail trade, repairs	1455	1496	1607	1674	1685
Hotels and restaurants	269	292	316	332	321
Transport, and communication	1049	1196	1332	1372	1500
Transport and storage	671	725	837	753	834
Post and telecommunications	379	471	494	619	666
Financial intermediation	489	498	514	563	636
Real estate and business services	1338	1393	1494	1572	1609
Owner-occupied dwellings	694	711	740	759	778
Other real estate and business services	645	682	754	813	832
Community, social and personal services	133	133	137	144	146
Producers of government services	3236	3281	3408	3475	3644
Other producers	292	298	307	310	314
Tertiary industries	**8262**	**8586**	**9114**	**9443**	**9856**
Less: Financial secvices indirectly measured	151	158	155	178	206
All industries at basic prices	**13211**	**13488**	**14439**	**14985**	**15903**
Taxes less subsidies on products	1889	1974	2055	2083	2181
GDP at market prices	**15100**	**15462**	**16494**	**17068**	**18084**

Source: Central Bureau of Statistics

Table I.5(b) GROSS DOMESTIC PRODUCT BY ACTIVITY
Annual Percentage Changes

Industry	2000	2001	2002	2003	2004
Agriculture and forestry	4.7	-14.9	8.5	3.6	1.5
Commercial	31.1	-9.2	22.7	4.5	-9.1
Subsistence	-20.7	-24.0	-18.6	0.9	32.9
Fishing	14.5	-1.5	11.4	4.2	-9.1
Mining and quarrying	-1.7	-6.1	16.0	-4.6	36.8
Diamond mining	-6.7	-5.1	17.3	-3.5	39.1
Other mining and quarrying	13.3	-8.5	12.9	-7.5	30.5
Primary industries	**3.9**	**-8.3**	**12.4**	**0.2**	**13.6**
Manufacturing	3.6	5.5	9.6	5.2	5.9
Meat processing	-9.7	6.4	2.1	-11.6	-10.5
Fish processing	-14.2	-15.3	-10.1	51.1	-2.2
Manufacture of other food products and beverages	1.9	4.4	8.3	-0.3	0.2
Other manufacturing	24.9	18.3	20.5	2.6	19.1
Electricity and water	11.5	-23.8	1.1	15.6	2.6
Construction	-5.4	53.1	-13.1	23.0	1.7
Secondary industries	**3.1**	**9.0**	**3.8**	**9.4**	**4.7**
Wholesale and retail trade, repairs	5.4	2.8	7.4	4.1	0.7
Hotels and restaurants	7.2	8.4	8.4	4.9	-3.2
Transport, and communication	8.4	13.9	11.4	3.1	9.3
Transport and storage	6.3	8.1	15.5	-10.0	10.7
Post and telecommunications	12.4	24.3	5.0	25.2	7.5
Financial intermediation	6.2	1.7	3.3	9.4	13.0
Real estate and business services	1.5	4.1	7.2	5.2	2.4
Owner-occupied dwellings	2.5	2.5	4.1	2.5	2.5
Other real estate and business services	0.4	5.8	10.5	7.9	2.2
Community, social and personal services	8.7	0.2	2.9	5.6	0.9
Producers of government services	2.3	1.4	3.9	2.0	4.9
Other producers	2.0	2.2	2.8	1.2	1.3
Tertiary industries	**3.9**	**3.9**	**6.2**	**3.6**	**4.4**
Less: Financial secvices indirectly measured	-0.8	4.5	-1.9	15.1	15.8
All industries at basic prices	**3.8**	**2.1**	**7.1**	**3.8**	**6.1**
Taxes less subsidies on products	1.2	4.5	4.1	1.4	4.7
GDP at market prices	**3.5**	**2.4**	**6.7**	**3.5**	**5.9**

Source: Central Bureau of Statistics

Table I.6(a) EXPENDITURE ON GROSS DOMESTIC PRODUCT
Current Prices - N$ Million

Expenditure category	2000	2001	2002	2003	2004
Final consumption expenditure	21026	23949	26981	27763	28284
Private	14196	16094	18289	18794	19235
General government	6830	7856	8692	8969	9049
Gross fixed capital formation	4460	6073	6964	9867	9286
Changes in inventories[1]	171	412	-468	220	120
Gross domestic expenditure	**25657**	**30434**	**33476**	**37850**	**37690**
Exports of goods and services	10811	12446	16320	17396	17080
Imports of goods and services	12119	14226	16966	18616	16622
Discrepancy	-659	-968	77	-2790	-1246
Gross domestic product at market prices	**23690**	**27686**	**32908**	**33840**	**36901**

Source: Central Bureau of Statistics
[1]Change in inventories include only livestock, ores and minerals. Thus, the discrepancy includes an element of changes inventories.

Table I.6(b) EXPENDITURE ON GROSS DOMESTIC PRODUCT
Percentage Contributions

Expenditure category	2000	2001	2002	2003	2004
Final consumption expenditure	88.8	86.5	82.0	82.0	76.6
Private	59.9	58.1	55.6	55.5	52.1
General government	28.8	28.4	26.4	26.5	24.5
Gross fixed capital formation	18.8	21.9	21.0	29.2	25.2
Changes in inventories[1]	0.7	1.5	-1.4	0.7	0.3
Gross domestic expenditure	**108.3**	**109.9**	**101.7**	**111.8**	**102.1**
Exports of goods and services	45.6	45.0	49.6	51.4	46.3
Imports of goods and services	51.2	51.4	51.6	55.0	45.0
Discrepancy	-2.8	-3.5	0.2	-8.2	-3.4
Gross domestic product at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bureau of Statistics
[1]Change in inventories include only livestock, ores and minerals. Thus, the discrepancy includes an element of changes inventories.

Table I.7(a) EXPENDITURE ON GROSS DOMESTIC PRODUCT
Constant 1995 Prices - N$ Million

Expenditure category	2000	2001	2002	2003	2004
Final consumption expenditure	13973	14429	14927	14243	14322
Private	9505	9827	10248	9563	9593
General government	4469	4601	4679	4680	4729
Gross fixed capital formation	3379	4295	4806	5967	5397
Changes in inventories[1]	171	412	-468	220	120
Gross domestic expenditure	**17523**	**19135**	**19264**	**20431**	**19839**
Exports of goods and services	6465	6331	7216	8878	8277
Imports of goods and services	8759	9619	9945	10513	9368
Discrepancy	-129	-385	-40	-1728	-663
Gross domestic product at market prices	**15100**	**15462**	**16494**	**17069**	**18084**

Source: Central Bureau of Statistics
[1]Change in changes in inventories and discrepancy as a percentage of GDP of the previous year.

Table I.7(b) EXPENDITURE ON GROSS DOMESTIC PRODUCT
Annual Percentage Changes

Expenditure category	2000	2001	2002	2003	2004
Final consumption expenditure	4.3	3.3	3.5	-4.6	0.6
Private	5.8	3.4	4.3	-6.7	0.3
General government	1.3	3.0	1.7	0.0	1.0
Gross fixed capital formation	-9.0	27.1	11.9	24.2	-9.6
Changes in inventories[1]	0.8	1.6	-5.7	4.2	-0.6
Gross domestic expenditure	**2.1**	**9.2**	**0.7**	**6.1**	**-2.9**
Exports of goods and services	-0.8	-2.1	14.0	23.0	-6.8
Imports of goods and services	-5.2	9.8	3.4	5.7	-10.9
Discrepancy	-1.9	-1.7	2.2	-10.2	6.2
Gross domestic product at market prices	**3.5**	**2.4**	**6.7**	**3.5**	**5.9**

Source: Central Bureau of Statistics
[1]Change in changes in inventories and discrepancy as a percentage of GDP of the previous year.

Table I.8 GROSS FIXED CAPITAL FORMATION BY ACTIVITY
Current prices - N$ Million

Industry	2000	2001	2002	2003	2004
Agriculture	268	299	326	392	414
Fishing	160	238	249	262	275
Mining and quarrying	828	958	874	3084	1735
Manufacturing	387	464	1751	1629	1792
Electricity and water	136	1217	285	796	713
Construction	156	176	205	258	280
Wholesale and retail trade; hotels, restaurants	224	307	281	250	332
Transport, and communication	687	606	1120	1029	1128
Finance, real estate, business services	644	728	801	1077	1252
Community, social and personal services	17	20	28	32	32
Producers of government services	952	1059	1042	1058	1333
Total	**4460**	**6073**	**6964**	**9867**	**9286**
Percent of GDP	18.8	21.9	21.2	29.2	25.2

Source: Central Bureau of Statistics

Table I.9 GROSS FIXED CAPITAL FORMATION BY ACTIVITY
Constant 1995 Prices - N$ Million

Industry	2000	2001	2002	2003	2004
Agriculture	209	219	230	243	259
Fishing	124	172	187	164	174
Mining and quarrying	656	697	638	1971	1068
Manufacturing	296	333	1212	979	1058
Electricity and water	99	848	186	465	398
Construction	124	132	149	162	177
Wholesale and retail trade; hotels, restaurants	171	218	194	152	200
Transport, and communication	506	420	803	599	643
Finance, real estate, business services	479	509	526	624	696
Community, social and personal services	13	15	21	20	21
Producers of government services	700	731	660	588	704
Total	**3379**	**4295**	**4806**	**5967**	**5397**
Annual change, percent	-9.0	27.1	11.9	24.2	-9.6

Source: Central Bureau of Statistics

Table I.10 GROSS FIXED CAPITAL FORMATION BY TYPE OF ASSET
Current Prices - N$ Million

Type of Asset	2000	2001	2002	2003	2004
Buildings	1392	1639	2019	1908	2348
Construction works	882	1600	1170	1994	2017
Transport equipment	702	903	1789	2036	2007
Machinery and other equipment	1318	1682	1840	3666	2647
Mineral exploration	167	249	146	264	267
Total	**4460**	**6073**	**6964**	**9867**	**9286**

Source: Central Bureau of Statistics

Table I.11 GROSS FIXED CAPITAL FORMATION BY TYPE OF ASSET
Constant 1995 Prices - N$ Million

Type of Asset	2000	2001	2002	2003	2004
Buildings	1033	1143	1321	1079	1270
Construction works	618	1054	705	1070	984
Transport equipment	517	614	1274	1184	1165
Machinery and other equipment	1087	1313	1409	2460	1803
Mineral exploration	124	171	97	174	175
Total	**3379**	**4295**	**4806**	**5967**	**5397**

Source: Central Bureau of Statistics

Table I.12 GROSS FIXED CAPITAL FORMATION BY OWNERSHIP
Current prices - N$ Million

Ownership	2000	2001	2002	2003	2004
Public	1451	2417	2052	2383	2667
Producers of government services	952	1059	1042	1058	1333
Public corporations and enterprises	499	1358	1010	1325	1334
Private	3008	3656	4912	7484	6619
Total	**4460**	**6073**	**6964**	**9867**	**9286**

Source: Central Bureau of Statistics

Table I.13 GROSS FIXED CAPITAL FORMATION BY OWNERSHIP
Constant 1995 Prices - N$ Million

Ownership	2000	2001	2002	2003	2004
Public	1067	1677	1378	1361	1458
Producers of government services	700	731	660	588	704
Public corporations and enterprises	367	946	718	773	755
Private	2312	2617	3428	4606	3939
Total	**3379**	**4295**	**4806**	**5967**	**5397**

