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Namibia: Selected Issues and Statistical Appendix

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NAMIBIA

Selected Issues and Statistical Appendix

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Approved by the African Department

January 8, 2008

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I. INTRODUCTION

1. **Namibia's economic position has been reinforced over the past year by a substantial terms of trade improvement and large receipts from the Southern African Customs Union (SACU)**. This has contributed to significant external current account and fiscal surpluses. The macroeconomic challenge is to promote stronger and more broad-based growth, while preserving macroeconomic stability in the context of possible declines in the terms of trade and SACU receipts in the period ahead. To complement the staff report for the 2007 Article IV consultation, these selected issues papers provide additional analytical coverage in the following areas.

2. **Namibia's current account surpluses have risen to a high level and raise questions about currency valuation**. Chapter II explores the factors behind recent external performance, and finds that a large part of the recent current account surpluses is temporary, reflecting a tight fiscal stance that is projected to ease in the period ahead. A parallel rise in private sector savings and an associated accumulation of net foreign assets is less well understood, and represents a topic for further analysis.

3. **The government is considering regulatory steps to slow capital outflows through the pension and life insurance industry, and encourage more domestic investment**. Chapter III explores international experience with such regulations, and highlights a number of risks. A case is made for expanding the range of investable assets, to encourage a market-based move toward greater domestic investments.

4. **Namibia's important mineral sector is benefiting from a substantial rise in global commodity prices**. Chapter IV explores how Namibia has successfully managed its natural resource sector in the past, avoiding the "resource curse" that has struck a number of its peers. It concludes that current institutions are well-placed to manage new mineral investments and exports, though a number of public financial management reforms would be beneficial.

5. **Outside the mineral sector, weak job growth and stubbornly high unemployment are among Namibia's main economic challenges**. Chapter V explores the nature of the unemployment problem, and notes the importance of strengthened education and training, and more flexible labor markets.

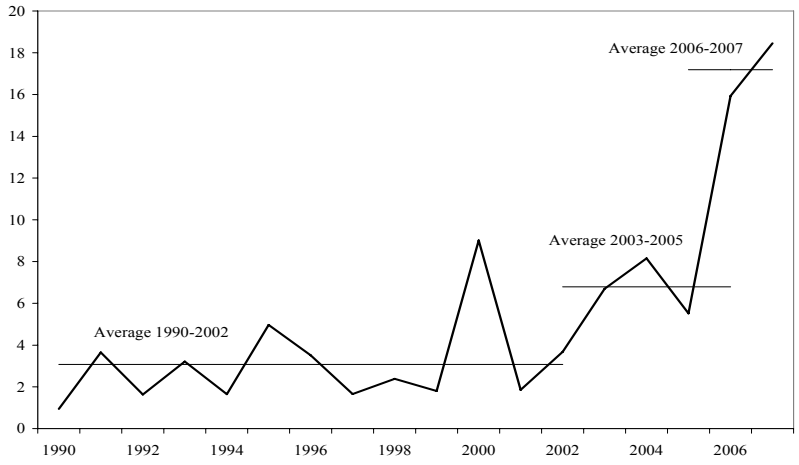
II. NAMIBIA: CURRENT ACCOUNT DEVELOPMENTS[1]

6. **Namibia has experienced uninterrupted current account surpluses since independence in 1990, a record unusual among middle-income countries**. Moreover, the estimated surplus surged to more than 15 percent of GDP in 2006, unusual even for Namibia. This chapter briefly explores the factors behind this increase, and considers the likely evolution of the current account over the medium term.

A. Trends in Namibia's External Current Account

7. **Namibia's current account surplus has increased in two phases**. After averaging 3 percent of GDP during 1990–2002, the surplus rose to an average of 7 percent in 2003–05, and then to an estimated average of 17 percent of GDP in 2006–07 (Figure II.1).[2]

Figure II.1. Namibia: Current Account Position, 1990–2007
(In percent of GDP)

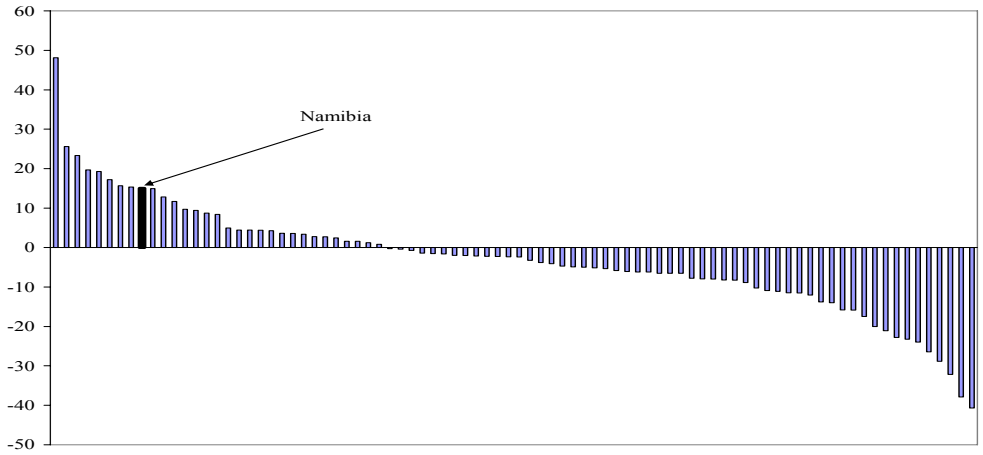


8. **The most recent surpluses are high not only by Namibia's past standards, but also by the standards of lower middle-income countries (LMICs)**. In 2006, Namibia was in the top 10 percent of LMICs, ranked by current account performance (Figure II.2). Significantly, almost all of the strong performers were exporters of petroleum products or, like Namibia, mineral exporters, benefiting from high global commodity prices.

[1] Prepared by Peter Allum (AFR).

[2] The 2007 estimate is projected using first-half data.

Figure II.2. Namibia: Current Account Positions of Lower Middle-Income Countries, 2006
(In percent of GDP)



9. **To assess external stability, a measure of the underlying current account position is needed**. This differs from the observed current account in excluding temporary factors, including short-lived shifts in the fiscal stance, temporary terms of trade shocks, and the lagged impact of exchange rate movements. The underlying current account position is conventionally derived from the medium-term macroeconomic framework. External stability is then assessed by comparing the underlying, or projected current account with the "equilibrium", derived from the perspective of consumption-smoothing in the relevant economy.

10. **An assessment of external stability is thus a multi-step process, requiring consideration of the following factors**:

- *How well do we understand the observed current account position?*
- *How is the current account likely to evolve over the medium term?* (What temporary factors are likely to unwind? And what new influences will emerge?)
- *What is the equilibrium current account?* (Given residents' goals for net external assets, and the need to avoid risks of abrupt shifts in capital and financial flows.)

11. **Three approaches are commonly adopted to explore external stability**: (a) *the macroeconomic balance (MB) approach*, which seeks to directly model the determinants of savings and investment; (b) *the external stability (ES) approach*, which explores the impact of savings-investment decisions on net foreign asset holdings; and (c) *the equilibrium real*

exchange rate (ERER) approach, which seeks to directly model real exchange rate developments in terms of the reduced form determinants of savings and investment.[3]

12. **This paper focuses on the macro balance and external stability approaches**. Sections A-B below extends the macroeconomic balance approach through a detailed assessment of the determinants of savings and investment developments in Namibia. Section C explores the implications for net foreign assets, using the external stability approach. The equilibrium real exchange rate approach was investigated in some detail by Miyajima (2007) and is not extended here.[4] An update of Miyajima's estimated ERER model is discussed in the staff report for the 2007 Article IV consultation.

B. Savings-Investment Trends

13. For analytical purposes, the external current account position can be considered in terms of its relationship, by identity, with national savings and investment, decomposed into behavioral elements for the public and private sectors:

$$CAB = SAV - INV$$

$$= (SAV_{pub} - INV_{pub}) + (SAV_{priv} - INV_{priv})$$

where, CAB is the current account balance; SAV is national savings; INV is gross domestic investment; and the pub and priv subscripts refer to the public and private sectors. The observed trends and projections for these elements are discussed below.

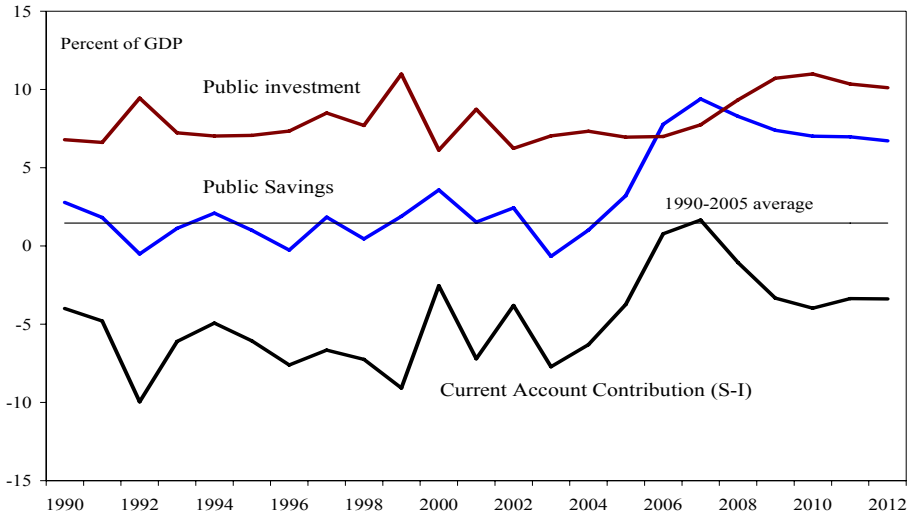
Public sector developments

14. **Public saving rose sharply in 2006 and a further strong outturn is projected for 2007**. After averaging 1.5 percent of GDP during 1990–2005, public saving rose to nearly 8 percent of GDP in fiscal year 2006/07, and a further increase to 9 percent is projected for 2007/08. With broadly stable public investment relative to GDP, this tightening of the fiscal stance makes a substantial contribution to the strong external current account in 2006–07 (Figure II.3).

[3] See IMF, "Methodology for CGER Exchange Rate Assessments", November 2006, available at http://www.imf.org/external/np/pp/eng/2006/110806.pdf.

[4] "What Do We Know about Namibia's Competitiveness", Ken Miyajima, IMF Working Paper, WP/07/[ ], August 2007.

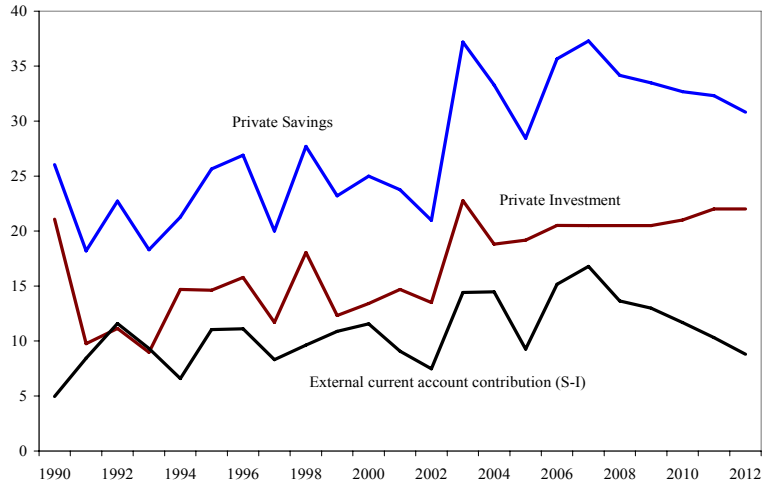
Figure II.3. Namibia: Public Savings, Investment, and Current Account Impact
(In percent of GDP)



Private sector developments

15. **Private savings also increased around 2003**. Compared to the preceding 1990–2002 period, savings in 2003–05 were up 8 percentage points of GDP, only partly offset by a rise in investment spending. This contributed to a stronger external current account position, a trend that continued in 2006–07 (Figure II.4).

Figure II.4. Namibia: Private Savings, Investment, and Current Account Contribution
(In percent of GDP)



16. **Namibia's increased current account surplus thus reflects increased savings by both the public and private sectors**. The initial strengthening of the current account position from 2003 was largely driven by private sector savings, while the further increase in 2006–07 is explained roughly 50-50 by developments in public and private finances (Table II.1).

Table II.1. Namibia's Current Account Developments, 2003–07
(changes from 1990–2002, in percent of GDP)

	Public savings	Public investment	Public finances 1/	Private savings	Private investment	Private finances 1/	External current account
2003 to 2005	-0.3	-0.6	0.2	9.9	6.4	3.5	3.7
2006 to 2007	7.1	-0.3	7.4	13.4	6.7	6.7	14.1

1/ Net acquisition of financial assets, or savings minus capital investments.

17. **The above framework needs to be fleshed out to understand why savings have risen**. The national accounts identity between savings, investment, and the current account merely provide a framework for analysis. To assess the current account outlook, the fundamental influences on savings and investment need to be identified and modeled.

Public sector trends

18. **In the case of the public sector, increased savings from 2006/07 reflect tight expenditure control and strong SACU receipts**. Expenditures were compressed as budget ceilings proved tight relative to strong nominal GDP growth; this contributed about 3 percentage points of GDP to public savings. At the same time, strong SACU receipts contributed about 4–5 percentage points to savings (Table II.2).

Table II.2. Namibia: Fiscal Savings Relative to the 1990–2005 Average
(In percent of GDP)

		Contribution from:			
	Fiscal savings	Lower current spending	Higher SACU receipts	Higher mining taxation	Higher other rev. & grants
2003/04 to 2005/06	-0.3	0.6	0.5	-0.9	-0.9
2006/07 to 2007/08	7.1	3.2	4.8	0.0	-0.5

19. **Over the medium-term, the fiscal stance is projected to ease**. Savings are projected to decline in parallel with moderating SACU receipts, relative to GDP, while public investment spending is projected to increase. The shortfall of public savings relative to investments over the medium term would be 2-2½ percent of GDP, smaller than the shortfall over the period 1990–2005 (Figure II.3). This should contribute to a stronger current account position.

Private sector trends

20. **A number of factors might be expected to influence private savings trends**:

- *Per capita real GDP growth*: international experience suggests a positive relationship between income growth and savings rates;
- *Real interest rates*: models of consumption behavior commonly find that durables spending is influenced by borrowing costs;
- *CPI inflation*: where financial markets are not well-developed, and savings are either in cash or low-yielding bank deposits, high inflation erodes savings, encouraging increased consumption;
- *Mineral exports in percent of GDP*: on the hypothesis that the marginal propensity to save out of volatile mineral incomes is lower, an increase in ineral incomes would boost savings;
- *Contractual savings*: Namibia's well-developed pension and life insurance schemes would encourage savings, to the extent that they are not offset by reduced voluntary savings; and
- *The real effective exchange rate*: a more competitive exchange rate boosts incomes and savings through a positive impact on net exports.

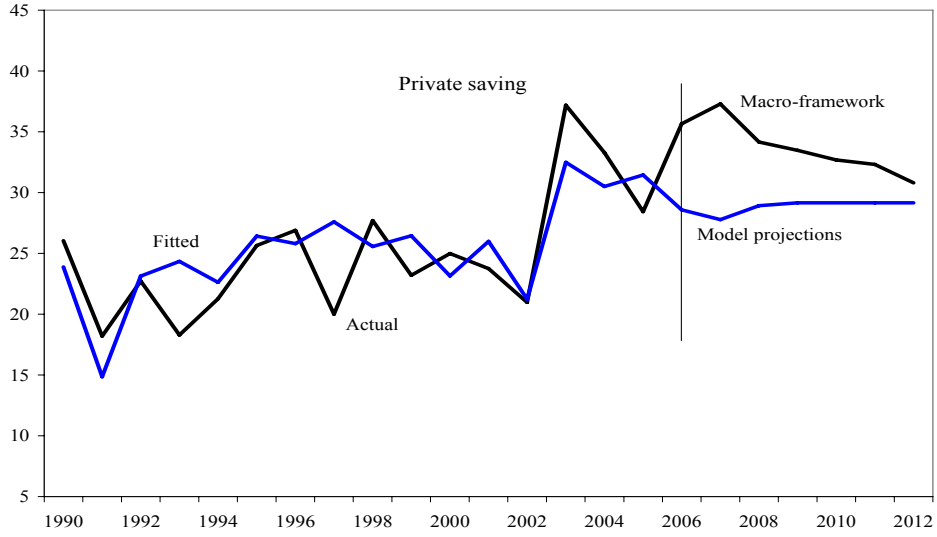
21. **The role of a number of the above influences was explored in relation to trends in private sector savings during 1990–2006**. In regression analysis, a statistically significant relationship could be identified only for inflation and real interest rates. The explanatory power for real interest rates was inferior, however, and this term lost its explanatory power when the inflation term was added. No significant role was identified for the other factors, and the role of contractual savings was not assessed, given the absence of pertinent data. The fitted equation is documented below and in Figure II.5.

$$SAV_{priv} = 35.41 - 1.14\ INFL$$
$$(14.3)\quad (4.3)$$

(t-statistics in parentheses)

Adjusted R-squared = 0.52

Figure II.5. Namibia: Fitted Model for Private Savings
(In percent of GDP)



22. **The economic basis for this relationship is not entirely clear**. The role for inflation in influencing private savings is much larger than international experience would suggest, and may proxy for other influences. This remains an area for further research, along with the potential role of contractual savings. One further possibility is data error. The rise in private saving in 2003 is quite remarkable, and was associated with a sharp fall in real consumption expenditures in that year. Even averaging across the two years to 2003, the data suggest no increase in real consumption expenditures, despite an increase in real GDP of more than 10 percent. This may partly reflect a shift between consumption and investment spending (either real, or as statistical artifact), as private investment surged in 2003. At the same time, however, imports may have been underestimated starting around 2003, which would contribute to both the estimated strengthening of the current account at that time, and the surge in recorded private saving.

23. **The estimated equation underpredicts private savings in 2006**. On available data, the overperformance of savings is projected to persist through 2007. This increase in private saving may reflect increased mining incomes. Mineral exports rose by 4 percent of GDP in 2006, and although mining operations are largely foreign-owned, these increased incomes may have boosted recorded savings pending payment of taxes and remittance of dividends. Absent corporate income data, this influence on savings is difficult to quantify.

24. **Looking forward, savings are projected to converge toward levels predicted by the inflation model**. This is a tentative projection, given the uncertainties about the role of inflation in influencing private savings, and the unexplained strength of such savings in 2006 and, potentially, 2007. One possibility, indeed, is that the return to savings levels more closely in line with historic norms would be faster than envisaged in Figure II.5.

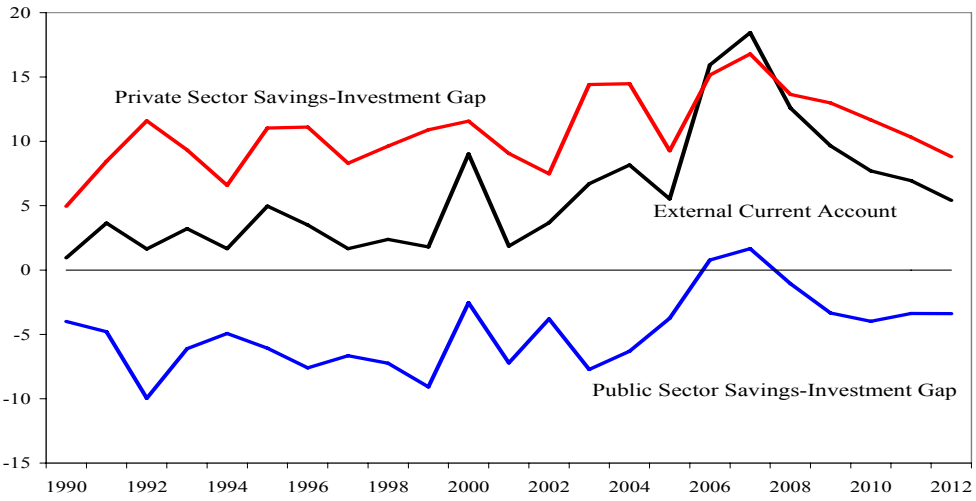
25. **The economic determinants of private investment are also unclear**. Efforts were made to model the investment-GDP ratio in terms of real interest rates, per capita income growth, inflation rates, savings levels, and the real effective exchange rate. None of these proved consistently significant, and the best model of the investment-GDP ratio was obtained using a simple time trend. While this is also an area for further work, and a time trend is not sustainable over the longer term, the medium term framework plausibly assumes a further increase in the investment-GDP ratio, albeit more gradual than over the preceding decade (Figure II.4).

The "underlying" current account

26. **The medium-term projections for savings and investment developed above generate an underlying external current account surplus of 5 percent of GDP in 2012** (Figure II.6). Summarizing the above discussion, this reflects:

- *An easing of the fiscal stance* as a partly temporary rise in public savings is reversed;
- *A decline in private savings* from exceptionally (and so far unexplained) high levels in 2006, toward an underlying level driven by the inflation model; and
- *A further modest rise in private investment*, following recent trends.

Figure II.6. Namibia: External Current Account Projections, 2007–12
(In percent of GDP)



C. Implications for Net Foreign Assets

27. **Capital outflows have strengthened Namibia's international investment position (IIP)**. Between 1998 and 2004, Namibia's net foreign asset (NFA) position rose by an estimated 12 percentage points of GDP (with the net liability position declining from 19 percent of GDP to 7 percent). Growing foreign portfolio investments more than

offset a larger liability position in foreign direct and other investments (Table II.3). A continuing strengthening of the IIP data is evident in 2005 and 2006 data, based on a newly expanded IIP survey. However, the precise trend is clouded by an apparent discontinuity in the foreign direct investment series, which declines from 63 to 39 percent of GDP between 2004 and 2005. Based on the latest survey data, Namibia had an NFA surplus of 22 percent of GDP in 2006.

Table II.3. Namibia: International Investment Position, 1998–2006
(In percent of GDP)

	Historic data		New series	
	1998	2004	2005	2006
Net foreign asset	-19.3	-7.3	9.5	22.0
Private sector and parastatals	-27.1	-12.4	10.5	21.7
Foreign direct investment	-44.4	-62.7	-38.7	-41.2
Portfolio investments	21.9	61.7	63.8	65.6
Other investments	-4.6	-11.3	-14.5	-2.7
General government	…	…	-5.8	-6.0
Bank of Namibia	7.7	5.1	4.7	6.3

28. **This data provides a foundation for analyzing the outlook for foreign asset holdings**. This is not a straightforward exercise, however. Crucially, there is no clear concordance between the balance of payments data on capital flows and the IIP data on asset stocks. In particular, the increase in Namibia's net foreign asset position between 1998 and 2004 is considerably smaller than would have been expected, given estimated portfolio and other investment outflows and likely rates of return. To the extent that the BOP or IIP data are subject to measurement error, this will influence the reliability of the NFA projections.

29. **For projection purposes, the following assumptions were adopted**:

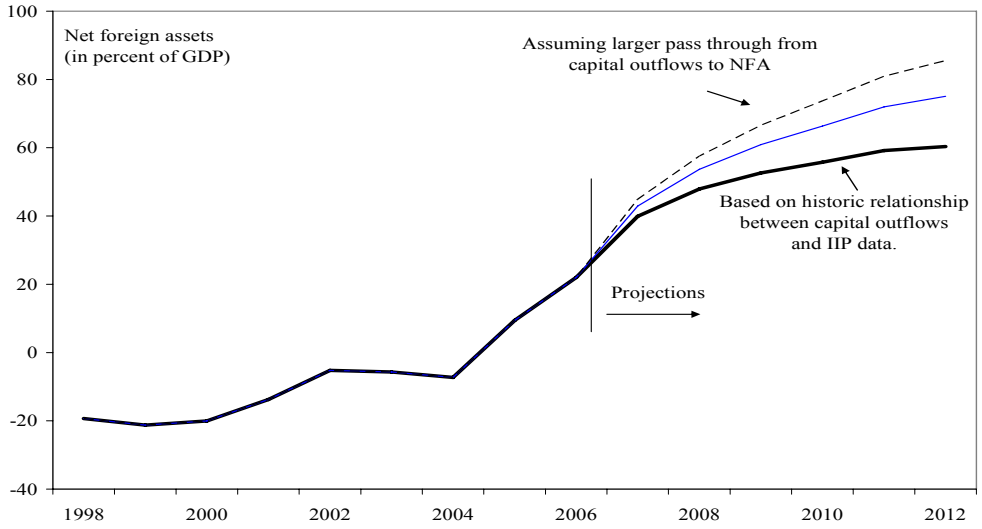
- *Foreign direct investments* are assumed to change in value by the difference between underlying inflation—measured by the GDP deflator—and economic depreciation over a 20-year time-horizon (5 percent per annum);

- *Portfolio investment holdings* are assumed to be split into two-thirds equity investment and one-third fixed-income investment. The former are assumed to rise in line with nominal GDP in South Africa, while the latter earn a nominal interest rate. Capital outflows are assume to include reinvested dividends on equity holdings (with an assumed 2 percent dividend yield) as well as reinvested interest earnings. No exchange rate valuation effects are assumed for the smaller share of investments held outside the common monetary area; and

- Alternative assumptions were used for the pass-through from capital outflows to net foreign assets. Historically, the difference between capital outflows and NFA accumulation is estimated to have been about 5 percentage points of GDP per annum. If this represents an incorrect attribution of non-resident dividend remittances or capital transfers to the resident capital flow data, the capital outflow data should be discounted for NFA purposes in the period ahead. Alternatively, if the mismatch reflects underestimation of historic NFA data, a pass-through closer to one might be expected.

30. **Reflecting the above range of assumptions, Namibia's net foreign asset position is projected to strengthen further, but at a slowing pace**. If past trends of a less than full pass-through from capital outflows to net foreign assets continues, the NFA position would stabilize at about 60 percent of GDP, consistent with the above current account projections (Figure II.7). Larger NFA positions would be possible with a more full pass-through from estimated capital flows to NFA.

