



BANK OF NAMIBIA

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In order to commemorate the Republic of Namibia's fifth anniversary, the Bank of Namibia issued three commemorative coins depicted on the cover hereof.

The N\$100 is a one ounce gold coin of which 100 pieces were minted, the N\$10 a silver coin, of which 3,000 pieces were minted and the N\$1 a cupro-nickel coin of which 5,000 pieces were minted. All three coins are 37 mm in diameter.

The coat of arms appears on the obverse side of all three coins and on the reverse side of the coins a pictorial presentation of sand-dunes in the Sossusvlei region is displayed with the words "5th year of Independence".

A particular feature of the coins is that the sand-dunes are shown in their natural colour. The use of colour coins (numismatic coins only) is a fairly recent technological development which not only adds to the aesthetic value of the coins but enhances their value as collectors' items.

BANK OF NAMIBIA

ANNUAL REPORT 1995

BOARD OF DIRECTORS



*Dr J Ahmad
Governor
Appointed - 1 January 1994*



*Mr T K Alweendo
Deputy Governor
Appointed - 01 January 1993*



*Mrs B Gawanas-Minney
Appointed - 16 July 1990*



*Mr A Botes
Appointed - 16 December 1992*



*Mr P W Hartmann
Appointed - 16 July 1990*



*Mr P Damaseb
Appointed - 16 July 1990*

BANK OF NAMIBIA MANAGEMENT

Governor
Deputy Governor

Dr Jaafar Ahmad
Mr T.K. Alweendo

Senior Manager - Corporate Services
Senior Manager - Financial Institutions
Senior Manager - Economics Research
Senior Manager - Operations

Mr F.S. Hamunyela
Vacant
Mr C. Hoveka
Mr U. Davids

Manager - Human Resources
Manager - Information Systems
Manager - Economics
Manager - Statistics
Manager - Banking and Finance
Manager - Bank Supervision (On-site Examination)
 - Bank Supervision (Off-site Examination)
Manager - Exchange Control
Manager - Finance
Manager - Treasury
Manager - Project
Chief Internal Auditor

Mr J.K. Tobias
Mr J. Van der Merwe
Mr E.I. Meroro
Mr H. Scheun
Mr L. Ipangelwa
Mr W. Mberirua
Mr R. Lawrence
Mrs R. Metzler
Mr H. Theodore
Mr P. Mwangala
Ms H. Trossbach
Mr B. Masule

CONTENT

1.	OVERVIEW	1
1.1	The Namibian Economy	
1.2	International Environment	2
2.	REAL SECTOR AND PRICE DEVELOPMENTS	6
2.1	Trends in Domestic Output and National Income	6
2.2	Sectoral Performance	7
2.3	Trends in Supply and Demand for Resources	9
2.4	Trends in Gross National Disposable Income and Gross Saving	10
2.5	Prices, Wages and Employment	13
3.	MONETARY AND FINANCIAL MARKETS DEVELOPMENTS	16
3.1	Monetary aggregates	16
3.2	Credit Developments	18
3.3	Sources and uses of funds by the commercial banks	22
3.4	Money market and interest rates	22
4.	PUBLIC FINANCE	28
4.1	Fiscal Policy Measures	28
4.2	Government Revenue	29
4.3	Government Expenditure	31
4.4	Budget Speech 1996/97	33
4.5	Government Debt	34
5.	FOREIGN TRADE AND PAYMENTS	35
5.1	Current Account	37
5.2	Capital and financial account, and foreign reserves	40
5.3	External debt	41
5.4	International Investment Position	41
5.5	Exchange rates and policy	42
	EXPORT PROCESSING ZONES IN NAMIBIA	44
6.	ANNUAL REPORT OF THE OFFICE OF THE REGISTRAR OF BANKS AND BUILDING SOCIETIES	48
6.1	Introduction	48
6.2	Legal and Regulatory Matters	48
6.3	Structure of Banks and Building Societies	49
6.4	Performance of Commercial Banks	50
6.5	Performance of the Building Societies	53
7.	STAFF AND ORGANISATION	56
8.	ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 1996	57

1. OVERVIEW

1.1 The Namibian Economy

Gross Domestic Product (GDP) recorded a marginal growth rate of 2.6 per cent in 1995. This represents a significant moderation in the growth of output when compared with the 6.5 per cent increase recorded in 1994. Accounting for this slow-down in economic activities was mainly the decline in agricultural output which decreased by 9 per cent in 1995, compared with a growth of 19 per cent the previous year. The other sector which contributed to the lower growth rate in the economy is the manufacturing industry in which fish processing accounts for 33 per cent of total output. Growth in this sector was inhibited by the reduction in the *Total Allowable Catches (TAC)* for 1995, especially the pilchards quota.

Real Gross National Income declined by 5.5 per cent in 1995 compared with an increase of 16.9 per cent for the previous year. This decrease in real national income is largely ascribed to trading losses resulting from the deterioration in the terms of trade. *Real GDP per capita* also recorded a decrease of 0.5 per cent in 1995 compared with a growth of 3 per cent realised in 1994, due to the modest growth experienced in Gross Domestic Product.

On the monetary sector, monetary aggregates registered a strong twelve-month increase during the first six months of 1995. In June, M2 registered a twelve-month growth rate of 36 per cent, before receding to about 18 per cent in September. Credit extension to the private sector continued to be the major counterpart to monetary expansion throughout the year. The twelvemonth increase in credit extension to the private sector slowed in the second half of the year, following developments in monetary aggregates and reached a peak of 36 per cent in August before receding to 34 per cent in December.

The average twelve month increase in private sector deposits with commercial banks in 1995 was about 24 per cent, whereas credit extension to the same sector grew more rapidly by 32 per cent in the same period. This resulted in a peak of the credit/deposit ratio of 115 per cent in August 1995.

The slowdown in monetary growth and credit extension to the private sector in the last half of the year was mainly a response to the high interest rate policy pursued during the year. During the year, the Bank of Namibia increased the bank rate twice to 16.5 per cent and 17.5 per cent. In turn, Namibian interest rates followed a clear upward path during 1995, in nominal as well as in real terms. By the end of the year the real interest rate on deposits was about 2.9 per cent, compared with a negative rate of 1.9 per cent in January 1995.

On the capital market, the Namibian Stock Exchange experienced a boost in terms of listings, market capitalization, as well as trading. By December 1995, the total number of companies listed on NSE was 23 with an overall market capitalization of about N\$70 billion.

On the fiscal side, the outcome of the budget deficit of fiscal year 1995/96 was about 3.8 per cent of GDP, well within the NDP1 projection of 4.1 per cent. Total revenue for fiscal year 1995/1996 was about 33 per cent of GDP, while total expenditure and lending was about 45 per cent. The share of current expenditure in total expenditure fell slightly from 85 per cent in fiscal year 1994/95 to 84 per cent in 1995/96. The share of total budget devoted to the community and social services was about 52 per cent, or equivalent of 20 per cent of the GDP in fiscal year 1995/96.

Overall balance in the external payments position was N\$266 million in 1994. For the first time since 1990,

a trade deficit was recorded in 1995 which resulted from a continuous increase in merchandise imports. To this end, the surplus on current account decreased significantly from N\$333 million in 1994 to N\$53 million in 1995. The balance on capital and financial account improved from a deficit of N\$463 million in 1994, to a smaller deficit of N\$185 million in 1995. Namibia's foreign assets rose by N\$1.9 billion to N\$12.4 billion at the end of 1995, while foreign liabilities increased to N\$10.2 billion over the same period. Namibia's external public debt grew by 25 per cent during 1995 to a level of N\$2 billion by the end of 1995.

The *annual average inflation rate* for Namibia as measured by the *Windhoek Interim Consumer Price Index*, decreased marginally to 10.06 per cent in 1995 compared with a rate of 10.74 per cent for the previous year. Accounting for this decrease was mainly the spill over effect of the decline in the rate of consumer inflation in South Africa. Moderation in the increase of the *food sub-index* also contributed to the decrease in the rate of inflation for the year under review.

1.2 International Environment

Economic activity slowed during 1995, although world trade remained buoyant. The International Monetary Fund projected the growth rate of world output at about 4 per cent in both 1995 and 1996. The Organisation for Economic Co-operation and Development (OECD) projected its economic growth to pick up to 2.6 per cent in 1996 after slowing to 2.4 per cent in 1995 from 2.9 per cent the previous year. This growth, however, would only slightly dent unemployment in many of the OECD's 25 member-states which was forecast to fall to 7.7 per cent in 1996 from 7.8 per cent in 1995. Members, which include the USA, Japan and Western Europe, were faced with deep-rooted structural problems including large public deficits and rising public indebtedness.

Most of the Newly Industrialised Economies of Asia maintained their impressive growth rates in 1995. South Korea's GDP grew by 9.9 per cent in the year to the third quarter after a growth rate of 7.7 per cent a year ago. In the same period, Hong Kong's GDP expanded by 4.5 per cent, while that of Taiwan rose by 6 per cent. Whereas the economic performances in Africa and Latin America were mixed, but generally poor, the economies in transition from central planning were increasingly seeing the fruits of their adjustment efforts, with output rising in many countries.

The slow-down in the *United States'* GDP growth, forecast at 3.3 per cent from 4.1 per cent in 1994, was expected to continue. The industrial sector was struggling, with manufacturing activity contracting for the fourth consecutive month in November. Unit labour cost in the sector, often used as an early indicator of inflation, showed a yearly decline of 0.5 per cent in the same month, and in October the unemployment rate stood at 5.5 per cent, from 5.7 per cent a year earlier.

Consumer price inflation slowed in the year to October to an annual rate of 2.5 per cent, and private consumption was expected to expand by 3 per cent in 1995 compared with 3.5 per cent a year earlier. The sole negative factor in that favourable inflation environment was the trend of raw material prices which was experiencing an upward trend.

The US trade deficit declined to US\$8.35 billion in September - the lowest level in nine months- as exports bolstered by a relatively strong yen hit record levels and the deficit with Japan narrowed to the smallest imbalance in more than two years. The external accounts, however, were estimated to weaken further in 1995. The current account deficit reaching some US\$170 billion, from US\$166 billion in 1994, following earlier deterioration in the terms of trade, continued growth differentials between

the US and its trading partners, and the robust import volume growth.

The *Japanese* economy continued to stagnate, with unemployment rate in October steadfast at 3.2 per cent maintaining a record high for the fifth successive month and edging to a record 3.4 per cent in November. Japan's trade surplus plunged by 52 per cent in October, its biggest drop in nearly five years, and again 23 per cent in November from a year earlier. The decline was attributed to a fast growth in imports from Asia, mainly of goods produced by Japanese companies taking advantage of lower labour costs. The trade surplus with the USA was nearly half that of a year earlier, underscoring sluggish exports and strong imports resulting from a strong yen. The yen appreciation also restrained domestic demand by affecting business and consumer confidence adversely. The weakness in consumer spending was seen as the major reason for the slow-down of economic activity, although the decline in public works spending and housing investment also contributed.

Projected growth in Japan would improve in 1996, following a recovery package announced in September and a reversal of the yen from its high levels early in 1995. Growth in the second half of 1995 was estimated at 1 per cent, bringing the expected increase in overall activity for the year to only 0.3 per cent.

The *German* economy's moderate growth prospects that started in the last quarter of 1994 continued, with the 1995 third quarter GDP rising by 1.5 per cent, in real, terms from the same period of 1994. The economy was expected to stagnate in the third and fourth quarters and average Germany real GDP for 1995 was predicted to rise modestly to an annual growth rate of 2.4 per cent from 2.1 per cent.

The utilisation of capacity in the manufacturing sector in western-Germany fell for the first three quarters of 1995; residential construction was flagging, largely a

result of the normalization of the industry after the reunification-induced boom, and export prospects remained subdued because of the strengthened D-mark and wage increases of about 3.8 per cent for the year as a whole. The number of unemployed rose again slightly to 9.2 per cent in October, and M3 money supply expanded at a seasonally adjusted and annualised rate of 1.8 per cent in the ten months to October.

The *French* economy was slowing markedly throughout 1995. The national statistical agency estimated that the mass strikes would result in a drop in GDP of between 0.3 per cent and 0.4 per cent during the last quarter of 1995.

Output growth slowed substantially during the first half of 1995, largely because of reduced stockbuilding and weaker foreign demand, and economic activity remained fairly hesitant in the second half. Over the year to September industrial output fell by 1.8 per cent, GDP edged up by a mere 0.2 per cent in the third quarter of 1995 and output was projected to show a 2.7 per cent growth for 1995.

Joblessness had been increasing since August 1995 and stood at more than 11 per cent in September, while public-sector deficit reached 6 per cent of GDP. To revive an ailing economy, the Bank of France's own rate was cut in December to 4.45 per cent from 4.70 per cent.

The pause in *Britain's* economic growth observed in early 1995 lasted longer than expected. UK third-quarter GDP rose by 0.4 per cent quarter-on-quarter and by 2.1 per cent year-on-year in November 1995. British unemployment rate stood at 8.1 per cent in October and consumer confidence deteriorated slightly in the previous month. Evidence of an economic slow-down mounted in the first nine months of 1995 as both domestic demand and export growth slackened.

Retail sales were weak in the third quarter and consumption growth was being checked by, among other things, subdued real disposable incomes while business fixed investment was slow to recover. The Bank of England cut its base lending rate by a quarter to 6.5 per cent in December to help spur the flagging economic growth, predicted to settle at 2.7 per cent in 1995.

The *South African* economy went through a mini boom and bust cycle during 1994 and the first half of 1995. The soaring demand that followed the remarkable recovery in economic activity after the April 1994 elections sucked in more imports before production caught up with demand in the second half of the year. The net effect of increased production costs and the higher costs of imports, as a result of the Rand's depreciation, led to a sharp rise in prices.

The pace of economic growth slowed significantly in the first half of 1995, mainly following poor performances in agricultural and mining sectors. The agricultural sector continued to be depressed, contracting by over 50 per cent from the second to the third quarter. The disappointing performance was chiefly a result of the misfortunes experienced in the farming industry. Mining production fell by 4.4 per cent from its 1994 level during the third quarter, compared with the previous quarter's 5.4 per cent contraction.

Manufacturing output soared in the first half of the year, underpinned by a strong export performance, and consumer spending was robust as personal disposable incomes increased. In the second half of the year, the sector's output declined, falling by a seasonally adjusted 1.9 per cent in the three months to October from the previous quarter.

Money supply (M3) growth, fuelled by large credit extension, remained relatively high in 1995, averaging

more than 14 per cent and forcing the Reserve Bank to raise its Bank rate twice in an effort to stave off inflation. The latter ended the year at 9.0 per cent. The main reason the country managed to lower inflation was the fall in food prices, resulting from the easing of restrictions on food imports in August 1995. Another factor putting a damper on food prices was the broader deregulation of the agricultural sector. A stable rand had also been one of the cornerstones of the fight against inflation.

Up to the third quarter of 1995, South Africa experienced R13.8 billion in net capital inflows. The inflows bolstered the rand and were responsible for the currency's relative stability - the rand averaged R3.6241 to the US dollar until early December. A current account deficit of about R13 billion was expected for 1995 due in part to weak gold exports, and GDP growth was projected at approximately 3 per cent.

Regional Cooperation

The Southern African Development Community (SADC) members, at their August 1995 meeting, took important steps towards closer regional unity with the signing of a protocol on water use and a memorandum on a power grid. In December, a memorandum of understanding between the United States of America and the 12-nation body was signed, in which the USA agreed to provide technical advice on the SADC's plans to create a free trade zone. The organization has also re-affirmed plans to achieve a free trade area by the year 2000, and a common market by 2004.

At present, SADC is opposed to any merger with Common Market for Eastern and Southern Africa (COMESA) although a compromise has been worked out: That different (groups of) countries should work towards integration at various limited regional levels in line with the so-called theory of variable geometry.

A second relationship is still to be worked out between SADC and Southern African Customs Union (SACU). The latter does not have central co-ordination in the areas such as infrastructure, money/finance or human resources as does the former; instead its whole emphasis is upon operating a trade regime. SACU ministers of trade, in a meeting held in Namibia on December 13, 1995, discussed reports on the revenue-sharing formula and the regional motor industry plan. Although no agreement has been reached on a new formula, it had been agreed in principle that the new formula should be transparent and lead to fiscal stability for member states.

The motor industry development plan for the region was to be discussed further. At a time when SACU is being renegotiated, some observers (especially those at the Africa Institute of South Africa) feel that the union's days are numbered, with SADC clearly seen as the new regional trade bloc in southern Africa.

There are growing sentiments that the Common Monetary Area (CMA) be renegotiated, perhaps at the same time and along the same line as SACU. The Government of Namibia has identified the need for a detailed assessment of the country's membership of CMA with a view to possibly initiating a renegotiation of the monetary arrangement.

A recent summit of Lomé signatories in Mauritius clamped down on South Africa's ability to enjoy the highly concessionary trade benefits under the Lomé Convention. Instead of automatic access to the benefits, manufacturers of products with South African inputs need to apply for the benefits each time they tried to export to Europe. SA's partners in the SACU (notably Lesotho and Namibia) felt strongly against the provision, saying that it would make it harder for the southern African region to attract direct investments.

2. REAL SECTOR AND PRICE DEVELOPMENTS

2.1 Trends in Domestic Output and National Income

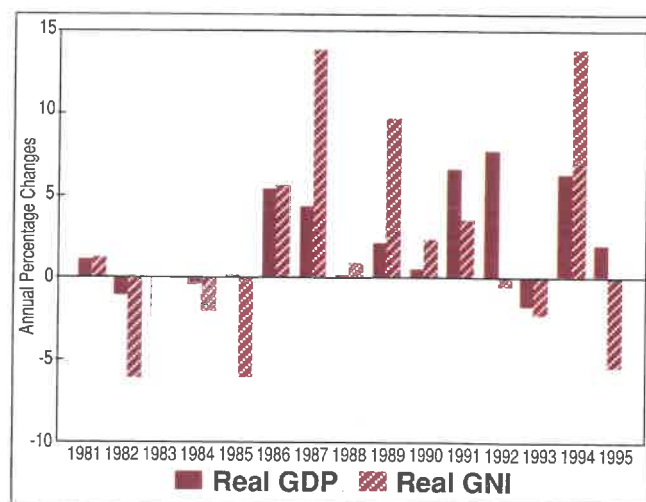
According to the preliminary data released by the Central Statistics Office, the Namibian economy expanded modestly in 1995, registering a real increase of 2.6 per cent in Gross Domestic Product (GDP), well below the 6.5 per cent achieved in 1994. Poor weather conditions on both land and sea were a significant factor to this setback as they had a direct impact on the performance of the agricultural and the fishing sectors. Mining, however registered a growth of 5.7 per cent, of which diamonds alone contributed 5.5 per cent. Post and telecommunication services also performed remarkably well, recording a 19.4 per cent growth in 1995, compared with 4.4 per cent the previous year

The level of manufacturing activities in Namibia largely depends on the level of activities in the primary sector, particularly on the performance of the fishing and agricultural sectors. Therefore, the weak performance of these two sectors in 1995 dealt a heavy blow on the manufacturing sector. Mining did well owing to increased diamond production which more than offset the decline in the production of most base metals. In addition to poor supply conditions, low aggregate demand has also contributed to the weak overall performance of the economy in 1995. Gross domestic expenditure declined in real terms by 1 per cent against a significant increase of 13 per cent recorded in the previous year.

Gross National Income (GNI) declined by nearly 6 per cent compared with a substantial increase of 17 per cent in 1994. This decline in real national income is largely ascribed to trading losses resulting from the deterioration

of terms of trade. In 1994 the terms of trade increased by 13.9 per cent owing to relatively higher exports prices. This was the first improvement recorded since 1989. However, in 1995, the reverse happened as the terms of trade declined by 11.5 per cent resulting in trading losses amounting to almost N\$8 million. One other factor which had a negative impact on GNI growth is net primary incomes from abroad, mainly property income in the form of dividends and interest receipts. As a share of GNI, net primary income from abroad fell from 3.8 per cent in 1991 to 2.6 per cent in 1995.

Chart 2.1 Real GDP and GNI percentage change from previous year.



The rise in real GDP was too low to keep up with the annual population growth estimated at an average of 3 per cent. Real GDP per capita declined by almost 1 per cent in 1995 contrasted with an increase of 3 per cent in the previous year. The real GNI per capita declined substantially by 8 per cent against a rise of 13 per cent in 1994. Viewed against the population growth rate, the share of gross national output available per person decreased in 1995.

