INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/401

NAMIBIA

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

December 2023

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on October 3, 2023, with the officials of Namibia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 17, 2023.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/426

IMF Executive Board Concludes 2023 Article IV Consultation with Namibia

FOR IMMEDIATE RELEASE

Washington, DC – December 7, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Namibia and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Namibia's real GDP growth reached 4.6 percent in 2022 on the back of sustained mining growth and recovery in tourism. With growth estimated at 3.2 percent in 2023, economic activity is assessed to have now surpassed the pre-pandemic level. Inflation, which rose sharply in 2022 due to high international oil and food prices, has eased below 6 percent, but is susceptible to resurgent fuel prices in recent months. The current account deficit widened in 2022 to 12.8 percent as the spike in fuel prices inflated the import bill. With the SACU receipts resurging in 2023 and a pick-up in FDI inflows, including related to oil exploration, official reserves remain adequate. The fiscal deficit has narrowed and is projected to drop below 4 percent of GDP this fiscal year as pandemic-related spending pressures eased, the public wage bill growth has been contained, and performance of state-owned enterprises improved. Meanwhile, social assistance was expanded to address food insecurity exacerbated by the drought.

Growth is expected to stabilize at about 3 percent over the medium term. Public debt-to-GDP ratio is projected to ease below 66 percent of GDP as the authorities implement their fiscal consolidation strategy, mindful of the need to contain debt servicing costs and manage the volatility of SACU revenues. The current account deficit is subject to large revisions and will remain elevated due to the intensifying oil exploration. But it will gradually narrow on the assumption that international energy prices normalize and global demand for key commodities in Namibia, namely uranium, diamonds, and fish, remains robust in the medium-term.

Oil exploration and developments related to prospective green hydrogen production have gathered momentum and represent an upside potential, although final investment decisions are yet to be announced. Meanwhile, a global slowdown in trade due to geopolitical tensions could affect growth and put pressure on buffers.

Executive Board Assessment

In concluding the Article IV consultation with Namibia, Executive Directors endorsed the staff appraisal as follow:

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its laps-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Namibia has shown resilience to global shocks, but growth continues to rely on the mineral sector, with a high public wage premium undermining private sector job creation and economic diversification. Output is estimated to have surpassed the pre-pandemic level in 2023 while inflation has come down substantially from its highs in 2022. The fiscal stance in FY23/24 has been appropriately tightened, with part of the SACU revenue windfall used to expand social programs and part saved as a precautionary buffer. Although this tightening helped contain the rise in public debt, the public sector wage bill and debt service still consume the bulk of the budgetary resources, despite the measures taken since FY21/22 to contain public wage bill expansion. To achieve its growth potential and tackle unemployment, which is especially high for the young, Namibia needs to streamline its public sector and address the public wage premium to foster a more diverse and dynamic economy that both creates jobs and reduces poverty and inequality.

Namibia's external position is assessed to have been weaker than the level implied by fundamentals and desirable policies (Annex II). The current account deficit has widened substantially in 2022 partly due to the intensity of oil exploration and will likely remain elevated in the near term. Nevertheless, the overall external balance has remained positive, partly due to FDI generated by oil exploration, yielding higher reserves, which has also received a boost from the post-pandemic recovery in SACU receipts, expected to normalize next year. Large transactions associated with oil and gas exploration have increased the urgency to upgrade the statistical capacity to process these unprecedented data and strengthen the monitoring of the external sector. While a final investment decision has not been taken, the potential for significant revenue from oil and gas in the future has raised the need to develop specialized tax capacity, review existing legislation, and finalize a natural resource management framework.

The current fiscal stance is more expansionary than warranted given the need to put the public debt-to-GDP ratio on a firmly declining path. The overall risk of debt distress is moderate. Nonetheless, fiscal consolidation is pivotal to increase fiscal space to confront future shocks, expand the social safety net, finance the needed infrastructure upgrades, and improve external competitiveness. Going forward, a systematic approach to public employment and its remuneration is critical: keeping and attracting needed talent for an efficient public sector while strategically downsizing in non-critical areas. To this effect, the authorities are encouraged to complete the ongoing functional review of the civil service and finalize the modalities of the early retirement scheme. These foundational elements of the much-needed civil service reform would help anchor the authorities' ambitious medium-term fiscal consolidation plans, which go appropriately beyond just containing the public debt-to-GDP ratio. SOE reform saw some results from the public delisting and sale of companies. The issuance of the PAOP paper for consultation with stakeholders is marking a step toward establishing a reform roadmap for the remaining SOEs. Staff also encourages a swift adoption of the amended State Finance Act to underpin further improvements in public financial management.

Maintaining the policy rate broadly aligned with the SARB and managing an adequate level of reserves will help anchor inflation and preserve the currency peg. If reserves come under pressure due to sustained portfolio outflows and negative shocks to SACU receipts, raising the policy rate above the SARB and accelerating fiscal consolidation efforts could be necessary.

Continued monitoring of macro-financial risks and assessing the efficiency of mitigation measures will support financial stability. The financial sector remains stable, but risks have

increased with households facing higher variable mortgage rates and NBFIs vulnerable to financial market volatility. Staff welcomes progress made in developing the macroprudential policy framework. Strengthening systematic data-sharing between BoN and NAMFISA and developing the framework for early warning indicators will support the management of macro-financial risks. Functional DGS and ELA frameworks will help mitigate risks.

Staff welcomes the authorities' progress in strengthening the AML/CFT framework and address the areas of improvement identified in the SA. Effective implementation of the newly passed laws remains the current hurdle before the FATF decision on grey listing. On remaining SA measures, staff stands ready to support the authorities in legal reforms to further strengthen the autonomy of the central bank.

New mineral discoveries and the investment in green energy provide an opportunity to boost growth, employment, and foster diversification. Strengthening the PPP framework and addressing constraints hampering entrepreneurship, including the regulatory burden, skill mismatches, and input costs (energy, water, and data) would help the Namibian economy benefit from the new investments. Updating the statistical information on labor force and its skills profile will help tailor training efforts to emerging private sector opportunities. Accordingly, completing the 2023 census with a skills audit and a new labor force survey have gained added urgency. In this context, revising immigration laws to modernize and streamline the processes for attracting and bringing needed international expertise, and use it for local training is also critical.

Table 1. Namibia: Selected Economic Indicators, 2019–2028

(Percentage change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National Account and Prices										
GDP at constant prices	-0.8	-8.1	3.5	4.6	3.2	2.7	2.7	2.6	2.6	2.6
GDP deflator	0.9	4.6	2.0	7.2	7.8	4.6	5.2	4.7	4.8	4.4
GDP at market prices (N$ billions)	181	174	184	206	229	246	266	286	307	329
GDP at market prices (Fiscal Year) (N$ billions)	179	177	190	212	233	251	271	291	313	335
GDP per capita (US$, current exchange rate)	5,099	4,226	4,879	4,854	4,727	4,931	5,130	5,284	5,402	5,507
Consumer prices (average)	3.7	2.2	3.6	6.1	6.0	4.8	4.8	4.8	4.8	4.8
External Sector										
Exports (US$)	-7.6	-19.0	14.1	17.3	1.4	7.0	4.9	3.2	3.8	3.1
Imports (US$)	-9.8	-21.0	35.2	16.6	-2.3	4.1	2.9	3.3	3.4	1.8
Terms of trade (deterioration = -)	2.1	6.3	-14.0	14.4	4.2	1.8	-1.3	-0.3	-0.1	0.6
Real effective exchange rate (period average)	98.5	91.4	96.4	92.9	...	...	...	...	...	...
Exchange rate (N$/US$, end of period)	14.0	14.7	15.9	17.0	...	...	...	...	...	...
Money and Credit										
Domestic credit to the private sector	7.1	2.4	1.0	4.2	3.4	3.8	4.5	5.0	5.0	5.1
Base money	5.0	16.1	0.2	16.6	11.7	7.9	8.2	8.0	8.0	8.0
M2	10.5	8.1	4.2	0.0	11.7	7.9	8.2	8.0	8.0	8.0
BoN repo rate (percent) 1/	6.50	3.75	3.75	6.75	7.75	...	...	...	...	...
	(Percent of GDP)									
Investment and Savings										
Investment	15.3	13.9	17.4	17.3	16.0	16.1	16.2	16.2	16.2	16.2
Public	3.7	2.9	2.7	2.7	3.0	3.2	3.2	3.2	3.2	3.2
Others (incl. SOEs)	12.1	10.8	13.3	11.3	13.0	13.0	13.0	13.0	13.0	13.0
Change Inventories	-0.5	0.2	1.4	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Savings	13.5	16.7	7.5	4.6	5.3	6.5	7.6	9.0	9.2	10.0
Public	-2.2	-4.1	-5.4	-3.2	-1.1	-1.5	-1.3	-1.0	-0.8	-0.7
Others (incl. SOEs)	15.8	20.8	12.9	7.8	6.4	8.0	8.9	10.0	10.0	10.7
Central Government Budget 2/										
Revenue and grants	32.6	32.9	29.2	30.4	33.8	31.3	31.0	31.2	31.2	31.2
Of which: SACU receipts	10.5	12.6	7.8	6.7	10.4	8.4	8.1	8.3	8.2	8.2
Expenditure and net lending	38.2	41.6	37.8	35.6	37.7	36.3	35.4	35.4	35.3	35.2
Of which: Personal expenditure	16.5	16.7	15.9	14.8	14.3	14.2	13.4	13.4	13.3	13.2
Capital expenditure and net lending	3.3	4.1	3.1	2.7	3.3	3.2	3.3	3.3	3.3	3.3
Primary balance (deficit = -)	-1.8	-4.6	-4.3	-0.8	1.2	0.1	0.7	1.0	1.1	1.0
Overall balance	-5.6	-8.7	-8.6	-5.3	-3.9	-5.0	-4.4	-4.2	-4.0	-4.0
Primary balance: Non-SACU	-12.3	-17.2	-12.1	-7.5	-9.3	-8.2	-7.4	-7.3	-7.1	-7.1
Public debt	58.1	63.4	68.3	68.7	66.1	66.7	66.5	66.4	66.0	65.8
Of which: domestic	39.5	44.5	51.2	50.6	48.3	50.2	52.0	53.0	53.4	53.9
Gross public and publicly guaranteed debt/GDP	64.9	69.8	73.7	74.7	72.1	72.7	72.5	72.4	72.0	71.8
External Sector										
Current account balance										
(incl. official grants)	-1.7	2.8	-9.9	-12.8	-10.7	-9.6	-8.5	-7.1	-7.0	-6.2
External public debt (including IMF)	18.6	18.9	17.2	18.1	17.8	16.5	14.5	13.4	12.6	11.9
Gross official reserves										
US$ millions	2,064	2,163	2,760	2,799	2,953	3,078	3,294	3,446	3,543	3,730
Percent of GDP	16.0	18.2	23.8	22.2	23.6	23.2	23.4	23.4	23.1	23.4
Months of imports of goods and services	5.1	4.1	4.5	4.5	4.6	4.7	4.9	4.9	5.0	5.0
External debt/GDP 3/	66.4	77.5	67.6	70.6	73.6	71.0	69.7	68.3	67.4	64.8
Memorandum Item										
Population (in million)	2.5	2.5	2.6	2.6	...	...	...	...	...	...

Sources: Namibian authorities; and IMF staff estimates and projections.

1/ Rate for 2023 is as per MPC decision of October 25, 2023.

2/ Figures are for fiscal year, which begins April 1.

3/ Public and private external debt.

INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

November 17, 2023

KEY ISSUES

Context. Namibia has shown resilience to the negative shocks from the COVID-19 pandemic and Russia's war in Ukraine. Output has recovered to the pre pandemic level, inflation has fallen below 6 percent, and expectations remain anchored. Official reserves, at 4.7 month of imports in September, exhibit adequacy consistent with the peg to the rand. Prospects are brightened with discovery of oil and gas reserves. At the same time, Namibia is poised to benefit from the global pivot to green energy through its signature Green Hydrogen Project. Meanwhile, the challenge of improving public sector efficiency and reducing the large wage bill, not only for the sake of preserving debt sustainability, but also for the Namibian people to benefit the most from these new developments, remains paramount. Elections are scheduled for 2024.

Outlook and Risks. Driven by mining and recovering tourism, growth is expected to reach 3.2 percent in 2023 and stay within 2½–3 percent range over the medium term, excluding activities related to offshore oil and gas exploration. The fiscal deficit in FY23/24 is projected at 3.9 percent of GDP, enabling a drop in the public debt to-GDP ratio to about 66 percent of GDP. Nevertheless, SACU revenues, a key contributor to this positive outcome, are expected to dwindle next year and their volatility is a challenge to the authorities' medium-term fiscal consolidation plan. The current account deficit is expected to reach around 11 percent of GDP in 2023 and remain elevated in the coming years due to FDI-financed oil and gas exploration, which signals upside growth potential. Risks reflect weak growth and policy uncertainty in South Africa and a further rise in geopolitical tensions resulting in higher energy and food costs and lower global demand for Namibia's key commodity exports, notably, diamonds.

Key Policy Recommendations. Namibia should continue to tackle its current challenges of elevated public debt and weak non-resource sector growth. Fiscal consolidation will help reduce public debt and create space for private sector growth. Reforms to strengthen the PFM framework and the performance of SOEs can raise productivity and lay the basis for efficient management of potentially large revenues from natural resources. Streamlining business regulations and ensuring a predictable policy environment will support private sector dynamism. Enhancing statistical capacity for consistent recording of transactions reflecting offshore oil-related activities would help inform policy. Improving liquidity management would help support the peg.

Approved By
Andrea Richter-Hume (AFR) Fabián Valencia (SPR)

An IMF team consisting of Mr. Wieczorek (head), Messrs. Cangul, Gurara and Takizawa (all AFR) held discussions in Windhoek for the 2023 Article IV Consultation during September 18–October 3, 2023. Mses. Fernando (LEG), Kunaratskul (MCM), and Mr. van Greuning (FIN) joined the discussions virtually. Ms. Nainda (OED) participated in the discussions. The team held discussions with the Minister of Finance Mr. I. Shiimi, Central Bank Governor Mr. J. !Gawaxab, and other senior government officials. The mission met with members of the Parliament, representatives of civil society, development partners, and the private sector. Mses. Goel, Prado, and Mr. Trejo Guevara (all AFR) aided in the preparation of this report.

CONTENTS

ANNEXES

Glossary

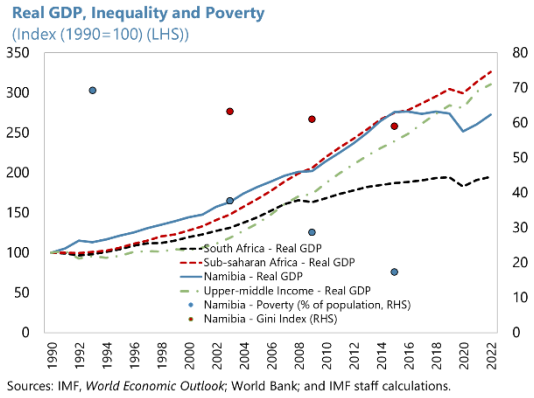
AfDB	African Development Bank
AFR	African Department of the IMF
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ARA	Assessing Reserve Adequacy
BoN	Bank of Namibia
CA	Current Account
CBDC	Central Bank Digital Currency
CPI	Consumer Price Index
CFLV	Catalytic First Loss Venture Fund
CFM	Capital Flow Management Measure
CMA	Common Monetary Area
c-PIMA	Climate-Public Investment Management Assessment
DRC	Democratic Republic of the Congo
DGS	Deposit Guarantee Scheme
EBA-lite	External Balance Assessment
ELA	Emergency Liquidity Assistance
EME	Emerging Market Economy
EITI	Extractive Industries Transparency Initiative
EV	Electrical Vehicle
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FID	Final Investment Decision
FIMA	Financial Institutions and Markets Act
GFC	Global Financial Crisis
GHP	Green Hydrogen Project
GIPF	Government Institutions Pension Fund
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
G-RAM	Global Risk Assessment Matrix
HCI	Human Capital Index
IFC	International Finance Corporation
IFS	International Financial Statistics
ILO	International Labor Organization
kT/y	Thousands of tons per year
kWh	Kilowatt hour
LTV	Loan-to-value
ML/TF	Money Laundering and Terrorist Financing
MPC	Monetary Policy Committee
MTFF	Medium-Term Fiscal Framework
Mt/y	Millions of tons per year
MYBR	Mid-Year Budget Review
NAMFISA	Namibia Financial Institutions Supervisory Authority
NIIP	Net International Investment Position
PFM	Public Financial Management
FATF	Financial Action Task Force

FIN	Finance Department of the IMF
FY	Fiscal Year
GW	Gigawatt
LEG	Legal Department of the IMF
LHS	Left Hand Scale
MCM	Monetary and Capital Markets Department of the IMF
NamPort	Namibian Ports Authority
NamRA	Namibia Revenue Agency
NBFI	Non-Bank Financial Institution
NDP	Namibia National Development Plan
NEER	Nominal Effective Exchange Rate
NPL	Non-Performing Loan
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
OED	Office of the Executive Directors of the IMF
NAMCOR	National Petroleum Corporation of Namibia
NamPower	Namibia Power Corporation
NSA	Namibia Statistical Agency
PSEMAS	Namibia Public Service Employee Medical Aid Scheme
REER	Real Effective Exchange Rate
RHS	Right Hand Scale
ROA	Return on Assets
ROE	Return on Equity
RoN	Republic of Namibia
SRDSA	Sovereign Risk and Debt Sustainability Analysis
PAOP	Namibia Public Asset Ownership Policy
PPP	Public-Private Partnership
PPP	Purchasing Power Parity
PSM	Propensity Score Matching
SA	Safeguards Assessment
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SDG	Sustainable Development Goal
SDR	Special Drawing Right
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
SPR	Strategy, Policy, and Review Department of the IMF
SSA	Sub-Saharan Africa
TWH	Terawatt-hour
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax
WASH	Drinking Water, Sanitation and Hygiene
WEO	World Economic Outlook
WDI	World Bank Development Indicators
WEF	World Economic Forum
ZAR	South African rand

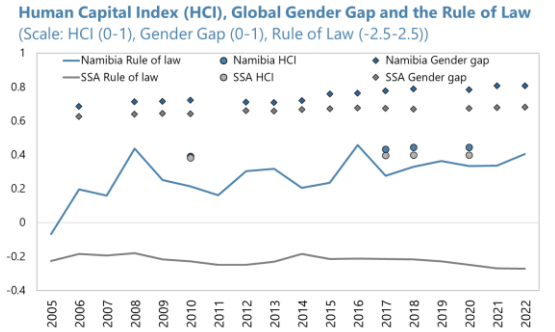
CONTEXT AND BACKGROUND

1. Since independence, Namibia has made notable progress in improving living standards while enjoying macroeconomic stability (Text Figure 1). The expansion of the social safety net helped halve poverty and reduce the elevated inequality inherited from the apartheid era. The Human Capital Index (HCI), Global Gender Gap and the Rule of Law have improved above the regional average.[1] Furthermore, Namibia's economy proved resilient in weathering the COVID-19 pandemic and shocks provoked by Russia's war in Ukraine.

Text Figure 1. Economic and Social Progress Since Independence



Sources: IMF, *World Economic Outlook*; World Bank; and IMF staff calculations.



Sources: World Bank, *World Development Indicators; Worldwide Governance Indicators (WGI)*; World Economic Forum, *Global Gender Report 2022*; and staff estimates.
Note: Human Capital Index - higher the better. Gender Gap Index shows the distance to parity - higher the better. Rule of Law indicates confidence in country's legal and governance systems - higher the better.

2. Nonetheless, recent shocks exposed the limits of Namibia's economic model, constrained by mineral dependence and public sector dominance (Text Figure 2). Growth faltered when the commodity cycle ended in 2015 and Namibia's per capita income, depressed by the pandemic, has yet to recover to its 2015 level. In an environment marked by informality, the formal private sector has offered limited job opportunities for the growing youth.[2] Instead, the public sector has driven job creation, at the cost of expanding the public wage bill from 37.7 percent of revenue in 2009 to over 50 percent in 2022. This trend has contributed to the ballooning of the public debt-to-GDP ratio to nearly 69 percent of GDP in FY22/23.

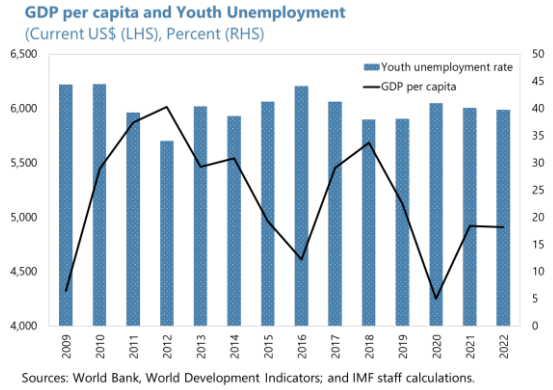
3. Despite these challenges, Namibia's potential for green growth is a source of renewed optimism. Namibia's geographic advantage with abundant wind and solar resources has galvanized international interest in producing cost-effective green hydrogen. The existing lithium and rare earth deposits have also attracted investor interest, offering an opportunity to generate new skills, employment, and value chains toward a more diversified economy (Annex VI). At the same time,

[1] WEF Global Gender Gap Report has ranked Namibia 8th in the world for efforts to close the gender gap.

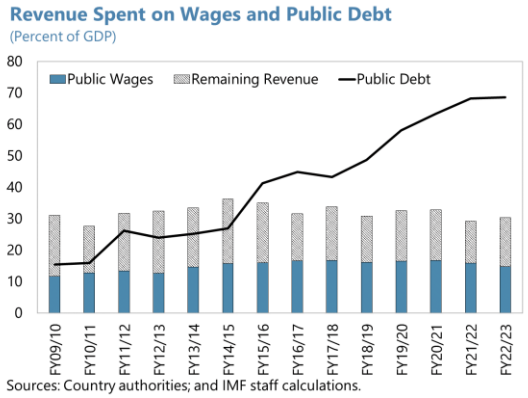
[2] Based on the 2018 National Labor Survey, the informal sector accounted for 55.8 percent of total employment, with 85.9 percent in agriculture. The World Bank estimates that 41 percent of the urban population lives in informal settlements. According to the NSA, the informal sector represents 16.2 percent of GDP.

promising offshore petroleum discoveries could turn Namibia into a significant oil producer, helping to meet global demand even as the world's economies transition to greener sources of energy.

Text Figure 2. Recovery and Public Sector Wages



Sources: World Bank, World Development Indicators; and IMF staff calculations.



Sources: Country authorities; and IMF staff calculations.

RECENT DEVELOPMENTS

4. The global mining boom has been helping Namibia to recover output losses from the pandemic (Text Figure 7). Real GDP growth rose to 4.6 percent in 2022, from 3.5 percent in 2021, thanks to heightened global demand for diamonds and uranium. Meanwhile, tourism and construction lagged, and real output remained below its pre-pandemic level. The recovery accelerated in H1-2023, again propelled by mining.[3] However, agricultural output has contracted during the current drought, and growth excluding mining turned negative in Q2-2023. Unemployment stood at 21 percent (40 percent among youth).[4]

5. Inflation eased this year following universal trends (Text Figure 2). Headline inflation dropped from a peak of 7.3 percent (y/y) in August 2022 to 4.5 percent (y/y) in July 2023 as transport costs stabilized. It edged up in recent months, but core inflation remained below 5 percent and inflation expectations have returned to the target range of 3–6 percent (Text Figure 3). However, food price inflation exceeded 10 percent for nearly one year, putting stress on the most vulnerable who are estimated to spend as much as 65 percent of their income on food.[5]

6. Namibia's external position is assessed to have been weaker in 2022 than the level implied by fundamentals and desirable policies (Annex II). The current account deficit widened from 9.9 percent of GDP in 2021 to 12.8 percent of GDP in 2022 largely due to lower SACU receipts and a higher fuel import bill, resulting in a CA gap of 3.9 percent of GDP.[6] With oil exploration-

[3] NSA now tracks oil and gas exploration in the quarterly national accounts, but not yet in the annual data.

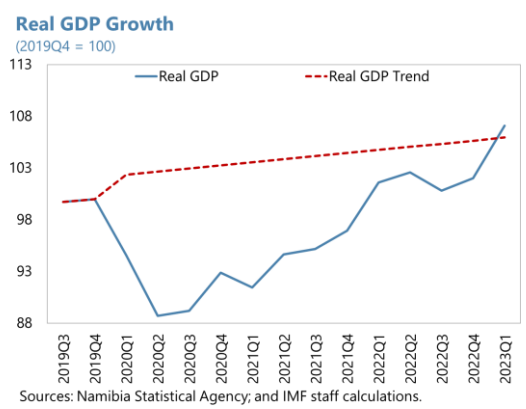
[4] Based on the WDI database (World Bank).

[5] IMF Country Report No. 22/364, Annex IV.

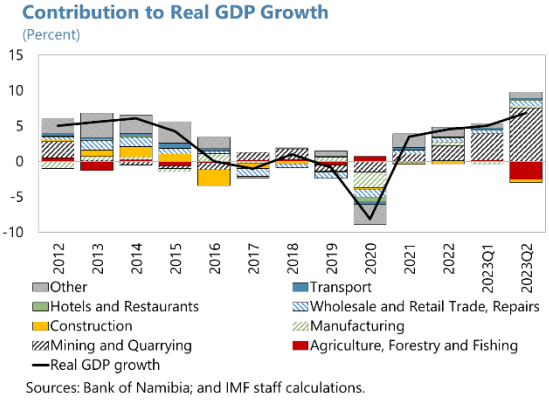
[6] Re-exports by downstream operators and imports related to mining and new oil exploration rose against the backdrop of lower aggregate domestic fuel consumption.

related FDI, financial support from mining parent companies, and budget support from AfDB, the overall balance posted a modest surplus and gross reserves rose to US$2.8 billion at end-2022, ensuring 4.5 months of import cover.[7] The real effective exchange rate depreciated by 3.6 percent in 2022 (average y/y), primarily due to the rand's nominal depreciation by 11.2 percent against the U.S. dollar (average y/y).

Text Figure 3. Real GDP Growth

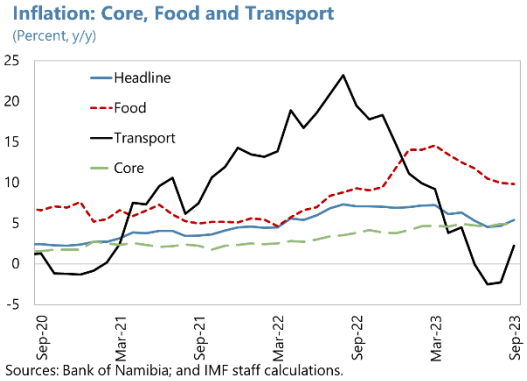


Sources: Namibia Statistical Agency; and IMF staff calculations.

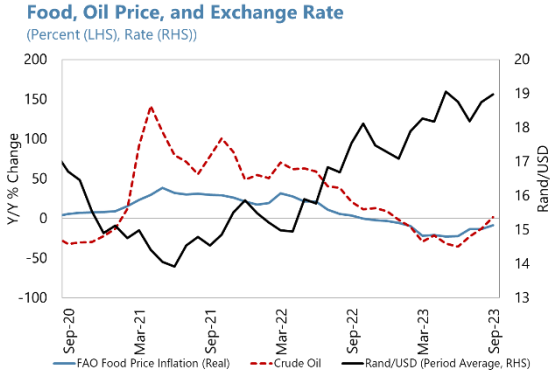


Sources: Bank of Namibia; and IMF staff calculations.

Text Figure 4. Inflation Trends



Sources: Bank of Namibia; and IMF staff calculations.
Note: Transport inflation mainly reflects movement in fuel prices.

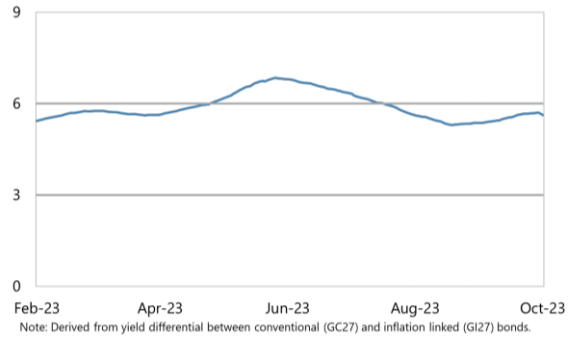


Sources: IMF IFS Database; Bloomberg; and FAO.

7. Fiscal performance improved considerably in FY22/23. The fiscal deficit narrowed from 8.6 percent of GDP in FY21/22 to 5.3 percent of GDP in FY22/23. Revenues rose by 1.2 percentage points of GDP, reflecting: (i) one-off dividends from SOEs (predominantly, diamond companies), which outweighed the drop in SACU receipts (1.1 percent of GDP); (ii) higher mineral royalties; and (iii) higher VAT as compliance measures paid off. Expenditures declined by 2.2 percentage points of GDP. The wage bill was controlled through natural attrition, hiring limitation, and below-inflation salary adjustments. Subsidies and transfers to SOEs remained contained and pandemic-related purchases of goods and services decreased, while the interest bill increased.