Figure II.7. Namibia: Net Foreign Asset Projections, 2007–12
(In percent of GDP)



31. **On the lower of the above profiles, NFA is projected to rise about 50 percentage points of GDP between 2005 and 2012**. Of this total, about 11–12 percentage points reflects a desire by the public sector to strengthen its financial position, comprising a decline in public debt from 30 percent of GDP in 2005/06 to 25 percent over the medium term, and a rise in net international reserves from 5 percent of GDP in 2005 to 11–12 percent of GDP from 2007 through 2012. The basis for the remaining 38 percent of GDP increase in private sector NFA is less evident, though part reflects contractual savings abroad by pension and life insurance schemes, which are large by international standards.

32. **The increase in private sector NFA does not appear to pose risks of abrupt shifts in capital flows**:

- *Portfolio investments abroad* were equivalent to 66 percent of GDP at end-2006, largely comprising pension and insurance fund investments. These funds typically invest abroad to the extent that regulations permit, limiting any further outward flexibility. Thus, the main risk would be of portfolio reallocations back to Namibia. Given the limited domestic investment options within Namibia, a major reversal of capital flows by contractual savings funds and other investors toward Namibia appears unlikely unless investment conditions deteriorate very markedly in South Africa. And in these circumstances, it is unlikely that Namibia's investment environment would remain unscathed.

- *Direct investments* represent a net foreign liability estimated at 41 percent of GDP at end-2006. These investments are largely in the banking and mineral sectors, and an abrupt reversal of capital inflows through divestments appears very unlikely, given the current profitability of both sectors;

- *Other investments* comprise loans and the net foreign asset positions of the banking sector. As indicated in the above table, these liabilities are modest, estimated at under 3 percent of GDP for the private sector and parastatals, and 6 percent of GDP for the government sector. Given this limited exposure, roll-over risk is not a significant concern. At the margin, capital flows within the CMA may respond to interest differentials between Namibia and South Africa, but the Bank of Namibia is sensitive to this possibility, and has kept official interest rates close to those in South Africa.

D. Conclusion

33. **The recent uptrend in Namibia's current account surplus reflects, statistically, an increase in public and private savings**. The first step-up in the current account surplus dates to about 2003, and reflects an increase in private savings in excess of a parallel increase in private investment. The basis for this increase is not well-understood, and given the unusual nature of the recorded slump in consumer demand at a time when the economy was growing strongly, the possibility of statistical mismeasurement is real. This merits further analysis.

34. **A further rise in the current account surplus to double-digit levels in 2006 reflects increases in both public and private savings**. The public sector element reflects relatively tight expenditure control at a time of strong nominal income growth, combined with a surge in SACU receipts. The increase in private saving is less well-understood, reflecting limited data on private sector incomes and expenditures. However, this may reflect, in part, a low marginal propensity to consume out of higher mineral export earnings.

35. **Available data suggest that Namibia's current account surpluses have contributed to a strengthening NFA position**. Again, however, data quality appears to be an issue, with no clear concordance between the modest recorded increases in NFA and the much larger estimated capital outflows. Given this, NFA projections are somewhat perilous, though a further rise appears likely, with a slowing pace as the projected current account surplus declines in the period ahead.

36. **The projected further strengthening of Namibia's NFA position, while of uncertain magnitude, does not appear to pose risks of abrupt shifts in capital flows**. The main risks would appear to concern possible investment repatriation in excess of the economy's absorption capacity. Given the unlikelihood of a major improvement in Namibian investment returns relative to those in South Africa, this does not appear a significant risk, though it does point up the importance of careful management of the regulations on domestic and overseas investments by the pension and life insurance industries (Chapter III).

III. NAMIBIA'S DOMESTIC INVESTMENT REQUIREMENTS: POLICY ISSUES[5]

A. Introduction

37. **From 2004 to 2006, Namibia's gross national savings rate averaged 37 percent of GDP, almost double the average for sub-Saharan Africa and 60 percent higher than the lower-middle income country average**.[6] This level of savings supported domestic investments averaging 27 percent of GDP, about 50 percent higher than the sub-Saharan average and slightly above the lower-middle income country average. The excess of savings over domestic investment was invested abroad, largely by Namibia's pension and insurance industry. In light of Namibia's high unemployment and weak employment growth, the government is planning to tighten domestic investment regulations for the pension and insurance industries.

38. **This paper examines influences on the investment decisions of pension and insurance funds and the case for tighter domestic investment requirements**. It also examines alternative approaches to boosting domestic investments in Namibia. The paper concludes that tightening investment requirements may not be fully enforceable, and may not contribute to financial market deepening. There would likely be an increase in domestic investment, but the regulations would need to be phased-in cautiously to avoid inflationary pressures and a deterioration in asset quality. Given these considerations, a strong case can be made for market-based measures that would attract greater domestic investments by broadening the range of investable assets and by strengthening domestic returns on real sector investments.

B. Background

39. **Namibia has experienced large capital outflows in recent years**. From 2003 to 2005, outflows on the financial account exceeded US$500 million per annum (approaching 10 percent of GDP) and surged to US$1.3 billion in 2006 (19 percent of GDP). The largest part consisted of net portfolio outflows, which averaged 15½ percent of GDP. According to international investment position (IIP) data for mid-2007, total gross foreign assets amounted to an estimated 105 percent of GDP, with 70 percent made up of portfolio investment. South African assets made up approximately 80 percent of both total and portfolio investment. Pension and insurance funds are the main intermediaries of portfolio outflows. As of the latest data available (March 2004) the value of their total assets amounted to more than 100 percent of GDP. Using IIP data, staff estimate that total pension and

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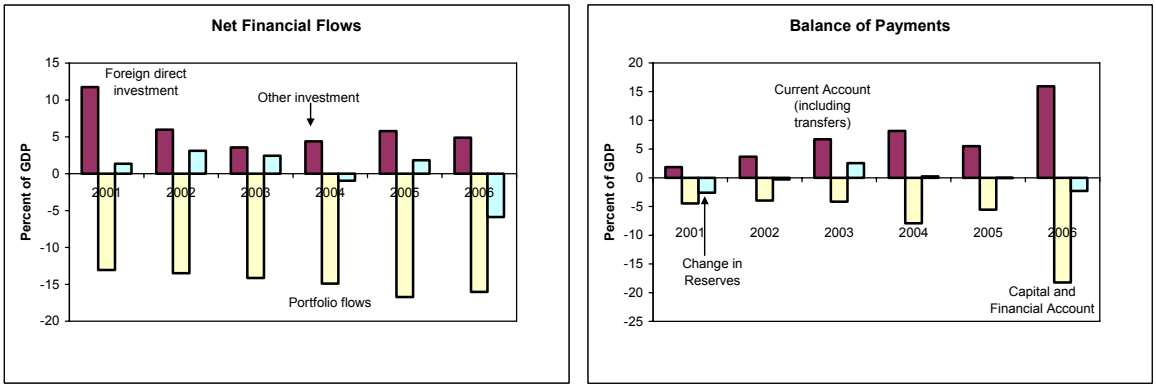
[5] Prepared by Lawrence Dwight (AFR). The author would like to acknowledge the generous comments and contributions of S. Erik Oppers to this chapter.

[6] This reflects, in part, Namibia's large SACU receipts (14 percent of GDP in FY2006/07).

insurance assets had risen to about N$58 billion (US$ 8.2 billion) in mid-2007 or about 110 percent of GDP.

Figure III.1. Namibia: Net Financial Flows and Balance of Payments, 2001–06



40. **Pension fund investments account for about 60 percent of the combined pension/insurance total**. Overall pension fund assets under management measured N$21 billion (57 percent of GDP) as of March 2004 (there are no firm data subsequently). Pension funds have been able to achieve reasonable real returns, averaging a little over 3 percent between 2001 and 2004. While Namibia has more than 500 pension funds, the Government Institutions Pension Fund (GIPF), which covers government employees, held about 73 percent of the industry total. As of March 2005, 67 percent of this portfolio was in equities, 21 percent in fixed income, and the remainder in cash and property (Table III.1).

41. **Insurance company assets totaled N$14.4 billion (42 percent of GDP) in March 2004**. Of this amount 92 percent was held by long-term insurers. The life insurance industry in Namibia is privately run, and comprises 16 long-term insurers and 12 short-term insurers. The top three companies hold approximately 85 percent of the market. No data is available on the investment returns of the insurance industry, but with a similar regulatory framework, it is probably comparable to that of the pension fund industry.

42. **Pension and insurance funds invest the majority of their funds in South Africa.** The GIPF reported that, for end-2006, 46.5 percent of assets were invested in South Africa, 19.0 percent in other foreign countries, and 34.5 percent domestically. While recent data are not available for private fund managers, in early 2002, 48 percent of their portfolio was invested in South Africa, 17 percent in other foreign locations, and 35 percent domestically (Table III.2). Of domestic investments, nearly one-half was in foreign companies dual-listed on the Namibian exchange, reducing true domestic investments—largely comprising bonds and cash—to less than 20 percent of total portfolios.

Table III.1. Namibia: GIPF's Asset Allocation, March 2005
(In percent of total assets at book value)

	Namibia	South Africa	Other international	Total
Total	38.3	53.8	7.9	100.0
Equities	20.5	39.5	6.9	66.8
Fixed income	10.8	8.6	1.0	20.5
Cash	6.2	5.6	0.0	11.7
Property	0.8	0.2	0.0	1.0

Sources: GIPF and Fund staff estimates.

Table III.2. Namibia: Asset Allocation of Namibian Fund Managers, March 2002
(In percent of total assets at book value)

	Namibia	South Africa	Other international	Total
Total	35.4	47.5	17.1	100.0
Primary stocks	1.6			
Dual-listed stocks	15.7			
Bonds	9.0			
Cash	8.7			
Property	0.4			

Sources: NEPRU Research Report No. 26, March 2004.

43. **The Namibian stock exchange is primarily composed of dual-listed companies**. The seven local firms listed on the exchange comprise only 0.3 percent of market capitalization. Forty-four percent of market capitalization represents firms having primary listings in Johannesburg and 55 percent represents firms having primary listings in London. Nonetheless, dual-listed firms are considered domestic for the purposes of Namibia's domestic investment requirements, a rule established partly to stimulate domestic financial markets.

Regulations on foreign portfolio investments

44. **Namibia's international capital flows are governed by the Common Monetary Area (CMA) agreement with Lesotho, South Africa, and Swaziland**. Under the agreement, Namibia maintains free transfers of funds for current and capital transactions with other members. At the same time, CMA members are required to align exchange control provisions with South Africa's, including controls on capital flows outside the CMA. The latter include an individual limit of R2 million in investment outside the CMA and the requirement that the government approve outward direct investment of firms. Investment managers are allowed to invest up to 25 percent of total retail assets in non-CMA portfolio investments. Pension funds may only transfer up to 20 percent of their total retail assets to acquire non-CMA portfolio investments. These regulations are applied by the Namibian authorities to the pension and insurance industry in accord with the CMA agreement.

45. **The CMA agreement allows Namibia to introduce domestic investment requirements to promote domestic development and domestic industries**. In line with these provisions, in 1994 the government amended Regulation 28 of the Pension Fund Act and Regulation 15 of the Long-Term Insurance Act to gradually increase to 35 percent the share of portfolios that pension and insurance funds must invest in domestic assets. Shares of dual-listed companies on the Namibian Stock Exchange (NSX) are considered domestic if they are purchased on the NSX, and 7 local and 19 dual-listed companies on the NSX qualify. Unit trusts are not required to comply with the domestic asset requirements, but do so in practice to attract investments from pension funds and insurance companies.

46. **With large capital outflows continuing, the Namibian government plans to introduce measures to tighten domestic investment requirements**. Under preliminary proposals, institutional investors would be required to invest a minimum of 5 percent of assets under management in unlisted Namibian firms. In addition, the value of dual-listed companies that qualify for domestic status would be reduced from 100 percent to 10 percent in a phased manner over five years. The details of the phase-in have not yet been announced, but an initial plan indicated that the credit for domestic investments in dual-listed firms would fall to 30 percent in the first year of implementation, and by a further 5 percentage points each subsequent year, reaching 10 percent in the fifth year. The proposals would also subject unit trusts to same domestic investment requirements as pension and insurance funds and their tax-exempt status would be eliminated.

47. **The government has expressed several rationales for tightening domestic investment requirements**. By keeping capital at home, domestic investment requirements would promote local economic and financial market development. As the Bank of Namibia stated in its June 2007 Quarterly Bulletin:

> *Outflows of resident capital from Namibia have been rising and the argument can be raised that, had this capital been available domestically, it could have encouraged domestic investment and enhanced economic development (p. 48).*

48. **Internationally, a number of other factors have favored domestic investment requirements**. In many cases, prudential concerns about foreign currency exposure are a major consideration. In addition, limits have been presented as contributing to financial market development and as a curb against speculative capital flows.

Namibia as a Destination for Capital Flows

49. **Before considering the case for intervention, we consider how Namibia might expect to benefit from its high savings rate**. Several factors could favor the domestic investment of these funds. Namibia has seen relatively robust economic growth in recent years and private sector investment has risen from 15 to 21 percent of GDP, suggesting the presence of good investment opportunities. Indeed, Namibia's underdeveloped capital base relative to more advanced economies should indicate the possibility of high rates of return on

capital. At the same time, international experience suggests that portfolio managers have a strong "home bias" in their investment behavior. As a result, foreign investment managers may be reluctant to invest in Namibia and Namibia could benefit from the substantial portfolios under domestic management. These considerations are explored below.

The Lucas Paradox and Namibia

50. **According to economic theory, capital should flow from richer to poorer countries, reflecting the higher returns on capital in the latter**. Moreover, capital should flow to the fastest-growing countries with the best investment opportunities. On this basis, theory would suggest that capital should flow from South Africa to its poorer, but somewhat faster-growing neighbor, Namibia (Table III.3).

Table III.3. Namibia: Comparison of Namibia and South Africa

	Namibia	South Africa
PPP per capita GDP (2005)	$2,990	$4,770
Real growth rate (2001–06)	4.7	4.1

51. **Global flows have been the reverse, however**. In what has become known as the Lucas Paradox, capital flows to poor countries have been found to be modest, and much lower than predicted (Lucas, 1990). Moreover, there is no clear evidence that capital is attracted to the fastest-growing countries (Prasad, 2007). Recent research has tried to explain the reasons for the Lucas Paradox. One approach has emphasized the importance of fundamental economic causes, including differences across countries in technology, human capital, government policies, and institutional structure. Lucas himself emphasized that differences in human capital mean that returns to capital are not as starkly different as neoclassical growth theory would suggest. Meanwhile, Alfaro (2005) cites differences in institutional structures as critical for explaining capital flows. Another approach has emphasized imperfections in international capital markets, including the risks that sovereign governments will not repay their loans or will expropriate foreign owned assets. Finally, asymmetric information with regard to the risks and returns of investment projects may deter foreign investors.

52. **By implication, Namibia may be able to capitalize on its strong growth rates by strengthening the institutions that investors believe are important**. Relevant areas for consideration include the protection of investor rights, flexible labor markets, and a good education system.

Portfolio allocation and home bias

53. **A different approach to modeling capital flows starts with finance theory and portfolio allocation decisions**. According to the capital asset pricing model (CAPM), investors should allocate portfolios according to market capitalization. For international portfolios, this implies diversification based on the size of countries' capital markets. Thus, in a truly global portfolio, investments in the United States would have a 39 percent share, those in developed European capital markets a 26 percent share, with investments in Africa at just 1½ percent, reflecting the small size of African capital markets. In practice, investment funds are rarely truly global, and most have a majority of their investments in domestic assets, even when not required to do so by regulations. This effect has been dubbed "home bias".[7]

54. **Namibia's pension and life insurance portfolios show very modest home bias**. Funds are close to the 20 percent limit on non-CMA assets and are not much higher than the 35 percent floor on domestic investments. This suggests that the regulations are binding and that foreign investment would be higher and domestic investment lower in their absence. Several factors may contribute to limited home bias. First, Namibia's market capitalization is small, even when compared just to South Africa. Indeed, if investors are restricted to investment in the CMA area, the CAPM would imply that 98 percent of Namibian portfolios should be invested in South Africa. A further factor limiting home bias is the absence of exchange rate exposure for Namibia's investment in CMA assets. Given these considerations, the absence of a strong home bias in Namibia's case is perhaps not a surprise.

C. The Case for Domestic Investment Requirements

International experience

55. **A number of countries have imposed domestic investment requirements (or equivalently limits on foreign investment) on their pension and life insurance funds**. These include Argentina, Chile, Hungary and Poland, for example, as well as the advanced economies of Germany, Japan, and Canada. Many of these limits are more stringent than those proposed by the Namibian authorities (Table III.4).

[7] For a good survey of the theoretical issues related to home bias, see Karen K. Lewis. "Trying to Explain Home Bias in Equities and Consumption," *The Journal of Economic Literature*, Vol. 37, No. 2 (Jun., 1999), pp. 571–608. For a discussion of recent trends in home bias, see the IMF's Global Financial Stability Report, April 2007, pp. 68–71.

Table III.4. Namibia: Pension Fund Investment in Domestic Assets, 2001–02
(In percent of total assets)

	Required Minimum	Actual
Mature Markets		
United Kingdom	P	77.1
United States	P	89.0
Germany	70	93.0
Japan	70	77.1
Canada	70	85.0
France	--	95.0
Italy	P	100.0
Weighted Average 1/		87.2
Emerging Markets		
Argentina	90	91.1
Brazil	100	--
Chile	75	83.6
Colombia	90	--
Hungary	70	97.5
Mexico	90	--
Namibia*	35	35.4
Peru	92	92.8
Poland	95	99.7
Weighted Average 1/		94.2

P = prudent person rule applies
* = includes dual listed stocks as domestic
1/ Weighted by GDP

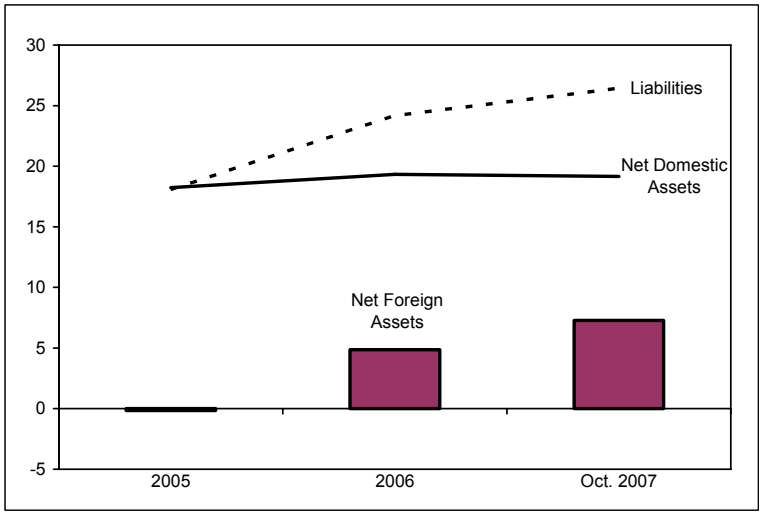
Source: IMF Global Financial Stability Report, April 2004, p. 131.

Exchange rate considerations

56. **Tightened domestic investment requirements would not contribute substantially to management of the exchange rate peg**. Initially, reduced net outflows could permit the authorities to accumulate a higher pool of international reserves. However, capital mobility would remain largely unrestricted under the CMA agreement, with individuals and banks free to circumvent the tighter regulations governing pension and insurance funds. For example, individuals could invest directly abroad to compensate for the shift toward domestic assets in their total portfolio of wealth (i.e., including pensions). Similarly, if pension and insurance funds start to provide capital for local enterprises, replacing banks as a source of funding, banks may shift their operations out of the local market. Banks could then offer domestic liabilities to the pension and insurance companies for the later to compy with the domestic investment requirements. The banks could then invest abroad themselves. This would effectively circumvent the tighter domestic investment requirements. The current practice of banks to place excess liquidity abroad underscores this possibility. In 2006 for

example, the increase in the bank's liquid liabilities exceeded increases in net domestic assets. The banks placed the difference abroad.

Figure III.2. Namibia: Increasing Net Foreign Assets of the Banking System, 2005–07
(N$ Billions)



Implications for portfolio returns and risk

57. **Requirements to increase domestic portfolios may have implications for portfolio returns and risk**. The Canadian experience with local investment rules illustrates some of the issues. In the province of Quebec, two major pension plans are required to invest at least 70 percent of their assets in Canada, with a dual mandate to: (i) provide strong returns for investors and (ii) promote the economic development of Quebec.[8] The *Caisse de Depot et Placement du Quebec* (CDP) has been involved in several takeovers designed to retain Quebec ownership of important companies (a grocery firm in the late 1980s, and *Le Groupe Videotron* in 2001). Unfortunately, these investments resulted in substantial losses to the pension fund. At the same time, the pension funds expressed concern that the domestic investment requirements could contribute to a bidding up of Canadian asset prices and prevent adequate portfolio diversification.

58. **The World Bank finds that pension funds subject to unrestricted investment regimes earned higher returns than those under more restrictive regimes**.[9] For example, during 1984–96, the average real pension return in Ireland, the Netherlands, the UK and the

[8] The *Caisse de Depot et Placement du Quebec* (CDP) is a pension fund operated by the province of Quebec, while the Canada Pension Plan Investment Board (CCPIB) provides pensions for Canadians who do not live in Quebec.

[9] See World Bank,. "Portfolio Limits: Pension investment restrictions compromise fund performance," in the *World Bank Pension Reform Primer* at www.worldbank.org/pensions.

US was 9½ percent. By comparison, the average real return over the same period in the more tightly-regulated countries of Belgium, Denmark, Germany, Japan, Sweden, and Switzerland was 6½ percent. The difference was not due to national stock market performance, as average real stock returns were marginally higher in the more restrictive than in the less restrictive countries (4 percent vs. 3½ percent). Pension funds in the more liberal countries were somewhat more volatile, but an investor would have to be extremely risk adverse to want to forgo an additional three percentage points in average annual returns.

59. **In Namibia, tighter domestic investment requirements could raise similar concerns about diversification, returns, and risk**. A mandate to invest 5 percent of portfolio assets in unlisted companies implicitly assumes that there are sufficient investment opportunities to absorb the increased investment. If, however, the demand for such capital is low, and the prospects for new start-up companies is limited on account of factors other than availability of finance, then major new investments by pension and insurance companies would be possible only by moving into lower return or higher risk investments. The lack of reliable financial information for unlisted companies would also be a concern, particularly where pension funds have limited in-house capacity to differentiate between investment opportunities.

60. **Experience with Namibia's Development Capital Portfolio (DCP) suggests these risks are applicable in the Namibia context**. The DCP was set up by the government pension fund (GIPF) in 1995 to promote investment in domestic unlisted companies. The GIPF aimed to invest 5 percent of its assets under management in the DCP. However, a decade later the government concluded that the DCP had failed to meet expectations due to a lack of sound management (Bank of Namibia, 2005), and it was forced to write off 84 percent of the value of its investments in unlisted companies (N$630 million of its N$750 million investment). The GIPF is now investing in unlisted firms via venture capital firms and government institutions. It hopes these will be better able to monitor its investments.

61. **Other developments suggest a limited pool of strong unlisted companies**. Namibia Harvest Investments (NHI), an investment holding company that invested in asset management, unit trusts, a commercial bank, and an abattoir, raised N$200 million in 1998 for venture capital but returned two-thirds of this money to investors in 2001 due to lack of investment opportunities (NEPRU, 2004).

Modeling the new regulatory requirements

62. **The proposed new rules would require substantial new investments, stretching absorption and institutional capacities**. If dual-listed companies are scored at 10 percent (rather than 100 percent) for domestic investment purposes, their contribution to the 35 percent domestic investment rule would fall from around 15 percent (currently) to 1½ percent. As a result, fund managers would need to shift at least 13½ percent of their portfolios out of foreign capital or dual-listed companies to finance new domestic

investments. Moreover, if the new regulations cause the scoring of dual-listed companies to fall from 100 to 30 percent in the first year, the required shift of capital over the first 12 months would be equivalent to 10½ percent of total portfolios (Table III.5). With total portfolios more than 100 percent of GDP, the shift in assets could be significantly more than 10 percent of GDP.

Table III.5. Namibia: Impact of Tightening Domestic Investment Requirements

	Current	Year 1	Year 2	Year 3	Year 4	Year 5
A. Domestic Status of Dual-Listed Companies	100%	30%	25%	20%	15%	10%
Dual-Listed Companies (% of Portfolio) 1/	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Contribution to Domestic Investment Requirement (DIR)	15.0%	4.5%	3.8%	3.0%	2.3%	1.5%
Asset Shift Need to Meet the DIR	0.0%	10.5%	11.3%	12.0%	12.8%	13.5%
in N$ Billions	$0.0	$7.6	$9.3	$11.4	$13.8	$16.7
in percent of GDP	0.0%	11.8%	12.8%	13.9%	15.0%	16.2%
B. Investment Requirement in Unlisted Namibian Companies	0%	5%	5%	5%	5%	5%
Unlisted Companies (% of Portfolio) 2/	1.5%	2.2%	2.9%	3.6%	4.3%	5.0%
New Investment in Unlisted Companies	0.0%	0.7%	0.7%	0.7%	0.7%	0.7%
in N$ Billions	$1.0	$1.6	$2.4	$3.4	$4.6	$6.2
in percent of GDP	1.7%	2.5%	3.3%	4.2%	5.1%	6.0%
Memo Items						
Portfolio Assets (N$ Billion)	58.0	64.9	72.7	81.6	91.5	103.0
% of GDP	111	112	114	116	118	120
GDP (N$ Billion)	52.2	58.0	63.8	70.3	77.5	85.8

1/ Assuming no portfolio shift away from dual listed companies.
2/ Assuming 5-year phase-in of 5% requirement.

63. **Where would these repatriated assets be invested?** Some would be invested in unlisted companies to move toward the proposed 5 percent minimum requirement. Since unlisted companies currently make up about 1½ percent of pension fund assets, a further shift into such companies of 3½ percent of fund assets would be needed, though the time scale for this adjustment is not clear. The remaining part of the overall shift in assets would be split between listed Namibian equities, government bonds, cash, or other investments (such as property).

