REPUBLIC OF NAMIBIA

POLICY BRIEF

BALANCE OF PAYMENTS

OFFICE OF THE PRESIDENT

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1. INTRODUCTION

This policy brief seeks to analyse the three main components of the Balance of Payments: the Current account, the Capital account, and the Financial account, in the context of the Namibian economy. It also includes an analysis of issues relating to BoP sustainability. BoP provides an important indicator against which the state of the local economy can be measured in relation to the external environment. This policy brief further seeks to amplify the importance of BoP as a crucial policy tool for growth and development in the small, open economy of Namibia. It also analyses the trends and patterns of trade, capital flows and the overall BoP in Namibia from 2000 to 2014 and the sustainability of BOP which is receiving prominence in the global economy.

According to the System of National Accounts (2008), "Balance of Payments (BoP) is a statistical statement that summarises the economic transactions of an economy with the rest of the world for a specific period (typically for a year or quarter)."In the case of Namibia, these transactions include earnings for Namibia's exports from the rest of the world and payments for the imports of goods, services, financial capital and financial transfers from the rest of the world. The fact that Namibia is a small open economy implies that it trades, that is, exports and imports different goods and services to and from the rest of the world hence the importance of conducting BoP analysis.

The basic accounting convention for an economy's BoP statement is that every recorded transaction is represented by two entries; a credit and a debit entry, with exactly equal values in opposite sign, so that the resulting sum of the credit entries always balances with the debit entries hence the term 'balance'. Any transaction that causes money to flow into a country (injection into the economy) is recorded as a credit to its BoP account, and any transaction that causes money to flow out of the country (leakage out of the economy) is recorded as a debit. Furthermore in BoP terminology, the term credit is used to denote an increase in assets or a reduction in liabilities, whereas the term debit is used to denote an increase in liabilities or a reduction in assets.

There are three major components of the BOP: the Current account, which measures the flow of goods and services as well as income and current transfers; the Capital account, which consists of capital transfers and the acquisition and disposal of non-produced and non-financial assets[1]; and the Financial account, which records investment flows. However, sometimes these three components of the BoP are considered as two as the Capital and Financial accounts are usually combined.

Both current and capital accounts has effects on Balance of payment. Firstly, an increase in domestic demand will encourage imports & discourage exports, which tends to move the current account towards deficit. When aggregate demand increases, we expect demand for imports to increase and this may worsen the balance of payment. A current account deficit is not neccesarily bad because imports of consumable goods may somehow increase the standard of living of the citizens. Similarly, imports of machinery and equipments may increase a country's national output as they will be employed in the production of other several goods and services thereby expanding the economy.Secondly, the higher interest rates attract foreign investment while discouraging domestic investment from leaving the country, thereby moving the financial account towards a surplus. However this is not always the case for Namibia because even if we have higher interest rates, portfolio investment always flows to south Africa were the financial markets are more developed.

[1] Non-produced, non-financial assets are tangible and intangible assets. It consists of natural resources, contract, lease and licenses and also marketing assets such as trademarks, logo and brand names.

2. SUMMARY OF CURRENT ACCOUNT

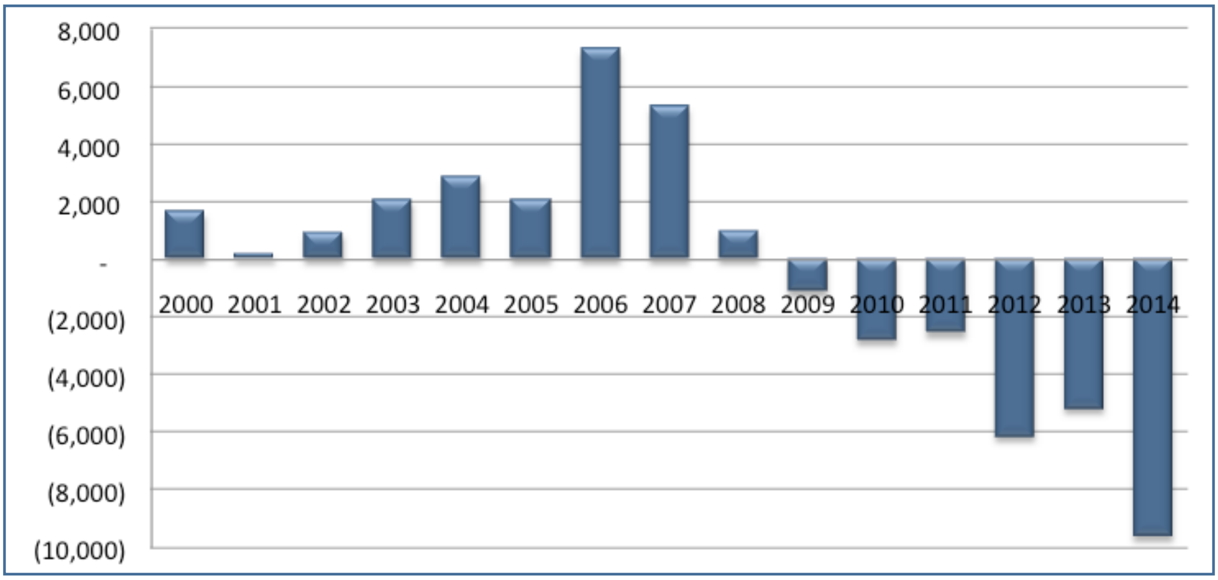
The paper written by Bank of Uganda (2003) indicated that balance of payment statistics are important inputs in the process of economic policy formulation. Movement in the Current account or Capital and Financial account of BoP provides transfer information about expectations and actions of market participants in the economy. Timely and reliable BoP statistics will result in a better understanding of the state of the Namibian economy and is of critical importance in the context of economic policies.

Morrison et al (2013) defines Current account balance as the broadest measurement of a country's financial flows and includes balances for trade in goods and services, net income (investment income and compensation for overseas workers), and net unilateral transfers.

According to Morrison et al, nations that do not save enough to meet domestic investment needs run Current account deficits and those that save more than they need for domestic investment run current account surpluses. In other words, a current account deficit shows that a country consumes more than it produces, while a surplus shows that a country produces more than it consumes.

Figure 1 below shows that between 2000 and 2008, Namibia has been a net saver, that is, Namibia experienced a Current account surplus (the country produced more than it consumed).

Figure 1: Current Account Balance (N$ Million)



Source: Generated using data from Bank of Namibia

A positive Current account means that another part of the BoP account must be in a deficit for the account to balance. The figure further shows that prior to 2009, Namibia had a high demand for its exports and as a result this created a high demand for the Namibian dollar (N$).

From 2009, Namibia became a net borrower which implies that the country experienced a current account deficit (negative balance) until 2014. A larger deficit of N$9.6 billion was recorded in 2014 due to a significant deterioration of the trade balance. A negative current account balance means that it has to be financed by a surplus in the Capital and Financial account for the BoP to balance. When a deficit is experienced, there are various options the country can exercise to deal with the deficit. Namibia can either use its foreign currency reserves to offset the deficit by using the reserves to pay for current goods and services, or the deficit can be financed by borrowing from overseas. A favourable credit rating with other countries and international rating agencies is a definite prerequisite for such borrowings.