Table 2.1 Aggregate Economic Indicators

Indicators	1990	1991	1992	1993	1994	1995 (p)
Current Prices						
GDP (N\$ mil.)	5873.3	6593.2	7865.6	8353.0	10393.8	11267.6
% Change	5.1	12.3	19.3	6.2	24.4	8.4
GNI (N\$ mil.)	5959.2	6850.9	7975.3	8606.0	10760.8	11572.7
% Change	13.5	14.9	16.4	7.9	25.0	7.4
GDP per capita (N\$)	4297.0	4676.0	5413.0	5572	6723.0	7069.0
% Change	1.8	8.8	15.8	2.9	20.7	5.2
GNI per capita (N\$)	4360.0	4859.0	5489.0	5741.0	6760.0	7260.0
% Change	10.1	11.4	12.9	4.6	21.2	4.3
Constant 1990 Prices						
GDP (N\$ mil.)	5873.3	6307.6	6825.1	6695.3	7131.7	7318.4
% Change	0.3	7.4	8.2	-1.9	6.5	2.6
GNI (N\$ mil.)	5959.2	6214.7	6251.8	6070.7	7099.3	6706.3
% Change	2.1	4.3	0.6	-2.9	16.9	-5.5
GDP per capita (N\$)	4297.0	4474.0	4697.0	4466.0	4613.0	4591.0
% Change	-2.7	4.1	5.0	-4.9	3.3	-0.5
GNI per capita (N\$)	4360.0	4408.0	4303.0	4050.0	4592.0	4207.0
% Change	-1.0	1.1	-2.4	-5.9	13.4	-8.4

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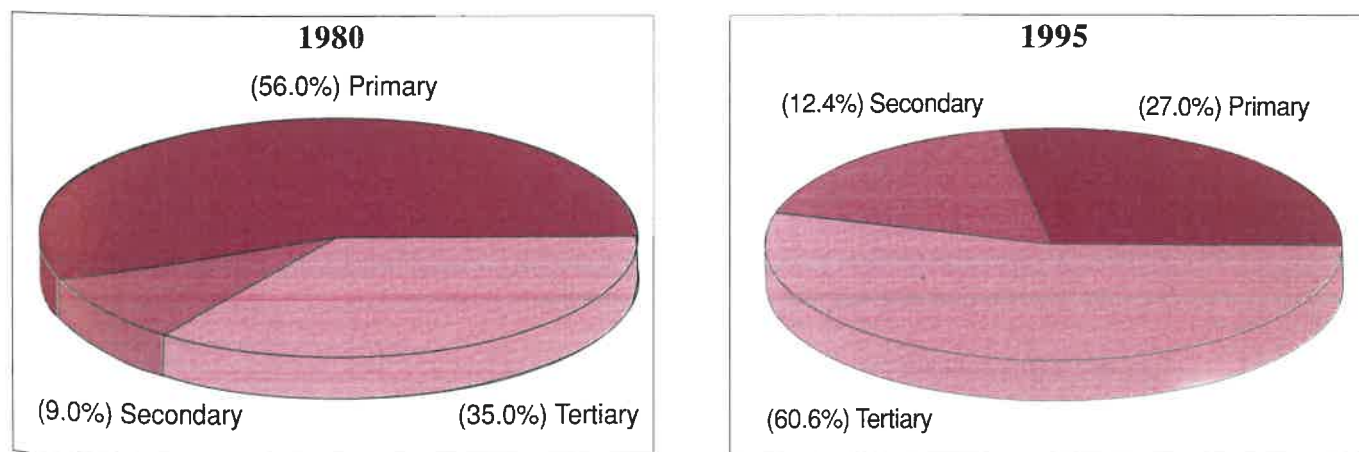
Source: Central Statistics Office

2.2 Sectoral Performance

The sectoral composition of GDP changed dramatically (Chart 2.2). In 1980, the primary sector accounted for 56 per cent of GDP, while the tertiary sector accounted for 35 per cent. However, the 1995 figures show a different picture as the tertiary sector now accounts for 60 per cent, while the share of the primary sector declined to 27 per cent. The share of the secondary sector did not

change significantly as it increased from 9 per cent in 1980 to 13.2 per cent in 1995. It is apparent that the Namibian economy is dominated by the service sector, to which government services contribute 47 per cent. This is due to the fact that at independence the new government had to consolidate 11 ethnic-based "second tier authorities," an equal number of third tier authorities (municipalities), several statutory entities, one administration for whites and one central authority.

Chart 2.2: Composition of GDP at factor cost (current prices)



2.2.1 Developments in the Primary Sector

The primary sector consists of three sub-sectors, namely agriculture, fishing, and mining and quarrying. In 1995, this sector registered a growth rate of 2.1 per cent against a substantial growth rate of 12 per cent in 1994. *Agricultural output* declined by about 9 per cent against a significant growth of 19 per cent in 1994. This sector was plagued by a severe drought which affected pasturage and consequently live-stock conditions. The dry weather conditions also influenced cereal production which according to estimates almost halved. Due to the poor climatic conditions, commercial agriculture declined marginally by 0.6 per cent. The decline in subsistence agriculture of 22 per cent complemented the decline in the commercial subsector, resulting in an overall decline in agricultural output.

Fishing output in 1994 was hard hit by a shortage of oxygen in the sea and along the coast which caused a high mortality rate among many fish species. As a result, fishing output increased by only 6 per cent against a substantial rise of 44 per cent in 1993. Oceanic conditions improved in 1995, but the reduction in Total Allowable Catches (TAC) for that period stifled the performance of this sub-sector, resulting in an increase of 7 per cent. Investment in this sector declined substantially by 39 per cent in 1995. However, this reflects the tapering off of new investment in the fishing sector, following the massive investment inflow in this sector between 1990 and 1992.

After a substantial decline of 22 per cent in 1993, which was mainly caused by depressed market conditions for diamonds, *mining and quarrying* started to recover since the beginning of 1994. Output in this sub-sector increased by 11 per cent and 6 per cent in 1994 and 1995, respectively. In 1993 the diamond market was adversely affected by illicit diamond dealings from certain countries. As a result, the Central Selling Organisation (CSO)

imposed a production quota on CDM, now known as NAMDEB, with a view to achieving price stability. However, conditions in the diamond industry seem to be improving as its value added increased by 8 per cent in 1995. In addition, the increased diamond output was attributed to the continuous expansion in marine operations. Other mining and quarrying declined by 7 per cent owing to the depletion of minable ore at the Tsumeb mine and strikes and work interruptions at some other mines.

2.2.2 Developments in the Secondary Sector

Three sub-sectors, namely manufacturing, electricity and water and construction make up the secondary sector. The sector's value added declined by about 6 per cent in real terms in 1995, compared with an increase of 11 per cent in the previous year.

Manufacturing output in 1995 declined by almost 17 per cent against an increase of 9 per cent in 1994. The decline of 41 per cent in fish processing, caused by the reduction of the TAC for pilchards, is mainly responsible for this reduction in the manufacturing value added. Meat processing increased by 3 per cent, while other manufacturing activities grew by 4 per cent in real terms. In terms of employment, the manufacturing sector employs about 7 per cent of the total people employed in Namibia.

Construction activities slowed down as it grew by about 7 per cent compared with a substantial increase of 11 per cent recorded in 1994. The total credit extended by the commercial banks to the construction sector increased by N\$545 millions in 1995 as compared with a decline of about N\$17 million the previous year.

The share of manufactured exports in total merchandise exports has been rising over the past five

years from 24.9 per cent in 1990 to 33.8 per cent in 1994, but declined to 31 per cent in 1995. Fish processing was largely responsible for this trend, accounting for a 68 per cent in 1994 and 60 per cent in 1995. Meat and meat preparations accounted for 28 per cent of manufactured exports, while other manufactured products accounted for 6 per cent.

2.2.3 Developments in the Tertiary Sector

The tertiary sector consists of wholesale, retail and repairs, hotels and restaurants, transport and communication, community, social and personal services, other services, government services, and finance, real estate and business services. In 1995, value added by the tertiary sector expanded by 2.5 per cent.

The tertiary sector has been dominated by *government services*, accounting for almost 48 per cent over the past three years. Value added by the government sub-sector in 1995 increased marginally by 0.9 per cent compared with an increase of 1.1 per cent in 1994. As a share of real GDP, government services remained stable at 24 per cent since 1993.

The second largest sub-sector in this category is *finance, real estate and business services*, accounting for 8 per cent of the tertiary sector. In 1995, its value added increased by 5.7 per cent in real terms compared with 1.2 per cent recorded in the previous year. This increase was ascribable to the substantial rise in financial intermediation of 11.2 per cent in 1995.

Activities in the *wholesale, retail trade and repairs* sub-sectors increased at a rate of 5 per cent compared with 2 per cent recorded in 1994. The performance of hotels and restaurants improved modestly by 6.9 per cent against a substantial increase of 24 per cent in the previous year. The share of hotels and restaurants in the tertiary sector

and its contribution to GDP has remained almost stable over the past four years at nearly 2 per cent and 1 per cent, respectively. Transport and communication activities improved by 9 per cent in 1995, following sharp increases in the post and telecommunication services and a modest rise in transportation and storage services.

2.3 Trends in Supply and Demand for Resources

Total supply of resources to the Namibian economy grew moderately by 3 per cent during 1995, compared with an increase of 4.8 per cent in the previous year. The supply of resources comprises the GDP at market prices and imports of goods and services, the latter accounting for 37.4 per cent of total supply in 1995. This high proportion of imports to total supply of the economy indicates that a significant level of domestic demand is satisfied by imports of goods and services. It is partly in this regard that the unstable nature of primary income from abroad becomes a concern as it could lead to some strains in the country's long term ability to cope with its import requirements.

On the demand side, aggregate domestic demand declined in real terms by 1 per cent during 1995 compared with an increase of 13 per cent in 1994. This marginal decline is largely attributable to the lower inventory levels recorded in 1995, compared with a real increase of 10.1 per cent in the previous year. The draw-down in inventory levels more than offset the real increases experienced in private consumption and investment.

Investment demand increased by 3.7 per cent in 1995, following a substantial increase of 11 per cent in the preceding year. This increase is ascribed to the strong investment outlays in buildings, construction works, transport equipment, machinery and other equipment, and

Table 2.3 Supply and Use of Resources
Constant 1990 Prices- N\$ million

	1990	1991	1992	1993	1994	1995(p)
Supply of Resources						
GDP at Market Prices	5 873.3	6307.6	6825.1	6695.3	7131.7	7318.4
Imports of Goods and Services	3 834.2	3989.0	4182.7	4131.7	4215.0	4373.7
Total Supply	9 707.5	10 296.6	11 007.8	10 827.0	11 346.7	11 692.1
Use of Resources						
Final Consumption Exp	4 977.9	5 423.2	5 339.6	5 372.3	5 376.7	5 637.2
Private	3 16.9	3 343.7	3 121.3	3 144.8	3 142.2	3 379.6
Government	1 861.0	2 079.5	2 218.3	2 227.6	2 234.6	2 257.6
Gross Fixed Cap. Form	1 286.0	982.6	1 356.4	1 445.1	1 605.5	1 664.2
Buildings	422.3	389.9	475.4	553.9	644.5	683.4
Construction Work	251.9	220.1	310.5	319.3	340.8	350.6
Transport Equipment	203.7	153.5	279.7	227.8	174.9	177.4
Machinery & other equip	335.9	181.1	270.2	311.8	416.7	422.8
Mineral Exploration	72.2	38.1	20.6	32.3	28.6	30.1
Changes in Inventory	281.8	169.3	151.6	-455.8	221.6	-168.4
Exports of Goods and Services	3 161.8	3 721.6	4 160.1	4 465.4	4 142.8	4 559.2
Total Demand	9 707.5	10 296.6	11 007.8	10 827.0	11 346.7	11 692.1

P - Provisional

Source: Central Statistics Office

mineral exploration, whose average growth rate was estimated at 4 per cent in 1995. There was, however, a drawdown in inventory investment of N\$168.4 million in 1995 against an inventory build-up of N\$221.6 million a year ago.

Public sector expenditure showed mixed signs. In real terms, public sector investment declined by 2.7 per cent in 1995 compared with an increase of 16.7 per cent in 1994, while public sector consumption increased by 1 per cent in 1995 against a slight increase of 0.3 per cent in 1994. Public sector investment was mainly aimed at the improvement of services such as telecommunication, rural electrification and maintenance of existing infrastructure.

The private sector consumption showed a strong growth with a similar increase in capital formation. In real terms, private consumption increased by 7.6 per cent in 1995 compared with a marginal decline of 0.1 per cent in 1994.

Private investment, on the other hand, increased by 7.6 per cent in 1995 compared with a higher growth of 7.9 per cent recorded in 1994. This increase in private domestic expenditure was a result of the strong growth in disposable income, which in nominal terms, increased by 22.5 per cent and 8.1 per cent for the years 1994 and 1995, respectively.

2.4 Trends in Gross National Disposable Income and Gross Saving

In 1994, Gross Saving (GS) rose substantially by 67.7 per cent due to higher disposable income relative to consumption expenditure during that year. However, this good performance was reversed in 1995 when national saving dropped by 18.2 per cent to N\$2.5 billion. This represents a ratio of 20.4 per cent of GDP, down from 27 per cent of GDP in the preceding year. The savings ratio reached its highest level of 27 per cent in 1994 during the last six years.

Table 2.4 Income and Outlay Account
Current Prices - N\$ million

Income	1990	1991	1992	1993	1994	1995(p)
GDP at Factor Cost	5 045.9	5 690.4	6 761.7	7 015.8	8 761.7	9 419.7
Plus:Taxes on Production and Imports, net	827.2	902.8	1 103.9	1 337.2	1 632.1	1 847.9
GDP at Market Price	5 873.3	6 593.2	7 865.6	8 353.0	10 393.8	11 267.6
Plus:Primary income from abroad, net	85.9	257.7	109.8	253.1	366.9	305.2
GNI at Market Price	5 959.2	6 850.9	7 975.3	8 606.0	10 760.8	11 572.7
Plus:Current Transfrs, net	645.6	757.5	965.2	774.1	756.4	842.4
Gross Natl. Disposbl. Inc	6 604.9	7 608.4	8 940.6	9 380.2	11 487.2	12 415.1
Less: Consumption Exp.	4 977.9	5 991.9	6 920.6	7 532.2	8 387.4	9 879.9
Gross Saving	1 627.0	1 616.5	2 020.0	1 848.0	3 099.8	2 535.2
Saving Ratio (%)	24.6	21.3	22.6	19.7	27.0	20.4

P - Provisional

Source: Central Statistics Office

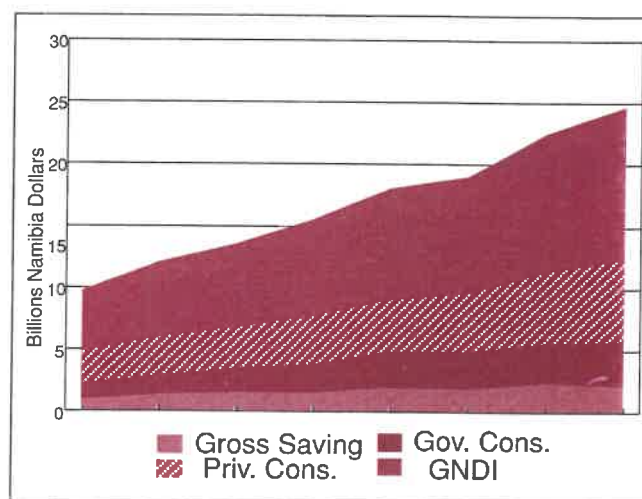
Among the components of disposable income, GDP at factor cost (i.e. factor income) increased by 7.5 per cent in 1995 compared with a 24.9 per cent growth realized during the previous year. As a share of national disposable income, factor income declined slightly to 75.9 per cent in 1995, compared with 76.3 per cent for 1994. The average proportion of factor income to gross national disposable income remained stable at 75 per cent since 1990.

The share of net primary income from abroad in gross national disposable income increased to 2.5 per cent during 1995 compared with 3.2 per cent in 1994. This ratio continued to fluctuate from a low of 1.3 per cent in 1990 to a high of 3.4 per cent before it reached the current level. The share of net current transfers from the rest of the world in gross national income declined steadily from 9.8 per cent in 1990 to 6.8 per cent in 1995, mainly reflecting declines in foreign grants as a share of total transfers receivable.

It is important to note that a substantial portion of disposable income was used for consumption purposes. In 1995 the increase in consumption expenditure increased to 17.9 per cent compared to 11.4 per cent during the previous year. The proportion of final

consumption expenditure to gross national disposable income is estimated at 79.6 per cent for 1995 compared to 73.0 per cent for 1994. The average ratio of consumption to gross national disposable income was 77.4 per cent since 1990.

Chart 2.3 Gross National Disposable Income, Consumption and Gross Saving
Current Prices



2.4.1 Savings and Investment

Public sector saving continued its negative trend for the year. In fact, since 1990 the public sector has been

dissaving at an increasing rate and as a result of this, the negative gap between savings and investments in the sector widened substantially from N\$221.6 million in 1990 to N\$1143.9 million in 1995. This negative gap increased slightly by 12.7 per cent during 1995 compared with an increase of 12.1 per cent in 1994.

Capital formation in the public sector continued to increase in 1995 despite the trend of increasing dissaving in that sector. In 1995 gross public fixed capital formation increased by 6.5 per cent compared with an increase of 25.6 per cent during the previous year. The persistence of this negative gap in the public sector could eventually become a huge drain on the country's savings and investment capacity if it is not reversed.

Reflecting the relatively higher increase in consumer spending when compared to the growth in income during 1995, private sector savings declined by 15.1 per cent, down from an increase of 57.3 per cent in the previous year. In terms of its contribution to GNI,

private sector savings dropped by a modest 2.1 percentage points to 1.3 per cent. The private sector resource balance shrank to N\$1 billion from N\$1.4 billion in 1994, following a strong saving rate relative to investment rate in 1995.

Private sector investment, on the other hand, recorded a significant increase of 22.4 per cent during 1995 compared with a 6 per cent increase in 1994. This was mainly due to sharp increases of investment outlay in construction (31 per cent), electricity (28.8 per cent) and the retail and wholesale sector which recorded an investment growth rate of 112.9 per cent during 1995.

The combined effect of a higher growth rate in gross fixed capital formation and a lower rate of increase in gross national saving during the last three years, resulted in a smaller surplus in the national resource balance of N\$177.9 million in 1995 compared with N\$586.4 million in the previous year. This implies lower foreign saving for the country during the year under review (Chart 2.4).

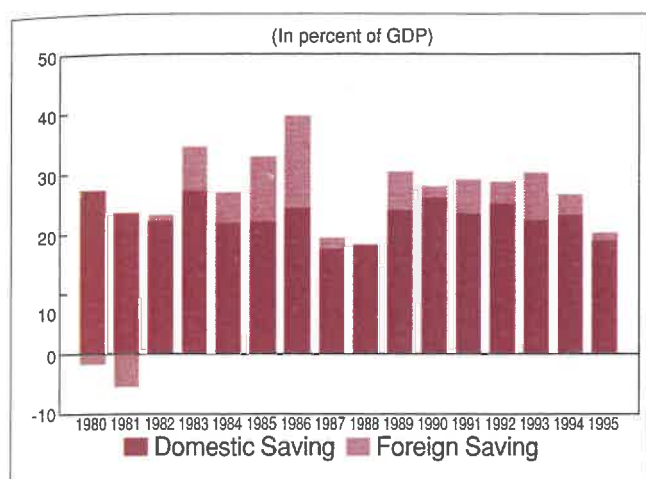
Table 2.5 Savings-Investment Gap, 1990-95
N\$ million

	1990	1991	1992	1993	1994	1995(p)
Public Gross Fixed Cap. Formation	494.4	504.4	782.7	682.2	856.8	912.6
Public Gross Saving	272.8	-128.6	-261.9	-223.1	-158.2	-231.9
Deficit/Surplus	-221.6	-633.0	-1044.6	-905.3	-1015.0	-1143.9
Private Gross Fixed Cap. Formation	791.6	586.3	860.0	1 204.7	1 387.1	1 653.0
Priv. Gross Saving	1 354.1	1 725.1	2 281.8	2 071.0	3 258.0	2 766.6
Deficit/Surplus	562.5	1 138.8	1 421.8	866.3	1 870.9	1 113.6
Change in Inventory	281.8	168.7	135.7	-430.7	269.6	-208.2
Gross Domestic Cap. Formation	1 286.0	1 090.7	1 642.7	1 886.9	2 243.9	2 565.6
Gross Domestic Saving	1 626.9	1 596.5	2 019.9	1 847.9	3 099.8	2 535.3
Balance on Current account	59.1	357.1	241.5	391.6	586.4	177.9
Current Account/GDP (%)	1.0	5.4	3.1	4.7	5.6	1.6

P - Provisional

Source: Central Statistics Office

Chart 2.4 Domestic and Foreign Saving



2.5 Prices, Wages and Employment

2.5.1 Price Developments

The annual average rate of inflation as measured by changes in Interim Consumer Price Index of Windhoek, dropped moderately from 10.74 per cent in 1994 to 10.06 per cent in 1995. A slightly lower inflation rate was registered in 1993, when it reached a single digit level of 8.55 per cent. This was in sharp contrast to the inflation of 17.9 per cent recorded in 1992

During the year under review, the twelve-month change in the Consumer Price Index dropped from a level

of 11.97 per cent in March to 9.35 per cent in June. It then escalated again to 10.02 per cent in July before it receded to 8.50 per cent and 7.91 per cent in October and December, respectively. The December inflation figure was the lowest since September 1993 when inflation was 6.4 per cent.