64. **Namibia's capacity to absorb these investments could be an issue, particularly in the short run**. Capital inflows equivalent to 10½ percent of GDP would likely result in considerable inflationary pressures (and associated real exchange rate appreciation) unless phased in over a large number of years. Indeed, the inflationary risks would be particularly marked. In addition, the capital inflows would add to the upward pressures that Namibia's real exchange rate already faces, as a result of record levels of SACU receipts and high mineral exports.

65. **Institutional capacity is also a concern**. With only 7 locally-listed firms, the Namibian stock exchange cannot be expected to intermediate large new investments to this sector. Similarly, with the government budget close to balance in the short-term, the supply of government debt is not expected to rise substantially. Given these considerations, the risks of asset price inflation would appear high. Even if funds were able to carve out safe investments in domestic bonds and cash (possibly crowding out banks), their returns would likely be lower than in their current foreign equity holdings, reducing returns to savers.

Incentives for market development

66. **It is unclear what effect tightened domestic investment requirements will have on the development of Namibia's capital market**. The government securities market is already well-developed, with active secondary trading in Treasury bills.[10] In the face of limited supply on account of relatively small government deficits, excess demand may develop, which could diminish secondary market liquidity and force a scarcity premium, reducing bond yields. This has been the experience in Chile, where pension fund assets are growing much faster than the stock of high quality bonds.

67. **The impact of tightened domestic investment requirements on the Namibia Stock Exchange (NSX) is hard to predict**. With incentives for new investments in both listed and unlisted domestic companies, the net incentives to list is unclear. However, it is clear that the incentives will decline for the 19 existing dual-listed companies, which account for approximately 95 percent of market capitalization. If a portion of the latter delist, capitalization of the NSX could decline.

D. Policies to Encourage Financial Flows to Namibia

68. Given the risks associated with a regulatory approach to strengthening domestic investment, market-based options are explored below.

Broadening the range of investable assets

69. **To attract greater domestic investments, a broader pool of investments would be an advantage**. Options would include mortgage securitization, development of the public agency and corporate bond market, securitization of funding of existing public enterprises, and development of the factoring and leasing sector.

[10] Outstanding government securities amounted to 22 percent of GDP in mid-2007.

Mortgage securitization

70. **Since a great deal of wealth is tied up in property, mortgage securitization can provide access to a new asset class for institutional investors**. In many developing countries, housing finance is relatively expensive and rationed. Pension and insurance funds provide a potentially large source of funding for housing. Because they have long-term liabilities these funds can, in theory, manage the liquidity risk of housing loans more effectively than depository institutions that rely on short-term funding. However, mortgage securitization requires a strong legal and institutional infrastructure and well-developed primary mortgage markets. In addition, there must not only be demand from institutional investors but willingness by lenders to seek access to the capital markets to manage capital and risk. In many cases, funding through deposits may be less expensive for banks than funding through mortgage securities. Thus, mortgage securitization may not be attractive for banks with access to low cost deposits.

71. **The government can perform an enabling role in promoting mortgage securities**. Most importantly, the government can create and maintain a strong legal system that supports collateralized lending. It could also accept mortgage-backed securities as collateral at the central bank discount window.

72. **The experiences of emerging markets carry several lessons for the development of mortgage backed securities markets** (Box 1). It is important to gain investor acceptance and build a strong legal and regulatory framework. While government backing and privileges (e.g., acceptance at the central bank window and discounted risk weightings) can help develop the market, subsidization makes the schemes more expensive and hinders the development of private sector markets. Excessive liquidity can also make commercial banks reluctant to sell mortgages to mortgage security intermediaries.

73. **Namibia appears well placed to develop a mortgage backed securities market**. Namibia's financial market is relatively sophisticated and well regulated. Banks have a high concentration of assets in residential mortgages, which may create an incentive for diversification through securitization. In addition, Namibia is closely tied to South Africa which has already has a market for mortgage securities. This should make it easier to develop products and tap expertise in the development of this market.

Box III.1. Experiences with the Introduction of Mortgaged Backed Securities Markets

Several emerging markets have introduced mortgage securities with mixed results. In Chile and Malaysia, mortgage securities markets have been relatively successful and helped to promote housing finance. In Hong Kong and Hungary, mortgage securities helped to fund the housing market but circumstances have led to problems in implementation.

- ***Chile***: As in Namibia, pension and life insurance funds became major investors. Mortgage securities became popular because of the lack of alternative investments. Pensions funds were initially not allowed to invest in stocks, the budget had been in surplus reducing the supply of government debt, and fixed income investments had the disadvantage to require ratings from at least two agencies. Partly as a result, in recent years about 70 percent of mortgage financing in Chile has come from mortgage securities; these securities now make up about 15 percent of pension fund portfolios.

- ***Malaysia***: In 1987, the Malaysian government created the Cagamas Berhad. Cagamas purchases mortgage loans from mortgage originators at fixed or floating rates for 3 to 7 years. Its debt is rated AAA by the Malaysian rating agency and carries a risk weighting of 10 percent, compared with a 50 percent rating for housing loans. In Malaysia, Cagamas has successfully provided liquidity to mortgage lenders, reduced market risks, and helped develop private fixed-income markets.

- ***Hong Kong***: The Hong Kong Mortgage Corporation (HKMC) was established in 1997 to reduce real estate asset concentration and stimulate the development of the housing market. At end-2002, the HKMC was responsible for 5 percent of outstanding residential mortgages and 7 percent of the corporate debt market. However, the development of Hong Kong's mortgage backed securities market has been hampered by excess liquidity which makes commercial banks reluctant to seek wholesale funding. Institutional investors have also been reluctant to invest in the market due to their short-term bias. The government attempted to address these concerns by allowing government housing agencies to sell mortgages to the HKMC. While this increased the HKMC's portfolio of mortgages, it also meant that the HKMC effectively became a government funding mechanism instead of a method to promote development of the private mortgage market.

- ***Hungary***: The government created a mortgage bond market in 1997. There are three mortgage banks of which the largest is government owned. However, the government provides subsidies for loans less than Euro 380,000. Thus, the lending rate for mortgages is less than the yield on treasury bonds. The subsidy causes several problems. The subsidy is not targeted and does not leverage private or government spending. In addition, below market interest rates prevent the development of a private sector mortgage market.

Development of the public agency and corporate bond market

74. **Development of the corporate bond market could provide additional assets for domestic investment and improve the functioning of Namibia's financial markets**. As countries develop, firms typically go through a number of stages with regard to financing needs. Initially, firms rely on self-generated funds. Later, they rely on lending from banks. Finally, as they become larger firms can rely on direct financing through corporate debt and equity markets. By moving to this last stage, firms diversify their capital structure, spread risks, and promote competition.

75. **While Namibia has a large government bond market, development of the corporate bond market has lagged**. As of end-2006, the value of all bonds outstanding on the Namibia Stock Exchange was N$8.2 billion. Of this amount, government bonds accounted for 82 percent, commercial bank bonds (Bank Windhoek, First National Bank, and Standard Bank) for 9 percent, and state owned enterprise bonds (Nampower and the Road Fund) for 8 percent. As of end-2007, the value of corporate and public enterprise bonds was approximately 4 percent of GDP. Given this relatively low level, there appears to be room for additional development of the local corporate bond market.

76. **The government's foremost role should be to ensure that the legal and regulatory infrastructure promotes growth of the corporate bond market**. This includes maintaining a well functioning clearing and settlement system; a regulatory structure that provides for adequate disclosure, accounting standards, and corporate governance; the availability of credit rating agencies; and a clear policy with regard to corporate bond market development.[11] Namibia already has many of these elements, including a well-functioning legal system and regulatory structure, but some fine-tuning may provide additional benefits.

77. **In addition, the government could provide a catalyst by encouraging credit worthy public enterprises to issue local currency bonds**. Nampower's successful issuance of N$500 million in 13-year corporate bonds provides an illustration. This was the first of what is expected to be a total issuance of N$3 billion in bonds to fund infrastructure investment. The bond was oversubscribed by 70 percent and priced at 105 basis points above the year 2020 South African government bond. This indicates that there is demand for local currency bonds backed by credit-worthy borrowers.

78. **Yet, such efforts would need to be carefully implemented to avoid increasing the contingent liabilities to the government**. Only public enterprises that have reliable income streams and good credit should be allowed to borrow. In addition, the government should also make clear that such bonds are not implicitly backed by a government guarantee.

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[11] For an additional discussion of the challenges of developing local corporate bond markets see Luengnaruemitchai and Ong (2005).

Privatization

79. **The limited number of listed domestic companies could be broadened by diversifying the ownership of public enterprises**. In 2006, the government successfully sold 34 percent of the mobile phone provider MTC, raising N$648 million in public funds. Ownership diversification could contribute to broadening the equity market, and to the extent that investment opportunities strengthen under private management, the demand for financing would progressively increase.

Factoring and leasing

80. **Promoting factoring and leasing could also help develop the non-government securities markets**. Factoring and leasing companies could fund their operations by issuing commercial paper or medium-term bonds. This would expand the financial markets by providing additional investment opportunities for investors. At the same time, factoring and leasing companies can improve access to finance by providing funds to small and medium enterprises that have trouble qualifying for traditional forms of finance.

Private equity

81. **Another potential method to promote investment in Namibia is through development of a private equity market**. Private equity can provide an alternative vehicle for institutional investment and deepen Namibia's financial markets. Private equity also has the potential to fill a gap in the capital markets for firms that have outgrown family or self-financing but whose risk profile is not attractive to banks or securities markets. In addition, experienced private equity investors can provide management expertise that enhances firm value. For investors, private equity provides another asset class that enhances diversity and has the potential for high returns.

82. **In some developing countries the promise of private equity has not been fulfilled; in this respect, proper regulation and implementation is crucial**. Three main areas have been of concern: (i) the quality of information available to investors, (ii) regulatory and legal standards, and (iii) the ability of investors to exit. For private equity markets to work well, firms must provide accurate and timely information to investors on both operations and financing. These must be provided not only at the initial investment stage but on an ongoing basis so that investors can monitor fund performance. In some cases, entrepreneurs are not used to providing such information or are reluctant to subject themselves to the judgments of outsiders. This can hinder the development of private equity markets.

83. **It is also important to provide a sound legal and regulatory environment for private equity investments**. When investors do not have direct control over the firms in which they invest, they need access to a legal system that can enforce contracts if there are disputes. Thus, the development of a strong private equity market requires statutory

protection for minority shareholder rights. Without such systems, private equity investors can suffer serious losses or avoid investments altogether.

84. **Finally, development of private equity markets requires a method for investors to exit profitably**. Exits usually take the form of initial public offerings, sales to strategic investors, or management buyouts. In mature markets, initial public offerings have been the dominant method for investors to exit private equity and such exits tend to be more profitable than strategic or management buyouts. In developing countries, it has been more difficult to carryout initial public offerings.

Strengthening the business sector

85. **On a parallel track, efforts can be made to strengthen returns on investments in Namibia**. Where the business environment and Namibia's comparative advantages offer high rates of return, these will be competitive with foreign investments in attracting financing. The challenge is to identify the aspects of the business environment that are open to improvement through government policies.

86. **Namibia has many strengths as a location for business**. The World Bank's *Doing Business 2008* survey ranked Namibia 43 out of 178 countries, with Namibia rated positively by businesses in regard to the licensing framework, enforcing contracts, and credit availability. Slightly less favorably, the World Economic Forum's Global Competitiveness Report 2007–08 rated Namibia 89 out of 131 countries, yet with strong ratings for the macroeconomy, infrastructure, and institutions.

87. **There are no guaranteed steps to a more attractive business climate**. Surveys of the business environment produce different results depending on their design and their survey populations. Thus, each country needs to work with businesses to identify local bottlenecks and disincentives. In Namibia's case, a place to start might be the World Bank's recent Foreign Investment Advisory Service (FIAS) assessment, which suggested that Namibia focus on labor skills and protection for property rights. It suggested that Namibia's foreign investment law is outdated and should be replaced as it no longer plays a meaningful role in investors' decisions. It also found that special business incentives have not been effective and a simpler and less discretionary regime with a lower corporate tax rate would be preferable. Steps to improve the quality of education and make the labor market more flexible would also be helpful (see Chapter V).

88. **An additional priority is to make existing investments more productive**. Since Namibia's domestic investment ratio of around 27 percent is already above the average of 25 percent for lower middle-income countries, higher total returns may not come from further increases in the investment ratio, but from making existing investments more productive. This again comes back to the investment climate, as well as to the merits of extending the privatization program.

E. Conclusion

89. **Summarizing the above discussions, the staff would offer the following observations on the planned tightening of Namibia's domestic investment requirements:**

- **Similar (and even higher) requirements are applied in other countries**. However, in many cases, these rules are driven by prudential concerns about exchange rate exposure, which do not apply in Namibia's case;

- **Where countries have adopted tight domestic investment requirements, this has often been at the expense of rates of return and the risk profile**. In cases, it has also encouraged politically-motivated investment decisions that proved financially costly. Thus, steps should be taken to make sure that there are sufficient assets to meet the demand generated by such requirements and projects are adequately screened;

- **Domestic investment rules do not necessarily promote financial market deepening**. Financial markets work best with a balance of willing buyers and sellers. Where the supply of finance is artificially increased, this can actually distort yields and retard market development. The impact on the Namibian stock exchange is particularly unclear given the competing incentives for local companies to list or remain unlisted, and the clear loss of incentive for the larger foreign companies to remain listed;

- **Tighter domestic investment rules will not necessarily reduce capital outflows**. The proposed regulations can be readily circumvented (and thus offset) by private individuals and banks, resulting in financing flows that are less easily monitored. Moreover, if markets perceived the regulations as an effort to persuade capital to remain in the country, it could have perverse effects;

- **The phasing and macroeconomic impact of regulatory changes require careful scrutiny**. The proposed rules would, if strictly enforced, require a large, short-run repatriation of capital. In all likelihood, this would be inflationary (for asset prices, and for the underlying investments) and fuel pressures for real exchange rate appreciation. Given the high levels of foreign currency inflows from mineral exports and the SACU regime, the timing of the proposed capital repatriation does not appear opportune;

- **Market-based incentives for investment repatriation are attractive**. Because they would be associated with the development of new patterns of financial intermediation (mortgage financing, factoring and leasing, etc), they would likely channel investments to areas of unmet demand for financing, thereby reducing inflationary risks;

- **A strengthened business environment would also serve the interest of pension and insurance clients**. By raising the rate of return on domestic investments, funds could invest in the local market without undermining the real return on their clients' savings, a criterion for successful continued growth of the sector; and

- **Namibia's investment ratio is already high, and one priority is to make more of these existing investments**. This suggests reforms to further strengthen the domestic investment climate, as well as to diversify ownership of public enterprises.

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IV. Management of Non-Renewable Natural Resources[12]

A. Introduction

90. **Although Namibia's mineral sector is smaller—relative to GDP—than in many African economies, the impact on income levels, exports, and the financing of the budget are important**. Many mineral-rich economies have suffered a so-called "resource curse", with stagnating or declining real incomes. The evidence so far is that Namibia has avoided this problem, achieving lower-middle income status and relatively strong real income growth. Nonetheless, it is useful to take stock of Namibia's success in managing its mineral wealth, highlight steps that Namibia could take to further consolidate resource management, and draw lessons for other countries.

91. **This paper reviews a number of issues related to Namibia's management of non-renewable natural resources**. This includes an examination of the importance of non-renewable natural resources to the Namibian economy, how Namibia's tax and legal regime compares with international standards, and how the authorities can maintain long-term fiscal and macroeconomic sustainability in the face of volatile natural resource income. The paper finds that non-renewable natural resources are a significant contributor to Namibia's economy, though less than in other natural resource producers. Namibia's legal framework for resource exploitation and mineral taxation arrangements are generally in line with international standards and could be regarded as an example to other producers. With regard to the long-term fiscal and macroeconomic sustainability, this paper does not see merit in a dedicated mineral fund to accrue mineral revenues, nor does Dutch disease appear a risk.

B. Overview of Namibia's Mineral Sector

Non-petroleum resources

92. **Namibia is well endowed with non-renewable natural resources including diamonds, uranium, zinc and gold**. These minerals have made an important macroeconomic contribution. Since independence in 1990, mineral exports have averaged 21 percent of nominal GDP and 57 percent of total exports. Similarly, taxes and royalties on minerals have averaged 7½ of central government revenues. However, mineral extraction is capital intensive and the direct contribution to employment has been modest. The Chamber of Mines estimates total mining sector employment in 2004 at less than 7,500 (around 2 percent of total employment).

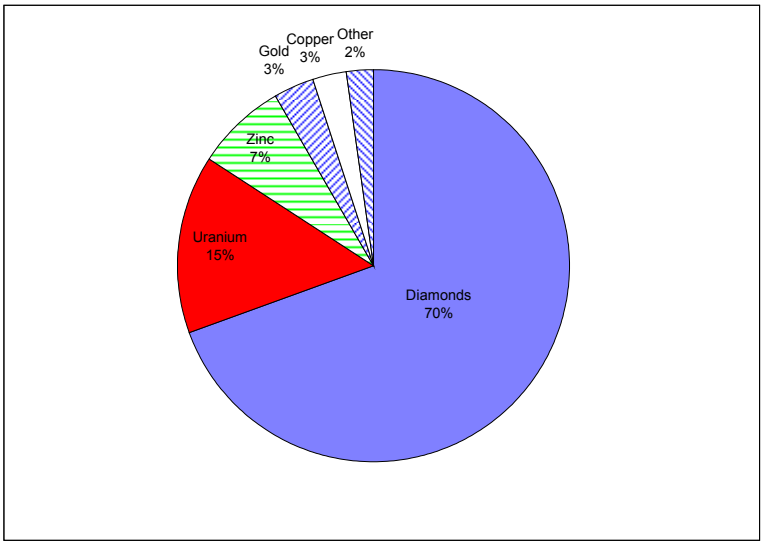
93. **Diamonds are Namibia's most significant mineral resource, accounting for 70 percent of total mineral exports**. Namibia produces more than 2 million carats of gem-quality diamonds a year. Since independence, diamond exports have averaged 14½ percent

[12] Prepared by Lawrence Dwight (AFR).

of nominal GDP and 39 percent of the value of total exports while taxes and royalties on diamonds have averaged 6½ percent of central government revenues. In recent years with the depletion of land-based mines, marine mining of diamonds has become more important. Almost half of total production was recovered at sea in 2006.

94. **Over 90 percent of Namibia's diamonds are produced by Namdeb, a 50-50 joint venture between the government and DeBeers**. DeBeers has agreed that Namdeb will make 16 percent of its production available for local polishing and cutting. Aside from Namdeb, other diamond operators include Diamond Fields International and Samicor. Apart from diamonds, the most important minerals in order of importance are uranium, zinc, gold, and copper (Figure IV.1). Mining for these and other minerals is conducted by the private sector.[13]

Figure IV.1. Namibia: Composition of Mineral Exports, 2006
(US$ Value)



Petroleum resources

95. **Gas production may become important in the future**. The Namibian government has plans to develop the Kudu offshore natural gas field, which holds 1.3 trillion cubic feet of proven gas reserves. This is enough gas to power a planned 800-megawatt electricity plant for more than 20 years. The total cost of the project is expected to be US$1 billion dollars.

[13] The six major producers are: Rössing Uranium, which operates the Rössing mine; Anglo American, which operates the Skorpion zinc mine; Namzinc, a zinc refinery; Rosh Pinah Zinc, which operates the Rosh Pinah zinc and lead mine; Ongopolo, which operates three copper mines and a copper smelter; AngloGold Ashanti Namibia, which operates the Navachab gold mine; and Okorusu Fluorspar, which operates the Okorusu mine.

The government included N$750 million (US$125 million) in its medium-term economic framework (MTEF) to pay for infrastructure related to Kudu, and Nampower recently issued N$500 million (US$ 71 million) of a planned N$3 billion bond to pay, in part, for the Kudu project. Production is expected to begin in 2010 but due to the complexity of the project could be delayed.

96. **The National Petroleum Corporation of Namibia** (Namcor) is a state-owned enterprise that imports oil. While Namibia does not currently produce natural gas or oil, private sector oil companies are required to source 50 percent of their oil from Namcor. The remaining 50 percent may be imported directly.

C. Namibia's Institutional Framework for Resource Exploitation

97. **In many countries, resource exploitation has failed to deliver improved living standards**. Studies attribute this "resource curse" to rent-seeking behavior and the misallocation of natural resource revenues, with adverse consequences for productivity and growth. Moreover, as natural resources can provide a source of income independent from citizens, it can make a government less accountable to the public. Effective avoidance of rent-seeking behavior requires a rule-based, transparent legal, regulatory, and tax regime for mineral exploration and extraction, transparent operation of state-owned enterprises, inclusion of mineral revenues in the budget, and good governance in both the public and private sector.

98. **In practice, Namibia has relatively strong public institutions**. Minerals in Namibia are not produced in a competitive environment due to scale economies and the licensing regime. However, according to Transparency International, Namibia had the fifth lowest level of corruption among 45 countries surveyed in Africa in 2006. The 2005 World Economic Forum's Global Competitiveness Report ranked Namibia 53 out of 131 countries on public institutions, with judicial independence ranking 34 and property rights ranking 41.

The regulatory regime for mineral exploration and extraction

99. **Namibia's legal framework for natural resource exploitation was reviewed by the Fund in 2006**.[14] The review concluded that Namibia's Minerals Act and Diamond Act (Box IV.2) are in line with international best practice. Namibia was assessed to have the essential elements of a transparent fiscal system—including a transparent legal and administrative framework for budget preparation and execution—and meet the basic standards of the IMF's fiscal transparency code. In this respect, the review concluded that Namibia could provide an example of best practice to other countries in the region. To further strengthen openness of the fiscal regime, consideration should be given to

[14] Emil Sunley, Taimur Baig, and Philip Daniel. "The Fiscal Regime for Mining and Processing", FAD TA Report, April 2006.

participation in the Extractive Industry Transparency Initiative (EITI), particularly given the likely growth of new investments in the uranium and natural gas sectors.[15]

100. **Nonetheless, the review did recommend additional technical changes to Namibia's regime for natural resources**. These include recommendations that the authorities improve their budget classification structure, increase the availability of information to the public, improve audit capacity, and upgrade the supervision of parastatals. The review concurred that the Minister of Mines should have the authority to make regulations and narrow the scope of mineral agreements. It recommended, however, that royalty rates be enacted into law and not left to the discretion of the Minister. The review also found that Namibia may benefit from fiscal stability clauses in mining contracts to provide additional assurance to investors. Finally, the review argued that mineral processing that occurs in Economic Processing Zones (EPZ) should receive customs but not income tax relief to discourage abuse of the EPZ system.

The tax and royalty regime

101. **Namibia has different tax rates for mining and non-mining companies**. A 55 percent corporate profit tax is applied to diamond companies. This compares with a 37.5 percent profit tax for non-diamond mineral companies and 35 percent for ordinary, non-mining corporations. A 10 percent royalty is imposed on the value of rough diamond exports and the government is considering a royalty of up to 5 percent on non-diamond mining companies. For the purposes of taxation, the government does not make a distinction between local and foreign-owned companies nor among types of non-diamond minerals.

Namibia's natural resource taxation regime was reviewed by the Fund in 2006.[16] The review concluded that Namibia's mineral tax regime is in line with international practice. It recommended that the royalty rate remain at 10 percent for diamonds and the government set at 2–3 percent royalty rate for other hard minerals. However, the 10 percent royalty for diamonds should apply to all diamonds produced in Namibia (not just to exports). With regard to taxation, the review recommended corporate tax rates remain unchanged, i.e., 55 percent for diamond mining companies and 37.5 percent for other mining companies. On transparency, the review recommended that diamond and other mining agreements be made public.

[15] Namibia currently participates in the Kimberley Process diamonds initiative.

[16] Ibid.

Box IV.1. Namibia: The Legal and Regulatory Regime for Minerals

The legal basis for Namibia's non-renewable natural resource sector is embodied in two major laws: the Minerals Act of 1992, and the Diamond Act of 1999.

The Minerals Act: This Act replaced a series of laws inherited from the pre-independence period. It vests all rights related to the exploitation of Namibia's mineral resources in the State. The Act charges the Ministry of Mines and Energy (MME) with regulation and oversight of the mining industry. Recently, the government has proposed amendments to the Minerals Act to give the Minister the power to make regulations and set general royalty rates. However, these amendments would leave the basic framework for mining unchanged.

Rights to prospecting and extraction are provided through exclusive prospecting and mining licenses. An exclusive prospecting license gives the holder the right to prospect a designated area of up to 1000 km^2 for up to three years with the possibility of two two-year extensions. A mining license gives the holder the exclusive right to develop and operate a mine for 25 years with the possibility of a 15 year extension. To obtain a mining license an applicant must show that it has the technical expertise and financial backing to develop and operate the mine. Licenses are awarded on a first come, first served basis and applications are evaluated in accordance with the Minerals Act. The MME has the power to grant or refuse mineral licenses, and is advised on this matter by a Mining Commission. Members of the mining industry are represented at the MME through a Minerals Board that advises the Minister. The Board includes representatives of the MME, the Chamber of Mines, and small scale operators.

The Diamond Act regulates the production, ownership and trade of rough and polished diamonds and establishes a system of permits and licenses. It does not replace or substitute for the Minerals Act but creates additional classes of licenses necessary for diamond mining and other value added activities. One section of the Diamond Act (Section 58) allows the Minister of Mines and Energy to require diamond producers to make rough diamonds available to Namibian diamond cutters and polishers. This provision has never been invoked. However, DeBeers recently agreed that 16 percent of Namdeb's annual production would be made available for local polishing and cutting. Another section of the Diamond Act (Section 59) gives the Minister of Mines and Energy the power to require producers to sell up to 10 percent of annual rough diamond production on the international market. This provision is designed to allow the government to test prices of unpolished diamonds. The Diamond Act also establishes a Diamond Board headed by a Diamond Commissioner and comprised of representatives from the Ministries of Mines and Energy, Finance, and Fisheries as well as diamond producers and diamond cutters.