Source: Central Bureau of Statistics

Table I.14 FIXED CAPITAL STOCK BY ACTIVITY
Current Prices - N$ Million

Industry	2000	2001	2002	2003	2004
Agriculture	4322	4626	5077	5811	5977
Fishing	917	1163	1306	1736	1894
Mining and quarrying	5562	6399	6460	10053	10931
Manufacturing	2602	2981	4507	6275	7574
Electricity and water	3919	5167	5615	6808	7668
Construction	693	729	757	889	905
Wholesale and retail trade; hotels, restaurants	2045	2269	2429	2755	2855
Transport, and communication	6168	6677	7536	8864	9430
Finance, real estate, business services	8866	9866	10980	13371	14747
Community, social and personal services	384	403	424	485	498
Producers of government services	26881	28752	31130	35176	38128
Total	**62358**	**69033**	**76221**	**92193**	**100607**

Source: Central Bureau of Statistics

Table I.15 FIXED CAPITAL STOCK BY ACTIVITY
Constant 1995 Prices - N$ Million

Industry	2000	2001	2002	2003	2004
Agriculture	3143	3163	3181	3198	3207
Fishing	714	843	979	1086	1195
Mining and quarrying	4106	4361	4532	5937	6406
Manufacturing	1960	2108	3046	3679	4311
Electricity and water	2773	3465	3487	3763	3952
Construction	550	544	545	555	563
Wholesale and retail trade; hotels, restaurants	1530	1593	1617	1588	1591
Transport, and communication	4441	4500	4854	4942	5011
Finance, real estate, business services	6581	6883	7193	7579	8014
Community, social and personal services	289	286	287	288	288
Producers of government services	19246	19346	19349	19258	19246
Total	**45334**	**47093**	**49072**	**51874**	**53786**

Source: Central Bureau of Statistics

TABLE 1.16(a) NATIONAL CONSUMER PRICE INDEX (December 2001 = 100)

	Food and non alcoholic beverages maintenance	Alcoholic beverages and tobacco	Clothing and footwear	Housing, water, electricity gas & other fuel	Furniture, household equipment & maintenance of the house	Health	Transport	Communi-cations	Recration and Culture	Education	Hotels, cafes & restaurants	Misc goods & services	All Items	All items Annual percentage changes
Weights	**29.63**	**3.26**	**5.13**	**20.59**	**5.61**	**1.51**	**14.79**	**0.90**	**2.50**	**7.36**	**1.62**	**7.11**	**100.0**	
2002	**111.1**	**105.6**	**104.5**	**106.9**	**104.0**	**102.6**	**109.4**	**102.0**	**106.4**	**108.3**	**106.0**	**102.1**	**107.7**	**12.9**
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														
Jan	121.5	114.8	108.8	120.5	112.0	111.6	120.1	106.9	112.5	135.5	117.9	108.0	118.7	4.1
Feb	121.7	115.6	108.3	120.8	111.5	111.3	120.7	107.2	110.9	135.5	117.6	108.2	118.8	4.3
Mar	122.6	118.5	108.8	121.6	111.4	111.2	120.5	107.2	110.8	135.5	119.1	109.9	119.3	4.1
Apr	122.8	120.6	109.0	121.6	110.6	111.4	124.0	107.2	110.2	135.5	120.2	110.1	119.9	4.4
May	124.0	121.6	108.8	121.7	111.3	113.3	123.4	107.2	110.8	135.5	121.2	110.1	120.3	4.6
Jun	123.2	122.2	109.1	121.8	110.6	113.2	123.2	107.2	109.4	135.5	121.2	109.9	120.1	3.8
Jul	122.8	122.3	109.5	124.0	110.8	113.4	124.5	107.2	109.6	135.5	121.6	110.0	120.6	4.3
Aug	122.4	123.0	109.8	124.1	111.3	113.6	125.8	107.2	109.6	135.5	122.6	109.8	120.9	4.2
Sep	122.2	123.2	109.5	123.2	111.8	111.7	125.8	107.2	109.2	135.5	122.8	109.7	120.6	3.7
Oct	123.1	123.9	109.7	123.2	111.5	110.6	126.1	107.3	110.0	135.5	122.6	109.6	121.0	4.3
Nov	122.4	124.2	109.9	123.4	111.5	110.3	126.1	108.8	109.9	135.5	122.6	109.3	120.7	4.0
Dec	122.5	124.3	110.1	123.6	111.3	110.2	126.2	108.8	110.3	135.5	121.2	109.1	120.8	4.3
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
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

*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 I.16(b) INTERIM CONSUMER PRICE INDEX

This table classifies the NCPI into the categories of goods and services inflation

Date	Index	Services Monthly Inflation Rate	Annual inflation Rate	Date	Index	Goods 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							
Jan	118.4	3.5	7.0	Jan	119.0	2.0	2.5
Feb	118.6	0.1	6.6	Feb	119.1	0.1	3.0
Mar	118.6	0.0	6.3	Mar	120.0	0.8	3.0
Apr	118.9	0.2	5.7	Apr	120.8	0.7	3.8
May	119.3	0.3	5.9	May	121.2	0.4	3.9
Jun	119.4	0.2	6.2	Jun	120.7	-0.4	2.5
Jul	120.5	0.9	6.3	Jul	120.9	0.2	3.1
Aug	120.6	0.1	6.2	Aug	121.2	0.3	3.1
Sep	120.7	0.1	5.9	Sep	120.8	-0.4	2.4
Oct	120.8	0.0	6.1	Oct	121.4	0.5	3.3
Nov	120.7	0.0	5.7	Nov	120.9	-0.4	3.1
Dec	120.9	0.1	5.6	Dec	120.9	0.0	3.6
2005							
Jan	122.3	1.2	3.3	Jan	121.3	0.3	1.9
Feb	125.0	2.2	5.4	Feb	119.9	-1.1	0.7
Mar	121.7	-2.6	2.6	Mar	121.1	1.0	0.9
Apr	122.4	0.6	2.9	Apr	121.5	0.3	0.6
May	122.4	0.1	2.7	May	120.7	-0.6	-0.4
Jun	123.1	0.5	3.0	Jun	120.7	0.0	0.0
Jul	123.9	0.7	2.9	Jul	121.8	0.9	0.8
Aug	124.2	0.2	3.0	Aug	123.0	1.0	1.5
Sep	125.2	0.9	3.8	Sep	123.5	0.4	2.2
Oct	125.0	-0.2	3.5	Oct	124.2	0.6	2.3
Nov	124.9	-0.1	3.4	Nov	124.8	0.4	3.2
Dec	125.0	0.1	3.4	Dec	124.9	0.1	3.3
2006							
Jan	126.6	1.3	3.5	Jan	125.8	0.7	3.7

*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)

	2004									2005											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net foreign assets	**2395.6**	**1860.4**	**1783.2**	**1984.6**	**1989.9**	**1808.2**	**2207.6**	**1987.9**	**1977.3**	**2327.5**	**2029.5**	**1912.7**	**2303.8**	**2107.1**	**1874.1**	**2354.7**	**2159.1**	**1818.2**	**2245.0**	**1902.2**	**1983.9**
Claims on nonresidents	**2411.5**	**1873.0**	**1802.2**	**2011.7**	**2012.6**	**1823.6**	**2217.2**	**2000.2**	**1985.7**	**2339.0**	**2042.1**	**1925.3**	**2320.6**	**2125.7**	**1890.4**	**2369.2**	**2169.3**	**1832.8**	**2258.1**	**1916.5**	**1998.0**
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	67.0	22.2	69.3	63.1	97.2	11.5	55.2	26.0	47.2	80.2	117.0	84.7	54.1	84.5	57.9	32.8	70.2	112.2	88.4	59.6	41.1
Deposits	2343.2	1849.2	1739.3	1948.2	1914.9	1784.8	2131.7	1940.8	1902.1	2221.7	1924.1	1838.0	2265.3	2013.4	1799.3	2297.3	2054.9	1671.2	2119.8	1807.6	1906.0
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	1.1	1.4	-6.6	0.1	0.4	27.1	30.1	33.2	36.2	36.9	0.8	2.3	1.0	27.6	33.0	38.9	44.0	49.3	49.8	49.2	50.8
less: Liabilities to nonresidents	-15.9	-12.6	-19.0	-27.0	-22.8	-15.4	-9.6	-12.3	-8.4	-11.5	-12.6	-12.6	-16.8	-18.6	-16.3	-14.5	-10.2	-14.6	-13.1	-14.3	-14.1
Deposits	-15.5	-12.6	-19.0	-27.0	-22.8	-15.4	-9.6	-12.3	-8.4	-8.4	-12.4	-12.5	-18.2	-18.6	-16.3	-14.5	-10.2	-14.6	-13.1	-14.3	-14.1
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	-0.4	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-3.1	-0.2	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on other depository corps	**97.0**	**97.7**	**113.1**	**98.7**	**149.4**	**163.1**	**122.5**	**187.9**	**238.7**	**263.9**	**260.0**	**265.4**	**105.7**	**158.4**	**235.1**	**131.8**	**159.1**	**244.7**	**214.0**	**228.9**	**515.2**
Net claims on central government	**-768.4**	**-374.4**	**-336.3**	**-716.2**	**-727.5**	**-607.2**	**-992.9**	**-890.7**	**-889.7**	**-1446.2**	**-1181.3**	**-908.4**	**-758.8**	**-483.3**	**-334.5**	**-763.0**	**-458.9**	**-194.4**	**-652.9**	**-287.1**	**-608.1**
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	**-768.4**	**-374.4**	**-336.3**	**-716.2**	**-727.5**	**-607.2**	**-992.9**	**-890.7**	**-889.7**	**-1446.2**	**-1181.3**	**-908.4**	**-758.8**	**-483.3**	**-334.5**	**-763.0**	**-458.9**	**-194.4**	**-652.9**	**-287.1**	**-608.1**
Deposits	-768.4	-374.4	-336.3	-716.2	-727.5	-607.2	-992.9	-890.7	-889.7	-1446.2	-1181.3	-908.4	-758.8	-483.3	-334.5	-763.0	-458.9	-194.4	-652.9	-287.1	-608.1
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	**14.8**	**14.6**	**13.9**	**13.9**	**13.8**	**13.1**	**13.5**	**13.5**	**13.6**	**13.5**	**13.8**	**14.5**	**14.6**	**14.4**	**14.5**	**13.9**	**14.0**	**13.6**	**13.5**	**13.2**	**13.4**
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	14.8	14.6	13.9	13.9	13.8	13.1	13.5	13.5	13.6	13.5	13.8	14.5	14.6	14.4	14.5	13.9	14.0	13.6	13.5	13.2	13.4

TABLE II.1(b) CENTRAL BANK SURVEY
(end of period in N$ Million)