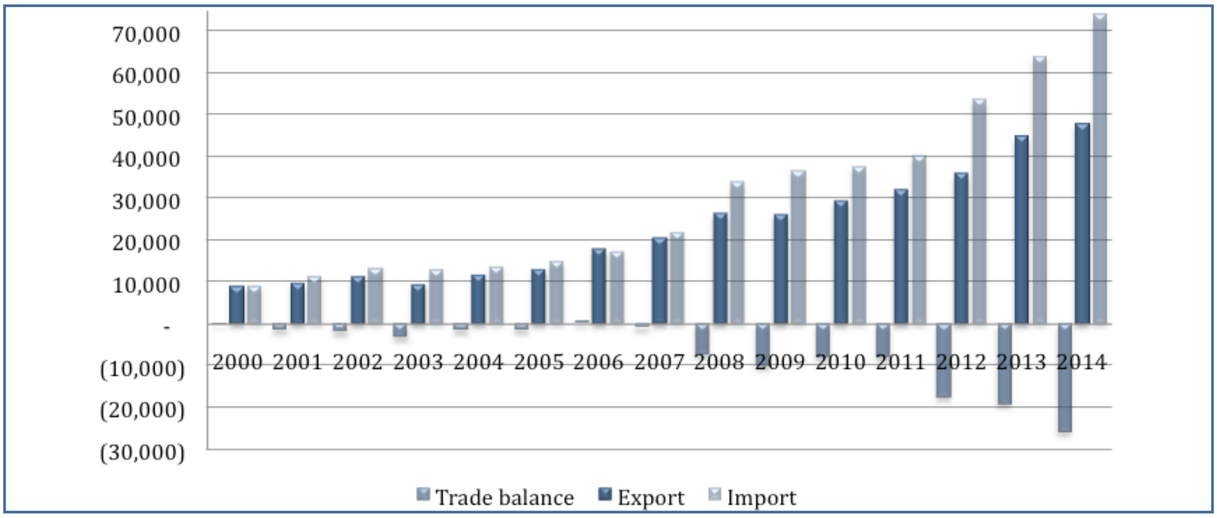
Alternatively, a large current account deficit can also be fixed by encouraging consumers to purchase more locally produced products provided that the country has the capacity and comparative advantage to produce such goods effectively. Consumption of more locally produced goods and services will reduce the deficit by encouraging domestic production of goods and services, mainly industrial products. This will ensure reduced imports and consequently stimulate increased production of local goods and services for which surplus production over domestic demand could be earmarked for the export markets thereby increasing exports. Further, this action could also improve the BoP position for the country. A policy such as this comes with greater advantages to the local economy such as increased employment and reduces vulnerability to global economic shocks such as recessions experienced globally.

Another policy measure to fix a large Current account deficit is for the central bank to take action by influencing money supply or interest rates by devaluing the currency. This action of devaluation discourages imports of goods and services as it makes import products more expensive while it encourages exports as the export products become more attractive (competitive) to foreign buyers. Since Namibia became a member of the Common Monetary Area (CMA)[2] in 1992, the Namibia dollar has remained pegged to, and exchanges at par with the South African Rand (ZAR). This implies that Namibia does not have an independent monetary policy and is therefore unable to adjust the exchange rate with interest rate being tied to the anchor currency – the ZAR.

Figure 2 below depicts merchandise trade balance from 2000 to 2014. Merchandise trade balance is the difference between exports and imports of goods for a given period of time. The figure further shows that in the year 2000, Namibia had the lowest trade balance as exports were almost equal to imports. However from 2001 to 2014, imports have been outgrowing exports leading to an increased unfavourable trade balance, moving into negative figures. A rise in merchandise imports can be mainly attributed to the sizable increase in imports of both capital goods and consumer goods, coupled with the weakening local currency.

Growing public sector spending on capital projects, such as TIPEEG and the mass housing programme coupled with increasing Foreign Direct Investment(FDI) in both exploration and the commissioning of new mines, resulted in a huge increase in imports of capital goods from 2011 to 2014 (see Figure 3). The cost of imports also rose due to the depreciation of the Namibia Dollar against the major currencies. The Namibia Dollar depreciated on average by 47.9 percent, from N$/USD7.33 in 2011 to N$/US$10.84 in 2014. In addition, the increasing growth in instalment credit to individuals coupled with tax reliefs in 2013, supported spending and led to huge increases in the imports of luxurious consumer goods, such as vehicles and electronics (e.g. cellular phones).

Figure 2: Merchandise Trade Balance (N$ million)



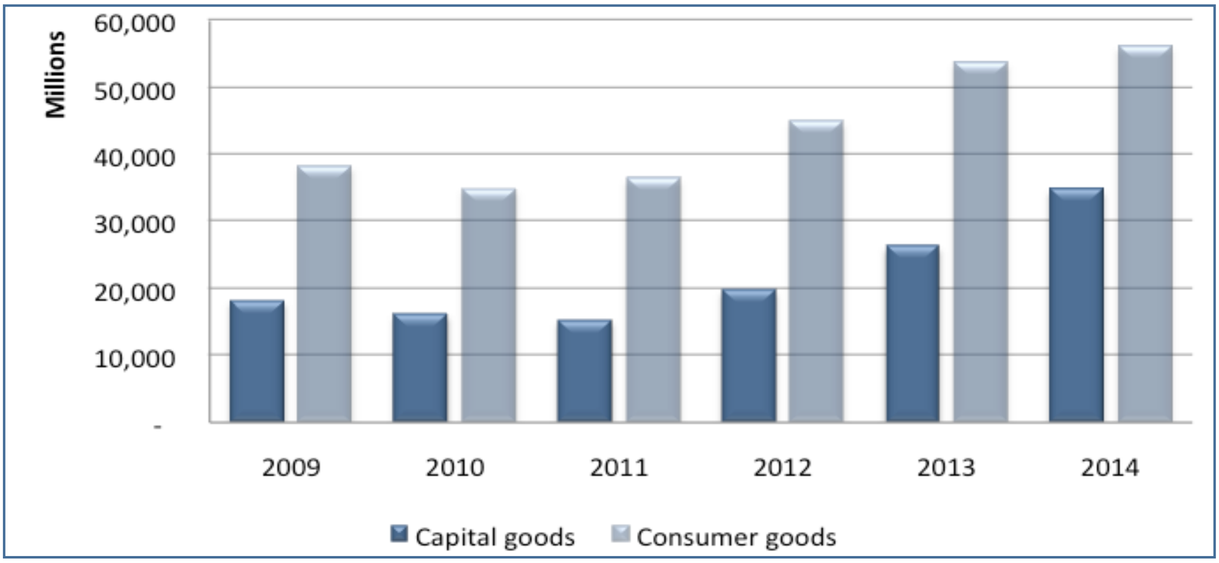
Source: Generated using data from Bank of Namibia

[2] Monetary arrangement between South Africa, Lesotho, Swaziland and Namibia

Figure 3 shows the types of goods imported in Namibia divided into two categories: capital goods and consumer goods[3]. Capital goods are goods such as equipment and machinery used in the production process, while consumer goods include all goods other than capital goods. Consumer goods are purchased to fill consumers need and wants.

Figure 3 also shows an increase in the imports of capital goods, which has a decency to increase further in the future. Imports of capital goods have positive effects on the economy as it increases the economy's productive capacity. The growth of the economy and industrial development in Namibia will lead to an increase in demand for both consumer and capital goods