102. **With regard to the treatment of mineral revenues, the review found the fiscal regime for the mining sector is clearly stated and comprehensive**. All licensing fees, taxes and royalties go directly to the state revenue account and are included in the budget. However, a three percent royalty goes to the Diamond Valuation Fund and 0.05 percent of producer sales go to the Diamond Board Fund. Both of these funds are not reflected in the budget.

103. **Going forward, the tax regime may need to be reviewed to ensure that the budget benefits appropriately from the recent high rents in the mineral sector.** At the same time, some sector are of growing importance (uranium and, potentially, natural gas), and the tax regime will need to remain abreast of these changes.

Public expenditure management

104. **As mineral revenues are not separated from general revenues, expenditures based on mineral revenues cannot be separated from general expenditures**. Thus, effective use of mineral resources depends upon strong institutions and an accountable government. On these measures, Namibia performs relatively well. Namibia has transparent legal and administrative framework for the budget, information on the Medium Term Expenditure Framework (MTEF) is available to the public, government procurement is subject to internal and external audit, and the government is implementing a system to provide information on budget execution.

105. **The last public expenditure review (PER) occurred in 1994 and covered Namibia's budget, tax, and expenditure regimes.** It found that Namibia's tax system is relatively sound. Although some time has passed since that report, many of the issues remain relevant. The PER found that Namibia has an appropriate balance between direct and indirect taxes. However, there is a significant dependence on Southern Africa Customs Union (SACU) receipts, which make up approximately one third of total revenues. The PER recommended efforts to develop a VAT system and improve tax administration. On the budget and expenditure side, the PER found the budget system is modern and relatively comprehensive. To improve the effectiveness of public expenditures, it recommended improving financial control and accountability, strengthening the evaluation of projects, and increased coordination between the general and development budgets. The report noted that parastatals operate relatively independently and there is an argument to be made for privatization as a way to reduce their drain on the budget.

106. **Going forward, implementation of program-based budgeting would improve accountability and help prioritize government expenditures**. Currently, the medium-term economic framework (MTEF) uses a program classification. However, expenditure data are reported only by line ministry. Thus, there is a need to modernize the budget classification structure and chart of accounts to facilitate informed discussion of policies and to rationalize spending.

Operation of state-owned enterprises

107. **No fully state-owned enterprises operate in the natural resources sector**. One state-owned enterprise (Namcor) imports oil. Government involvement in the mining sector is carried out solely via equity investments in three mining companies: Namdeb (50 percent share), DeBeers Marine Namibia (30 percent share) and Rössing Uranium (3 percent share). However, government participation is limited to management with no operational

involvement. All other companies in the mining sector are private. However, the government receives payments from these companies in the form of taxes and royalties (and in the case of equity participation through profit sharing and dividends). All these sources of funds are included in the central government budget.

Governance requirements for the private sector

108. **Namibia's accounting requirements for the private sector are comprehensive and in accordance with international accounting standards**. Natural resource companies are subject by law to the same internal controls and auditing standards as other companies. In particular, mineral producers prepare audited accounts that are produced within six months of the close of the financial year. These accounts cover subsidiaries and are made available to the public annually. However, mining contracts, including those of Namdeb, are not available to the public.

109. **In summary, Namibia has set high standards with regard to establishing a rule-based, predictable institutional framework for mineral sector**. Technical experts have recommended only two small changes with respect to the revision of the Minerals Act, i.e., the Minerals Act should define the royalty rates for minerals and should limit the discretionary powers of the Minister of Mines and Energy.

D. Fiscal Management of Natural Resource Earnings

110. Natural resources pose several fiscal management issues. First, how to manage spending in the face of potentially volatile receipts. Second, issues of long-term fiscal sustainability. Third, how to set appropriate spending levels given the finite nature of resource earnings. These are considered in turn.

Managing volatility in Namibia's resource earnings

111. **Natural resource revenue volatility is commonly associated with global price changes**. In Namibia's case, however, the U.S. dollar price for rough diamond exports, its main mineral export, has been broadly stable since 1995 (Figure IV.2). For other minerals, prices have risen sharply since 2005, but output and contributions to government revenues remain relatively modest. As a result, export fluctuations have hisorically been driven by changes in output, particularly in the diamond sector (Figures IV.3 and IV.4).

Figure IV.2. Namibia: Mineral Export Prices, 1995–2006
(1995=100)

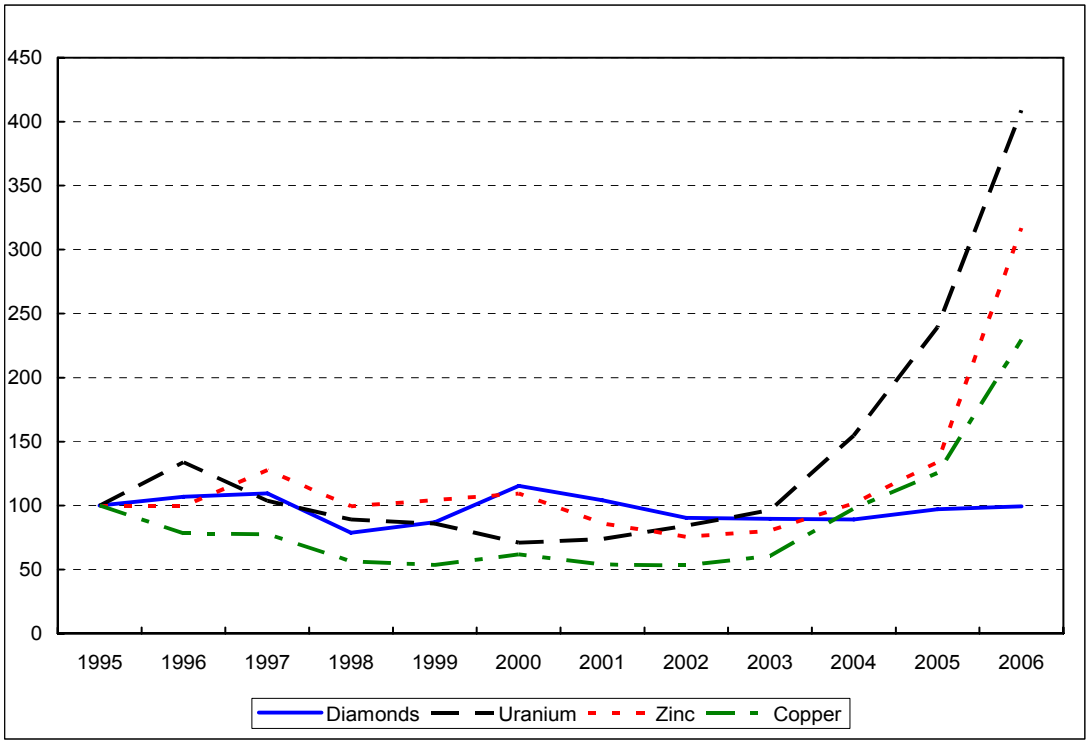


Figure IV.3. Namibia: Mineral Production Volatility, 1990–2006
(Percent Change)

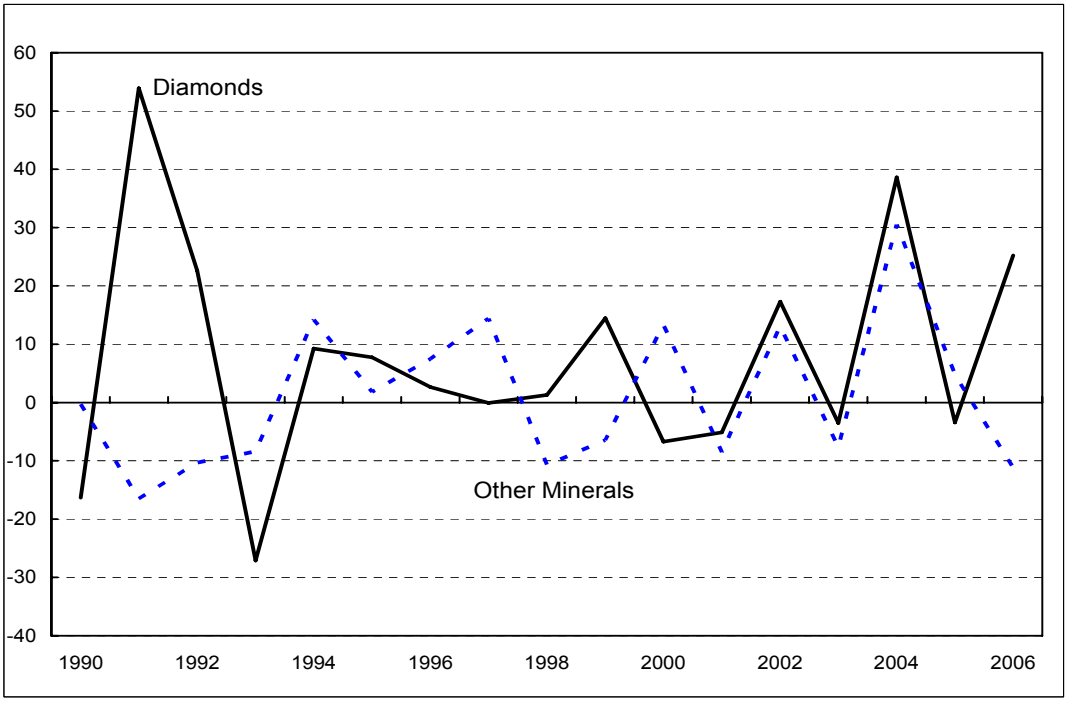
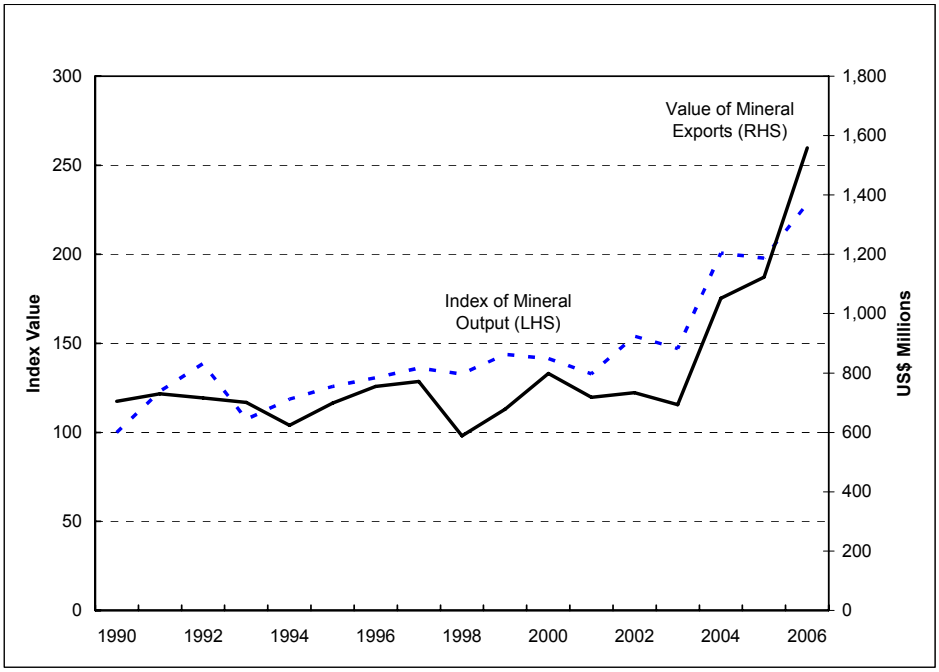


Figure IV.4. Namibia: Mineral Exports and Production, 1990–2006



112. **The mineral sector is small in Namibia, compared to many African economies**. In Angola, for example, oil and gas exports averaged 65 percent of GDP, contributing fiscal revenues of 34 percent of GDP over the last ten years (Table IV.1). Similarly, diamonds have been a much larger factor in the Botswanan economy than for Namibia. Following from this, the volatility of mineral export receipts and fiscal contributions are larger than in Namibia's case.

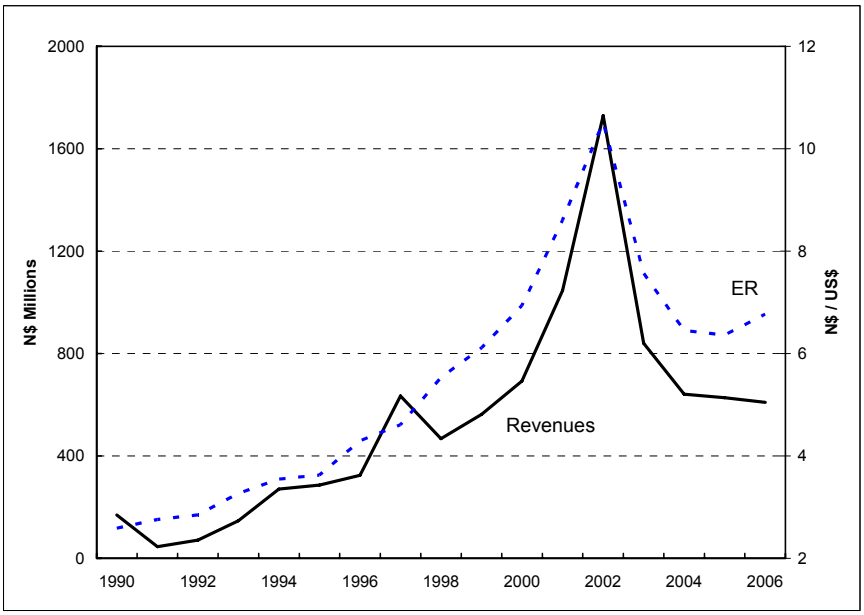
Table IV.1. Resource Sector Volatility in African Countries, 1997–2006

Country	Main mineral export	Mineral exports (% of GDP)	Standard deviation of exports	Mineral revenues (% of GDP)	Standard deviation of revenues
Namibia	Diamonds	14.7	2.1	2.5	1.2
Botswana	Diamonds	32.8	4.2	20.5	3.4
Cameroon	Oil	8.3	2.0	4.8	1.3
Gabon	Oil	27.0	7.2	18.9	2.9
Angola	Oil	64.7	8.6	34.0	6.7

Source: IMF staff estimates.

113. **Exchange rate fluctuations have been an important source of volatility in Namibia**. The peg to the South African rand has given rise to significant currency movements. Thus, depreciation of the rand boosted diamond taxes and royalties to 5 percent of GDP in 2002/03, before falling to 2 percent of GDP in 2004/05 as the currency strengthened.

Figure IV.5. Namibia: Mineral Tax Revenues and the Exchange Rate, 1990–2006



114. **Mineral sector volatility has been managed in some countries through stabilization funds**. Of 31 oil producing countries examined, the IMF found that 21 had established stabilization funds. Under these arrangements, a stream of mineral revenues, based on a reference export price, is contributed to the general revenue pool to fund government spending. If export prices exceed the reference price, generating a surplus in mineral revenues, this surplus is dedicated to a stabilization fund. Accumulated balances in the fund are available to sustain spending in the event of a shortfall in export prices and/or mineral revenues.

115. **Stabilization funds do not guarantee fiscal smoothing, however**. The discipline that they provide can be circumvented if governments borrow during periods of high mineral export prices to boost spending.[17] Given this, sound fiscal management requires that expenditures be insulated from swings in mineral revenues, being based (ideally) on a medium-term evaluation of resource and fiscal sustainability.

116. **Instead of using a stabilization fund, Namibia strives to smooth spending and achieve fiscal discipline directly**. While there are no specific provisions to increase public savings during periods of peak mineral revenue receipts, the government's fiscal goal of limiting public debt to 25 percent of GDP or less prevents borrowing against future mineral receipts. In addition, the use of a medium-term expenditure framework (MTEF) allows the budget to be developed in a multi-year setting, so that expenditures do not excessively reflect short-term revenues, including from the mineral sector.

[17] See *The Role of Fiscal Institutions in Managing the Oil Revenue Boom*. IMF Policy Paper, March 5, 2007.

117. **In practice, mineral receipts do not appear to influence spending decisions.** Indeed, from 1989 to 2006, increases in mineral revenues were associated, on average, with *lower*, not higher public spending, relative to GDP (Table IV.2). This likely reflects the role of the exchange rate. Currency depreciation boosts mineral incomes as well as overall GDP, both of which rise relative to incomes and expenditures in the non-mineral economy. Thus, currency depreciation boosts mineral incomes, and, to a lesser extent, strengthens the overall fiscal position. The limited relationship between mineral receipts and the fiscal position is evident from Figure IV.6.

Figure IV.6. Namibia: Revenues and Fiscal Impact, 1989/90–2005/06
(Percent of GDP)

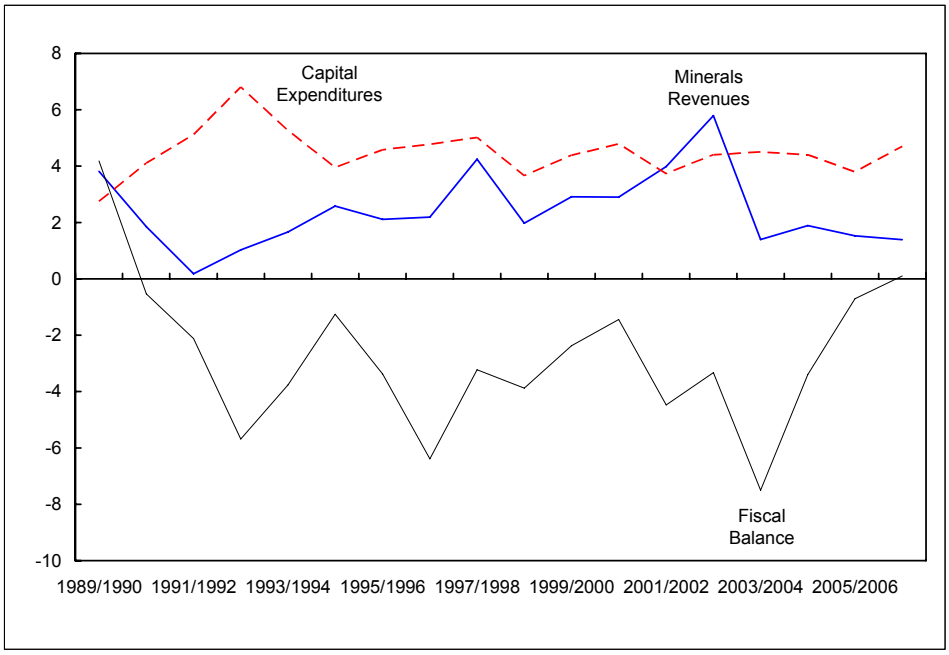


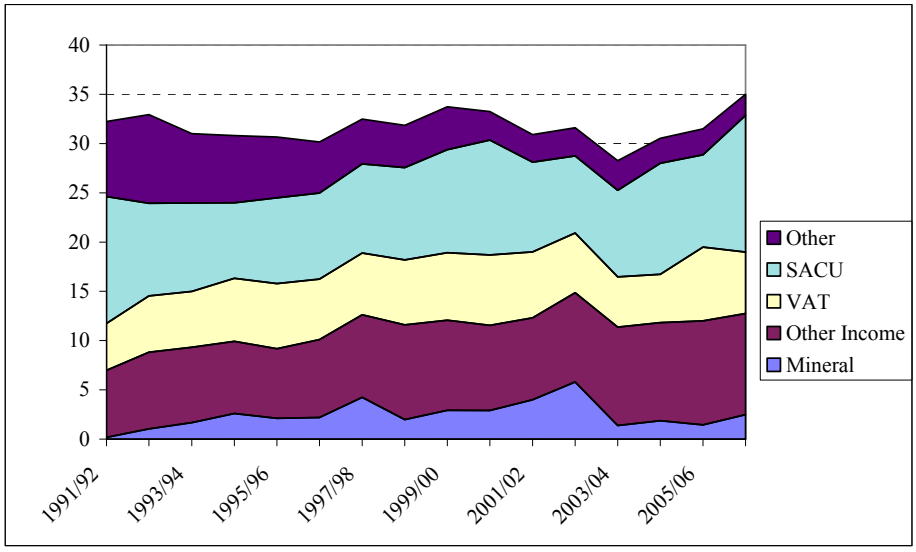
Table IV.2. Namibia: Short-Term Fiscal Pass-Through, 1990–2005
(All original data in percent of GDP)

Correlation with:	Total revenues	Non-SACU revenues	Current spending	Capital spending	Fiscal balance
Mineral revenues	0.05	0.58	0.00	-0.37	0.15
SACU revenues	0.66	-0.41	0.39	0.29	0.07

Source: Fund staff estimates

118. **Mineral revenues are important but not essential to government spending**. Since 1990, mineral revenues have averaged just 2½ percent of GDP (Figure IV.7), compared to total public expenditures of 32 percent of GDP. Thus, revenue administration and public expenditure management are more critical to fiscal stability than the mineral revenue regime.

Figure IV.7. Namibia: Mineral and Other Revenue Contributions, 1991/92–2005/06
(Percent of GDP)



119. **In practice, Namibia's budget is more at risk from volatility in SACU revenues**. These averaged more than 9 percent of GDP over the past ten years compared with 2-3 percent of GDP for mineral revenues. Moreover, they have been more closely correlated with government expenditures, with a one percentage point of GDP increase in SACU revenues correlated with a 0.68 percentage point of GDP increase in total spending (Table IV.2). This underlines the importance of caution when projecting SACU revenues and the expenditures which they would finance.

Ensuring long-term fiscal sustainability

120. **Namibia's non-petroleum mineral extraction is projected to remain robust at least through 2020, supplemented thereafter by natural gas reserves**. Namibia's diamond production is expected to continue at about 2¼ million carats per year through the year 2010 and then decline gradually to about 1.9 million carats by the year 2020, when land-based resources are expected to be depleted. Marine-based diamonds are only beginning to be exploited and the long-term prospects are particularly uncertain at this stage. With stable international prices, diamond exports are expected to contribute 12-13 percent of real GDP in the medium-term, but gradually decline to about 11 percent of GDP by 2020 (see Appendix).[18]

[18] Prospects for the smaller part of mineral production in the non-diamond sector are more difficult to assess. Uranium production at the Rössing mine was initially expected to last until 2009 but due to high international prices, the life of the mine has been extended to 2021, and a large number of new uranium investments are in train. The Skorpion zinc mine is expected to remain in production for a period of 15 years, to 2020. While Namibia does not currently produce oil or gas, the development of the Kudu gas fields beginning in 2010–12 may offset declining production of other minerals.

121. **The permanent annuity value of Namibia's diamonds to the budget is small—about one-half of one percent of GDP per annum.** Since the projected fiscal revenues of about 1-1½ percent of GDP from the diamond sector over the next decade (see Appendix) exceed this annuity value, a case can be made for saving the difference (equivalent to 1 percent of GDP or less). However, this "optimal" saving is small, and does not merit a separate mineral fund. Indeed, the projected public saving rate of more than 5 percent of GDP (Figure II.3) adequately encompasses this specific savings goal. (In practice, under government proposals, these savings will finance domestic infrastructures).

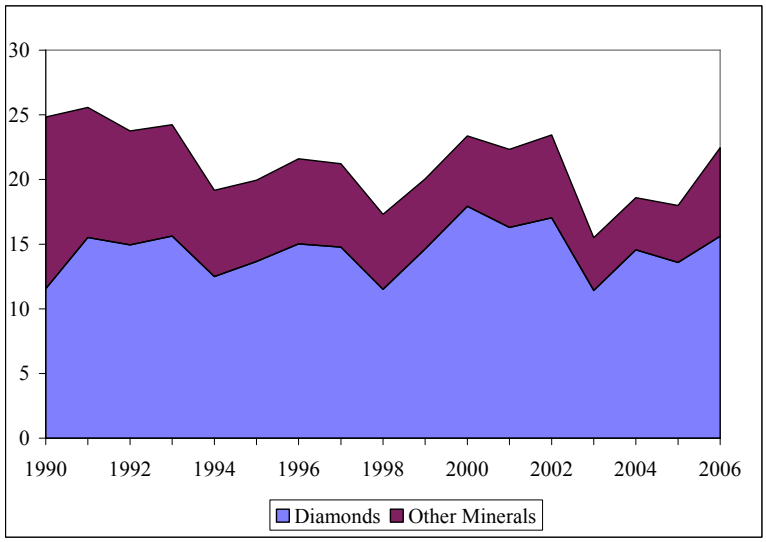
E. The Macroeconomic Impact of Resource Extraction

122. **Several authors have found that countries endowed with plentiful natural resources experience slower growth**. Sachs and Warner (1995) find that in a sample of 97 developing countries for the period 1970 to 1989, those with a high value of resource based exports to GDP experience lower subsequent growth. Collier (2007) studies the experiences of commodity exporting countries from 1960 to 2004. He finds that booms in the prices of nonagricultural natural resources have a negative effect on growth, with the level of real GDP lowered by 26 percent after 25 years. Economists have proposed several possible causes for this negative impact of natural resource endowments on growth, including Dutch disease, increased volatility of growth, increased debt, corruption, and large economic rents. These risks are reviewed below.

Dutch disease

123. **Dutch disease is a lesser concern for Namibia than other raw material exporters for several reasons**. First, mineral exports have been a relatively moderate share of GDP (20-25 percent), with a general downward trend (Figure IV.8). Moreover, this overstates the domestic expenditures by the mineral sector. Much of the capital equipment is imported, and labor costs are low (mining accounts for about 2 percent of national employment). At the same time, fiscal revenues from the mining sector have averaged just 2-3 percent of GDP. To this extent, the domestic pricing pressures from the mineral sector are relatively modest. Equally, with high unemployment, wage pressures are unlikely to be large, except for certain pools of skilled personnel.