[7] Reserves in September 2023 stood at 4.7 months of imports.

Text Figure 5. Market-based Inflation Expectations (4 Years)
(Percent)

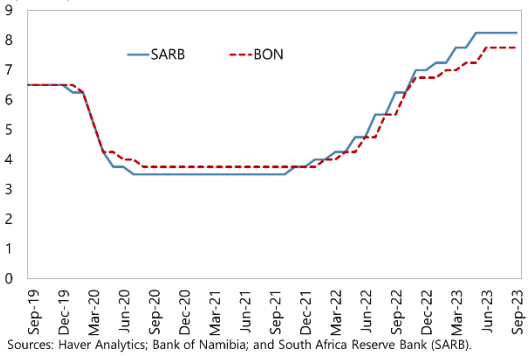


Note: Derived from yield differential between conventional (GC27) and inflation linked (GI27) bonds.
Sources: Bloomberg; and IMF staff calculations.

8. BoN has tightened monetary policy, following the SARB. Since February 2022, BoN has raised rates by 400 bps to 7.75 percent, 50 bps below the SARB's policy rate (Text Figure 6). While being watchful of foreign exchange market developments, BoN has opted for maintaining this differential to support the economic recovery and, following the "no change" decision at the SARB's MPC meeting in September, the BoN kept its policy rate unchanged at its October MPC meeting.

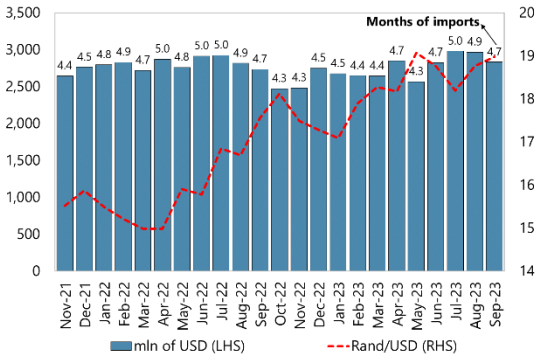
Text Figure 6. Policy Rates and International Reserves

Bank of Namibia and SARB Policy Rates
(Percent)



Sources: Haver Analytics; Bank of Namibia; and South Africa Reserve Bank (SARB).

Namibia Gross International Reserves Stock

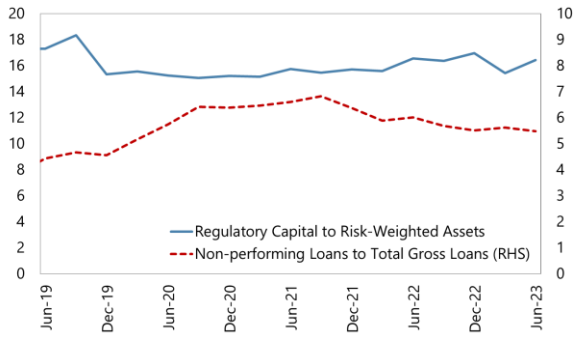


Sources: Bank of Namibia; and IMF staff estimates.

9. The financial system has remained stable. The end-June 2023 indicators show banks being liquid, well-capitalized, and profitable (Table 5). Notably, ROA and ROE improved due primarily to higher interest income and surpassed the pre-pandemic levels. The growth of credit to the private sector slowed to 4.2 percent (y/y) in 2022 compared to 7.1 percent (y/y) before the pandemic at end-2019. The NPL ratio, at 5.5 percent at end-June 2023 (Text Figure 7), eased below the supervisory intervention point of 6 percent, which was exceeded during the pandemic. Nonetheless, with half of bank lending in real estate, the 400 bps rise in mortgage rates since the beginning of the tightening cycle (to 12.5 percent at end-August 2023) can erode asset quality.

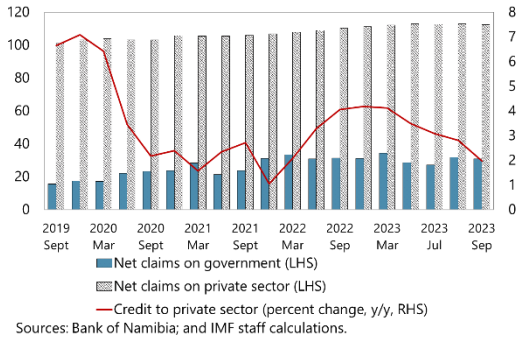
Text Figure 7. Recent Economic Developments

Bank Capitalization and NPLs
(Percent)



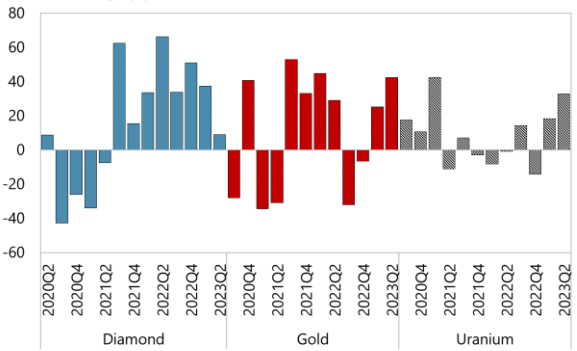
Sources: Bank of Namibia; and IMF staff calculations.

Net Claims On Government And Private Sector
(Billion $N (LHS); Percent change, y/y (RHS))



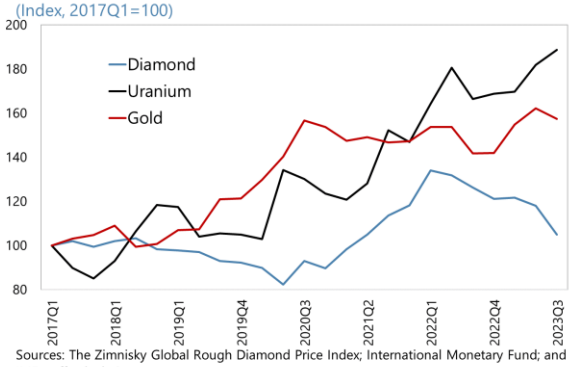
Sources: Bank of Namibia; and IMF staff calculations.

Primary Minerals Production
(Percent change, y/y)



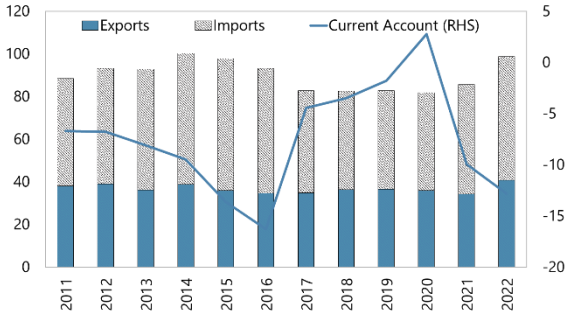
Sources: Bank of Namibia; and IMF staff calculations.

Global Prices: Diamond, Uranium, and Gold
(Index, 2017Q1=100)



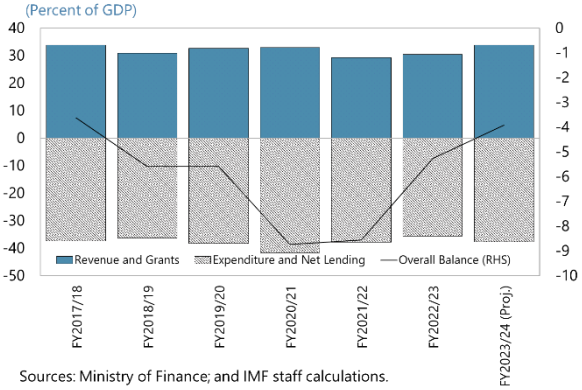
Sources: The Zimnisky Global Rough Diamond Price Index; International Monetary Fund; and IMF staff calculations.

External Balance
(Percent of GDP)



Sources: Bank of Namibia; and IMF staff calculations.

Fiscal Balance
(Percent of GDP)



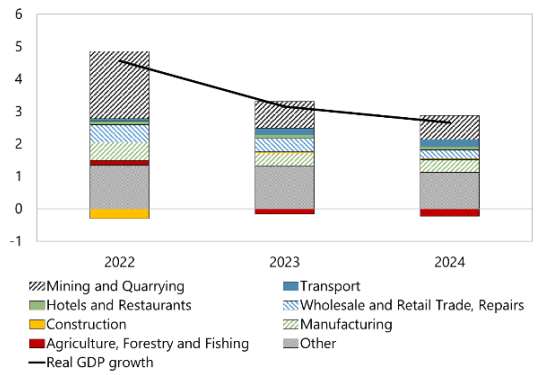
Sources: Ministry of Finance; and IMF staff calculations.

OUTLOOK AND RISKS

10. Economic growth is expected to moderate as the post-COVID rebound wanes (Text Figure 6). Real GDP growth (excluding offshore oil-related activities) is projected to slow to 2.7 percent in 2024 with the mining sector facing sluggish global demand, agricultural output contracting and tight monetary policy weighing on activity, particularly services. Over the medium

term, real GDP growth (excluding potential offshore developments) is expected to average 2.6 percent, as the boost from mining fades. Headline inflation should ease to 6 percent in 2023 and drop below 5 percent starting in 2024.

Text Figure 8. Real GDP Growth, 2022–24
(Percent)



Sources: Bank of Namibia; and IMF staff calculations.

11. Namibia's external position is expected to improve, albeit moderately. The current account deficit is projected to narrow to 10.7 percent of GDP in 2023 reflecting lower petroleum prices, resilient global demand for key minerals, and SACU receipts returning to baseline. Over the medium term, the current account deficit is expected to remain elevated due to FDI-financed imports associated with oil and gas exploration while narrowing gradually with the assumed normalization of international fuel prices. International reserves are projected to exceed the minimum ARA threshold by 6.2–12.9 percent throughout the projection horizon.

12. The fiscal deficit is expected to narrow further in FY23/24 on the back of the SACU revenue windfall. The overall fiscal deficit is expected to drop to 3.9 percent of GDP and the primary balance turn positive (1.2 percent of GDP) yielding a drop in the public debt-to-GDP ratio. SACU revenues are expected to recover by 3.7 percentage points of GDP based on a one-off adjustment to correct past under-disbursements, while tax revenues are expected to keep pace with GDP. Lower non-tax revenues reflect smaller expected dividends from SOEs. Public expenditure is expected to increase by 2.1 percentage points of GDP, reflecting drought relief, expansion of student loans program, costs of population census, support for SOEs, and higher interest payments as maturing debt is repriced.

13. Risks to the outlook are balanced (Annex I). On the upside, the development of oil, gas, critical minerals, and green hydrogen could boost investment and growth, generating jobs. On the downside, deterioration of conditions in South Africa and resurging inflation could require further monetary tightening, weaken credit growth and strain household balance sheets. Delays in fiscal consolidation could worsen public debt dynamics and squeeze buffers. Fiscal risks also include premature expenditure commitments to large ventures such as the Green Hydrogen Project (GHP). A global slowdown in trade due to geopolitical tensions could dampen demand for key commodities (including diamonds), depressing growth and reducing fiscal and external buffers.

POLICY DISCUSSIONS

Policy priorities are broadly unchanged since the 2022 Article Consultation (Annex IV). Discussions focused on: (i) implementing fiscal reforms to preserve public debt sustainability; (ii) strengthening statistical capacity to record potentially large transactions associated with new mineral activity and establishing a natural resource management framework; (iii) optimizing the functioning of the

currency peg; (iv) strengthening the resilience and inclusiveness of the financial sector and managing macro-financial risks; and (v) promoting a private sector-led growth.

14. Before the advent of new mineral resources with a potentially transformative impact, decisive reforms are critical to foster dynamic and inclusive growth. Such actions would not only help preserve macroeconomic stability but also could spur economic diversification. The public wage bill is already too high and the state can no longer be relied upon to create jobs. In this context, sustained fiscal reforms are needed to enable private sector-led growth, generate space for infrastructure upgrades, mitigate against the volatility of SACU revenues, and advance toward the Sustainable Development Goals (SDGs), including by expanding the social safety network (Annex IX).

A. Ensuring Fiscal Sustainability While Protecting the Vulnerable

15. The authorities have anchored their medium-term fiscal strategy on a gradual fiscal consolidation. The original strategy, adopted in October 2020, featured wage, SOE and tax administration reforms and rationalization of PSEMAS. While tax administration and part of SOE reforms advanced, public wage reform and the rationalization of PSEMAS stalled. The authorities, instead, contained wage bill growth through natural attrition, observing a tight hiring limit, and below-inflation salary adjustments. As a result, the public wage bill declined as a share of GDP from 16.7 percent in FY20/21 to 14.8 percent in FY22/23, contributing more than a half of the 3.4 percentage point of GDP in deficit reduction between FY20/21 and FY22/23. In the Mid-Year Budget Review (MYBR), initiated on October 31st, the government projects a deficit reduction by 1 percentage point of GDP in the FY23/24, with a significant rebound in SACU receipts allowing to cover higher interest cost and additional expenses, including on drought relief, with the remainder saved as a precautionary buffer. The related medium-term fiscal framework (MTFF) features a further

Text Table 1. Official Medium-Term Fiscal Framework
(Percent of GDP)[1/]

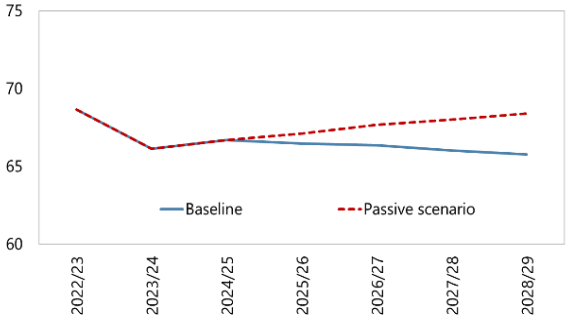
	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Mid-Year Budget Review Proj.			
Total Revenue and Grants	30.7	34.0	31.8	30.4	31.1
Revenue	30.6	33.7	31.5	30.3	31.0
Of which: SACU receipts	6.7	10.5	8.6	7.6	8.2
Grants	0.1	0.3	0.3	0.1	0.1
Total Expenditure 2/	35.8	38.2	36.9	34.4	33.2
Of which:					
Personnel	14.8	14.1	13.3	12.5	11.8
Interest Payments	4.5	5.1	5.1	4.9	4.9
Primary Balance	-0.7	0.9	-0.1	0.9	2.9
Overall Balance	-5.2	-4.2	-5.1	-4.0	-2.1

1/ Based on authorities' GDP projections in the 2023/24 Mid-Year Budget Review.
2/ Includes development expenditure outside the budget.
Sources: Ministry of Finance and Public Enterprises; and IMF staff calculations.

adjustment of about 2 percentage points of GDP in FY24/25–FY26/27, to be achieved through public wage bill reform, rationalization of PSEMAS and cutting transfers to SOEs (Text Table 1). Revenue (other than SACU receipts) is largely expected to grow in step with GDP with modest additional gains expected from the ongoing administrative reforms.[8]

16. Pressing on with fiscal consolidation is key to preserve debt sustainability and mitigate the volatility of SACU revenues. The current fiscal stance is more expansionary than warranted given the need to reduce the public debt-to-GDP ratio, re-create policy space against future shocks, and ensure room for credit to the private sector. Under staff's baseline scenario (less ambitious than the authorities' new MTFF), the primary balance is projected to improve to a surplus of 1 percent of GDP by FY26/27, compared with a surplus of nearly 3 percent of GDP in the MTFF (Table 3b). Staff assumes that the authorities will continue to moderate wage bill growth as needed to contain public debt and treats the potential gains from the full implementation of reforms as an upside risk. However, should downside risks materialize, including a further decline in SACU receipts or diamond sales, public sector reforms (going beyond wage bill control) would need to accelerate to support fiscal sustainability.

Text Figure 9. Wage Bill Control and Public Debt Dynamics
(Percent of GDP)



Note: Baseline scenario assumes full wage-inflation indexation resumes in FY24/25 and wage bill increases at an annual rate of 6.9 percent per annum over the projection horizon, except in FY25/26 when one-time wage bill control measures are implemented to supress growth to 2 percent. Passive scenario assumes no implementation of the measures in FY25/26.

Source: IMF staff calculations.

17. The specific assumptions underlying staff's baseline are: (i) a full wage-inflation indexation in FY24/25 (2024 is an election year); (ii) a one-time pause in wage adjustment FY25/26; and (iii) a full wage-inflation indexation thereafter. As a result, the public debt-to-GDP ratio is projected to rise modestly to 66.7 percent of GDP in FY24/25 and ease to 65.8 percent of GDP in FY28/29 (Text Figure 9). The vulnerability of this path to slippages is illustrated by the "passive" scenario where the continued wage indexation (including in FY25/26) causes the public debt-to-GDP ratio to drift up. Public debt vulnerability also derives from elevated gross financing needs, which are projected to remain above the 20-percent benchmark for EMs over the medium term. As a result, the overall risk of debt distress is assessed as moderate (Annex III).

18. A renewed reform momentum is needed to underpin the authorities' ambitious new fiscal plan. With domestic tax revenue (excluding SACU receipts) at close to 20 percent of GDP (compared with a median tax-to-GDP ratio of 13 percent in SSA and 18 percent in other emerging economies), the authorities' consolidation plans are appropriately focused on expenditure measures,

[8] The MYBR envisages tax relief over the medium term, which is expected to be broadly revenue neutral, improve the country's tax competitiveness, and promote growth. The proposed measures include: (i) CIT rate reduction gradually to 30 percent; (ii) PIT threshold increases; and (iii) tax incentives for youth apprenticeship.

likely to generate sizeable savings with a minimal negative impact on growth.[9] Nevertheless, several steps are necessary to realize these gains:

- **A comprehensive civil service reform is needed not only to rein in government spending durably but also to improve its efficiency.** Namibia's public sector wage bill, accounting for about 40 percent of public expenditures, is one of the highest among SACU countries (Text Figure 8). Moreover, public wages in Namibia carry a high premium compared to the private sector, which discourages entrepreneurship (Annex VII). While the wage bill control measures applied in recent years have likely contributed to reducing the premium, the resulting erosion of public sector wages is not sustainable as it risks undermining the quality of public services. A comprehensive civil service reform (originally planned for FY22/23–FY23/24) is still needed to rein in public wage bill growth, increase civil service efficiency and improve human capital allocation. To prepare the ground for the reform, a functional review of the civil service needs to be completed and an incentive compatible program of early retirement adopted.

- **Finalizing the Public Asset Ownership Policy (PAOP) is key to advance SOE reforms**. The authorities have already liquidated the loss-making national airline, divested from the mobile telecommunication company, and brought SOEs under the finance ministry's responsibility to strengthen their oversight and reduce transfers to commercial SOEs. Finalizing the PAOP is needed to guide the ongoing SOE reform and efforts to restructure SOEs. In parallel, greater transparency in the allocation of subsidies and transfers would improve SOE monitoring.

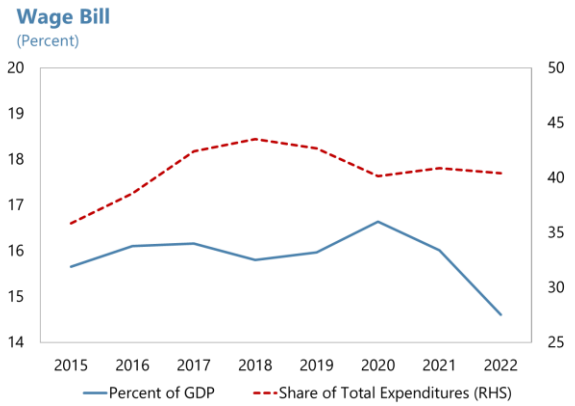
- **Ongoing efforts to strengthen tax administration are key to mobilize additional revenues.** Since its foundation in 2021, NamRA has implemented measures to strengthen compliance and enforcement. Enhancing NamRA's governance by developing a strategic management framework and improving operational oversight is a priority.

- **Raising additional revenues from natural resources could improve the public debt outlook.** Revenues from commercial fishing could increase considerably if fishing licenses are allocated transparently on a competitive basis.[10] To address the widespread perception regarding untapped revenue potential from mineral extraction (other than diamonds), a review of the fiscal regime for the mining sector is warranted, to tackle issues such as thin capitalization and unlimited loss carryforward, while maintaining investment climate.

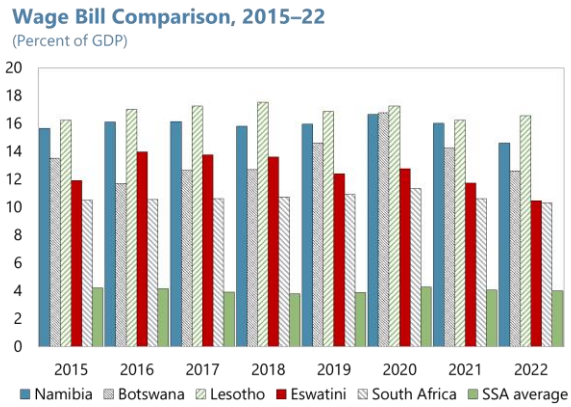
[9] IMF Country Report No. 22/364, Annex IV.

[10] Namibia currently auctions only 5 percent of its fish quota out of concerns about the employment effect of potentially higher license fees. However, it is also widely recognized that allocations through a non-competitive tender process and transactions in the secondary market for licenses invite rent seeking.

Text Figure 10. Public Wage Bill



Sources: Bank of Namibia; and IMF staff calculations.



Sources: IMF WEO database; and IMF staff calculations.

19. Improving the institutional framework would support fiscal consolidation and risk management, including:

- Expediting the completion of the amended State Finance Bill (to frame the reform of public financial management) and its submission to Parliament;
- Enhancing upfront budget preparation, streamlining the mid-year budget review, and further digitalizing the budget process;
- Strengthening the appraisal and selection process for large public projects, notably drawing on the forthcoming C-PIMA;
- Publishing a fiscal risk statement, crucial for large projects where the government is assuming ownership rights (such as the GHP), entering in public-private partnerships (PPPs), or underwriting large projects by SOEs;
- Finalizing the beneficial ownership registries and publishing the report on the execution of COVID-19-related spending and beneficial ownership information.

20. Staff emphasized the importance of protecting the vulnerable against food insecurity. 22 percent of the Namibia's population is reported to have experienced acute food insecurity in July–September 2023 due to a prolonged drought and depletion of food stocks in low-income households.[11] The share is projected to increase to 26 percent in October 2023–March 2024. This vulnerability is further exacerbated by climate risk, including protracted droughts (Annex I). Accordingly, staff welcomed the drought relief (0.4 percent of GDP) to provide food to the insecure, which is budgeted for in the MYBR. The authorities also recognize the need to expand the coverage of Conditional Basic Income Grant targeted to the poorest facing food insecurity.

[11] https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/IPC_Namibia_Acute_Food_Insecurity_Jul2023_Jun2024_report.pdf

Authorities' Views

21. The authorities remain committed to fiscal consolidation and supporting PFM reforms. While acknowledging that the comprehensive civil service reform has lagged, they stressed that mitigating measures taken so far reduced considerably the weight of the wage bill. Going forward, the authorities remain committed to exercising wage bill control and the rationalization of PSEMAS will proceed. Also, the work on PAOP will be finalized. They noted that higher-than-anticipated tax revenues and continued expenditure restraint in nonpriority areas helped create space in the FY23/24 mid-year budget review to address food insecurity arising from the drought; however, greater fiscal space and institutional capacity would be required to broaden the social safety net. They reaffirmed their intention to publish a fiscal risk statement and clarified that the amended State Finance Bill should be presented to the Parliament in 2024. The early experience with the PPP framework, already in place, revealed challenges calling for strengthening technical capacity.

B. Management of Natural Resources

22. Increasing capacity is needed to keep track of transactions associated with oil exploration. Partial information available to staff suggests that cost of oil exploration is likely to be significant relative to Namibia's GDP and that only a small part of offshore activity is, at present, captured in official statistics. Coordination among the responsible government agencies should be strengthened to collect, validate, and record all relevant data.

23. Enhancing NamRA's capacity to assess tax obligations of mineral and petroleum companies will ensure that Namibia receives a due amount of revenue from these sources. Rigorous monitoring of current mining activity will help strengthen capacity to assess future mineral revenue potential.[12]

24. A robust natural resource management framework is essential to ensure optimal use of potentially large oil revenues. Namibia's sovereign wealth (Welwitschia) fund (WF) should be integrated into the budget with accumulation and withdrawal rules anchored on a sustainable nonoil primary balance; at the current juncture, debt reduction should take precedence over asset accumulation. Staff emphasized the importance of subscribing to the Extractive International Transparency Initiative (EITI) and further strengthening anti-corruption mechanisms.[13]

Authorities' Views

25. The authorities noted that work is underway to adapt to the rise of oil and gas activity. Being fully aware that sound measurement of growth and other macroeconomic variables requires significant upgrades of specialized statistical capacity, they seek experts' help to ensure collection of needed data from petroleum companies and comprehensive treatment in national statistics. NamRA started working on building specialized capacity in natural resource taxation, including through

[12] TA mission on petroleum sector tax policy and revenue forecasting will take place in late 2023.

[13] Namibia's Second National Anti-Corruption Strategy was launched in March 2022.

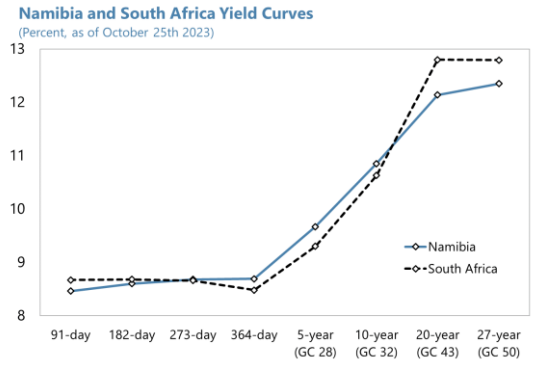
knowledge transfer from other jurisdictions. The authorities reiterated that WF would achieve its intended functionality once public debt-to-GDP ratio is on a firmly declining path.

C. Monitoring and Supporting the Currency Peg

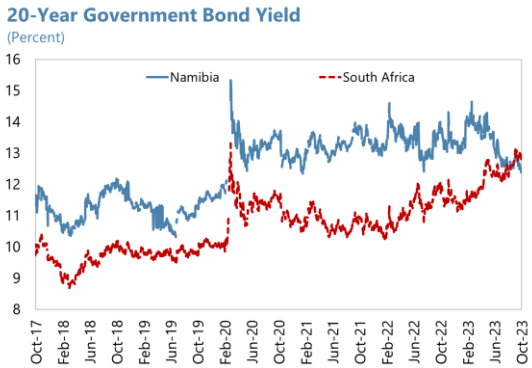
26. BoN routinely monitors and assesses the performance of the peg to the rand. In this exercise, the authorities weigh the benefits and risks reflecting developments in global markets, economic conditions in South Africa and structural shifts in the Namibian economy. Staff assesses that the peg has so far served Namibia well, delivering low inflation, especially by regional comparison—2-year average of 5.6 percent compared to 14.2 percent in SSA—and facilitating cross-border transactions with South Africa, Namibia's foremost financial and trade partner.

27. While the peg calls for a close monetary policy alignment with South Africa, under current market conditions, maintaining strict interest parity has become challenging. For the first time in recent history, government bond yields in Namibia are lower (by an average of 1.5 basis points at the short end of the curve and 12.75 basis points for longer maturities) than on corresponding South African instruments (Text Figure 11). This differential, amplified by excess liquidity in Namibia, has become consequential for short-term portfolio flows, presenting BoN with an additional challenge. At the same time, the policy rate (currently at 50 basis points below the SARB) is serving as a reference for domestic borrowing costs, including mortgage rates.[14] Consequently, the BoN has weighed the need for parity with the SARB against the impact of the additional monetary tightening on economic recovery, considering the still weak non-mining growth and consumption.[15]

Text Figure 11. Yield Curves



Sources: Cirrus Daily; SARB; and IMF staff calculations.



Sources: Investing.com; and IMF staff calculations.

[14] Interest rate-sensitive portfolio instruments have seen net outflows of 2.5 percent of GDP in the first half of 2023 compared to net inflows of 1.6 percent of GDP of the same period in 2022.

[15] BoN's mandate includes fostering monetary, credit and financial conditions conducive to the orderly, balanced and sustained economic development of Namibia and assisting in the attainment of national economic goals.