	2004									2005											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monetary base	1134.8	1066.8	1073.2	1070.1	1152.3	1160.2	1187.5	1185.8	1238.6	1097.8	1101.0	1213.5	1170.5	1222.8	1231.6	1176.0	1320.7	1339.6	1233.9	1312.5	1372.6
Currency in circulation	831.0	839.7	852.1	837.9	895.7	881.0	858.8	959.2	945.8	865.7	838.8	918.8	905.0	917.5	906.4	916.2	1009.2	954.5	975.6	1029.9	1026.8
Liabilities to other depository corps	303.8	227.2	221.1	232.3	256.6	279.2	328.6	226.6	292.9	232.0	262.2	294.7	265.5	305.3	325.2	259.8	311.5	385.1	258.3	282.6	345.7
Reserve deposits	176.0	179.4	205.1	232.3	256.6	279.2	328.6	226.6	292.9	232.0	262.2	294.7	265.5	305.3	325.2	259.8	311.5	385.1	258.3	282.6	345.7
Other liabilities	127.8	47.8	16.0	0.0	0.0	0.0	0.0	0.0	0.0	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 included in broad money	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transferable deposits	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 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 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
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 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
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 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
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 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
Trade credit and advances	4.5	3.5	2.2	1.8	4.0	3.0	3.0	4.0	7.8	7.5	4.8	5.8	10.4	12.5	4.1	4.2	5.4	2.9	4.4	3.9	3.2
Of which: 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
Shares and other equity	763.8	690.5	660.6	631.7	703.0	692.8	650.1	627.2	611.2	630.1	620.9	668.2	638.8	716.1	708.2	710.8	701.1	691.3	733.4	690.9	667.1
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	15.2	15.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General and special reserves	254.8	254.8	254.8	254.8	254.8	254.8	254.8	254.8	244.3	244.3	244.3	255.0	250.0	235.0	235.0	235.0	235.0	235.0	235.0	235.0	228.0
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	469.7	410.4	379.4	351.5	424.2	388.6	339.3	317.1	312.2	327.8	319.1	369.9	344.0	408.1	395.2	389.9	374.5	359.4	400.8	361.0	345.9
Current year result	-0.7	-14.6	-13.5	-14.5	-16.0	9.5	16.0	15.4	14.7	2.7	2.2	3.3	4.9	33.1	38.0	45.9	51.7	56.9	57.6	54.9	53.2
Other items (net)	-164.2	-162.7	-162.1	-322.7	-433.6	-478.7	-489.9	-518.4	-517.7	-576.7	-604.7	-603.2	-154.3	-154.9	-154.7	-153.6	-153.8	-151.6	-152.1	-150.1	-138.4
Other liabilities	2.8	2.8	2.9	2.7	2.4	2.5	2.5	2.4	15.7	15.7	15.3	15.3	16.3	15.2	15.0	15.2	15.2	15.2	15.2	15.1	18.9
less: Other assets	-167.0	-165.5	-164.9	-325.4	-436.0	-481.2	-492.4	-520.8	-533.4	-592.4	-620.0	-618.5	-170.6	-170.1	-169.8	-168.9	-169.0	-166.8	-167.3	-165.3	-157.3

TABLE II.2(a) OTHER DEPOSITORY CORPORATIONS SURVEY
(end of period in N$ Million)

	2004									2005											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net foreign assets	-478.6	-943.7	-1279.8	-504.7	-490.1	-290.9	-363.7	-491.3	-1007.0	-977.5	-414.6	-336.2	-1206.7	-1834.0	-1779.3	-1611.9	-1668.4	-1884.6	-1545.0	-1564.3	-2140.3
Claims on nonresidents	1471.8	1285.4	1297.0	1188.3	1244.5	1559.1	1375.2	1291.0	1308.8	1187.7	1139.3	1295.6	439.4	435.0	466.3	400.0	448.2	292.3	325.4	289.0	285.6
Foreign currency	64.9	62.6	65.6	47.7	60.6	37.6	43.7	41.0	40.2	36.0	43.4	50.1	30.9	71.0	46.8	44.8	65.7	41.6	51.1	49.1	58.4
Deposits	980.3	795.8	803.1	713.5	754.6	960.9	891.7	807.0	828.9	711.6	614.6	1170.0	330.6	319.1	340.4	306.0	301.4	209.0	197.2	185.3	171.9
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	426.6	426.9	428.3	427.1	429.3	560.6	439.8	443.0	439.6	440.1	481.4	75.4	77.9	44.9	79.1	49.2	81.1	41.7	77.1	54.6	55.3
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
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	-1950.4	-2229.1	-2576.8	-1693.0	-1734.6	-1850.0	-1738.9	-1782.3	-2315.7	-2165.2	-1553.9	-1631.9	-1646.1	-2269.0	-2245.6	-2011.9	-2116.6	-2176.9	-1870.4	-1853.3	-2425.9
Deposits	-1116.5	-1208.2	-1272.7	-869.6	-1071.7	-1018.2	-1054.2	-959.1	-956.0	-1162.5	-996.6	-1476.9	-1271.1	-1552.9	-1574.5	-1519.3	-1325.3	-1339.5	-1083.8	-1070.0	-1152.5
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-833.9	-1020.9	-1304.0	-823.5	-663.0	-831.8	-684.7	-823.2	-1359.8	-1002.7	-557.3	-155.0	-374.9	-716.0	-671.1	-492.6	-791.2	-837.4	-786.6	-783.3	-1273.4
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	491.0	458.0	469.3	392.6	505.7	466.7	484.9	496.9	585.1	451.9	431.7	569.7	456.5	521.2	557.8	514.7	655.1	479.2	538.7	595.4	672.4
Currency	186.8	230.2	246.0	191.5	270.1	249.4	191.8	289.6	313.1	246.4	199.8	290.0	208.5	240.6	250.1	204.6	326.0	256.7	307.1	323.8	346.8
Reserve deposits	176.0	179.4	177.5	183.2	223.7	191.3	189.8	194.1	201.0	199.6	202.3	212.1	208.1	214.4	218.1	220.6	223.7	222.5	226.0	227.0	228.1
Other claims	128.2	48.3	45.7	17.9	11.9	26.0	103.2	13.3	71.1	5.8	29.6	67.6	40.0	66.2	89.6	89.5	105.4	0.0	5.6	44.7	97.5
Net claims on central government	834.2	995.6	1062.5	1205.3	1409.1	1342.5	1558.1	1627.4	1761.5	1517.5	1662.5	1722.8	1392.4	1450.8	1730.1	1595.4	1611.3	1528.6	1507.1	1383.4	2013.8
Claims on central government	1475.5	1604.7	1728.4	1759.1	1778.7	1766.1	1957.9	2020.8	2180.3	2003.7	2136.8	2164.3	1876.1	1920.2	2203.0	2094.1	2113.7	2082.5	2079.7	2007.4	2586.1
Securities other than Shares	1444.0	1573.3	1700.2	1713.7	1746.6	1738.3	1784.1	1900.1	1934.2	1877.5	1999.1	2045.9	1765.4	1841.3	2040.8	2013.9	2043.1	2079.4	2079.2	2006.4	2585.2
Other claims	31.5	31.4	28.2	45.4	32.1	27.8	173.8	120.8	246.1	126.2	137.7	118.4	110.8	78.9	162.3	80.2	70.5	3.2	0.5	1.0	0.8
less: Liabilities to central government	-641.3	-609.1	-665.9	-553.8	-369.6	-423.6	-399.7	-393.5	-418.9	-486.2	-474.4	-441.5	-483.7	-469.4	-472.9	-498.7	-502.3	-553.9	-572.6	-624.0	-572.2
Deposits	-556.6	-524.3	-581.2	-469.0	-284.8	-338.8	-315.0	-308.7	-334.1	-401.4	-389.6	-401.8	-444.0	-429.7	-433.2	-458.9	-462.6	-514.2	-532.9	-584.2	-532.5
Other liabilities	-84.8	-84.8	-84.8	-84.8	-84.8	-84.8	-84.8	-84.8	-84.8	-84.8	-84.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8	-39.8
Claims on other sectors	17985.8	18610.0	18696.7	18884.6	19231.6	19485.4	19739.6	20092.2	20284.1	20638.4	20762.9	21206.7	21634.7	22049.5	22099.3	22556.9	22837.4	23076.2	23315.9	23768.2	24251.0
Other financial corporations	0.0	0.0	0.0	10.1	10.1	10.2	10.3	13.4	11.7	19.0	107.7	57.3	59.6	58.4	59.3	60.8	60.0	21.4	23.2	22.1	30.1
State and local government	17.5	17.1	17.9	17.8	18.1	12.7	19.4	27.2	15.6	19.9	7.6	8.3	16.0	8.0	8.2	8.0	8.1	13.1	21.7	21.9	22.4
Public nonfinancial corporations	148.7	351.5	351.2	363.3	364.2	368.3	369.5	352.5	351.7	349.0	406.1	355.7	361.2	362.6	367.2	370.7	237.7	238.5	243.1	300.1	289.5
Other nonfinancial corporations	7832.3	7407.7	7392.4	7469.2	7609.2	7756.9	7756.5	7552.7	7563.7	7736.6	7754.9	7554.7	7893.9	8138.1	8181.7	8162.2	7821.2	8081.5	8213.0	8325.4	8478.8
Other resident sectors	9987.3	10833.8	10935.1	11024.2	11230.0	11337.2	11583.9	12146.4	12341.4	12513.9	12486.6	13230.7	13304.1	13482.4	13483.0	13955.2	14710.4	14721.6	14814.8	15098.8	15430.2
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)