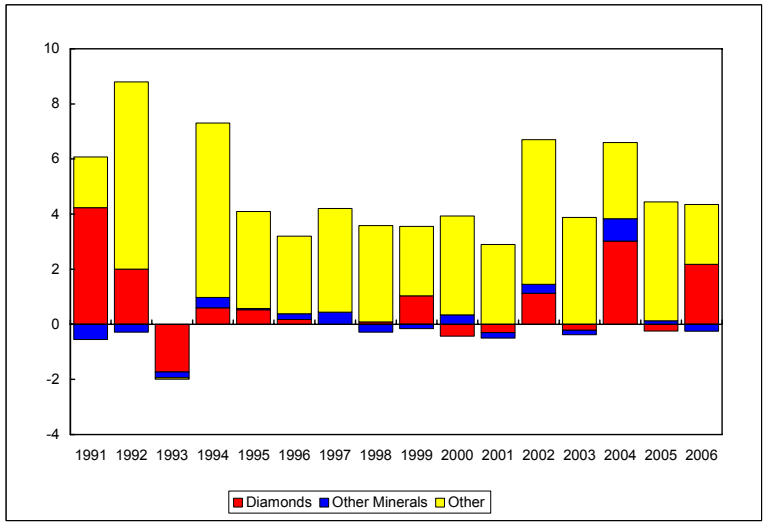
Figure IV.8. Namibia: Mineral Exports as a Share of GDP, 1990–2006
(Percent)



Growth volatility issues

124. **Mineral sector volatility has not been an excessive concern for Namibia**. Its mineral sector is smaller than in many resource-rich countries, and the volatility in export and fiscal proceeds is correspondingly more modest. As noted above, the pass-through from mineral incomes to spending has been limited, damping any tendency for stop-go spending patterns in the budget. Thus, while the contributions of the diamond sector to overall GDP growth has been unpredictable, this has not prevented sustained, albeit modest growth in the non-diamond economy (Figure IV.9).

Figure IV.9. Namibia: Contributions to Real GDP Growth, 1991–2006
(Percent)



Government borrowing

125. **A third possible cause of the negative impact of natural resource endowments on growth is through government debt**. Since natural resources provide a revenue stream in foreign currency, countries with large natural resource endowments may find it easier to borrow abroad and fall into a debt trap. In Namibia's case, the government aims at keeping public debt to GDP at or below 25 percent. While public debt to GDP has risen as high as 34 percent, government debt is still much lower than in many other African countries. In addition, external debt of the government has also been low, measuring only 5¾ percent of GDP as of June 2007.

Overall assessment

126. **In conclusion, while mineral production comprises a large portion of value added in the economy, it has so far had minimal impact on the level and volatility of growth**. Namibia should be relatively immune from Dutch disease effects. In addition, the Namibian government has been relatively prudent in borrowing, establishing a goal that public debt should be no more than 25 percent of GDP. For these reasons, mineral production has had a relatively benign impact on Namibia's growth.

F. Conclusion

127. **Namibia's non-renewable natural resource sector is a significant contributor to Namibia's economy, comprising 21 percent of GDP, 57 percent of exports, and 7½ percent of government revenues**. Namibia's regime for mining and processing is in line with international best practice and the IMF has recommended only minor changes. Namibia does appear to have suffered from a resource curse and public institutions rank well in international comparisons. As to shocks, most volatility arises from changes to diamond output and the exchange rate. Since mineral revenues are relatively small compared to GDP (only 1–2 percent) there does not appear to be an argument to create a stabilization/savings fund. In addition, Namibia is able to achieve its fiscal targets through an appropriate set of fiscal rules such as the requirement that public debt remain at or below 25 percent of GDP. As far as macroeconomic impact, Namibia's mineral income has remained relatively stable as a percent of GDP and exports and contributed about one percent of GDP on average to growth since independence. Thus, economic management of the impact of mineral income has not been difficult.

128. **Looking forward, it will be important for Namibia to continue manage its mineral resources wisely**. In this regard, the government may want to examine ways to improve the tax regime for mining. This could help to deal with projected decline in customs union revenues over the medium-term. The government may also want to consider ways to use its mineral wealth to diversify the economy to deal with economic shocks and the eventual exhaustion of its mineral resources.

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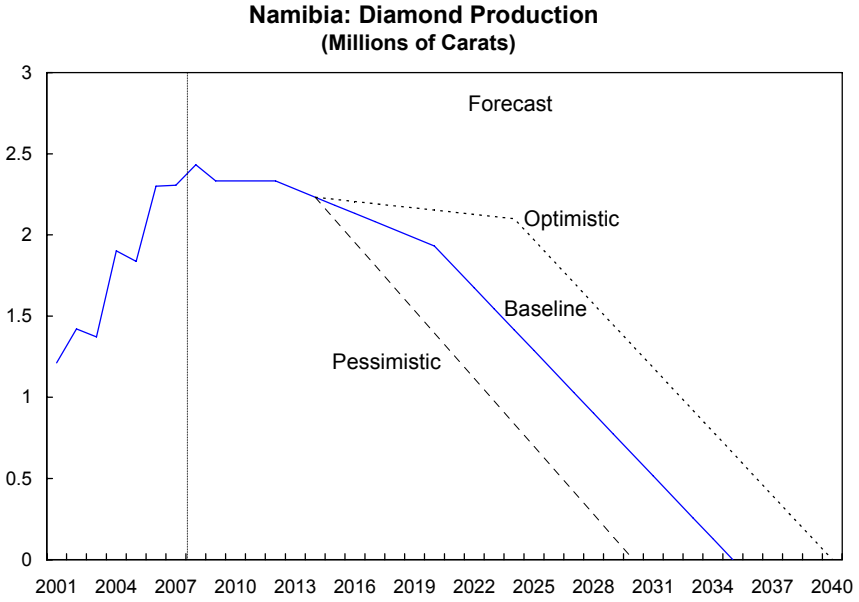
APPENDIX

Assessment of Long-Run Diamond Income and the Permanent Income Hypothesis

To maintain long-run fiscal sustainability some countries have instituted mineral stabilization/savings funds with strict rules on how such funds can be spent. The idea is to save a portion of mineral revenues in order to create a sustainable source of long-run income for the government. A savings fund can cushion the impact of fluctuations in other sources of revenues. This appendix examines the rationale for such a fund in Namibia. The general conclusion is that a savings fund in Namibia would generate only small amounts of income relative to GDP and thus would probably not be needed.

Various assessments of Namibia's diamond resources indicate that they can be exploited at close to current levels out to 2020. In 2006, Namdeb's total diamond output (more than 90 of Namibia's total) was 2.2 million carats. Namdeb has stated that it believes it can achieve annual output at or above 2 million carats out to 2010, and this exercise assumes production of 2.3 million carats out to 2012. The outlook beyond 2012 is uncertain and this appendix examines three scenarios. The baseline scenario assumes output falls gradually to 1.9 million carats in 2020 at which point diamond production begins to decline as resources are depleted. Diamonds are exhausted by 2035. The optimistic scenario assumes marine mining of diamonds is more successful, producing a higher level of output, and diamond resources are not exhausted until 2040. In the pessimistic scenario output declines to zero by 2030.



Under the permanent income hypothesis of consumption, individuals attempt to smooth consumption in the face of income shocks. They do this by saving income in good years to pay for consumption in bad years.

Formally, individuals maximize a lifetime utility function:

$$U = \sum_{j=0}^{\infty} \beta^j u(C_{t+j})$$

Subject to the budget constraint:

$$\sum_{j=0}^{\infty} \frac{C_{t+j}}{(1+i)^j} \leq W_0 + \sum_{j=1}^{\infty} \frac{Y_t}{(1+i)^j}$$

Where:

C_t = period consumption
$\mathrm{Y_t}$ = period income
$\mathrm{W_0}$ = initial wealth

Solving this equation gives the first order condition:

$$u'(C_t) = \beta(1+r)u'(C_t)$$

With $\beta(1+r) = 1$ or with quadratic utility consumption is constant over time, $C_t = C_{t+j}, \forall \mathrm{j}$.

To apply this to the case of Namibia's mineral wealth we make a number of simplifying assumptions:

1. Initial wealth is zero, $\mathrm{W_0} = 0$.

2. Individuals want consumption to rise over time at the rate of GDP growth, g, so that $C_{t+1} = \mathrm{C_t}(1+g)$.

3. The government maximizes utility on behalf of individuals so that $C_t = \mathrm{G_t}$.

4. The government only smooths consumption from mineral income. Moreover, because mineral resources will eventually be depleted, income stops after year T.

Inserting these assumptions into the budget constraint gives:

$$\sum_{j=0}^{\infty} \frac{G_{t+j}}{(1+i)^j} = \mathrm{NPV_{minerals}} \qquad G_t \sum \frac{(1+g)^j}{(1+i)^j} = \frac{1}{(i-g)} G_t = \mathrm{NPV_{minerals}}$$

where $\mathrm{NPV_{minerals}} = \sum_{\mathrm{j=0}}^{\mathrm{T}} \mathrm{Y_{t+j}}$

or

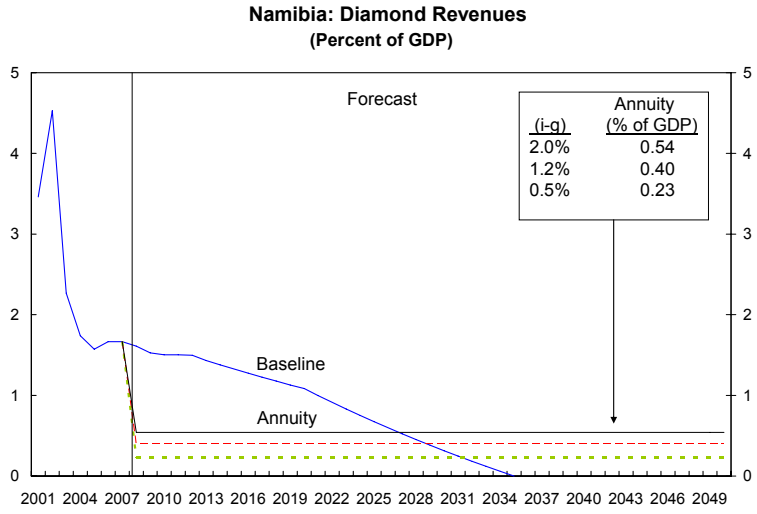
$$G_{t+j} = (i-g)\ \mathrm{NPV}_{\mathrm{minerals}}(1+g)^{j} \qquad \forall j \geq 0$$

Thus the mineral wealth, $\mathrm{NPV}_{\mathrm{minerals}}$, can be converted into an annuity of (i–g) x $\mathrm{NPV}_{\mathrm{minerals}}$ in year 0, that grows at the same rate as GDP.

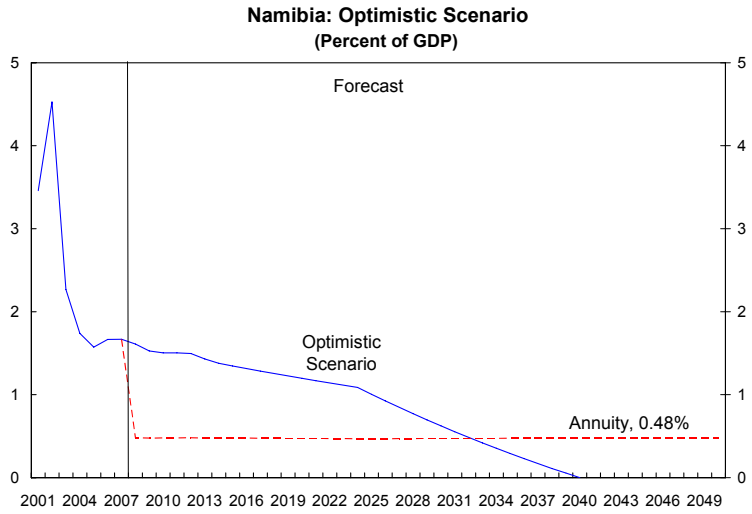
Projections were made based on the following assumptions, with 2006 corresponding to year zero:

Variable	Value
Nominal interest, i	12.0 %
Real GDP growth	5.0 %
Inflation	5.5 %
Nominal GDP growth, g	10.8%

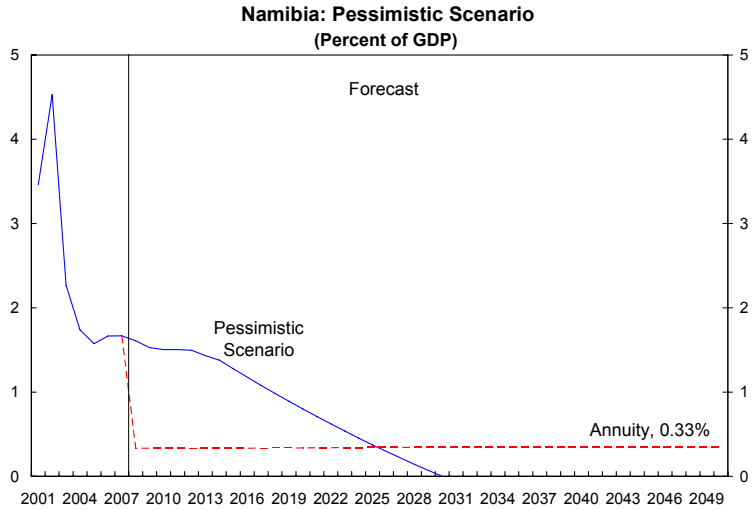
In the baseline forecast, the annuity value of Namibia's diamond tax revenues is only 0.40 percent of GDP per year. Because the result varies with the interest rate assumption, a sensitivity analysis was carried out. If (i–g) rises from its historical average of 1.2 percent to 2.0 percent, the annuity value rises to 0.54 percent of GDP per annum.



Under the optimistic scenario with (i–g) at 1.2 percent the annuity value of Namibia's diamond tax revenues is 0.48 percent of GDP.



Under the pessimistic scenario the annuity value falls to 0.33 percent of GDP.



In conclusion, the annuity value of Namibia's diamond tax revenues is relatively small, measuring 0.6 percent of GDP or less per annum, under all scenarios. This compares with recent tax revenues from the diamond sector of 1½–3½ percent of GDP. By implication, the government should save the difference between the actual and the annuity value of revenues to smooth revenues, amounting to one percent or more of GDP per annum. This is relatively modest and broadly in line with actual average public saving of 1½ percent of GDP during 1½ percent of GDP during 1990–2005 (see Chapter 1). Given the modest size of the implied savings, there appears to be little justification for separating diamond revenues from the general budget for a savings fund.

V. The Challenges of Reducing Unemployment[19]

A. Introduction

129. **High and persistent unemployment is one of the most pressing issues facing Namibia.** Despite annual GDP growth of 4.6 percent during 2000 to 2005, the unemployment rate has risen from 34.5 percent in 2000 to 36.7 percent in 2004,[20] which is high by broader African standards.

130. **Employment growth has been inhibited by generally low skill levels, lack of diversification of the economy, and labor market inflexibilities.** At independence in 1990, Namibia inherited a poor education system that did not prepare students well for the work place. Job opportunities have also been restricted by a heavy dependence on the capital-intensive mining and mineral processing. At the same time, labor market impediments have deterred job creation outside the mining sector.

131. **Faster growth in low-skill job opportunities and more flexible labor market institutions would help tackle unemployment in the short run.** While improvements in education and training are required over the long run, near-term job creation may require lower-skill, entry-level positions in manufacturing, tourism, and other service activities. More competitive labor costs and flexible labor market institutions would help encourage investments in these sectors.

B. Unemployment Overview

132. **Weak job growth has resulted in rising unemployment**. Employment growth of less than 1 percent per annum during 1992–2004 contrasted with annual labor force growth of about 3 percent, resulting in an increase in unemployment from 19 percent in 1992 to 37 percent in 2004, comparable to Lesotho and South Africa, but well above a number of other African peers (Table V.1).

[19] Prepared by Chuling Chen (AFR).

[20] Broad definition. Data from Namibia Labour Force Survey 2000, 2004.

Figure V.1. Namibia: GDP Growth, Employment, and the Labor Force

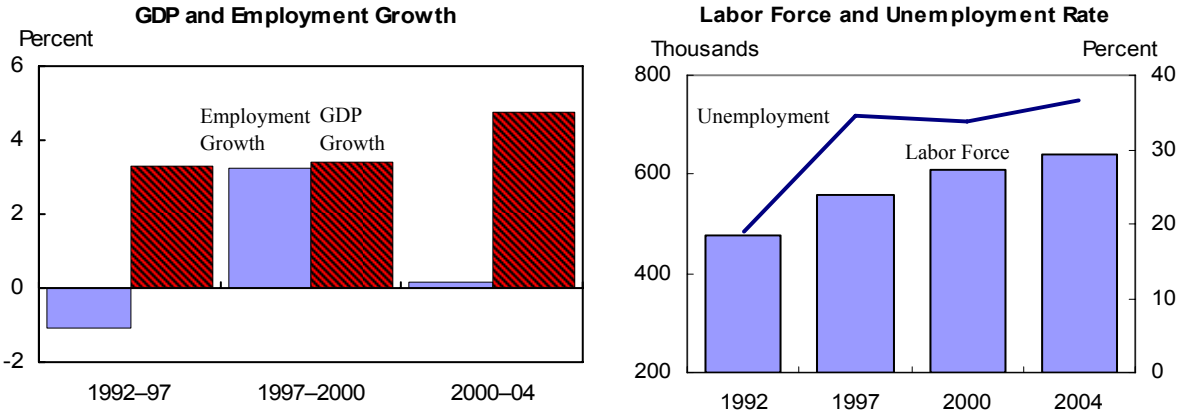


Table V.1. Labor Force Participation and Unemployment

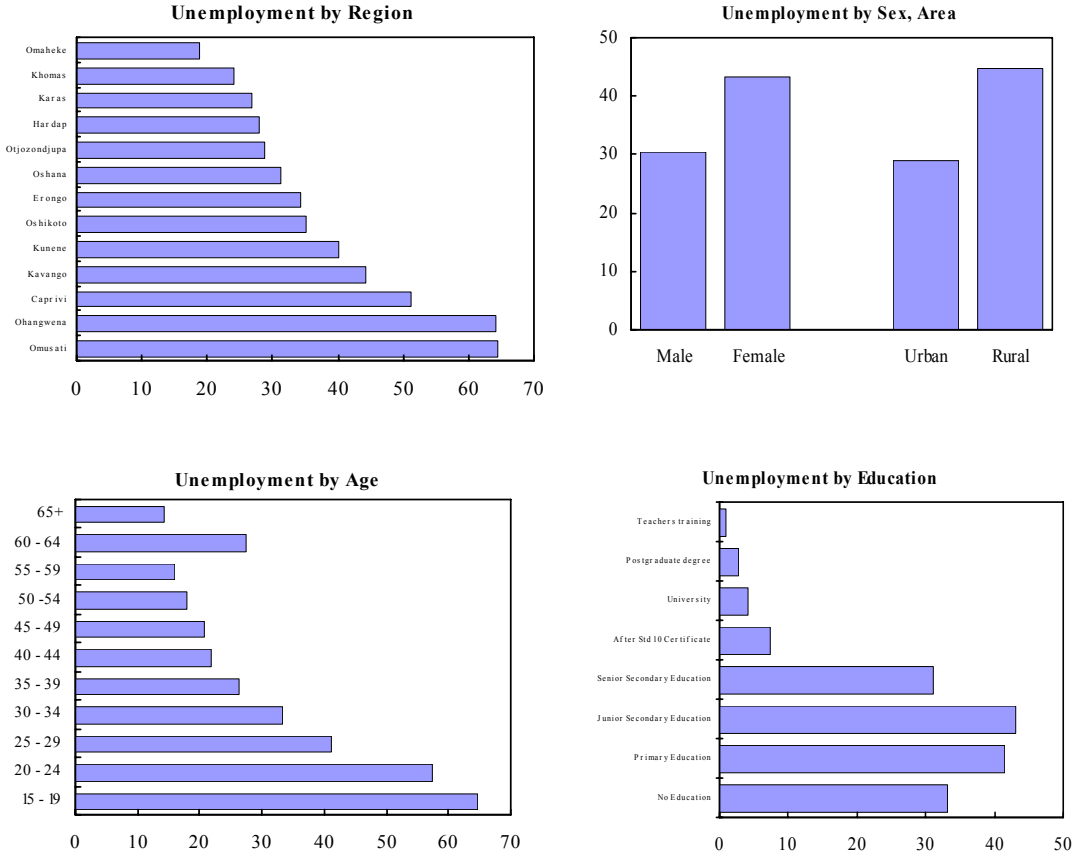
Country	Year	Labor Participation	Unemployment Rate 1/
Namibia	1997	53.5	19.5
Namibia	2000	54.0	20.2
Namibia	2004	47.9	21.9
Botswana	2006	57.2	15.3
Cameroon	2001	68.9	7.5
Egypt	2005	49.3	11.2
Lesotho	1999	64.0	27.3
Mauritius	2006	65.5	9.1
South Africa	2006	65.1	25.5
Tunisia	2005	54.9	14.2

Sources: Namibia Labour Force Survey; International Labor Organization; and World Bank Development Indicators

1/ Narrow definition, excluding those not looking for work

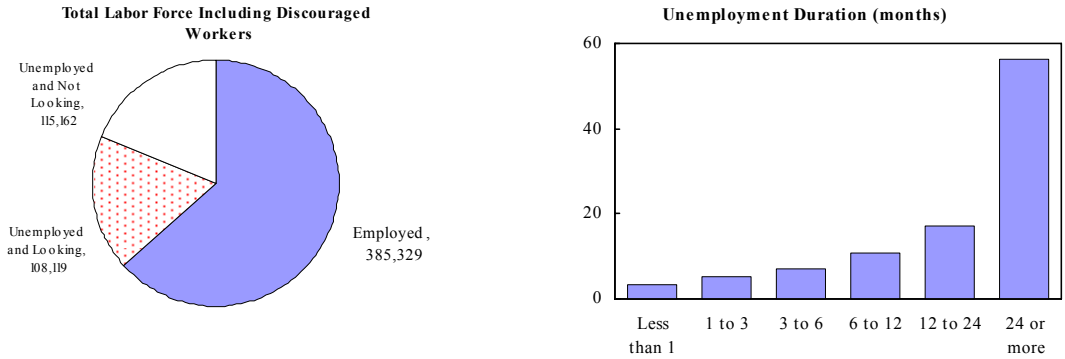
133. **Unemployment varies significantly by region, gender, age, and education level.** On a broad definition, including those seeking work, unemployment ranges regionally from a low of 19 percent to a high of 65 percent. On the same basis, rural unemployment is higher than urban (45 percent, compared to 29 percent), and women are more likely to be unemployed than men (43 percent, compared to 30 percent). Unemployment is particularly high among the young, reaching 57 percent in the 20–24 age group. Unemployment is also higher for those with lower education levels: those with less than secondary education face unemployment rates of over 30 percent (Figure V.2).

Figure V.2. Namibia: Unemployment Characteristics



134. **Discouraged workers and underemployment are common.** Almost half of the unemployed are not seeking jobs, while 56 percent of those actively looking for employment have been unemployed for more than 2 years. At the same time, nearly one third of employed workers experience some degree of underemployment and are interested in additional work.

Figure V.3. Namibia: Discouraged Workers and Under Employment

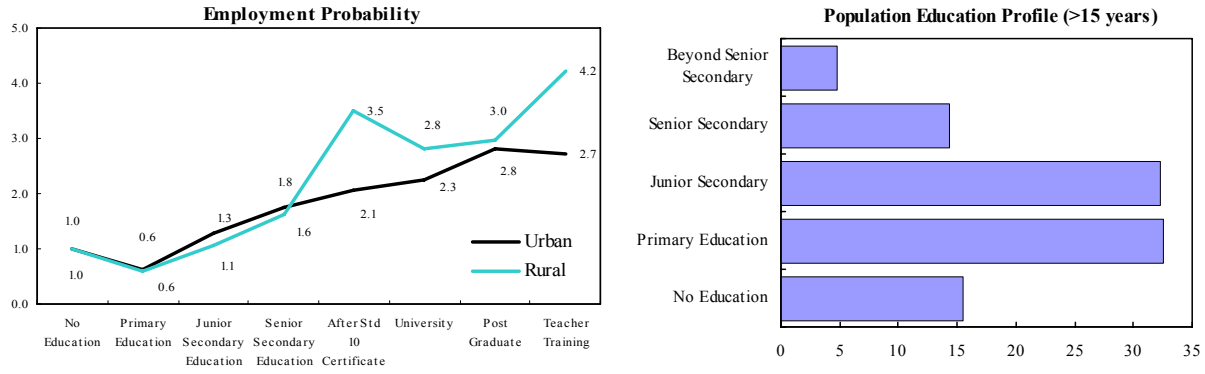


C. Contributions to High Unemployment

Low skills

135. **Lack of skills and low educational attainment contribute to high unemployment.** Compared to workers with no education, those with senior secondary education (beyond grade 10) face a 60 to 80 percent higher probability of being employed (Figure V.4). Perhaps surprisingly, primary and junior secondary education does not appear to strengthen job prospects. This finding is consistent with a recent World Bank (2005) study, which finds a negative return on primary education in raising employees' wage levels. The apparently weak impact of education through the junior secondary level is a concern, given that only 20 percent of the working age population is educated beyond this point.

Figure V.4. Namibia: Education and Employment Probability



136. **Scarcity of skilled workers results in high wage premia.** Skilled workers earn about 5 times the wage of the unskilled, and for professional and managerial workers, wages are about 10 times higher. These skill premia appear large, by international standards (Table V.2).