The overall decline in the inflation rate was mainly attributable to the spill-over effect of the decrease in the inflation rate of South Africa. Consumer price inflation in that country declined to an average of 8.7 per cent during 1995 compared with 9.9 per cent for 1994. Inflation in Namibia is largely imported from South Africa, from where 85 per cent of its imports originate. The absence of an independent exchange rate instrument in Namibia due to the CMA membership further creates a very close relationship between the inflation rates of the two countries.

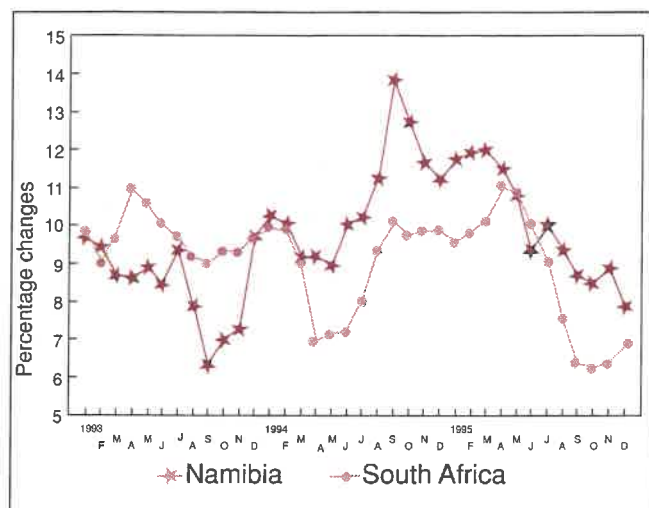
The year 1995 on balance exhibited a declining trend in the rate of inflation. This downward trend is expected to continue because of the deflationary fundamentals in South Africa as characterised by the appreciation of the rand, relatively high interest rates and the prospects of a good rain season.

Table 2.5 Windhoek Consumer Price Index
December 1992 = 100

Item	1994	%Change from previous year	1995	%Change from previous year
All Items	116.29	10.74	127.93	10.06
Food	115.78	13.04	129.20	12.00
Beverages & Tobacco	120.07	10.24	137.26	14.32
Housing, Fuel & Power	118.77	13.30	134.06	12.81
Clothing & Footwear	117.37	7.99	127.57	8.21
Household Goods Etc.	104.95	4.10	111.31	6.06
Transport & Communication	112.38	6.08	118.63	5.54
Recreation & Education	131.07	15.83	141.75	8.81
Medical Health Care	127.25	0.82	138.56	8.53
Miscellaneous	125.75	18.50	141.74	12.53

Source: Central Statistics Office

Chart 2.5 Annual Inflation Rates in Namibia and South Africa
January 1993 - December 1995

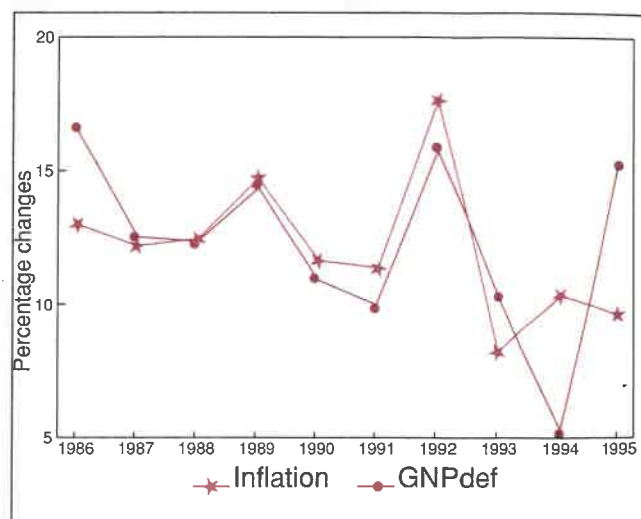


The *food sub-index* which accounts for 28.36 per cent of the total index, stabilized considerably during 1995 and only increased from 115.78 in 1994 to 129.20 in 1995, an annual average increase of 11.60 per cent for the year (Table 2.5). The sub-index mainly played a moderating role in overall inflation when compared with an increase in the other key *sub-index for housing, fuel, and power* of 12.80 per cent. The housing, fuel and power sub-index accounts for 19.94 per cent of the overall index. The rate of increase in this sub-index could be attributed to increases of tariffs for electricity, water and refugee removal which were introduced last year.

The Central Statistics Office is currently in the process of developing a National Consumer Price Index which will cover the whole country as well as provide a breakdown between the trends in urban and rural price levels. However, because of the absence of a National Consumer Price Index, the GNP implicit price deflator, which provides a wider measure of price changes, is also included to provide further insight in the overall price movements for the country.

Namibia's inflation rate, as measured by changes in the GNP price deflator, followed more or less a similar trend as the Windhoek interim consumer price inflation during the last ten years (Chart 2.6). It peaked in 1992, with an annual increase of 16.1 per cent compared with an increase of 10.4 per cent in 1991. The consumer price inflation was 17.9 per cent in 1992 and 11.8 per cent in 1991.

Chart 2.6 Inflation and Changes in GNP Deflator



In 1995, the GNP deflator accelerated to 15.4 per cent compared with an increase of 5.7 per cent during the previous year. This rather significant acceleration in the GNP deflator could be a reflection of the deterioration in the terms of trade experienced during 1995, as opposed to 1994 when the country realised a 12.5 per cent improvement in the terms of trade.

2.5.2 Employment and Wages

The lack of a comprehensive employment database in Namibia makes it difficult to assess the trends in the labour market. However, the Central Statistics Office undertook a population census in 1991 which has provided useful information.

According to the above-mentioned survey, the total labour force was estimated at 434 678, accounting for 58 per cent of the adult population which in turn is defined as those of 15 years of age and above. The labour force was broken down into unemployed (19 per cent), income earners (63 per cent) and unpaid family workers (17 per cent). A gender breakdown showed that 53 per cent of those employed were males. Accordingly, out of the male adult population about 69 per cent were economically active, as opposed only to about 49 per cent for the female.

A classification of employed persons by status indicates that 2 per cent of those employed are also employers, 20 per cent self-employed, 19 per cent are government employees, 38 per cent are employed in the private sector and about 21 per cent are unpaid family workers. An own account worker is defined as a self-employed person who has no hired or paid employees, while unpaid family members work without pay.

Table 2.6 Employed Persons by Employment Status

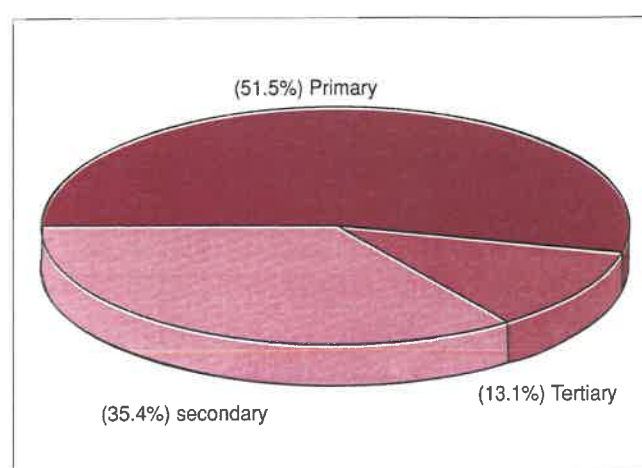
Status	% of Total Employed
Employee Private	38
Unpaid Family Worker	21
Own Account Worker	20
Employee Government	19
Employer	2
Total	100

Source: 1991 Population and Housing Census, CSO

A sectoral breakdown depicts that of the employed labour force about 51.5 per cent are employed in the primary sector, 35.4 per cent in the tertiary sector and 13.1 per cent are in the secondary sector (Chart 2.7). This is a common feature of developing economies, characterized by high dependency on primary sector and low level of industrialization. The public sector by far is the largest single employer.

Compared with employment, the lack of comprehensive information on wages is more severe. Nevertheless, surveys carried out by various institutions, but covering a very limited scope of information, disclosed that 1995 has seen an average general wages and salaries increment of 10 per cent, granted to workers in the major sectors of the economy.

Chart 2.7 Namibia Employment by Sector



Since independence the public service has grown considerably, but with no systematic revision of the pay determination system, but with general pay increase over the year. There have been some separate increases for parts of the civil service, in particular the lower paid segment and specific occupational groups where there was a special difficulty in recruiting and retaining staff. It was against this background that in 1994 Cabinet decided to set up an independent Wages and Salaries Commission to review the public service pay.

The operation of this a commission became effective in January 1995. It was among the Commission's findings that "Namibian civil service pay was trailing behind comparable pay scales not only in the local private sector and parastatals, but also in the region". Civil service pay, however, already constitutes a major item of government expenditure.

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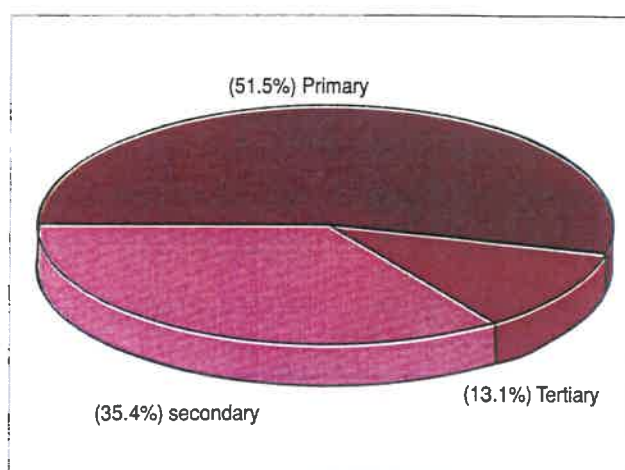
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3. MONETARY AND FINANCIAL MARKETS DEVELOPMENTS

The major monetary developments in 1995 were the strong growth in money supply and credit extension to the private sector, the increases in the Bank rate and subsequent increases in commercial banks' prime lending rates.

Inflation developments in the first half of 1995 as measured by the Windhoek CPI reached a high level of 12.5 per cent, claims on private sector borrowers by banking institutions rose sharply, the broad measure of money supply increased to a higher level, and a demand for higher salaries was experienced during the year. These characteristics were the same in Namibia and South Africa.

As economic recovery in South Africa gained momentum in 1995, monetary policy in that country was tightened with the aim of preempting an upswing in inflation and maintaining the domestic and external value of the rand. The move took place against the background of market sensitivity towards inflation that was expected to emanate from the depreciation of the rand and an outflow of funds after the abolishment of the financial rand. Changes in the official bank rate in 1995 influenced inflation expectations and the demand for credit, as people expected to spend a larger proportion of their income on debt repayment.

The Bank of Namibia adjusted its bank rate thrice in the past 15 months. It is customary that, whenever the central bank increases its bank rate, commercial banks are expected to increase their prime rate by the same percentage point. However, in June 1995 Namibian banks adjusted their prime rate by 1.5 percentage points, which was 0.5 percentage point higher than the change in the bank rate.

The increases in the interest rate resulted in a slower growth rate in money supply and domestic credit extension

by the banking system. Towards the end of 1995, the increase in money supply slowed, mirroring developments in domestic credit as the demand for funds by the private sector fell in response to high interest rates. The twelve month increases in broad money peaked at 36 per cent in June 1995 before receding to 18 per cent in September 1995. Credit extension to the private sector continued to be the major counterpart to monetary expansion throughout the period. Private sector deposits with banking institutions rose to N\$4 566 million or by 25 per cent, whereas credit extension to the same sector grew more rapidly by 35 per cent during the same period. This resulted in the credit/deposit ratio reaching a peak of 115 per cent in August 1995.

3.1 Monetary aggregates

The monetary base, consisting of currency in circulation and bankers' deposits with the Bank of Namibia, strengthened significantly during the year from N\$366 million in December 1994 to N\$406 million in December 1995. Bankers' deposits with the Bank of Namibia fluctuated within a narrow margin and were N\$166 million at the end of December. Namibia dollars in circulation increased to N\$240 million in December 1995 from N\$217 million in December 1994.

Narrow money, M1, consisting of Namibia dollar in circulation and demand deposits with commercial banks, grew by only 8 per cent over the year to December 1995, compared with an increase of 31 per cent during the twelve months ending December 1994. This lower growth rate reflects a weak growth in demand deposits with commercial banks, both from individuals and businesses.

There was a shift in deposit concentration from low interest earning to high interest earning, indicating a shift in preference by the savers to medium-term investments. Deposit rates increased during the year, and

In February 1995, commercial banks responded to a strong demand for credit by the private sector. The prime lending rate was raised by 1.5 percentage points, which was 0.5 percentage points higher than the increase in the bank rate. Although the increase in private sector credit was substantial, the growth rate in this component started to decline in the third quarter of 1995, following a second rise in lending rates in June 1995. The increase in interest rates was in line with the SARB policy to restrict domestic borrowing, thereby constraining the growth in money supply and counteracting inflationary pressures.

Budgetary operations of the Central Government exerted a contractionary pressure on the growth in money supply. However, the General Government which includes Local authorities and regional councils and non-financial public enterprises had an expansionary effect on money supply, contributing approximately 10 per cent to the growth in money supply in December 1995.

Net foreign assets which amounted to -N\$336 million at the end of December 1995, exerted a contractionary pressure on the growth in money supply during the year. For the past four years, net foreign assets have been contractionary, largely due to a worsening position in net foreign assets of commercial banks.

Table 3.2 Determinants of Broad money supply in N\$ million

	Annual	Changes	As at
	1994	1995	1995
Net foreign assets	- 75.7	-127.5	-335.6
Claims on General govt (net)	61.4	73.5	672.6
Claims on the Private sector	1 054.8	1 345.4	6 262.4
Other items net	- 44.5	-296.8	-1 341.7

3.2 Credit Developments

Domestic credit extension by the banking system has increased substantially, especially in the last three years (*Chart 3.2*), registering an annual average growth rate of 33 per cent between 1993 and 1995. During the year under review, total domestic credit by the banking system increased from N\$5 606 million in December 1994 to N\$7 049 million in December 1995, an increase of approximately 26 per cent (*Table 3.3*). Out of the total credit extended at the end of December, N\$6 262 million (89 per cent) went to the domestic private sector, while the remainder was extended to the General Government.

Table 3.3 Domestic Credit extension by the Banking Institutions in N\$ million

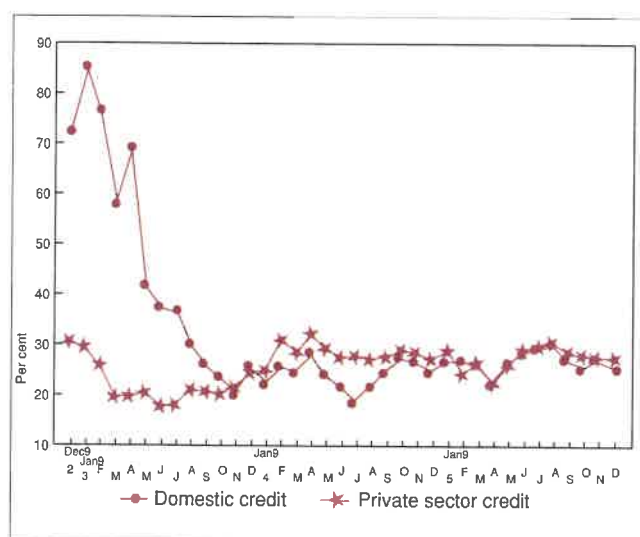
	Annual	Changes	As at
	1995	1994	1995
Claims on Central Government (net)	51.5	-226.6	673.0
Claims on Local Authorities & Reg. Councils	1.6	1.9	24.5
Claims on Non-financial Public Enterpr.	9.0	21.1	80.0
Claims on Non-bank financial Institutions	- 7.9	1.0	9.7
Claims on Private Sector	1 062.8	1 345.4	6 262.3
Total	1 116.6	1 142.8	7 049.1

Changes in claims on Central Government (net) reflect the balance of transactions between the government and the banking system, i.e., a run down in government deposits held with the banking system represents an increase in net credit to government, and consequently a build up in deposits represents a decrease in net credit to government. Claims on the Central Government (net) declined from N\$599 million in December 1994 to about N\$673 million in December 1995.

The share of claims on Central Government (net) in total claims on the domestic sector by the banking institutions was 7 per cent in 1995 compared with 10 per cent in December 1994. Banking institutions' claims on Central Government (net) in 1995 remained relatively moderate mainly due to the high deposit levels of the Central Government at the Bank of Namibia. However, these deposits declined by about N\$10 million, from N\$291 million in December 1994 to N\$281 million in December 1995. During 1995, the average Government deposit at the Bank of Namibia was about N\$311 million compared with about N\$362 million in the previous year.

The major form of claims on Central Government by banking institutions were treasury bills, which accounted for more than 60 per cent of total claims.

Chart 3.2 Domestic Credit extension by the Banking Institutions (12-month % changes)



Credit extension to the private sector by the banking institutions rose from about 88 per cent of total assets of the banking institutions in 1992 to about 93 per cent in 1995, with an average annual growth rate of about 27 per cent during the period. The high growth rate experienced since 1992 to the beginning of 1995 was in line with

activities in the property markets which experienced a boom since independence.

Claims on private sector by other banking institutions increased from N\$456 million in 1992 to N\$1 519 million at the end of 1995. Measured over twelve months, mortgage loans extended by other banking institutions largely for private dwellings rose by about 8 per cent in 1995 compared with an increase of approximately 41 per cent in mortgage loans extended by commercial banks. The slower growth rate in this category was mainly due to strong competition from commercial banks, as these institutions aggressively promoted this type of lending. In addition, commercial banks are in a better position to mobilise funds than building societies. In 1995 especially, deposits mobilised by building societies grew at a slower pace than the demand for mortgage loans.

Credit extended to the private sector by *commercial banks* alone was N\$4 743 million at the end of December, which is 92 per cent of total domestic credit. In the first half of the year, the twelve month increase in credit to this sector was 34 per cent, compared with an increase of about 32 per cent during the corresponding period in 1994. The strong growth at the beginning of 1995 is reflected in both claims on individuals and businesses.

An analysis of claims on the private sector by type of instruments (*Table 3.4*) indicates a strong growth in loans and advances which consist of mortgage loans and overdrafts. The twelve month increase to December 1995 in this type of credit was over 35 per cent, in line with the average growth rate of 34 per cent in total claims on the private sector by commercial banks during the same period.

Mortgage loans, which are mainly for private dwelling financing purposes, reached the highest twelve months growth rate in June 1995 of 46 per cent, but growth

declined to about 41 per cent in December. The share of mortgage loans in total credit to the private sector by commercial banks remained relatively stable since 1992, at about 24 per cent. However, the growth rate in this category slowed progressively at the end of 1995, primarily due to high interest rate on mortgage loans which rose from 14 per cent in 1992 to 19 per cent per annum in 1995 and high prices of properties. High interest rates on mortgage loans resulted in high monthly instalments, forcing individuals to spend a larger share of their income on mortgage repayments, and borrow more from banks to maintain their consumption pattern, as reflected in high growth rates of other loans and advances.

The size of other loans and advances, mainly in the form of overdrafts, grew substantially during the year,

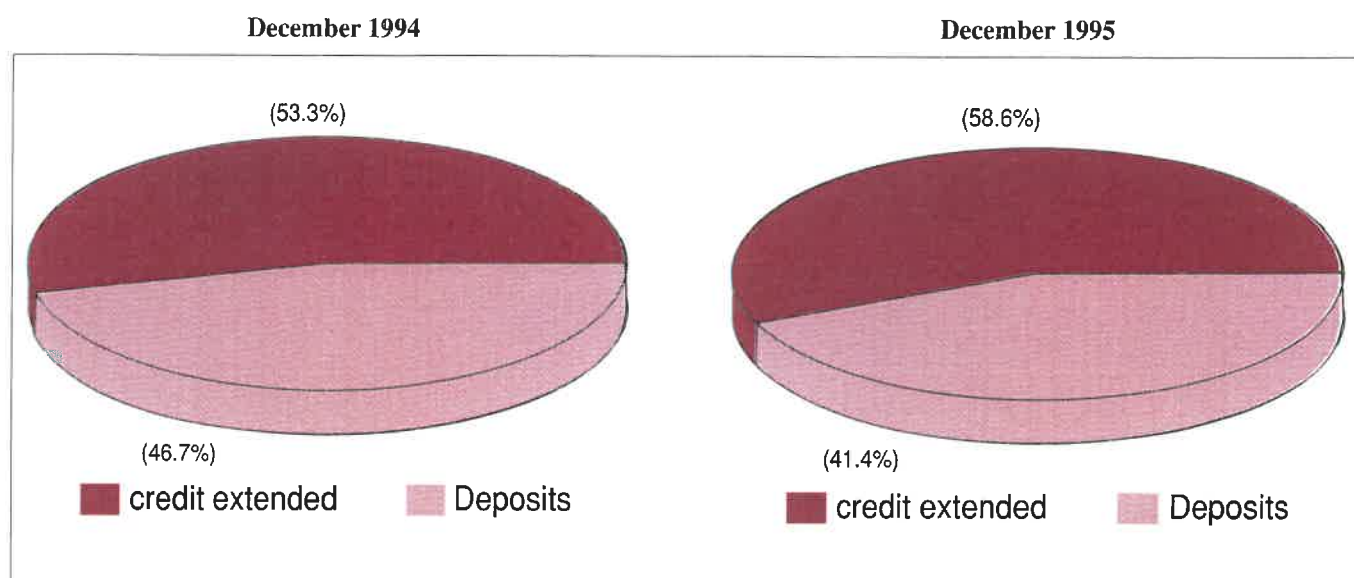
reflecting heavy reliance on this type of credit by the private sector. The annual growth rate in this category of lending rose to 34 per cent in 1995 from 30 per cent in 1994. At this level, the growth rate was about 5 percentage points above the growth rate in total credit to the private sector.