28. Staff has advised the BoN to review its daily liquidity operations and CFMs in place to ensure an optimal policy transmission mechanism. These steps should ensure that the policy (repo) rate becomes more binding on cost of funds for banks and short-term capital flows. With this condition in place, should the current yield difference persist or widen, a closer alignment of the policy rate could be warranted to stem portfolio outflows and support reserve adequacy, which is currently helped by FDI inflows and the post-COVID rebound in SACU receipts. More generally, the stability of foreign assets observed during past episodes of interest rate differentials with South Africa is not a reliable indicator of future expectations (Annex VIII). In this context, steps to reform CFMs should be well prepared and sequenced, considering whether conditions allow for their relaxation.[16]

Authorities' Views

29. The authorities stressed their commitment to the peg while noting the complexity of the policy environment. Monetary policy decisions since the beginning of the current tightening cycle struck a balance between safeguarding the exchange rate peg and supporting economic recovery. Furthermore, international reserves remained at a comfortable level, among others, thanks to private investments in green hydrogen, and oil and gas exploration, signaling confidence in Namibia as an investment destination. The authorities agreed on the importance of contingency planning against downside risks, while noting that foreign direct investments that finance the large current account deficit, also represent a significant upside potential. On the liquidity framework, the authorities pointed out that the work on a daily liquidity forecasting model done in the past with IMF TA should be revived and operationalized. Finally, the authorities expressed appreciation for the rigorous empirical analysis by staff to estimate a tolerable interest rate differential with South Africa in the context of the currency peg, noting the complexity of interpreting the results given the recent inversion of the yield premium vis-à-vis South Africa.

D. Protecting Financial Stability

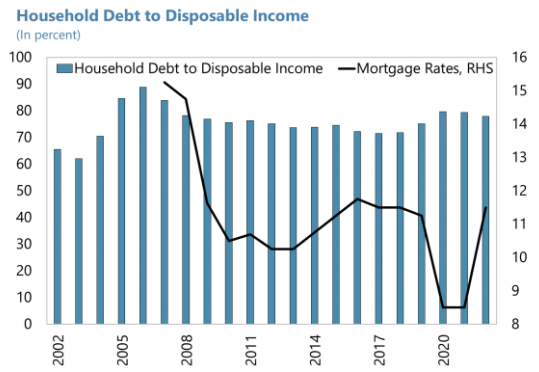
30. Namibia's banking system remains stable but vulnerability to higher interest rates and broader financial volatility should be monitored closely.[17] Of particular concern is banks' exposure to real estate, given the sharp rise in borrowing costs and stagnant equity values.[18] Real estate is also the main channel through which households are most exposed to rising interest rates, given a debt-to-disposable income ratio of 78 percent at end-2022 (Text Figure 12), especially considering the erosion of civil servants' income due to the real decline in public sector wages.

[16] BoN is working in concert with other central banks in the CMA to modernize their CFM frameworks. As a result, Namibia is expected to be reclassified from the least liberalized to a moderately liberalized country. Relevant amendments are expected to enter into force in early 2024.

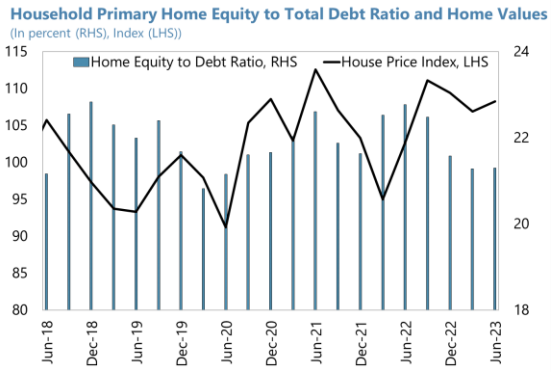
[17] Prudential data indicate vulnerabilities in two banks, which do not pose a systemic threat to solvency or liquidity.

[18] Over 70 percent of bank credit, half of which is in real estate, is based on variable rates. Mortgage rates in existing home loans have increased 47 percent to 12.5 percent from the lows of 8.5 percent in 2020 while average residential real estate values have seen only a 5 percent increase during the same period.

Text Figure 12. Household Exposure to Mortgages



Sources: Bank of Namibia; and IMF staff calculations.



Sources: Bank of Namibia; and IMF staff calculations.

31. Heightened volatility in global financial markets poses moderate risks, warranting vigilance. Equities exceeding 76 percent of Namibia's external portfolio assets (primarily owned by the NBFIs) constitute a vulnerability, as evidenced by retirement funds' negative nominal and real ROI of 1.1 percent and 7.2 percent, respectively, in 2022. This is concerning given the widening gap between contributions and benefits, reflecting structural shifts, including the ageing of the civil service. Relatedly, the exposure of the banking system to wholesale funding risk by NBFIs, comprising more than 75 percent of deposits, also represents a vulnerability.

32. The authorities have made notable progress in implementing the FSSA recommendations to mitigate these risks (Text Table 2). Progress includes the establishment of the macroprudential framework and strengthened reporting requirements. The Macroprudential Oversight Committee should regularly use the recently developed dynamic stress testing model to monitor macroprudential adequacy and interconnectedness risks. The emergency liquidity assistance (ELA) and the deposit guarantee scheme (DGS) should be ready for use, if needed.

Authorities' Views

33. The authorities view the risks to the banking sector to be contained. They agreed that NPLs remain the most important risk given the high share of variable rate mortgages, while noting that primary house-owners have seen limited defaults and more speculative secondary home purchases are subject to LTV limits.

34. The authorities agree that exposure of the NBFIs to global financial markets is significant but assess the overall risks for the financial sector to be well managed. They noted that 2021 and 2022 were exceptionally weak years for financial markets and, most recently, NBFIs' financial performance has been improving. Pension funds' funding level (assets to liabilities ratio) has remained steadily above 100 percent. They recognize, however, that the financial performance and strategy of pension funds warrants scrutiny given the widening structural deficit between contributions and benefits, even if returns to NBFIs' financial assets appear currently sufficient to cover the deficit. On the wholesale funding risk to banks, while agreeing on the need to monitor the

large exposure to NBFIs, the authorities pointed that banks' liquidity lines with South African parents and other arrangements effectively mitigate the liquidity risk.

Text Table 2. Progress in Implementation of 2018 FSSA Recommendations

Recommendation	Actions Taken	Remaining Actions
Establish Macroprudential Policy Framework	Financial Stability and Macroprudential Oversight Department and a Financial Stability Committee established and steps taken to operationalize policy framework	Implementation of the revised Macroprudential Oversight Framework toward policy
Improve Banking Sector Oversight	Adoption of Banking Act; strengthened bank reporting requirements; and risk assessment of two systemic banks	None
Enhance the Supervision of NBFIs	Development of risk-based supervision for NBFIs; and adoption of NAMFISA and Financial Institutions Markets Acts (FIMA)	Implementation of FIMA
Develop Crisis Management and Resolution Framework	Banking Institutions Act 2023 adopted with BoN granted full resolution powers; and a deposit insurance scheme operationalized under the Deposit Guarantee Scheme	Finalization of the Resolution Policy Framework

E. Fostering Financial Inclusion

35. Improving SMEs' access to credit would support private sector-led growth. Although Namibia's financial sector appears well developed in peer comparisons, access to financial markets has lagged other metrics, notwithstanding high bank account ownership, especially for women (Text Figure 14).[19] Most recently, this is reflected in credit growth trailing economic recovery, as borrowing costs have risen (Text Figure 13). Government long-term debt yields reaching 12 percent (compared to 11.5 percent prime lending rate for the private sector) affect credit allocation decisions at the margin. Banks, however, cite the lack of bankable projects due to deeper structural weaknesses as a dominant factor depressing private sector credit and, with bank liquidity remaining abundant, there is no compelling evidence of "crowding out." [20] Implementing the financial inclusion strategy, including the Catalytic First Loss Venture Fund (CFLV), and improving the bankability of projects, including through financial literacy training, would enhance access to credit.[21]

36. BoN is taking a prudent approach to CBDCs. BoN has been exploring retail CBDCs for domestic use and wholesale CBDCs for cross-border payments, as part of a regional consultative

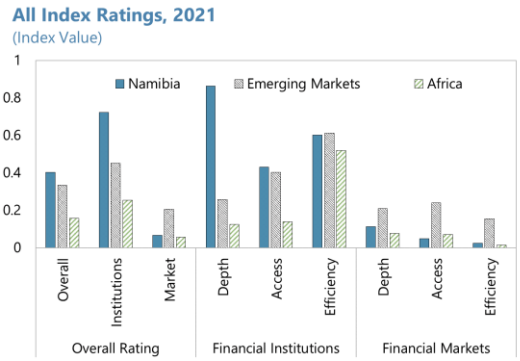
[19] IMF Country Report No. 22/364, Annex X.

[20] Ibid.

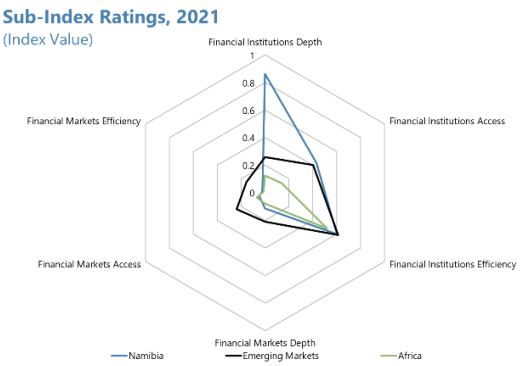
[21] CFLV's purpose is to finance riskier, potentially profitable projects which would otherwise not be funded by banks.

process within CMA. Staff expressed support for the authorities' approach, seeking to identify the specific needs that CBDCs would address and potential benefits relative to the risks.

Text Figure 12. Financial Development Indicators

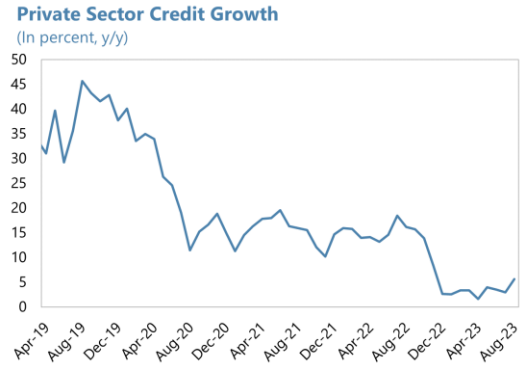


Source: Financial Development Index, International Monetary Fund.

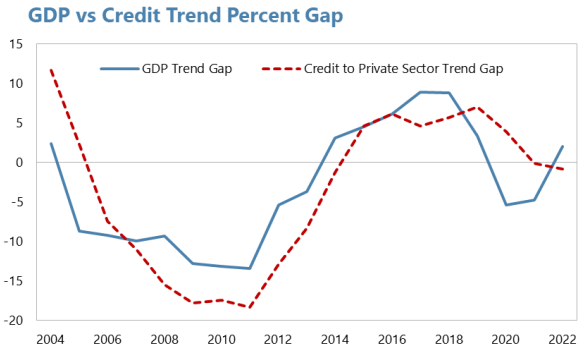


Source: Financial Development Index, International Monetary Fund.

Text Figure 13. Credit to the Private Sector



Sources: International Monetary Fund; and IMF staff calculations.



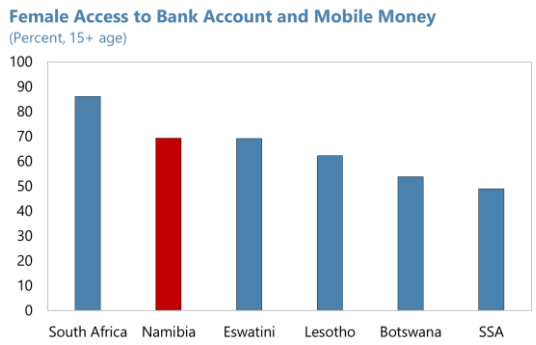
Sources: Bank of Namibia; Namibia Statistical Agency; and IMF staff calculations.

Authorities' Views

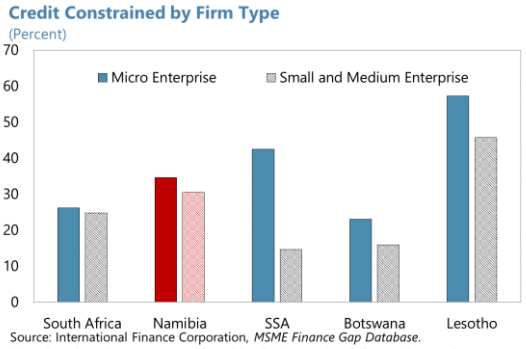
37. The authorities agreed that lack of financial market access constrains private sector development. BoN is updating its 2011–21 financial sector strategy spanning: (i) digital transformation with strengthened oversight; (ii) sustainable financing initiatives and financial infrastructure modernization; (iii) leveraging digitalization to enhance inclusion; and (iv) futureproofing of the financial sector workforce. The authorities are operationalizing the CFLV and noted an increased call on the Credit Guarantee Scheme (CGS) by SMEs.[22] On CBDCs, analyses are ongoing to assess the impact on bank intermediation and monetary policy transmission.

[22] CGS is a risk-sharing mechanism through which the government guarantees a part of the loan.

Text Figure 14. Financial Inclusion



Source: World Bank, Global Financial Inclusion database.
Note: Latest data for Botswana (2022), Eswatini (2022), Lesotho (2022), Namibia (2021), South Africa (2021), and SSA (2021).



Source: International Finance Corporation, *MSME Finance Gap Database*.
Note: Data based on surveys conducted by the International Finance Corporation. World Bank defines Micro Enterprises as firms with fewer than 10 employees; Small and Medium Enterprises as firms with 10 to 249 employees.

F. Safeguards and AML/CFT Framework

38. A first-time safeguards assessment of the BoN, in connection with the 2021 RFI, was completed in March 2023. The assessment found that while some good safeguards and practices were established, enhancements were needed in other areas. It recommended strengthening oversight and controls in foreign reserves management and amending the BoN Act to further safeguard the central bank's autonomy. Audit mechanisms and financial reporting broadly followed international standards, but the process of external auditors' selection needed improvement. Steps to enhance central bank independence will be discussed through a follow-up TA engagement.

39. Efforts to strengthen the AML/CFT framework should continue. Technical Compliance deficiencies and effectiveness challenges identified in Namibia's AML/CFT assessment have put Namibia at risk of grey listing by the Financial Action Task Force in early 2024, which could have negative consequences for capital flows. The authorities have taken steps to strengthen the legal framework by amending laws critical for the AML/CFT architecture, including to ensure that targeted financial sanctions are implemented without delay, require the collection of beneficial ownership information for all legal entities, and introduce licensing and supervisory framework for virtual asset service providers. The effective implementation of these laws is the next step, and authorities should carry on the ongoing ML/TF investigations and prosecutions; ensure effective implementation of preventive measures; and strengthen supervision. IMF legal technical assistance and other partners are supporting these efforts.

Authorities' Views

40. The authorities underscored their commitment to strengthen safeguards and buttress the AML/CFT framework. They addressed key weaknesses identified in the SA and are in discussions with Fund staff on steps to enhance BoN's autonomy. The authorities also stressed the significant progress achieved, in a short time, to address the deficiencies identified in the AML/CFT legal framework while noting the penury of prosecutable cases to demonstrate compliance.

G. Promoting Private Sector-led Growth

41. Private sector-led growth is key for sustainable job creation. Progress in this area will come from addressing constraints on the private sector and channeling its energy toward new opportunities offered by mineral discoveries and investments in the green economy (Annex VI). On the former, staff identified three main constraints: (i) an excessively burdensome regulatory environment and policy uncertainty fueled by delays in passing key pieces of legislation, including the Investment Promotion Bill; (ii) the sizeable public sector wage premium and SOE presence in several economic sectors, draining talent and exacerbating the skills mismatch, yet to be fully assessed through a skills audit; and (iii) high cost of inputs such as energy and data.

42. Advancing fiscal reforms would also help lift some of the main constraints. Staff's research shows that the nearly 30-percent public wage premium diverts talent from the private sector, elevates input costs, and reduces efficiency (Annex VII). Savings from public wage reform would help generate fiscal space to upgrade key infrastructure gaps, including by upgrading and expanding the railway network, and investing in sustainable energy production and gridlines, including in remote areas. Furthermore, reforming SOEs providing network services (water, electricity, transport) would increase competition and reduce input costs, improving commercial feasibility of projects also in other sectors and creating more space for private entrepreneurship.

Authorities' Views

43. Private sector-based growth is the key objective of the government. The authorities view the investments in green hydrogen and, potentially, also oil and gas as springboards for participating in their value-chains. They are working with partners to acquire relevant skills in emerging sectors. Relatedly, the authorities emphasized the progress made in developing vocational institutions under the Namibia Training Authority to mitigate the skills mismatch. The authorities also pointed to the success of commercial agriculture, including in blueberries, dates, grapes, and meat. They count on investments in the railway network (including the ambitious Trans-Kalahari railway connecting Namibia and Botswana) capitalizing on the strategic seaport location at Walvis Bay to unlock significant growth. Finally, the authorities acknowledged the existence of a public wage premium as a key job market issue in Namibia. They appreciated staff's research on the impact of the public wage premium on entrepreneurship, noting that dominance of South African companies, benefitting from market capture in key products, is also a factor constraining local entrepreneurship.

44. The authorities recognize that reforms in critical areas should gather momentum. Key pieces of legislation, including the Investment Promotion Bill, faced delays due to the extensive consultations with the private sector. Once this process is finalized, they expect the policy uncertainty to dissipate, contributing to the improvement of the business environment.

H. Statistical Issues

45. Data provision is broadly adequate for surveillance. The key areas for improvement include the coverage and itemization of fiscal accounts and recording of imports and financial flows related to oil exploration activity in national accounts and external sector statistics.

STAFF APPRAISAL

46. Namibia has shown resilience to global shocks, but growth continues to rely on the mineral sector, with a high public wage premium undermining private sector job creation and economic diversification. Output is estimated to have surpassed the pre-pandemic level in 2023 while inflation has come down substantially from its highs in 2022. The fiscal stance in FY23/24 has been appropriately tightened, with part of the SACU revenue windfall used to expand social programs and part saved as a precautionary buffer. Although this tightening helped contain the rise in public debt, the public sector wage bill and debt service still consume the bulk of the budgetary resources, despite the measures taken since FY21/22 to contain public wage bill expansion. To achieve its growth potential and tackle unemployment, which is especially high for the young, Namibia needs to streamline its public sector and address the public wage premium to foster a more diverse and dynamic economy that both creates jobs and reduces poverty and inequality.

47. Namibia's external position is assessed to have been weaker than the level implied by fundamentals and desirable policies (Annex II). The current account deficit has widened substantially in 2022 partly due to the intensity of oil exploration and will likely remain elevated in the near term. Nevertheless, the overall external balance has remained positive, partly due to FDI generated by oil exploration, yielding higher reserves, which has also received a boost from the post-pandemic recovery in SACU receipts, expected to normalize next year. Large transactions associated with oil and gas exploration have increased the urgency to upgrade the statistical capacity to process these unprecedented data and strengthen the monitoring of the external sector. While a final investment decision has not been taken, the potential for significant revenue from oil and gas in the future has raised the need to develop specialized tax capacity, review existing legislation, and finalize a natural resource management framework.

48. The current fiscal stance is more expansionary than warranted given the need to put the public debt-to-GDP ratio on a firmly declining path. The overall risk of debt distress is moderate. Nonetheless, fiscal consolidation is pivotal to increase fiscal space to confront future shocks, expand the social safety net, finance the needed infrastructure upgrades, and improve external competitiveness. Going forward, a systematic approach to public employment and its remuneration is critical: keeping and attracting needed talent for an efficient public sector while strategically downsizing in non-critical areas. To this effect, the authorities are encouraged to complete the ongoing functional review of the civil service and finalize the modalities of the early retirement scheme. These foundational elements of the much-needed civil service reform would help anchor the authorities' ambitious medium-term fiscal consolidation plans, which go appropriately beyond just containing the public debt-to-GDP ratio. SOE reform saw some results

from the public delisting and sale of companies. The issuance of the PAOP paper for consultation with stakeholders is marking a step toward establishing a reform roadmap for the remaining SOEs. Staff also encourages a swift adoption of the amended State Finance Act to underpin further improvements in public financial management.

49. Maintaining the policy rate broadly aligned with the SARB and managing an adequate level of reserves will help anchor inflation and preserve the currency peg. If reserves come under pressure due to sustained portfolio outflows and negative shocks to SACU receipts, raising the policy rate above the SARB and accelerating fiscal consolidation efforts could be necessary.

50. Continued monitoring of macro-financial risks and assessing the efficiency of mitigation measures will support financial stability. The financial sector remains stable, but risks have increased with households facing higher variable mortgage rates and NBFIs vulnerable to financial market volatility. Staff welcomes progress made in developing the macroprudential policy framework. Strengthening systematic data-sharing between BoN and NAMFISA and developing the framework for early warning indicators will support the management of macro-financial risks. Functional DGS and ELA frameworks will help mitigate risks.

51. Staff welcomes the authorities' progress in strengthening the AML/CFT framework and address the areas of improvement identified in the SA. Effective implementation of the newly passed laws remains the current hurdle before the FATF decision on grey listing. On remaining SA measures, staff stands ready to support the authorities in legal reforms to further strengthen the autonomy of the central bank.

52. New mineral discoveries and the investment in green energy provide an opportunity to boost growth, employment, and foster diversification. Strengthening the PPP framework and addressing constraints hampering entrepreneurship, including the regulatory burden, skill mismatches, and input costs (energy, water, and data) would help the Namibian economy benefit from the new investments. Updating the statistical information on labor force and its skills profile will help tailor training efforts to emerging private sector opportunities. Accordingly, completing the 2023 census with a skills audit and a new labor force survey have gained added urgency.[23] In this context, revising immigration laws to modernize and streamline the processes for attracting and bringing needed international expertise, and use it for local training is also critical.

53. Staff recommends that the next Article IV consultation with Namibia be held on the standard 12-month cycle.

[23] The previous census was conducted in 2011.

Table 1. Namibia: Selected Economic Indicators, 2019–2028

(Percentage change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Prelim.			Proj.			
National Account and Prices										
GDP at constant prices	-0.8	-8.1	3.5	4.6	3.2	2.7	2.7	2.6	2.6	2.6
GDP deflator	0.9	4.6	2.0	7.2	7.8	4.6	5.2	4.7	4.8	4.4
GDP at market prices (N$ billions)	181	174	184	206	229	246	266	286	307	329
GDP at market prices (Fiscal Year) (N$ billions)	179	177	190	212	233	251	271	291	313	335
GDP per capita (US$, current exchange rate)	5,099	4,226	4,879	4,854	4,727	4,931	5,130	5,284	5,402	5,507
Consumer prices (average)	3.7	2.2	3.6	6.1	6.0	4.8	4.8	4.8	4.8	4.8
External Sector										
Exports (US$)	-7.6	-19.0	14.1	17.3	1.4	7.0	4.9	3.2	3.8	3.1
Imports (US$)	-9.8	-21.0	35.2	16.6	-2.3	4.1	2.9	3.3	3.4	1.8
Terms of trade (deterioration = -)	2.1	6.3	-14.0	14.4	4.2	1.8	-1.3	-0.3	-0.1	0.6
Real effective exchange rate (period average)	98.5	91.4	96.4	92.9	...	...	...	...	...	...
Exchange rate (N$/US$, end of period)	14.0	14.7	15.9	17.0	...	...	...	...	...	...
Money and Credit										
Domestic credit to the private sector	7.1	2.4	1.0	4.2	3.4	3.8	4.5	5.0	5.0	5.1
Base money	5.0	16.1	0.2	16.6	11.7	7.9	8.2	8.0	8.0	8.0
M2	10.5	8.1	4.2	0.0	11.7	7.9	8.2	8.0	8.0	8.0
BoN repo rate (percent) 1/	6.50	3.75	3.75	6.75	7.75	...	...	...	...	...
					(Percent of GDP)					
Investment and Savings										
Investment	15.3	13.9	17.4	17.3	16.0	16.1	16.2	16.2	16.2	16.2
Public	3.7	2.9	2.7	2.7	3.0	3.2	3.2	3.2	3.2	3.2
Others (incl. SOEs)	12.1	10.8	13.3	11.3	13.0	13.0	13.0	13.0	13.0	13.0
Change Inventories	-0.5	0.2	1.4	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Savings	13.5	16.7	7.5	4.6	5.3	6.5	7.6	9.0	9.2	10.0
Public	-2.2	-4.1	-5.4	-3.2	-1.1	-1.5	-1.3	-1.0	-0.8	-0.7
Others (incl. SOEs)	15.8	20.8	12.9	7.8	6.4	8.0	8.9	10.0	10.0	10.7
Central Government Budget 2/										
Revenue and grants	32.6	32.9	29.2	30.4	33.8	31.3	31.0	31.2	31.2	31.2
Of which: SACU receipts	10.5	12.6	7.8	6.7	10.4	8.4	8.1	8.3	8.2	8.2
Expenditure and net lending	38.2	41.6	37.8	35.6	37.7	36.3	35.4	35.4	35.3	35.2
Of which:										
Personnel expenditure	16.5	16.7	15.9	14.8	14.3	14.2	13.4	13.4	13.3	13.2
Capital expenditure and net lending	3.3	4.1	3.1	2.7	3.3	3.2	3.3	3.3	3.3	3.3
Primary balance (deficit = -)	-1.8	-4.6	-4.3	-0.8	1.2	0.1	0.7	1.0	1.1	1.0
Overall balance	-5.6	-8.7	-8.6	-5.3	-3.9	-5.0	-4.4	-4.2	-4.0	-4.0
Primary balance: Non-SACU	-12.3	-17.2	-12.1	-7.5	-9.3	-8.2	-7.4	-7.3	-7.1	-7.1
Public debt	58.1	63.4	68.3	68.7	66.1	66.7	66.5	66.4	66.0	65.8
Of which: domestic	39.5	44.5	51.2	50.6	48.3	50.2	52.0	53.0	53.4	53.9
Gross public and publicly guaranteed debt	64.9	69.8	73.7	74.7	72.1	72.7	72.5	72.4	72.0	71.8
External Sector										
Current account balance										
(including official grants)	-1.7	2.8	-9.9	-12.8	-10.7	-9.6	-8.5	-7.1	-7.0	-6.2
External public debt (including IMF)	18.6	18.9	17.2	18.1	17.8	16.5	14.5	13.4	12.6	11.9
Gross Official Reserves										
US$ millions	2,064	2,163	2,760	2,799	2,953	3,078	3,294	3,446	3,543	3,730
Percent of GDP	16.0	18.2	23.8	22.2	23.6	23.2	23.4	23.4	23.1	23.4
Months of imports of goods and services	5.1	4.1	4.5	4.5	4.6	4.7	4.9	4.9	5.0	5.0
External debt/GDP 3/	66.4	77.5	67.6	70.6	73.6	71.0	69.7	68.3	67.4	64.8
Memorandum Item:										
Population (in million)	2.5	2.5	2.6	2.6	...	...	...	...	...	...

Sources: Namibian authorities; and IMF staff estimates and projections.

1/ Rate for 2023 is as per MPC decision of October 25, 2023.

2/ Figures are for fiscal year, which begins April 1.

3/ Public and private external debt.