Table V.2. Wage Differentials

Namibia Wage Differential 2001–07

	2001–04	2005–07
Unskilled	1	1
Semi-skilled	3	3
Skilled	5	5
Highly skilled, professional	10	9
Highly skilled, managerial	17	12

Source: Jobs Unlimited Salary Survey (2001–07)

Wage Differential in Selected Countries

	Differential	
Namibia	5	1/
Latin America	4.3	2/
East Asia	3.4	2/
US	1.8	3/

1/ Median wage of skilled to unskilled, staff estimate

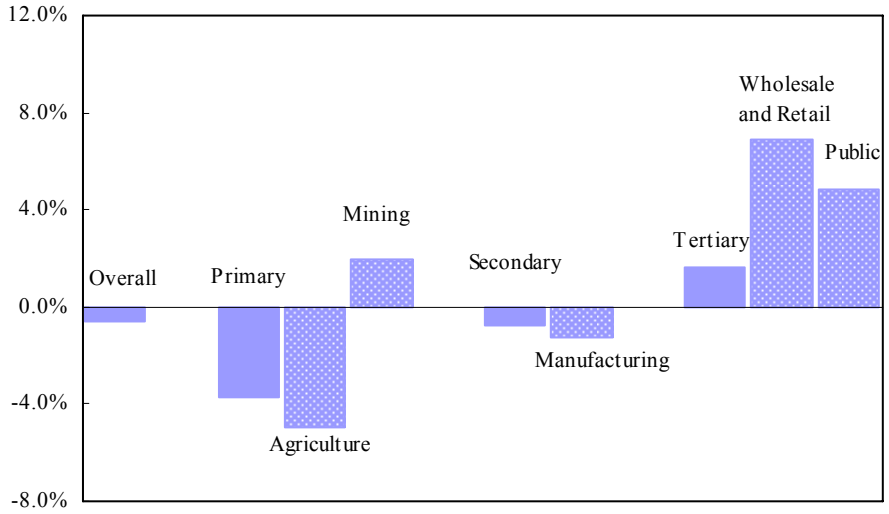
2/ 90th to 10th percentile of wage for manufacturing workers in 1995, Avalos and Savvides (2003)

3/ Weighted average wage of college graduate to high school diploma in the mid 90s, Murphy and Welch (2002)

Economic structure

137. **Structural change has been biased against those with lower skills.** Although the primary and secondary sectors offer proportionally more low-skill jobs, employment in these sectors declined between 1997 to 2004 by 3.6 percent and 0.8 percent per annum, respectively. By contrast, jobs in the service sector, which tend to be more high-skill, expanded by 1.7 percent per annum (Figure V.5). The bias of structural change toward high-skill jobs has also been noted for the South African labor market by Rodrik (2006). As in Namibia, this trend has been associated in South Africa with a stubbornly high unemployment for labor force participants with limited education and skills.

Figure V.5. Namibia: Annual Employment Growth by Industry, 1997–2004



138. **Mining and agriculture are not the answer.** The mining sector is highly capital-intensive, and although employment has been rising, the base is very small, and unable to make a significant dent in unemployment. While the agricultural sector is a large employer of low-skill workers, value-added per worker is low (as well as incomes), and employment has been declining over the past decade. Moreover, with very low rainfall, Namibia is less well-suited to agricultural production than many economies, including a number of regional peers.

139. **Manufacturing is possibly an option, though the base is also small**. The manufacturing sector accounts for just 12–13 percent of employment and GDP. With a population of just two million, Namibia cannot build a manufacturing base without developing export markets. Progress on this front is also lagging, with manufacturing goods representing a smaller share of merchandise exports than for many peers (Table V.3). Beyond manufacturing, job options include construction and labor-intensive service sectors, including tourism.

Table V.3. Manufacturing Share in GDP and Merchandise Exports

Country	Manufacturing, value added (% of GDP) 1/	Manufactures exports (% of merchandise exports) 1/	
Namibia	13	41	2/
Botswana	4	86	2/
Lesotho	16	n.a.	
South Africa	19	57	
Swaziland	37	76	3/
China	33	92	
Indonesia	28	47	
Korea	28	91	
Thailand	35	77	

Source: World Development Indicators

1/ Data for 2005, unless otherwise indicated.

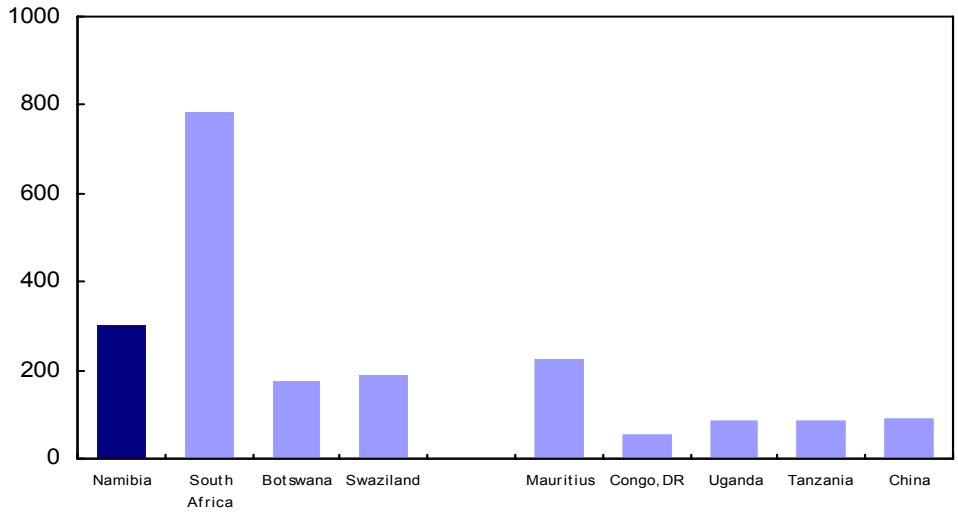
2/ Data for 2003.

3/ Data for 2002.

Labor costs

140. **Wage levels need to be competitive for labor-intensive export sectors in a global market.** A recent World Bank report shows that the median monthly wage for a production worker in Namibia is higher than most other middle-income countries, except South Africa. While this is matched by relatively high productivity and capital intensity for existing companies, it could be an obstacle to the expansion of low-skill employment.

Figure V.6. Namibia: Median Monthly Wage for Production Workers
(U.S. dollars)



141. **It is also important to minimize non-wage labor cost.** Non-wage benefits constitute an important part of the overall labor cost in Namibia. The new Labor Act will increase minimum annual leave from 24 consecutive days (about 18 working days) to 24 working days; a further 5 days of compassionate leave will also be provided.[21] These leave benefits are generous compared to many potential export competitors (Table V.4).

Table V.4. Statutory Leave Comparisons

	GDP Per Capita (PPP basis, 2006)	Unemployment Rate, (%, 2006)	Paid Annual Leave (days)
Namibia			
Current 1/, 2/	8,600	22	18
New Labor Act 3/			29
South Africa	13,000	26	15
Botswana 1/	15,700	24	15
Chile 4/	12,800	8	15
Malaysia 5/	12,000	3	8–16
Thailand 6/	9,200	2	6

Sources: IMF database, and various sources for leave days

1/ Unemployment data for 2004.

2/ Leave of 24 consecutive days.

3/ Leave of 24 working days plus 5 compassionate days.

4/ Leave after 1 year's service.

5/ Leave rises from 8 days with up to 2 years' service to 16 days with 5 years or more with one employer.

6/ Leave after one year's service.

Labor market institutions

142. **Rigidities in hiring and firing have been a deterrent to employment.** The Namibian labor market is characterized by a high level of regulation. Private sector employers have complained about the difficulty in hiring part-time labor and expatriate workers. Lack of appropriate regulatory measures for temporary employment agencies have reduced contract jobs for unskilled and semi skilled workers. On the other hand, the burdensome and ineffective process of firing employees under the old Labor Act has made employers cautious in increasing employment levels (Box V.1).

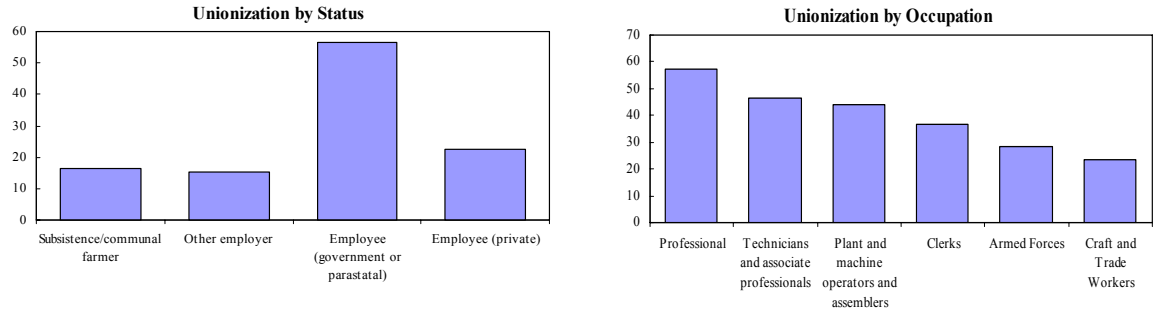
[21] Employers will also be required under the new Labor Law to contribute to the benefits of workers on maternity leave, in contrast to the current regime, where payments are funded by the Social Security Commission.

Box V.1. Labor Dispute Resolution in Namibia

Under the 1992 Act, labor disputes should be first resolved at the District Labor Courts, which handle complaints from either an employee or an employer on issues concerning labor laws, employment contracts or collective bargaining agreements. This results in an adversarial labor relations, with cases appealed to the higher labor courts and a high incidence of strikes and lockouts. The system has also been criticized for its low efficiency and difficulties in enforcing decisions resulted from its complicated structure. The new Labor Act seeks to improve the resolution process by using conciliation and arbitration instead of the District Labor Courts. Under the new Act, dispute will be referred to a Labor Commissioner, who appoints a conciliator and oversees the whole process of conciliation and arbitration. The conciliator is required to resolve the case within 30 days. If this fails, the parties can seek arbitration based on mutual agreement. In certain cases, the Labor Commissioner may require compulsory arbitration.

143. **Strong union power is a feature of the Namibian labor market.** Union membership is particularly high among government employees (57 percent), and unions appear to have been successful in raising the incomes of their members, with the 2003 Household Survey indicating that the mean hourly wage for a trade union member is about 45 percent higher than for a non-union member.

Figure V.7. Namibia: Unionization



D. Policies to Reduce Unemployment

144. **Over the longer term, strengthened education and training are a top priority for reducing unemployment.** Efforts are needed to strengthen the quality of education through the junior secondary level, increase the proportion of students benefiting from higher secondary and tertiary education, and provide continuing education and training for those in the workforce. The government has initiated several programs in this area. A center-piece is the government's Education and Training Sector Improvement Program (ETSIP), which aims

to improve the quality of general education, develop the use of information and communication technology, and expand vocational education and training. The program is to be implemented in three phases over 15 years, and funding was secured in May 2007 for the first phase from a coalition of development partners including the World Bank.

145. **Policy measures are also needed to open up low skill employment.** This will be important, given the time required to strengthen education and training in a broad-based manner. Given the limited prospects for job growth in mining and agriculture, policies should be focused on tackling obstacles to investment and growth of labor-intensive sectors such as manufacturing and construction.

146. **More flexible labor market institutions could encourage labor demand.** Relaxing the work permit regime to permit entry by foreign workers with critical skills could create rather than eliminate jobs for nationals by broadening the economic base. In addition, steps to eliminate undue restrictions on temporary work and worker dismissals could encourage employers to increase hiring. The latter is being addressed in the new Labor Act through a proposed expansion of conciliation and arbitration.

147. **A more pro-business approach within the public sector would also be beneficial.** It is important that public sector employees recognize the contribution of the private sector to job creation, and be helpful in minimizing any undue bureaucratic obstacles. This approach could be fostered through training provided to the civil service in the planned National Institute of Public Administration and Management, scheduled for opening in 2009.

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Table 1. Namibia: GDP and Gross National Income (GNI) at Current Prices, 2001–06 1/

	2001	2002	2003	2004	2005	2006
	(In millions of Namibia dollars)					
GDP at factor cost	25,192	29,878	30,879	32,680	35,581	42,367
Compensation of employees	10,616	12,012	13,051	13,903	14,973	16,473
Consumption of fixed capital	3,561	4,073	5,303	5,913	6,585	6,300
Net operating surplus	11,015	13,793	12,525	12,863	14,023	19,594
Taxes on production and imports	3,158	3,582	3,104	4,030	4,367	4,847
Subsidies	-663	-552	-140	-213	-238	-244
GDP at market prices	27,686	32,908	33,842	36,476	39,711	46,971
Net primary incomes from rest of world	-10	356	1,732	539	-715	-489
Receivable from rest of world	1,704	1,803	2,123	1,483	955	1,185
Payable to rest of world	-1,714	-1,447	-391	-944	-1,670	-1,674
GNI at market prices	27,677	33,264	35,574	37,035	38,996	46,482
Net current transfers	2,985	2,894	3,467	4,304	4,262	6,465
Receivable from rest of world	3,297	3,202	3,670	4,529	4,548	6,771
Payable to rest of world	-312	-308	-203	-225	-286	-306
Gross national disposable income	30,661	36,158	39,041	41,339	43,258	52,947
Memorandum items:						
Real GNI at constant 1995 prices	17,541	19,054	18,942	19,282	20,580	22,483
Percentage change	5.6	8.6	-0.6	1.8	6.7	9.2
Per capita GDP at current market prices	14,346	16,789	17,041	18,154	19,550	22,934
Per capita GNI at current market prices	15,887	18,447	19,658	20,574	21,296	25,852

Source: Central Bureau of Statistics and IMF staff estimates.

1/ Columns may not sum due to rounding error.

Table 2. Namibia: GDP by Industrial Origin at Current Prices, 2001–06 1/

	2001	2002	2003	2004	2005	2006
	(In millions of Namibia dollars)					
GDP at basic prices	24,916	29,747	31,187	32,930	35,798	42,698
Agriculture	1,137	1,687	1,814	1,873	2,398	2,909
Commercial agriculture	711	1,309	1,353	1,294	1,681	1,945
Subsistence agriculture	425	378	461	579	717	963
Fishing	1,445	1,608	1,757	1,547	1,916	1,958
Mining and quarrying	3,663	4,565	2,975	3,489	3,391	5,518
Diamond mining	2,854	3,427	2,630	3,048	2,782	4,054
Other mining and quarrying	809	1,138	345	441	609	1,463
Subtotal, primary industries	6,244	7,859	6,546	6,909	7,704	10,385
Manufacturing	2,604	3,305	3,870	4,001	4,055	5,628
Meat processing	142	143	139	126	121	81
Fish processing	494	703	876	750	466	608
Food products and beverages	1,215	1,515	1,650	1,690	1,772	1,979
Other manufacturing	753	944	1,205	1,434	1,696	2,959
Electricity and water	620	854	1,003	1,197	1,344	1,250
Construction	789	725	1,029	1,100	1,247	1,743
Subtotal, secondary industries	4,013	4,884	5,901	6,298	6,646	8,621
Wholesale and retail trade and repairs	3,004	3,428	3,987	3,985	4,235	5,191
Hotels and restaurants	477	576	648	653	670	724
Transport and communications	1,533	2,083	2,382	2,671	3,019	3,341
Transport and storage	975	1,289	1,409	1,497	1,639	1,848
Post and telecommunications	558	794	973	1,173	1,380	1,493
Finance, real estate, and business services	3,131	3,562	3,973	4,361	4,779	7,115
Financial intermediation	964	1,088	1,249	1,213	1,455	1,562
Financial services indirectly measured	-330	-359	-432	-394	-440	-544
Real estate and business services	2,497	2,832	3,156	3,542	3,764	4,073
Owner-occupied dwellings	1,317	1,449	1,593	1,748	1,861	2,024
Other real estate and business services	1,180	1,382	1,563	1,794	1,902	2,048
Community, social, and personal services	216	244	281	282	320	354
General government	5,810	6,553	6,863	7,142	7,752	8,269
Other producers	487	558	606	647	673	721
Subtotal, tertiary industries	14,659	17,002	18,740	19,722	21,448	23,692
Taxes less subsidies on products	2,771	3,161	2,655	3,567	3,913	4,273
GDP at current market prices	27,686	32,908	33,842	36,496	39,711	46,971

Sources: Namibian authorities; and IMF staff estimates.

1/ Columns may not sum due to rounding error.

Table 3. Namibia: Sector Shares of GDP at Current Prices, 2001–06

	2001	2002	2003	2004	2005	2006
			(In percent of GDP)			
GDP at basic prices	90.0	90.4	92.2	90.2	90.1	90.9
Agriculture	4.1	5.1	5.4	5.1	6.0	6.2
Commercial agriculture	2.6	4.0	4.0	3.5	4.2	4.1
Subsistence agriculture	1.5	1.1	1.4	1.6	1.8	2.1
Fishing	5.2	4.9	5.2	4.2	4.8	4.2
Mining and quarrying	13.2	13.9	8.8	9.6	8.5	11.7
Diamond mining	10.3	10.4	7.8	8.4	7.0	8.6
Other mining and quarrying	2.9	3.5	1.0	1.2	1.5	3.1
Subtotal, primary industries	22.6	23.9	19.3	18.9	19.4	22.1
Manufacturing	9.4	10.0	11.4	11.0	10.2	12.0
Meat processing	0.5	0.4	0.4	0.3	0.3	0.2
Fish processing	1.8	2.1	2.6	2.1	1.2	1.3
Food products and beverages	4.4	4.6	4.9	4.6	4.5	4.2
Other manufacturing	2.7	2.9	3.6	3.9	4.3	6.3
Electricity and water	2.2	2.6	3.0	3.3	3.4	2.7
Construction	2.8	2.2	3.0	3.0	3.1	3.7
Subtotal, secondary industries	14.5	14.8	17.4	17.3	16.7	18.4
Wholesale and retail trade and repairs	10.8	10.4	11.8	10.9	10.7	11.1
Hotels and restaurants	1.7	1.7	1.9	1.8	1.7	1.5
Transport and communications	5.5	6.3	7.0	7.3	7.6	7.1
Transport and storage	3.5	3.9	4.2	4.1	4.1	3.9
Post and telecommunications	2.0	2.4	2.9	3.2	3.5	3.2
Finance, real estate, and business services	11.3	10.8	11.7	11.9	12.0	15.1
Financial intermediation	3.5	3.3	3.7	3.3	3.7	3.3
Financial services indirectly measured	-1.2	-1.1	-1.3	-1.1	-1.1	-1.2
Real estate and business services	9.0	8.6	9.3	9.7	9.5	8.7
Owner-occupied dwellings	4.8	4.4	4.7	4.8	4.7	4.3
Other real estate and business services	4.3	4.2	4.6	4.9	4.8	4.4
Community, social, and personal services	0.8	0.7	0.8	0.8	0.8	0.8
General government	21.0	19.9	20.3	19.6	19.5	17.6
Other producers	1.8	1.7	1.8	1.8	1.7	1.5
Subtotal, tertiary industries	52.9	51.7	55.4	54.0	54.0	50.4
Taxes less subsidies on products	10.0	9.6	7.8	9.8	9.9	9.1
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Namibian authorities; and IMF staff estimates.

Table 4. Namibia: GDP by Industrial Origin at Constant 1995 Prices, 2001–06 1/

	2001	2002	2003	2004	2005	2006
	(In millions of Namibia dollars)					
GDP at constant basic prices	13,488	14,439	14,986	16,088	16,938	17,650
Agriculture	899	975	1,010	1,019	1,130	1,175
Commercial agriculture	589	723	755	681	738	746
Subsistence agriculture	310	252	255	338	391	430
Fishing	631	703	732	666	643	612
Mining and quarrying	1,117	1,296	1,237	1,688	1,665	1,922
Diamond mining	803	942	909	1,260	1,217	1,524
Other mining and quarrying	314	355	328	428	448	398
Subtotal, primary industries	2,647	2,974	2,979	3,372	3,438	3,709
Manufacturing	1,657	1,816	1,911	1,968	2,009	1,842
Meat processing	107	109	97	88	95	84
Fish processing	204	183	277	269	256	159
Food products and beverages	808	875	872	885	929	980
Other manufacturing	538	648	665	726	728	618
Electricity and water	228	230	266	279	315	299
Construction	527	459	564	562	586	777
Subtotal, secondary industries	2,412	2,505	2,741	2,808	2,910	2,918
Wholesale and retail trade and repairs	1,496	1,607	1,674	1,801	1,915	2,117
Hotels and restaurants	292	316	332	321	322	332
Transport and communications	1,196	1,332	1,372	1,558	1,815	2,014
Transport and storage	725	837	753	816	863	964
Post and telecommunications	471	494	619	741	952	1,050
Finance, real estate, and business services	1,733	1,854	1,958	2,123	2,263	2,316
Financial intermediation	498	514	564	646	768	788
Financial services indirectly measured	-158	-155	-178	-206	-233	-276
Real estate and business services	1,393	1,494	1,572	1,683	1,728	1,804
Owner-occupied dwellings	711	740	759	778	816	861
Other real estate and business services	682	754	813	906	912	943
Community, social, and personal services	133	137	144	135	140	144
General government	3,281	3,408	3,475	3,650	3,811	3,769
Other producers	298	307	310	318	324	330
Subtotal, tertiary industries	8,428	8,959	9,266	9,907	10,591	11,023
Taxes less subsidies on products	1,974	2,055	2,083	2,112	2,140	2,204
GDP at constant 1995 prices	15,462	16,494	17,069	18,201	19,077	19,854
Memorandum items:						
GDP at current basic prices	24,916	29,747	31,187	32,930	35,798	42,698
GDP deflator	179	200	198	201	208	237
GDP at current market prices	27,686	32,908	33,842	36,496	39,711	46,971

Source: Central Bureau of Statistics.

1/ Columns may not sum due to rounding error.

Table 5. Namibia: GDP Growth by Industrial Origin at Constant 1995 Prices, 2001–06

	2001	2002	2003	2004	2005	2006
	(Annual percentage change)					
GDP at constant basic prices	2.1	7.1	3.8	7.4	5.3	4.2
Agriculture	-14.9	8.5	3.6	0.9	10.9	4.0
Commercial agriculture	-9.2	22.8	4.4	-9.8	8.4	1.1
Subsistence agriculture	-24.0	-18.7	1.2	32.5	15.7	10.0
Fishing	-1.5	11.4	4.2	-9.0	-3.5	-4.8
Mining and quarrying	-6.1	16.0	-4.6	36.5	-1.4	15.4
Diamond mining	-5.1	17.3	-3.5	38.6	-3.4	25.2
Other mining and quarrying	-8.5	13.1	-7.6	30.5	4.7	-11.2
Subtotal, primary industries	-8.3	12.4	0.2	13.2	2.0	7.9
Manufacturing	5.5	9.6	5.2	3.0	2.1	-8.3
Meat processing	6.4	2.1	-11.2	-9.3	8.0	-11.6
Fish processing	-15.3	-10.3	51.4	-2.9	-4.8	-37.9
Food products and beverages	4.4	8.3	-0.4	1.5	5.0	5.5
Other manufacturing	18.3	20.5	2.6	9.2	0.3	-15.1
Electricity and water	-23.8	1.1	15.4	4.9	12.9	-5.1
Construction	53.1	-13.0	22.9	-0.4	4.3	32.6
Subtotal, secondary industries	8.9	3.9	9.4	2.4	3.6	0.3
Wholesale and retail trade and repairs	2.8	7.4	4.2	7.6	6.3	10.5
Hotels and restaurants	8.4	8.4	4.9	-3.3	0.3	3.1
Transport and communications	14.0	11.4	3.0	13.6	16.5	11.0
Transport and storage	8.1	15.4	-10.0	8.4	5.8	11.7
Post and telecommunications	24.3	5.0	25.3	19.7	28.5	10.3
Finance, real estate, and business services	3.4	7.0	5.6	8.4	6.6	2.3
Financial intermediation	1.7	3.3	9.7	14.5	18.9	2.6
Financial services indirectly measured	4.5	-1.9	15.1	15.7	13.1	18.5
Real estate and business services	4.1	7.3	5.2	7.1	2.7	4.4
Owner-occupied dwellings	2.5	4.1	2.6	2.5	4.9	5.5
Other real estate and business services	5.8	10.6	7.8	11.4	0.7	3.4
Community, social, and personal services	0.2	2.9	5.2	-6.3	3.7	2.9
General government	1.4	3.9	2.0	5.0	4.4	-1.1
Other producers	2.2	2.9	1.0	2.6	1.9	1.9
Subtotal, tertiary industries	3.9	6.3	3.4	6.9	6.9	4.1
Taxes less subsidies on products	4.5	4.1	1.4	1.4	1.3	3.0
GDP at constant 1995 prices	2.4	6.7	3.5	6.6	4.8	4.1
Memorandum items:						
GDP at current basic prices	16.6	19.4	4.8	5.6	8.7	19.3
GDP deflator	14.1	11.4	-0.6	1.1	3.8	13.7
GDP at current market prices	16.9	18.9	2.8	7.8	8.8	18.3

Source: Central Bureau of Statistics.

Table 6. Namibia: Expenditure on GDP, 2001–06 1/

	2001	2002	2003	2004	2005	2006
	(In millions of Namibia dollars)					
Expenditure on GDP at market prices	27,686	32,908	33,842	36,496	39,711	46,971
Gross domestic expenditure	30,434	33,477	37,853	39,424	40,874	46,314
Final consumption expenditure	23,949	26,981	27,766	30,059	30,617	33,758
Private	16,094	18,289	18,797	21,031	20,882	23,204
General government	7,856	8,692	8,969	9,027	9,734	10,554
Gross capital formation	6,073	6,964	9,867	9,190	9,727	12,235
Public	2,417	2,052	2,383	2,673	2,640	2,923
Producers of government services	1,059	1,042	1,058	1,340	1,497	1,673
Public corporations and enterprises	1,358	1,010	1,325	1,333	1,143	1,250
Private	3,656	4,912	7,484	6,692	7,087	9,312
Changes in inventories 2/	412	-468	220	175	530	321
Discrepency 2/	-968	77	-2,790	-693	197	799
Net exports	-1,780	-646	-1,221	-2,235	-1,360	-142
Exports of goods and services	12,446	16,320	17,396	16,757	18,901	24,534
Imports of goods and services	14,226	16,966	18,617	18,992	20,261	24,676
	(Percent of expenditure on GDP)					
Gross domestic expenditure	109.9	101.7	111.9	108.0	102.9	98.6
Final consumption expenditure	86.5	82.0	82.0	82.4	77.1	71.9
General government	28.4	26.4	26.5	24.7	24.5	22.5
Private	58.1	55.6	55.5	57.6	52.6	49.4
Gross capital formation	21.9	21.2	29.2	25.2	24.5	26.0
Public	8.7	6.2	7.0	7.3	6.6	6.2
Private	13.2	14.9	22.1	18.3	17.8	19.8
Changes in inventories 2/	1.5	-1.4	0.7	0.5	1.3	0.7
Discrepency 2/	-3.5	0.2	-8.2	-1.9	0.5	1.7
Net exports	-6.4	-2.0	-3.6	-6.1	-3.4	-0.3
Exports of goods and services	45.0	49.6	51.4	45.9	47.6	52.2
Imports of goods and services	51.4	51.6	55.0	52.0	51.0	52.5

Sources: Namibian authorities; and IMF staff estimates.