Credit extension to *individuals* increased by 23 per cent to N\$2 776 million over the year. Individual mortgage loans increased by about 41 per cent while other loans and advances (mainly overdraft credits), which are for consumer non-durables, rose by only 2 per cent. Instalment credit (for consumer durables) increased by approximately 32 per cent on an annual basis. The share of credit to individuals in total credit to the private sector contracted marginally, but individuals continued to be the main recipient of commercial banks' credit.

Table 3.4 Commercial banks' claims on the private sector by type of credit in N\$ million

	Annual		Changes	
	1993	1994	1995	As at 1995
1. Individuals	504.5	285.1	521.4	2 775.7
a) Loans and Advances	158.6	455.9	336.9	1 998.8
i) Mortgage loans	8.3	265.6	324.4	1 111.7
ii) Other loans and advances	150.3	190.3	12.5	886.3
b) Instalment credit	376.4	- 89.0	178.9	742.5
c) Leasing transaction	- 2.7	- 18.0	-8.9	19.7
d) Bills discounted or purchased	0.0	0.0	0.0	0.0
e) Other claims	- 25.8	- 63.8	14.0	15.5
2. Business	121.9	551.8	678.8	1 967.1
a) Loans and Advances	50.8	534.6	578.0	1 551.4
(i) Mortgage loans	9.8	5.5	16.4	34.6
(ii) Other loans and advances	41.1	529.1	561.6	1516.8
b) Instalment credit	17.3	85.4	68.3	295.2
c) Leasing transaction	- 2.8	1.4	5.2	30.5
d) Bills discounted or purchased	44.8	- 57.1	50.6	85.6
e) Other claims	11.7	- 12.5	-23.3	4.4
3. (1+2) Total claims on private sector				
a) Loans and advances	209.5	990.5	914.9	3 549.4
(i) Mortgage loans	18.1	271.1	340.8	1 146.3
(ii) Other loans and advances	191.4	719.4	574.1	2 403.1
b) Instalment credit	391.8	- 3.5	247.1	1 037.7
c) Leasing transactions	- 5.5	- 16.6	-3.1	50.2
d) Bills discounted or purchased	44.8	- 57.1	50.6	85.6
e) Other claims	- 14.1	- 76.3	-9.3	19.9
Total	626.4	836.9	1 200.0	4 742.8

Chart 3.3 Commercial banks credit and deposits of individuals



Credit backed by mortgage bonds as a share of total credit to individuals was about 26 per cent in 1993 and 35 per cent in 1994, but in 1995 this share increased to about 40 per cent. The twelve month growth rate in mortgage loans extended to individuals slowed, because of poor performance of the housing market in the last half of 1995.

Overdraft facilities as a share of total credit to individuals remained relatively high since 1990 and made up 26 per cent of total credit to individuals at the end of December 1995. In contrast, the share of instalment credits was about 33 per cent in 1993, but declined to about 25 per cent in 1994 and 1995.

Credit to *corporate customers* accelerated substantially in 1995, with an annual growth rate of 53 per cent. The share of credit extended to businesses in total credit to the private sector improved to 41 per cent in 1995 from 36 per cent and 27 per cent in 1994 and 1993, respectively. Much of the credit extension was for working capital and little for fixed investment. Overdrafts made up 77 per cent of total credit to corporate customers, while less than 25 per cent was in the form of leasing and instalment credits for fixed investment. The usage of

financial instruments, i.e., Bankers' Acceptances (BAs) for financing purposes by corporate customers is minimal.

Lending to the private sector has increased significantly over the past years, although the *direction of credit* was geared towards certain sectors of the economy (Table 3.5). Only some sectors benefited from this higher expansion in credit, while the share afforded to others declined. As at the end of December 1995, 41 per cent of outstanding credit to the private sector went to individuals. This amounted to N\$1 959 million, an increase of 9 per cent from N\$1 790 in June. Significant increases in credit extension were recorded in the building and construction sector as well as the commercial and services sector. The building and construction sector went up by N\$74 million to N\$674 million between June and December 1995, taking up 14 per cent of total credit extended to the private sector, while credit to the commercial and services sector increased by N\$241 million to N\$1 326 million (28 per cent of credit extended).

Credit extension to sectors such as agriculture and forestry, manufacturing, as well as fishing fluctuated during the period (see table).

Table 3.5 Commercial banks direction of credit in N\$ million

Industry	June1995	September	December
Agriculture and Forestry	233.2	223.6	250.5
Fishing	207.8	194.0	266.8
Mining and Quarrying	13.9	13.8	13.9
Manufacturing	255.6	140.7	253.0
Building and Construction	599.8	630.1	674.0
Commercial and Services	1 084.8	1 165.0	1 325.5
Individuals and Other	1 789.9	2 009.3	1 959.1
Total	4 164.9	4 453.6	4 742.8

NB. Previous data on sectoral credit extension not available.

3.3 Sources and uses of funds by the commercial banks

Total resources of commercial banks were N\$5 481 million at the end of December 1995 (*Table 3.6*), representing an increase of 28 per cent over the year. Deposits from the private sector constituted 59 per cent of total resources, while foreign borrowing made up 9 per cent. However, there was a decline in deposits mobilised from the private sector during 1995. Deposits of individuals increased by only N\$242 million, compared with an increase of N\$419 million in 1994. Of significant importance is the increase in deposits by the financial sector during 1995, which more than tripled from N\$133 million in 1994 to about N\$496 million in December.

The private sector was the major recipient of funds. Approximately 87 per cent of all commercial banks loanable resources were extended to the private sector at the end of December 1995. Credit extended to private individuals was N\$2 776 million, while businesses received about N\$1 967 million. This implies that the private sector is a net user of funds. The annual growth in credit extended to the Central Government during 1995 increased by N\$49 million to

N\$347 million. Although deposits of the financial sector increased tremendously during the year, credit extended to this sector was only N\$75 million in 1995.

Table 3.6 Sources and uses of funds by commercial banks in N\$ million

	Annual	Changes	As at
	1994	1995	1995
Sources			
Domestic	709.8	1 083.2	5 033.9
Capital and reserves	20.5	138.8	432.5
Government deposits	72.4	268.0	853.2
Deposits	616.9	676.4	3 748.2
Business	181.8	70.8	1 289.4
Individuals	419.1	242.3	1 963.0
Financial sector	16.0	363.3	495.8
Foreign sector	230.6	109.1	500.6
Other	- 0.4	2.2	-53.6
Total	940.0	1 194.4	5 480.9
Uses			
Reserves	56.7	19.2	175.4
Central Government	- 38.3	49.3	347.4
Private sector	837.1	1 200.0	4 742.8
Business	486.7	678.7	1 967.1
Individuals	350.4	521.5	2 775.7
Financial sector	85.0	-20.5	74.6
Foreign sector	- 0.5	-53.7	140.7

3.4 Money market and interest rates

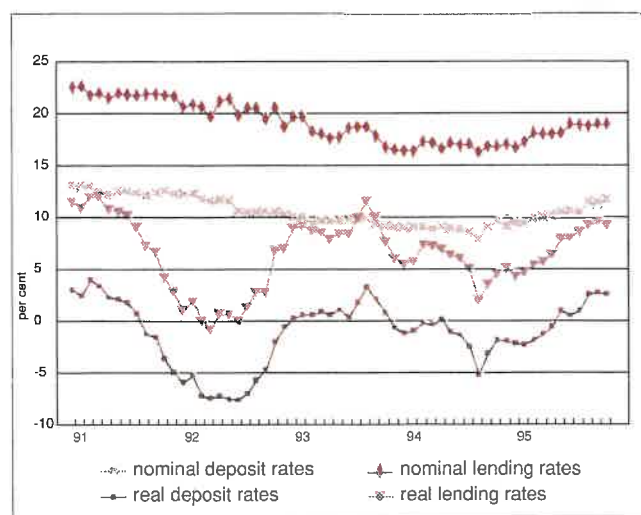
Conditions on the Namibian money market during 1995 closely resembled those of the dominant partner in the Common Monetary Area (CMA), South Africa. Due to the close monetary and financial link with South Africa and the fixed parity of the exchange rate, changes in interest rate in South Africa have a direct effect on Namibian money market conditions.

Following the tight monetary policy pursued by the SARB during 1995, the Namibian Bank rate was increased twice during the year to 16.5 per cent and 17.5 per cent. In turn, Namibian interest rates followed a clear upward path during 1995 in nominal as well as in real terms. Both deposit and lending rates increased in nominal terms, a rise that was further supported by falling inflation rates, causing real interest rates to rise significantly.

3.4.1 Interest rate developments

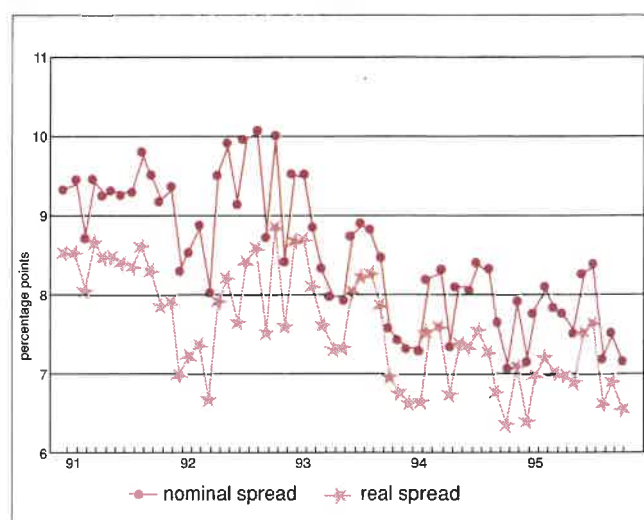
Average deposit rates showed a distinct upward trend during 1995, increasing from a nominal level of 9.7 per cent in January 1995 to 12.0 per cent in December. This rise was further supported by falling inflation rates, causing a boost in real deposit rates from -1.9 per cent in January to 3.8 per cent in December, the turning point from negative to positive real rates having been in June (Chart 3.4). The last time that real deposit rates were positive for more than an occasional month was in 1993. The development of interest rates for the selected instruments that have been monitored since May 1995 followed a general pattern that matches that set out by average deposit rates.

Chart 3.4 Weighted average deposit and lending rates



The upward trend recorded for average deposit rates also applied to *average lending rates* during the past year. The nominal average lending rate rose from 16.9 per cent in January 1995 to 19.0 per cent in December. Coupled with falling inflation rates, these changes gave rise to an increase in real terms from 4.6 per cent at the beginning of 1995 to 10.3 per cent towards the end of the year.

Chart 3.5 Interest rate spreads



During the past five years, the spread between average lending and deposit rates has fallen by about two percentage points (Chart 3.5). From a level of 8.5 percentage points in January 1991, the spread between average real deposit and lending rates has come down to 6.5 percentage points in December 1995, with an interim peak of 8.9 percentage points in November 1992.

The Namibian average for 3 month BAs showed an increasing trend since May 1995, rising from a monthly average of 14.4 per cent in May to 15.0 per cent in July, before dropping slightly to 14.9 per cent in December. This trend was demonstrated even more clearly by the monthly weighted average of two major commercial banks, which increased from 12.6 per cent in January 1995 to 15.1 per cent in December.

Weighted average tender rates for the monthly issues of 91 day *treasury bills* increased both in nominal

and real terms during the year under review, levelling off in the fourth quarter. Rates were thus continuing a trend that started in 1994. Nominal averages rose from 12.9 per cent in January to 14.1 per cent in November, down from a high of 14.2 per cent in August. In real terms, the averages for January and November were 1.0 per cent and 4.8 per cent, respectively.

Treasury bills allotted during 1995 increased substantially when compared with allotments in the previous year. In 1994, a total of N\$844 million was allotted (N\$733 million of 91 day maturity and N\$111 million of 182 day maturity), compared with a total of N\$1.2 billion in 1995.

As in the past, commercial banks took up the major share of allotments, viz. 70 per cent in 1995, compared with 80 per cent in 1994 (*Chart 3.6*). In 1996 private individuals and non-bank financial institutions became increasingly involved with a share of 15.0 per cent and 11.3 per cent, respectively, up from the respective percentages of 11.3 and 0.2 in 1994.

Underlying the development in short term interest rates were increases in the *Bank rate*, applicable to the

overnight facility extended to commercial banks by the Bank of Namibia, and the Prime rate. These rates were increased twice during 1995, following the respective increase of the Bank rate in South Africa. In February, the Bank rate was raised by one percentage point to 16.5 per cent, followed by another hike of the same magnitude in June to 17.5 per cent. Commercial banks rolled over this higher cost of funds to their customers, raising the Prime lending rate from 16.5 per cent to 18.0 per cent in March and further to 19.0 per cent in July.

As a result of the increase in prime lending rates during the year and falling inflation rates, the Namibian real prime rate rose from a low of 1.4 per cent in September 1994 to 10.3 per cent in December 1995, while the South African counterpart rose from an already higher level of 5.6 per cent to 10.9 per cent. In general, the development of the real prime lending rate has been smoother in South Africa over the past five years, moving in an interval between 2.7 percent in October 1991 and 11.5 per cent in October 1995, while the Namibian real prime rate ranged between a low of -1.3 per cent in June 1992 and a high of 10.4 per cent in March 1991 (*Chart 3.7*).

Chart 3.6 Treasury bills; allotment by type of tenderer

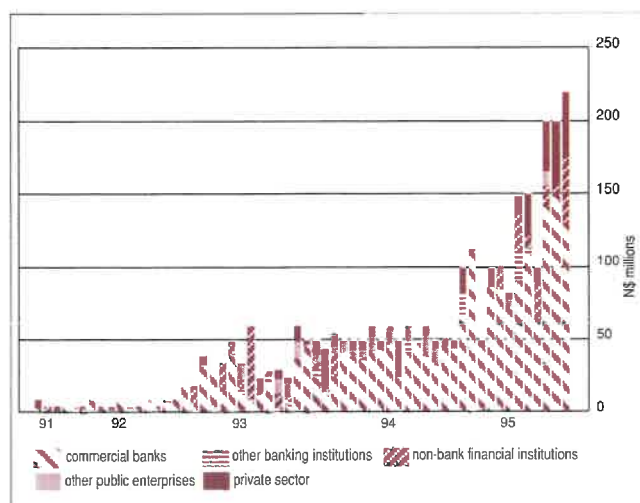
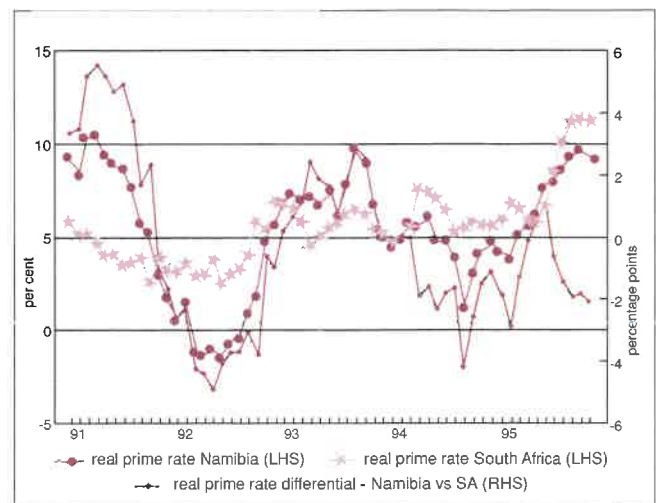


Chart 3.7 Real prime lending rates: Namibia and South Africa



3.5 Capital Markets

3.5.1. The Namibian Stock Exchange

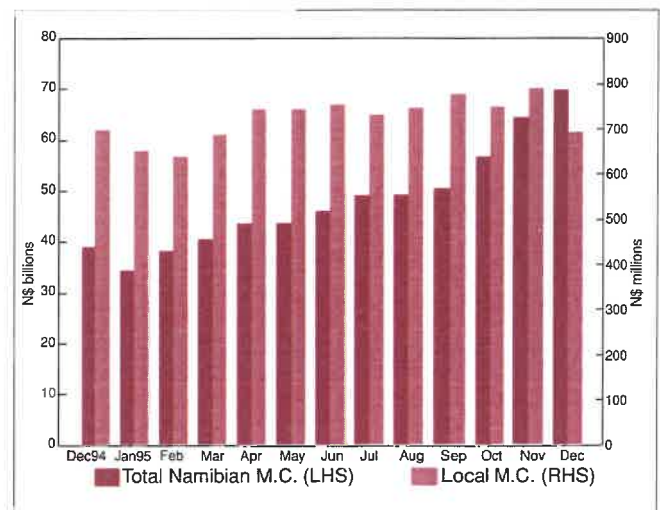
The Namibian Stock Exchange (NSE), which started operations in October 1992, experienced a substantial boost in 1995 in terms of listings and market capitalization as well as in terms of trading. As a result of 10 new listings and 1 suspension, the number of listed companies increased from 14 in December 1994 to 23 in December 1995. Of the new listings, 9 were dual listings, i.e. shares are listed on the Johannesburg Stock Exchange (JSE) and NSE. Of the 23 companies listed on the NSE as of December 1995, 19 are also listed on the JSE, while 3 companies have their primary listing on the NSE and one in Vancouver, Canada.

As a result of the new listings and increasing share prices, *overall market capitalization* rose by 79 per cent, from N\$39.0 billion in 1994 to N\$69.6 billion in 1995 (Chart 3.8). Of all companies listed on the NSE, only some can be regarded as Namibian companies in the sense that they have all or most of their business interests in Namibia or that most of the trading in their shares occurs on the NSE. *Local market capitalization* of this separate group of companies increased by 13 per cent from N\$695.7 million in December 1994 to N\$786.8 million in November 1995, before it dropped by nearly N\$100 million to N\$689.4 million in December due to a significant fall in the share price of one of the larger companies in this grouping. Comparing local market capitalization to the figure for the overall stock market, one can clearly establish the boost that the Namibian stock market enjoys through the dual listings.

On June 1, 1995, the NSE introduced full stock-broking membership. Previously, only two broking companies existed, acting as advisors to the NSE, whilst now four Namibian and Namibia-based stockbrokers operate as full members of the stock exchange. Companies

have to comply with the Stock Exchange Control Act, allowing the full implementation of the NSE's rules regarding investor protection. In addition, the increased number of brokers should increase trading on the NSE, helping to raise the current low liquidity levels of the Namibian securities market.

Chart 3.8 NSE Market Capitalization



The NSE is in the process of establishing an Unlisted Securities Market Authority. This body will be responsible for organising a separate trading system for unlisted shares, which would allow the shareholders of those companies that do not qualify for a full board listing to trade their shares. Trading in these shares is riskier than in shares of fully listed companies, though, as unlisted companies do not have to comply with the stringent control and publication requirements set by the NSE for listed companies. This move is expected to contribute to business expansion by facilitating the raising of capital for Namibian companies, since shares would have a market place for trading.

Trading on the *secondary equity market* improved from a total volume of 6 million shares in 1994 to 14.9 million shares in 1995. The corresponding turnover value was N\$57.7 million and N\$243.6 million. While the difference between total and local turnover was not as

pronounced in 1994, trading in local companies' shares was low in 1995, with a turnover of 3.6 million shares worth N\$11.0 million. Trading in these shares was especially low during the months in which the NSE recorded record levels of overall trading (June, July 1995), indicating that the bulk of institutional investors' funds that were invested in equities on the NSE during those months went into dual listed shares. This goes further to say that those funds are still invested in South Africa, as the large dual listed companies are South African and 95 per cent of those shares were actually bought on the JSE through arbitrage facilities offered by the NSE. The main difference between the assets of institutional investors now and before is thus the name: previously, they were classified as foreign assets of local institutions, whereas now they qualify as Namibian assets.

Stock exchange *indices* are used to give an indication of average tendencies of price movements over a period of time, relating current share prices to the original prices at which the shares were listed on the exchange. The NSE has two such indices, one for share prices on the overall market and a separate index for local companies.

A new calculation method has been introduced for the index in July 1995 to avoid previous inaccuracies that resulted from listings and suspensions of shares. Since its inception, the new overall index has risen from its initial value of 170.44 to 224.90 at the end of December. The separate index for local companies started off with a value of 100 on July 3, 1995, increasing to 103.39 by the end of November, before dropping to 86.41 at the end of the year. While the trend of the overall index has been clearly upward (in line with the All Share index of the JSE due to the dominant weight of South African companies), the local index fluctuated strongly, decreasing below the initial value at times.