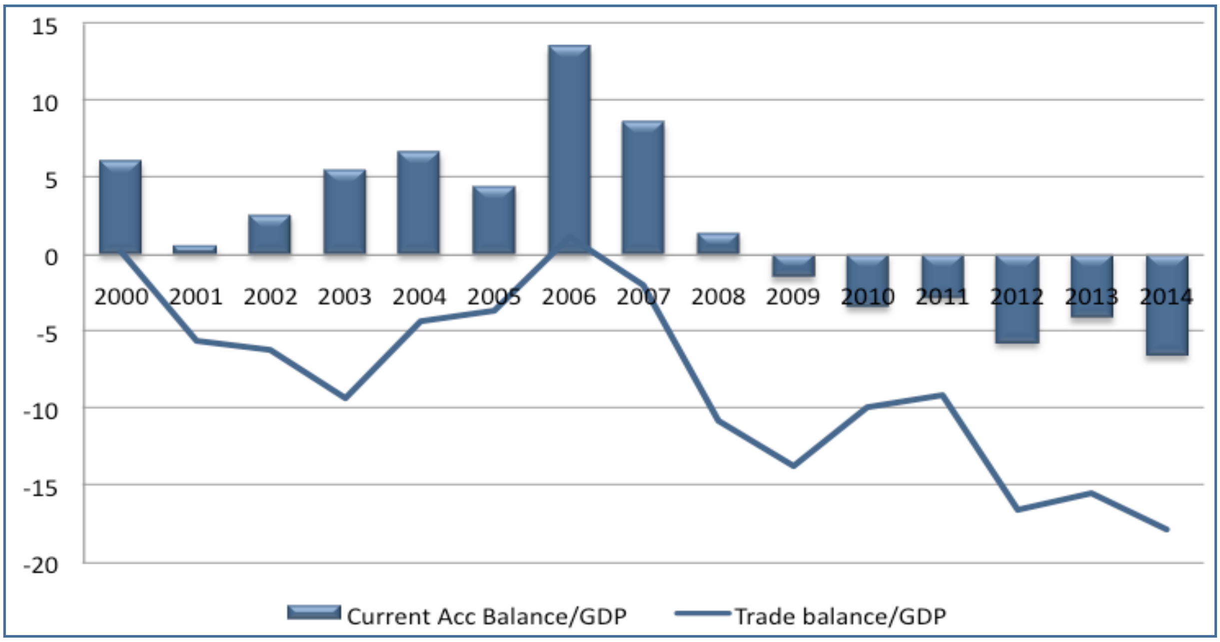
Figure 3: Goods imported in Namibia (N$ million)



Source: Generated using data from Bank of Namibia

Figure 4 below shows trade balance as a percentage of Gross Domestic Product (GDP) for Namibia. It also shows the Current account balance ratio to GDP.

Figure 4: Current Account and Trade Balance as a Percentage of GDP



Source: Generated using data from Bank of Namibia

[3] Assumes that all other goods imported in Namibia that are not capital good is used to satisfy consumers(consumer goods)

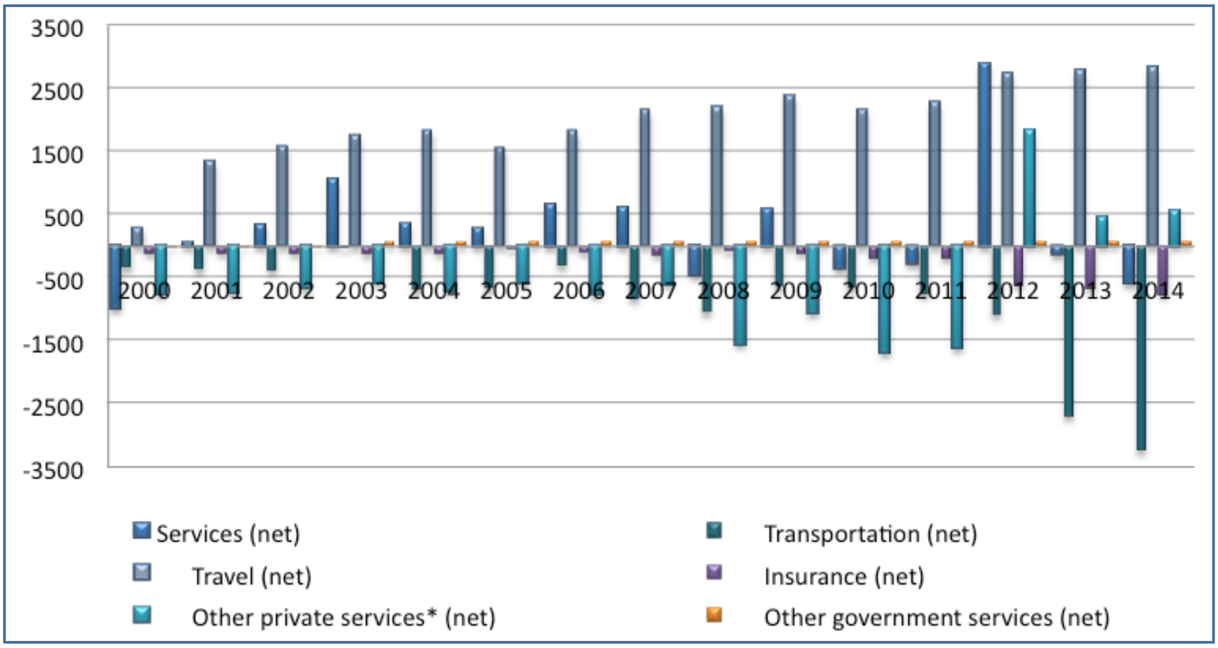
A positive trade balance means a trade surplus while a negative trade balance means a trade deficit. As indicated in Figure 4, the Trade balance exceeded -16 percent of GDP in 2012. This is attributable to increased imports of several goods and services which remained higher than the exports of goods and services to the rest of the world. Part of the explanation could also be attributed to the fact that the country is a commodity-based economy which makes it susceptible to external shocks such as international prices and recessions in other parts of the global economy. However, the trend shows signs of a temporary recovery in 2013, as the trade balance as percent of GDP fell to -15.2 percent .In 2014 the trade balance reached -17.8 percent of GDP which is the lowest point in Figure 4.

The average trade balance to GDP ratio from 2000 to 2014 was -8.2 percent with the minimum value of -17.8 percent recorded in 2014 and a maximum value of 1.2 percent recorded in 2006. Namibia's positive trade balance in 2006 was due to high export earnings and increased revenue from the SACU Pool.

The ratio of Current account deficit to GDP averaged - 4.1 percent between 2009 and 2014. The minimum value of current account balance as a ratio to GDP (-6.6 percent) was recorded in 2014 implying a larger Current account deficit than any other year. The huge deficit was caused by a widening trade deficit in 2014.

The service account is the second category of the Current account after goods. In Namibia, the service category covers items such as transport, travel, insurance, other private services and other government services.

Figure 5: Services (N$ million)