	2004									2005											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Liabilities to central bank	29.8	28.6	43.2	191.3	349.4	315.0	320.3	299.3	302.7	436.8	477.6	483.3	331.7	382.5	458.3	354.3	379.2	512.0	121.0	123.9	408.8
Deposits included in broad money	14162.7	14038.6	13804.1	14180.2	14964.7	15181.9	15802.1	15965.7	15196.2	15059.5	15694.0	15859.0	16302.7	16245.3	16534.1	16862.0	16771.0	16384.9	16653.4	16761.5	16690.2
Transferable deposits	8408.3	8225.9	7993.1	7917.0	8723.1	8697.2	9233.5	9236.0	8937.1	8050.4	8146.2	8462.7	8738.8	9092.7	9068.4	9368.4	9357.5	8961.4	9063.7	8882.0	8728.8
Other financial corporations	1151.9	1057.1	1139.6	1049.5	920.0	962.5	961.9	1330.2	1483.1	1207.4	1279.4	1174.2	1389.1	1379.7	1631.1	1685.3	1654.3	1655.8	1791.9	1583.4	1558.9
State and local government	106.1	109.8	59.9	59.5	70.1	173.9	217.5	212.3	219.7	233.7	232.4	224.6	154.5	183.6	160.5	156.9	160.9	169.7	158.6	153.4	165.0
Public nonfinancial corporations	434.1	281.3	251.4	370.3	354.7	413.3	458.1	447.7	446.1	337.4	389.9	377.8	472.1	331.2	296.9	328.0	449.3	230.7	239.1	200.1	213.9
Other nonfinancial corporations	4096.4	4221.9	4177.3	4095.2	4847.8	4677.5	5319.5	5169.8	4736.9	4469.3	4455.0	4862.5	4853.8	5117.0	4957.6	5152.6	4937.4	4878.4	4866.1	4957.8	4881.7
Other resident sectors	2619.8	2555.9	2364.8	2342.6	2530.6	2470.1	2276.6	2076.1	2051.4	1802.5	1789.5	1823.6	1869.4	2081.1	2022.4	2045.7	2155.6	2026.7	2008.0	1987.3	1909.3
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	5754.4	5812.7	5811.0	6263.1	6241.5	6484.7	6568.5	6729.7	6259.1	7009.1	7547.8	7396.2	7563.9	7152.7	7465.7	7493.6	7413.5	7423.5	7589.7	7879.5	7961.4
Other financial corporations	336.4	347.7	348.0	463.5	429.4	504.8	469.3	460.1	486.7	538.5	594.0	252.5	322.4	226.9	223.9	179.6	155.5	189.3	184.3	212.8	212.2
State and local government	105.2	87.2	150.6	134.3	70.1	129.0	114.2	107.0	129.6	108.6	109.9	96.3	156.2	123.7	104.5	101.3	86.6	88.5	136.1	149.3	146.8
Public nonfinancial corporations	273.4	270.4	371.1	414.9	309.6	330.8	271.7	315.9	346.5	548.1	641.0	641.1	549.9	441.8	433.0	517.9	462.4	518.5	496.6	500.2	505.9
Other nonfinancial corporations	2067.5	2077.5	2037.5	2162.6	2397.7	2349.0	2596.7	2663.6	2311.6	2697.1	2956.7	3002.4	3165.9	3020.3	3206.1	3147.7	3121.4	3146.5	3202.9	3322.3	3396.2
Other resident sectors	2971.9	3029.9	2903.9	3087.7	3034.7	3171.0	3116.7	3183.1	2984.7	3116.8	3246.2	3404.0	3369.5	3340.0	3498.2	3547.1	3587.5	3480.7	3569.7	3694.9	3700.2
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
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 excluded from broad money	135.2	143.8	149.6	191.3	166.2	148.6	145.9	145.3	190.6	187.2	206.6	624.7	-587.4	-562.3	-452.6	-483.0	-263.3	313.0	-233.8	-216.0	-441.4
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	111.2	86.2	408.6	379.8	437.4	420.5	430.3	327.4	344.9	408.4
Of which: 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	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1	20.1
Loans	1109.1	1190.6	1244.2	1334.9	1444.5	1342.1	1444.4	1640.9	1772.2	1835.3	2122.8	2096.2	2370.0	2105.0	2044.4	2056.6	2252.0	2452.1	2648.8	2658.9	2819.1
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	135.5	135.5	135.5	203.8	156.1	170.7	158.1	161.0	162.2	216.1	216.1	208.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	3746.0	3745.2	3939.5	3872.6	3959.1	4008.4	4071.3	4058.6	3990.5	3998.4	3968.2	3969.1	3965.7	4059.9	3862.4	3919.4	3972.6	4092.3	4148.2	4225.6	4174.4
Funds contributed by owners	271.5	271.5	271.5	271.5	271.5	271.5	271.5	271.5	271.8	271.8	271.8	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5	278.5
Retained earnings	215.4	207.2	169.4	153.7	192.3	111.3	153.6	152.3	223.5	212.8	244.4	334.6	284.6	381.1	177.1	151.8	161.9	238.7	276.6	304.9	239.2
General and special reserves	3259.1	3266.5	3498.6	3447.3	3495.3	3625.6	3646.1	3634.8	3495.2	3513.8	3452.0	3356.0	3402.6	3400.3	3406.8	3478.1	3496.9	3540.4	3546.4	3584.2	3584.9
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.0	23.5	34.8	46.7	58.1	71.8
Other items (net)	-485.8	-162.3	-367.5	3.8	-383.7	-163.0	-523.1	-545.7	9.2	-102.9	-242.8	-189.0	-191.9	-451.4	-218.6	-91.6	-84.8	-771.1	151.6	284.0	737.7
Other liabilities	1503.0	1555.3	1388.3	1510.1	1657.6	1580.6	1492.3	1465.5	1509.7	1438.1	1426.0	1705.2	1752.3	1713.8	1785.7	1409.5	1654.0	1531.6	1474.8	1541.9	1400.4
less: Other assets	-1577.8	-1465.3	-1679.2	-1585.4	-1710.1	-1663.7	-1485.0	-1620.3	-1648.3	-1766.3	-1781.1	-1921.3	-1878.2	-2052.5	-2041.2	-1674.0	-1642.5	-1907.3	-1852.2	-1939.7	-1781.0
plus: Consolidation adjustment	-411.0	-252.3	-76.6	79.0	-331.3	-79.8	-530.3	-390.9	147.8	225.4	112.3	27.1	-66.0	-112.7	36.9	172.9	-96.2	-395.4	529.0	681.8	1118.3

TABLE II.3 DEPOSITORY CORPORATIONS SURVEY (end of period in N$ Million)

	2004									2005											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Net foreign assets	**1917.0**	**916.7**	**503.5**	**1479.9**	**1499.7**	**1517.3**	**1843.8**	**1496.6**	**970.3**	**1350.0**	**1614.9**	**1576.5**	**1097.1**	**273.1**	**94.8**	**742.8**	**490.6**	**-66.4**	**700.0**	**337.9**	**-156.3**
Claims on nonresidents	**3883.3**	**3158.4**	**3099.2**	**3199.9**	**3257.1**	**3382.7**	**3592.4**	**3291.1**	**3294.5**	**3526.7**	**3181.5**	**3220.9**	**2760.0**	**2560.7**	**2356.7**	**2769.1**	**2617.4**	**2125.1**	**2583.5**	**2205.5**	**2283.6**
less: Liabilities to nonresidents	-1966.3	-2241.7	-2595.7	-1720.0	-1757.4	-1865.4	-1748.6	-1794.5	-2324.2	-2176.7	-1566.5	-1644.4	-1662.9	-2287.6	-2261.9	-2026.4	-2126.8	-2191.5	-1883.5	-1867.6	-2440.0
Domestic claims	**18066.4**	**19245.8**	**19436.8**	**19387.6**	**19927.1**	**20233.8**	**20318.3**	**20842.4**	**21169.4**	**20723.2**	**21257.7**	**22035.5**	**22282.9**	**23031.4**	**23509.3**	**23403.2**	**24003.9**	**24424.0**	**24183.6**	**24877.8**	**25670.1**
Net claims on central government	**65.8**	**621.2**	**726.2**	**489.1**	**681.6**	**735.3**	**565.2**	**736.7**	**871.7**	**71.4**	**481.1**	**814.4**	**633.6**	**967.5**	**1395.5**	**832.3**	**1152.4**	**1334.2**	**854.2**	**1096.3**	**1405.7**
Claims on central government	1475.5	1604.7	1728.4	1759.1	1778.7	1766.1	1957.9	2020.8	2180.3	2003.7	2136.8	2164.3	1876.1	1920.2	2203.0	2094.1	2113.7	2082.5	2079.7	2007.4	2586.1
less: Liabilities to central govt	**-1409.8**	**-983.5**	**-1002.2**	**-1270.0**	**-1097.1**	**-1030.8**	**-1392.7**	**-1284.1**	**-1308.6**	**-1932.4**	**-1655.7**	**-1349.9**	**-1242.6**	**-952.7**	**-807.5**	**-1261.7**	**-961.2**	**-748.3**	**-1225.5**	**-911.1**	**-1180.3**
Claims on other sectors	18000.6	18624.6	18710.6	18898.5	19245.4	19498.5	19753.1	20105.7	20297.7	20651.9	20776.6	21221.2	21649.4	22063.9	22113.8	22570.8	22851.4	23089.8	23329.4	23781.4	24264.4
Other financial corporations	0.0	0.0	0.0	10.1	10.1	10.2	10.3	13.4	11.7	19.0	107.7	57.3	59.6	58.4	59.3	60.8	60.0	21.4	23.2	22.1	30.1
State and local government	17.5	17.1	17.9	17.8	18.1	12.7	19.4	27.2	15.6	19.9	7.6	8.3	16.0	8.0	8.2	8.0	8.1	13.1	21.7	21.9	22.4
Public nonfinancial corporations	148.7	351.5	351.2	363.3	364.2	368.3	369.5	352.5	351.7	349.0	406.1	355.7	361.2	362.6	367.2	370.7	237.0	238.5	243.1	300.1	289.5
Other nonfinancial corporations	7832.3	7407.7	7392.4	7469.2	7609.2	7756.9	7756.5	7552.7	7563.7	7736.6	7754.9	7554.7	7893.9	8138.1	8181.7	8162.2	7821.2	8081.5	8213.0	8325.4	8478.8
Other resident sectors	10002.1	10848.4	10949.1	11038.1	11243.8	11350.3	11597.5	12159.9	12355.0	12527.4	12500.4	13245.2	13318.7	13496.8	13497.4	13969.1	14724.4	14735.2	14828.3	15112.0	15443.6
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**
															0.0	0.0	0.0	0.0			
Broad money liabilities	**14806.9**	**14648.0**	**14410.2**	**14826.5**	**15590.3**	**15813.5**	**16469.1**	**16635.3**	**15828.9**	**15678.8**	**16333.0**	**16487.7**	**16999.2**	**16922.3**	**17190.4**	**17573.6**	**17419.2**	**17065.4**	**17322.0**	**17467.6**	**17370.2**
Currency outside depository corps	**644.2**	**609.4**	**606.1**	**646.4**	**625.6**	**631.5**	**667.0**	**669.6**	**632.7**	**619.3**	**639.0**	**628.8**	**696.5**	**676.9**	**656.3**	**711.6**	**683.2**	**697.8**	**668.5**	**706.1**	**680.0**
Transferable deposits	**8408.3**	**8225.9**	**7993.1**	**7917.0**	**8723.2**	**8697.3**	**9233.5**	**9236.0**	**8937.1**	**8050.4**	**8146.2**	**8462.7**	**8738.8**	**9092.7**	**9068.5**	**9368.5**	**9322.5**	**8976.4**	**9063.7**	**8882.0**	**8728.8**
Other financial corporations	1151.9	1057.1	1139.6	1049.5	920.0	962.5	961.9	1330.2	1483.1	1207.4	1279.4	1174.2	1389.1	1379.7	1631.1	1685.3	1654.3	1655.8	1791.9	1583.4	1558.9
State and local government	106.1	109.8	59.9	59.5	70.1	173.9	217.5	212.3	219.7	233.7	232.4	224.6	154.5	183.6	160.5	156.9	160.9	169.7	158.6	153.4	165.0
Public nonfinancial corporations	434.1	281.3	251.4	370.3	354.7	413.3	458.1	447.7	446.1	337.4	389.9	377.8	472.1	331.2	296.9	328.0	449.3	230.7	239.1	200.1	213.9
Other nonfinancial corporations	4096.4	4221.9	4177.3	4095.2	4847.8	4677.5	5319.5	5169.8	4736.9	4469.3	4455.0	4862.5	4853.8	5117.0	4957.6	5152.6	4937.4	4878.4	4866.1	4957.8	4881.7
Other resident sectors	2619.8	2555.9	2364.8	2342.6	2530.6	2470.1	2276.6	2076.1	2051.4	1802.5	1789.5	1823.6	1869.4	2081.1	2022.4	2045.7	2155.6	2026.7	2008.0	1987.3	1909.4
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**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-35.0**	**15.0**	**0.0**	**0.0**	**0.0**
Other deposits	**5754.4**	**5812.7**	**5811.0**	**6263.1**	**6241.5**	**6484.7**	**6568.5**	**6729.7**	**6259.1**	**7009.1**	**7547.8**	**7396.2**	**7563.9**	**7152.7**	**7465.7**	**7493.6**	**7413.5**	**7391.3**	**7589.7**	**7879.5**	**7961.4**
Other financial corporations	336.4	347.7	348.0	463.5	429.4	504.8	469.3	460.1	486.7	538.5	594.0	252.5	322.4	226.9	223.9	179.6	155.5	189.3	184.3	212.8	212.2
State and local government	105.2	87.2	150.6	134.3	70.1	129.0	114.2	107.0	129.6	108.6	109.9	96.3	156.2	123.7	104.5	101.3	86.6	88.5	136.1	149.3	146.8
Public nonfinancial corporations	273.4	270.4	371.1	414.9	309.6	330.8	271.7	315.9	346.5	548.1	641.0	641.1	549.9	441.8	433.0	517.9	462.4	518.5	496.6	500.2	505.9
Other nonfinancial corporations	2067.5	2077.5	2037.5	2162.6	2397.7	2349.0	2596.7	2663.6	2311.6	2697.1	2956.7	3002.4	3165.9	3020.3	3206.1	3147.7	3121.4	3094.4	3202.9	3322.3	3396.2
Other resident sectors	2971.9	3029.9	2903.9	3087.7	3034.7	3171.0	3116.7	3183.1	2984.7	3116.8	3246.2	3404.0	3369.5	3340.0	3498.2	3547.1	3587.5	3500.6	3569.7	3694.9	3700.2
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**
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 excluded from broad money	**135.2**	**143.8**	**149.6**	**191.3**	**166.2**	**148.6**	**145.9**	**145.3**	**190.6**	**187.2**	**206.6**	**624.7**	**-587.4**	**-562.3**	**-452.6**	**-483.0**	**-263.3**	**313.0**	**-233.8**	**-216.0**	**-441.4**
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**	**111.2**	**86.2**	**408.6**	**379.8**	**437.4**	**420.5**	**377.7**	**327.4**	**344.9**	**408.4**
Loans	**1109.1**	**1190.6**	**1244.2**	**1334.9**	**1444.5**	**1342.1**	**1444.4**	**1640.9**	**1772.2**	**1835.3**	**2122.8**	**2096.2**	**2370.0**	**2105.0**	**2044.4**	**2056.6**	**2252.0**	**2419.2**	**2648.8**	**2658.9**	**2819.1**
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	**140.0**	**139.0**	**137.6**	**205.5**	**160.1**	**173.7**	**161.1**	**165.1**	**170.0**	**223.6**	**220.9**	**214.2**	**10.4**	**12.5**	**4.1**	**4.2**	**5.4**	**2.9**	**4.4**	**3.9**	**3.2**
Shares and other equity	**4509.8**	**4435.7**	**4600.1**	**4504.3**	**4662.1**	**4701.2**	**4721.4**	**4685.8**	**4601.8**	**4628.5**	**4589.1**	**4637.3**	**4604.5**	**4776.1**	**4570.6**	**4630.2**	**4661.9**	**4783.9**	**4881.6**	**4916.5**	**4841.4**
Other items (net)	**-717.6**	**-394.7**	**-601.6**	**-195.1**	**-596.4**	**-427.9**	**-779.6**	**-933.4**	**-423.7**	**-480.1**	**-599.7**	**-559.3**	**-102.9**	**-357.6**	**-132.7**	**-73.0**	**-1.1**	**-604.6**	**-66.8**	**39.8**	**513.0**
Other liabilities (includes central bank float)	1505.8	1558.1	1391.2	1512.8	1660.0	1583.1	1494.8	1467.9	1525.3	1453.8	1441.3	1720.5	1768.6	1728.9	1800.8	1424.6	1704.2	1368.1	1490.0	1557.1	1419.2
less: Other assets	-1744.8	-1630.8	-1844.2	-1910.8	-2146.1	-2144.9	-1977.4	-2141.1	-2181.7	-2358.7	-2401.1	-2539.7	-2048.8	-2222.6	-2211.0	-1842.9	-1811.5	-2073.0	-2019.5	-2104.9	-1938.3
plus: Consolidation adjustment	-478.6	-322.0	-148.6	202.9	-110.3	133.9	-297.0	-260.2	232.7	424.9	360.1	260.0	177.4	136.1	277.5	345.2	106.3	100.3	462.8	587.7	1032.1
Memoranda: Central bank float	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0