Apart from the regular issues of Internal Registered Stock by Government, two issues of *debt securities* in 1995

merit attention. One was the mid-year listing of First Derivatives Redeemable Equity-linked Debt Instrument (FREDI) on the NSE, while the other was the listing of a new debenture by the Agricultural Bank of Namibia in October.

FREDI is a coupon-interest paying debt instrument, whose redemption value is linked to the JSE All Share index (on March 31, 1997), thus making it a speculative instrument. Speculation can be both on a rising and falling index, as participants can invest in either bull or bear tranches of FREDI. A base index is used to calculate the redemption value at maturity. Investors can create a non-speculative redemption-risk free debt security by investing in a balanced combination of bull and bear tranches.

In October 1995, Agribank listed a 5 year 15 per cent debenture on the NSE. Although it was not the first time that Agricultural Bank had issued a debenture on the Namibian debt market, the placing in October 1995 distinguishes itself from the previous issues. At the time of the listing, Agribank stated its intention to actively make a market in its security by becoming involved in the continuous buying and selling of the paper.

3.5.2. Internal Registered Stock

The past year saw 3 issues of Internal Registered Stock (IRS), with maturities ranging from 3 to 6 years. All issues carry a coupon rate of 12 per cent, but the yield to maturity calculated from the tenders was substantially higher. The average yield to maturity ranged from 14.78 per cent to 16.53 per cent, compared with a range from 12.56 per cent to 16.58 per cent in 1994. The total amount allotted in 1995 was N\$429 million, an increase of 88.5 per cent over the total allotment of N\$227.6 million in 1994.

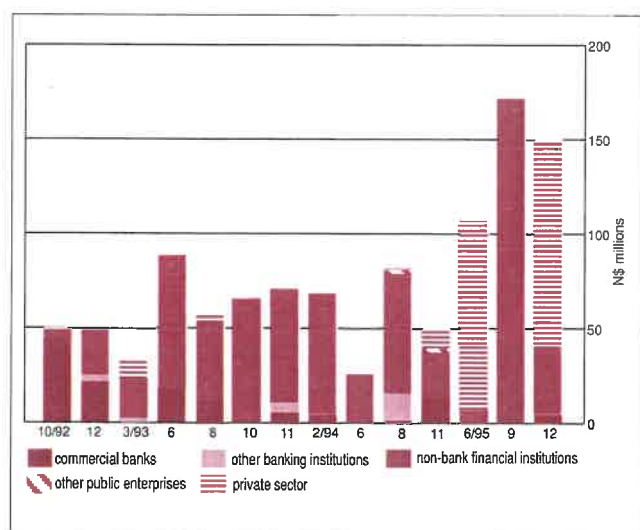
A classification of allotments by tenderer shows that non-bank financial institutions still dominate the IRS

market, but have lost some ground to non-financial private investors. In 1994, institutional investors took up some 79 per cent of total allotments, while the share of the private sector was 5 per cent (*Chart 3.9*). Commercial banks' participation amounted to 9 per cent in 1994, but decreased to a mere 1.2 per cent in 1995. The counterpart of the reduced involvement of commercial banks as well as other banking institutions and public enterprises was the rising share of the private sector, increasing to 49 per cent of total allotments, with institutional investors taking up the balance. The higher involvement of the private sector could be an indication of increased confidence in the credit worthiness of Government, or a sign that the non-financial private sector is becoming increasingly aware of the importance of a positive real rate of return on investments, looking for lucrative alternatives to average forms of saving.

3.5.3. Unit trusts

The Namibian unit trust industry is still young, coming into being in July 1994. Two companies launched a total of four unit trusts, each introducing a growth and an income fund. Total funds absorbed by these unit trusts at the end of June 1995 amounted to N\$26.2 million in growth funds and N\$10.2 million in income funds and are bound to increase substantially during the near future. Demonstrating this growth potential, a fifth Namibian unit trust was introduced by a local bank during 1995.

Chart 3.9 Internal Registered Stock; allotment by type of tenderer



4. PUBLIC FINANCE

4.1 Fiscal Policy Measures

During the year, the government set out a clear economic and fiscal policy in its *white paper towards sustainable fiscal policy*, to guide the government in the short and medium term. The thrust of the white paper is, among others, to strengthen macro economic stability. The main objectives of this document are as follows:

to achieve faster economic growth and reduce inequality of income; to generate adequate job opportunity; to combine both tax and expenditure policies to achieve a sustainable fiscal position within the macro-economic framework; to increase public savings and investments; to reduce the budget deficit not to exceed 3 per cent of GDP; and increase per capita income.

With regard to containing government expenditure, the authorities are undertaking reform of the public services, reducing the number of civil servants, and increasing their productivity. In this regard a number of policy documents have been finalised including, among others:

- (i) The Public Expenditure Review which looked at government expenditure and suggested ways and means of improvement. This document addressed the issue of downsizing the public service through rationalisation and early retirement.
- (ii) The Wage and Salary Commission report, which concentrated on the efficiency in the public service and recommended measures to improve services in the public sector, and restructuring the salaries.

During the year, in line with government tax reform, measures were taken to improve the efficiency in tax collection machinery and reducing tax avoidance and leakage, to enhance revenue. The Ministry of Finance in this regard has embarked upon training of officials in the Revenue Department, hiring of legal experts, etc., in an effort to counter tax evasion. In addition the Ministry is planning to introduce a self assessment method. If this method is implemented, emphasis will change from registration and assessment to compliance and inspection.

The Sales Tax Act of 1991 was amended during the year, in order to simplify the Act, and address the issue of compliance (by increasing the interest rate charged on outstanding amount from 15 per cent to 20 per cent, compounded). In addition, goods that are used in manufacturing process are no longer subject to taxation in the new Act. As a result, double taxation is avoided.

The government is also in the process of reviewing the effectiveness of the current tax incentive for manufacturing and export enterprises. Since Namibian tax base is narrow, other means on how to improve the tax base are being explored. Some examples are agricultural land tax, environment protection levy and road user charges.

A special fund for job creation was established during the year, in line with the government's intention to create employment and to address the skewed income distribution that is prevailing in the country. The intended projects are to benefit the communities through their direct input and participation. The business community is encouraged to contribute to this fund that will help alleviate the problem of unemployment. A consistent review of the job creation fund will be done at least on an annual basis to ensure proper management.

4.2 Government Revenue

Government revenue has been increasing steadily over the past five years, registering an annual average growth rate of 10 per cent between fiscal years 1993/94 and 1995/96. The major influence on the growth of revenue was tax revenue which increased from N\$2 975 million in fiscal year 1994/95 to N\$3 548 million in fiscal year 1995/96 (Table 4.1). The share of tax revenue in total revenue (excluding grants) decreased from 90 per cent to a revised figure of 88 per cent over the same period, while non-tax revenue made up the balance.

Total tax revenue as a proportion of GDP declined from 31 per cent in 1993/94 to 30 per cent in 1994/95, and is projected to be 29 per cent in the fiscal year 1995/96. In absolute terms total tax receipts increased from N\$2 455 million in fiscal year 1992/93 to an estimate of N\$3 548 million in fiscal year 1995/96. The increase in total tax revenue emanated from all major categories of revenue, largely attributed to improved collection methods. The proportion of indirect tax in total tax revenue averaged 57 per cent between fiscal years 1992/93 and 1995/96.

In fiscal year 1995/96, *direct tax revenue* is projected to grow by 19 per cent, compared with an increase of 7 per cent in fiscal year 1994/95. Despite the reduction in income rates for companies and individual from 38 per cent to 35 per cent, and the tax exemption for individuals earning less than N\$15 000, direct tax revenue is still expected to grow in fiscal year 1995/96.

The largest components of direct tax continued to be derived from personal taxes which accounted for 17 per cent of the total tax receipts, followed by company taxes with 12 per cent in 1995/96. Income tax receipts from individuals grew by 11 per cent from N\$560 million in fiscal year 1994/95 to a revised budget figure of N\$625

million in fiscal year 1995/96. The increase was mainly from the upward adjustment of civil servant salaries in fiscal year 1995/96 coupled with measures that were implemented to improve tax collection and tax administration. In addition, the total number of people registered as tax payers increased significantly from 100 000 in 1992 to about 136 000 in 1994/95.

Company tax receipts rose from the revised budget figure of N\$415 million in fiscal year 1994/95 to an estimate of N\$427 million in fiscal year 1995/96, reflecting an increase of only 2 per cent which is attributed to non-diamond mining companies and other non-mining companies.

Indirect taxes are the main components of tax revenue in Namibia. Over 69 per cent of tax receipts come from this source, which is about 61 per cent of total revenue excluding grants. The major categories of indirect tax are tax on domestic goods and services and taxes on international trade and transactions, accounting for 49 and 48 per cent respectively, in 1994/95. Of the N\$493 million receipts from indirect tax, N\$211 million is estimated to come from tax on domestic goods and services in fiscal year 1995/96.

The good performance of tax on domestic goods and services largely reflects the receipts from general sales tax (GST). According to the revised figures for fiscal year 1995/96, GST is projected to be N\$565 million, an increase of N\$80 million from the revised budget of 1994/95, while receipts from additional sales duty will be N\$270 million.

Tax on International Trade and Transactions rose markedly by 28 per cent to N\$1 156 million in fiscal year 1995/96. Over 90 per cent of tax revenue from this component are receipts from SACU. Its contribution to total revenue in fiscal year 1995/96 was 28 per cent.

Non-tax revenue receipts increased to N\$469 million or 8 per cent in fiscal year 1995/96 over fiscal year 1994/95. Its share in total revenue remained below 15 per cent. Among the major items included in non-tax revenue are diamond royalty, compensation for the use of the rand, dividend and profit share, administrative fees and charges, and interest receipts. Receipts from diamond royalty formerly classified as diamond export duty account

for about 20 per cent of nontax revenue. Another category that accounted for a large share of non-tax revenue was administrative fees and charges which increased by N\$39 million to N\$243 million in the same period. Following the introduction of the Namibia dollars in 1993 receipts from the compensation of the use of the rand is diminishing, as there are now less rand in circulation in Namibia.

Table 4.1 Government Revenue

N\$ Million

	1992/93	1993/94	1994/95	1995/96 Revised	1996/97 Budget
Total Revenue and Grants	3 024.5	3 116.2	3 448.3	4 069.7	4 523.4
Tax Revenue	2 455.2	2 775.7	2 974.9	3 548.2	3 987.4
Direct Taxes	804.6	930.2	1 000.5	1 080.7	1 192.4
Taxes on income and profits	804.6	930.2	1 000.5	1 080.7	1 192.4
Personnel taxes	506.4	518.5	560.0	625.0	695.6
Company taxes	251.2	369.2	415.0	427.0	458.0
Other taxes on income and profits	47.0	42.5	25.5	28.7	39.4
Indirect Taxes	1 650.6	1 845.5	1 974.4	2 467.5	2 795.0
Domestic tax on goods and services	800.4	906.6	1 023.1	1 234.8	1 360.0
Tax on property	14.2	27.7	28.0	40.0	47.0
Tax on international trade and transactions	829.0	896.0	903.3	1 156.7	1 360.0
Others	7.0	15.2	20.0	36.0	40.0
Non Tax Revenue	480.3	274.7	432.8	469.5	490.0
Entrepreneurial and property income	241.7	74.6	220.2	220.2	293.9
Fines and forfeiture	4.8	5.9	8.0	6.0	10.0
Administrative fees and charges	233.8	194.2	204.6	243.3	186.1
Return on capital	15.6	11.0	10.6	9.6	11.0
Grants	73.4	54.8	30.0	42.4	35.0

Source: Ministry of Finance

4.3 Government Expenditure

In the past five years, *total expenditure and net lending* as a share of GDP averaged 45 per cent. However, in fiscal year 1995/96 this ratio is expected to be less than 39 per cent, probably reflecting government policy on restraining expenditure. The major part of total expenditure continued to be current expenditure, accounting for 84 per cent of total expenditure in fiscal year 1995/96 compared with 85 per cent in fiscal year 1994/95. An analysis of the increase in total expenditure indicates that more than one third of the expected increase will be accounted for by current expenditure, mainly outlays on personnel and purchases of goods and services.

Current expenditure in fiscal year 1995/96 amounted to N\$3 659 million from N\$3 151 million in fiscal year 1994/95. In both years personnel expenditure was the dominant component. The average share of personnel expenditure in current expenditure for the last four years was about 55 per cent. The salary hike for politicians and the creation of two new Ministries in fiscal year 1995/96 contributed to a large public sector wage bill. The proportion of current expenditure is likely to increase slightly if the recommendations of the Wage and Salary Commission to restructure the salaries of civil servants are implemented.

Expenditure on goods and other services amounted to N\$985 million in fiscal year 1995/96, representing an annual increase of 18 per cent compared with 10 per cent a year before. Outlays on subsidies and transfers grew modestly by N\$53 million, or 11 per cent to N\$527 million in fiscal year 1995/96. This is in comparison with a 29 per cent increase during the previous year.

Total interest payments on domestic and external debts increased by 52 per cent in fiscal year 1994/95 from N\$66 million in fiscal year 1993/94. Domestic interest

payment accounted for 87 per cent of the total in fiscal year 1995/96. This reflects government's policy to borrow domestically rather than abroad to finance budget deficits. The share of interest payment in current expenditure in fiscal year 1994/95 was 3 per cent and is projected to be the same in fiscal year 1995/96.

After declining by 9 per cent to N\$498 million in fiscal year 1993/94, capital expenditure moved slightly upwards by 1.6 per cent in fiscal year 1994/95 and, according to the revised budget figure of 1995/96, it is to grow even further by 27 per cent to N\$645 million. The shift toward more capital expenditure signals the importance government attaches to investment to create long term economic prosperity.

Government savings, defined as the difference between revenue (excluding grants) and current expenditure, have been positive for the past five years but more pronounced in the past three years (*Chart 4.1*). In fiscal year 1994/95 government savings grew by 17 per cent to N\$267 million, compared with an increase of 37 per cent to N\$367 million in the following fiscal year. The dramatic expansion in government savings emanated from a strong performance of revenue.

Chart 4.1 Government Savings Gap

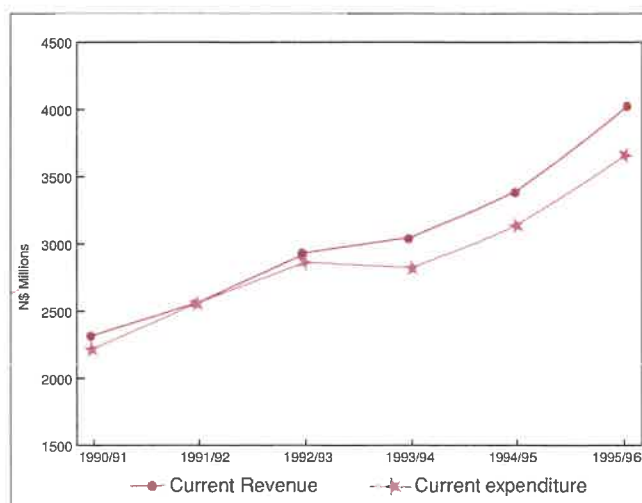


Table 4.2. Government Expenditure by Functional Classification

N\$ million

	1992/93	1993/94	1994/95	1995/96 Revised	1996/97 Budget
General Government Services	1 010.5	9 04.3	975.6	1254.1	1 664.9
General Public Services	607.0	464.0	515.5	724.2	1 043.8
Defence	177.7	187.3	198.0	232.1	293.9
Public order and safety	225.8	253.0	262.1	297.8	327.3
Community and Social Services	1 635.8	1 703.8	2 046.4	2 292.9	2 436.1
Education	725.8	809.3	952.2	1 049.9	1 176.3
Health	326.6	331.7	410.0	480.6	524.2
Social Security and Welfare	200.2	205.6	249.7	248.3	275.8
Housing and Community Amenity	289.8	272.2	343.7	402.8	330.7
Recreation and Cultural Affairs	93.4	85.0	90.8	111.3	129.1
Economic Services	854.4	659.8	535.8	671.9	821.6
Fuel and Energy	27.5	25.7	19.2	21.3	16.8
Agriculture, Forestry, Fishing, Hunting	293.6	264.8	208.0	271.8	365.4
Mining and Mineral Resources	19.1	25.3	16.7	18.0	31.8
Transport and Communications	452.9	283.8	226.2	270.8	307.7
Other Economic Affairs	61.3	60.2	65.7	90.0	99.9
Expenditure not Classified	43.5	98.1	131.8	121.0	150.0
Total Expenditure	3544.2	3366.0	3689.6	4339.9	5 072.6

Source: Ministry of Finance

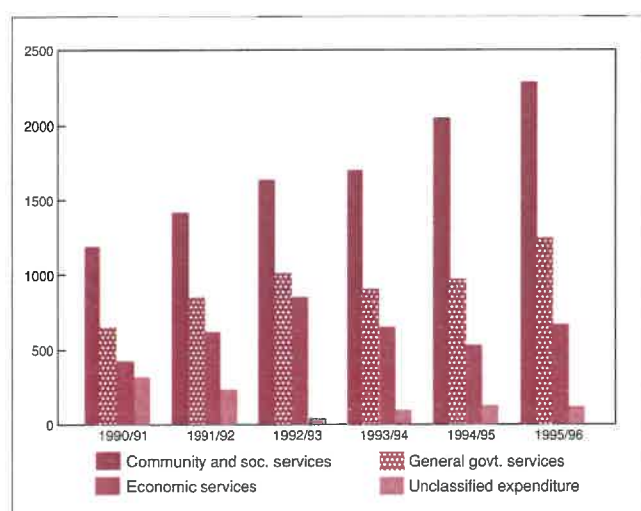
Classification of expenditure by function indicates that expenditure on general government services amounted to N\$1 254 million for fiscal year 1995/96, or about 28 per cent of the total (*Table 4.2*). Responsible for the higher percentage share in this category were general public services with a 57 per cent share, while public order and safety and defence had a share of 24 per cent and 19 per cent, respectively.

Reflecting the government policy on social upliftment and improvement of the standard of living of Namibians, expenditure outlay to community and social

services accounted for about 52 per cent of total expenditure, equivalent to 20 per cent of the GDP in 1994/95. The share of total budget devoted to this sector rose from 46 per cent in 1992/93 to 52 per cent in the revised budget of 1995/96. Given the government priority to investment in education and health, these two sectors alone account for more than two third of the total budget allocation in fiscal year 1994/95. Outlays on education increased by 10 per cent from N\$952 million in fiscal year 1994/95 to N\$1 049 million, or 9 per cent of GDP, in fiscal year 1995/96, while expenditure on health increased by 17 per cent to N\$480 million over the same period.

Expenditure on economic services accounted for 18 per cent of total expenditure in fiscal year 1995/96. It increased from N\$535 million in fiscal year 1994/95 to N\$672 million in fiscal year 1995/96 representing an increase of 25 per cent over the year compared with a decline of 18 per cent a year earlier. In this category, agriculture and transport accounted for the largest share of 40 per cent each, while fuel and energy, and mining and mineral resources accounted for 3 and 2 per cent, respectively. The remaining balance is allocated to other economic services and unclassified expenditure.

Chart 4.2 Functional Classification of Expenditure



4.4 Budget Speech 1996/97

The objective of the 1996/97 budget is to address various economic issues that are raised in the First National Development Plan (NDP1) for the period 1995 to 2000. The issues highlighted in the budget include:

- ensuring a rising per capita income;
- creation of employment opportunities;
- fair distribution of income;
- design economic and social programmes to alleviate poverty and help the poor.

Concerning the tax proposals for 1996/97, the sales tax exemption that was previously applied to

demonstration vehicles was abolished and these vehicles are now subject to full taxation. The exemption on the value of books, journals, newspapers and articles imported into Namibia by post is to be increased from N\$40 to N\$100. Another proposal was a change of name for Additional Sales Duty to Additional Sales Levy to differentiate it from customs duties which form part of the customs pool.

The minister also proposed the following changes to the Income Tax Act:

- income of institutions and institutions of foreign governments, who extend aid and assistance to or in Namibia will be exempted from income tax;
- dissolution of a provident fund will be fully taxed;
- filing of returns will now be 120 days after the end of tax year;
- a system of self assessment will be introduced and the return of income will now require a computation of taxable income, as well as a computation of the tax due;
- outstanding returns are to be submitted on a deadline date and should include computations of taxable income and tax due;
- in some instances, individuals will not be required to submit return of income.

Total estimated revenue for fiscal year 1996/97 is expected to increase by 11 per cent to N\$4 488 million from a revised budget figure of N\$4 027 million for fiscal year 1995/96. The bulk of the increase is expected to come from tax revenue, with taxes on domestic goods and services expected to yield about 34 per cent of total tax receipts followed by taxes on international trade with 33 per cent. Taxes on income and profits will contribute 29 per cent of total tax receipts. All major categories of revenue are projected to increase, probably because of improved collection methods.

Non tax revenue is expected to increase by 11 per cent from N\$469 million of the 1995/96 revised budget to N\$490 million of the 1996/97 main budget. This increase is expected to emanate from entrepreneurial and property income which is projected to grow by 56 per cent, mainly in the form of diamond royalties. However, this increase would be slightly offset by a decline in administrative fees and charges of 26 per cent.