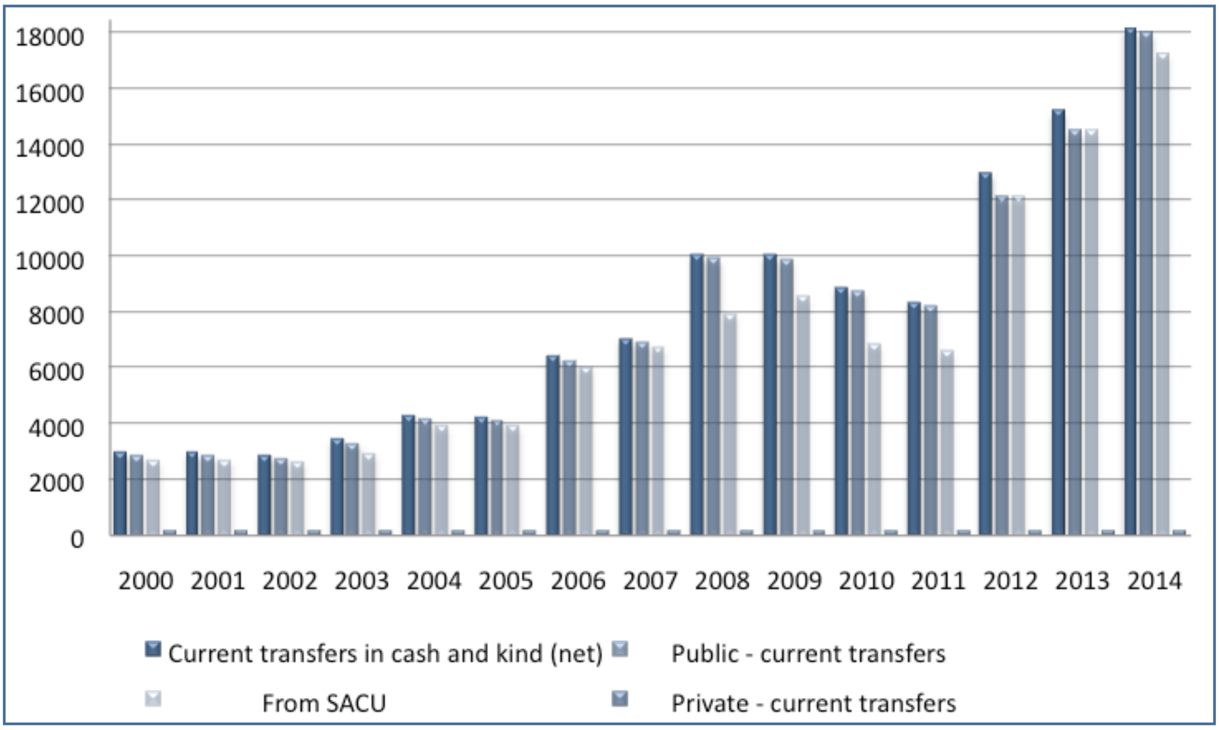


Source: Generated using data from Bank of Namibia

Figure 5 shows that the service account registered a net outflow in 2013 and 2014, owing to increased net payments for transportation and insurance services in both years. The net outflow for the two year period is a concern because Namibia currently has the diamond and copper processors and the current Namport expansion which has the potential to bring huge inflows into the country. The year 2012 recorded the highest net service balance surplus since 2000. The huge surplus was due to a significant increase in tourism arrivals in Namibia and also an increase in other private services. Other private services recorded a net inflow of N$1.8 billion in 2012 from a net outflow of N$1.6 billion in 2011. The increase in net travel services during 2012 could also be due to the depreciation of the Namibia dollar which made services more affordable to non-resident tourists (BoN, 2012 Annual Report).

Current transfers are also important in BOP literature. According to Balance of Payment Manual 5, BPM5 (2006), current transfers are classified in general government and other sectors. Government transfers include current international cooperation (such as SACU) which covers current transfers in cash and kind between governments of different countries or between governments and international organizations. Figure 6 below shows the trend of current transfers for the review period.

Figure 6: Current transfer (N$ Million)



Source: Generated using data from Bank of Namibia

Net current transfers registered a significant inflow in 2014. The significant inflow in net current transfers was as a result of increased SACU receipts which on average accounted for 92 percent of total public transfers from 2000 to 2014. The Figure shows that total public current transfers for 2012 and 2013 was derived 100 percent from SACU receipts. Private current transfers include grants received by Non-Government Organisations (NGO's) and other transfers.

2.1 IS A CURRENT ACCOUNT DEFICIT A PROBLEM?

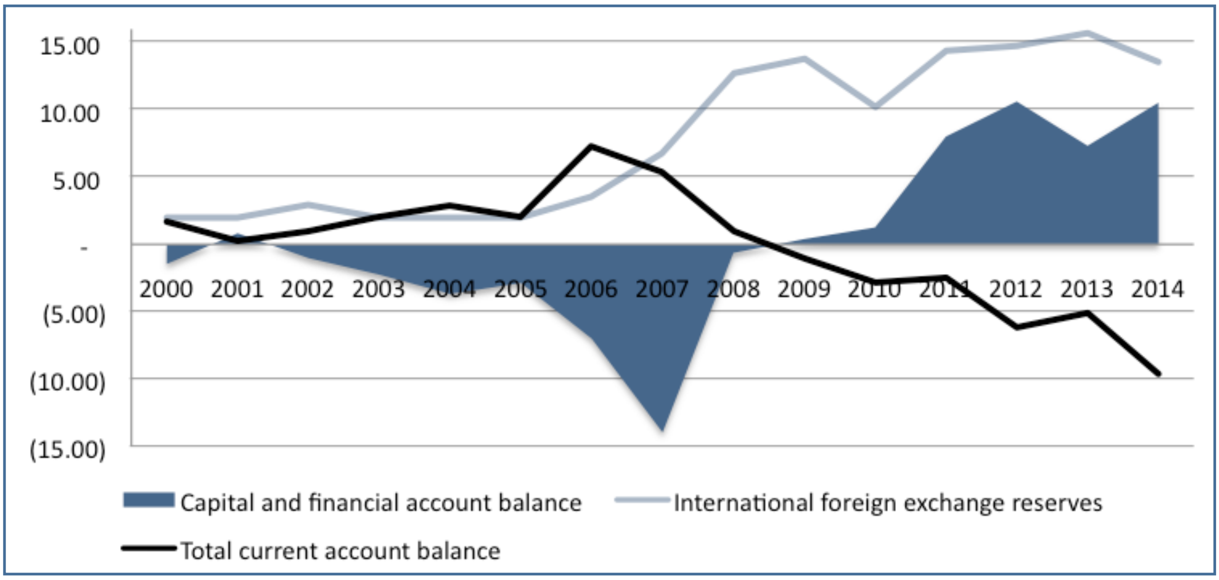
A current account deficit implies that the country imports more than it exports to the rest of the world which may be viewed as a bad scenario. Ideally, the country should develop its export sector to the extent that it exports more than it imports for the realization of greater economic benefits such as the creation of employment opportunities, increase in income, reduction of poverty amongst others.

It is inconclusive on whether a deficit on the Current account is undesirable compared to a surplus. If both deficit and surplus on the Current account are not sustainable, they both pose a challenge to policy makers. Bank of Uganda (2003), the discovery of larger mineral deposits may reverse the deficit on the current account. There will be a temporary flood of surplus on the current account causing more spending which requires to be corrected at a later stage. If a trade deficit is as a result of excessive demand expenditure reducing policies may be useful. Expenditure reducing policies are policies designed to reduce consumers' spending power, control demand and limit importation of goods, thereby encouraging an increase in savings. However, a deficit can only be a problem in the following circumstances:

- if it is persistent, in which case the country's central bank will run out of foreign exchange reserves if it persistently runs balance of payment deficits;
- when it forms a larger share of Gross Domestic Product; and
- When there are no compensating inflows of investment income or inward capital account flows, in which case, the central bank has low reserves or when the economy has a poor record of repaying debt (www.economicsonline.com).

In Namibia, the Current account deficit is financed by direct investment and long term investment on the Capital and Financial account. The surplus on the Capital and Financial account has been sufficient enough to cover the deficit since 2011. When a country faces a current account deficit, it can be financed through the country's international foreign exchange reserves or stocks. Figure 7 below shows Namibia's international foreign exchange reserves in relation to the total Current account, and Capital and Financial account balances for the review period.