Table 2. Namibia: Balance of Payments, 2019–2028

(US$ millions, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Prelim.	Proj.					
Current account	-217	301	-1,237	-1,615	-1,339	-1,269	-1,197	-1,053	-1,068	-981
Trade balance	-1,302	-956	-1,954	-2,255	-2,050	-2,008	-1,980	-2,047	-2,094	-2,064
Exports, f.o.b.	3,879	3,140	3,582	4,201	4,261	4,558	4,780	4,934	5,124	5,283
Of which:										
Diamonds	648	429	566	883	850	980	1,011	1,124	1,163	1,198
Other minerals	1,136	1,203	1,297	1,304	1,471	1,548	1,612	1,434	1,487	1,500
Other	2,095	1,508	1,718	2,014	1,939	2,030	2,157	2,377	2,474	2,585
Imports, f.o.b.	-5,182	-4,096	-5,536	-6,456	-6,310	-6,566	-6,760	-6,982	-7,217	-7,346
Of which:										
Non-petroleum product imports	-4,300	-3,532	-4,698	-4,896	-4,966	-5,196	-5,422	-5,668	-5,921	-6,062
Food imports	-617	-500	-620	-760	-740	-759	-790	-814	-840	-857
Petroleum product imports	-882	-564	-838	-1,560	-1,344	-1,370	-1,338	-1,314	-1,296	-1,284
Covid-related medical equipment		-40	-101							
Services (net)	76	-65	-179	67	-150	-145	-72	80	70	97
Transportation	-27	47	23	78	72	81	104	141	152	162
Travel	242	45	71	186	238	280	352	445	472	506
Other services	-140	-157	-272	-198	-460	-506	-528	-506	-555	-571
Income (net)	-300	-38	-289	-379	-405	-373	-378	-386	-397	-411
Compensation of employees	0	-5	-9	-6	-7	-7	-7	-7	-7	-7
Investment income	-300	-32	-280	-373	-398	-366	-372	-379	-389	-404
Current transfers	1,310	1,359	1,185	952	1,266	1,257	1,234	1,301	1,353	1,396
Official transfers	1,292	1,314	1,130	884	1,199	1,185	1,158	1,222	1,270	1,311
Of which: SACU receipts	1,283	1,301	1,125	876	1,188	1,177	1,149	1,212	1,262	1,302
Other transfers	19	45	55	68	67	71	76	79	83	86
Capital and financial account	90	134	-1,990	-1,788	-1,493	-1,394	-1,413	-1,205	-1,164	-1,169
Capital account	-105	-101	-137	-108	-121	-130	-131	-141	-147	-151
Financial Account	195	235	-1,853	-1,680	-1,372	-1,264	-1,282	-1,063	-1,018	-1,018
Direct Investment	188	198	-680	-1,040	-1,661	-1,060	-981	-735	-673	-655
Portfolio Investment	125	-58	-546	-143	444	-66	-155	-176	-185	-197
Other Investment	-119	95	-627	-498	-155	-138	-146	-153	-160	-166
Of which:										
Government net borrowing	18	-90	-382	-135	-114	75	146	69	2	12
Errors and Omissions	215	-62	-157	-135	...	...	...	...	...	...
Overall Balance	-92	167	754	173	154	124	216	152	97	188
					(Percent of GDP)					
Current Account	-1.7	2.8	-9.9	-12.8	-10.7	-9.6	-8.5	-7.1	-7.0	-6.2
Trade balance	-10.4	-9.0	-15.7	-17.9	-16.4	-15.1	-14.1	-13.9	-13.7	-13.0
Exports	30.9	29.7	28.8	33.3	34.1	34.4	34.0	33.5	33.4	33.2
Imports	-41.3	-38.7	-44.5	-51.2	-50.5	-49.5	-48.1	-47.4	-47.1	-46.2
Of which:										
Petroleum product imports	-7.0	-5.3	-6.7	-12.4	-10.8	-10.3	-9.5	-8.9	-8.5	-8.1
Food imports	-4.9	-4.7	-5.0	-6.0	-5.9	-5.7	-5.6	-5.5	-5.5	-5.4
Services (net)	0.6	-0.6	-1.4	0.5	-1.2	-1.1	-0.5	0.5	0.5	0.6
Income (net)	-2.4	-0.4	-2.3	-3.0	-3.2	-2.8	-2.7	-2.6	-2.6	-2.6
Current transfers	10.4	12.8	9.5	7.6	10.1	9.5	8.8	8.8	8.8	8.8
Of which: SACU receipts	10.2	12.3	9.0	6.9	9.5	8.9	8.2	8.2	8.2	8.2
Capital and Financial Account	0.7	1.3	-16.0	-14.2	-12.0	-10.5	-10.1	-8.2	-7.6	-7.3
Capital account	-0.8	-1.0	-1.1	-0.9	-1.0	-1.0	-0.9	-1.0	-1.0	-1.0
Financial account	1.6	2.2	-14.9	-13.3	-11.0	-9.5	-9.1	-7.2	-6.6	-6.4
Direct Investment	1.5	1.9	-5.5	-8.3	-13.3	-8.0	-7.0	-5.0	-4.4	-4.1
Portfolio Investment	1.0	-0.5	-4.4	-1.1	3.6	-0.5	-1.1	-1.2	-1.2	-1.2
Other Investment	-0.9	0.9	-5.0	-3.9	-1.2	-1.0	-1.0	-1.0	-1.0	-1.0
Overall Balance	-0.7	1.6	6.1	1.4	1.0	0.9	1.5	1.0	0.6	1.2
Gross International Reserves (end of period, US$ millions)	2,064	2,163	2,760	2,799	2,953	3,078	3,294	3,446	3,543	3,730
Months of imports of goods and services	5.1	4.1	4.5	4.5	4.6	4.7	4.9	4.9	5.0	5.0
External Debt (US$ millions) from IIP	8,325	8,207	8,406	8,900	9,193	9,420	9,794	10,060	10,329	10,316
Short-term Debt (US$ millions)	994	885	712	1,313	976	971	993	1,063	1,001	1,007
Exchange Rate (N$/US$, period average)	14.5	16.5	14.8	16.4	...	...	...	...	...	...
GDP at Market Prices (US$ millions)	12,539	10,583	12,443	12,602	12,491	13,265	14,049	14,729	15,330	15,909

Sources: Namibian authorities; and IMF staff estimates and projections.

Table 3a. Namibia: Fiscal Operations of the Central Government, 2019/20–2028/29

(N$ millions)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
							Proj.			
Total Revenue and Grants	58,525	58,103	55,365	64,339	78,794	78,587	83,963	90,772	97,683	104,554
Domestic revenue	58,427	57,837	55,360	64,339	78,096	77,836	83,963	90,772	97,683	104,554
Tax revenue	54,816	54,576	51,248	55,456	69,917	68,980	74,456	80,577	86,752	92,849
Personal income tax	14,147	13,768	14,629	16,137	17,563	18,032	19,443	20,897	22,481	24,212
Corporate income tax	7,257	7,559	7,485	8,161	9,320	9,852	10,799	11,455	12,261	13,084
o/w Diamond mining	1,143	1,367	933	1,579	1,683	2,092	2,446	2,595	2,804	2,979
VAT and sales taxes	12,999	9,760	13,174	15,519	17,091	18,379	20,369	22,216	24,179	25,915
SACU receipts	18,922	22,252	14,751	14,190	24,348	21,001	21,994	24,020	25,694	27,348
Other taxes	1,490	1,238	1,208	1,449	1,596	1,716	1,851	1,990	2,137	2,291
Nontax revenue	3,611	3,262	4,112	8,884	8,179	8,857	9,508	10,195	10,931	11,704
Diamond and other mineral royalties	1,253	1,500	1,390	2,158	2,436	2,707	2,901	3,121	3,358	3,612
Adminstrative fees, including license revenues	1,027	1,045	1,182	1,776	1,775	1,909	2,059	2,213	2,378	2,548
Other	1,332	717	1,540	4,950	3,968	4,241	4,547	4,861	5,196	5,544
Grants	98	266	5	0	698	751	0	0	0	0
Expenditure and Net Lending 1/	68,571	73,549	71,583	75,498	87,942	91,035	95,885	102,946	110,306	117,837
Current expenditure	62,491	66,378	65,730	69,810	80,350	82,976	87,018	93,434	100,140	106,686
Personnel	29,584	29,592	30,210	31,472	33,362	35,656	36,369	38,869	41,541	44,397
Goods and services	8,510	9,775	8,782	9,261	11,320	12,172	13,132	14,113	15,161	16,250
Interest payments and borrowing charges	6,887	7,291	7,975	9,466	11,833	12,754	13,859	15,025	16,122	16,762
Domestic	4,674	5,195	5,853	7,576	9,390	9,951	11,448	12,326	13,762	14,356
Foreign	2,203	2,076	2,056	1,853	2,442	2,803	2,411	2,699	2,360	2,406
Borrowing related charges	11	21	65	37	0	0	0	0	0	0
Subsidies, transfers and guarantees	17,510	19,720	18,764	19,610	23,835	22,395	23,659	25,427	27,316	29,277
Capital expenditures 2/	5,908	7,183	5,871	5,701	7,606	8,073	8,882	9,529	10,184	11,171
Acquisition of capital assets	4,736	4,247	3,322	4,029	3,258	4,895	5,416	5,821	6,253	7,037
Project Finance (extrabudgetary)	257	1,526	1,299	977	1,528	906	1,015	1,073	1,100	1,100
Capital transfers	915	1,410	1,250	694	2,820	2,273	2,452	2,635	2,831	3,034
Net lending	171	-12	-18	-12	-14	-15	-16	-17	-18	-19
Overall Balance 2/	-10,046	-15,446	-16,218	-11,159	-9,148	-12,448	-11,922	-12,173	-12,623	-13,284
Primary Balance	-3,159	-8,154	-8,243	-1,692	2,685	306	1,937	2,851	3,499	3,479
Financing	11,388	15,446	16,343	11,159	9,148	12,448	11,922	12,173	12,623	13,284
Domestic financing (net)	11,472	8,990	21,215	8,656	7,055	13,838	14,676	13,515	12,653	13,540
of which: Accounts Payable	3,800	-3,800	0	0	0	0	0	0	0	0
External financing (net)	-84	6,455	-4,872	2,502	2,092	-1,390	-2,754	-1,342	-30	-257
Disbursements	257	7,651	2,799	4,720	3,173	906	15,207	1,573	1,600	1,600
Project loans	257	1,526	1,299	977	1,528	906	1,015	1,073	1,100	1,100
External bond	0	0	0	0	0	0	14,192	500	500	500
Budget support loan	...	2,000	1,500	2,300	0	0	0	0	0	0
Amortization	-341	-1,195	-7,671	-2,218	-1,081	-2,295	-17,960	-2,915	-1,630	-1,857
Memorandum Items:										
Primary Balance (excluding SACU receipts)	-22,082	-30,406	-22,994	-15,882	-21,662	-20,695	-20,057	-21,169	-22,195	-23,869
Primary Balance (excluding SACU and mineral revenues)	-24,477	-33,273	-25,318	-19,619	-25,782	-25,495	-25,405	-26,885	-28,356	-30,461
Public and Publicly Guaranteed Debt	116,400	123,259	139,585	158,244	168,406	182,526	196,252	210,625	225,236	240,533
Public debt	104,320	112,033	129,447	145,527	154,400	167,465	180,004	193,163	206,477	220,427
Domestic 3/	70,892	78,669	96,945	107,146	112,758	126,096	140,772	154,287	166,940	180,480
External	33,428	33,364	32,502	38,381	41,642	41,370	39,232	38,876	39,537	39,947
GDP at Market Prices (Fiscal Year)	179,469	176,667	189,506	211,958	233,429	251,016	270,796	291,032	312,647	335,095

Sources: Namibian authorities; and IMF staff estimates and projections. Fiscal year: April–March.

1/ Expenditures in FY19/20 include domestic arrears incurred in the year and paid in FY20/21.

2/ Includes externally financed project spending not channeled through the state account.

3/ Includes short-term loans from the BoN.

Table 3b. Namibia: Fiscal Operations of the Central Government, 2019/20–2028/29

(Percent of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
							Proj.			
Total Revenue and Grants	32.6	32.9	29.2	30.4	33.8	31.3	31.0	31.2	31.2	31.2
Revenue	32.6	32.7	29.2	30.4	33.5	31.0	31.0	31.2	31.2	31.2
Tax revenue	30.5	30.9	27.0	26.2	30.0	27.5	27.5	27.7	27.7	27.7
Personal income tax	7.9	7.8	7.7	7.6	7.5	7.2	7.2	7.2	7.2	7.2
Corporate income tax	4.0	4.3	3.9	3.9	4.0	3.9	4.0	3.9	3.9	3.9
o/w Diamond mining	0.6	0.8	0.5	0.7	0.7	0.8	0.9	0.9	0.9	0.9
VAT and sales taxes	7.2	5.5	7.0	7.3	7.3	7.3	7.5	7.6	7.7	7.7
SACU receipts	10.5	12.6	7.8	6.7	10.4	8.4	8.1	8.3	8.2	8.2
Other taxes	0.8	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Nontax revenue	2.0	1.8	2.2	4.2	3.5	3.5	3.5	3.5	3.5	3.5
Diamond and other mineral royalties	0.7	0.8	0.7	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Administrative fees, including license revenues	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other	0.7	0.4	0.8	2.3	1.7	1.7	1.7	1.7	1.7	1.7
Grants	0.1	0.2	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.0
Expenditure and Net Lending 1/	38.2	41.6	37.8	35.6	37.7	36.3	35.4	35.4	35.3	35.2
Current expenditure	34.8	37.6	34.7	32.9	34.4	33.1	32.1	32.1	32.0	31.8
Personnel	16.5	16.7	15.9	14.8	14.3	14.2	13.4	13.4	13.3	13.2
Goods and services	4.7	5.5	4.6	4.4	4.8	4.8	4.8	4.8	4.8	4.8
Interest payments	3.8	4.1	4.2	4.5	5.1	5.1	5.1	5.2	5.2	5.0
Domestic	2.6	2.9	3.1	3.6	4.0	4.0	4.2	4.2	4.4	4.3
Foreign	1.2	1.2	1.1	0.9	1.0	1.1	0.9	0.9	0.8	0.7
Borrowing related charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies, transfers and guarantees	9.8	11.2	9.9	9.3	10.2	8.9	8.7	8.7	8.7	8.7
Capital expenditure	3.3	4.1	3.1	2.7	3.3	3.2	3.3	3.3	3.3	3.3
Acquisition of capital assets	2.6	2.4	1.8	1.9	1.4	2.0	2.0	2.0	2.0	2.1
Project Financed (extrabudgetary)	0.1	0.9	0.7	0.5	0.7	0.4	0.4	0.4	0.4	0.3
Capital transfers	0.5	0.8	0.7	0.3	1.2	0.9	0.9	0.9	0.9	0.9
Net lending	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance 2/	-5.6	-8.7	-8.6	-5.3	-3.9	-5.0	-4.4	-4.2	-4.0	-4.0
Primary Balance	-1.8	-4.6	-4.3	-0.8	1.2	0.1	0.7	1.0	1.1	1.0
Financing	6.3	8.7	8.6	5.3	3.9	5.0	4.4	4.2	4.0	4.0
Domestic financing (net)	6.4	5.1	11.2	4.1	3.0	5.5	5.4	4.6	4.0	4.0
of which: Accounts Payable	2.1	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	0.0	3.7	-2.6	1.2	0.9	-0.6	-1.0	-0.5	0.0	-0.1
Disbursements	0.1	4.3	1.5	2.2	1.4	0.4	5.6	0.5	0.5	0.5
Project loans	0.1	0.9	0.7	0.5	0.7	0.4	0.4	0.4	0.4	0.3
External bond	0.0	0.0	0.0	0.0	0.0	0.0	5.2	0.2	0.2	0.1
Budget support loan	...	1.1	0.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.2	-0.7	-4.0	-1.0	-0.5	-0.9	-6.6	-1.0	-0.5	-0.6
Memorandum Items:										
Primary Balance (excluding SACU receipts)	-12.3	-17.2	-12.1	-7.5	-9.3	-8.2	-7.4	-7.3	-7.1	-7.1
Primary Balance (excluding SACU and mineral revenues)	-13.6	-18.8	-13.4	-9.3	-11.0	-10.2	-9.4	-9.2	-9.1	-9.1
Public and Publicly Guaranteed Debt	64.9	69.8	73.7	74.7	72.1	72.7	72.5	72.4	72.0	71.8
Public debt	58.1	63.4	68.3	68.7	66.1	66.7	66.5	66.4	66.0	65.8
Domestic 3/	39.5	44.5	51.2	50.6	48.3	50.2	52.0	53.0	53.4	53.9
External	18.6	18.9	17.2	18.1	17.8	16.5	14.5	13.4	12.6	11.9

Sources: Namibian authorities; and IMF staff estimates and projections. Fiscal year: April–March.

1/Expenditures in FY19/20 include domestic arrears incurred in the year and paid in FY20/21.

2/ Includes externally financed project spending not channeled through the state account.

3/ Includes short-term loans from the BoN.

Table 4. Namibia: Monetary Accounts, 2019–2028 1/

(N$ millions, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Proj.			
Central Bank										
Reserve money	7,081	8,223	8,238	9,605	10,726	11,578	12,527	13,526	14,608	15,776
Currency	4,518	4,711	4,759	4,874	5,443	5,875	6,357	6,863	7,413	8,006
Reserves	2,563	3,512	3,479	4,731	5,283	5,703	6,170	6,662	7,195	7,771
Net foreign assets	26,506	28,951	32,733	36,918	41,347	43,995	48,631	52,339	55,170	60,023
Net domestic assets	-19,425	-20,728	-24,495	-27,289	-30,621	-32,417	-36,104	-38,814	-40,562	-44,247
Monetary Survey										
Broad money (M2)	115,336	124,652	129,944	129,958	145,138	156,661	169,497	183,013	197,661	213,469
Currency	2,873	2,914	3,128	3,332	3,761	4,103	4,477	4,881	5,321	5,806
Deposits	112,463	121,738	126,816	126,626	141,378	152,558	165,020	178,132	192,340	207,664
Net Foreign Assets	38,201	41,987	46,373	52,229	57,975	60,880	65,897	70,107	73,522	78,979
Net Domestic Assets	77,135	82,665	83,571	77,754	87,163	95,781	103,601	112,907	124,140	134,491
Domestic credit	127,626	134,933	143,425	144,956	151,053	157,710	165,468	174,135	183,296	192,991
Claims on central government (net)	17,348	23,694	31,054	31,077	32,943	34,836	36,785	38,823	40,978	43,232
Claims on private sector	103,211	105,668	106,773	111,235	115,000	119,349	124,721	130,910	137,462	144,445
Others	7,067	5,571	5,597	2,644	3,110	3,524	3,963	4,402	4,855	5,314
Other items (net) 2/	-50,491	-52,268	-59,853	-67,202	-63,890	-61,929	-61,868	-61,228	-59,156	-58,500
					(Percent of GDP)					
Broad Money (M2)	63.6	71.5	70.6	63.0	63.3	63.7	63.8	64.1	64.4	64.8
Net foreign assets	21.1	24.1	25.2	25.3	25.3	24.7	24.8	24.5	23.9	24.0
Net domestic assets	42.6	47.4	45.4	37.7	38.0	38.9	39.0	39.5	40.4	40.9
					(Percentage change)					
Broad money (M2)	10.5	8.1	4.2	0.0	11.7	7.9	8.2	8.0	8.0	8.0
Net Foreign Assets	-0.4	9.9	10.4	12.6	11.0	5.0	8.2	6.4	4.9	7.4
Net Domestic Assets	16.9	7.2	1.1	-7.0	12.1	9.9	8.2	9.0	9.9	8.3
Domestic credit	12.4	5.7	6.3	1.1	4.2	4.4	4.9	5.2	5.3	5.3
Claims on central government (net)	74.7	36.6	31.1	0.1	6.0	5.7	5.6	5.5	5.6	5.5
Credit to the private sector	7.1	2.4	1.0	4.2	3.4	3.8	4.5	5.0	5.0	5.1
Memorandum Items:										
Velocity	1.6	1.4	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.5
Money Multiplier	16.3	15.2	15.8	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Exchange Rate (N$/US$)	14.0	14.7	15.9	17.0	18.3	...	...	...	...	...
Domestic Interest Rates (end of period) 3/										
Deposit rate	5.7	4.2	2.9	3.7	7.0	...	...	...	...	...
Lending rate	9.9	7.9	6.9	8.6	11.5	...	...	...	...	...
BoN repo rate	6.50	3.75	3.75	6.75	7.75	...	...	...	...	...
Three-month T-bill rate	7.6	4.0	4.9	8.3	8.5	...	...	...	...	...

Sources: Namibian authorities; Haver Analytics; and IMF staff estimates and projections.
1/ End of period.
2/ Including valuation.
3/ 2023 represents the end-October value. For deposit rate, 2023 data is as of end-September.

Table 5. Namibia: Financial Sector Indicators, 2014–2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 Q2
Banking Indicators										
Capital adequacy										
Capital to assets	11.3	11.4	11.5	11.7	11.4	9.3	9.6	9.3	9.7	9.6
Regulatory capital to risk-weighted assets	14.7	14.3	15.1	15.5	16.8	15.3	15.2	15.7	17.0	16.4
Regulatory tier I capital to risk-weighted assets	11.9	11.8	12.4	12.6	13.9	13.0	13.1	13.7	14.7	14.9
Asset Quality										
Large exposure to capital	148.3	137.7	125.1	141.0	135.5	211.9	181.6	146.7	86.1	93.2
Nonperforming loans to total gross loans	1.2	1.6	1.5	2.5	3.6	4.6	6.4	6.4	5.5	5.5
Earnings and Profitability										
Trading income to total income	5.7	6.5	4.6	4.8	5.1	7.5	8.1	6.5	6.7	7.3
Return on assets 1/	3.4	3.7	3.5	3.0	2.9	2.8	1.8	2.2	2.7	2.9
Return on equity 1/	33.8	36.0	32.6	28.0	25.0	17.4	10.8	12.8	15.8	17.9
Interest margin to gross income	56.8	57.4	56.7	55.1	56.7	56.4	54.0	56.3	56.7	58.7
Noninterest expenses to gross income	52.7	51.6	51.0	54.3	55.7	56.9	61.0	60.0	57.4	55.4
Personnel expenses to noninterest expenses	49.7	50.4	49.5	53.7	51.0	52.3	52.3	51.6	50.4	50.4
Liquidity										
Liquid assets to total assets	12.7	12.1	11.9	13.9	13.6	13.3	13.8	14.8	15.3	15.9
Liquid assets to short-term liabilities	20.9	21.9	23.5	26.5	27.9	27.5	24.4	17.9	17.6	18.2
Customer deposits to total (non-interbank) loans	98.6	95.2	95.4	97.0	97.3	98.8	99.6	103.0	103.1	106.7
Exposure to Foreign Exchange Risk										
Net open position in foreign exchange to capital	2.7	5.1	2.7	2.6	7.6	5.3	2.3	4.5	4.4	1.1
Foreign currency-denominated loans to total loans	1.4	1.5	0.9	0.5	0.2	0.2	0.2	0.2	0.3	0.7
Foreign currency-denominated liabilities to total liabilities	3.3	3.7	2.8	4.7	3.7	3.8	4.7	4.6	4.4	5.0
Memorandum Item:										
Holdings government debt to risk-weighted assets	10.9	13.0	13.9	16.9	18.8	23.3	...	...	...	...

Sources: Namibian authorities; and IMF staff estimates.

1/ Before taxes.

Annex I. Risk Assessment Matrix[1]

Source of Main Risks	Likelihood	Expected Impact on the Economy	Recommended Policy Response
Conjunctural Risks			
Intensification of Regional Conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**High**	**High.** Limited direct trade and financial links to Russia and Ukraine. However, higher global energy and food prices could further increase inflation, worsen the external position, and put additional pressures on reserves, slow down the recovery and increase poverty and inequality.	• Accelerating fiscal adjustment, raising the policy rate, possibly above South Africa's, and seeking affordable external financing (if needed) would support reserves and the currency peg. • Provide targeted support to vulnerable households to mitigate the impact of higher fuel and food prices.
Commodity Price Volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	**High.** Higher international oil and food prices would increase inflation, put additional pressure on international reserves, slow down economic recovery and increase poverty and inequality.	• Accelerating fiscal adjustment, raising the policy rate, possibly above South Africa's, and seeking affordable external financing would support reserves and the currency peg. • Provide targeted support to vulnerable households to mitigate the impact of higher fuel and food prices.
Abrupt Global Slowdown or Recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	**Medium**	**High.** Slower global demand for commodities would negatively impact the mining sector, worsen the fiscal and current account positions, add pressures on reserves, and weaken growth.	• Accelerating fiscal adjustment, raising the policy rate, possibly above South Africa's, and seeking affordable external financing would support reserves and the currency peg. • Accelerate structural reforms to support the private and foster economic diversification and alternative sources of growth.
Social Discontent. High inflation, real income loss, and spillovers from crises in other countries (including migration) worsen inequality, trigger social unrest, and give rise to financing pressures and detrimental populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	**Medium**	**High.** Slower global demand for commodities would negatively impact the mining sector with spillovers to the economy, worsen the fiscal and current account positions, add pressures on reserves, and weaken growth.	• Accelerating fiscal adjustment, raising the policy rate, possibly above South Africa's, and seeking affordable external financing would support reserves and the currency peg. • Accelerate structural reforms to support the private and foster economic diversification and alternative sources of growth.

[1] Based on the latest G-RAM (July 21, 2023). The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Main Risks	Likelihood	Expected Impact on the Economy	Recommended Policy Response
Conjunctural Risks			
Monetary Policy Miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	**Medium**	**Medium.** Slower growth and higher financing cost deteriorating the fiscal balance and worsening the debt level; lower commodity prices translating into larger current account and fiscal imbalances; lower capital inflows.	• Accelerating fiscal adjustment, raising the policy rate, possibly above South Africa's and seeking affordable external financing would support reserves and the currency peg.
Systemic Financial Instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	**Medium**	**Medium.** Slower growth and higher financing costs deteriorating the fiscal balance and worsening the debt level; lower commodity prices translating into larger current account and fiscal imbalances; lower capital inflows.	• Accelerating fiscal adjustment, raising the policy rate, possibly above South Africa's and seeking affordable external financing would support reserves and the currency peg.
Sovereign Debt Distress. Domino effects of higher global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.	**Medium**	**Medium.** Slower growth and higher financing costs deteriorating the fiscal balance and worsening the debt level; lower commodity prices translating into larger current account and fiscal imbalances; lower capital inflows.	• Accelerating fiscal adjustment, raising the policy rate, possibly above South Africa's and seeking affordable external financing would support reserves and the currency peg.
Structural Risks			
Deepening Geo-Economic Fragmentation. Broader and deeper conflict(s) and weakened international cooperation leading to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium.** Limited direct trade and financial links to Russia and Ukraine. However, higher global energy and food prices could further increase the inflationary pressure.	• Provide targeted support to vulnerable households to ensure inclusive recovery.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	**Medium**	**Medium.** Financial and economic instability.	• Improve protection of digital infrastructure against hacking attempts. • Develop business continuity plan.
Extreme Climate Events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**Medium**. Damage to infrastructure, disruptions to economic activities, and increasing water and food shortages will reduce medium-term growth and increase inflationary pressures.	• Invest in climate proofing of infrastructure. • Support climate resilient agriculture. • Provide targeted support to vulnerable households.

Source of Main Risks	Likelihood	Expected Impact on the Economy	Recommended Policy Response
Domestic Risks			
Incomplete or Weak Policy Implementation, that undermines confidence in the government's fiscal adjustment plans (e.g., triggered by political and capacity constraints) and materialization of contingent liabilities.	**Medium**	**High**. Rising public debt, and tighter budget financing; declining international reserves; possible disorderly fiscal adjustment and deterioration in financial sector's asset quality.	• Increase buffers, identify permanent spending reductions and revenue mobilization measures that support long-term development. Accelerate reforms of public extra budgetary entities, continue policies restraining the wage bill, strengthen upfront incentives for early retirement and retraining. Implement mitigating measures for the most vulnerable. Monitor and manage key fiscal risks and financial sector vulnerabilities.
Protracted Drought and Climate Change in Southern Africa, that causes water shortages, frequent flood, and lower production.	**Medium**	**Medium**. Higher food prices; lower electricity production; fiscal costs to support farmers and rural population; higher unemployment.	• Implement adaptation measures to climate shocks. Accelerate the structural transformation of the economy. • Provide targeted support to affected households.

Annex II. External Sector Assessment

Overall Assessment: The external position of Namibia in 2022 is assessed to have been weaker than the level implied by fundamentals and desirable policies.

- Following a large current account (CA) deficit in 2021 (9.9 percent of GDP), partly driven by COVID 19-related imports and one-off disruptions to mining exports), 2022 saw another large CA deficit of 12.8 percent of GDP. This widening was mainly driven by the fuel import bill (inflated by the spike in fuel prices triggered by the onset of Russia's war in Ukraine), lower SACU receipts due to a one-off adjustment, and imports generated by new mineral activity, including the exploration of recently discovered oil and gas reserves.
- Based on preliminary data by the authorities and staff estimates, the adjustment to SACU receipts and additional imports generated by new mineral activity are 3.0 percent of GDP and 2.4 percent of GDP respectively. Adjusting for these factors, the external position is assessed to have been weaker than the level implied by fundamentals and desirable policies.
- The CA deficit in 2023 is expected to narrow to 10.7 percent of GDP based on lower import fuel prices (decreasing 16.5 percent from 2022), higher SACU receipts and continued strength in mineral exports, including due to higher volumes. FDIs related to oil exploration are expected to stay elevated and maintain pressure on imports, especially as the exploration activity intensifies in the second half of 2023. Data from the first half of 2023 indicate that uranium continues to drive export strength while fuel imports remain elevated.

Potential Policy Responses: The authorities' envisaged fiscal consolidation strategy would help ensure that the external sector is consistent with the fundamentals. The fiscal consolidation driven by a resolute implementation of public wage bill containment will support accumulation of reserves consistent with the ARA metrics thereby ensuring the sustainability of the exchange rate peg while strengthening buffers. Reforming public wages and SOEs will also render labor and input costs more competitive as well as protecting against the volatility of SACU receipts. Steps to foster entrepreneurship and diversification will support more sustainable financial inflows, including FDIs to non-resource intensive sectors, and help diversify sources of external funding.