Total expenditure is expected to rise from N\$4 340 million of the revised budget of 1995/96 to N\$5 073 million of the main budget of 1996/97, representing an increase of 17 per cent. As a percentage of gross domestic product, total expenditure is expected to decline marginally from 37.8 per cent to 37.5 per cent. Of the total, current expenditure accounts for 84 per cent. Personnel expenditure constitutes 55 per cent of current expenditure and 45 per cent of total expenditure. The share of the other major categories of current expenditure, namely purchases of goods and services, subsidies and other current transfers as well as interest payments accounted for 27 per cent, 13 per cent and 3 per cent, respectively.

Capital expenditure, which is expected to account for 14 per cent of total expenditure, is projected to increase by 11 per cent to N\$720 million in the main budget of fiscal year 1996/97. There is also an additional N\$401 million funded by foreign grants outside the main budget.

The current budget is slightly more expansionary than the previous two budgets with the budget deficit as a percentage Gross Domestic Product projected at above 4 per cent, compared with 2.4 per cent and 3.8 per cent in 1994/95 and 1995/96 fiscal years, respectively. The deficit is financed by drawing down the cash balance of N\$100 million from the previous fiscal year and a concessional loan of N\$35 million. The remaining balance will be financed domestically through a borrowing programme consisting of treasury bills and medium-term government securities.

4.5 Government Debt

Total outstanding debt in December 1995 amounted to N\$2 525 million, which is equivalent to 23 per cent of Gross Domestic Product. Domestic debt accounts for N\$2 057 million or 81 per cent of total debt. Short-term instruments continued to account for the largest share of domestic debt, mainly in the form of 91-day treasury bills in the hands of the banking system. T-bill holdings increased from 2 per cent in 1991 to 16 per cent in 1995 of the total domestic debt. Internal Registered Stocks issued after independence accounted for N\$869 million of which N\$200 million and N\$145 million was five and six year stocks, respectively, while the remainder has a maturity of less than 3 years. The major part of the external debt is on concessional basis. The pre-independence debt of Namibia with South Africa is currently under renegotiation with a view to it being written off.

5. FOREIGN TRADE AND PAYMENTS

The overall balance in the external payments position was N\$266 million in 1994, influenced by the South African rand being invested as part of Namibia's reserves, as the Namibia dollar progressively replaced the rand in circulation. The overall balance was N\$105 million in 1995, as most of the rand in circulation has now been substituted by domestic currency. In relation to GDP, the overall balance fell from 2.6 per cent in 1994 to 0.9 per cent in 1995 (Table 5.1). The level of Namibia's foreign reserve assets increased by 15 per cent during 1995, to N\$824 million, equivalent to 6.1 weeks of imports.

The first deficit in the merchandise trade account since 1990, was recorded in 1995 caused by a continuation of the surge in merchandise imports, especially in the intermediate goods category such as fuels and lubricants. As a result, the surplus on current account decreased substantially from a revised N\$586 million in 1994 to N\$180 million in 1995. In relation to GDP, the surplus was 1.6 per cent in 1995, significantly lower than 5.6 per cent in 1994.

The capital and financial account balance improved significantly from a deficit of N\$399 million in 1994 to a much smaller net outflow in 1995, estimated at N\$93 million. This was due to investment inflows in response to the amendments to the Pension Fund and Insurance Acts, as well as transactions of banks of a short term nature, and long term borrowing by the retail and mining sectors.

Namibia's foreign assets rose by 18 per cent, or N\$1.9 billion, during 1995 to a level of N\$12.4 billion at end 1995, mainly due to a significant increase in the market value of pension fund assets invested in South Africa. Namibia's foreign liabilities increased by 10 per cent, or N\$0.9 billion, to N\$9.8 billion over the same period, reflecting a slower rise in the value of equity investments.

The external public debt of Namibia grew by 21 per cent during 1995, to a level of N\$1.9 billion, or 17 per cent of GDP, by the end of 1995. Almost sixty percent of the total debt is being renegotiated, as it comprises a pre-independence debt component with South Africa which is expected to be written off in the 1996/7 fiscal year.

Table 5.1 Balance of Payments Main Aggregates 1990 to 1995 (a)

N\$ Million

	CALENDAR YEARS					
	1990	1991	1992	1993	1994	1995(b)
Balance on current account (a)	60	356	241	392	586	180
Balance on merchandise trade	-83	259	183	220	206	-355
Merchandise exports fob	2 809	3 351	3 784	4 181	4 747	4 966
Merchandise imports fob (excl duty)	-2 892	-3 092	-3 601	-3 961	-4 541	-5 321
Net services	-601	-927	-1 025	-864	-716	-623
Net income	98	268	116	255	371	313
Net current transfers	646	756	967	781	725	845
Balance on capital and financial account, excluding reserves (c)	-414	-434	-178	-41	-399	-93
Net capital transfers	110	81	93	89	154	158
Direct investment, net	73	315	332	160	216	184
Portfolio investment, net	28	-70	72	246	130	381
Other long term investment, net	-414	-679	-829	-775	-1 144	-922
Pension funds	-10	-404	-578	-659	-645	-742
Life assurance	-498	-400	-229	-65	-409	-296
Other	94	125	-22	-51	-90	116
Other short term investment, net	-211	-81	154	239	245	106
Balancing item (net errors & omissions) (d)	449	44	-82	-53	79	18
Overall balance (e)	95	-34	-19	298	266	105
Change in reserves (f)	-95	34	19	-298	-266	-105
	(In per cent of GDP)					
Current account balance	1.0	5.4	3.1	4.7	5.6	1.6
Overall balance	1.6	-0.5	-0.2	3.6	2.6	0.9

(a) For the current account, a minus sign (debit) means a deficit, or imports of goods and services, or income and transfers payable. A plus sign (credit) means a surplus, or exports of goods and services, or income and transfers receivable. For the capital and financial account (including reserves), a minus sign (debit) means a capital outflow (deficit), or an increase in foreign financial assets, or a decrease in foreign liabilities. A plus sign (credit) means a capital inflow (surplus), or an increase in foreign liabilities, or a decrease in foreign financial assets.

(b) Provisional

(c) Represents net identified capital transactions, other than in reserves.

(d) Represents the net errors and omissions in the current and capital and financial account.

(e) Overall balance is equal to the current account balance, plus all identified capital transactions, excluding changes in reserves, plus net errors and omissions.

(f) For changes in reserves, a minus sign means an increase and a plus sign a decrease.

Note: In conformity with the new IMF 5th edition manual, transfer items are split between current (of a current nature) and capital (linked to fixed assets) transfers, with the latter moving to the new capital and financial account.

The entries for pension and life assurance transactions are reclassified as other investment. These transactions were classified previously as portfolio investment.

5.1 Current Account

Growth in *merchandise exports* slowed in 1995, as opposed to a stronger performance in 1994 when a 13.5 per cent increase was recorded. In nominal terms, exports rose by 5 per cent, to an estimated N\$5 billion (Table 5.2).

Diamond exports led the way, recovering from a 2 per cent decline in 1994 to 20 per cent growth the following year. Diamond prices declined on average by 13 per cent during 1995, but improved towards the end of the year, especially for top quality diamonds. The main impetus came from export volumes, which rose by almost 39 per cent to 1,569 million carats in 1995. Marine operations assisted in increasing total production by 5 per cent, while stockpiled diamonds also influenced the export value. In value terms, diamond exports amounted to N\$1.8 billion, and account for more than a third of total merchandise exports.

Mineral exports, other than diamonds, increased slightly by 2 per cent during 1995 to a value of N\$0.9 billion. Silver exports improved by 16 per cent, bolstered by both price (10 per cent) and volume (5 per cent) increases. Copper exports, the third most important mineral of Namibia in terms of value, rose by 4 per cent, due to volume increases. The value of gold exports rose by 4 per cent, influenced by a rise in prices, while lead remained stable. Zinc fell by 11 per cent resulting from a decline in prices.

A second category that performed well was food and live animals. The exports of live animals increased by 20.5 per cent in 1995, on the back of strong price increases of 26 per cent for live cattle. The effects of drought resulted in farmers running down their stocks. The total number of cattle marketed externally rose from 191,200 in 1994 to an estimated 197,600 in 1995. The

TABLE 5.2 Merchandise Exports FOB by Commodity Group
N\$ million

	1990	1991	1992	1993	1994	1995(a)
FOOD AND LIVE ANIMALS	698	964	1 131	1 139	1 672	1 802
Live Animals	202	214	269	279	420	506
Meat and Meat Preparation	175	272	293	294	380	418
Fish, Lobster, Crabs	295	450	539	536	842	848
Other Food Products	26	28	30	30	30	30
HIDES, SKINS AND WOOL	41	42	43	53	74	74
MINERAL PRODUCTS	1 798	1 989	2 066	2 335	2 347	2 659
Diamonds	849	1 222	1 334	1 501	1 466	1 762
Other	949	767	732	834	881	897
MANUFACTURED PRODUCTS	262	352	538	654	653	427
Canned fish, fish meal and fish oil	145	219	311	488	509	283
Other	117	133	227	166	144	144
ELECTRICITY	10	4	6	0	1	4
TOTAL MERCHANDISE EXPORTS FOB	2 809	3 351	3 784	4 181	4 747	4 966

0: Indicates nil or less than N\$500 000

(a) Provisional

exports of small stock increased by 13 per cent, due to a rise of 13 per cent in volume while prices for open markets increased by 19 per cent. Exports of meat and meat preparations grew by 10 per cent in 1995 to N\$418 million. These are mostly exported under the Lomé Convention, to countries such as the United Kingdom, Germany and Italy. South Africa is also a major recipient of Namibia's cattle cuts, cattle and sheep carcasses, corned beef and other products.

Exports of unprocessed and semi-processed fish grew marginally by 0.7 per cent from a very high base in 1994. Hake exports accounts for over two-thirds of this category, and grew by 23 per cent, due to higher volumes (up by 18 per cent) and prices (up by 5 per cent). Exports of all the other fish species declined, including lobster and crabs, monk fish, horse mackerel, and other fish.

Manufactured products fell sharply by 35 per cent in 1995, to N\$427 million. The most important contributor was the category canned fish, fish meal and fish oil. Quota reductions and adverse oceanic conditions had a negative effect, especially on the canning of pilchards. Pilchard catches for canning plunged consequently by 63 per cent, while prices edged up by 2 per cent. Exports of fish meal and fish oil, from pelagic fish such as pilchards, horse mackerel and anchovy, increased by 30 per cent, while other non-fishing manufactured products remained stable.

Provisional estimates on *merchandise imports*, based on data provided by the Central Statistics Office, indicated a continued upswing which started in 1994. In nominal terms imports surged by 15 per cent in 1994, and by 17 per cent in 1995, to N\$5.3 billion.

The initial increase in 1994 was due to a 29 per cent rise in intermediate goods. The sub-component fuels and lubricants surged by 65 per cent, while food and

beverages (up by 28 per cent), primary industrial supplies (up by 25 per cent) and parts and accessories (up by 24 per cent) also contributed to the increase. The import of capital goods grew by 18 per cent, represented by a wide variety of capital merchandise, such as tractors, compressors, ploughs, elevators and telephonic equipment. Consumer goods rose by 16.5 per cent, the imported value of non-durable and durable consumer goods increased by 31 per cent and 17 per cent, respectively.

South Africa continued to be the major source of Namibia's imports, but other countries, such as Russia, Germany, Zimbabwe, Japan and the Ivory Coast are becoming more significant in recent years. As a result, South Africa's share in total imports has declined over time, from 90 per cent in 1990 to 85 per cent in 1994. In terms of economic groupings, Namibia imports 85.1 per cent of its merchandise from the Southern Africa Customs Union (SACU), 4.5 per cent from the European Union (EU) and 2.2 per cent from the Common Market for Eastern and Southern Africa (COMESA). Namibia imports over 87 per cent from countries in the Southern African Development Community (SADC).

As in the previous five years, 1995 witnessed a large deficit on *net services*. This deficit improved by 13 per cent, to N\$623 million. These large deficits, on average N\$793 million per annum for the post-independence period, were mainly due to significant net transport deficits, as well as net business, administrative, financial and communication services deficits. Since 1993, the fast growing tourism sector has resulted in an improved surplus on net travel, which helps to offset partially the net services deficit.

The deficit in transport services narrowed by 4 per cent in 1995, due to reduced midwater fishing activities, which resulted in the payment of less fees for the charter of fishing boats. Other transport services increased, reflecting

growth in Namibia's international trade in 1995. The deficit on business, administrative, financial and communication services increased by 8 per cent, due to more foreign administrative and business services being utilised.

Namibia's terms of trade (base year 1990 = 100) has been deteriorating since 1990, except for 1994, when a 23 per cent boost in the prices of all major export commodities led to the index improving by 14 per cent to 93.4. In 1995 the deteriorating trend resumed, with faster growing import prices causing the index to fall by 11.5 per cent, to 82.7.

Namibia's total volume of trade, consisting of merchandise and non-factor services, has been steadily increasing from N\$7 billion in 1990, to N\$13.1 billion in 1995. The non-factor services component doubled, from N\$1.3 billion in 1990 to N\$2.8 billion in 1995. As a share of total trade, services have increased from 18 per cent to 21 per cent over the same period.

A 19 per cent rise in services was the major factor causing total exports of goods and non-factor services to increase by 7 per cent, to N\$6 billion (Table 5.3). At the

same time, the strong import demand for intermediate goods led to 14 per cent growth in total imports, to N\$7 billion.

As can be seen from Table 5.3, Namibia's resource gap has widened over time, from N\$0.7 billion in 1990 to N\$1 billion in 1995. As a percentage of GDP, it increased from 4.9 per cent in 1994 to 8.7 per cent in 1995. It is, particularly in 1995 that the continued increase in imported merchandise started to put pressure on the resource gap, and consequently on the current account surplus.

The surplus on *net investment income* decreased by 16 per cent in 1995, to N\$313 million, reflecting higher payments to direct investors in Namibia. The country's major income receipts are on pension (1995; N\$304 million) and life assurance assets (1995; N\$270 million) invested in South Africa. Major income payments are in the form of dividends (1995; N\$223 million) and retained earnings to foreign direct investors.

The surplus on *net current transfers* in cash and kind jumped by 17 per cent to N\$845 million in 1995. SACU receipts, and foreign development assistance to Namibia are the two major components of current

Table 5.3 Namibia's Resource Gap , 1990 - 1995
N\$ million

	1990	1991	1992	1993	1994	1995(a)
Exports fob						
Merchandise goods	2 809	3 351	3 784	4 181	4 747	4 966
Non-factor services	340	399	484	764	901	1 071
Exports of goods and non-factor services	3 149	3 750	4 268	4 945	5 648	6 037
Imports fob						
Merchandise goods	-2 892	-3 092	-3 601	-3 961	-4 541	-5 321
Non-factor services	-942	-1 327	-1 509	-1 626	-1 617	-1 693
Imports of goods and non-factor services	-3 834	-4 419	-5 110	-5 587	-6 158	-7 014
Resource Gap	-685	-669	-842	-642	-510	-977

(a) Provisional

transfers. Gross receipts from the SACU pool, responding to higher levels of imports in recent years, jumped by 26 per cent, offsetting a decline in foreign aid of 12 per cent, particularly from non-governmental donor organisations.

5.2 Capital and financial account, and foreign reserves

The capital and financial account of the balance of payments have been strengthened by the reclassification of capital transfers, on average by some N\$114 million per annum between 1990 and 1995. The account remains significantly in deficit, except for 1993 and 1995. The deficit has been, on average, N\$260 million per annum, equivalent to 3.1 per cent of GDP. Investment outflows relating to pension funds and life assurance assets heavily influenced these deficits, although short term transactions between local banks and their foreign parent companies are also of significance.

In 1995 the deficit narrowed substantially to a provisional N\$93 million, due to the progressive repatriation of funds to Namibia, in accordance with the amended Pension Fund and Life Assurance Acts. Another major reason for the contraction was movements in the category other investment, not related to pension or life assurance assets.

Net capital transfers consist mainly of foreign aid receipts linked to capital projects, or fixed assets. In 1995 the surplus balance was N\$158 million, an increase of 3

per cent over 1994. Projects such as the Trans-Caprivi highway and the upgrading of roads in the northern regions are some of the major beneficiaries of the foreign development assistance.

Direct investment decreased by 15 per cent to N\$184 million in 1995. New equity capital of N\$97 million, and profits of N\$170 million were reinvested by foreign direct investors. These inflows were partly offset by a net outflow of funds due to inter-company transactions between local subsidiaries and their foreign parent companies.

The category *portfolio investment* refers to foreign financial transactions in tradable equity and debt instruments. Portfolio equity are mostly stock exchange and unit trusts transactions, while debt refers to transactions in government bonds. It is the higher levels of inward investments, particularly in Treasury Bills, Internal Registered Stock and the Namibian Stock Exchange, that led to the significant jump in portfolio investment to N\$381 million in 1995. These inflows were in response to the amendments of the Pension Fund and Insurance Acts.

Other investment - long term, is dominated by transactions associated with pension and life assurance. In 1994 and 1995 the magnitude of these transactions remained relatively stable. The major reason for the narrowing deficit during 1995, to N\$922 million, was mostly due to an increase in foreign non-rand borrowing by Government, and an increase in the foreign liabilities by other sectors, mainly retail and mining.

Table 5.4 National Reserves and Imports Cover

	1990	1991	1992	1993	1994	1995(a)
LEVEL OF RESERVES IN N\$ MILLION (as at 31 December of each period)	205	171	152	454	719	824
IMPORTS COVERAGE IN WEEKS (of merchandise goods and nonfactor services)	2.8	2.0	1.6	4.2	6.1	6.1

(a) Provisional

Other investment - short term, influenced by transactions between the banking sector and its foreign direct investors, registered an inflow of N\$106 million in 1995. Commercial banks increased their foreign liabilities during 1995 by N\$90 million (1994: increased by N\$228 million) and decreased their foreign assets by N\$54 million (1994: increased by N\$4 million). Short term transactions of the other sectors were relatively similar to those of 1994.

The net effect of all the external transactions of the balance of payments, caused the overall balance to increase by N\$105 million in 1995. The level of Namibia's reserves rose, by the same amount, to N\$824 million as at the end of 1995 (Table 5.4). The import cover remained stable at 6.1 weeks for both 1994 and 1995.

5.3 External debt

Namibia's external public debt rose by N\$331 million, or 21 per cent during 1995, to reach a level of N\$1.9 billion by the end of 1995. In terms of GDP, it increased from 15.5 per cent in 1994 to 17.2 per cent in 1995. The expansion of public debt was mainly due to N\$227 million net acquisition of IRS by non-residents and a N\$82 million increase in the Bank of Namibia loan facility. Namibia's total debt service ratio grew significantly, from 3.3 per cent in 1994 to 5.6 per cent in 1995. The increase was mostly due to higher interest and capital repayments on government bonds. The ratio expressed above includes actual and capitalised payments on interest and redemptions. Capitalised payments represented 38 per cent of the ratio, and are expected to be written off with the pre-independence debt stock.

As has been mentioned earlier, the large companies associated with the administration and investment of pension and life assurance assets responded favourably to the new legislation aiming to repatriate funds invested in South Africa progressively back to Namibia. Most of the

repatriated funds were invested in government bonds. The acquisition of long term government IRS increased therefore by a net of N\$227 million, to a level of N\$637 million at end 1995, while shorter term treasury bills also increased by a net of N\$41 million, to N\$45 million.

The Bank of Namibia loan facility rose by N\$64 million, to N\$784 million in 1995, due to capitalised interest payments and capitalised redemptions. Including the pre-independence loan stock (N\$309 million) not yet redeemed by Namibia, the total of affected debt amounts to N\$1.1 billion, or 57 per cent of the total external public debt of Namibia. This re-scheduled re-negotiated debt is currently expected to be cancelled by the South African authorities in the 1996/7 fiscal year.

A third reason for the large increase in the official debt during 1995, was new borrowing from non-rand sources. These foreign loans increased by N\$64 million during the reporting year to N\$104 million.

Two per cent of total public debt is short term (1994: 0.2 per cent), while the remainder has a long term maturity. A currency breakdown shows that about 95 per cent of the debt is denominated in rand (1994: 98 per cent) while 5 per cent (1994: 2 per cent) is denominated in other currencies. The level of private external debt (excluding supplier credits) was provisionally estimated at N\$92 million at the end of 1995, slightly down from N\$100 million at the end of 1994. In terms of a sectoral split, 95 per cent of total foreign debt is public (1994: 94 per cent), while the rest is private.

5.4 International Investment Position

Namibia's foreign assets rose by 18 per cent from the end of 1994 to N\$12.4 billion by the end of 1995, while foreign liabilities increased by 10 per cent to N\$ 9.8 billion over the same period (Table 5.5).

Regarding foreign assets, the category other assets, especially pension fund and life assurance assets held in South Africa, make up more than 80 per cent of the total. It is the significant increases in the market value of these investments that led to the strong growth in nominal value of Namibia's external assets. The value of Namibia's pension fund investments increased from N\$1.7 billion in 1990, to N\$6.3 billion in 1995. Over the same period, life assurance investments rose from N\$1.5 billion to N\$3.5 billion. Expressed as a percentage of GDP, these investments grew from 60.5 per cent in 1990 to 87.5 per cent in 1995.