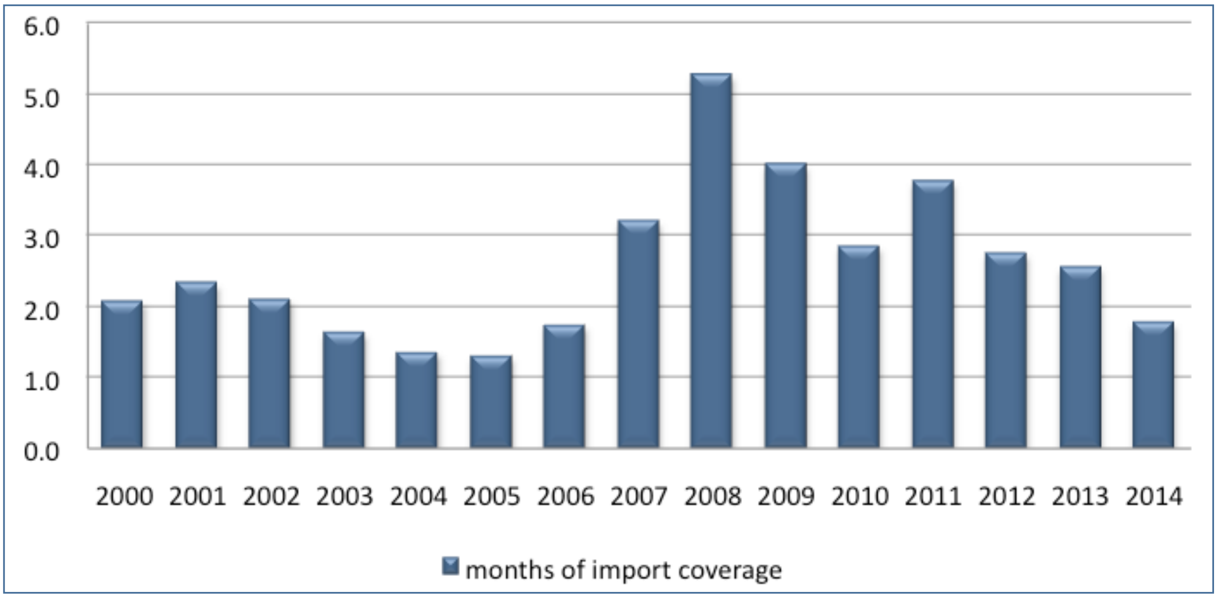
Figure 7: International foreign exchange reserve stocks (N$ Billion)



Source: Generated using data from Bank of Namibia

The figure shows that from 2007 to 2013, Namibia had adequate foreign exchange reserves to finance the deficit. Additionally, the Current account deficit has been balanced by investments in the Financial account. The foreign reserves come into play to ensure that the whole transaction balances. UNCTAD (2012) reported that countries running a Current account deficit must by obligation either experience net capital inflows or run down its international foreign reserves. The current account deficit experienced by Namibia since 2009 did not deplete the country's foreign reserves. This is because the Namibian economy experienced equally large net capital inflows into the economy.

Figure 8: Reserves in months of Imports (monthly)



Source: Generated using data from Bank of Namibia

IMF (2011), Import cover is often seen as a measure of the number of months imports can be sustained should all export revenues and external financing inflows cease. Figure 8 shows reserves in months of imports in Namibia. The official reserves in 2008 were able to support 5.3 months of imports, which is the highest coverage recorded since the year 2000. The official reserves at the rate of 2014 importation could only support 1.8 months of imports which is below the acceptable international standards. Traditionally, reserves that can cover three months of imports have been used as a benchmark to assess the adequacy of reserves.
According to Bank of Namibia's Annual Report (2014), the amount of foreign exchange reserves is still sufficient to support the fixed exchange rate peg and to meet international obligations. The decline in reserves (Figure 7) to N$13.5 billion in the year 2014 from N$15.7 billion in the year 2013 was driven by high import payments mainly in construction activities in the mining sector.

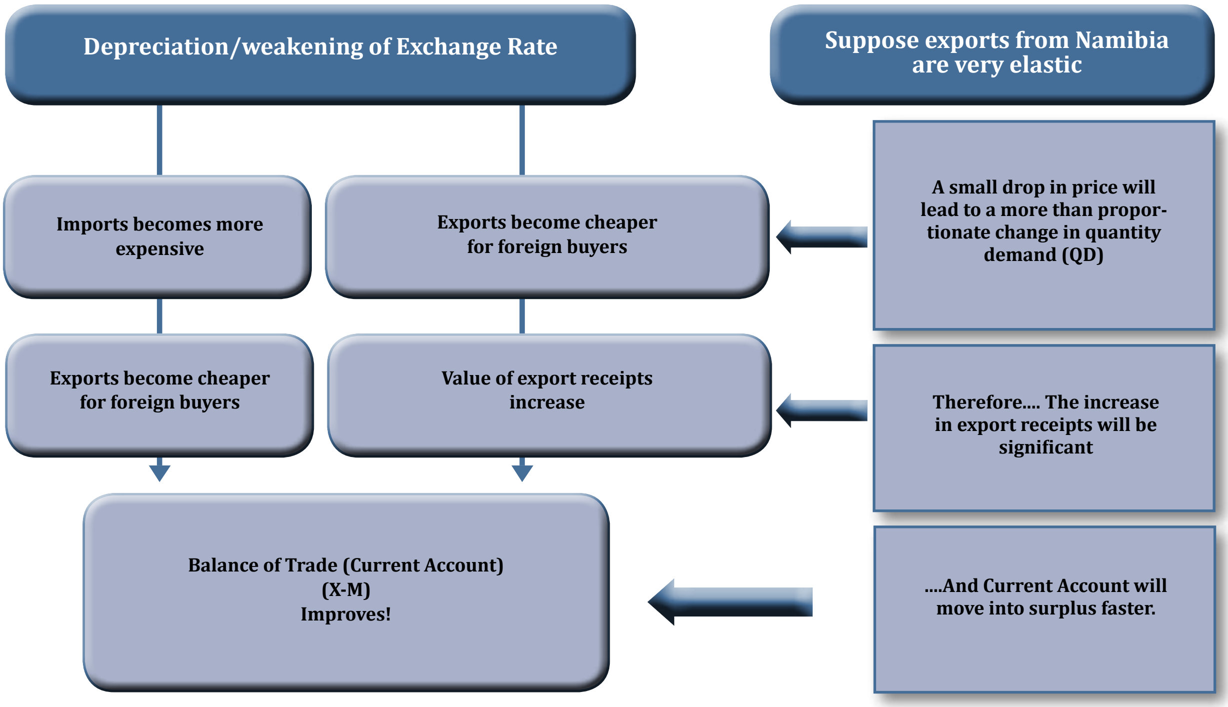
2.2 EFFECTS OF EXCHANGE RATE DEPRECIATION ON BALANCE OF PAYMENT

Aaron (undated) indicated that when a currency appreciates or depreciates against other currencies there are both positive and negative effects on the economy. Generally, when a currency appreciates or strengthens in relation to other currencies, imports of foreign goods and services become cheaper, whereas exports of domestically produced goods and services become more expensive. The positive effect of a currency appreciation is that it will exert pressure on domestic firms to cut their inputs and production costs in order to remain competitive which will consequently lead to lower prices of domestic goods and services produced to the benefit of consumers. However, the negative effect associated with a currency appreciation is that it may lead to a balance of payments deficit in which case the value of imports will exceed that of exports.

The exchange rate is briefly determined or influenced by a multiplicity of factors which may include (amongst others): (i) the interplay of market forces, that is, demand and supply of the currency in the foreign exchange (FOREX) market; (ii) demand for domestic goods and services including the country's mineral resource endowments which requires payment to be made in terms of the domestic currency; (iii) economic performance, GDP, inflation and interest rates; (iv) political stability, role of geopolitical events and current global events which are crucial ingredients in facilitating trade; (v) financial and capital account balance; (vi) relative strength of other currencies; and(vii) the expectation and speculation of future exchange rate.

There are several effects associated with an exchange rate depreciation and appreciation which are important in understanding the effects fully. Figure 9 below explains in detail the effects of exchange rate depreciation.