Foreign Assets and Liabilities: Position and Trajectory

Background. External assets, (106 percent of GDP) are primarily comprised of the reserve assets of the central bank and the portfolio assets of the NBFIs, dominated by the state-owned pension fund, GIPF. On the liabilities side (101 percent of GDP), FDIs (mainly of mining parents) and external loans of the government as well as portfolio liabilities are the main components. NIIP has been improving since 2016 and turned positive in 2018 consistent with lower CA deficits and the positive performance of external assets. The deterioration of the external position since 2021 has contributed to the erosion of the net positive IIP from 17.6 percent of GDP in 2021 to 4.9 percent of GDP in 2022, driven by an 18 percent decrease in the value of external portfolio assets held by the GIPF, primarily equity, comprising 76 percent of portfolio assets and nearly 40 percent of all external assets, which have seen sizeable volatility beginning with the tightening cycle of global financial conditions.

Assessment. Under Staff's baseline scenario, NIIP will turn negative starting in 2023, and deteriorate over the medium term as the reduction of liabilities supported by the medium-term fiscal consolidation will be outweighed by FDI driven liabilities in the minerals sector and overtaken by a higher pace of reduction in assets needed to finance improving, but still relatively high and persistent CA deficits. The main risks arise from: i) fiscal shocks that could upset the ongoing fiscal consolidation, including lower SACU receipts; ii) the exposure of debt asset valuations to higher interest rates; and iii) potentially lower returns to equity assets, reflecting increased volatility in financial markets. These risks are mitigated by (i) the authorities' commitment to advance the ongoing fiscal consolidation; (ii) a large part of FDI liabilities expected to be in the form of equity; and (iii) private external debt being largely owed by mining companies to their parents.

2022: (% GDP)	NIIP: 4.9	Gross Assets: 106	Debt Assets: 13	Gross Liab.: 101	Debt Liab.: 30

Current Account

Background. The CA deficit experienced a reversal in mid 2010s from the previously widening deficits, narrowing sharply, by more than 50 percent, to -4.4 percent of GDP in 2017 due to real growth turning negative and a marked reduction in the fiscal deficit. The narrowing CA deficit trend continued due to weak growth, lower energy prices and limited new mining projects, reaching -1.8 percent of GDP before the onset of COVID-19. As the pandemic led to the contraction of the economy, the CA recorded a surplus of 2.8 percent of GDP in 2020 reflecting a strong import compression. With the economic recovery, the CA deficit widened back to 9.9 percent of GDP in 2021. The rise in petroleum prices and new mineral activity pressured imports (with petroleum prices rising more than 40 percent), resulting in the CA deficit widening to 12.8 percent of GDP. The continued strength in exports of uranium and diamonds was not sufficient to offset the high import bill. Negative public savings of (3.2 percent of GDP), albeit improving from last year, continued to also exert pressure on the external position. However, the lower fuel prices and higher adjusted SACU receipts are already normalizing the exogenous pressures on the CA deficit while imports of goods (primarily fuel) and services from oil exploration, fully financed by FDIs, are likely to increase substantially. The medium-term will see a similar trend supported by continued strength in uranium and diamond exports as well as the continuation of fiscal consolidation.

Assessment. Using the EBA-lite revised CA methodology, the multilaterally consistent cyclically adjusted CA norm is estimated at -3.9 percent of GDP versus an actual CA deficit of -12.8 percent of GDP at end-2022. Adjustments have been applied to the cyclically adjusted CA deficit to account for (i) a one-off correction to SACU receipts equivalent to 3 percent of GDP relative to the projected medium-term level adjusted for the exceptional weakness in South African imports observed in 2023; and (ii) imports generated by new mineral activity, including oil and gas exploration, 2.4 percent of GDP, which includes imports of goods, related to oil exploration and new mining exploration activity, namely lithium, excluding petroleum products, (1.4 percent of GDP) and the petroleum products imported due to oil and gas exploration of (1 percent of GDP),[1] yielding an adjusted CA deficit of 7.8 percent of GDP. Thus, the gap with respect to the estimated CA norm narrows to -3.9 percent of GDP, pointing to a REER overvaluation of 13.3 percent (Table 1). The main negative gap stems from the weaker growth compared to the rest of the world. The positive policy gap reflects, inter-alia, the stronger reserves accumulation in 2022 compared to the rest of the world and relative to the desired policy. Going forward, public wage and SOE reform will contribute to an internal devaluation and support the required REER depreciation by lowering and keeping input costs, including labor costs, competitive.

Table 1. Namibia: Model Estimates for 2022
(In percent of GDP)

	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**-12.8**	
Cyclical contributions (from model) (-)	0.4	
COVID-19 adjustors (-) 2/	-0.01	
Additional temporary/statistical factors (-) 3/	-5.4	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-7.8**	
CA Norm (from model) 4/	**-3.9**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-3.9**	
CA Gap	**-3.9**	**1.0**
o/w Relative policy gap	3.5	
Elasticity	-0.3	
REER Gap (in percent)	**13.3**	**-3.5**

1/ Based on the EBA-lite 3.0 methodology.
2/ Additional cyclical adjustment to account for the temporary impact of COVID-19 on tourism.
3/Additional temporary adjustment for the one-time correction to SACU receipts and imports related to new mineral activity of 3 percent of GDP and 2.4 percent of GDP respectively.
4/ Cyclically adjusted, including multilateral consistency adjustments.

[1] Staff estimates based on information shared by the authorities and oil companies.

Real Exchange Rate

Background. The Namibian dollar is pegged at par to the South African rand and developments in Namibia's real exchange rate (REER) largely reflect changes in the nominal exchange rate of the rand and inflation differential with South Africa, Namibia's main trading partner. Namibia's REER has experienced large fluctuations over the past decade, depreciating by 22 percent between 2010–16 and remaining broadly stable until the COVID-19 pandemic. In 2022, REER depreciated by 3.6 percent (y/y average) primarily on account of the nominal depreciation of the rand (11.2 percent, y/y average) and higher inflation in South Africa with the average difference between the two REERs widening by 5.8 percent. The REER depreciated by 4.2 percent during January–September 2023 with the rand depreciating by 11.1 percent in the same period while inflation has eased to just above 5 percent for both countries.

Assessment. The EBA-lite REER model using the CPI-based measure suggests an undervaluation of 3.5 percent. This result likely reflects the higher inflation in South Africa in 2022. Inflation convergence between South Africa and Namibia in 2023 will likely reduce the undervaluation estimated by the REER model.

Capital and Financial Accounts: Flows and Policy Measures

Background. Following the exceptionally high financial inflows in 2021 (16.0 percent of GDP), reflecting largely COVID-19 related support, including the general SDR allocation, financial inflows reduced somewhat in 2022, but stayed elevated at 14.2 percent of GDP. FDIs comprised the bulk of the financial flows at 8.3 percent of GDP two thirds of which were related to oil and gas exploration and mining inter-company lending. Lower financial returns from the external assets of the NBFIs (required to repatriate 45 percent of their assets) helped contribute to lower net portfolio inflows of 1.1 percent of GDP compared to 4.4 percent of GDP in 2021. Gross financing needs, following a large increase in 2021, reflecting the repayment of the 2010 Eurobond, remained elevated in 2022 due to increased debt servicing costs from higher interest rates and the financing needs of new mineral activity.

Assessment. Volatility in the international financial markets and lower equity returns could pose a risk to portfolio inflows. Finalizing the implementation of the Central Securities Depository (CSD) would attract non-resident investments and expand sources of portfolio financing. Accelerating reforms to improve the competitiveness and diversification, would help contribute to more sustainable financial flows, including attracting FDIs to non-resource intensive sectors, and help diversify sources of external funding.

FX Intervention and Reserves Level

Background. At end-2022, gross international reserves stood at 4.5 months of imports or 22.2 percent of GDP, registering a moderate increase of USD 39.0 million or about 0.3 percent of GDP following a large one-off boost to reserves last year from the SDR allocation. Significant FDI flows (8.3 percent of GDP) and external project and budget support borrowing by the government (1.5 percent of GDP) helped maintain reserves despite the large current account deficit. The authorities' foreign exchange interventions in the market were consistent with reserves management to support the currency peg.

Assessment. At 4.5 months of imports at end-2022, gross international reserves were deemed to be above IMF's metric to assess reserve adequacy (ARA) for market access countries with a minimum threshold of 3.9 months of imports estimated for Namibia. Under staff's baseline scenario, reserves are expected to increase in the medium term to 5 months of imports, staying within the ARA range. The reserves would be boosted in 2023 by recovering SACU receipts, FDIs to support the minerals sector and one-off non-resident purchase of a brewery company. On the other hand, the persistence or widening of the currently observed yield differential of government bonds with South Africa (with Namibian yields trading lower for the first time in recent history) could increase the pressure on short-term portfolio assets, already seeing significant outflows for the first half of 2023 compared to last year. In the medium term, reserves accumulation would be supported by the ongoing fiscal consolidation, continued strength in commodity prices, sustained mining production (which is subject to an upside risk reflecting heightened interest in Namibia's deposits of battery metals and rare earth elements), and lower international petroleum and food prices. Adverse fiscal shocks and lower-than-anticipated non-oil commodity prices, especially for diamonds, as well as a slowdown in the oil and gas exploration FDI, could weaken Namibia's reserve accumulation dynamics. To this end, economic diversification within a broader economic transformation strategy would contribute to mitigate risks.

Annex III. Sovereign Risk and Debt Sustainability Analysis

Figure AIII.1. Summary of the Sovereign Risk and Debt Sustainability Assessment

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	...	**Moderate**	The sovereign stress risk is moderate as authorities progress with fiscal consolidation and reduce financing needs. The large domestic investor base, market appetite for long-term debt instruments, and low foreign debt—primarily owed to development institutions—help mitigate the risk.
Near Term 1/			
Medium Term	**Moderate**	**Moderate**	Medium-term risks are assessed as moderate consistent with the mechanical signal on the basis of large domestic investor base, market appetite for long-term debt instruments, and low foreign debt.
Fanchart	**Moderate**	...	
GFN	**Moderate**	...	
Stress test	Cont. Liabty.	...	
Long Term	...	**Moderate**	The long-term risks are moderate as the new streams of oil and gas revenues start to come in. However, it is necessary to implement a strong natural resource management framework to avoid fiscal expansion driven by windfall income.
Sustainability Assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt Stabilization in the Baseline			Yes

DSA Summary Assessment

Commentary: Namibia is at a moderate overall risk of sovereign stress. Debt is expected to decline, but the risks remain significant. According to the GFN Financeability Module, the medium-term liquidity risks are high, primarily due to the persistent high gross financing needs, with a particular spike in 2025/26, coinciding with the repayment needs of the 2015 Eurobond. However, the authorities have been accumulating funds in their external bond sinking fund to partially mitigate the spike in GFN when the Eurobond matures. In addition, the risks might be mitigated by the large domestic institutional investor base, the market's appetite for long-maturity debt instruments, and the low share of foreign currency debt. Nevertheless, to manage the medium-term risks of sovereign stress effectively, the implementation of planned medium-term fiscal consolidation and structural reforms, which are aimed at boosting growth, is crucial.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure AIII.2. Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	
2. Subsectors included in the chosen coverage in (1) above:						

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary Central Government	Yes	
	2	Extra Budgetary Funds (EBFs)	No	Not applicable
	3	Social Security Funds (SSFs)	No	
	4	State Governments	No	
	5	Local Governments	No	
	6	Public Nonfinancial Corporations	No	
	7	Central Bank	No	
	8	Other Public Financial Corporations	No	

3. Instrument coverage:	Currency & Deposits	Loans	Debt Securities	Oth Acct. Payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: Chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-government Debt Holdings

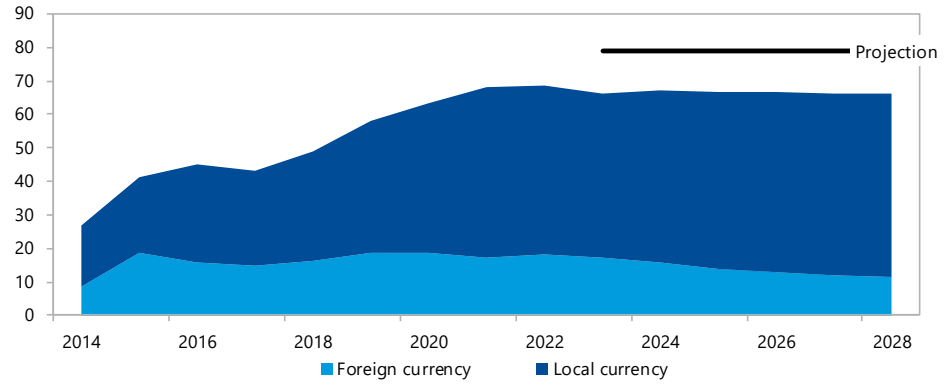
		Issuer \ Holder	Budget. Central Govt	Extra-budget. Funds (EBFs)	Social Security Funds (SSFs)	State Govt.	Local Govt.	Nonfin. Pub. Corp.	Central Bank	Oth. Pub. Fin Corp.	Total
CPS / NFPS / GG: expected / CG	1	Budget. Central Govt									0
	2	Extra-budget. Funds									0
	3	Social Security Funds									0
	4	State Govt.									0
	5	Local Govt.									0
	6	Nonfin Pub. Corp.									0
	7	Central Bank									0
	8	Oth. Pub. Fin. Corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary:Coverage in this SRDSA is of the budgetary central government, consistent with the debt coverage data provided by the authorities. Consolidated general government debt figures are not yet available. While provisions exist for Regional Councils and Local Governments to borrow for capital projects, the Regional Councils haven't used this option. Moreover, the borrowing by Local Governments remains minimal, accounting for about 0.02 percent of the GDP. In December 2022, Namibia joined the Special Data Dissemination Standard (SDDS) and is working with the IMF's Statistics Department to compile and disseminate data on General Government operations.

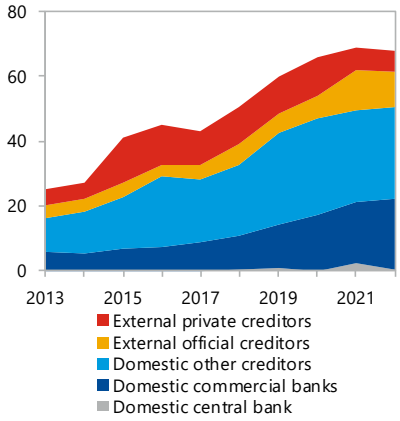
Figure AIII.3. Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



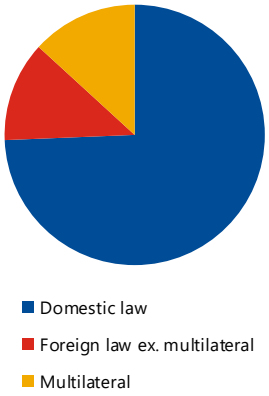
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



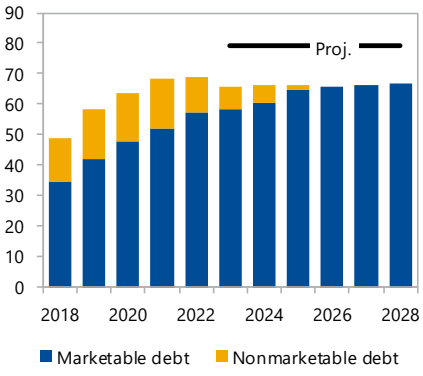
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2022 (Percent)



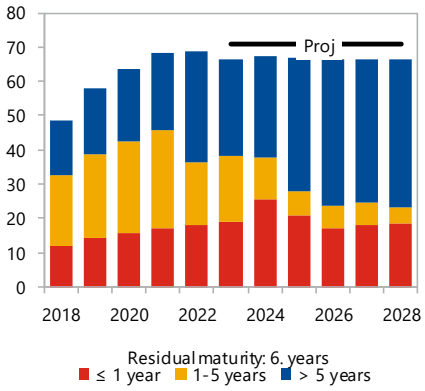
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government.

Commentary: Domestic creditors held about 74 percent of public debt in FY2022/23. About 46 percent of the external debt is issued in rand, reducing the currency risk given the peg. A large proportion of debt is issued at longer maturities as part of the government's debt strategy to mitigate rollover risks and diversify the maturity profile.

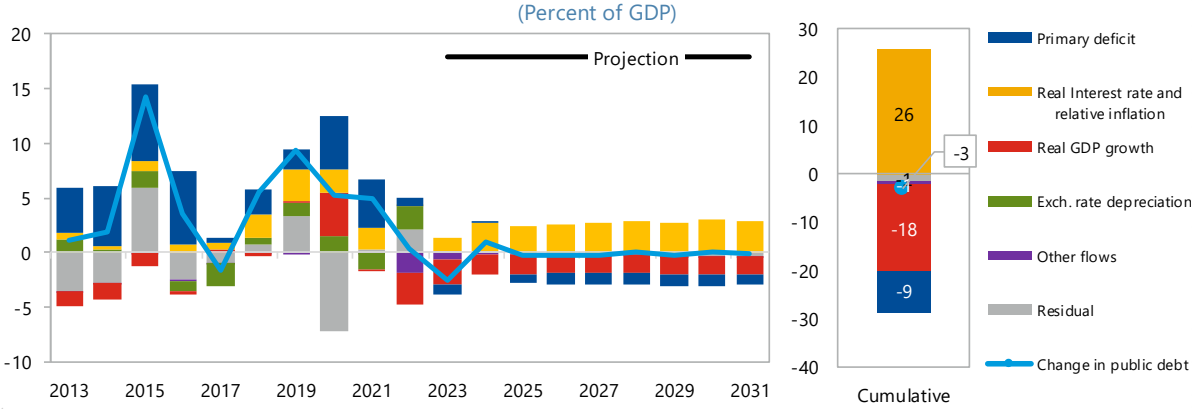
Figure AIII.4. Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term Projection						Extended Projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public Debt	68.7	66.2	67.1	66.8	66.5	66.3	66.3	66.0	66.0	65.9	65.7
Change in Public Debt	0.4	-2.5	0.9	-0.3	-0.3	-0.2	0.0	-0.2	0.0	-0.1	-0.3
Contribution of Identified Flows	-1.8	-2.5	0.8	-0.1	-0.1	-0.1	0.1	0.1	0.3	0.1	-0.1
Primary Deficit	0.8	-0.8	0.2	-0.7	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0
Noninterest Revenues	30.4	33.5	31.0	31.0	31.2	31.2	31.2	31.2	31.2	31.2	31.2
Noninterest Expenditures	31.2	32.6	31.2	30.3	30.2	30.1	30.2	30.2	30.2	30.2	30.2
Automatic Debt Dynamics	-0.8	-1.1	0.8	0.6	0.9	1.1	1.1	1.1	1.3	1.2	1.0
Real Interest Rate and Relative Inflation	0.0	1.3	2.6	2.4	2.6	2.7	2.8	2.8	3.0	2.9	2.6
Real Interest Rate	0.0	0.8	2.2	1.9	2.2	2.4	2.6	2.5	2.7	2.6	2.4
Relative Inflation	0.0	0.5	0.4	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.2
Real Growth Rate	-2.8	-2.3	-1.8	-1.8	-1.7	-1.7	-1.7 .	-1.7	-1.7	-1.7	-1.7
Real Exchange Rate	2.0	...	...	...	...	...	... .	...	...	...	...
Other Identified Flows	-1.9	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Transactions	-1.9	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of Residual	2.2	0.1	0.2	-0.2	-0.2	-0.2	-0.1	-0.3	-0.3	-0.2	-0.2
Gross Financing Needs	23.6	21.8	23.0	28.4	23.7	20.2	21.2	22.2	21.0	22.1	23.9
Of which: Debt Service	22.8	22.6	22.8	29.1	24.7	21.3	22.3	23.2	22.1	23.1	25.0
Local Currency	20.9	21.1	20.8	21.6	22.8	20.1	21.0	22.0	20.9	21.5	23.4
Foreign Currency	1.9	1.5	2.0	7.5	1.9	1.2	1.2	1.2	1.1	1.6	1.6
Memo:											
Real GDP Growth (Percent)	4.3	3.5	2.8	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Inflation (GDP Deflator; Percent)	7.3	6.9	4.7	5.1	4.7	4.7	4.4	4.5	4.5	4.5	4.5
Nominal GDP Growth (Percent)	11.8	10.1	7.5	7.9	7.5	7.4	7.2	7.2	7.2	7.2	7.2
Effective Interest Rate (Percent)	7.3	8.1	8.3	8.2	8.3	8.6	8.6	8.5	8.9	8.7	8.4

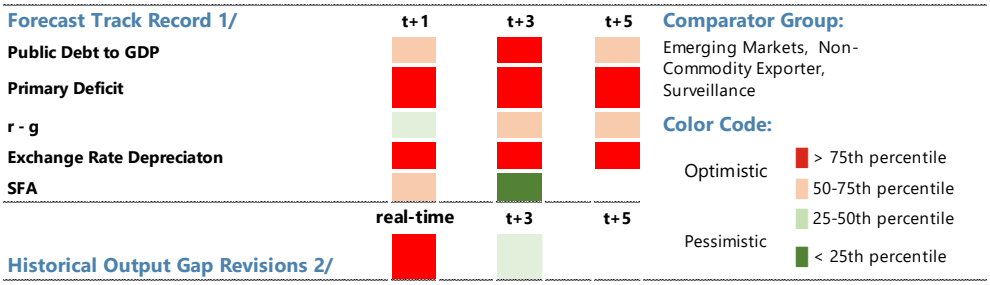
Contribution to Change in Public Debt

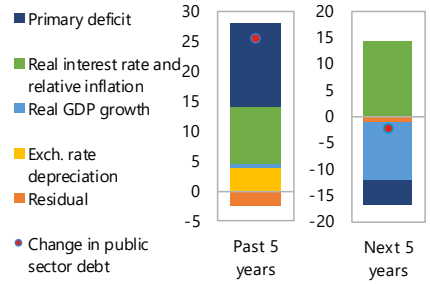
(Percent of GDP)

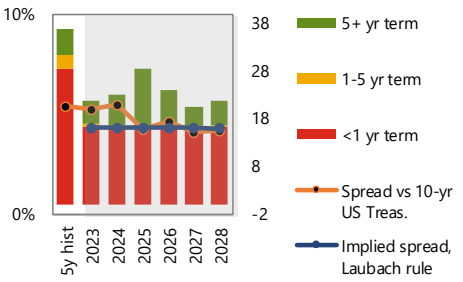


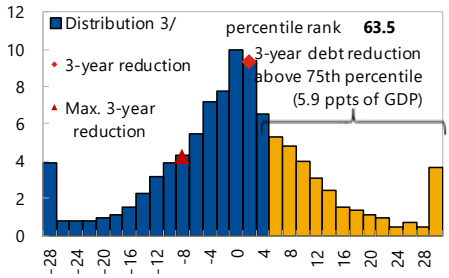
Staff commentary: Over the medium term, the implementation of the authorities' fiscal consolidation plan, coupled with enhanced SACU revenue and continued economic recovery, is anticipated to lead to primary surpluses and set public debt on a declining path.

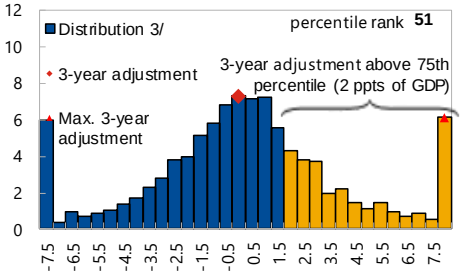
Figure AIII.5. Realism of Baseline Assumptions

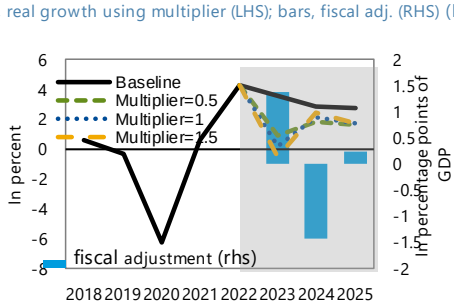


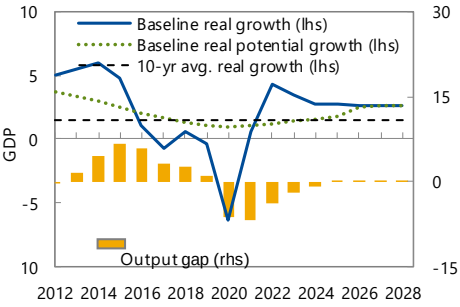












Commentary: Realism analysis does not point to major biases except for the medium-term primary balance and debt reduction. The improvement in the primary balance and reduction in debt show an optimism bias. This bias is partly due to the increased SACU revenue following the Covid-19 slump and the anticipated positive adjustment in FY 24/25 to account for the under-disbursements in FY 22/23.

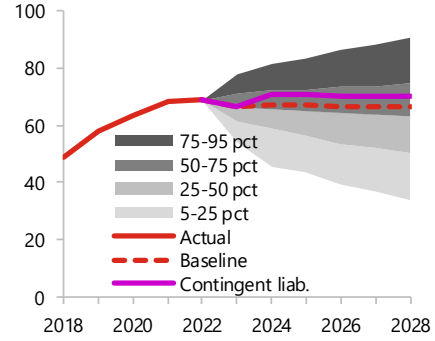
1/ Projections made in the October and April WEO vintage.

2/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

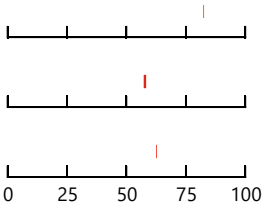
3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

Figure AIII.6. Medium-Term Risk Analysis

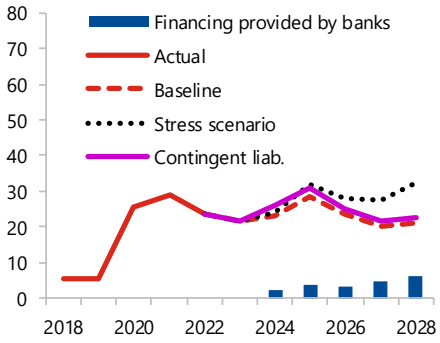
Final Fanchart (Percent of GDP)



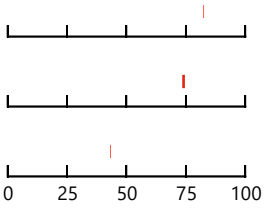
Debt Fanchart Module	Value	Contrib [1/]	Percentile in peer group [2/]
Fanchart width *(percent of GDP)*	56.9	0.8	
Probability of debt non-stabilizaiton *(percent)*	33.2	0.3	
Terminal debt-to-GDP x institutions index	36.9	0.8	
Debt Fanchart Index (DFI)		1.9	
Risk Signal: [3/]		Moderate	



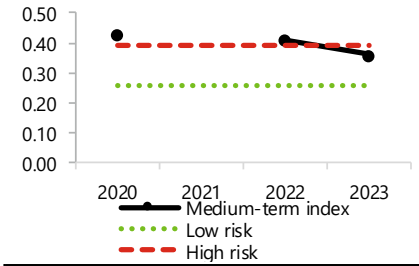
Gross Financing Needs (Percent of GDP)



Gross Financing Needs (GFN) Module	Value	Contrib
Average baseline GFN *(percent of GDP)*	23.1	7.9
Banks' claims on the gen. govt *(pct bank assets)*	16.2	5.2
Chg. In banks' claims in stress *(pct banks' assets)*	7.4	2.5
GFN financeability index (GFI)		15.6
Risk signal: [4/]		Moderate



Medium-term Index (Index Number)



Medium-term risk analysis

	Value	Weight	Contribution
Debt fanchart index (normalized)	0.4	0.5	0.2
GFN finaceability index (normalized)	0.3	0.5	0.1
Medium-term index	0.4		
Risk signal: [5/]	Moderate		
Final assessment:	Moderate		

Prob. of missed crisis, 2023-2028, if stress not predicted: 27.3 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 17.0 pct.

Commentary: The Debt Fanchart and the GFN Financeability Modules suggest moderate levels of risk. Nonetheless, the elevated risk could be offset by factors such as the sizable domestic institutional investor base, the strong market preference for long-term debt instruments, and the minimal proportion of foreign currency debt. To test the robustness of the baseline, the contingent liability stress test is activated. The stress test indicates that the debt level will remain elevated but will maintain its downward path in the medium term. The generalized macro-fiscal shock indicates persistently high gross financing needs.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging market, non-commodity exporting countries, with Fund-supported programs.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

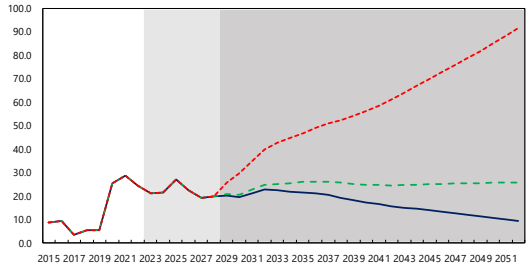
Figure AIII.7. Long-Term Risk Analysis

Large Amortization Trigger

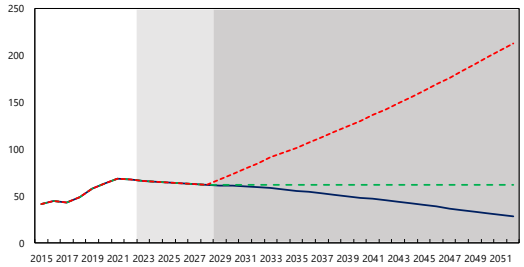
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Alternative Baseline Long-term Projections

GFN-to-GDP ratio



Total Public Debt-to-GDP Ratio



Projection | Long run projection | Baseline with t+5 | Baseline with t+5 and DSPB* | Historical 10-year average

* **DSPB:** Debt Stabilizing Primary Balance.