Direct investment accounts for almost 70 per cent of foreign liabilities. The value of this type of asset has been increasing slowly over time, from N\$5.2 billion in 1990 to N\$6.7 billion in 1995, although it should be pointed out that there was a break in data series in 1993.

The reduction in the market value of Namibia's foreign liabilities in 1993 is explained by the acquisition of half of the equity shares of Namibia Diamond Corporation (Pty) Ltd by the Namibian Government. Since

that year, Namibia has moved into a net asset position regarding its foreign assets and liabilities, which now stands at N\$2.6 billion.

5.5 Exchange rates and policy

Namibia does not have an independent monetary and exchange rate policy due to the country's membership of CMA and to the one-to-one par between the Namibia dollar and the South African rand, respectively. The parity means that the external nominal exchange rate will be one to one. However, the real exchange rate will not be at par if inflation rates in the two countries differ.

Pegging the Namibia dollar to the South African rand makes Namibia susceptible to variations of the exchange rate of the rand to third currencies. For balance of payments (BOP) reasons SA might require either an overvalued or undervalued currency. If Namibia's (BOP) position is different from that of SA, then this might present a problem for Namibia, as she cannot have an exchange rate that is different from the exchange rate of the rand.

Table 5.5 Investment Position Main Aggregates 1990 - 1995
(N\$ Million)

	1990	1991	1992	1993	1994	1995(a)
Foreign assets at end of year	5 399	6 441	6 914	8 746	10 484	12 388
Direct investment abroad	204	269	249	277	311	345
Portfolio investment	413	459	443	401	447	482
Other assets	4 577	5 542	6 070	7 614	9 007	10 737
Reserve assets	205	171	152	454	719	824
Foreign liabilities at end of year	7 292	7 748	8 584	8 011	8 928	9 788
Direct investment in Namibia	5 245	5 802	6 540	5 629	6 067	6 705
Portfolio investment	565	501	561	759	889	1 012
Other liabilities	1 482	1 445	1 483	1 623	1 972	2 071
Net foreign position at end of year	-1 893	-1 307	-1 670	735	1 556	2 600

(a) Provisional

The nominal external value of the Namibia dollar is determined on the basis of cross rates of the rand against the major currencies. The Namibia dollar depreciated nominally from N\$3.55 per US dollar in December 1994 to N\$3.66 in December 1995.

In March 1995, the South African Reserve Bank abolished the financial rand. Foreigners can now import capital into and expatriate profits out of Namibia at the unified rand rate. Residents of the CMA countries, however, are still subjected to the original exchange control regulations.

EXPORT PROCESSING ZONES IN NAMIBIA

Introduction

Export Processing Zones (EPZ) became key developmental and industrialization strategies of many developing countries during the 1960s and 1970s. Governments establishing EPZs invariably had the following three primary objectives in mind: *foreign exchange earnings*, *employment creation* and *technology transfer*. In order to attract transnational companies to their declared EPZs, countries generally offer favoured treatment on the import of raw materials and intermediate goods in the form of duty exemptions and on company taxation. Other benefits include the provision of superior infrastructure, subsidies on utilities within the zones, streamlined administrative procedures and freedom from industrial regulations applicable elsewhere in the country.¹⁾

Very few *cost-benefit analyses* of EPZs have been done so far, despite the fact that EPZs are amongst the most closely monitored public projects. Characterisation of success or failure is mainly based on rough criteria such as total employment opportunities created, the number of companies operating in the zone and the extent to which technology transfer took place. By these standards examples of successful EPZ ventures would include Mauritius and the Shannon Region in Ireland, while little success can be claimed by the EPZs established in the Philippines and in Pakistan.

One of the more readily available indicators of global success is *employment creation*. In fenced-in zones of developing countries employment increased from 220,000 in 1978 to 374,000 and 530,000 between 1986 and 1990, respectively²⁾. If a broader definition of EPZ is used, employment is estimated at about 3 million. It should be pointed out, however, that EPZ employment generation has been concentrated in Asia and the Dominican Republic and has been fairly marginal in the rest of the world.

Wages in the zones tend to be equal to or higher than those for comparable jobs outside the zones. *Working conditions* are also mostly better than outside the zones due to the visibility and politically sensitive nature of EPZs.

There are a range of factors which could be generally held responsible for success or failure of EPZ attempts. Among those that enhance the chances of success are preferential access to major export markets like the European Union, limited bureaucracy including a one stop assistance centre for potential investors, a highly productive workforce and competitive unit costs of labour, good communication and transportation infrastructure as well as political stability. Grant packages towards training and fixed asset formation as well as the availability of factory shells also seem to improve chances of attracting investors. In terms of the desired spillover to the local economy and technology transfer, benefit could be derived from the involvement of domestic companies. Geographically, it proved useful to demarcate EPZs within 20-30 km from a major sea port or an international airport for speedy and reliable access to imported materials and transport facilities for the export markets.

¹⁾ Warr, P.W., Finance & Development (June 1989), p. 34

²⁾ World Bank (1991), Export Processing Zones

General factors that impeded the successful implementation of EPZs in the past include a poor investment climate characterised by policy inconsistencies and changes, a lack of consensus on national development strategies as well as a relatively unstable political environment in the country. More specifically, the EPZ venture can be hindered by an inappropriate choice of location, lack of promotion and maintenance, militancy of trade unions and labour groups, bureaucratic delays and corruption.

The Namibian EPZ Regime

Before introducing its legislative framework for EPZs, Namibia already had a range of features to attract foreign investors. On a macro level it includes a democratic system of government with a stable political and social environment. The country features one of the best infrastructures in Africa and an attractive investment climate which provides incentives for different categories of investors. These incentives are fully set out in the Foreign Investment Act of 1990.

Based on this foundation, the EPZ project of Namibia was established formally with the promulgation of the EPZ Act in April 1995. The Act defines the *object and purpose of export processing zones* as "to attract, promote or increase the manufacture of export goods, to create or increase industrial employment, to create or expand local and foreign industrial investment and to encourage technology transfer and the development of management and labour skills".³⁾ The emphasis is on the *production of goods for export*, meaning that EPZ enterprises will only under exceptional circumstances be allowed to sell their products on the local market and in the Southern African Customs Union (SACU).

EPZ enterprises may be established either in a declared zone or as a single-factory unit. Enterprises in the former setup would operate under an *EPZ Management Company* (EPZ MC) which is to be appointed by the Minister of Trade and Industry for each declared zone.⁴⁾ The EPZ MC has the responsibility to develop its respective zone in terms of infrastructural facilities, utilities and support services. The MC, in consultation with the Minister of Trade and Industry (MTI), the Minister of Finance (MOF) and the Governor of the Bank of Namibia (BON), has the power to grant EPZ status to an applicant and to issue the required certificate. The certificate would stipulate the conditions under which the enterprise may operate in the EPZ. A first EPZ in Walvis Bay has been declared in the original Act, with the subsequent appointment of an EPZ MC in which the Walvis Bay Municipality holds the main interest.

In the case of single factory units that wish to operate under the EPZ regime but outside a declared zone, the Minister of Trade and Industry is directly responsible for the declaration of a *single factory EPZ* and the issue of the respective certificate.

An *Offshore Development Company* (ODC) was established to promote and market the Namibian offshore industry, coordinate and monitor all approved activities and mediate between the government and offshore enterprises.⁵⁾ The latter role is of particular importance in order to provide potential investors with a single administrative service.

³⁾ Export Processing Zones Act, no. 9 of 1995, section III.

⁴⁾ Export Processing Zones Act, no. 9 of 1995, section X (1).

⁵⁾ Export Processing Zones Act, no. 9 of 1995, section XXVI (3)

The ODC takes the form of a private company with limited liability, but is appointed by the Minister of Trade and Industry, and the Government of Namibia is to have a minimum shareholding of nine per cent in the company.

Benefits that the Namibian EPZ regime offers to investors include the exemption from import duties on intermediate and capital goods, an unlimited corporate tax holiday and the non-applicability of general sales tax, additional sales duty, stamp and transfer duties. Separate regulations specify training incentives that the Namibian Government offers for vocational training.

To clarify a number of issues, some *amendments* to the Act have been effected with others still outstanding. After having been excluded at first, the Labour Act will now apply to EPZs, but all EPZ activities will be considered essential services in terms of the Act. This means that strikes and lock-outs will not be allowed in declared zones.

An important issue is the availability of a one-stop administrative service for investors to reduce bureaucratic procedures and delays. To address this issue, the different authorities that are involved in the administration have established an Advisory Committee that streamlines procedures and brings together the relevant decision makers, i.e. EPZ MC, ODC, MTI, MOF, BON and in some cases also the Ministry of Labour. The idea is that investors only need to apply for an EPZ Certificate at the EPZ MC or at the ODC, which will then coordinate the application process via the Committee within a limited period of time.

Current status of EPZ investments

A non-exhaustive list of *approved EPZ activities* has been established as a guideline. Having in mind that products must in principle be directed at foreign markets, this list includes small-scale mining operations, high value fish products and processing of non-Namibian fish species, high value meat products, manufactured products in general with preference given to processing of Namibian raw materials, duty free shops and warehousing for distribution outside Namibia. The permission to offer financial intermediation under the EPZ regime is pending until conclusion of an Offshore Banking Act.

The EPZ regime avoids discrimination between foreign investors and local producers. However, in order to operate under EPZ status, local companies will have to establish a completely new venture that is legally and commercially separated from existing entities. The transfer of existing operations to an EPZ will therefore not be permitted.

More than 40 enquiries and applications have been received so far, mostly through the Walvis Bay EPZ MC. Of these, most are from companies operating in Southern Africa, with South African and Namibian companies dominating. Other interested parties are from Europe, the Middle East and Asia.

As the major part of enquiries and applications come through the Walvis Bay EPZ MC, it is not surprising that most of the companies intend to set up their business in the Walvis Bay EPZ. A few applications have been received for the establishment of single-enterprise units in different parts of the country.

Most applications are for ventures in engineering and metal processing industries, including vehicle assembly and components manufacturing. Other frequent sectors are agriculture, including related processing, and textiles and garments. Only a few companies until now intend to set up business in the mining and business services industry.

European markets are the principal destination for EPZ products. Fewer businesses seem to aim at North American markets and even less at customers in Africa and Asia. This may be a result of the preferential access to European Union markets that Namibia can offer to investors in terms of the GATT/WTO and Lomé agreements.

Potential investment from interested parties to date sums up to a minimum figure of N\$215 million, while employment opportunities are indicated to be nearly 2.000. The actual potential may be substantially higher, though, because a number of applications were still incomplete without figures on the intended investment amount and estimated employment creation.

Considering the flow of enquiries and applications in this initial phase of the EPZ project, Namibia is hopeful that this concept may bear some positive results, especially in the field of much needed employment creation. It remains to be seen how much can be achieved in addition in terms of commercial links and technology transfer to the Namibian economy.

6. ANNUAL REPORT OF THE OFFICE OF THE REGISTRAR OF BANKS AND BUILDING SOCIETIES

6.1 Introduction

The Registrar of Banks and Building Societies submits this report in terms of section 47 of the Banks Act 1965 (Act No 23 of 1965) and section 77 of the Building Societies Act (Act No 2 of 1986) for the period 1 January through 31 December 1995.

The Office of the Registrar of Banks and Building Societies endeavours to ensure prudential management of banking institutions (banks and building societies) in order to protect the stability and soundness of the financial system. This is done through the conduct of both on-site examinations and off-site surveillance of banking institutions and the timely upgrading of the legal framework.

Its approach and decisions are guided by market principles, and it strives to project an image of professionalism, integrity, credibility and impartiality. It subscribes to a service oriented approach, which entails accessibility and availability, and places a high premium on ethical behaviour. A relationship of mutual trust with all other key players, including those not under its supervision, is regarded as essential and is being built up through regular communication.

During the period under review, the Office focused on strengthening its legislation as well as reevaluating the adequacy and effectiveness of its resources for operational efficiency.

6.2 Legal and Regulatory Matters

In 1995, the Office worked towards the finalisation of the new Banking Institutions Act for Namibia. The Act

is expected to be promulgated this forthcoming year. Work has also begun on the drafting of determinations and regulations based on internationally accepted banking principles and standards, in terms of the proposed Banking Institutions Act.

In view of this, forms submitted by institutions for analysis and compilation of statistics to ensure compliance with the legal and financial requirements of the two Acts, viz. the Banks Act, 1965 and the Building Societies Act, 1986, are being revised to coincide with the implementation of the new Act.

Applications for a building society to establish an insurance company and for a foreign bank to establish a new bank were received. Following careful consideration, approval was granted in the first case, while in the latter, the application could not be approved.

During the year under review, all institutions operated reasonably within the requirements of the law and were able to meet the minimum regulatory requirements including those pertaining to liquid assets.

Operational Activities

In carrying out its supervisory function, the Office ensures that institutions under its jurisdiction are meeting reasonable standards with regard to —inter alia— capital, asset quality, management effectiveness and competence, earnings and liquidity (CAMEL). Appraising and evaluating new applications as well as the approval of the institutions' external auditors are other key responsibilities.

In order to verify the information submitted by the institutions and to assess the institutions' management and internal control systems, seven on-site examinations covering mainly the institutions' treasury areas and one full-scope examination were conducted during the year

under review. Twenty on-site meetings to monitor development in the industry were also held.

East and Southern Africa Banking Supervisors Group

Regional groupings of bank supervisors which emerged worldwide since the formation of the Bank for International Settlements' (BIS) Committee of Bank Supervisors led to the establishment of the East and Southern Africa Banking Supervisors Group (ESAF) in July 1993, in Botswana.

The objective of ESAF, inter alia, is to create a forum for the exchange of experiences and information as well as offering training for bank supervisors in the group. The second ESAF-Group training course in banking supervision was held in September 1995 at the South African Reserve Bank in Pretoria with two staff members of the Supervision Division participating.

Namibia has functioned as the Group's secretariat since its inception and this Office, has therefore been collecting, compiling and distributing data on supervisory issues for the now fourteen member-countries as was requested by the Bank for International Settlement.

At the annual meeting held in August 1995, in Zimbabwe, Namibia's role acting as the secretariat for the ESAF-Group was extended for a further period of one

year, while Zimbabwe took over the Chair from Botswana. Other major decisions included an agreement in principle, for each member country to work towards the full implementation of the minimum accepted BIS standards for prudent banking and the exchange of information on the performance of the banking industry.

6.3 Structure of Banks and Building Societies

The number of bank branches, including agencies, increased from 96 to 110. Of particular importance was the opening of two more branches in the Oshana Region in the North, a growing business area serving the border regions with neighbouring Angola.

The increasing number of Automated Teller Machines (ATM) also indicates a high level of technology applied by the banks to increase bank services to their customers. Namibia boasts a sophisticated ATM network despite the vastness of the country.

Of the five banks only one is locally owned, the remainder being locally incorporated subsidiaries of foreign banks.

During the year under review, one of the banks was restructured with the objective of strengthening its capital base and repositioning itself to become more competitive in the industry and to increase the efficiency of its

Table 6.1 Structure: Banks and Building Societies

	1993	As at		% change	
		1994	1995	1994	1995
Number of Banks	4	5	5	25.0	-
Branch Network (banks)	90	96	110	6.7	14.6
ATM Network (banks)	85	98	118	15.3	20.4
Number of employees (banks)	2 096	2 391	2 479	14.1	3.7
Number of building societies	2	2	2	-	-
Branch Network (Bldg.Soc)	8	9	9	12.5	-
Number of employees (Bldg.soc)	201	214	233	6.5	8.9

operations. These developments had a positive effect on the capital base and profitability ratios for the system.

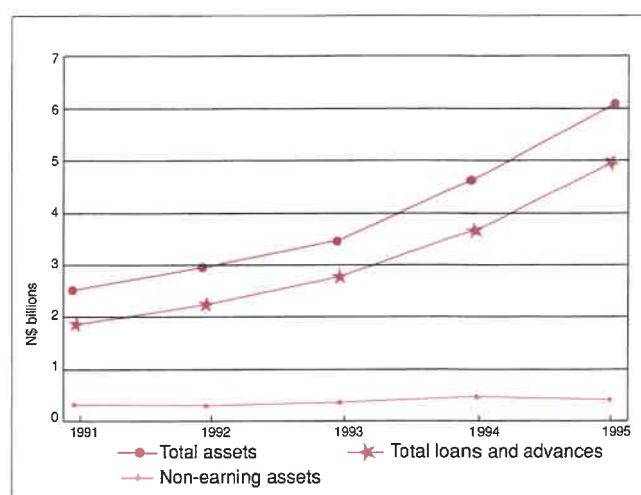
6.4 Performance of Commercial Banks

The banking system achieved another year of satisfactory performance in 1995. Total assets grew by 29.6 per cent to a level of N\$6.04 billion, pre-tax profits increased by 45.7 per cent with productivity increases and there was a bigger increase in interest income than anticipated.

Asset Growth

The increase in total assets is about 3 percentage points less than the previous year. Loans and advances to the public, representing the main asset of banks, were N\$4 939 million, or 81.7 per cent of total assets. The increase in loans and advances recorded in 1995 was 32.3 per cent compared with 34.5 per cent the previous year.

Chart 6.1 Asset Growth: Commercial Banks



Deposits from the public, the main source of funding for banks, increased by 21.4 per cent compared with 26.3 per cent increase the previous year. As seen in Table 6.3, the increase in fixed deposits was much higher than the increase in current and savings deposits. The increase in current and savings deposits was much less than the previous year. Growth in loans and advances outpaced the growth in deposits as indicated by the ratio

Table 6.2 Key data: Commercial Banks

As at year end

	1993	1994	% change	1995	% change
	(N\$ Millions)	(N\$ Millions)		(N\$ Millions)	
Total assets	3 529	4 665	32.2	6 044	29.6
Total loans & advances	2 775	3 732	34.5	4 939	32.3
Total deposits	2 981	3 766	26.3	4 573	21.4
Average loans & advances	2 572	3 360	30.6	4 577	36.2
Average total assets	3 279	4 257	29.8	5 614	31.9
Average earnings assets	2 933	3 824	30.4	5 171	35.2
Average capital & reserves	226	295	30.5	393	33.2
Non-performing loans	67	85	26.9	164	92.9
Specific provisions	25	48	92.0	77	60.4
Net Interest income	186	241	29.6	308	27.8
Other income	130	148	13.8	188	27.0
Other expenses	180	227	26.1	269	18.5
Personnel expenses	97	121	24.7	145	19.8
Net income before taxes	123	129	4.9	188	45.7

Table 6.3 Deposits by Type: Commercial Banks

	1993	1994		1995	
	(N\$ Millions)	(N\$ Millions)	% change	(N\$ Millions)	% change
Current	1 266	1 591	25.7	1 639	3.0
Fixed	1 325	1 679	26.7	2 354	40.2
Savings	345	423	22.6	458	8.3
Others	45	73	62.2	122	67.1
Totals	2 981	3 766	26.4	4 573	21.4

of loans and advances to deposits (Table 6.4). This ratio increased from 99 per cent in 1994 to 108 per cent in 1995. This high ratio is an indication of the funding gap experienced by the banks and their need to find other sources of funding in order to reduce their reliance on deposits.

Profitability

The banking system continued to be profitable (Table 6.2). Pre-tax profits increased by 45.7 per cent, from N\$129 588 million to N\$188 189 million. This is substantially higher than the previous year mainly because of a big improvement in the profitability of some of the banks.

Net interest income increased by 27.8 per cent, from N\$241 396 million to N\$308 229 million, which is almost 2 percentage points less than the increase of the previous year. The rate of increase in interest income was higher than that of interest expenses, which was a contributing factor to the profitability of the system. The net interest margin for the past three years has varied little around 5.5 per cent.

Return on Assets (ROA) after taxes, has increased from 1.9 per cent in 1994 to 2.3 per cent in 1995, whilst the Return on Equity (ROE) also increased from 25.9 per cent to 28.6 per cent. Pre-tax income as a percentage of

average total assets increased from 3.03 per cent to 3.35 per cent. The increase in lending rates on two occasions during 1995 and the lag in increases in deposit rates, further contributed to the increased profitability of the banking system.

The industry's profit was further enhanced by the increase in non-interest income of 38.8% to N\$53 912 million. Non-interest income was derived from a variety of activities including fees, commissions, service charges, foreign exchange and securities trading. The increase in non-interest income reduces the banks' reliance on traditional lending activities.

Additional operating expenses incurred by the industry was as a result of expansion of branch networks, but were proportionately less than the increase in revenues derived from such expansion. Furthermore, the increase in personnel and other expenses was less than the previous year.