Figure 9: Effects of Exchange Rate Depreciation



Source: Adopted from Andrew (2009) International Balance of Payment

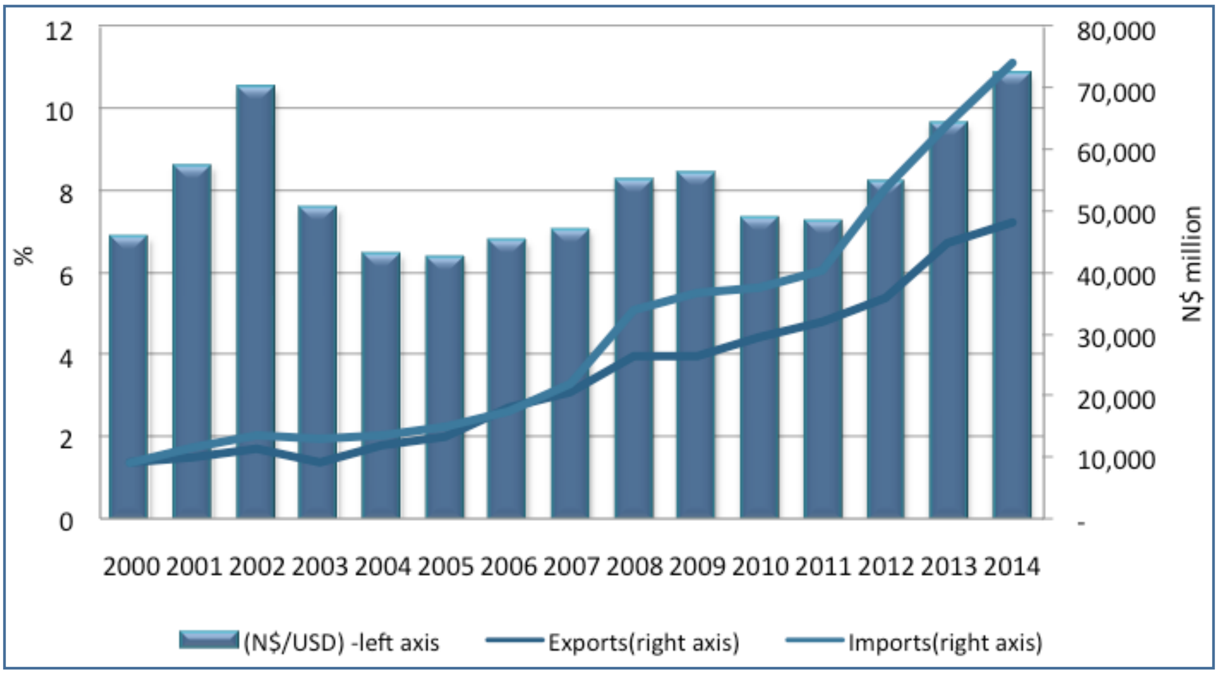
A depreciation or weakening of the Namibia dollar means that there is a fall in the market value of the Namibia dollar in relation to other currencies in the rest of the world. Currency depreciation generally makes exports cheaper while imports become more expensive. However, the impact of currency depreciation depends on the elasticity of demand.

If exports from Namibia are inelastic, whereby a percentage change in price leads to a smaller percentage change in quantity demanded such that price elasticity of demand is less than one, then the depreciation of exchange rate will lead to a smaller change in the quantity of goods exported. This means that foreign consumers of such goods are less sensitive to the changes in domestic prices and this will lead to a smaller improvement in the merchandise trade balance.

Contrastingly, if exports from Namibia are very elastic, whereby a percentage change in price will lead to a greater percentage change in quantity demanded such that price elasticity of demand is greater than one, then the depreciation of exchange rate usually leads to high domestic prices of goods and services. As a result there will be a greater increase in the export of goods, the value of exports receipts increases, and improvement in the merchandise trade balance which will move the current account into a surplus.

The appreciation or depreciation of the exchange rate (i.e. N$/US$) is important for imports and exports. Figure 10 below shows the trend in exchange rate to US Dollar (period average) from 2000 to 2014. When a currency depreciates, it makes exports of goods competitive and cheaper to foreigners while making imports more expensive and this leads to less demand for imports.

Figure 10: Effects of Exchange Rate Depreciation (N$/USD-period average)



Source: Generated using data from Bank of Namibia

Assuming that demand is relatively elastic, an increase in exports increases aggregate demand as the trade balance becomes more favourable. Figure 10 shows that the Namibia dollar depreciated more in 2002 and 2014. During the year 2014 both imports and exports increased but imports increased more as compared to exports, widening the trade balance deficit. The depreciation of the Namibia dollars did not discourage imports in those years as expected and exports did not increase much to reverse the deficit. Whether depreciation leads to more exports depends on foreign elasticity of demand for exports.

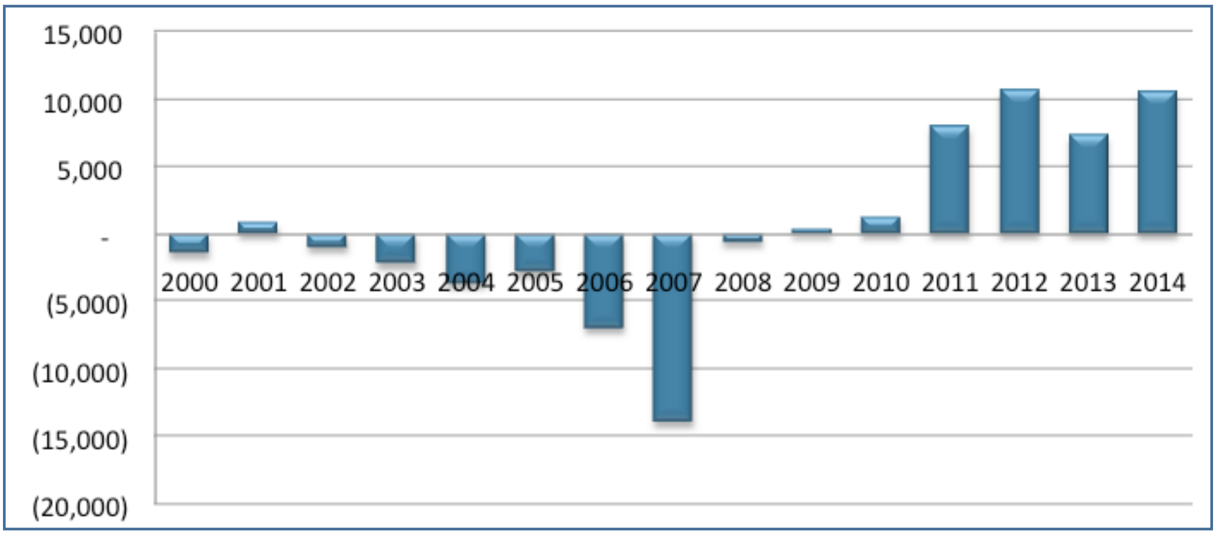
The effect of exchange rate depreciation takes time for consumers to realize. Consumers will keep on importing without realizing how long depreciation will last. In her analysis of J-curve[4] effects, Nachiappan (2013) said that in the short term demand for exports and imports is inelastic. This means that in the short term currency depreciation does not automatically improve the trade balance; it takes long to realize improvements. She added that, foreign markets will take time to realize cheaper exports and thereby change their spending habits. In the same way, domestic consumers do not immediately register increased import prices and so there is a time lag before import expenditure falls.

[4] Occurs when applying the Marshall-Lerner condition to show what happens to the current account deficit over time when the exchange rate depreciates.

3. SUMMARY OF CAPITAL AND FINANCIAL ACCOUNTS

Based on the Balance of Payment Manual (2009), the Capital account shows capital transfers receivable and payable between residents and non-residents. It also includes the acquisition and disposal of non-produced and nonfinancial assets between residents and non-residents. Financial accounts on the other hand records financial assets and financial liabilities between residents and non-residents. Entries in the Financial account correspond to goods, services, income, capital account or other financial account entries. Transactions in the Financial account may involve one asset being exchanged for another whereas sometimes the transaction may involve the creation of a new financial asset and its corresponding liability. The overall balance of the Financial account is sometimes referred to as net lending/net borrowing. Figure 11 shows Capital and Financial account balance, for the period 2000 to 2014:

Figure 11: Capital and Financial Account Balance (N$ million)



Source: Generated using data from Bank of Namibia

Apart from 2001, Capital and Financial accounts were negative until the year 2008 implying a net financial outflow or more claims than liabilities. This was due to persistent portfolio outflows and net capital outflows from other investments. However, from 2009 to 2014, the Namibian economy had recorded a positive Capital and Financial account, meaning that debits are less than credits. In other words, the country had more liabilities than claims in other countries. The negative account is attributed to net capital inflows from other long term investments and increases in net foreign direct investment.