TABLE II.4 OTHER DEPOSITORY CORPORATIONS CLAIMS ON OTHER SECTORS (end of period in N$ Million)

	2004									2005											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Loans	18402.1	19026.7	19114.7	19273.0	19594.9	19986.9	20263.2	20567.3	20881.8	21119.2	21209.0	21309.3	21735.0	22038.7	22202.7	22549.2	22856.8	23193.8	23293.5	23724.1	24198.4
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	23.6	24.0	24.3	35.8	24.5	19.3	168.6	115.6	242.4	119.4	132.6	106.8	104.8	75.1	156.9	75.2	70.5	3.2	0.5	1.0	0.8
State and local government	12.8	12.4	13.2	13.1	13.4	12.7	19.4	27.2	15.6	19.9	7.6	8.3	16.0	8.0	8.2	8.0	8.1	13.1	21.7	21.9	22.4
Public nonfinancial corporations	148.7	351.5	351.2	363.3	364.2	365.1	365.7	350.5	347.6	345.1	401.9	350.9	356.2	360.3	364.8	368.4	234.6	233.0	237.9	294.9	284.2
Other nonfinancial corporations (Buss)	7803.1	7378.2	7362.7	7409.5	7533.5	7691.9	7685.9	7484.6	7495.2	7680.8	7698.8	7537.2	7876.0	8068.1	8110.8	8093.2	7751.4	8010.8	8141.5	8252.9	8405.5
Loans and Advances	**5414.7**	**5701.7**	**5662.6**	**5657.3**	**5753.2**	**5866.8**	**5816.3**	**5569.0**	**5580.7**	**5786.7**	**5774.6**	**5371.4**	**5702.8**	**6439.8**	**6516.5**	**6468.4**	**6124.6**	**6362.3**	**6489.3**	**6554.9**	**6575.5**
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	1414.4	1411.2	1471.8	1472.9	1474.8	1541.2	1522.3	1030.2	1034.6	1016.4	1081.7	1096.4	1154.5	1159.9	1188.7	1222.1	671.3	609.6	699.1	674.7	687.1
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	1414.4	1411.2	1471.8	1472.9	1474.8	1541.2	1522.3	1030.2	1034.6	1016.4	1081.7	1096.4	1154.5	1159.9	1188.7	1222.1	671.3	609.6	699.1	674.7	687.1
Overdrafts	3635.2	3973.3	3883.0	2760.1	2625.2	2694.7	2702.9	2874.4	2707.4	2855.1	2738.9	2685.5	2918.7	2951.0	2988.6	2858.6	2996.9	3251.0	3267.9	3402.8	3426.7
Other loans and advances	**365.2**	**317.2**	**307.8**	**1424.3**	**1653.2**	**1631.0**	**1591.2**	**1664.3**	**1838.6**	**1915.2**	**1954.1**	**1589.6**	**1629.6**	**2328.9**	**2339.2**	**2387.7**	**2456.5**	**2501.8**	**2522.4**	**2477.4**	**2461.7**
Leasing	84.4	44.3	39.6	40.7	42.2	41.7	42.6	43.7	37.0	38.2	41.2	40.4	40.7	42.7	35.6	38.6	41.2	43.2	42.7	42.8	39.7
Instalment credit	1368.3	682.8	714.1	750.5	776.7	809.1	833.6	1143.6	882.3	867.3	880.5	889.2	906.4	921.2	932.2	943.1	947.4	958.0	971.6	984.5	1020.4
Other	935.6	949.3	946.4	961.0	961.5	974.2	993.3	728.3	995.1	988.6	1002.4	1236.2	1226.0	664.5	626.4	643.2	638.2	647.3	637.9	670.7	769.8
Other resident sectors (Individuals)	**9987.3**	**10833.8**	**10935.1**	**11024.2**	**11230.0**	**11337.2**	**11583.9**	**12146.4**	**12341.4**	**12513.9**	**12486.6**	**13230.7**	**13304.1**	**13482.4**	**13483.0**	**13955.2**	**14711.1**	**14892.0**	**14814.8**	**15098.8**	**15430.2**
Loans and Advances	**8577.1**	**8679.4**	**8754.6**	**8847.3**	**9015.0**	**9105.4**	**9320.9**	**9861.4**	**9778.0**	**9865.7**	**9795.8**	**10068.7**	**10219.1**	**10352.6**	**10279.6**	**10677.6**	**11726.6**	**11877.5**	**11705.9**	**11939.3**	**12255.0**
Farm mortgage loans	**797.1**	**797.1**	**797.1**	**385.7**	**627.0**	**662.3**	**678.8**	**704.6**	**715.2**	**720.0**	**720.0**	**292.9**	**292.9**	**292.9**	**292.9**	**292.9**	**292.9**	**292.9**	**713.3**	**713.3**	**708.0**
Other mortgage loans	**5421.3**	**5458.4**	**5499.8**	**5601.6**	**5713.6**	**5789.2**	**5920.1**	**6549.5**	**6694.8**	**6727.5**	**6744.5**	**6936.2**	**7353.8**	**7488.8**	**7619.4**	**7774.9**	**8465.6**	**8796.7**	**8810.0**	**9028.4**	**9189.7**
Dwellings	**5421.3**	**5458.4**	**5499.8**	**5601.6**	**5713.6**	**5789.2**	**5920.1**	**6549.5**	**6694.8**	**6727.5**	**6744.5**	**6936.2**	**6941.4**	**7072.3**	**7202.8**	**7358.4**	**8049.0**	**8382.0**	**8392.1**	**8610.5**	**8771.7**
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**	**412.4**	**416.5**	**416.5**	**416.5**	**416.5**	**414.7**	**418.0**	**418.0**	**418.0**
Overdrafts	**1063.9**	**1119.6**	**1198.2**	**1159.8**	**1188.1**	**1160.8**	**1170.5**	**1042.1**	**1074.3**	**1113.0**	**1016.2**	**643.5**	**649.2**	**696.9**	**668.6**	**896.4**	**919.0**	**937.2**	**953.7**	**949.9**	**1116.1**
Other loans and advances	**1294.9**	**1304.4**	**1259.4**	**1700.3**	**1486.2**	**1493.1**	**1551.5**	**1565.2**	**1293.9**	**1305.2**	**1315.2**	**2196.1**	**1923.2**	**1873.9**	**1698.7**	**1713.3**	**2049.1**	**1850.7**	**1228.8**	**1247.6**	**1241.2**
Leasing	**55.8**	**78.7**	**78.5**	**76.9**	**77.2**	**75.9**	**76.0**	**74.6**	**74.0**	**73.1**	**72.0**	**72.6**	**70.3**	**70.5**	**67.8**	**65.3**	**63.8**	**61.1**	**62.5**	**58.7**	**60.3**
Instalment credit	**1351.3**	**2072.5**	**2099.0**	**2096.8**	**2134.6**	**2152.7**	**2183.6**	**2206.7**	**2220.0**	**2305.5**	**2345.0**	**2105.2**	**2410.4**	**2445.8**	**2491.9**	**2558.7**	**2619.9**	**2653.3**	**2743.1**	**2798.4**	**2810.5**
Other	**3.1**	**3.2**	**3.1**	**3.2**	**3.2**	**3.3**	**3.5**	**3.7**	**269.4**	**269.7**	**273.8**	**984.2**	**604.3**	**613.5**	**643.6**	**653.6**	**300.7**	**300.1**	**303.3**	**302.4**	**304.4**
Nonresidents	**426.6**	**426.9**	**428.3**	**427.1**	**429.3**	**560.6**	**439.8**	**443.0**	**439.6**	**440.1**	**481.4**	**75.4**	**77.9**	**44.9**	**79.1**	**49.2**	**81.1**	**41.7**	**77.1**	**54.6**	**55.3**
Loans and Advances	**426.6**	**426.9**	**428.3**	**427.1**	**429.3**	**560.6**	**439.8**	**443.0**	**439.6**	**440.1**	**481.4**	**75.4**	**77.9**	**44.9**	**79.1**	**49.2**	**81.1**	**41.7**	**77.1**	**54.6**	**55.3**
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	**409.4**	**409.4**	**409.4**	**409.8**	**409.8**	**541.9**	**414.6**	**417.8**	**418.2**	**417.3**	**413.3**	**4.1**	**62.2**	**32.6**	**62.6**	**37.9**	**62.1**	**28.9**	**61.1**	**35.5**	**36.8**
Dwellings	**408.1**	**408.1**	**408.1**	**408.1**	**408.1**	**540.3**	**412.9**	**413.9**	**414.3**	**412.2**	**409.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other	**1.3**	**1.3**	**1.3**	**1.6**	**1.6**	**1.6**	**1.6**	**3.9**	**3.9**	**5.2**	**4.1**	**4.1**	**62.2**	**32.6**	**62.6**	**37.9**	**62.1**	**28.9**	**61.1**	**35.5**	**36.8**
Overdrafts	**5.1**	**6.2**	**7.1**	**5.9**	**5.6**	**4.8**	**5.4**	**5.6**	**5.5**	**5.9**	**10.3**	**12.6**	**11.8**	**8.1**	**12.4**	**7.2**	**14.8**	**8.6**	**12.1**	**15.0**	**14.4**
Other loans and advances	**12.1**	**11.4**	**11.8**	**11.4**	**13.9**	**13.9**	**19.9**	**19.6**	**15.9**	**16.9**	**57.8**	**58.7**	**3.9**	**4.1**	**4.1**	**4.1**	**4.2**	**4.2**	**3.9**	**4.1**	**4.1**
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 of period in N$ Million)