1/ Columns may not sum due to rounding error.

2/ Changes in inventories includes only livestock, ores and minerals. Discrepency includes other changes in inventories.

Table 7. Namibia: National Consumer Price Index (NCPI), January 2005–October 2007

(Index, December 2001=100)

	Food	Beverages and Tobacco	Clothing and Footwear	Housing, Fuel, and Power	Household Goods	Health	Transport	Communi-cations	Recreation and Culture	Education	Hotels, cafes and Restaurants	Miscellaneous Goods and Services	All items	12 Month Inflation
Weights	29.6	3.3	5.1	20.6	5.6	1.5	14.8	0.9	2.5	7.4	1.6	7.1	100.0	
2005														
January	122.9	124.1	109.8	123.8	112.5	113.4	128.7	108.6	110.7	138.8	124.9	109.4	121.7	2.5
February	123.0	124.2	109.7	122.6	112.5	113.6	129.7	108.5	111.7	140.8	126.0	109.5	121.9	2.6
March	122.8	127.3	109.4	122.6	112.4	113.1	128.2	108.5	110.1	140.8	125.6	107.5	121.3	1.7
April	123.7	129.5	109.4	122.3	112.5	113.3	129.1	108.5	110.9	140.8	126.3	108.2	121.8	1.6
May	121.8	130.6	108.8	122.3	112.8	113.7	130.0	108.5	111.9	140.8	126.3	108.0	121.4	0.9
June	122.2	131.2	108.6	122.4	113.5	113.6	130.5	108.5	111.3	140.8	126.7	107.8	121.6	1.2
July	123.1	131.9	108.6	125.3	113.8	113.6	130.5	108.5	111.2	140.8	127.5	108.1	122.6	1.7
August	124.3	132.1	108.6	126.0	114.6	113.3	133.8	108.5	110.7	140.8	127.8	107.6	123.5	2.2
September	125.7	132.3	106.6	126.1	115.0	113.8	136.6	108.5	110.9	140.8	127.7	107.5	124.2	3.0
October	127.2	132.4	107.0	126.1	115.7	109.5	136.7	108.8	111.0	140.8	128.5	107.3	124.5	2.9
November	127.9	132.5	106.2	126.1	116.2	109.9	136.7	108.8	111.2	140.8	129.1	107.5	124.8	3.4
December	128.2	133.3	105.3	126.3	115.7	109.9	136.6	108.8	112.2	140.8	129.1	107.5	125.0	3.5
Average	124.4	130.1	108.2	124.3	113.9	112.6	132.3	108.6	111.2	140.6	127.1	108.0	122.9	2.3
2006														
January	128.7	133.8	104.7	126.4	115.4	110.0	137.6	108.8	112.2	149.9	130.5	109.5	126.1	3.6
February	128.3	134.3	104.2	126.5	115.6	109.6	137.9	109.0	111.8	149.9	131.4	114.2	126.4	3.7
March	129.5	137.5	103.5	126.5	115.7	109.7	138.0	109.0	112.8	149.9	131.7	114.3	126.9	4.6
April	129.7	138.8	103.9	126.5	115.9	110.2	138.8	109.0	112.9	149.9	132.1	114.6	127.2	4.4
May	130.6	139.2	104.5	126.6	115.8	110.1	138.9	109.0	113.1	149.9	132.9	114.6	127.5	5.0
June	131.3	139.6	104.1	126.7	116.1	110.0	141.0	109.1	113.4	149.9	133.9	113.6	128.0	5.3
July	131.2	140.4	103.6	129.3	116.1	110.0	142.5	109.1	114.3	149.9	134.6	115.4	128.9	5.1
August	132.4	141.7	105.9	129.9	116.5	110.1	147.5	109.1	114.5	149.9	134.9	115.7	130.2	5.4
September	134.2	142.6	106.7	130.2	118.5	110.1	147.8	109.1	114.9	149.9	135.9	116.1	131.0	5.5
October	136.1	142.7	106.2	130.2	118.6	110.5	149.2	109.3	115.4	149.9	136.7	116.2	131.7	5.8
November	138.6	143.0	106.2	130.3	118.7	110.6	149.2	109.8	115.6	149.9	136.7	116.8	132.4	6.1
December	139.5	143.2	106.6	130.5	119.2	110.9	147.2	109.8	115.8	149.9	137.3	116.9	132.5	6.0
Average	132.5	139.7	105.0	128.3	116.8	110.2	143.0	109.2	113.9	149.9	134.1	114.8	129.1	5.1
2007														
January	140.6	143.1	107.0	130.9	119.2	114.2	146.2	109.9	117.6	158.9	138.9	117.1	133.7	6.0
February	140.8	143.2	106.8	131.0	120.2	115.1	147.5	109.9	117.4	158.9	139.5	116.9	134.0	6.0
March	142.7	148.0	108.4	131.0	120.5	115.3	147.1	109.9	118.5	158.9	140.5	116.7	134.9	6.3
April	145.0	149.0	107.7	131.0	120.9	115.4	148.9	109.9	118.8	158.9	141.6	116.9	135.9	6.8
May	146.5	150.0	107.6	131.1	121.0	115.0	150.0	109.9	118.9	158.9	141.3	117.0	136.6	7.1
June	147.1	150.6	107.4	130.0	121.7	115.2	151.0	109.9	119.3	158.9	142.3	117.1	137.0	7.0
July	148.8	151.6	107.6	133.7	121.8	115.4	152.7	109.9	119.3	158.9	142.7	117.3	138.2	7.2
August	150.6	152.5	108.6	134.5	121.9	115.4	152.9	109.9	119.5	158.9	143.2	117.6	139.1	6.8
September	152.2	152.2	109.5	134.6	122.3	115.4	154.9	109.9	118.7	158.9	145.3	117.2	139.8	6.7
October	154.5	152.8	109.1	134.8	122.2	115.6	155.2	113.4	118.7	158.9	146.0	117.4	140.4	6.6

Source: Central Bureau of Statistics.

Table 8. Namibia: Financial Operations of the Central Government, 2001/02–2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 Est.
	(In millions of Namibia dollars)					
Revenue and grants	8,960	10,469	9,754	11,388	13,075	16,893
Revenue	8,902	10,435	9,720	11,317	13,036	16,843
Tax revenue	8,054	9,196	8,633	10,358	11,887	15,734
Personal income tax	1,833	2,181	2,334	2,662	2,905	3,374
Corporate income tax	1,335	2,113	1,198	1,222	1,573	2,161
Diamond mining	764	1,157	175	301	199	360
Other mining	106	284	3	8	1	351
Non-mining	465	672	1,020	913	1,373	1,451
VAT and sales taxes	1,938	2,009	1,756	1,828	3,108	3,002
International taxes (SACU receipts) 2/	2,641	2,597	3,036	4,207	3,892	6,698
Other	306	296	309	439	408	500
Nontax revenue	847	1,239	1,087	959	1,150	1,109
Diamond royalties	286	479	302	385	405	482
Administrative fees, including license revenu	258	388	461	349	519	412
Other	303	372	324	225	226	215
Grants (tied)	58	34	34	70	39	50
Expenditures	10,256	11,573	12,335	12,640	13,279	15,243
Current expenditure	8,717	9,482	10,387	10,684	11,614	12,512
Personnel	4,326	4,709	5,117	5,446	5,889	6,213
Goods and services	2,034	2,057	2,150	1,957	2,018	2,289
Interest payments	587	823	865	999	1,162	1,263
Domestic	559	772	814	930	1,080	1,169
Foreign	28	52	51	69	82	94
Subsidies and current transfers	1,770	1,893	2,255	2,282	2,546	2,747
Other	0	0	0	0	0	0
Capital expenditure	1,082	1,457	1,561	1,627	1,490	2,097
Acquisition of capital assets	1,038	1,370	1,470	1,421	1,384	...
Capital transfers	44	87	91	206	106	...
Net lending	456	634	387	329	175	633
Overall balance 3/	-1,296	-1,104	-2,581	-1,253	-204	1,650
Primary balance 3/	-709	-280	-1,716	-253	958	2,912
Statistical discrepancy	-132	-27	-59	200	9	-66
Financing	1,164	1,076	2,522	1,452	213	-1,716
Domestic	1,062	815	2,306	1,254	101	-2,561
External	103	261	216	198	112	162
Disbursements	110	275	235	226	146	196
Amortization	-7	-14	-19	-27	-34	-34
Privatization	0	0	0	0	0	683

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal year begins April 1.

2/ Transfers from the common revenue pool (customs and excise) of the Southern African Customs Union.

3/ Includes externally financed project spending (except for roads) that is not channeled through the state account.

Table 9. Namibia: Central Government Revenue and Grants, 2001/02–2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 Est.
	(In millions of Namibia dollars)					
Tax revenue	8,054	9,196	8,633	10,358	11,887	15,734
Taxes on income/profits	3,286	4,442	3,618	4,024	4,576	5,676
Personal	1,833	2,181	2,334	2,662	2,905	3,374
Corporate	1,335	2,113	1,198	1,222	1,573	2,161
Mining	871	1,441	179	309	200	711
Diamond	764	1,157	175	301	199	360
Other mining	106	284	3	8	1	351
Other sectors	465	672	1,020	913	1,373	1,451
Other income/profits taxes	117	149	86	140	97	141
Property taxes	64	79	75	86	110	142
Taxes on goods and services	2,063	2,077	1,903	2,041	3,309	3,218
VAT and sales taxes	1,938	2,009	1,756	1,828	3,108	3,002
Fuel levy	58	-7	64	119	88	86
Stamp duties	68	76	83	94	113	130
Taxes on international trade (SACU receipts) 2/	2,641	2,597	3,036	4,207	3,892	6,698
Nontax revenue	847	1,239	1,087	959	1,150	1,109
Property income	571	831	607	594	613	678
Diamond royalties	286	479	302	385	405	482
Fishing quota levies	108	128	118	104	70	98
Interest on loans, investments, and central bank deposits	54	62	27	30	44	60
Dividends from parastatals	124	81	79	15	45	9
Compensation for use of the Rand	0	81	81	60	50	29
Administrative fees, including license revenues	258	388	461	349	519	412
Fines and forfeitures	18	20	19	17	18	19
Total revenue	8,902	10,435	9,720	11,317	13,036	16,843
Grants (tied)	58	34	34	70	39	50
Recurrent activity	3	10	34	70	39	0
Development projects	55	24	0	0	0	50
Revenue and grants	8,960	10,469	9,754	11,388	13,075	16,893
Memorandum item:						
GDP at current market prices	28,992	33,142	34,506	37,300	41,526	48,280

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal year begins April 1.

2/ Transfers from the common revenue pool (customs and excise) of the Southern African Customs Union.

Table 10. Namibia: Central Government Revenue and Grants (Percent of GDP), 2001/02–2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 Est.
Tax revenue	27.8	27.7	25.0	27.8	28.6	32.6
Taxes on income/profits	11.3	13.4	10.5	10.8	11.0	11.8
Personal	6.3	6.6	6.8	7.1	7.0	7.0
Corporate	4.6	6.4	3.5	3.3	3.8	4.5
Mining	3.0	4.3	0.5	0.8	0.5	1.5
Diamond	2.6	3.5	0.5	0.8	0.5	0.7
Other mining	0.4	0.9	0.0	0.0	0.0	0.7
Other sectors	1.6	2.0	3.0	2.4	3.3	3.0
Other income/profits taxes	0.4	0.4	0.3	0.4	0.2	0.3
Property taxes	0.2	0.2	0.2	0.2	0.3	0.3
Taxes on goods and services	7.1	6.3	5.5	5.5	8.0	6.7
VAT and sales taxes	6.7	6.1	5.1	4.9	7.5	6.2
Fuel levy	0.2	0.0	0.2	0.3	0.2	0.2
Stamp duties	0.2	0.2	0.2	0.3	0.3	0.3
Taxes on international trade (SACU receipts) 2/	9.1	7.8	8.8	11.3	9.4	13.9
Nontax revenue	2.9	3.7	3.2	2.6	2.8	2.3
Property income	2.0	2.5	1.8	1.6	1.5	1.4
Diamond royalties	1.0	1.4	0.9	1.0	1.0	1.0
Fishing quota levies	0.4	0.4	0.3	0.3	0.2	0.2
Interest on loans, investments, and central bank deposits	0.2	0.2	0.1	0.1	0.1	0.1
Dividends from parastatals	0.4	0.2	0.2	0.0	0.1	0.0
Compensation for use of the Rand	0.0	0.2	0.2	0.2	0.1	0.1
Administrative fees, including license revenues	0.9	1.2	1.3	0.9	1.3	0.9
Fines and forfeitures	0.1	0.1	0.1	0.0	0.0	0.0
Total revenue	30.7	31.5	28.2	30.3	31.4	34.9
Grants (tied)	0.2	0.1	0.1	0.2	0.1	0.1
Recurrent activity	0.0	0.0	0.1	0.2	0.1	0.0
Development projects	0.2	0.1	0.0	0.0	0.0	0.1
Revenue and grants	30.9	31.6	28.3	30.5	31.5	35.0

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal year begins April 1.

2/ Transfers from the common revenue pool (customs and excise) of the Southern African Customs Union.

Table 11. Namibia: Central Government Expenditure, 2001/02–2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 Est.
	(In millions of Namibia dollars)					
Current expenditure	8,717	9,482	10,387	10,684	11,614	12,512
Personnel	4,326	4,709	5,117	5,446	5,889	6,213
Wages and salaries	...	...	...	4,729	5,144	...
Pension contributions	...	...	...	588	628	...
Cash benefits	...	...	...	129	117	...
Goods and services	2,034	2,057	2,150	1,957	2,018	2,289
Interest payments	587	823	865	999	1,162	1,263
Domestic	559	772	814	930	1,080	1,169
Foreign	28	52	51	69	82	94
Subsidies and current transfers	1,770	1,893	2,255	2,282	2,546	2,747
Other current expenditure	0	0	0	0	0	0
Capital expenditure	1,082	1,457	1,561	1,627	1,490	2,097
Acquisition of capital assets 2/	1,038	1,370	1,470	1,421	1,384	...
Capital transfers	44	87	91	206	106	...
Net lending	456	634	387	329	175	633
Lending	478	650	400	366	208	651
Repayments	-21	-16	-13	-37	-32	-17
Total expenditure and net lending	10,256	11,573	12,335	12,640	13,279	15,243
Memorandum item:						
GDP at current market prices	28,992	33,142	34,506	37,300	41,526	48,280

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal year begins April 1.

2/ This includes externally financed project spending (except for roads) that is not channeled through the state account.

Table 12. Namibia: Central Government Expenditure (Percent of GDP), 2001/02–2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 Est.
Current expenditure	30.1	28.6	30.1	28.6	28.0	25.9
Personnel	14.9	14.2	14.8	14.6	14.2	12.9
Wages and salaries	...	...	...	12.7	12.4	...
Pension contributions	...	...	...	1.6	1.5	...
Cash benefits	...	...	...	0.3	0.3	...
Goods and services	7.0	6.2	6.2	5.2	4.9	4.7
Interest payments	2.0	2.5	2.5	2.7	2.8	2.6
Domestic	1.9	2.3	2.4	2.5	2.6	2.4
Foreign	0.1	0.2	0.1	0.2	0.2	0.2
Subsidies and current transfers	6.1	5.7	6.5	6.1	6.1	5.7
Other current expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	3.7	4.4	4.5	4.4	3.6	4.3
Acquisition of capital assets 2/	3.6	4.1	4.3	3.8	3.3	...
Capital transfers	0.2	0.3	0.3	0.6	0.3	...
Net lending	1.6	1.9	1.1	0.9	0.4	1.3
Lending	1.6	2.0	1.2	1.0	0.5	1.3
Repayments	-0.1	0.0	0.0	-0.1	-0.1	0.0
Total expenditure and net lending	35.4	34.9	35.7	33.9	32.0	31.6

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal year begins April 1.

2/ This includes externally financed project spending (except for roads) that is not channeled through the state account.

Table 13. Namibia: Outstanding Debt of Central Government, 2001/02–2006/07 1/

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
			(In millions of Namibia dollars)			
Domestic debt	5,947	6,712	8,606	10,543	10,690	10,928
Treasury bills	3,211	3,618	5,041	5,615	4,763	3,950
91 days	1,449	1,004	300	310	226	300
182 days	1,190	1,236	2,190	1,180	900	820
365 days	572	1,378	2,551	4,125	3,637	2,830
Internal registered stock (IRS)	2,736	3,094	3,565	4,927	5,927	6,978
less than 2 years term-to-maturity	669	1,164	1,069	1,816	1,778	1,778
3 - 5 years term-to-maturity	985	442	655	1,702	1,750	2,597
6 - 10 years term-to-maturity	1,082	1,213	1,263	1,114	1,863	1,647
above 11 years term-to-maturity	0	275	579	296	536	955
Foreign debt	1,561	1,212	1,607	2,016	1,843	2,710
Bilateral	889	743	926	1,181	1,019	1,630
Multilateral	672	469	682	835	824	1,080
Total government debt	7,507	7,924	10,213	12,559	12,533	13,638
Government-guaranteed debt	3,310	3,226	3,203	2,438	3,505	3,768
Domestic	829	1,005	1,135	1,341	1,495	1,761
Foreign	2,481	2,222	2,067	1,097	2,010	2,007
Government and government-guaranteed debt	10,817	11,151	13,416	14,996	16,038	17,406
			(Percent of GDP)			
Government debt	25.9	23.9	29.6	33.7	30.2	28.2
Domestic	20.5	20.3	24.9	28.3	25.7	22.6
Foreign	5.4	3.7	4.7	5.4	4.4	5.6
Government-guaranteed debt	11.4	9.7	9.3	6.5	8.4	7.8
Government and government-guaranteed debt	37.3	33.6	38.9	40.2	38.6	36.1
Memorandum item:						
GDP at current market prices	28,992	33,142	34,506	37,300	41,526	48,280

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal year begins April 1. Unless otherwise indicated, data correspond to debt stocks at the end of each fiscal year.

Table 14. Namibia: Summary Accounts of the Bank of Namibia, 2003–07

	2003	2004	2005	2006				2007		
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Bank of Namibia				(In millions of Namibia dollars)						
Net Foreign Assets	2,110.3	1,977.3	1,983.9	2,457.7	2,677.9	3,119.2	3,164.3	5,690.9	6,086.1	5,868.4
Foreign Assets	2,117.2	1,985.7	1,998.0	2,470.0	2,688.3	3,517.0	3,573.6	6,095.6	6,486.3	5,947.0
Foreign Liabilities	-6.9	-8.4	-14.1	-12.2	-10.4	-397.8	-409.3	404.7	400.2	78.6
Net Domestic Assets	-937.4	-738.7	-611.4	-1,187.7	-1,347.6	-1,660.3	-1,631.9	-4,238.3	-4,575.1	-4,301.9
Net Domestic Liabilities	-401.4	-637.4	-79.5	-648.0	-501.4	-652.5	-744.5	-3,199.8	-3,650.7	-3,263.4
Net Credit to Nonfinancial Public Sector	-430.1	-889.7	-608.1	-843.1	-1,348.2	-1,766.1	-2,093.3	-5,155.0	-5,691.1	-3,608.6
Net Credit to Central Government	-430.1	-889.7	-608.1	-843.1	-1,348.2	-1,766.1	-2,093.3	-5,155.0	-5,691.1	-3,608.6
Net Credit to State and Local Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Credit to Public Nonfinancial Corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to Private Sector	19.0	13.6	13.4	13.6	13.7	14.5	15.8	16.5	15.8	16.2
Net Credit to Financial Corporations	9.7	238.7	515.2	181.6	833.1	1,099.2	1,333.0	1,938.8	2,024.6	329.1
Other Items (net)	-621.7	-101.3	-531.9	-539.8	-846.2	-1,007.9	-887.4	-1,038.5	-924.4	-1,038.6
Monetary Base	1,172.9	1,238.6	1,372.5	1,270.0	1,330.2	1,459.0	1,532.4	1,452.6	1,511.0	1,566.5
Currency in Circulation	918.9	945.8	1,026.8	922.8	976.4	1,041.3	1,151.4	1,046.5	1,080.8	1,136.5
Other Depository Corporation Liabilities	254.0	292.8	345.7	347.2	353.8	417.7	381.0	406.1	430.2	429.9
Bank of Namibia				(Growth rates)						
Net Foreign Assets	...	-6.3	0.3	28.5	42.9	71.6	59.5	131.6	127.3	88.1
Foreign Assets	...	-6.2	0.6	28.3	42.2	91.9	78.9	146.8	141.3	69.1
Foreign Liabilities	...	21.8	67.9	-3.2	-36.2	2,624.7	2,802.8	-3,417.2	-3,947.6	-119.8
Net Domestic Assets	...	-21.2	-17.2	148.1	120.4	0.0	166.9	256.8	239.5	159.1
Net Domestic Liabilities	...	58.8	-87.5	3.1	490.4	-1,121.1	836.6	393.8	628.1	400.1
Net Credit to Nonfinancial Public Sector	...	106.9	-31.7	-7.2	303.0	808.5	244.2	511.4	322.1	104.3
Net Credit to Central Government	...	106.9	-31.7	-7.2	303.0	808.5	244.2	511.4	322.1	104.3
Net Credit to State and Local Government	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Credit to Public Nonfinancial Corporations	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to Private Sector	...	-28.6	-1.3	-6.4	-5.6	6.1	17.8	21.2	15.7	12.1
Net Credit to Financial Corporations	...	2,373.4	115.8	-31.6	254.3	349.3	158.8	967.7	143.0	-70.1
Other Items (net)	...	-83.7	425.1	-0.5	59.1	0.0	66.8	92.4	9.2	3.0
Monetary Base	...	5.6	10.8	4.7	8.0	8.9	11.7	14.4	13.6	7.4
Currency in Circulation	...	2.9	8.6	0.4	7.7	9.1	12.1	13.4	10.7	9.1
Other Depository Corporation Liabilities	...	15.3	18.1	17.8	8.8	8.5	10.2	17.0	21.6	2.9

Source: Bank of Namibia

Table 15. Namibia: Monetary Survey, 2003–07

	2003	2004	2005	2006				2007		
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Monetary Survey				(In millions of Namibia dollars)						
Net Foreign Assets	1,259.6	970.3	-156.3	723.3	1,496.2	3,944.3	4,844.5	6,898.3	6,959.6	7,834.3
Foreign Assets	3,639.3	3,294.5	2,283.6	3,384.6	3,717.6	5,312.4	6,315.8	8,303.5	8,372.5	8,811.8
Foreign Liabilities	-2,379.7	-2,324.2	-2,440.0	-2,661.3	-2,221.4	-1,368.2	-1,471.3	-1,405.2	-1,412.9	-977.5
Net Domestic Assets	12,367.0	14,858.6	17,526.5	18,030.9	19,049.8	17,567.6	17,695.7	15,691.2	15,537.4	17,866.8
Net Domestic Credit	17,346.6	21,169.4	25,670.1	26,543.5	27,672.3	27,940.0	28,397.5	27,301.8	27,782.2	30,197.9
Net Credit to Nonfinancial Public Sector	670.3	1,239.0	1,717.6	1,510.1	1,038.3	418.9	341.5	-2,350.0	-2,479.4	-1,035.5
Net Credit to Central Government	506.7	871.7	1,405.7	1,088.2	608.4	183.6	113.3	-2,671.4	-2,883.5	-1,086.7
Credit to Central Government	1,702.1	2,180.3	2,586.1	2,528.4	2,661.9	2,464.0	2,767.3	3,107.8	3,279.2	3,046.3
Liabilities to Central Government	-1,195.4	-1,308.6	-1,180.3	-1,440.3	-2,053.5	-2,280.4	-2,654.0	5,779.3	6,162.7	4,133.0
Net Credit to State and Local Government	19.3	15.6	22.4	28.7	25.0	31.3	48.2	33.0	36.0	56.7
Net Credit to Public Nonfinancial Corporations	144.3	351.7	289.5	393.2	404.9	204.0	180.0	288.5	368.1	-5.5
Credit to the Private Sector	16,676.3	19,918.7	23,922.4	24,748.2	25,803.0	26,789.2	27,436.6	28,634.4	29,193.9	30,040.3
Net Credit to Other Financial Corporations	0.0	11.7	30.1	285.2	831.0	731.9	619.4	1,017.3	1,067.7	1,193.1
Other Items (net)	-4,979.5	-6,310.8	-8,143.6	-8,512.6	-8,622.5	-10,372.4	-10,701.8	-11,610.6	-12,244.8	-12,331.1
Broad Money (M2)	13,626.7	15,828.9	17,370.2	18,754.2	20,546.0	21,511.9	22,540.2	22,589.5	22,497.0	25,701.1
Narrow Money (M1)	8,080.8	9,569.8	9,408.8	11,433.9	12,090.5	12,850.8	13,701.1	14,826.9	13,361.4	15,235.3
Currency in Circulation	584.6	632.7	680.0	681.0	726.7	785.6	763.4	797.4	814.5	861.8
Demand Deposits	7,496.1	8,937.1	8,728.8	10,752.9	11,363.8	12,065.2	12,937.7	14,029.4	12,546.9	14,373.4
Other Deposits	5,545.9	6,259.1	7,961.4	7,308.9	8,446.0	8,655.2	8,833.3	7,756.7	9,129.7	10,459.9
Monetary Survey				(Growth rates)						
Net Foreign Assets	...	-23.0	-116.1	-54.1	1,478.3	-6,040.2	-3,199.5	853.7	365.1	98.6
Foreign Assets	...	-9.5	-30.7	5.1	57.7	150.0	176.6	145.3	125.2	65.9
Foreign Liabilities	...	-2.3	5.0	61.8	-1.8	-37.6	-39.7	-47.2	-36.4	-28.6
Net Domestic Assets	...	20.1	18.0	20.9	11.4	2.5	1.0	-13.0	-18.4	1.7
Net Domestic Credit	...	22.0	21.3	20.5	17.7	14.4	10.6	2.9	0.4	8.1
Net Credit to Nonfinancial Public Sector	...	84.9	38.6	28.2	-41.4	-73.6	-80.1	-255.6	-338.8	-347.2
Net Credit to Central Government	...	72.0	61.3	33.6	-56.4	-86.2	-91.9	-345.5	-573.9	-691.9
Credit to Central Government	...	28.1	18.6	16.8	20.8	18.3	7.0	22.9	23.2	23.6
Liabilities to Central Government	...	9.5	-9.8	6.7	154.3	204.7	124.9	-501.3	-400.1	-281.2
Net Credit to State and Local Government	...	-19.3	43.6	245.8	204.9	138.9	115.2	15.0	44.1	81.3
Net Credit to Public Nonfinancial Corporations	...	143.8	-17.7	10.5	10.3	-14.5	-37.8	-26.6	-9.1	-102.7
Credit to the Private Sector	...	19.4	20.1	19.0	19.0	17.4	14.7	15.7	13.1	12.1
Net Credit to Other Financial Corporations	...	...	157.3	397.7	1,301.3	3,320.1	1,957.8	256.7	28.5	63.0
Other Items (net)	...	26.7	29.0	19.5	34.4	42.2	31.4	36.4	42.0	18.9
Broad Money (M2)	...	16.2	9.7	13.7	19.5	26.1	29.8	20.5	9.5	19.5
Narrow Money (M1)	...	18.4	-1.7	25.8	24.3	32.8	45.6	29.7	10.5	18.6
Currency in Circulation	...	8.2	7.5	8.3	10.7	12.6	12.3	17.1	12.1	9.7
Demand Deposits	...	19.2	-2.3	27.1	25.3	34.4	48.2	30.5	10.4	19.1
Other Deposits	...	12.9	27.2	-1.2	13.1	17.1	11.0	6.1	8.1	20.9

Source: Bank of Namibia.