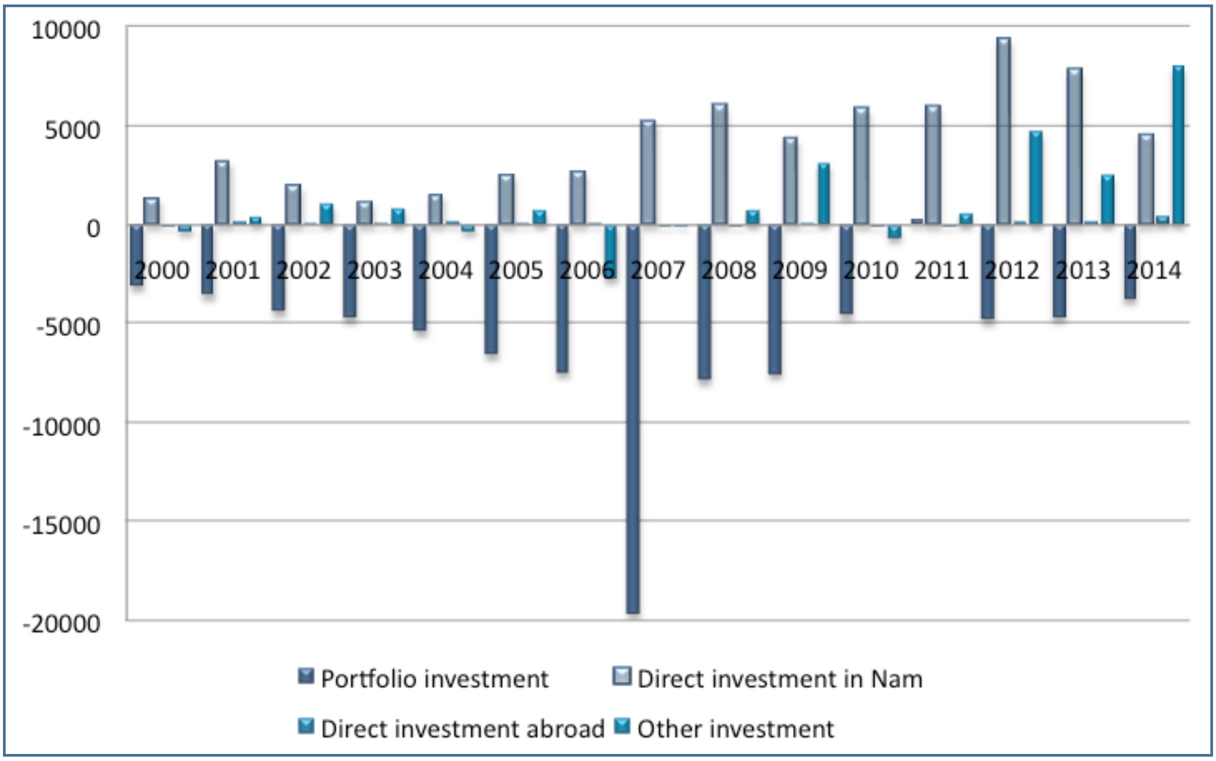
4. NAMIBIA'S INVESTMENT FLOWS

The Organisation for Economic Co-operation and Development, OECD (2008), defines direct investment as the category of cross-border investments made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor.

According to Evans (2002) both portfolio and direct investment can bring greater benefits to the economy, and together the benefits are increased. What is important is to recognize their differences and with the right policies such as macroeconomic policies that minimize distortion to price signals both can contribute to a strong and healthy economy. With the right policy framework, Foreign Direct Investment (FDI) can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient and the investing economies. Foreign investment encourages the transfer of technology and know-how between economies while it also provides an opportunity for the host economy to promote its products more widely in international markets (OECD, 2008).

Based on Balance of Payment Manual 6 (2009), portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets. In addition, Evans (2002), foreign portfolio investment increases the liquidity of domestic capital markets, and can help develop market efficiency. It can also bring discipline and know-how into the domestic capital markets crucial for its development. Figure 12 shows Namibia's investment position (N$ millions) for the period 2000 to 2014:

Figure 12: Investment flows (N$ million)

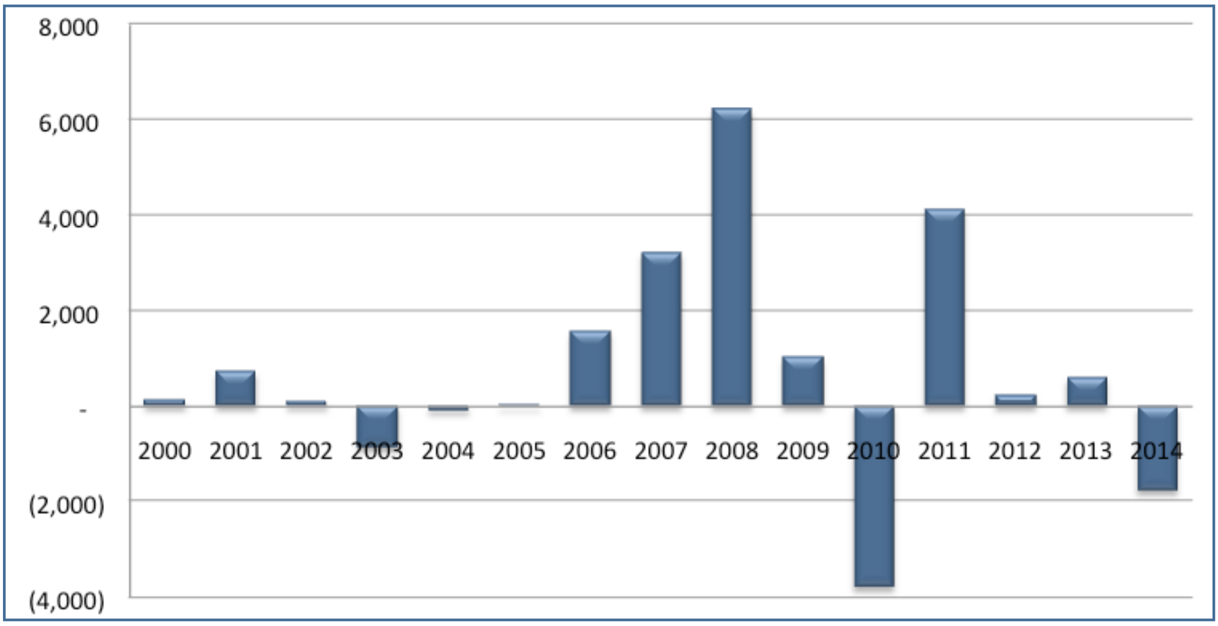


Source: Generated using data from Bank of Namibia

Figure 12 shows Namibia's investment position in terms of direct investment, portfolio investment and other (short and long term) investment. It can be seen that direct investment in Namibia is greater than direct investment abroad, meaning that investments made by Namibians in foreign countries is smaller as compared to investments made by international investors (foreigners) in Namibia. The trend in direct investment in Namibia shows some up and down movements, recording the highest investment in 2012 due to an increase in equity capital and reinvested earnings. In 2014, direct investment in Namibia declined by 41.9 percent from N$7.7 billion recorded in 2013 to N$ 4.5 billion in 2014 as a result of a huge fall of 93.5 percent in equity capital between the two periods.

Portfolio investment net outflows declined slightly in 2013 to N$4.7 from N$4.8 billion recorded in 2012. The decrease is attributed to a decline in foreign invested debt securities. Other investments declined in 2006 due to a net outflow in short term investments. Other long-term investments recorded a net inflow of N$4, 8 billion in 2013 from N$858 million in 2012. The increase in the inflow is due to long term investments in the mining projects by non-residents (BoN, 2013). Other investment is a residual category that includes positions and transactions other than those included in direct investment, financial derivatives and employees stock options (BPM6, 2009).