	2004									2005											
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total Deposits																					
Deposits included in broad money	14162.7	14038.6	13804.1	14180.2	14964.7	15181.9	15802.1	15965.7	15196.2	15059.5	15694.0	15859.0	16302.7	16245.3	16534.1	16862.0	16771.0	16384.9	16653.4	16761.5	16690.2
Transferable deposits	8408.3	8225.9	7993.1	7917.0	8723.1	8697.2	9233.5	9236.0	8937.1	8050.4	8146.2	8462.7	8738.8	9092.7	9068.4	9368.4	9357.5	8961.4	9063.7	8882.0	8728.8
In national currency	8159.5	7982.1	7748.9	7679.5	8485.9	8458.4	8992.9	9236.0	8905.2	8049.4	8146.2	8462.7	8738.8	9091.2	9067.5	9367.7	9357.5	8961.3	9063.7	8882.0	8728.8
Other financial corporations	903.1	813.3	895.3	812.0	682.7	723.7	721.2	1330.2	1451.2	1206.5	1279.4	1174.2	1389.1	1378.2	1630.1	1684.6	1654.3	1655.8	1791.9	1583.4	1558.9
State and local government	106.1	109.8	59.9	59.5	70.1	173.9	217.5	212.3	219.7	233.7	232.4	224.6	154.5	183.6	160.5	156.9	160.9	169.7	158.6	153.4	165.0
Public nonfinancial corporations	434.1	281.3	251.4	370.3	354.7	413.3	458.1	447.7	446.1	337.4	389.9	377.8	472.1	331.2	296.9	328.0	449.3	230.7	239.1	200.1	213.9
Other nonfinancial corporations	4096.4	4221.9	4177.3	4095.2	4847.8	4677.5	5319.5	5169.8	4736.9	4469.3	4455.0	4862.5	4853.8	5117.0	4957.6	5152.6	4937.4	4878.4	4866.1	4957.8	4881.7
Other resident sectors	2619.8	2555.9	2364.8	2342.6	2530.6	2470.1	2276.6	2076.1	2051.4	1802.5	1789.5	1823.6	1869.4	2081.1	2022.4	2045.7	2155.6	2026.7	2008.0	1987.3	1909.3
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	248.7	243.8	244.3	237.6	237.2	238.8	240.7	0.0	31.9	0.9	0.0	0.0	0.0	1.4	0.9	0.7	0.0	0.0	0.0	0.0	0.0
Other deposits	5754.4	5812.7	5811.0	6263.1	6241.5	6484.7	6568.5	6729.7	6259.1	7009.1	7547.8	7396.2	7563.9	7152.7	7465.7	7493.6	7413.5	7423.5	7589.7	7879.5	7961.4
In national currency	5754.4	5812.7	5811.0	6263.1	6241.5	6484.7	6568.5	6729.7	6259.1	7009.1	7547.8	7396.2	7563.9	7152.7	7465.7	7493.6	7413.5	7423.5	7589.7	7879.5	7961.4
Other financial corporations	336.4	347.7	348.0	463.5	429.4	504.8	469.3	460.1	486.7	538.5	594.0	252.5	322.4	226.9	223.9	179.6	155.5	189.3	184.3	212.8	212.2
State and local government	105.2	87.2	150.6	134.3	70.1	129.0	114.2	107.0	129.6	108.6	109.9	96.3	156.2	123.7	104.5	101.3	86.6	88.5	136.1	149.3	146.8
Public nonfinancial corporations	273.4	270.4	371.1	414.9	309.6	330.8	271.7	315.9	346.5	548.1	641.0	641.1	549.9	441.8	433.0	517.9	462.4	518.5	496.6	500.2	505.9
Other nonfinancial corporations	2067.5	2077.5	2037.5	2162.6	2397.7	2349.0	2596.7	2663.6	2311.6	2697.1	2956.7	3002.4	3165.9	3020.3	3206.1	3147.7	3121.4	3146.5	3202.9	3322.3	3396.2
Other resident sectors	2971.9	3029.9	2903.9	3087.7	3034.7	3171.0	3116.7	3183.1	2984.7	3116.8	3246.2	3404.0	3369.5	3340.0	3498.2	3547.1	3587.5	3480.7	3569.7	3694.9	3700.2
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
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
Deposits excluded from broad money	2128.4	2267.5	2508.9	2254.4	2099.5	2260.1	2102.4	2027.7	2447.3	3193.4	3058.1	3761.1	3412.8	3590.7	3633.9	3687.3	3120.4	3879.3	3383.9	3479.4	3824.5
Transferable deposits	985.7	1195.0	1308.6	1328.0	1235.5	1106.4	784.5	983.8	1228.9	1944.5	1816.5	2219.9	1973.9	1760.6	1815.3	1915.0	1532.3	2298.4	1986.3	2030.2	2473.8
In national currency	850.5	1051.3	1159.0	1136.7	1069.3	957.8	638.6	838.5	1038.3	1757.4	1609.9	1701.6	1735.7	1546.9	1562.4	1618.2	1292.4	1718.4	1772.5	1774.2	2142.5
In foreign currency	135.2	143.8	149.6	191.3	166.2	148.6	145.9	145.3	190.6	187.2	206.6	518.4	238.2	213.7	252.9	296.7	239.9	580.0	213.8	256.0	331.4
Other deposits	1142.8	1072.5	1200.2	926.4	864.0	1153.8	1317.9	1043.9	1218.4	1248.9	1241.7	1541.2	1438.9	1830.1	1818.6	1772.3	1588.2	1580.9	1397.7	1449.2	1350.7
In national currency	1108.2	1039.8	1169.3	895.3	837.2	1024.5	1287.4	1014.8	1218.4	1248.9	1241.7	892.4	827.2	908.6	928.6	925.5	876.6	953.7	915.0	936.6	908.7
In foreign currency	34.6	32.6	30.9	31.1	26.7	129.2	30.5	29.1	0.0	0.0	0.0	648.8	611.8	921.4	890.0	846.8	711.6	627.2	482.7	512.6	442.0

TABLE II.6 SELECTED INTEREST RATES: NAMIBIA AND SOUTH AFRICA

Period		Prime Lending		Average Lending		Treasury biills(3 month)		Deposit rate		Bank rate	Repo rate
		Namibia	RSA	Namibia	RSA	Namibia	RSA	Namibia	RSA	Namibia	RSA
1999		**16.70**	**15.50**	**17.51**	**15.50**	**11.53**	**10.70**	**8.57**	**10.00**	**11.50**	**12.00**
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	Jan	17.50	17.00	15.63	17.00	11.75	12.34	9.26	12.43	12.75	13.50
	Feb	17.50	17.00	15.04	17.00	11.51	12.63	9.34	12.63	12.75	13.50
	Mar	17.50	17.00	15.46	17.00	11.56	12.73	9.37	11.96	12.75	13.50
	Apr	17.50	17.00	15.41	17.00	11.68	12.74	9.35	12.46	12.75	13.50
	May	17.50	17.00	15.46	17.00	12.30	12.55	9.33	12.40	12.75	13.50
	Jun	17.50	15.50	16.16	16.13	11.95	11.21	9.66	12.03	11.50	12.00
	Jul	16.25	15.50	15.45	15.50	11.06	10.89	9.50	11.30	11.50	12.00
	Aug	15.50	14.50	14.74	14.94	10.28	10.25	8.93	9.84	10.75	11.00
	Sep	14.50	13.50	14.04	13.86	10.00	10.04	7.91	9.86	9.75	10.00
	Oct	13.00	12.00	13.72	12.89	9.01	8.22	8.04	8.69	8.25	8.50
	Nov	13.00	12.00	12.04	12.00	7.69	7.69	7.35	7.69	7.75	8.50
	Dec	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	6.2	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	6.50	6.77	7.00	7.00
	May	11.75	10.50	10.58	10.50	6.80	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

Table III.1 ALLOTMENT OF GOVERNMENT OF NAMIBIA TREASURY BILLS
N$ Million

Date Issued	Date Due	Deposit Money Banks	Other Banking Institutions	Banking Sector	Non-banking Financial Instit.	Other Public Enterprises	Private Sector	TOTAL	Amount Outstanding
2005									
Jan	04/05	30.0	0.0	30.0	0.0	0.0	0.0	30.0	5641.5
Jan*	07/05	57.7	0.0	57.7	22.3	0.0	0.0	80.0	5721.5
Jan**	01/06	46.7	0.0	46.7	3.3	0.0	0.0	50.0	5771.5
Feb	05/05	49.8	0.0	49.8	30.2	0.0	0.0	80.0	5321.5
Feb*	08/05	220.6	0.0	220.6	26.9	0.0	2.5	250.0	5571.5
Feb**	02/06	148.5	0.0	148.5	1.6	0.0	0.0	150.0	5721.5
Mar	06/05	143.1	0.0	143.1	48.6	0.0	8.3	200.0	4885.7
Mar*	09/05	407.4	0.0	407.4	22.2	0.0	0.4	430.0	5315.7
Mar**	03/06	49.9	0.0	49.9	0.1	0.0	0.0	50.0	5365.7
Mar**	03/06	222.1	0.0	222.1	27.8	0.0	0.1	250.0	5615.7
Apr	07/05	30.0	0.0	30.0	0.0	0.0	0.0	30.0	5193.7
Apr*	09/05	87.9	0.0	87.9	62.1	0.0	0.0	150.0	5343.7
Apr**	04/06	119.5	0.0	119.5	0.5	0.0	0.0	120.0	5463.7
Apr**	04/06	123.3	0.0	123.3	28.7	0.0	0.0	152.0	5615.7
May	08/05	80.0	0.0	80.0	0.0	0.0	0.0	80.0	5071.6
May*	11/05	150.0	0.0	150.0	0.0	0.0	0.0	150.0	5221.6
May**	05/06	268.6	0.0	268.6	1.4	0.0	0.0	270.0	5491.6
May**	05/06	148.9	0.0	148.9	1.1	0.0	0.0	150.0	5641.6
Jun	09/05	127.3	0.0	127.3	37.5	0.0	5.2	170.0	5136.0
Jun*	12/05	115.0	0.0	115.0	5.0	0.0	0.0	120.0	5256.0
Jun**	06/06	113.0	0.0	113.0	17.1	0.0	0.0	130.0	5386.0
Jun**	06/06	184.5	0.0	184.5	15.6	0.0	0.0	200.0	5586.0
Jul	10/05	30.0	0.0	30.0	0.0	0.0	0.0	30.0	5586.0
Jul*	01/06	79.5	0.0	79.5	0.0	0.0	0.5	80.0	5586.0
Jul**	07/06	197.0	0.0	197.0	23.0	0.0	0.0	220.0	5536.0
Jul**	07/06	30.0	0.0	30.0	0.0	0.0	0.0	30.0	5566.0
Aug	11/05	77.7	0.0	77.7	0.0	0.0	2.3	80.0	5566.0
Aug*	02/06	222.4	0.0	222.4	5.0	0.0	2.6	230.0	5546.0
Aug**	08/06	188.0	0.0	188.0	12.0	0.0	0.0	200.0	5316.0
Aug**	08/06	145.0	0.0	145.0	5.0	0.0	0.0	150.0	5466.0
Sep	12/05	140.4	0.0	140.4	24.3	0.0	5.2	170.0	5466.0
Sep*	03/06	377.1	0.0	377.1	22.8	0.0	0.1	400.0	5286.0
Sep*	03/06	71.5	0.0	71.5	48.5	0.0	0.0	120.0	5406.0
Sep**	09/06	151.4	0.0	151.4	48.6	0.0	0.0	200.0	4756.0
Sep**	09/06	385.3	0.0	385.3	64.7	0.0	0.0	450.0	5206.0
Oct	10/05	29.0	0.0	29.0	1.0	0.0	0.0	30.0	5206.0
Oct**	10/05	91.3	0.0	91.3	8.7	0.0	0.0	100.0	5206.0
Nov	02/06	15.3	0.0	15.3	2.3	0.0	42.3	60.0	5186.0
Nov*	05/06	130.0	0.0	130.0	0.0	0.0	0.0	130.0	5166.0
Nov**	11/06	396.1	0.0	396.8	102.1	0.0	500.0	500.0	4986.0
Nov**	11/06	99.5	0.0	99.5	0.5	0.0	0.0	100.0	5086.0
Dec	03/06	173.6	0.0	173.6	22.2	0.0	4.2	200.0	5116.0
Dec*	05/06	111.2	0.0	111.2	8.9	0.0	0.0	120.0	5116.0
Dec**	12/06	190.0	0.0	190.0	85.0	0.0	0.0	275.0	5117.0
2006									
Jan	04/06	25.0	0.0	25.0	0.8	0.0	0.0	25.8	5112.8
Jan*	07/06	45.3	0.0	45.3	4.7	0.0	0.0	50.0	5082.8
Jan**	01/06	40.0	0.0	40.0	0.0	0.0	0.0	40.0	5072.8