Table 16. Namibia: Interest Rates, 2001–07

	2001	2002	2003	2004	2005	2006	2007 Oct.
Short-term interest rates			(Annual averages in percent)				
Bank rate (end of period)							
In South Africa 1/	9.50	13.50	8.00	7.50	7.00	9.00	10.50
In Namibia	9.25	12.75	7.75	7.50	7.00	9.00	10.50
Money market rate							
In South Africa	8.49	11.11	10.93	7.15	6.62	7.19	9.92
In Namibia	9.53	10.46	10.03	6.93	6.93	7.12	8.97
Treasury bill rate 2/							
In South Africa	9.68	11.16	10.67	7.53	6.91	7.34	9.77
In Namibia	9.29	11.00	10.51	7.78	7.09	7.26	9.16
Commercial bank deposit rate 3/							
In South Africa	9.37	10.77	9.76	6.55	6.04	7.14	9.84
In Namibia	6.79	7.81	8.76	6.35	6.24	6.30	7.95
Commercial bank lending rate 4/							
In South Africa	13.77	15.75	14.96	11.29	10.63	11.17	14.00
In Namibia	14.53	13.84	14.70	11.39	10.61	11.18	13.56
Long-term interest rate							
Government bond yield in South Africa	11.41	11.50	9.62	9.53	8.07	7.94	8.12
Government bond yield in Namibia	11.39	12.86	12.72	11.88	10.52	9.49	8.92
Memorandum items:							
Consumer price inflation							
In South Africa 5/	5.7	9.2	5.9	1.4	3.4	4.6	6.8
In Namibia 5/	9.5	11.3	7.2	4.1	2.3	5.1	6.7
Real interest rates 6/							
Commercial bank deposits							
In South Africa	3.47	1.47	3.69	5.10	2.56	2.39	2.88
In Namibia	-2.51	-3.18	1.50	2.12	3.89	1.19	1.20
Commercial bank lending							
In South Africa	7.63	6.03	8.60	9.77	6.99	6.24	6.77
In Namibia	4.56	2.24	7.04	6.95	8.16	5.83	6.45
Government bond yield							
In South Africa	5.40	2.14	3.55	8.03	4.51	3.15	1.26
In Namibia	1.69	1.36	5.19	7.43	8.07	4.22	2.10

Sources: South African Reserve Bank; Bank of Namibia; and IMF, *International Financial Statistics* .

1/ South African Reserve Bank's repo rate.

2/ Average tender rate for 91-day bills.

3/ For South Africa, rates are upper margin of interest on time deposits of 88-91 days. For Namibia, rates are weighted averages of demand deposits, 88-day notice deposits, savings deposits, and deposits with a maturity of more than one year of two largest commercial banks.

4/ For South Africa, prime overdraft rate of major banks. For Namibia, weighted average of different lending instruments.

5/ Headline inflation for South Africa; Windhoek consumer price index for Namibia until 2004, NCPI from 2005 on.

6/ Deflated by consumer price indices.

Table 17. Namibia: Selected Indicators of Stock Exchange Activity, 2001–07
(Based on calendar years, with listings and share price figures stated as of December 31)

	2001	2002	2003	2004	2005	2006	2007 1/
Tradings on the Namibia Stock Exchange							
Number of deals	5,038	2,951	2,294	2,582	2,372	2,549	1,905
Volume (millions of shares traded)	143	118	122	159	121	235	207
Value traded (millions of Namibia dollars)	2,030	1,380	2,037	3,042	3,367	6,714	9,606
Listings and share price figures							
Overall market							
Number of listed companies overall	37	35	35	32	27	28	25
Market capitalization (millions of Namibia dollars)	511,651	386,617	460,315	573,878	769,585	112,542	131,202
Index (year-end)	392	305	347	426	582	828	1,016
Local market							
Number of local listed companies	14	12	11	9	9	9	7
Local market capitalization (millions of Namibia dollars)	1,805	1,728	2,054	2,492	2,630	3,820	4,594
Local index (year-end)	59	47	58	67	72	91	129

Source: Namibian Stock Exchange.
1/ As of October.

Table 18. Namibia: Balance of Payments, 2001–06

	2001	2002	2003	2004	2005	2006
	(In millions of U.S. dollars)					
Current account	59.7	115.0	299.9	461.7	344.4	1,106.1
Trade balance	-198.9	-207.6	-460.2	-283.6	-265.3	94.8
Exports, f.o.b.	1,142.4	1,072.4	1,250.9	1,823.4	2,066.7	2,652.3
Of which: diamonds	524.1	533.3	510.9	824.5	848.3	1,083.8
other minerals	194.4	200.3	182.6	227.5	275.0	474.7
fish	157.4	149.8	229.5	178.7	155.9	204.8
Imports, f.o.b.	-1,341.3	-1,280.0	-1,711.1	-2,107.0	-2,331.9	-2,557.5
Services	16.5	37.1	138.6	54.9	43.1	97.2
Transportation (net)	-45.3	-38.1	-6.6	-109.9	-107.8	-48.5
Travel	163.3	152.5	230.0	281.4	239.7	265.3
Other services	-101.5	-77.2	-84.7	-116.6	-88.8	-119.8
Income	-104.6	10.1	163.2	23.1	-103.1	-35.8
Compensation of employees	-0.9	-1.3	-4.1	-4.2	-3.6	-5.9
Investment income	-103.6	11.5	167.3	27.3	-99.5	-29.9
Current transfers	346.7	275.3	458.3	667.3	669.7	949.9
Government (net)	333.7	264.5	437.3	644.8	649.0	927.1
Of which: SACU receipts 1/	313.9	248.0	386.8	606.8	650.1	893.9
Capital and financial account	137.6	-213.0	-281.9	-604.7	-451.9	-1,236.8
Capital account	94.8	40.8	67.3	77.2	79.4	84.7
Financial account	42.8	-253.8	-349.2	-681.9	-531.3	-1,321.5
Direct investment	378.1	187.3	159.1	248.4	360.4	339.1
Portfolio investment	-420.5	-422.3	-633.5	-842.6	-1,043.7	-1,112.4
Other investment	43.3	97.2	108.9	-54.3	114.4	-407.9
Reserve assets (increase -)	41.9	-115.9	16.2	-33.4	37.5	-140.3
Net errors and omissions	-197.3	98.0	-18.0	143.0	107.5	130.7
Memorandum items:						
Current account (excluding official transfers)	-274.0	-149.5	-137.3	-183.1	-304.6	179.0
Current account/GDP (in percent)						
Excluding current official transfers	-8.5	-4.8	-3.1	-3.2	-4.9	2.6
Including current official transfers	1.9	3.7	6.7	8.2	5.5	15.9
International reserves (end-of-period) 2/	224.0	336.2	318.9	352.7	315.9	512.7
In months of imports of goods and services	1.7	2.7	1.9	1.7	1.4	2.1
Exchange rates						
Namibia dollars per U.S. dollar (period average)	8.60	10.52	7.56	6.45	6.36	6.77
Namibia dollars per U.S. dollar (end-of-period)	12.13	8.64	6.64	5.63	6.33	6.97
US$ per Namibia dollars (period average)	0.12	0.10	0.13	0.16	0.16	0.15
US$ per Namibia dollars (end-of-period)	0.08	0.12	0.15	0.18	0.16	0.14

Sources: Bank of Namibia and IMF staff estimates.

1/ Southern African Customs Union.

2/ Gross foreign assets of the Bank of Namibia.

Table 19. Namibia: Merchandise Exports by Commodity Group, 2001–First Half of 2007

	2001	2002	2003	2004	2005	2006	2007 First Half
			(US$ Millions)				
Exports, f.o.b.	1,142.4	1,072.4	1,250.9	1,823.4	2,066.7	2,652.3	1,341.3
Diamonds	524.1	533.3	510.9	824.5	848.3	1,083.8	469.9
Other minerals	194.4	200.3	182.6	227.5	275.0	474.7	338.6
Fish	157.4	149.8	229.5	178.7	155.9	204.8	146.0
Unproceesed fish, lobster & crab	41.0	38.0	27.9	44.8	50.9	54.2	19.0
Processed fish	116.5	111.8	201.6	133.9	105.0	150.6	127.0
Other manufactured products	124.3	66.3	156.5	308.5	403.3	559.4	248.1
Food and live animals	121.8	117.3	161.3	194.4	265.5	269.7	132.9
Meat & meat preparations	73.0	53.2	78.2	99.7	147.5	144.7	68.3
Other commodities	1.5	1.6	2.8	4.5	4.6	4.3	2.0
Other exports	18.9	3.9	7.4	85.3	114.0	55.7	3.7
			(Growth rates)				
Exports, f.o.b.	-13.4	-6.1	16.6	45.8	13.3	28.3	...
Diamonds	-14.5	1.8	-4.2	61.4	2.9	27.8	...
Other minerals	5.5	3.0	-8.8	24.6	20.8	72.6	...
Fish	-14.8	-4.9	53.2	-22.1	-12.7	31.3	...
Unproceesed fish, lobster & crab	32.2	-7.2	-26.7	60.7	13.6	6.5	...
Processed fish	-24.3	-4.0	80.4	-33.6	-21.5	43.4	...
Other manufactured products	-0.3	-46.7	136.1	97.2	30.7	38.7	...
Food and live animals	-0.5	-3.7	37.6	20.5	36.6	1.6	...
Meat & meat preparations	-31.7	-27.2	47.1	27.4	48.0	-1.9	...
Other commodities	-28.1	6.6	71.4	61.5	1.4	-6.0	...
Other exports	-45.5	-79.5	90.8	1,052.6	33.7	-51.1	...
			(Percent of Total)				
Exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Diamonds	45.9	49.7	40.8	45.2	41.0	40.9	35.0
Other minerals	17.0	18.7	14.6	12.5	13.3	17.9	25.2
Fish	13.8	14.0	18.3	9.8	7.5	7.7	10.9
Unproceesed fish, lobster & crab	3.6	3.5	2.2	2.5	2.5	2.0	1.4
Processed fish	10.2	10.4	16.1	7.3	5.1	5.7	9.5
Other manufactured products	10.9	6.2	12.5	16.9	19.5	21.1	18.5
Food and live animals	10.7	10.9	12.9	10.7	12.8	10.2	9.9
Meat & meat preparations	6.4	5.0	6.3	5.5	7.1	5.5	5.1
Other commodities	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other exports	1.7	0.4	0.6	4.7	5.5	2.1	0.3

Source: Bank of Namibia.

Table 20. Namibia: Mineral Exports, 2001–First Half of 2007

	2001	2002	2003	2004	2005	2006	2007 First Half
N$ Millions							
Diamonds	4,508.9	5,608.3	3,864.6	5,317.9	5,397.3	7,334.1	3,366.8
Uranium	998.5	1,206.5	592.2	750.3	926.3	1,554.8	1,535.1
Zinc	134.6	140.2	197.8	211.0	279.0	764.3	386.9
Gold	207.7	301.0	219.7	158.9	228.0	358.6	227.2
Copper	200.7	261.4	184.1	212.9	194.3	312.8	154.3
Silver	24.8	63.1	28.3	31.0	35.7	88.1	28.0
Lead	31.1	48.0	56.4	45.9	34.2	75.1	30.6
Other	75.1	86.3	102.6	57.4	51.9	58.3	64.3
TOTAL	6,181.4	7,714.8	5,245.9	6,785.5	7,146.8	10,546.2	5,793.1
Official exchange rate (average)	8.60	10.52	7.56	6.45	6.36	6.77	7.17
US$ Millions							
Diamonds	524.1	533.3	510.9	824.5	848.3	1,083.8	469.9
Uranium	116.1	114.7	78.3	116.3	145.6	229.8	214.3
Zinc	15.6	13.3	26.2	32.7	43.9	112.9	54.0
Gold	24.1	28.6	29.0	24.6	35.8	53.0	31.7
Copper	23.3	24.9	24.3	33.0	30.5	46.2	21.5
Silver	2.9	6.0	3.7	4.8	5.6	13.0	3.9
Lead	3.6	4.6	7.5	7.1	5.4	11.1	4.3
Other	8.7	8.2	13.6	8.9	8.2	8.6	9.0
TOTAL	718.5	733.6	693.5	1,052.0	1,123.3	1,558.4	808.5

Source: Bank of Namibia.

Table 21. Namibia: External Trade Indices, 2001–06

	2001	2002	2003	2004	2005	2006
			(In U.S. dollar terms, 2001 =100)			
Exports						
Value	100.0	93.9	109.5	159.6	180.9	232.3
Volume	100.0	89.8	99.9	130.6	136.6	153.1
Price	100.0	104.6	109.6	122.2	132.4	151.7
Imports						
Value	100.0	95.4	127.6	157.1	173.9	190.7
Volume	100.0	91.7	117.1	140.3	150.3	159.7
Price	100.0	104.1	108.9	112.0	115.7	119.4
Terms of trade	100.0	100.5	100.6	109.1	114.4	127.1
			(Annual change in percent)			
Exports						
Value	15.6	-6.1	16.6	45.8	13.3	28.4
Volume	-17.6	-10.2	11.3	30.7	4.6	12.1
Price	5.0	4.6	4.9	11.5	8.3	14.6
Imports						
Value	2.3	-4.6	33.7	23.1	10.7	9.7
Volume	-2.2	-8.3	27.7	19.8	7.1	6.3
Price	50.8	4.1	4.7	2.8	3.3	3.2
Terms of trade	0.5	0.5	0.2	8.5	4.8	11.1

Sources: Bank of Namibia; and IMF staff estimates.

Table 22. Namibia: Merchandise Imports by Commodity Group, 2001–06

	2001	2002	2003	2004	2005	2006 Preliminary
			(US$ Millions)			
Total imports, c.i.f.	1,421.3	1,397.8	2,334.2	2,407.6	2,524.8	2,815.9
Food, live animals, beverages, and tobacco	22.3	18.2	61.3	85.2	92.7	80.8
Textiles, clothing, footwear	25.2	24.5	44.2	43.0	47.6	56.1
Wood, paper and paper products, furniture	84.8	67.2	123.8	128.2	140.3	136.9
Mineral fuels and lubricants	170.0	169.8	256.3	171.2	188.0	192.9
Chemicals, plastic, medical, rubber	62.9	67.1	99.5	105.8	116.0	126.4
Metal and metal products	4.2	6.5	7.1	12.7	25.5	23.1
Machinery and electrical goods	281.8	276.4	452.4	465.4	468.6	576.9
Vehicles and transport equipment	168.2	142.0	264.0	351.8	388.2	423.6
All other imports	601.8	626.1	1,025.5	1,044.2	1,057.8	1,199.1
			(Growth rates)			
Total imports, c.i.f.		-1.7	67.0	3.1	4.9	11.5
Food, live animals, beverages, and tobacco		-18.5	237.1	39.0	8.7	-12.8
Textiles, clothing, footwear		-2.8	80.0	-2.7	10.8	17.7
Wood, paper and paper products, furniture		-20.8	84.2	3.6	9.4	-2.5
Mineral fuels and lubricants		-0.1	51.0	-33.2	9.8	2.6
Chemicals, plastic, medical, rubber		6.8	48.3	6.3	9.6	8.9
Metal and metal products		52.4	9.8	78.2	101.6	-9.3
Machinery and electrical goods		-1.9	63.7	2.9	0.7	23.1
Vehicles and transport equipment		-15.6	85.9	33.3	10.3	9.1
All other imports		4.0	63.8	1.8	1.3	13.4
Memorandum items:						
Total imports, f.o.b. (in millions of U.S. dollars)	1,341.3	1,280.0	1,711.1	2,107.0	2,331.9	2,557.5
Imports, f.o.b./ imports, c.i.f. (in percent)	94.4	91.6	73.3	87.5	92.4	90.8

Source: Bank of Namibia, and IMF staff estimates.

Table 23. Namibia: Imports (c.i.f) by Country of Origin, 2001–06

	2001	2002	2003	2004	2005	2006
	(In millions of Namibia dollars)					
Belgium	43.1	88.1	77.5	61.2	103.1	68.7
Canada	...	121.4	5.6	5.9	9.7	23.9
China	141.4	121.4	194.6	182.1	255.6	659.4
France	71.2	150.3	93.7	29.8	33.3	62.5
Germany	253.8	426.7	375.6	284.8	307.7	425.1
India	29.1	48.6	74.2	137.4	83.3	139.6
Isreal	24.0	...	91.5	4.7	7.8	16.6
Japan	23.7	...	94.7	55.9	30.8	44.1
Netherlands	49.9	46.9	43.8	33.0	80.6	56.2
New Zealand	...	...	0.5	1.0	0.1	0.9
Russian Federation	...	...	17.2	9.2	8.6	16.5
Singapore	...	141.9	94.0	48.8	39.8	52.1
South Africa	10,736.0	10,507.7	14,573.4	13,239.3	13,364.3	15,698.5
Spain	108.4	169.4	258.5	102.1	227.6	135.1
Switzerland	253.8	169.4	88.9	69.4	131.8	160.6
United Kingdom	152.0	357.7	211.9	400.1	172.1	160.7
United States of America	117.0	272.5	149.3	115.8	125.2	283.1
Zimbabwe	46.0	...	235.1	120.9	130.6	126.4
Sub-total	12,049.3	12,622.1	16,680.1	14,901.2	15,112.0	18,129.9
Other	493.3	964.2	1,203.8	627.6	951.1	925.6
Total	12,542.6	13,586.3	17,883.9	15,528.8	16,063.1	19,055.6
	(In percent of total)					
Belgium	0.3	0.6	0.4	0.4	0.6	0.4
Canada	...	0.9	0.0	0.0	0.1	0.1
China	1.1	0.9	1.1	1.2	1.6	3.5
France	0.6	1.1	0.5	0.2	0.2	0.3
Germany	2.0	3.1	2.1	1.8	1.9	2.2
India	0.2	0.4	0.4	0.9	0.5	0.7
Isreal	0.2	...	0.5	0.0	0.0	0.1
Japan	0.2	...	0.5	0.4	0.2	0.2
Netherlands	0.4	0.3	0.2	0.2	0.5	0.3
New Zealand	...	...	0.0	0.0	0.0	0.0
Russian Federation	...	...	0.1	0.1	0.1	0.1
Singapore	...	1.0	0.5	0.3	0.2	0.3
South Africa	85.6	77.3	81.5	85.3	83.2	82.4
Spain	0.9	1.2	1.4	0.7	1.4	0.7
Switzerland	2.0	1.2	0.5	0.4	0.8	0.8
United Kingdom	1.2	2.6	1.2	2.6	1.1	0.8
United States of America	0.9	2.0	0.8	0.7	0.8	1.5
Zimbabwe	0.4	...	1.3	0.8	0.8	0.7
Sub-total	96.1	92.9	93.3	96.0	94.1	95.1
Other	3.9	7.1	6.7	4.0	5.9	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

Table 24. Namibia: Exports by Country of Destination, 2001–06

	2001	2002	2003	2004	2005	2006
	(In millions of Namibia dollars)					
Angola	603.0	1,944.0	3,152.2	1,523.4	1,145.3	1,309.9
Australia	...	53.0	60.9	35.0	58.2	51.6
Belgium	64.0	78.5	58.8	48.9	57.4	83.1
Botswana	53.3	63.6	107.5	78.8	75.4	103.1
Canada	...	42.5	136.6	346.4	511.4	866.7
China	54.7	...	107.2	205.1	288.5	332.5
Congo	41.8	95.1	355.1	66.0	74.0	310.7
France	201.7	842.4	161.3	1,561.6	94.6	275.7
Germany	102.2	153.6	150.0	230.3	593.7	740.4
Ghana	...	73.7	155.0	9.0	33.3	30.2
Iceland	...	126.5	55.2	22.1	1.1	0.3
Italy	204.6	243.1	309.6	266.0	395.4	1,654.1
Japan	79.1	178.9	108.7	106.5	171.5	285.4
Netherlands	157.5	179.7	160.5	139.3	219.0	249.5
Russian Federation	...	...	56.4	11.0	15.4	26.0
South Africa	2,471.7	3,396.8	3,202.8	4,055.5	4,864.3	5,668.5
Spain	1,538.1	1,622.8	2,035.8	1,061.5	1,150.2	1,372.6
Switzerland	...	40.7	38.8	35.4	47.1	162.8
United Kingdom	4,103.4	3,281.7	2,641.9	3,407.3	3,274.3	5,877.7
United States of America	346.0	421.2	655.9	1,258.8	1,454.5	555.2
Zimbabwe	36.4	...	27.6	22.8	35.3	33.4
Sub-total	10,057.5	12,837.9	13,737.8	14,490.7	14,559.9	19,989.4
Other	391.7	522.0	601.0	1,226.8	1,388.6	2,976.4
Total	10,449.2	13,359.9	14,338.8	15,717.5	15,948.5	22,965.8
	(In percent of total)					
Angola	5.8	14.6	22.0	9.7	7.2	5.7
Australia	...	0.4	0.4	0.2	0.4	0.2
Belgium	0.6	0.6	0.4	0.3	0.4	0.4
Botswana	0.5	0.5	0.7	0.5	0.5	0.4
Canada	...	0.3	1.0	2.2	3.2	3.8
China	0.5	...	0.7	1.3	1.8	1.4
Congo	0.4	0.7	2.5	0.4	0.5	1.4
France	1.9	6.3	1.1	9.9	0.6	1.2
Germany	1.0	1.1	1.0	1.5	3.7	3.2
Ghana	...	0.6	1.1	0.1	0.2	0.1
Iceland	...	0.9	0.4	0.1	0.0	0.0
Italy	2.0	1.8	2.2	1.7	2.5	7.2
Japan	0.8	1.3	0.8	0.7	1.1	1.2
Netherlands	1.5	1.3	1.1	0.9	1.4	1.1
Russian Federation	...	...	0.4	0.1	0.1	0.1
South Africa	23.7	25.4	22.3	25.8	30.5	24.7
Spain	14.7	12.1	14.2	6.8	7.2	6.0
Switzerland	...	0.3	0.3	0.2	0.3	0.7
United Kingdom	39.3	24.6	18.4	21.7	20.5	25.6
United States of America	3.3	3.2	4.6	8.0	9.1	2.4
Zimbabwe	0.3	...	0.2	0.1	0.2	0.1
Sub-total	96.3	96.1	95.8	92.2	91.3	87.0
Other	3.7	3.9	4.2	7.8	8.7	13.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

Table 25. Namibia: Developments in the Exchange Rate of the Namibia Dollar, 1998–07

(Period averages; 2000=100)

	Effective Exchange Rate		Namibia dollar per foreign currency			
	Nominal	Real	Euro	U.S. Dollar	Botswana Pula	South African Rand
1998	110.4	98.8	6.2	5.5	1.3	1.0
1999	103.8	98.3	6.5	6.1	1.3	1.0
2000	100.0	100.0	6.4	6.9	1.4	1.0
2001	90.0	95.0	7.7	8.6	1.5	1.0
2002	77.3	87.2	9.9	10.5	1.7	1.0
2003	89.6	104.6	8.6	7.6	1.6	1.0
2004	93.9	111.9	8.0	6.4	1.4	1.0
2005	95.0	112.7	7.9	6.4	1.3	1.0
2006	91.0	109.8	8.5	6.8	1.2	1.0
2007						
January	85.8	104.9	9.3	7.2	1.2	1.0
February	85.7	104.8	9.4	7.2	1.2	1.0
March	84.1	103.4	9.7	7.3	1.2	1.0
April	85.2	104.8	9.6	7.1	1.2	1.0
May	86.0	106.2	9.5	7.0	1.1	1.0
June	84.9	104.8	9.6	7.2	1.1	1.0
July	85.5	105.9	9.6	7.0	1.1	1.0
August	83.7	104.1	9.8	7.2	1.2	1.0
September	84.0	104.6	9.9	7.1	1.1	1.0
October	86.0	107.1	9.6	6.8	1.1	1.0

Sources: IMF, Information Notice System; and IMF staff calculations.