Projection | Long run projection | Baseline with t+5 | Baseline with t+5 and DSPB* | Historical 10-year average

* **DSPB:** Debt Stabilizing Primary Balance.

Commentary: Under the baseline, GFN will remain elevated, staying above 20 percent of GDP through 2037. Recent issuances are calibrated to avoid bunching, and the overall debt management strategy is tuned to this objective.

Annex IV. Past Fund Advice

Goals	Objectives	Actions/Measures	Developments
Preserve Fiscal and Debt Sustainability.	-Enact fiscal adjustment measures to reduce the public debt-to-GDP ratio to a sustainable level while protecting the vulnerable. -Strengthen PFM and operationalize the newly established SWF, the Welwitschia Fund, (WF).	-Contain the wage bill, including by implementing the early retirement scheme. -Improve SOEs' performance and management and divest from selected entities to reduce budgetary transfers. -Finalize the Public Asset Ownership Policy. -Mobilize tax arrears and one-off revenues, including by strengthening tax collection. -Protect the most vulnerable from the impact of higher food and fuel prices and address food security and poverty. -Adopt the PFM Bill (Amended State Finance Act). -Develop a comprehensive fiscal risk management framework. -Establish a strong governance and management framework for the WF.	-Wage bill growth was contained through natural attrition and below-inflation salary adjustments, however, the comprehensive wage bill reform, including early retirement, has been delayed. -SOEs have been brought under the finance ministry's responsibility to strengthen their oversight and transfers to commercial public enterprises have been reduced. -Public Asset Ownership Policy has been drafted and is awaiting cabinet approval. -Namibia Revenue Authority is proactively receiving TA to increase efficiency of collection and improve administration, including operational oversight and compliance. Measures to enhance compliance have already contributed to increase revenues in FY 2022/23. -Budgetary provisions for social benefits were increased (from 4.2 to 4.5 percent of GDP) to counter the erosion of purchasing power due to higher fuel and food prices. -Amended State Finance Bill (PFM Bill) is planned to be presented to the Parliament in 2024. -PIMA TA is planning to support fiscal risk management to strengthen SOE fiscal risk monitoring and reporting. -WF has already been established, but rules governing deposits and withdrawals are yet to be decided and operationalized.
Safeguard the Peg to the South African rand.	-Ensure the credibility of the peg to the South Africa rand. -Maintain an adequate level of reserves.	-Ensure broad alignment of the monetary policy rate (the repo rate) with the SARB. -Manage reserves to ensure consistency with the ARA threshold.	-BoN has been tightening monetary policy by increasing the repo rate in broad alignment with the SARB but with a negative interest rate differential of 50 basis points as of October 2023.

Goals	Objectives	Actions/Measures	Developments
Safeguard the Peg to the South African rand		-Implement planned fiscal consolidation to boost reserves and bolster the credibility of the peg. -Prepare to raise the repo rate above SARB if downside risks materialize.	-Improved fiscal position, including through public wage containment, recovery in SACU receipts, higher FDI and borrowing from AfDB helped maintain official reserves at 4.5 months imports at end-2022 (reserves increased to 4.7 months at end-September 2023). -Commitment to the peg and policy rate alignment with the SARB have been reiterated by the BoN. -Positive real repo rate has been restored.
Strengthen the Resilience of the Financial Sector and Manage Macro-Financial Risks. **Expand Financial Inclusion.** **Strengthen the AML/CFT Framework.**	-Operationalize the newly established Financial Stability Oversight (FSMO) framework, including by allocating adequate resources to its capacity and toolkit development. -Improve access to credit, notably for SMEs and the most vulnerable. -Avoid grey listing by the Financial Action Task Force (FATF) and potential negative economic repercussions.	-Expand the macroprudential toolkit by adopting a framework for a countercyclical buffer (CCyB) and conducting a data-driven analysis for the adoption of debt service-to-income limits and updating the early warning indicators and stress testing. -Strengthen collaboration between the BoN and NAMFISA. -Develop the emergency liquidity assistance (ELA) framework. -Increase bankability of projects, including by ensuring banks have access to reliable credit history and collateral information through functional credit bureaus and digital databases. -Implement the steps identified in the action plan (informed by the Eastern and Southern Africa Anti-Money Laundering Group) to strengthen the AML/CFT legal framework and implementation capacity.	-TA has been received by the BoN to develop a growth at risk (GaR) framework as well as expand the macroprudential toolkit to include CcyB, still under consideration. -A crisis management and resolution management framework has been established with a core set of indicators for risk monitoring, but a full-fledged risk monitoring framework with a focus on early warning indicators and interconnectedness risks is under progress. -TA is planned to further develop ELA. -The Financial Institutions and Markets Act (FIMA), which would strengthen the collaboration between BoN and NAMFISA, is undergoing amendments. -Namibia Financial Sector Strategy (NFSS) has been launched with initiatives to increase bankability through SME credit schemes (Credit Guarantee Scheme, the Catalytic First Loss Venture Capital Fund and the Mentoring and Coaching Program) and assessment of virtual tools to expand financial inclusion. A follow-up strategy to the NFSS is prepared and will build on existing commitments to foster financial inclusion for MSMEs, youth, and women, and formalization of the informal sector. -All legal amendments to buttress the AML/CFT legal framework have been passed by parliament.

Goals	Objectives	Actions/Measures	Developments
Foster Sustainable and Inclusive Private Sector Led Growth.	-Diversify sources of economic growth. -Enhance productivity in sectors with high employment potential. -Increase private sector participation in the economy. -Ensure sound measurement of growth and other key economic and demographic indicators.	-Streamline business regulations and procedures, including by accelerating the implementation of one-stop e-services and simplifying procedures to start a business. -Reduce skill mismatches, including through skill audits and easing regulatory restrictions to hire skilled foreign workers. -Continue to strengthen governance and the anti-corruption framework to support private investment, including by subscribing to the EITI. -Address food insecurity, including through structural measures to increase the productivity and the resilience of the agriculture sector.	-An overarching strategy to engender sustainable and inclusive growth (Harambee Prosperity Plan II) builds on: i) diversifying sources of economic growth by attracting private investment in the green and blue economy; and ii) enhancing productivity in sectors with high employment potential, particularly agriculture. -Sizeable green hydrogen investments through private sector participation have been secured. The required renewable energy production over the medium term is expected to increase energy availability and reduce high energy input costs constraining diversification. -A partnership has been launched with the Harvard Growth Lab to identify potential sectors for investments toward boosting long-term competitiveness and growth in addition to identifying concrete policy actions to make the business environment more conducive toward private sector led growth. -Ongoing digitalization efforts in public institutions are facilitating the streamlining of business regulations, although more progress is needed. The finalization of the Namibia Investment Promotion and Facilitation Bill is expected to strengthen the investment framework. Skills audits are proposed as part of the Namibia Statistics Agency's drive for a new survey. -Efforts are underway to join EITI. -Several initiatives are in place to address food insecurity, including the Food Bank, the Drought Relief and School Feeding Programs. Ongoing initiatives aim to boost the productivity and the resilience of agriculture, including the Namibia Agricultural Mechanization and Seed Improvement Project. -The 2023 Census will help update data underlying policy and business decisions.

Annex V. Capacity Development Strategy

Overview of Capacity Building in Namibia

1. The capacity development strategy in Namibia has focused on supporting the implementation of economic policies and reforms to foster macroeconomic stability and growth. Capacity development (CD) has been supporting sustainable fiscal consolidation; strengthening the resilience of the financial sector and mitigating risks and enhancing the quality of statistics. Most recently, technical assistance (TA) has focused on petroleum taxation and revenue forecasting, AML/CFT issues, CBDCs, cybersecurity and the associated regulatory framework. Going forward, a special focus is needed to buttress statistical capacity for consistent recording, for both the national accounts and the balance of payments, the FDI and imports associated with oil and gas exploration to track their potential impact and making informed policy decisions. In the context of fiscal consolidation, the authorities expressed potential interest in receiving TA for wage bill reform if funding is secured. TA could become more selective based on progress with the implementation of previous recommendations and the usage of previously developed tools, such as the daily liquidity forecasting framework.

2. In the fiscal area, CD continued to focus on revenue mobilization, customs operations, strengthening the Public Financial Management (PFM) framework, and SDG costing.

- **Supporting the newly established revenue authority and administrative reforms:** This work covered CD on strategy and operational plans; enhancing leadership effectiveness through coaching executive management; business process reviews; audit capacity; and the establishment of a compliance risk management unit.

- **Providing support to customs:** This work included assistance in the development of operational unit plans and key performance indicators. Further assistance is planned with the design and delivery of a customs induction training program. Work has also commenced on the establishment of a training unit and developing proposals for a national training academy. AFRITAC South (AFS) has facilitated a series of technical workshops focused on the drafting of standard operating procedures. The cargo processing manual has also been reviewed and updated for the customs induction training program.

- **Strengthening the Public Financial Management (PFM) framework:** This support covered budget preparation and business processes focused on strengthening the existing information and communications technology and recommending a roadmap for digitalization in budget preparation and management. AFS missions delivered TA on the revision of the PFM legal framework, supporting the drafting of the amended State Finance Act and plan of action to obtain parliamentary approval.

- **SDG costing** (Annex IX): TA was provided to assess the spending associated with making substantial progress on the SDGs for human and physical capital development, involving a two-day mission workshop to inform the Namibian authorities of the international

experience and methodologies supporting the implementation of the SDGs in: (i) assessing the spending needs to achieve high performance on selected SDGs, and (ii) budgeting in support of SDGs.

- **Petroleum taxation and revenue forecasting:** This new line of TA for Namibia focuses on the design and implementation of petroleum sector tax policy and on developing a revenue forecasting framework for a large-scale oil project.

3. In the monetary and financial areas, CD has focused on strengthening the macroprudential unit, banking supervision, financial crisis management, and dealing with novel issues, including cyber risk and CBDCs.

- **Supporting macroprudential framework:** Developing the toolkit to monitor and strengthen financial stability, including by introducing a counter cyclical capital buffer tool.
- **Strengthening banking supervisions:** Risk rating and supervisory action planning.
- **Financial crisis management:** The operationalization of the bank resolution framework.
- **Cyber risk framework:** Helping with the elaboration of BoN's overall strategy and the review of the related prudential regulation.
- **CBDC TA helped assess the potential benefits and risks to monetary policy.** This analysis considered technology readiness, offline capability, and the legal framework. The mission also included the review of the entire payment system landscape.

4. In the statistical area, CD support focused on strengthening external (ESS) and monetary and financial statistics (MFS). CD focused on the consistency between ESS and MFS, strengthening conformity to the Special Data Dissemination Standard (SDSS) for which Namibia qualified in 2022. ESS topics included strengthening data management on the coverage of reserve assets; IMF loan liability and quota recording; coverage of portfolio assets of the state-run pension fund; metadata on ESS; and FDIs survey.

5. In the legal area, CD support focused on helping the authorities address the legislation and effectiveness weaknesses identified in the AML/CFT framework by the Eastern and Southern Africa Anti-Money Laundering Group. TA has focused on supporting the authorities on drafting amendments to the relevant laws, **including the Financial Intelligence Act, and** to establish beneficial ownership registries.

6. Implementation of CD recommendations has been broadly satisfactory, but streamlining is needed for optimal impact. Progress has been made on digitalizing budget processes and the institutional strengthening of the revenue authority. BoN has also made progress in strengthening the functionality of its macroprudential mandate by enhancing risk monitoring and data reporting. Although a PPP framework has been approved by parliament in 2018, more effort is needed to advance capacity in cost-benefit analysis and integration into SOE projects. On the

financial sector side, enhancing the cooperation of BoN and NAMFISA on NBFIs oversight needs a more frequent and systematic data-sharing mechanism. Future TA requests should be rigorously monitored to ensure they are demand-driven and are absorbed with monitored progress before future TA is committed.

Moving Ahead: Priorities in Capacity Building

7. In the fiscal area, TA aims to support the institutional strengthening of the Namibia Revenue Agency (NamRA) and the PFM framework. Moving ahead, technical assistance plans to support:

- Further institutional support to NamRA to focus on strengthening governance by putting in place an appropriate strategic management framework, coaching the executive leadership to enhance leadership effectiveness and enhance reform implementation, and monitoring of operational plans with proper structures; strengthening core tax functions (registration, timely filing and payment, and accuracy of returns); entrenching compliance risk management in NamRA's operations by developing and implementing compliance improvement plans; continuing to build audit capacity with a focus on transfer pricing in tourism, mining, and fisheries areas; and building capacity in audit of oil and gas operations.

- Customs will focus on valuation and risk management.

- On PFM and expenditure quality, support plans to focus on PIMA/C-PIMA and reviewing PIM governance and capacity to plan and implement public investment that is sensitive to climate change. Plans include: a follow-up on digitalization of budget preparation; assisting the development of a conceptual model for the implementation of the budget preparation in IFMIS module; and fiscal risk management to strengthen SOE fiscal risk monitoring and reporting. TA will also support the review of the finance ministry organization.

8. In the monetary area, future support is planned to continue to focus on banking supervision, CBDCs, digital assets and cyber risk, payment systems, monetary operations, and debt management.

- Banking supervision TA plans to support RBS Enhancement Framework and Supervisory Review and Evaluation Process implementation.

- CBDCs, digital assets and cyber risk support plans to focus on strengthening implementation, regulation, and cross-payments capacity once a decision on CBDCs is taken with a further review of digital assets.

- Payment systems TA plans to focus on fintech regulation and payment system oversight.

- Monetary operations TA plans to help the authorities to further develop the emergency liquidity assistance framework with a follow-up of past capacity building and the overview of the liquidity forecasting model implementation.

- Debt management would be a potential area of interest given the impact of the planned fiscal consolidation on financial sector stability and a framework for the optimal allocation of additional resources to debt reduction.

9. STA will continue to provide support on dissemination of timely and comprehensive economic statistics, but a special focus will be needed on the capacity to monitor and treat data associated with the expansion of new sectors, including oil and gas exploration. Capacity in conducting specialized surveys to monitor data on sector specific FDIs, especially on the recently expanding oil and gas exploration, new minerals and green hydrogen investments, and a granular disaggregation of associated trade flows will be critical for an accurate macroeconomic assessment of these developments, including for their impact on growth, on the assessment of the external sector and NIIP.

10. ICD has launched a multi-year TA project to enhance macroeconomic policy analysis and forecasting at the BoN. In 2021, BoN requested TA to enhance its ability to conduct macroeconomic forecasting and risk analysis. To this end, BoN envisages becoming a national center of excellence for economic analysis, research and forecasting that would upgrade the overall quality of macroeconomic analysis. The first phase of the project has been completed, featuring an update of BoN's inflation forecasting and new GDP nowcasting tools. In the current second phase, BoN is developing a set of models and tools for medium-term forecasting and alternative scenario analysis, which is expected to be completed next year. The final phase plans to help streamline the decision-making process and strengthen the monetary policy communication strategy.

Annex VI. Harnessing Mineral Discoveries and Green Energy for Economic Diversification

New mineral (oil and gas) discoveries and the ambitious green hydrogen project (GHP) place Namibia on the cusp of a new era. The authorities are treating these initiatives with caution, and do not yet incorporate them into their baseline projections and medium-term fiscal framework. Moreover, unless supported by appropriate policies, these promising developments will not by themselves achieve economic diversification and improve living standards. Lessons from past experiments and the persistence of obstacles to trade and competitiveness, including high cost of labor, highlight the need of lifting negative constraints. Furthermore, effective risk management is needed to ensure that local content policies, beneficiation and fostering higher value chains through green industrial policy (GIP) will enable positive spillovers from these large investments to achieve sustainable diversification. The uncertain timeframe within which these investments may come to fruition add to the complexity of designing a framework with effective sequencing of policies.

1. The authorities do not view these new projects, especially GHP, as stand-alone initiatives, but as building blocks interacting in a virtuous cycle toward a new economy. The inputs necessary for the success of these initiatives and their ultimate absorption (even if limited due to the size of Namibia's market) by the local economy could unlock a dynamic process of generating new value chains. At the input stage, the process, and the investments into the production of sustainable energy for green hydrogen to the specific components such as the blades for wind turbines or sand-resistant solar panels adopted to Namibia, could provide a significant value-added. On the consumption side, new modes of transportation such as hydrogen-powered trains or a green-iron manufacturing plant (currently under construction) using green hydrogen, could unlock additional value independently of the original project, also rendering the feasibility more likely. In the process to make green hydrogen more cost effective, there could also be synergies exploited with the potential for new gas production, which could be used as an interim input to produce blue hydrogen toward achieving scale while technological progress is making sustainable energy production even more cost-effective in Namibia and elsewhere.

2. The critical question for the policy makers is what the government should do and perhaps more importantly, avoid doing, to facilitate and encourage this virtuous cycle. Discussed with more details in the rest of this annex, lessons from the past as well as other country experiences can prove useful. Preserving macroeconomic stability, continuing to pursue macro-critical fiscal reforms, and fostering a climate conducive to entrepreneurship and innovation while streamlining the role of the state and continuing to upgrade the necessarily skills in the local work force could play a role in making this virtual cycle a reality.

A. Green Hydrogen Project (GHP)

3. GHP is a sustainable energy project to harness Namibia's abundant sun and wind resources for a cost-effective production of green hydrogen.[1] With Namibia receiving over 3,000 hours of sunlight annually, GHP plans to establish solar farms (jointly with wind turbines with a total capacity of 7GW) to power electrolysis (using desalinated water, another natural advantage for Namibia), splitting water molecules to produce hydrogen. Based on a joint study with GIZ, Hydrogen Atlas, GHP envisions three "hydrogen valleys": the southern region of Karas, the central region, including Walvis Bay port, and the northern region of Kunene. GHP targets a production of 10–12 million tons of green hydrogen production by 2050.

4. A new financing vehicle, SDG Namibia One, will raise funds from local and international investors. SDG will involve Namibia's Environment Investment Fund partnering with Dutch investment ventures and the European Investment Bank (EIB), which already concluded a letter of intent with Namibia at COP27 for the raising of 500 million euros. Several MOUs have also been signed, led by Germany, which has provided a grant of 40 million euros for the pre-feasibility stage. Part of these resources will help the authorities invest in the necessary infrastructure, including the upgrading of the Lüderitz Port to increase exporting capacity. It is expected that most of the costs will be absorbed by the private sector.

5. A partnership with a private firm, Hyphen, has already been signed. A contract was awarded for the development of the southern corridor (SCDI) jointly with Namibian counterparts, notably NamPower, to produce green hydrogen in the Namib Desert's Tsau-Khaeb Park. The announced capital investment of $10 billion could yield 300 thousand tons of hydrogen per year by 2030 with an electrolyzer capacity target of 3 GWs. The project comprises five phases, including a feasibility period, and the expansion for the Lüderitz Port to facilitate the construction of wind and solar farms and, ultimately, the exports of green hydrogen liquefied or converted to ammonia. NamPower and Hyphen are also investigating the possibility of excess electricity for domestic consumption: According to the UN, a 10-percent increase in the capacity of renewable power installations could yield about 75 TWh/year of additional electricity, which is more than 20 times the total electricity consumed in Namibia today.

6. The government has exercised its option to take a 24 percent equity stake in the Hyphen Project. This equity stake is financed by a 40 million euro grant by the Netherlands, disbursed through the SDG vehicle. As the project grows, the authorities plan to finance the remainder of their equity commitment with a mix of concessional loans and additional grant funding. The authorities have also announced the establishment of an Implementation Authority Office to develop Namibia's synthetic fuels industry with grant funding from Invest International and the European Union.

[1] According to the Green Hydrogen Organization of Namibia, the potential cost-effectiveness of Namibia is only second to Chile.

7. Hydrogen Council estimates that demand for ammonia from Germany alone could be nearly 3 billion tons a year a part of which could cover the current direct uses of ammonia. A critical element of this equilibrium will be the cost of producing green hydrogen; according to McKinsey, production in Namibia could cost as low as US$1.5/kg by 2030, while the current estimated global production cost is US$10–15/kg compared to US$2/kg for natural gas in the United States.[2,3] The currently higher cost of green hydrogen globally with respect to gasoline (estimated at US$8–10 per unit) could be beaten by the significant resource advantages of Namibia, but demand for hydrogen would also have to increase substantially (beyond the direct uses of ammonia), which might need large government subsidies to tilt it away from conventional fuels.

8. Given these constraints, commercial feasibility of GHP will likely depend on European commitments for product uptake.[4] The working assumption is that most of the demand at the commercial scale will have to be absorbed by the European market and specifically with political commitments from Germany given its close partnership with Namibia on this initiative. These political commitments involve following through with decarbonization legislation, which, industry participants note, has been progressing at a pace that makes it challenging to achieve the Paris Agreement objectives. Furthermore, the industry is far from a deep market with liquid trading (including a functional forward curve for green ammonia) in the absence of which, a project such as Hyphen would likely need external sovereign support from advanced economies.

9. The process to make GHP a success story involves several related projects, both as inputs and derivatives, which could produce independent positive externalities as part of the authorities' vision for a virtuous cycle:

- **The Oshivela Green Steel Plant.** Africa's first zero-emissions steel plant with an annual production capacity of 1million tons of pig iron, is planned to be finalized by end of 2024 as part of an initiative supported by the German Federal Ministry of Economic Affairs and Climate Action (BMWK) with an investment estimated at about US$30 million. The authorities estimate that during the first phase of the project in 2024, an annual output of 15 thousand tons of direct reduced iron is planned. Oshivela is expected produce one of the largest amounts of green iron worldwide, avoiding 27 thousand tons of carbon dioxide emissions per year, equivalent to 50 percent of emissions of Namibia's entire energy production. Oshivela plans to absorb part of the green ammonia produced in Namibia, contributing to commercial feasibility.

- **Green Shipping Corridors.** This initiative is a joint project with Marsk Mc-Kinney Moller Center for Zero Carbon Shipping to map and fund the development of carbon neutral value chains in production, transportation, storage and consumption of clean fuels and carbon

[2] According to the Green Hydrogen Organization, initial cost of producing green hydrogen in Namibia is estimated at US$1.73-2.30 per kg.

[3] Based on estimates provided by SG H2 Energy, a green-energy production firm.

[4] Demand from Namibia will depend on the degree of development of new modes of transport and production, which would require hydrogen as a cost-effective input.

free products made in Namibia and traded abroad. The partnership involves an undertaking with a private shipping company to build a clean ammonia bunkering facility in Walvis Bay at a cost of more than 2.2 billion euros in partnership with a local firm.

- **Green Hydrogen Locomotives.** HyRail Namibia is led by Hyphen Technical, a company based in Africa which aims to develop the technology for implementing hydrogen as a fuel on rolling stock and other freight vehicles. Two traditional diesel-electric locomotives will be converted to use hydrogen in the internal combustion engines. Also, a hydrogen fuel storage car to store fuel for the locomotives will be developed. The locomotive will be fueled with Namibian green hydrogen provided by Cleanergy Solutions Namibia, which is developing a green hydrogen production facility near Walvis Bay. The prototypes will be built and adapted at the Traxtion Rail Hub in Rosslyn, South Africa and then moved to Walvis Bay for operation by TransNamib, which will be the first state-owned railway in Africa to operate hydrogen powered locomotives. The goal of the pilot is to convert the entire locomotive fleet in Namibia. The project is estimated to cost 7.6 million euros partly funded from a share of the 30 million euros of grant funding made available by BMWK.

- **The expansions of the Walvis Bay and Lüderitz Ports.** The Namibian Ports Authority (NamPort) has signed an MoU with the Port of Rotterdam (PoR) to devise a plan on how to optimally position Namibia's ports to become green hydrogen export hubs to facilitate the forecasted growth and the flow of the green hydrogen supply chain from Namibia to the Netherlands. PoR anticipates a demand of 20 million tons of hydrogen to pass through its port's industrial complex by 2050. As part of the groundwork, NamPort has allocated 350 hectares of land at the Port of Walvis Bay North Port for allocation to green hydrogen related industries. However, a new deep-water port of Lüderitz at Angra Point will also be developed to complement the North Port to become a hub for the production and export of green hydrogen to Europe. The Port of Lüderitz, located 254 nautical miles south of the Port of Walvis Bay along Namibia's coastline, caters to the southern part of the country, and provides access to markets in the Northern Cape of South Africa. Recognizing the need for dedicated bulk facilities to cater to the mining and related industries, Namport has commissioned a feasibility study as part of its master plan for enhancing responsiveness to its customers. The Netherlands has provided grant funding for the port master plan revision and will receive preferred status to develop the port for shipping green hydrogen.

B. Oil and Gas Exploration

10. Recent offshore petroleum discoveries could make Namibia a significant crude oil producer in sub-Saharan Africa. There has been a surge of offshore exploration since 2021, concentrated in the Orange Basin, 270 km off the southwestern coast.[5] Five discoveries in less than

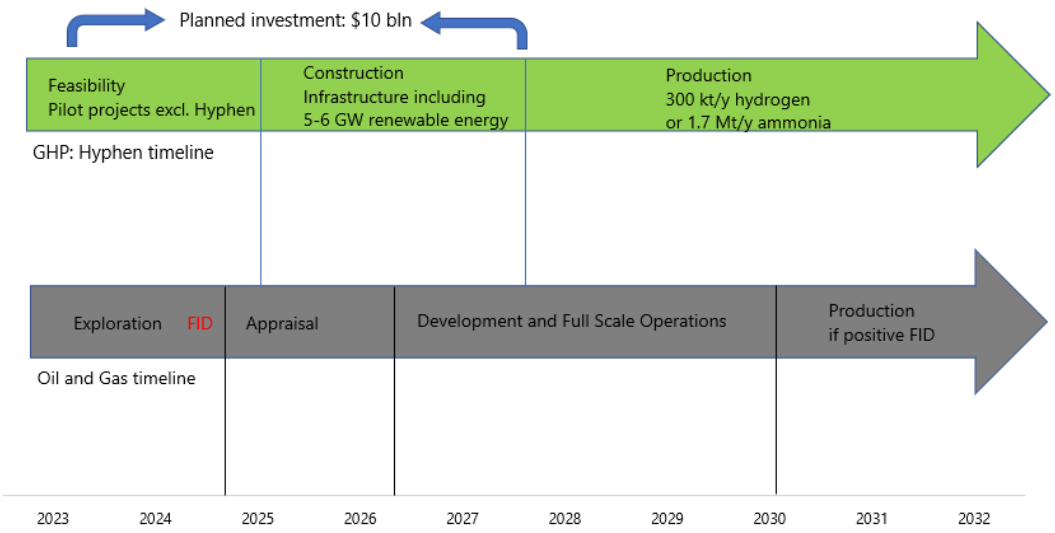
[5] A less significant onshore discovery was made in the Kavango Basin, northeast of the country by ReconAfrica, a Canadian-based company that began drilling in early 2021.

two years now bring the estimated total size of reserves at 11 billion barrels.[6] Exploration operation with two rigs on site is led by Shell, Total and Qatar Energy in partnership with state-owned National Petroleum Company, (NAMCOR).[7]

11. Final Investment Decision, (FID), could be imminent in early 2024. In recent public statements, reflecting the positive prospect of its most recent exploration activity, at least one oil company indicated that a positive FDI appears imminent. However, the process of appraisal and the development of the production and export infrastructure could take more than five years, making production unlikely before 2030.

12. The preparations for the development of offshore natural gas sources have intensified. Based on recent estimates, the Kudu field, 170 km offshore from the Lüderitz Port, could contain 3 trillion cubic feet of natural gas.[8] According to NAMCOR's recent statement (June 2023), the prospective development of the field is intended to supply an onshore electricity plant with a conservative estimate of a 400 MW capacity as part of a joint project with a private firm, BW Energy, which will absorb the cost of developing the gas exploration and conversion into electricity, including a pipeline to transport the offshore gas with NamPower as the uptake party. It will be important to negotiate an optimal pricing mechanism between BW Energy and NamPower to ensure both proper cost-recovery and containment of risks to NamPower and ultimately to the government's budget.

Estimated Timeline of GHP & Oil and Gas



Sources: Namibian Authorities; Public statements from Hyphen, Shell and Total; and IMF staff estimates.

[6] Compared to 37 and 9 billion barrels of proven reserves for Nigeria and Angola respectively, the two top oil producers in SSA.

[7] NAMCOR is expected to take a 10-percent stake in the production sharing framework.

[8] Natural gas reserves in SSA amounted to over 620 trillion cubic feet, a third of which is in Nigeria.