* means 182 day treasury bills
** means 365 day treasury bills

Table III.2 HOLDINGS OF GOVERNMENT OF NAMIBIA INTERNAL REGISTERED STOCK
N$ Million

Date Issued	Date Due	Coupon Rate (%)	Deposit Money Banks	Other Banking Institutions	Banking Sector	Non-banking Financial Instit.	Other Public Enterprises	Private Sector	TOTAL	Amount Outstanding
	2005									
Jan	10/24	10.50	4.0	0.0	4.0	4.0	0.0	0.0	8.0	4839.5
Feb*	04/15	13.00	17.5	0.0	17.5	0.0	0.0	0.0	17.5	4857.0
Feb*	04/05	12.00	-20.0	0.0	-20.0	0.0	0.0	0.0	-20.0	4837.0
Feb	07/08	8.50	30.0	0.0	30.0	0.0	0.0	0.0	30.0	4867.0
Feb	07/08	8.50	29.9	0.0	29.9	0.0	0.0	0.1	30.0	4897.0
Feb	04/15	13.00	10.0	0.0	10.0	0.0	0.0	0.0	10.0	4907.0
Feb	10/24	10.50	4.0	0.0	4.0	0.0	0.0	0.0	4.0	4911.0
Mar	07/08	8.50	12.0	0.0	12.0	0.0	0.0	0.2	12.2	4923.2
Mar	04/15	13.00	0.0	0.0	0.0	0.0	0.0	0.1	0.1	4923.3
Mar	10/24	10.50	4.0	0.0	4.0	0.0	0.0	0.0	4.0	4927.3
Apr	07/08	8.50	104.8	0.0	104.8	15.1	0.0	0.2	120.0	4426.9
Apr	01/10	12.00	95.0	15.0	110.0	10.0	0.0	0.0	120.0	4546.9
Apr	04/15	13.00	7.0	0.0	7.0	0.0	0.0	1.3	8.3	4555.1
Apr	10/24	10.50	40.0	0.0	40.0	0.0	0.0	0.0	40.0	4595.1
May	07/08	8.50	78.0	0.0	78.0	2.0	0.0	0.0	80.0	4675.1
May	04/15	13.00	20.0	0.0	20.0	0.0	0.0	0.0	20.0	4695.1
Jun	07/08	8.50	38.0	0.0	38.0	2.0	0.0	0.0	40.0	4735.1
Jun	07/08	8.50	4.0	0.0	4.0	16.0	0.0	0.0	20.0	4755.1
Jun	04/15	13.00	40.0	0.0	40.0	0.0	0.0	0.0	40.0	4795.1
Jun	04/15	13.00	35.0	0.0	35.0	0.0	0.0	3.0	38.0	4833.1
Jun	10/24	10.50	10.0	0.0	10.0	4.0	0.0	0.0	14.0	4847.1
Jun	10/24	10.50	1.9	0.0	1.9	0.0	0.0	0.0	1.9	4849.0
Jul	10/12	10.50	35.1	0.7	35.8	4.0	0.0	0.2	40.0	4889.0
Jul	04/15	13.00	23.9	10.0	33.9	6.1	0.0	0.1	40.1	4929.1
Aug	07/08	8.50	40.0	0.0	40.0	0.0	0.0	0.0	40.0	4969.1
Aug	10/12	10.50	40.0	0.0	40.0	0.0	0.0	0.0	40.0	5009.1
Sep	07/08	8.50	49.4	0.0	49.4	0.0	0.0	0.6	50.0	5059.1
Sep	10/12	10.50	44.6	0.0	44.6	4.2	0.0	1.2	50.0	5109.1
Sep	10/12	10.50	29.1	20.0	49.1	0.2	0.0	0.7	50.0	5159.1
Sep	04/15	13.00	52.0	0.0	52.0	8.0	0.0	0.0	60.0	5219.1
Sep	10/24	10.50	33.9	0.0	33.9	5.0	0.0	0.0	38.9	5258.0
Oct	04/15	13.00	0.0	40.0	40.0	0.0	0.0	0.0	40.0	5298.0
Oct	10/24	10.50	21.0	0.0	21.0	5.0	0.0	0.0	26.0	5324.0
Nov	07/08	8.50	32.5	0.0	32.5	6.1	0.0	1.4	40.0	5364.0
Nov	10/12	10.50	0.0	40.0	40.0	0.0	0.0	0.0	40.0	5404.0
Dec	07/08	8.50	47.6	0.0	47.6	0.0	0.0	2.4	50.0	5454.0
Dec	07/08	8.50	68.8	0.0	68.8	1.2	0.0	0.0	70.0	5524.0
Dec	10/12	10.50	23.0	20.0	43.0	0.0	0.0	0.0	43.0	5567.0
Dec	10/12	10.50	70.0	0.0	70.0	0.0	0.0	0.0	70.0	5637.0
Dec	04/15	13.00	48.1	0.0	48.1	1.4	0.0	0.5	50.0	5687.0
Dec	10/24	10.50	40.0	0.0	40.0	0.0	0.0	0.0	40.0	5727.0
2006										
Jan	04/15	13.00	37.0	2.3	39.3	0.0	0.0	0.7	40.0	5767.0
Jan	10/24	10.50	0.0	0.0	0.0	4.0	0.0	0.0	4.0	5807.0

* Switch of GCO5 into GC07, GC10 & GC15

Table III.3 GOVERNMENT REVENUE AND EXPENDITURE

N$ Million

	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual 2003-04	Actual 2004-05	Estimate 2005-06
REVENUE AND GRANTS						
Taxes on income and profits	2610.0	3285.6	4442.3	3618.5	4024.2	4385.9
Taxes on property	63.0	64.1	79.3	75.2	85.9	100.1
Domestic taxes on goods and services	1945.0	2107.4	2135.7	1950.8	2057.3	3041.9
Taxes on international trade	2877.0	2641.2	2596.9	3035.6	4206.8	3728.8
Other taxes	55.0	67.6	75.6	82.8	94.1	98.1
Total Tax Revenue	**7550.0**	**8166.0**	**9329.8**	**8762.9**	**10468.2**	**11354.8**
Entrepreneurial and property income	461.9	463.4	703.2	488.8	490.0	396.6
Fines and forfeitures	21.4	18.2	19.6	18.9	17.0	22.0
Administration fees and charges	231.8	254.0	382.3	449.3	347.1	397.9
Return on capital from lending and equity	20.9	21.4	15.9	13.5	36.8	29.9
Total Non-Tax Revenue	**736.0**	**757.1**	**1121.1**	**970.5**	**890.8**	**846.4**
Total revenue (own sources)	**8286.0**	**8923.0**	**10450.9**	**9733.4**	**11359.0**	**12201.1**
Grants		58.1	34.4	34.2	70.4	153.2
Loans earmarked for on-lending	56.9	116.8	76.8	0.0	0.0	0.0
TOTAL REVENUE AND GRANTS	**8342.9**	**9097.9**	**10562.1**	**9767.6**	**11429.4**	**12354.3**
EXPENDITURE						
Current Ependiture						
Personnel expenditure	3964.9	4325.5	4708.9	5117.0	5527.1	5534.1
Expenditure on goods and other services	1637.3	1977.3	1993.6	2079.4	1921.9	1845.8
Statutory	512.0	602.7	907.6	996.0	1040.2	1146.8
Subsidies and other current transfers	1510.5	1769.2	1892.8	2255.9	2296.9	2479.3
Total Current Expenditure	**7624.7**	**8674.7**	**9503.0**	**10448.3**	**10786.0**	**11006.0**
Capital Expenditure						
Capital expenditure	929.0	1267.0	1158.7	1293.4	1401.1	1456.2
Capital transfers	32.6	25.0	87.2	103.6	217.4	133.2
Total lending and equity participation	122.0	335.7	649.7	400.0	365.9	207.5
Total Capital Expenditure	**1083.6**	**1627.7**	**1895.7**	**1797.0**	**1984.5**	**1796.9**
TOTAL EXPENDITURE	8708.3	10302.4	11398.7	12243.4	12770.5	12802.9
OVERALL DEFICIT (-)/SURPLUS (+)	-365.4	-1204.5	-836.6	-2475.8	-1341.1	-448.5
TOTAL FINANCING						
Net borrowing	280.0	1206.5	699.3	1788.3	2358.1	0.0
Decrease (+)/increase (-) in cash balances	85.0	-2.0	137.7	689.3	-3699.1	0.0
TOTAL FINANCING	**365.1**	**1204.5**	**837.0**	**2477.6**	**-1341.0**	**448.5**