Table 6.4 Key ratios: Commercial Banks

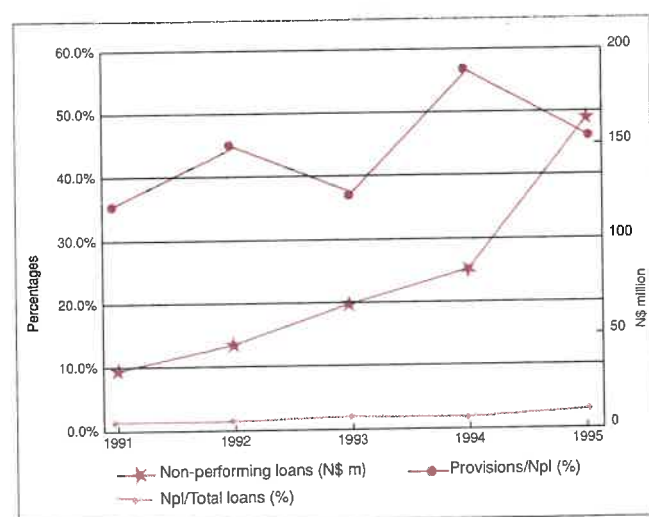
	As at		
	1993	1994	1995
Loan & advances deposit ratio	93%	99%	108%
Return on assets (ROA)	2.4%	1.9%	2.3%
Return on equity (ROE)	35%	25.9%	28.6
Net interest margin (NIM)	5.7%	5.7%	5.5%

Loan Quality

Non-performing loans surged to N\$164 million, a staggering increase of 92.9 per cent. As a percentage of total loans, it represented 3.3 per cent in 1995, compared with 2.3 per cent of the previous year.

During the period under review the quality of loans was negatively affected by higher lending rates, which also explains the higher amounts provided for loan provisions. Specific amounts provided for loan losses was about half of non-performing loans, which was 10 per cent lower than the previous year.

Chart 6.2 Loan Quality: Commercial Banks



It is a matter of concern that provisions for loan losses has not increased in line with the increase in non-performing loans. This emphasises the need for specific standards to be implemented for the treatment of provisions for loan losses to provide for credit risks.

Capital Strength

The capital strength of the banking industry improved considerably, reflecting an increase of capital and reserves from N\$311 979 million to N\$456 606

million, an increase of 46.4 per cent. The Average Risk Weighted Capital Ratio (ARWCR) for the industry, calculated on a test basis in the absence of official determinations, and not taking into account off-balance sheet items, amounted to 9 per cent of capital and reserves.

There has been a noticeable decline in RWCR in 1995. This will be addressed in revised determinations based on the new legislation aimed at setting standards for capital adequacy.

Capital and reserves as a percentage of total assets increased from 6.7 per cent in 1994 to 7.6 per cent in 1995, reflecting a small but steady increase. There is a need for the system to increase its capital funds, particularly to reduce the risk of large exposures. A large exposure is a credit exceeding 15 per cent of the capital and reserves of an institution. The concern lies more in the exposure to a single customer, which should not exceed 25 per cent of an institution's capital base.

Liquidity

During the year under review the banks maintained liquid assets in excess of the statutory requirements amounting to 4.2 per cent. There was a change however in the instruments which in accordance with the Banks Act of 1965, qualify as liquid assets. The composition of liquid assets changed drastically when compared with the previous year, as seen in Table 6.5, as a result of Bankers Acceptances no longer qualifying as liquid assets in terms of the Banks Act of 1965.

Trade Bills, Notes & Acceptances which made up the biggest component of liquid assets subsequently declined by 97 per cent whilst the amount of NCD's and Treasury Bills reflect large increases. Similarly, the amount of short-term Government Stocks increased by 22 per cent. This situation arose because of the need for banks

to invest in alternative liquid assets. Total liquid assets of the banking system increased by 19.2 per cent and represented 13.7 per cent of total assets, which is less than the previous year when it was 14.9 per cent.

6.5 Performance of the Building Societies

Total assets of the building societies increased by 9.4 per cent to N\$1.1 billion in 1995 compared with 18.1 per cent the previous year. This is attributable to the slower rate of growth in loans and advances experienced by the building societies during the year under review. Loans and advances increased by 7 per cent from N\$864 million to N\$924 million and represented 80.8 per cent of total assets compared with 82.6 per cent the previous year.

Non-performing loans amounted to N\$73 million compared with N\$51 million the previous year. This represents an increase of 42 per cent in non-performing loans. The growth in total loans and advances was 7 per cent while that of specific provisions was 1 395 per cent for the same period. This implies that the quality of loans and advances showed a deterioration, most likely caused

by the increase in lending rates. Furthermore, an amount of N\$4.2 million was specifically provided for loan losses and covered 5.8 per cent of total non-performing loans. Although the cover is very low, there appears to be an improvement in this ratio since 1991.

The building societies maintained an adequate level of liquid assets in accordance with statutory requirements. Other funds, in addition to deposits and negotiable certificate of deposits (NCD's), were used to finance loans and advances, as clearly demonstrated by the ratio of loans to deposits, including NCD's, of 119 per cent in Table 6.7. This ratio improved slightly from 123 per cent the preceding year to 119 per cent in 1995. This is attributable to the smaller growth in loans and advances as opposed to those of deposits and NCD's.

Despite the fact that the building societies were profitable during the period under review, there appears to be some weaknesses in the funding structure. The net interest income increased by 15.2 per cent from N\$30.8 million to N\$35.5 million, while net income before taxes declined by 12 per cent to N\$12.1 million.

Table 6.5 Liquid Assets: Commercial Banks

	1993	1994		1995	
	(N\$ Million)	(N\$ Million)	% change	(N\$ Million)	% change
Cash	73	123	68.5	152	23.6
Deposits with Bank of Namibia	27	33	22.2	25	-24.2
NCD's	8	122	1 425.0	369	202.5
Treasury Bills	150	157	4.7	202	28.7
Trade Bills, Notes & Acceptances	76	167	119.7	5	-97.0
Land Bank Bills	10	12	20.0	11	-8.3
Short term Govt. Stock	115	41	-	50	22.0
Land Bank Debentures	0	2	64.3	2	-
Other liquid assets	0	36	100	10	-72.2
Total	459	693	51	826	19.2

Table 6.6 Key Data: Building Societies

For the Year End

	1993	1994	% Change	1995	% Change
	(N\$'000)	(N\$'000)		(N\$'000)	
Total assets	885 216	1 045 682	18.1	1 143 849	9.4
Total loans & advances	717 559	863 770	20.4	924 410	7.0
Total deposits	418 475	589 221	40.8	701 081	19.0
Average total assets	835 764	983 805	17.1	1 141 926	16.1
Average total loans & advances	672 609	804 183	19.6	911 482	13.3
Average earning assets	772 704	923 578	19.5	1 069 499	15.8
Average capital & reserves	187 547	254 947	35.9	308 182	20.9
Non-performing loans	53 172	51 406	-3.3	73 010	42.0
Specific provisions	151	283	87.4	4 231	1 395.0
Net Interest income	27 538	30 798	11.8	35 476	15.2
Other income	5 045	7 392	46.5	6 311	-14.6
Other expenses	21 751	24 264	11.6	28 367	16.9
Personnel expenses	10 046	10 881	8.3	14 200	30.5
Net income before taxes	9 298	13 762	48.0	12 104	-12.0

Table 6.7 Key ratios: Building Societies

	As at		
	1993	1994	1995
Loan-deposit ratio	171.5%	146.6%	131.8%
Loan/Deposit & NCD's	111.0%	123.0%	119.0%
Return on assets (ROA)	0.7%	0.9%	0.7%
Return on equity (ROE)	3.1%	3.3%	2.7%
Net interest margin (NIM)	3.3%	3.1%	3.1%

The return on assets (ROA) declined from 0.9 per cent in 1994 to 0.7 per cent whilst the return on equity (ROE) declined from 3.3 per cent to 2.7 per cent during the period under review. The net interest rate margin was 3.1 per cent for 1995, compared with 3.3 per cent and 3.1 per cent for 1993 and 1994 respectively.

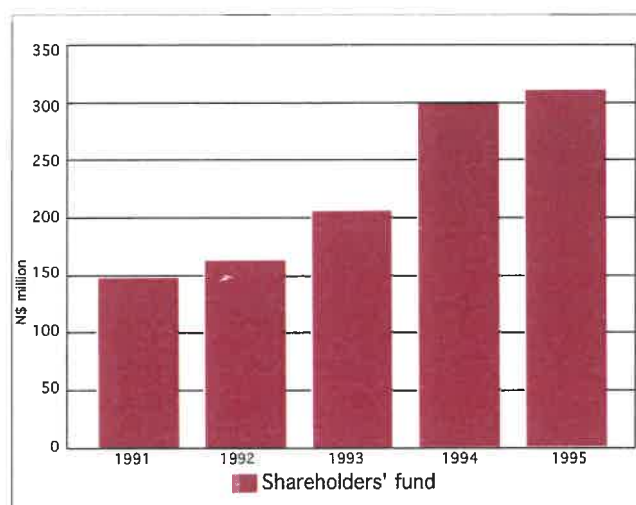
Total deposits as shown in Table 6.8 increased by 19 per cent to N\$701 million and remained the major source of funding during the period under review. The increase occurred mainly in transmission deposits, which increased by 33.1 per cent and made up 50 per cent of total deposits. Fixed deposits increased by 14.2 per cent and collateral deposits by 10 per cent, while savings deposits decreased by 3.3 per cent. A considerable amount of deposits being 79.3 per cent of total deposits is maturing within a short to medium term period, indicating the inability of the building societies to attract long term funds.

Capital and reserves amounted to N\$307.8 million at 31 December 1995, representing an increase of 3.3 per cent since December 1994 compared with assets growth of 9.4 per cent for the same period. As seen in Chart 6.3 below, capital and reserves increased at a decreasing rate in 1995 compared to previous years but still complied with the statutory capital requirements.

Table 6.8 Deposit by Type: Building Societies

	1993	1994		1995	
	(N\$'000)	(N\$'000)	% change	(N\$'000)	% change
Fixed	300 720	196 015	-34.8	223 841	14.2
Savings	103 655	120 292	16.1	116 278	-3.3
Transmission	6 110	263 234	4 208.2	350 311	33.1
Collateral	7 990	9 680	21.2	10 651	10.0
Totals	418 475	589 221	40.8	701 081	19.0

Chart 6.3 Building Societies: Capital Growth



7. STAFF AND ORGANISATION

The Board of Directors and Management would like to extend their sincere appreciation to all staff of the Bank for their dedicated and loyal service. No institution can achieve results without a dedicated staff. The Board is confident that new challenges in the years ahead will be handled with an equally high sense of purpose and a strong commitment to achieve excellence as well as high productivity.

Training

The Bank continues to view staff training and development as high priority. Training consists of on-the-job training; short courses offered by, and attachments to regional and overseas central banks and multi-national agencies; and full-time studies for post-graduate degrees.

During 1995 18 employees attended short courses offered by other central banks while 2 employees attended courses offered by the International Monetary Fund. One employee studied a full-time post-graduate degree in the United Kingdom. As regard attachment to other central banks, 3 employees were attached to central banks, mainly in the region.

New Premises

The Bank has started a project to construct a new bank building in the city of Windhoek which will serve as the Bank's headquarters. It is expected that the building will be completed in the first half of 1998.

It is necessary for the Bank to have its own headquarters with enough office space to accommodate all its employees. Currently the Bank is renting offices which makes the coordination function less efficient.

Sports

The Bank hosted the Inter-Central Banks Games in April 1995. Participants in the games were Central Banks of Botswana, Lesotho, South Africa, Swaziland and Zimbabwe.

The Bank's netball team was the overall winner and a hearty congratulations to the captain and her team.

Expatriate Staff

The Board wishes to place on record its appreciation and gratitude to Messrs F Oldfield and B Walle whose contracts with the Bank ended in December 1995. Mr Oldfield was seconded to the Bank from the International Monetary Fund in January 1991, while Mr Walle joined the Bank in November 1993. The Board wishes them happiness and success in their future endeavours.

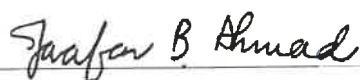
8. ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 1996

	Page
GOVERNOR'S STATEMENT	58
REPORT OF THE INDEPENDENT AUDITORS	59
APPROPRIATION ACCOUNT	60
BALANCE SHEET	61
NOTES TO THE ANNUAL FINANCIAL STATEMENTS	62 - 66

GOVERNOR'S STATEMENT

Pursuant to Section 9(5) of the Bank of Namibia Act, 1990 I confirm that:

1. I am responsible for the preparation of the annual financial statements and for the judgements used therein;
2. I am responsible for establishing and maintaining the systems of internal control designed to provide assurance as to the integrity and reliability of the Bank's financial reporting;
3. In my opinion, the attached annual financial statements for the financial year ended 31 January 1996 fairly present the financial position of the Bank and the results of its operations.



GOVERNOR

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

We have audited the annual financial statements set out on pages 60 to 66. These annual financial statements are the responsibility of the Board of Directors of the Bank. Our responsibility is to report on these annual financial statements.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance, that in all material respects, fair presentation is achieved in the annual financial statements. An audit includes an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence supporting the amounts and disclosures included in the annual financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statement presentation. We consider that our audit procedures were appropriate in the circumstances to express our opinion presented below.

In our opinion these annual financial statements fairly present the financial position of the Bank at 31 January 1996 and the results of its operations for the year then ended in the manner required by the Bank of Namibia Act, 1990.

Deloitte & Touche
Chartered Accountants
WINDHOEK

Deloitte + Touche

31 May 1996

BANK OF NAMIBIA

APPROPRIATION ACCOUNT

FOR THE YEAR ENDED

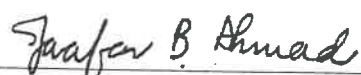
31 JANUARY 1996

	NOTES	1996 N\$	1995 N\$
Net profit from operations after meeting all current expenditure and making provisions as required by Section 6 of the Bank of Namibia Act, 1990. ('the Act')		44 319 957	27 520 086
Less: Transfer to Reserves:			
General Reserve under Section 7(1) of the Act	3	11 079 989	6 880 022
Building Reserve under Section 7(2) of the Act	6	23 239 968	10 640 064
Surplus paid to Government under Section 7(3) of the Act		<u>10 000 000</u>	<u>10 000 000</u>

BANK OF NAMIBIA

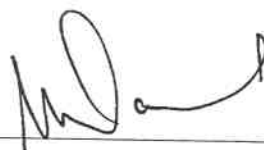
BALANCE SHEET AT 31 JANUARY 1996

	NOTES	1996 N\$	1995 N\$
CAPITAL EMPLOYED			
Capital	2	40 000 000	30 000 000
General Reserve	3	32 455 524	21 375 535
Revaluation Reserve	4	34 746 240	25 064 928
Special Reserve	5	2 535 000	2 535 000
Building Reserve	6	36 083 896	12 843 928
Capital and Reserves		145 820 660	91 819 391
Currency in Circulation		356 118 850	292 299 496
Deposits	7	553 208 386	503 175 470
Long Term Loan Facility	9	758 083 342	698 464 486
Other Liabilities		13 372 706	12 037 569
		<u>1 826 603 944</u>	<u>1 597 796 412</u>
EMPLOYMENT OF CAPITAL			
Rand Cash		3 668 083	5 396 076
Investments	10	1 014 533 287	844 765 912
Loans and Advances			
Government	9	766 959 273	721 555 561
Other		2 552 238	2 806 373
Other Assets	8	38 891 063	23 272 490
		<u>1 826 603 944</u>	<u>1 597 796 412</u>



DR JAAFAR AHMAD
GOVERNOR

31 May 1996



Mr. UBAIDULLAH DAVIDS
CHIEF FINANCIAL OFFICER

31 May 1996

BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS 31 JANUARY 1996

1. ACCOUNTING POLICIES

The Bank's annual financial statements are prepared on the historical cost basis. The annual financial statements have also been prepared to comply with the requirements of the Bank of Namibia Act, 1990. The principal accounting policies, which have been consistently applied in all material respects, are set out below.

1.1 Fixed assets

Immovable fixed property is stated at cost and is not depreciated. Computer software expenditure incurred after 1 February 1994 is written off in the year of acquisition. All other movable fixed assets are depreciated to write off their costs over their estimated useful lives on the straight line basis.

1.2 Investments

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.

Some investments include realised and unrealised capital appreciation, or depreciation, which are taken into account to reflect the change in market value, particularly for those financial instruments which are not necessarily held to maturity date.

Interest from investments is accounted for on the accruals basis.

1.3 Foreign Assets and Liabilities

In terms of Section 32 of the Bank of Namibia Act, 1990, foreign assets and liabilities are translated at year end exchange rates and any gains or losses are transferred to the Revaluation Reserve Account.

1.4 Currency Inventory Account

The costs of new Namibia bank notes and coins purchased by the Bank are capitalised in the Currency Inventory Account and expensed on issue of the currency.

2. CAPITAL

	1996 N\$	1995 N\$
Authorised Capital		
40 000 000 ordinary shares of N\$1 each	40 000 000	40 000 000
Issued Capital		
40 000 000 (1995: 30 000 000) ordinary shares of N\$1 each	40 000 000	30 000 000

The Issued Share Capital increased by N\$10,000,000 to N\$40,000,000 on 22 March 1995 when the Government of Namibia acquired ten million (10,000,000) ordinary shares.

BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued) 31 JANUARY 1996

	1996 N\$	1995 N\$
3. GENERAL RESERVE		
Opening Balance	21 375 535	14 495 513
Transfer from Appropriation Account	11 079 989	6 880 022
Closing Balance	<u>32 455 524</u>	<u>21 375 535</u>
4. REVALUATION RESERVE		
Opening Balance	25 064 928	1 387 072
Revaluation of Foreign Assets	9 681 312	23 677 856
Closing Balance	<u>34 746 240</u>	<u>25 064 928</u>
5. SPECIAL RESERVE		
This reserve has been created to meet the costs of replacing and producing the national currency.	<u>2 535 000</u>	<u>2 535 000</u>
6. BUILDING RESERVE		
Opening Balance	12 843 928	2 203 864
Transfer from Appropriation Account	23 239 968	10 640 064
Closing Balance	<u>36 083 896</u>	<u>12 843 928</u>

This reserve has been created to meet the cost of building the new headquarters for the Bank.

BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued) 31 JANUARY 1996

	1996 N\$	1995 N\$
7. DEPOSITS		
Government	498 487 996	461 181 512
Domestic Bankers' Reserve	26 042 000	31 813 000
Other	28 678 390	10 180 958
	<u>553 208 386</u>	<u>503 175 470</u>
8. OTHER ASSETS		
Fixed Assets		
Movable Assets		
Cost	11 870 796	11 325 695
Accumulated Depreciation	<u>7 365 998</u>	<u>4 771 979</u>
Net Book Value	4 504 798	6 553 716
Immovable Property - at cost	<u>11 013 077</u>	<u>6 213 485</u>
	15 517 875	12 767 201
Currency Inventory Account	7 429 269	9 425 779
Accounts Receivable	15 879 202	1 019 285
IMF - Special Drawing Rights	64 371	60 225
Bankers Current	346	0
	<u>38 891 063</u>	<u>23 272 490</u>

9. LONG TERM LOAN FACILITY AND LOAN TO GOVERNMENT

A bilateral agreement will be entered into between Namibia and South Africa in which the two parties will agree on the transfer of the debt in question. In the mean time the debt servicing moratorium in terms of the existing debt facility agreement between the South African Reserve Bank and the Bank of Namibia has been extended to the end of September 1996 to allow for the finalization of the legal arrangements.

BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued) 31 JANUARY 1996

	1996 N\$	1995 N\$
10. INVESTMENTS		
Investments are made up as follow:		
Rand Currency	466 224 821	425 202 538
Other Currencies	539 995 864	412 504 625
Interest Accrued	8 312 602	7 058 749
	<u>1 014 533 287</u>	<u>844 765 912</u>
11. COMMITMENTS		
11.1 Capital Expenditure		
Contracted:		
New Bank Headquarters	104 730 920	0
Authorised but not yet contracted:		
New Bank Headquarters	0	15 000 000
Other	0	832 758
	<u>104 730 920</u>	<u>15 832 758</u>

These commitments are to be financed from both internal and external sources.

11.2 Commemorative Coins

A contingent liability exists in respect of commemorative coins issued at 31 January 1996 which amounts to N\$94 319.

BANK OF NAMIBIA

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued) 31 JANUARY 1996

11.3 Forward Exchange

The Bank has entered into a forward exchange arrangement whereby an amount of YEN 269 020 507 (inclusive of interest) is outstanding and repayable at exchange rates estimated by the Bank.

11.4 Guarantees

The bank guarantees a percentage of housing loans granted to employees by certain financial institutions. Half of the guarantee is given by way of collateral security in the form of deposits at the respective financial institutions and the balance by way of written obligation from the bank.

12. PENSION FUND

Pensions are provided for employees by a separate Pension Fund to which the Bank contributes. The Pension Fund is governed by the Pension Fund Act. The Pension Fund is in the nature of a defined benefit plan where the retirement benefits are determined with reference to the employee's pensionable remuneration and years of service. All employees contribute to the Pension Fund.

The Fund is subject to an actuarial valuation every three years. Any shortfall will be made good by the Bank as recommended by the actuaries. A valuation was undertaken in March 1993 and no adjustments were recommended.