Figure 13: Overall Balance (N$ million)



Source: Generated using data from Bank of Namibia

As pointed out earlier, Namibia's BoP is a build-up of a trade deficit in the country's current account. Overall balance of payment was N$723 million in 2001 which gradually declined to minus N$862 million in 2003. The overall BOP fluctuated during the entire period from 2004 to 2014, recording its maximum value in 2008 and its minimum value in 2010. The year 2008 witnessed an increase of 93 percent from 2007, which is the highest surplus since 2000. BoP was affected by the 2008/9 financial crisis/reccession which led to a larger deficit of minus N$3,7 billion in the year 2010. The recession affected mainly the major components of the BoP which is the Current account leading to a huge deficit in 2010. However, BOP has been recovering since 2011, recording a surplus of N$4.1 billion in 2011, N$231 million in 2012 and N$598 million in 2013. The increase or recovery of the BOP can be attributed to significant inflows in the Capital and Financial account (BoN, 2014). The overall BoP recorded a deficit in 2014 due to a widening current account deficit.

5. THE BALANCE OF PAYMENTS IN ECONOMIC POLICYMAKING

One of the key objectives of macroeconomic policy is to reduce disequilibrium in the balance of payment. This implies an important achievement of balance of payments stability for an economy. The achievement of BOP stability is crucial for a small but open Namibian economy and hence the ultimate aim of relevant authorities should be to avoid large BoP deficits as these could cause sharp depreciation in the currency.

The objective of the monetary policy is to maintain price stability which implies an indirect objective of achieving BoP equilibrium. Monetary policy seeks to influence money supply or interest rate to stimulate economic activities in pursuit of the achievement of price stability. If the central bank increases money supply, excess money supply will result in excess demand for goods and services which will in turn cause a rise in prices (inflation), thereby affecting the BoP position.

A decline in interest rates is usually associated with an increase in money supply as it encourages borrowing for investment and consumption purposes. Increase in investment in economic activities that are productive will lead to increase in exports of goods and services and later into the country's favourable balance of payment position. Either case, whether it's a deficit or persistent surplus, monetary policy would need the support of the fiscal policy and other macroeconomic objectives and microeconomic policy measures to solve these problems.

Namibia enacted a Foreign Investment Act in 1990 and also an Export Processing Zone regime with a view to attract foreign direct investments in the economy. Such policies and act were designed to attract investments in sectors such as manufacturing for value addition which had been less prominent due to the Namibian economy being predominantly resource or commodity based with little or no value addition at all. Imports continue to dominate over exports, which is worsening the trade balance.

As a member of the Common Monetary Area (CMA)[5], the Bank of Namibia has maintained the one-to-one peg of the Namibia Dollar (N$) to South African Rand. This was to ensure stability and encourage exports and building currency reserves to ultimately improve the trade balance. Government has made great strides in encouraging manufacturing or value addition even in the mining sector which has and continues to export mineral resources in their raw form with little value addition. However, the scope for the expansion exists as government has been ushering in support to aid and improve value addition and beneficiation in the country.

[5] According to Wang et al (2007), the CMA arrangement has its roots in a de facto currency union. Lesotho, Namibia, South Africa and Swaziland are the member countries. The three small member countries have the right to issue national currencies which are legal tender only in their own countries whereas the South African Rand is legal tender throughout the CMA.

6. BALANCE OF PAYMENTS SUSTAINABILITY

Balance of payments sustainability is an issue receiving prominence at the present moment. and it simply implies the potential of a country to maintain and provide support during periods of experiencing BOP deficits. Freund (2005), in his paper on Current account adjustment in industrial countries, found that the adjustment process in the Organisation for Economic Co-operation and Development (OECD) countries begins when the Current account deficit is about 5 percent of GDP. The adjustment process is a process whereby the Current account reverses from a deficit to a surplus. He added that it takes between three to four years to adjust. Similarly, Osakwe & Verick (2007) used a 5 percent threshold to investigate sustainability of the Current account deficit in some African countries. He found that most countries whose deficit exceeded 5 percent of GDP were experiencing macroeconomic instability, thus, low level of investment and low growth. Imoisi et al., (2013) indicates that for an effective monetary policy to ensure BoP stability in the country, it should be complemented with an effective fiscal policy.

In Namibia, however, the Current account deficit was 4.2 percent of GDP in the year 2013 from 5.8 percent recorded in 2012, while in 2014 the Current account deficit stood at 6.6 percent of GDP. The deficit has been persisting since 2009 mainly because of the structural weakness such as export supply constraints due to weak productive capacity in the Namibian economy. The increase in the deficit is mainly as a result of deterioration of the trade balance. The year 2014 recorded the highest trade deficit in Namibia since 2000, due to a rise in import bill in comparison with export receipts. When you look carefully on the trend of the Current account and Capital account (Figure 1 and 10) you will notice that, during the same period, direct investment inflows were also high of which an overwhelming 99 percent was direct investments in Namibia.

Sustaining Namibia's Current account is also an issue of concern just like in any other economy given its importance in relation to economic events in the country. A current account is said to be sustainable if the continuation of the government policy position and private sector behaviour will not need a drastic policy shift (such as a fiscal contraction) or lead to a currency or BoP crisis (Ferretti & Razin, 1996). Sustainability is important because Current account imbalances are often viewed as a sign of weakness calling for policy action.

According to Anca & Adrian (2010), a deficit that came about because of high investments can only be sustainable if the investments are directly related to capital formation and economic growth. He further added that Current account sustainability is complex and depends on factors such as: the structure of exports, imports, government expenditure and national credits; and the improving prospects of collecting budget revenues. According to Bank of Uganda (2003), the following are some of the requirements for sustaining Current account deficits:

- If the deficit is to be financed from the foreign reserves of a country by means of reserve related borrowing, the deficit would be unsustainable. If however it were financed with direct equity investment, it would pose less of a threat to solvency because the dividends paid on such investments would depend on the success and profitability of the investments.

- The sustainability of a country's current account deficit is also possible if the foreign savings of a recipient country is investing in order to enhance its future earnings.

CONCLUSION AND POLICY LESSONS

This Policy Brief analysed the two main activities measured by BoP which are the Current account and Capital and Financial accounts. Issues of BoP sustainability were also analysed in view of the small open economy of Namibia. On the basis of the analysis, this Policy Brief draws the following conclusions and policy lessons learnt:

Namibia's Current account has been deteriorating since 2009 due to high import bills (mainly in a form of consumable goods) than export receipts.

For the Current account to be sustainable, it should be within a threshold of 5 percent of GDP which the Namibian economy exceeded in 2012 (5.8 percent) and 2014(6.6 percent). The Current account for Namibia has been fluctuating as a result of changes in the global and regional economies which both affected exports and imports of goods and services to and from the rest of the world.

Although Namibia has a Current account deficit higher than 5% of GDP, considered unsustainable by some economists, such deficit is still sustainable because it does not persistently run a BoP deficit as there is a compensating capital inflow to finance the deficit.

The sustainability of Namibia's Current account will still be possible if:

- The government to continue ensuring that macroeconomic policies are supportive of exchange rate regime to ensure sustainability and stability of the balance of payments in addition to economic growth.
- Another policy recommendation that is possible is to improve our services account to record more inflows. Currently Namibia has the diamond and copper processors that are bringing in huge inflows. We also need to boost the tourism sector so as to realise even higher earnings (further research regarding this is recommended)
- Finally policymakers should focus on removing weaknesses such as export supply constraints, which would provide a boost to long-term growth and development prospects of Namibia. This will ultimately lead to improvements in the BOP position and its sustainability which are both crucial for the economy.

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