Table IV.A MAJOR BALANCE OF PAYMENTS AGGREGATES (a)
N$ Million

	2001	2002	2003	2004	2005(p)
Merchandise trade balance	**-1711**	**-2183**	**-3481**	**-1829**	**-1688**
Exports fob	9828	11278	9463	11761	13149
Imports fob	-11539	-13461	-12944	-13590(p)	-14837
Services (net)	**142**	**491**	**1253**	**578**	**412**
Credit	2495	2849	3115	3058	2629
Debit	-2353	-2359	-1862	-2481	-2217
Compensation of employees (net)	**-7**	**-14**	**-31**	**-28**	**-23**
Credit	40	45	53	56	67
Debit	-47	-59	-84	-84	-90
Investment income (net)	**-974**	**255**	**514**	**642**	**248**
Credit	1286	1374	1553	1494	1717
Debit	-2261	-1118	-1039	-853	-1469
Current transfers in cash and kind (net)	**2983**	**2895**	**3467**	**4304**	**4289**
Credit	3289	3206	3670	4529	4548
Debit	-306	-310	-203	-225	-259
Current Account Balance	**432**	**1444**	**1722**	**3667**	**3238**
Net capital transfers	**816**	**429**	**510**	**498**	**505**
Credit	818	431	512	501	509
Debit	-2	-2	-3	-3	-3
Direct investment	**3254**	**1969**	**1204**	**1602**	**2298**
Abroad	110	57	79	143	77
In Namibia	3144	1912	1125	1459	2221
Portfolio investment	**-3655**	**-4439**	**-4784**	**-5490**	**-5511**
Assets	-3751	-4307	-4613	-5297	-5313
Liabilities	96	-132	-171	-194	-198
Other investment - long term	**-100**	**732**	**435**	**-342**	**-65**
Assets	-189	-84	9	68	-187
Liabilities	89	816	426	-410	122
Other investment - short term	**478**	**410**	**406**	**151**	**-326**
Assets	-183	154	29	396	63
Liabilities	661	256	377	-245	-389
Capital and Financial Account excluding Reserves	**792**	**-899**	**-2229**	**-3580**	**-3098**
Net errors and omissions	**-500**	**-447**	**-356**	**-175**	**-172**
OVERALL BALANCE	**723**	**98**	**-862**	**-88**	**14**
Reserve Assets	**-723**	**-98**	**862**	**88**	**-14**

(a) Debit (negative) entries are used to record imports of goods and services, investment income payable, the counterpart to transfers received from non-resdents, 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

	2001	2002	2003	2004	2005(p)
Services, Net	**142**	**491**	**1253**	**578**	**412**
Credit	**2495**	**2849**	**3115**	**3058**	**2629**
Transportation	316	374	407	163	143
Travel	2004	2281	2498	2605	2226
Insurance	-3	2	0	0	1
Communication	41	42	64	100	106
Construction	9	16	0	0	0
Financial	10	14	0	0	0
Computer and Information	0	0	0	0	0
Royalties and License Fees	40	40	0	0	0
Administrative and Business	4	4	2	3	3
Professional and Technical	0	0	0	12	0
Others, not included elsewhere	0	0	23	48	12
Government	75	77	119	127	138
Debit	**-2353**	**-2359**	**-1862**	**-2481**	**-2217**
Transportation	-706	-775	-457	-872	-829
Travel	-599	-577	-556	-565	-566
Insurance	-117	-124	-131	-115	-74
Communication	-2	-2	-2	-2	-2
Construction	-193	-193	-18	-28	-25
Financial	-18	-14	-41	-20	-60
Computer and Information	-112	-91	-91	-95	-71
Royalties and License Fees	0	-18	-27	-21	-11
Administrative and Business	-199	-185	-257	-186	-168
Professional and Technical	-292	-249	-152	-394	-300
Others, not included elsewhere	-26	-32	-74	-122	-51
Government	-90	-98	-56	-59	-59

Table IV.C SUPPLEMENTARY TABLE: BALANCE OF PAYMENTS INVESTMENT INCOME
N$ Million

	2001	2002	2003	2004	2005(p)
Compensation of employees, net	**-8**	**-14**	**-31**	**-28**	**-23**
Credit	40	45	53	56	67
Debit	-48	-59	-84	-84	-90
Investment income, net	**-974**	**255**	**514**	**642**	**248**
Credits	**1286**	**1374**	**1553**	**1495**	**1717**
Direct Investment	18	13	22	37	43
Portfolio Investment	657	702	1019	1047	1205
Other Investment	611	659	511	410	469
Debit	**-2261**	**-11189**	**-1039**	**-853**	**-1469**
Direct Investment	-2078	-900	-709	-493	-1121
Portfolio Investment	-76	-82	-82	-151	-161
Other Investment	-106	-137	-249	-209	-186

Table IV.D Supplementary Table : Balance of Payments- Transfers
(N$ Million)

	2001	2002	2003	2004	2005(p)
Current transfers, net	**2983**	**2895**	**3467**	**4304**	**4289**
Credits	**3289**	**3206**	**3670**	**4529**	**4548**
Government	**3146**	**3053**	**3479**	**4353**	**4384**
Grants from foreign governments, etc	264	282	325	317	321
SACU receipts	2700	2608	2926	3914	3915
Witholding Taxes	109	79	25	36	53
Other transfers received	73	84	204	87	96
Private	**143**	**152**	**191**	**176**	**163**
Grants received by NGO's	47	48	47	40	40
Other transfers received	96	104	144	136	123
Debit	**-306**	**-310**	**-203**	**-225**	**-259**
Government	**-275**	**-272**	**-171**	**-194**	**-228**
Grants to foreign governments, etc	0	-3	-4	-5	-5
SACU receipts	-269	-269	-167	-189	-223
Witholding Taxes	0	0	0	0	0
Other transfers	-6	0	0	0	0
Private	**-31**	**-38**	**-31**	**-31**	**-31**
Grants received by NGO's	0	0	0	0	0
Other transfers received	-31	-38	-31	-31	-31
Capital Transfers, net	**816**	**429**	**510**	**498**	**505**
Credit	**818**	**431**	**512**	**501**	**509**
Government	812	424	487	475	483
Private	6	7	25	26	26
Debit	**-2**	**-2**	**-3**	**-3**	**-3**
Government	0	0	0	0	0
Private	-2	-2	-3	-3	-3

Table IV.E SUPPLEMENTARY TABLE: BALANCE OF PAYMENTS DIRECT INVESTMENT
N$ Million

	2001	2002	2003	2004	2005(p)
Direct investment abroad	110	57	79	143	77
Equity capital	-1	10	9	8	10
Reinvested earnings	17	11	13	14	-7
Other capital	94	36	57	122	75
Direct investment in Namibia	3144	1912	1125	1459	2221
Equity capital	3021	1425	842	839	1334
Reinvested earnings	910	151	-546	491	1171
Other capital	-787	335	829	129	-284

Table IV.F SUPPLEMENTARY TABLE: BALANCE OF PAYMENTS PORTFOLIO INVESTMENT
N$ Million

	2001	2002	2003	2004	2005(p)
Portfolio Investment, net	-3655	-4439	-4784	-5490	-5511
Equity	-2428	-2634	-3000	-3155	-3273
Assets	-2644	-2721	-3030	-3184	-3305
Liabilities	215	87	30	29	32
Debt	-1227	-1805	-1784	-2335	-2237
Assets	-1107	-1586	-1583	-2113	-2008
Liabilities	-119	-219	-200	-223	-230

Table IV.G SUPPLEMENTARY TABLE: BALANCE OF PAYMENTS OTHER INVESTMENT
N$ Million

	2001	2002	2003	2004	2005(p)
Long-term, net	**-100**	**732**	**435**	**-342**	**-65**
General Government	118	872	283	54	53
Assets	-24	-24	-32	-40	-40
Liabilities	142	896	315	94	93
Of which:Drawings	158	921	367	124	199
Repayments	-17	-24	-52	-30	-106
Monetary Authorities	0	0	0	0	0
Assets	0	0	0	0	0
Liabilities	0	0	0	0	0
Banks	0	0	7	119	322
Assets	0	0	6	114	-21
Liabilities	0	0	0	5	343
Other sectors	-218	-140	145	-515	-440
Assets	-165	-59	34	-6	-127
Liabilities	-53	-80	111	-509	-314
Short-term, net	**478**	**410**	**406**	**151**	**-326**
General Government	0	0	0	0	0
Assets	0	0	0	0	0
Liabilities	0	0	0	0	0
Banks	866	639	383	220	-380
Assets	281	347	51	277	8
Liabilities	584	293	332	-57	-388
Other sectors	-388	-229	23	-69	54
Assets	-464	-193	-22	119	55
Liabilities	76	-37	45	-188	-1

Table IV.H 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
1999		0.1636	0.1011	0.3001	18.6109	0.2456	25.4776	0.1535
2000		0.1465	0.0955	0.3062	15.5972	0.2441	26.6007	0.1564
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
	Oct	0.1521	0.0862	0.1265	17.4520	0.1959	0.1265	0.1265
	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

Table IV.I EFFECTIVE EXCHANGE RATES 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
1998		**102.4**	**159.7**	**125.3**	**99.2**	**144.4**	**117.6**
1999		**101.8**	**150.2**	**121.5**	**100.4**	**142.9**	**117.9**
2000		**100.7**	**119.3**	**108.3**	**101.1**	**119.5**	**108.6**
2001		**97.4**	**75.3**	**86.7**	**101.8**	**82.2**	**92.4**
2002	Jan	97.7	77.4	87.9	101.6	85.1	93.7
	Feb	97.5	76.4	87.3	101.3	84.2	93.1
	Mar	97.5	76.2	87.2	102.2	85.1	94.0
	Apr	97.7	77.6	88.0	102.7	87.1	95.3
	May	98.0	80.9	89.9	103.1	91.2	97.5
	Jun	97.9	80.0	89.3	103.0	90.6	97.2
	Jul	97.8	77.8	88.1	103.7	89.5	96.9
	Aug	97.5	76.1	87.1	103.0	87.4	95.6
	Sep	97.5	75.7	86.9	103.8	88.0	96.3
	Oct	97.7	77.0	87.7	104.0	89.9	97.3
	Nov	98.0	79.8	89.3	104.8	93.8	99.6
	Dec	98.4	83.2	91.2	106.1	98.5	102.5
2003	Jan	98.5	83.7	91.4	105.5	99.3	102.7
	Feb	98.5	86.0	92.6	105.1	101.5	103.5
	Mar	98.9	88.4	94.0	104.6	103.8	104.2
	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	111.0	105.0	99.5
	Aug	99.3	92.7	96.9	111.0	107.4	100.3
	Sep	99.3	93.0	97.0	111.3	107.7	100.4
	Oct	99.4	93.2	97.1	111.2	107.7	100.3
	Nov	99.6	94.9	97.9	112.0	110.0	101.4
	Dec	99.7	94.8	97.9	111.0	109.5	101.0
2004	Jan	99.2	89.2	95.3	110.2	104.0	98.0
	Feb	99.2	88.9	95.1	110.3	103.8	97.7
	Mar	99.5	91.7	96.5	110.7	107.4	99.1
	Apr	99.6	93.2	97.1	110.5	109.1	99.6
	May	99.5	91.8	96.5	110.5	107.2	99.0
	Jun	99.7	93.7	97.4	110.5	109.6	99.8
	Jul	99.9	96.2	98.6	112.0	113.5	101.9
	Aug	99.8	94.6	97.9	112.4	111.5	101.6
	Sep	99.6	93.5	97.3	112.4	110.4	100.9
	Oct	99.7	94.3	97.7	112.7	111.5	101.4
	Nov	99.9	95.8	98.5	113.6	113.6	102.2
	Dec	100.0	95.3	98.2	113.8	112.7	102.5
2005	Jan	99.9	96.0	98.6	99.5	108.4	93.2
	Feb	99.9	95.4	98.3	99.4	107.7	93.0
	Mar	99.8	94.9	98.1	98.2	106.9	91.8
	Apr	99.8	94.1	97.7	98.3	106.1	91.4
	May	99.7	93.5	97.3	97.7	105.1	90.7
	Jun	99.4	91.1	96.1	97.7	102.4	89.8
	Jul	99.6	93.4	97.3	97.7	105.5	90.8
	Aug	99.7	94.2	97.7	98.3	106.6	91.4
	Sep	99.8	94.9	98.0	99.5	107.1	92.8
	Oct	99.7	94.4	97.7	98.7	107.1	91.6
	Nov	99.7	94.7	97.9	99.3	107.5	92.0
	Dec	99.9	97.1	99.0	99.9	109.7	94.0