C. Lithium

13. The global pickup in demand for lithium batteries has generated significant exploration activity in Namibia over the last two years.[9] Two mines have been acquired by new investors who are revitalizing operations toward large-scale production. To ensure lithium can be processed locally as a higher value-added input into batteries and other technology products, the government has restricted the exporting of unprocessed lithium. This decision, while being controversial on trade policy grounds, is also controversial on environmental grounds, as is the lithium mining itself. Given the pollution and disruption to natural habitats involving lithium mining, environmental concerns, including impact on small communities, should receive due consideration. Moreover, the water constraints plaguing the current uranium production would present a risk to the scaling of lithium production. Risks to the global lithium market in the context of alternative battery development and EV market dynamics should also be weighed before any public investment commitments.

Box AVI.1. Experiences with Diversification

The textile project started in 2001 as a promising private sector FDI to take advantage of the Africa Growth and Opportunities Act adopted by the United States in 2000 (offering preferential trade advantages to developing African economies) with the prospect of generating 10,000 direct jobs and developing a new manufacturing export base in textile and garments industry. The project also received generous incentives from the government in the form of tax exemptions. Nevertheless, the operation encountered several challenges, including conflicts over environmental and labor issues and shipping constraints. Productivity was lower than expected with unexpected high unit labor costs that weighed on competitiveness. The project was terminated six years later in 2007.

The Peugeot automobile assembly plant is a joint venture between the Namibia Development Corporation (NDC), a state-owned company, and a foreign car manufacturer aimed to establish an auto assembly plant in Walvis Bay. Officially inaugurated in 2018, the plant intended to manufacture automobiles for the SACU market. The venture overlooked South Africa's stringent 60 percent local content requirements for vehicles, a condition the Peugeot-Namibia partnership failed to meet, and thus failed to penetrate the South African market as planned. In April 2023, Peugeot sued the government, alleging breach of contract on tax exemptions and ended the agreement.

Lessons. Research indicates that the textile experiment failed because of miscalculation of input costs interacting with human resource constraints and logistical challenges, especially in shipping that contributed to the project losing its major customers.[1] An overly optimistic outlook combined with policy uncertainty, lack of due diligence and a comprehensive risk analysis plagued the automobile plant. These experiences highlight the importance of proper understanding of market-specific regulations, effective supply chain management, robust risk management, sound projections of expected profitability and managing relationships with local communities.

[1] Flatters, F. and Elago, P., "Ramatex Namibia: Government Policies and the Investment Environment", AECOM International Development Trade Facilitation and Capacity Building project at the Southern Africa Global Competitiveness Hub, March 2008.

[9] Namibia is estimated to have significant deposits of lithium and other rare earth minerals such as dysprosium and terbium used as inputs in magnets for EV batteries and wind turbines.

D. A New Start for Economic Diversification in Namibia?

14. In addition to their direct impact on growth, these new economic activities are seen as a possible bridge to diversification. This path contains pitfalls as evidenced by the experience with the textile and automobile industries (Box 1). But the current projects present a unique set of opportunities: significant resources, external market access, potential for synergy as well as knowhow and fungibility of inputs for other uses. For example, the scaling of sustainable energy production for GIP would potentially help lower the high energy cost, which is an impediment to diversification: Namibia imports 70 percent of its electricity from South Africa with a premium (in the range of 9–12 cents per kWh compared to less than 8 cents for businesses in South Africa), eroding competitiveness of potentially profitable non-mineral sectors. Furthermore, household access to electricity for lighting stands at below 50 percent.[10] Reliable access to electricity supply is a key consideration in attracting foreign and domestic investment for industrialization.[11] The authorities are also keen to introduce local content requirements for the petroleum industry. This approach should ideally result in the transfer of knowledge and technology, but it can also reinforce embedded rent-seeking and excessive jostling for tenders by influential actors. Furthermore, some of the factors that plagued past initiatives, such as rigid input costs and logistical challenges against an uncertain price dynamic of a relatively untested product also weigh on GHP, underscoring the importance of accompanying measures to rectify structural constraints.

15. Despite the risks, the global pivot to green energy presents an opportunity to generate growth through targeted policies, including green industrial policy (GIP). The investments in green hydrogen in combination with the rare-earth minerals processing for EV batteries can generate new skills, value chains and wide employment for sustainable wage gains.[12] For example, some solar energy technologies can be produced locally with horizontal policy support, including through R&D grants and through the elements in the low-carbon technology transfer stair case identified by staff: (i) adoption; (ii) diffusion; (iii) imitation; (iv) collaborative innovation and finally, (v) indigenous innovation.[13] The recent international interest in Namibia in the context of "de-risking" presents an opportunity to lock market access for strategic, high-value products such as processed lithium.

16. For the above vision to succeed, a collaborative framework with the private sector is indispensable. Investing in well-sequenced and fungible projects in anticipation of the emerging infrastructure, regulatory and human capital needs of the incoming investments will help absorb

[10] United Nations Namibia. The power sector is in the process of attracting Independent Power Producers (IPPs) through reforms that include the horizontal consolidation of more than 70 distributors into five regional electricity distribution companies (REDs) and the establishment of transparent tariff setting by the Electricity Control Board (ECB).

[11] Inglesi-Lotz, R. and Ajmi, A.N., "The impact of electricity prices and supply on attracting FDI to South Africa."

[12] Upgrading of skills for green hydrogen is already underway through training programs in Germany.

[13] IMF Guidance Note on Principles for Conducting Green Industrial Policies. According to ILO, the production of solar water heaters boasts a significant green job generation potential. Furthermore, large-scale photovoltaic installations can provide long-term jobs and serve to upgrade the skills of existing workers.

their impact. This will also ensure that in case these projects prove unfeasible, investments in fungible skills and infrastructure can benefit other endeavors through learning by doing. Risk-sharing with the private sector under a robust PPP framework and flexibility to revisit strategies based on outcomes will increase the probability of success while reducing fiscal risks. Twinning local entrepreneurship with global businesses toward viable partnerships can also indirectly provide valuable know-how and private sector investments into specific infrastructure upgrades.[14]

E. Addressing Structural Impediments to Diversification

17. Aware of the potential for these projects to generate positive externalities and the need for a proactive engagement before the economy becomes more reliant on minerals, the authorities reached out to the Harvard Growth Lab for recommendations on the optimal sectors to focus industrial policy.[15] They also sought advice from the IMF on policies to support diversification and received input from other stakeholders, including the World Bank/IFC and the United Nations.

18. From the Fund staff perspective, in addition to identifying macroeconomic prerequisites, namely: (i) reforming wage policy and SOEs to reduce input costs and address competitiveness, and (ii) strengthening PFM and PPP frameworks to manage the incoming large projects, addressing key structural constraints would help the economy optimally absorb these projects while generating positive spillovers for diversification.

Key Structural Constraints:

- **Business environment.** Further streamlining business regulation and facilitating start-ups, ensuring a predictable regulatory framework to foster private investment.
- **Skill mismatches**. Conducting a comprehensive skills audit to identify gaps and train the workforce to match emerging business needs, including through adoptive frameworks matching emerging sectors with institutions of higher education; and easing regulatory constraints for hiring skilled foreign workers.
- **Governance.** Further improving accountability and transparency and strengthening anti-corruption mechanisms, including progress in the Second National Anti-Corruption Strategy and Action Plan launched in March 2022 and subscribing to the Extractive International Transparency Initiative (EITI).

[14] Kurtagic, D. "Central and Eastern Europe and Sub-Saharan Africa: Potential of Investment Partnerships for Mutual Benefit" Africa Program", October 2019.

[15] Harvard Growth Lab looks at economic complexity to identify industries with potential for further prioritization. These were determined as: chemicals and basic materials; food industry; machinery and electronics; metals, mining, and adjacent industries; and transportation and logistics.

19. Other Stakeholders, Including the World Bank-IFC and the UN have Highlighted:[16]

- **Digital access.** The World Bank estimates that weak competition in the broadband market is keeping costs high; 1 gigabyte of data costs twice the average in South Africa. Broadband adoption at 36 percent lags regional peers.

- **Logistics and trade**. Namibia is already emerging as an alternative shipping hub to South Africa. For example, Walvis Bay port is generating traffic from and to Botswana and DRC, including with re-exports of petroleum products. Enhancing timeliness, tracking, and tracing capacity for international shipments, and investments to support green hydrogen export capacity through the Lüderitz port can facilitate trade more broadly.

- **Water.** Variable rain patterns and water pollution present acute challenges for the vulnerable, but also constraints to growth, including in existing uranium production and prospective lithium processing. PPP water projects have recently been announced, including for wastewater treatment in Windhoek. The private sector can foster innovative water solutions such as desalination, which can also produce synergies with GHP.

[16] Based on the World Bank-IFC Private Sector Diagnostic of October 2022 and the UN Common Country Analysis (CCA), March 2023.

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Annex VII. Public Wage Premium, Entrepreneurship, and Implications for Public Wage Reform

Public wage premium in Namibia has grown over the years reflecting the expansion of the public sector. This dynamic has been diverting human resources and talent away from the private sector while distorting occupational choice and exacerbating the skills mismatch. This annex explores this relationship between public wage premium and entrepreneurship in Namibia empirically and offers policy recommendations on the parameters of public wage reform that could help reduce the size of the public sector sustainably while retaining an efficient administrative cadre and addressing the low uptake of human capital by the private sector.

1. The role of entrepreneurship in the growth and development process is well-established. Entrepreneurship drives the creation of ideas, exploration of new areas, and technological advancement. (Schumpeter, 1934). This innovation-driven approach not only enhances productivity but also acts as a driving force for economic growth. The economic growth literature suggest that a significant portion of growth is attributed to technical change, which requires entrepreneurial initiative (Baumol, 1968). This finding is further reinforced by empirical evidence highlighting entrepreneurship's pivotal influence on economic growth (Audretsch and Keilbach, 2004; Acs et. al., 2018; Stoica et al. 2020).

2. Entry into entrepreneurship is shaped by the economic incentives and institutions. Occupational choice models show that an individual's choice for entrepreneurship is a result of the interplay between their talent level, prevailing wages in the public and private sectors, risk preference, and the extent of borrowing constraints (see Appendix, Section A2; Parker, 2018). Institutional environments also play an important role (Bradley and Klein, 2016). Consequently, public policies have a bearing on shaping an individual's decisions to pursue entrepreneurship as a career path. This annex examines the role of the public wage premium[1] relative to the private sector in influencing entrepreneurship, contributing to the ongoing discussion on public wage reform in Namibia.

3. Namibia exhibits a significant public wage premium, much higher than observed in countries in a similar income group (see Figure 1). The presence of a public wage premium is not unique to Namibia. Abdallah et al.'s (2023) research, drawing from a dataset of 43 countries between 1995 and 2020, indicates that public-sector employees typically earn about 10 percent more than those in the private sector. Yet, with a public wage premium of 28 percent, Namibia stands out, exceeding the average found in the broad cross-country analysis.[2]

[1] Public sector wage premium refers to the difference in wages between public and private sector employees, typically measured as the percentage difference in average pay for comparable jobs.

[2] Based on the meta-analysis of published works from 86 countries since 1991, Abdallah et al. (2023) reported that the average premium is 5.2 percent for advanced economies, 13.3 percent for emerging market economies, and 14.8 percent for low-income and developing countries.

4. Concurrently, entrepreneurial activities in Namibia are much lower than predicted by its income level (Figure 2). This is compounded by elevated fear of failure (Figure 3). This heightened apprehension about potential setbacks and uncertainties in the entrepreneurial activity can be a major deterrence. As a result, the stability, perceived security, and consistent income associated with public sector employment, in addition commanding a wage premium over the private sector, exert a strong pull, drawing individuals away from the risks and challenges of entrepreneurship.

5. Cross-country evidence suggests a strong negative correlation between public wage premium and entrepreneurship (see Figure 4). The panel data analysis from 49 countries spanning the years 2000 to 2019[3] suggests that the increase in the public wage premium is associated with a decline in the individuals' propensity to opt for entrepreneurial ventures. This inverse relationship indicates that higher wages in the public sector may deter potential entrepreneurs from pursuing their own business endeavors, potentially due to the perceived stability and benefits of public sector employment.

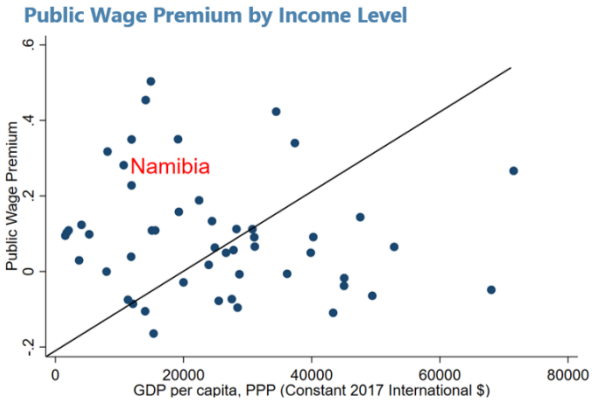
6. Reducing the public wage premium may encourage entrepreneurship, but it might also reduce public sector efficiency. The premium acts as a magnet, drawing in the most talented individuals, and serves as a safeguard against complacency and shirking. A reduction in this premium might inadvertently diminish the quality of public service delivery. A potential strategy to navigate this dilemma is to streamline the public service, ensuring a leaner but more proficient workforce, while preserving or even amplifying the wage premium to the extent justified by the skill and productivity differential. Elevating the qualification criteria for entry into the public sector could encourage entrepreneurship by narrowing the gateway to public sector employment (see Appendix on the role of the talent threshold). A more selective and compact public service structure would inherently reduce the chances of individuals securing such roles, thereby recalibrating their career considerations.

7. Public sector wage reforms should not thus focus on eliminating the public wage premium but attenuating its effect by reducing the size of the public sector. While the wage premium serves as an incentive to attract top talent to the public sector, unchecked growth in its size can have unintended negative consequences for the broader economy, including discouraging entrepreneurship, and depressing its growth potential. By streamlining the public sector, the impact of the wage premium can be moderated without completely doing away with it. A comprehensive skills audit is imperative to ensure that the public sector remains efficient and effective even if streamlined. This audit would identify areas of strength and weakness within the workforce, allowing for targeted training and development. Furthermore, linking compensations directly with skills and performance not only ensures that the most competent individuals are rewarded but also fosters a culture of excellence and accountability within the public sector.

[3] Unbalanced panel data with gaps depending on data availability. Data related to entrepreneurship are sourced from both the Global Entrepreneurship Monitor and the World Bank Entrepreneurship Database. Information on wage premiums is derived from the World Bank's Worldwide Bureaucracy Indicators Database.

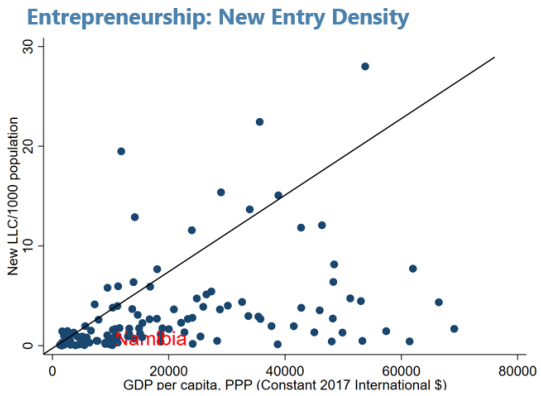
Figure AVII.1. Public Wage Premium and Entrepreneurship

Namibia's public wage premium is above its income comparators…



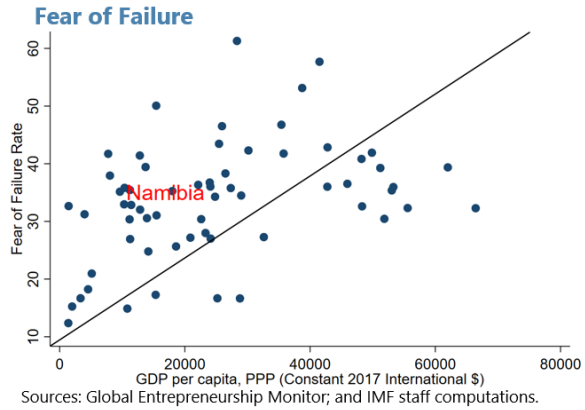
Source: IMF staff computations based on World Bank data.

…while entrepreneurial endeavors are limited…



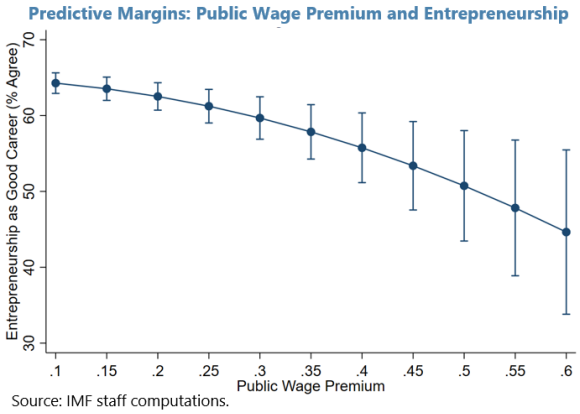
Sources: World Bank Entrepreneurship Database; and IMF staff computations.

…accompanied by higher fear of failure.



Sources: Global Entrepreneurship Monitor; and IMF staff computations.

Empirical results based on large panel data suggests a negative correlation between public wage premium and entrepreneurship.



Source: IMF staff computations.

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Supplement I. Public Wage Premium and Entrepreneurship

Occupational Choice Model

This supplement develops an occupational choice framework, accounting for public and private sector wage differential, talent threshold to entry into the public sector, and possible borrowing constraints.

The opportunity to enter the public sector depends on the individual surpassing a certain threshold level of talent (θ_t). If this threshold is met or exceeded, individuals can command a wage premium (v), which is a function of the strength of unionization (η), offering them a distinct advantage over private sector wages ($w_{pr}(\theta)$).

The choice to work in the private sector is also influenced by the individual's talent level and the wage offered in the private sector ($w_{pr}(\theta)$). The private sector wage is purely a function of the individual's talent level.

Entrepreneurship, on the other hand, necessitates a substantial initial capital investment (K). This capital can come from two sources: the individual's own funds $(1 - \lambda(\theta))K$ and borrowed funds $\lambda(\theta)K$, where $\lambda(\theta)$ is less than 1 and reflects the severity of credit constraints. As such, the ability to borrow is talent-dependent, meaning high-talent individuals can borrow more, thus making entrepreneurship more attainable for them.

This credit constraint is encapsulated as: $K \leq \lambda(\theta)K + (1 - \lambda(\theta))K$, meaning the total capital should not exceed the sum of the borrowed capital and the individual's own funds.

Assuming the individual's utility function takes a Constant Relative Risk Aversion (CRRA) form where $U(\omega) = \frac{\omega^{(1-\rho)}}{1-\rho}$ represents wages or entrepreneurial profit and ρ is the coefficient of

relative risk aversion, the decision-making process would be as follows:

For public sector employment (given $\theta \geq \theta_t$),

$$\frac{(\omega_p(v(\eta), \theta))^{1-\rho}}{1-\rho} \geq \frac{\left(\omega_{pr}(\theta)\right)^{1-\rho}}{1-\rho} \qquad (1)$$

This condition suggests that the individual would choose public sector employment over private sector employment if the utility derived from the wage in the public sector (w_p), adjusted for risk aversion (ρ), is greater than or equal to the utility derived from the private sector wage (w_{pr})

$$\frac{(\omega_p(v(\eta), \theta))^{1-\rho}}{1-\rho} \geq \frac{\left(\pi(\theta) - I - \left(1 - \lambda(\theta)\right)K\right)^{1-\rho}}{1-\rho} \qquad (2)$$

The condition in equation (2) suggests that the individual would choose public sector employment over entrepreneurship if the utility derived from the public sector wage (w_p), adjusted for risk aversion, is greater than or equal to the utility derived from entrepreneurial profit ($\pi(\theta) - I - (1 - \lambda(\theta))K$).

For private sector employment, equation (3) and (4) show that the individual will opt for private sector employment over entrepreneurship and public sector employment if the utility derived from the private sector wage (w_{pr}) is greater than or equal to the utility derived from entrepreneurial profit and public sector wage, respectively.

$$\frac{(\omega_{pr}(\theta))^{1-\rho}}{1-\rho} \geq \frac{\left(\pi(\theta) - I - \left(1 - \lambda(\theta)\right)K\right)^{1-\rho}}{1-\rho} \qquad (3)$$

$$\frac{(\omega_{pr}(\theta))^{1-\rho}}{1-\rho} \geq \frac{(\omega_p(v(\eta),\theta))^{1-\rho}}{1-\rho} \qquad for\ \theta < \theta_t\ or\ \theta \geq \theta_t \qquad (4)$$

Similarly, for entrepreneurship, given the feasibility condition $K \leq \lambda(\theta)K + (1 - \lambda(\theta))K$, the conditions in (5) and (6) indicate that an individual would choose entrepreneurship over private sector employment if the utility from entrepreneurial profit is greater than or equal to the utility from the private sector and public sector wages, respectively.

$$\frac{\left(\pi(\theta) - I - \left(1 - \lambda(\theta)\right)K\right)^{1-\rho}}{1-\rho} \geq \frac{(\omega_{pr}(\theta))^{1-\rho}}{1-\rho} \qquad (5)$$

$$\frac{\left(\pi(\theta) - I - \left(1 - \lambda(\theta)\right)K\right)^{1-\rho}}{1-\rho} \geq \frac{(\omega_p(v(\eta),\theta))^{1-\rho}}{1-\rho} \quad if\ \theta \geq \theta_t\ or\ \theta < \theta_t \qquad (6)$$

Impact of Higher Skill Threshold on Public Sector Employment and Entrepreneurship

Effect on Public Sector Employment

The opportunity to work in the public sector is restricted by θ_t. A higher θ_t means fewer individuals qualify for public sector employment. This directly reduces the pool of individuals who can even contemplate the utility derived from the public sector, which is based on conditions (1) and (2). Thus, an increase in θ_t will, ceteris paribus, reduce public sector employment.

Effect on Entrepreneurship

For individuals with θ just below θ_t, they are now excluded from the public sector due to a rise in θ_t. These individuals will now have to compare the utility from private sector

employment, as per equations (3) and (4), and entrepreneurship, as per equations (5) and (6); however, with a caveat that high-talent individuals (those with high θ) can more easily navigate credit constraints due to the talent-dependent borrowing constraint $\lambda(\theta)$. This makes entrepreneurship more feasible for them because they can secure more capital. Hence, for these high-skilled individuals, the utility derived from entrepreneurship can potentially outweigh the utility from private sector employment, especially when θ_t rises, constraining their access to public sector employment.

In terms of the first order conditions, with the rise of θ_t:

- The range for which condition (1) and (2) holds (i.e., $\theta \geq \theta_t$) shrinks, reducing the probability of choosing public sector employment.
- For those individuals with θ just below θ_t:
  - They will now compare utilities based on equations (3), (4), (5), and (6).
  - If for these individuals $\frac{(\pi(\theta)-I-(1-\lambda(\theta))K)^{1-\rho}}{1-\rho}$ is higher than $\frac{(\omega_{pr}(\theta))^{1-\rho}}{1-\rho}$,

    they will lean toward entrepreneurship.

Given that $\lambda(\theta)$ increases with θ, these high-skilled individuals just below θ_t can likely access more capital for entrepreneurship, making this occupation more attractive.

Annex VIII. Estimating a Tolerable Policy Rate Differential with the SAB in the Context of the Peg to the South African Rand[1]

During the most recent tightening cycle, the Bank of Namibia (BoN) has chosen not to follow the SARB's policy decisions to the full extent with a view to softening their impact on the local economy. While reflecting their general direction resulting in 100 basis point tightening since the end of 2022, the BoN has kept it policy rate (repo rate) below that of the SARB by an average of 50 basis points. In the context of the peg to the South African rand (ZAR), such a systematic deviation from parity would be expected to cause capital outflows, and it begs the question of whether and under what circumstances maintaining a policy rate differential of such (or a different) magnitude would be tolerable. This annex summarizes the results from several alternative empirical methods toward estimating a range of tolerable policy rate deviations under varying circumstances. Results indicate that under "normal circumstances", a negative deviation of 25–50 basis a tolerable threshold above which estimated portfolio instruments sustain higher outflows. This threshold can increase to -75 basis points when conditions are permissive for BoN to hold a negative policy rate differential. If conditions point to the opposite, meaning a less permissive environment for a negative differential, a positive policy differential of 50 basis points or above would be desirable. Furthermore, significantly higher outflows are observed for the -25 and -50 basis point differential thresholds beyond 31 and 147 days respectively.

A. Historical Trends

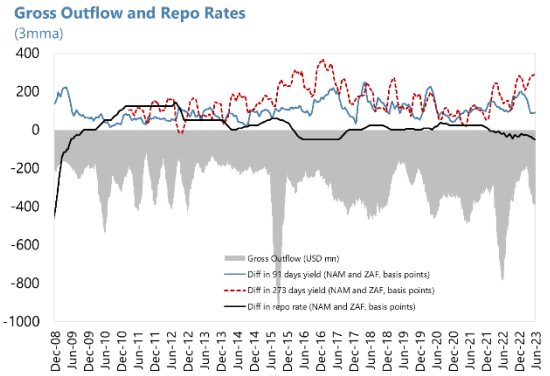
1. This is not the first time the BoN has chosen to deviate from the SARB. In the past 15 years, the policy rate deviation from the SARB has ranged between -475 to 175 basis points. These deviations occurred in a variety of economic conditions, notably, characterized by a varied degree of fiscal pressures and, typically, reflecting exogenous shocks from the global financial crisis (GFC) to the more recent COVID-19 pandemic and the war in Ukraine. During this period, the position of the Namibian economy relative to South Africa also varied in the context of region-specific economic trends and the asymmetric impact of common global shocks.

2. Visual and simple correlation analyses indicate that, on the surface, policy deviations with the SARB were not associated with significant changes to capital flows, Figure 1**.** The most important reason for this appears to be that despite a range of deviations of the policy rate from the SARB, the short-term (91-day) government treasury bill yield for Namibia has consistently been higher than its counterpart in South Africa with a positive deviation of 25 to 225 basis points over the last 15 years, except for the first time in recent months, trading at about 12 basis points lower as of October 20, Figure AVIII.2. There were periods where, despite a no-change to the repo rate, the

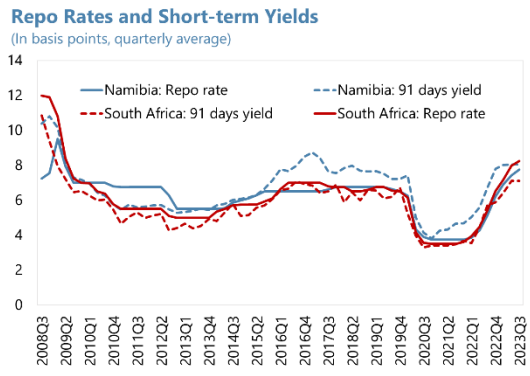
[1] The Namibian dollar (N$) has been pegged to the South African rand (ZAR) since 1993. Namibia is a member of the Common Monetary Area with South Africa, Lesotho, and Eswatini. Under this arrangement, N$ is pegged at parity to ZAR, and Namibia must maintain external reserve coverage at least equivalent to the stock of its currency issue, providing for a collateralized liquidity facility with the SARB. Except for large transactions, ZAR is legal tender in Namibia, but not vice-versa.

91-day yield continued to rise due to higher fiscal financing needs. Furthermore, interest rate sensitive instruments did not always comprise a significant share of capital flows, Figure AVIII.2. These observations, although consequential for portfolio flows, do not negate the need to still analyze outflows within the negative policy differential environment, especially considering the traditional premia difference with South Africa (having recently reversed) and that portfolio flows could, in the future, comprise a higher share of capital flows not associated with fiscal pressure.

Figure AVIII.1. Various Yields and Portfolio Outflows



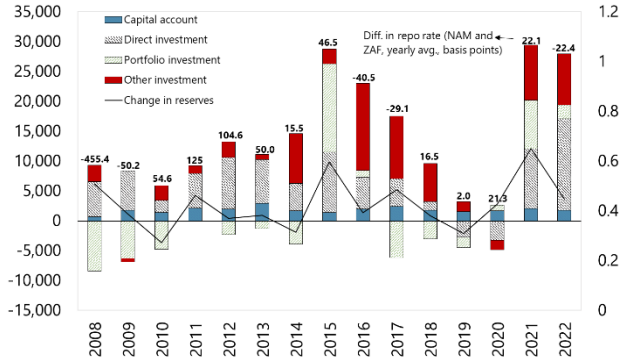
Sources: Bank of Namibia; and IMF staff estimates.



Sources: Bank of Namibia; and IMF staff calculations.

3. Other reasons for the apparent lack of a strong correlation between capital flows and the policy rate differential include: the requirement for non-bank financial institutions (NBFIs) to hold at least 45 percent of their assets domestically (and a similar liquidity requirement for banks) and the relatively low share of non-resident holdings of domestic debt (less than 10 percent of overall portfolio assets). In contrast to non-resident investors, the resident investors internalize over time the longer-term allocational and economic costs of significant capital flows, especially given the nature of the Namibian debt market with limited number of investors and their overall interest in the stability of the peg. These factors are confirmed by a survey of market participants.[2] Finally, factors influencing the decision of the BoN to deviate in either direction (such as the inflation rate difference with South Africa, the reserve position of the BoN or the position of

Figure AVIII. 2. Capital and Financial Account
(In Namibian dollars million, unless otherwise states)



Sources: Bank of Namibia; and IMF staff estimates.

Sources: Bank of Namibia; and IMF staff estimates.

[2] Conducted by the BoN to informally assess the significance of the policy rate differential and other factors bearing on the decision of market participants to take funds out of Namibia.

the yield premia with South Africa) could independently pressure capital flows in opposite directions compared to the expectation from the policy rate difference alone.

4. The current excess liquidity is another important constraint preventing an efficient transmission of the repo rate. Government paper is likely a more binding factor on portfolio flows given consistent excess liquidity in the banking system and lack of a functional inter-bank market; currently higher yields in South Africa thus naturally attract this excess liquidity irrespective of the policy rate, which serves as a benchmark for domestic commercial bank lending and more consequential for mortgages.[3] If not for existing constraints on capital flows such as the 45 percent domestic asset requirement imposed on NBFIs, the significant share of resident investors with a home bias or BoN bonds matching the policy rate in South Africa, and other regulatory constraints mentioned above, portfolio outflows could be larger.[4]

B. Empirical Methods

5. Three empirical methods were used to estimate a range of tolerable policy rate differentials with the SARB, which would not result in significant portfolio outflows. Their results are summarized in Table 1.[5] These methods focus on looking at the circumstances when the BoN maintained a lower policy rate than the SARB (negative policy rate differential, NPRD) and analyzing the impact on gross outflows.[6] They can be summarized as (i) a series of t-tests between 0 deviation and various episodes of NPRD ranging from -25 to more than a -100 basis points; (ii) threshold regression analysis;[7] and (iii) propensity score matching.

6. Comparative t-tests indicate that at a differential of -100 basis points and below, estimated portfolio outflows exhibit a significantly higher distribution, Figure 4. This result implies a tolerable deviation of -75-basis points but, if maintained for more than 12 days, this differential would entail significantly higher outflows (within that threshold) by N$295 million daily.[8] Although useful to compare averages across groups, t-tests should be treated with caution as they do not differentiate among deviations under different circumstances and disregard potential non-

[3] The prime lending rate in Namibia, currently at 11.5 percent, is automatically set at 375 basis point above the BoN repo rate, the main monetary policy instrument. Mortgage rates on existing homes hover around 12.5 percent.

[4] Potential changes to CFMs (currently under consideration and discussed in the staff report) should be well prepared and sequenced, considering whether conditions allow for their potential modification.

[5] BoN provided a database of daily commercial bank transactions and a database of quarterly portfolio flows that were used to estimate the size of daily portfolio flows. Direct observations of daily portfolio flows were not available.

[6] Running the analysis on NPRD episodes ensures that bias is minimized due to the asymmetry of the covariate distributions between negative and positive policy rate deviations (PPRDs), assuming conditions behave differently when they induce a negative policy deviation compared to a positive one. (Cangul et. al). Focusing the impact on gross outflows ensures that the analysis eliminates potential noise in the inflow data with varying shares of flows immune to interest rates.

[7] First developed by Sakoda in 1949 in the Journal of Mathematical Sociology, this model was extended to time series analysis in the 1970s and 1980s.

[8] Estimated using threshold regression on cumulative days where the same differential is maintained.

linearities in the data. These deficiencies are addressed through the threshold regression and propensity score matching (PSM).

Table AVIII.1. Namibia: Summary of Results

Negative Differential with SARB (in basis points)	*Ttest 1/*	*Threshold 2/*	*Threshold (w/covariates) 3/*	*PSM 4/*	*PSM on positive differential 5/*
-25			**31 (+262)**		
-50		**147 (+336)**			
-75	**12 (+295mln)***			**12 (+295)**	
-100 and below					

Sources: Bank of Namibia and staff estimates.

Tolerable difference

Significantly higher gross outflows

1/ Separate paired ttests between 0 basis point difference and negative deviations starting with -25 basis points, assuming different variances.

2/ Threshold regression on negative differences without covariates.

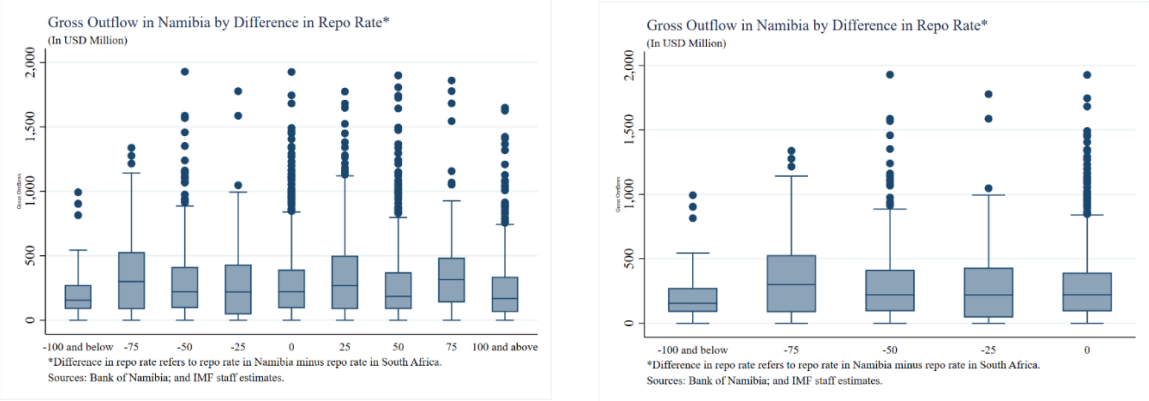
3/Threshold regression on negative differences with covariates.

4/PSM on negative differences with same covariates as threshold regression.

5/PSM on positive differences with same covariates as threshold regression. Tolerable differential with SARB would be at +50 basis points.

*Number of days after which a higher mean is observed by the amount indicated in paranthesis using threshold regression.

Figure AVIII. 3. Distribution of Gross Outflows Across Repo Rate Differentials



Note: The difference in repo rates is in basis points.

7. To overcome the non-linearity challenge, a threshold regression analysis was used, which indicates that at -75 basis points and below, portfolio outflows follow a different distribution with a significantly higher mean, implying a tolerable threshold of -50 basis points.[9] When the threshold regression analysis is broadened to include a set of covariates deemed consequential for the monetary policy decision, the tolerable threshold drops to -25 basis points. These variables are: (i) gross reserves; (ii) liquidity; (iii) inflation differential with South Africa; (iv) CDS spread for South Africa; (v) short and long-term yield differential with South Africa for the 91- and

[9] Thresholds are used to distinguish one state (0 policy deviation) from others (negative policy deviations) to estimate at which level of the negative policy deviation, capital outflows display a significantly different distributional pattern.

271-day instruments; and (vi) money supply. Thus, controlling for possible non-linearities and other variables, a tolerable negative policy differential is estimated to be between -25 to -50 basis points. The challenge with the threshold regression is that the covariate distributions are not properly grouped for comparisons across similar episodes impacting the decision of the BoN, resulting in endogeneity. For example, if BoN is more inclined to have a negative differential when reserves are above a certain adequacy threshold, capital outflows between policy differentials should be compared during similar degrees of reserve adequacy. Propensity Score Matching (PSM), discussed next, mitigates this challenge.

8. To overcome the endogeneity challenge, a propensity score matching (PSM) analysis was employed, matching observations between 0 and respective deviations in pairwise steps. A propensity score is the estimated probability that BoN would deviate in either direction from the SARB. The same set of covariates that were used to estimate the threshold regression were used to estimate a propensity score for each observation. These propensity scores were then used to sub-group observations into comparable buckets within each policy differential group. A linear regression analysis was then run for each of pair of sub-groups separately. According to PSM, the only threshold where there was a significant difference in outflows from 0 deviation was at -75 basis points for negative policy deviations and +50 basis points for positive deviations. This result indicates that when conditions are permissive and likely for the BoN to run a negative differential in the first place, the tolerable threshold increases to -75 basis points. On the other hand, when conditions are not permissive, which would increase the likelihood of BoN running a positive differential, a margin of +50 basis points would be needed to stabilize capital outflows.

C. Conclusion

9. It is estimated that under normal circumstances, a -25 to -50 basis point deviation from the SARB up 31 days and 147 days respectively would be tolerable by not causing significant capital outflows. In the presence of conditions such as a high reserve adequacy, a negative inflation differential with South Africa or a higher risk premium associated with South Africa, this tolerable threshold could increase up to -75 basis points for a duration of up to 12 days before resulting in significantly higher outflows. Applying this analysis to the case of estimating a propensity score for a positive deviation suggests that if conditions point to the opposite, meaning a less permissive environment for a negative differential, a positive policy differential of 50 basis points or above would be desirable.

10. These results should be treated with caution. They are based on historical data, which may not accurately reflect future risks and events that could cause a significantly different market response as evidenced during the GFC when gross outflows doubled in size. This is especially true in the context of current challenges faced by South Africa, evident in rand volatility and higher South African bond yields. A specific concern would be that with Namibia implementing a fiscal consolidation while South Africa's fiscal financing needs are higher, the current positive difference in the government debt yields could shrink, putting increased pressure for monetary policy to not only close the gap with the SARB, but start deviating positively. So far, this has not been a concern as

domestic financing needs were always sufficient to exert an adequately positive pressure on debt yields. Furthermore, in the absence of fiscal pressure combined with a less permissive environment, the repo rate could need to increase at a higher rate than the SARB given that yield responses to SARB policy changes appear to be more sensitive compared to yield responses in Namibia.[10]

[10] 92-day yield responses to SARB and BoN policy changes indicate a correlation of 95 percent and 76 percent respectively.

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Annex IX. Expenditures to Support the 2030 Sustainable Development Goals[1]

Namibia aspires to a standard of living for the population equivalent to that in the developed world. Using a benchmarking approach, this Annex estimates that making substantial progress toward the Sustainable Development Goals in critical sectors in Namibia would require an additional annual expenditure of about 6.5 percent of GDP alongside improving the efficiency of spending.

1. Namibia's physical and socioeconomic features are characterized by extremes, with direct implications for development services and welfare outcomes. With a Gini coefficient of 59.1, Namibia is the country with second-highest income inequality in the world. This is also reflected in the fact that 16 percent of the country's population is under the international poverty line of US$2.15 a day—while this is substantially lower than the sub-Saharan GDP-weighted average of 29 percent, it is well above the poverty rates for the majority of countries with similar income levels as Namibia Considering a wider range of deprivations, 43 percent of Namibians are multidimensionally poor.[2] Second, Namibia is an outlier in terms of its population distribution. After Mongolia, it is the most population-sparse country, with about three people per total square kilometer of land The low density, combined with the fact that sparser regions of Namibia are more deprived of access to basic services render efforts to improve the delivery of health and education services and infrastructure particularly costly.

2. Climate change harbors significant risks for Namibia, but global attention to reducing emissions also presents it with considerable opportunities. Namibia, containing a large desert area, is among the driest countries in Sub-Saharan Africa. Climate change is expected to make the country even drier. An analysis based on climate models and socioeconomic scenarios identifies Namibia as one of the top four countries that will face an especially significant increase in water stress by 2040 (Luo et al. 2015).[3] Water scarcity affects access to and the provision and cost of water and sanitation for household use, but also for agriculture and commercial activity. The agriculture sector is dominated by livestock production—a water-intensive subsector—which has seen a decade-long decline as a share of GDP, in part due to climate change induced droughts and land degradation that worsen grazing conditions (World Bank, 2021). At the same time, the world's heightened attention to the need to move to low-carbon options may position Namibia well to contribute to this regard: its endowment with abundant sun, large uninhabited space for solar and wind energy installations, and potential for green hydrogen, can enable it to supply the country and the world with renewable energy for electricity and other uses (Mnyupe, 2021).[4]

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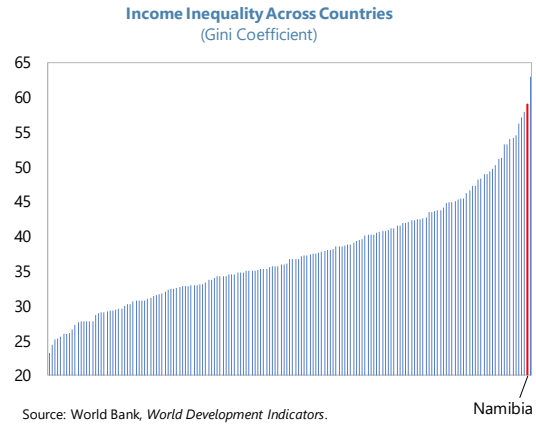
[1] This Annex is based on the Technical Report prepared by Nick Carroll, Isaura García Valdés, Tewodaj Mogues, Mauricio Moszoro.

[2] RoN (2021). Namibia Multidimensional Poverty Index (MPI) Report; Republic of Namibia, UNDP, and UNICEF.

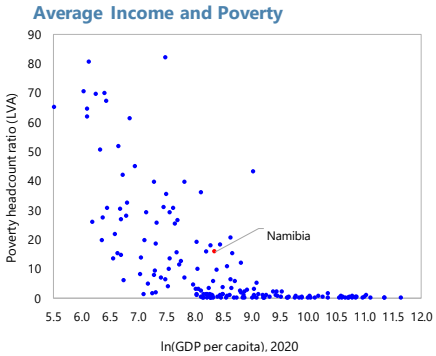
[3] Luo, T., R. Young, P. Reig. 2015. "Aqueduct Projected Water Stress Country Rankings." Technical Note. Washington, D.C.: World Resources Institute.

[4] Mnyupe, James. 2021. Namibia's energy transition: Moving from policy to climate action. World Economic Forum.

Figure AIX.1. Income Inequality and Poverty

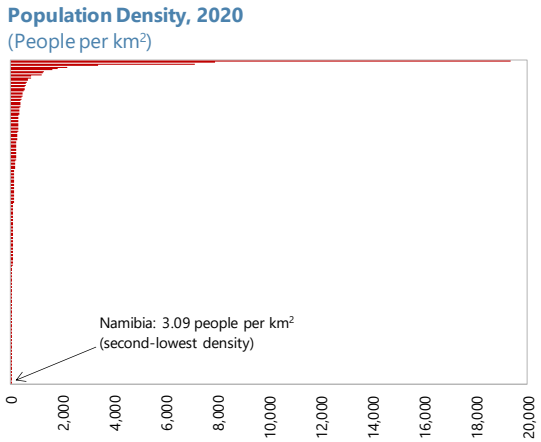


Source: World Bank, *World Development Indicators*.
Note: Each bar represents a country. Value for each country is latest data available.
Date of access: October 2022.

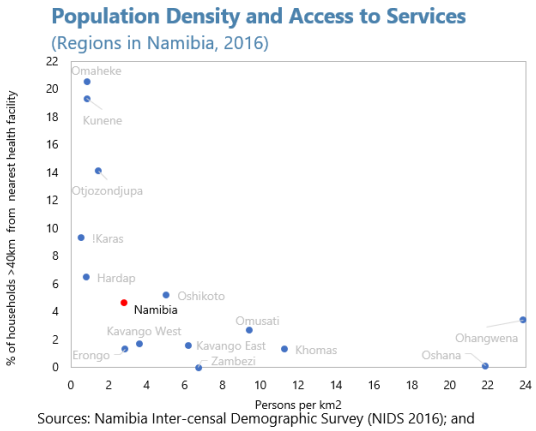


Sources: IMF, World Economic Outlook; and World Bank, World Development Indicators.
Note: Value for each country is latest data available. Date of Access: IMF, World Economic Outlook (April 2022) and World Bank, World Development Indicators (October 2022).

Figure AIX.2. Population Density and Access to Services



Source: World Bank, World Development Indicators.



Sources: Namibia Inter-censal Demographic Survey (NIDS 2016); and Namibia Household Income and Expenditure Survey (NHIES 2015/16).

3. The fifth national development plan (NDP5) centered the government's development efforts on the four pillars of economic growth, human capital development, resilience to climate change and environmental sustainability, and good governance. The challenges of inequality, low density, and aridity feature in the authorities' policy framework. The framework for the country's long-term national development is guided by the 'Vision 2030,' ambitiously set out in 2004 to achieve a standard of living for the population equivalent to that in the developed world and serves as the foundation for the country's series of seven five-year national development plans. NDP5 was implemented through March 2022, and NDP6 launched in June 2023 is under development by the National Planning Commission (NPC). Two broad development plans that are spearheaded by the ruling SWAPO party—Harambee Prosperity Plans I and II—mostly overlap with NDPs 5 and 6, respectively.

4. Namibia has actively engaged in monitoring its progress toward the SDGs. It underwent two Voluntary National Reviews (VNRs): in 2018 and 2021.[5] The recent VNR, which tracks the country's progress along all of the 17 SDGs (while the previous one only focused on four Goals) highlights the country's potential to become an international logistics hub through infrastructure investment, emphasizes its progress in gender equality through interventions across multiple sectors, and stresses that the pandemic led to backsliding in progress especially in education. More recently (July 2022), a user-friendly Namibian Data Portal was launched, which contains values as well as NDP targets for several, albeit not all, SDG indicators.[6] Namibia has also gone to some lengths to reflect on a coherent strategy to finance the SDGs. It is one of 16 "pioneer countries" that are implementing an integrated national financing framework (INFF)—the broader international framework was developed and/or financially supported by the United Nations system including the UNDP, and by the EU and GIZ. As part of the INFF, the NPC undertook a development financing assessment. This government assessment suggested that Namibia performed relatively well on domestic resources mobilization. Revenues reached 30.4 percent of GDP in 2022–23 and are projected to increase to 31.2 percent of GDP by 2028/29,[7] and the authorities seek to supplement this by drawing on the country's pension fund, strengthening its policy on public-private partnerships, issuing domestic financing instruments, and mobilizing external resources.

5. Namibia outperforms peers in the SDGs on gender and the sustainable use of ecosystems but falls far short on income inequality. An SDG index aggregates values of several variables related to each of the 17 SDGs and normalizes them to range from 0 to 100, whereby these values represent the worst and best possible performance, respectively.[8] Namibia is particularly far ahead of the mean of peers—EMEs and SSA—in goals such as gender equality (SDG5) and the sustainable use of marine/ocean (SDG14) and terrestrial ecosystems (SDG15). On the other hand, the country lags both EMEs and SSA by a large margin in the goal of reducing inequality—consistent with the striking inequities discussed above and in the sector analyses of this Annex (it is important to mention that here as well as throughout the Annex, descriptive comparisons of Namibia with peer countries provide helpful insights and serve as background to the costing analysis, but the cost analysis uses its own well-defined benchmark countries and targets as part of the derivation of additional spending needed to perform well on the SDGs. The approach is detailed in the next paragraph as well as in the subsequent sections).

6. This Annex estimates the additional spending associated with achieving strong performance in selected SDGs. These SDGs in human capital development (health and education) and infrastructure development (water and sanitation, electricity, and road infrastructure) make up a significant proportion of countries' budgets and are at the core of inclusive and sustainable growth.

[5] Countries' Voluntary National Reviews serve as the basis for United Nations-led reviews on global progress toward the SDGs, undertaken annually by the High-Level Political Forum, the main UN platform on sustainable development.

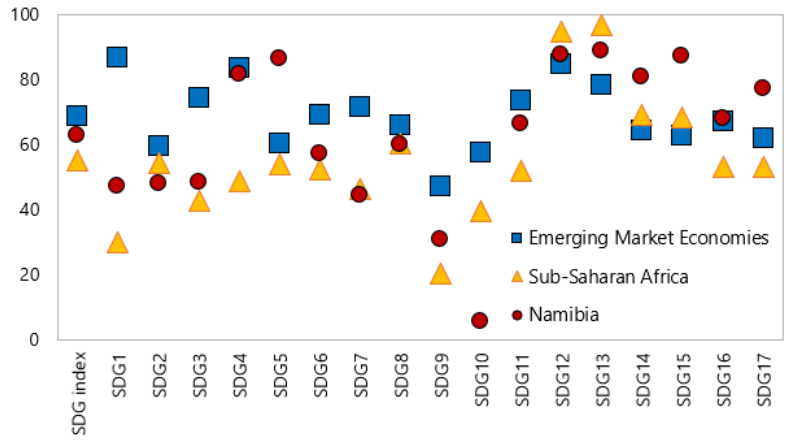
[6] Namibia Data Portal, "Sustainable Development Goals" (accessed October 2022).

[7] IMF (2022). Article IV Staff Report, IMF, Washington, D.C.

[8] The detailed methodology underlying the SDG indexes is presented in Lafortune et al. 2018. SDG Index and Dashboards: Detailed Methodological Paper.

Using the IMF's SDG costing methodology developed by Gaspar et al. (2019), the total additional annual spending in 2030 is assessed relative to a baseline of today's spending, expressed in percentage points of GDP.[9] All reference in this Annex to expenditures and inputs (e.g., number of doctors and other variables) always refer to public plus private resources/inputs taken together, unless otherwise specified. In each sector, the methodology benchmarks Namibia's 2030 target levels of inputs and other cost drivers to current levels of strongly performing peers and established good practices. Namibia's 2030 target levels of infrastructure and service provision and the associated spending are also informed by 2030 projections of various factors, such as the country's 2030 population size, rural-urban composition, age distribution, and GDP. This Annex takes the SDG targets as a given, and as such it is beyond the purview of this analysis to quantify the extent to which further downstream welfare effects and economic benefits arise from making strong progress on the SDG targets the Annex considers such as access to roads for the rural population and high educational enrollment rates. There is a large literature on the welfare and economic impacts of access to key services in social and infrastructure sectors that can help inform policymakers and can complement the findings of this Annex.

Figure AIX. 3. Performance Across the 17 SDGs, Namibia, and Peers
(SDG Index)



Source: IMF SDG Performance tool, which draws on Sachs et al. (2022) From Crisis to Sustainable Development: the SDGs as Roadmap to 2023 and Beyond. Sustainable Development Report 2022. Cambridge: Cambridge University Press.

7. The descriptive analysis and SDG cost assessment benchmark Namibia to relevant comparator countries. The primary country groups used for comparison in the descriptive analysis are Sub-Saharan Africa (SSA); the Southern African Customs Union (SACU) members Botswana, Eswatini, Lesotho, Namibia, and South Africa; and emerging market economies (EMEs). For the SDG cost assessment in the social sectors, the benchmark values of cost drivers are derived from the well-performing peers, which are defined as those countries i) that have a GDP per capita between US$4,000 and US$7,000 (Namibia's projected 2030 GDP falls within this income range); and ii) that

[9] Gaspar et al. 2019. Fiscal policy and development: Human, social, and physical investments for the SDGs. Sustainable Development Note SDN/19/03, International Monetary Fund.

have an SDG3 and SDG4 index value above 79 and 92, respectively (see dark blue boxes in Figure AIX 3). The subsequent sections first each provide an overview of progress over time and of performance relative to peers in sector-specific inputs and outcomes. This is followed, within each section, by an assessment of the additional costs in 2030 to achieve a high SDG outcome in the sector.[10]

8. Making substantial progress in critical SDG sectors in Namibia would require an estimated additional annual spending of about 6.5 percent of gross domestic product (GDP) by 2030. Relative to emerging market economies (EMEs), additional spending in Namibia is lower in the social sectors and higher in the infrastructure sectors (Figure AIX 4). Overall, Namibia's additional spending is slightly above the median EME of 6.2 percent of GDP.[11]

- *Health—expanding the supply of medical staff while ramping up efficiency*. Total healthcare spending is currently high (9.3 percent of GDP) relative to peers, while health outcomes are far below those of many other countries with similar spending. Overall, we estimate that total healthcare spending would have to gradually increase by an additional 0.8 percent of GDP in 2030 relative to today's spending, to support a larger medical workforce and deliver better healthcare outcomes. However, if substantial efficiency gains and some wage discipline do not materialize at the same time, the additional spending needs would be correspondingly higher to achieve good outcomes in SDG 3.

- *Education—reprioritizing expenditures and making them more efficient*. While gross enrollment in primary and secondary levels is already impressively above 100 percent, Namibia needs to do more to reduce class sizes and improve participation in early childhood education. On the other hand, at 10.6 percent of GDP, Namibia spends significantly more on education than well-performing peers (6.6 percent of GDP on average). Savings emanating from restraint in the growth of the relatively high wages (nearly 4 times average income), and reductions in the share of non-teacher spending in line with peers, could offset the areas of the sector that need more spending. Thus, heavy reprioritization of spending combined with achievement of spending efficiency would imply that Namibia could spend 2 percent of GDP less in 2030 than today but would have to spend better. However, absent efficiency improvements, the country would face elevated additional spending needs.

- *Water, sanitation, and hygiene—investing to end open defecation and improve sanitation*. While Namibia reaches its population with basic drinking water services at similar rates as

[10] For the costing analysis, wherever available, sectoral data for the most recent year available are obtained from sources provided by the authorities before and during the mission. For the descriptive analysis, in addition to data received during the mission, statistics on Namibia are drawn from well-established cross-country databases, especially where a long time series is needed or where data on Namibia are required that are analytically comparable to those of other countries. It should be noted that this report focuses on assessing the additional SDG spending needs; outside of the scope of this work is an analysis of the options for financing these expenditures. However, the concluding section touches on this issue. Further details on the methodology are discussed in Gaspar et al. (2019).

[11] This analysis is an assessment of the spending to achieve a high performance in selected SDGs in Namibia and does not include an examination of options to finance the spending needs.

peers, it is far behind in delivering basic sanitation, with only 35 percent of Namibians with such access, and 47 percent still practicing open defecation. Closing the water, sanitation, and hygiene gaps will require additional annual spending of 1.8 percent of GDP, including maintenance costs to counteract depreciation. A contributing factor to this is the fact that the country's thinly dispersed population is particularly costly to serve, and that informal settlements often do not have adequate complementary infrastructure that would facilitate the installation of bulk water and sanitation facilities.

- *Electricity—increasing domestic capacity to serve half the population without access.* Electricity access, at 50 percent of the population, is strikingly low for Namibia's average income level. While electricity consumption will need to rise to meet demand emanating from GDP and population growth, the vast contributor to the consumption increase from 4.4 to 11.3 TWh by 2030 to meet SDG7 targets is the need to reach the other half of Namibians that do not have electricity. This goal will entail an additional annualized cost of 2.6 percent of GDP including depreciation costs. Most of the Namibia's electricity is generated by renewable energy (primarily hydropower and solar). The current heavy reliance on imported electricity may not be sustainable, and Namibia is considering reforms to promote domestic installed capacity.

- *Roads—gradually increasing rural access.* Namibia's roads are of relatively high quality, and an impressive 72.5 percent of the rural population has access to all-season roads—a significantly higher share than the SSA average, EME average, and each SACU country—despite Namibia's vast space and sparse population. Yet, the country will need to invest an additional annualized 3.3 percent of GDP in 2030 to ensure that 90 percent of rural access is achieved. The country can do so by building an additional 9.8 thousand kilometers of mostly gravel roads, with a focus on connecting households and facilities like schools and clinics in rural areas.

9. The largest amount derives from spending on infrastructure development. Additional spending to achieve high performance in the SDG indicator on broad access to rural roads is largest, followed by spending on electricity access. Under the assumption that Namibia will converge with well-performing income peers in terms of spending efficiency, SDG 4 could be achieved by spending better rather than by spending more (as expenditure levels are already well above peers). While the overall additional annual cost of achieving these selected Goals appears large, the estimate for Namibia is in fact among the lowest, considering those countries for which such in-depth costing analysis was undertaken.

10. Changing the assumptions on efficiency would change the cost estimates. Underlying this cost assessment is the expectation that Namibia will raise its efficiency in transforming inputs (such as the number of teachers per student, or compensation of health workers) into outcomes (e.g., the SDG 3 or SDG 4 index) to the efficiency levels of well-performing peers. Without making such progress in efficiency, the expenditure needs would be substantially higher. This Annex undertakes an analysis of such an increase and finds that that additional spending to achieve SDG 3 and SDG 4 would amount to 4.9 and 1.8 percent of GDP, respectively, instead of the baseline

estimates of 0.8 and -2.0 percent of GDP. It should also be noted that this analysis does not prescribe a specific time path to arrive at the additional expenditures in 2030. Policymakers can, for example, choose gradual trajectories to get to the estimated higher levels of spending in the health sector. And the additional annual spending in infrastructure is an average yearly target that could be distributed evenly across time, frontloaded, or backloaded. While this Annex focuses on 2030 as the "end-year", to sustain SDG levels after this year, spending in the social sectors would need to recur, and infrastructure spending would have to keep up with population and GDP growth and cover the depreciation of the capital stock built up through 2030.

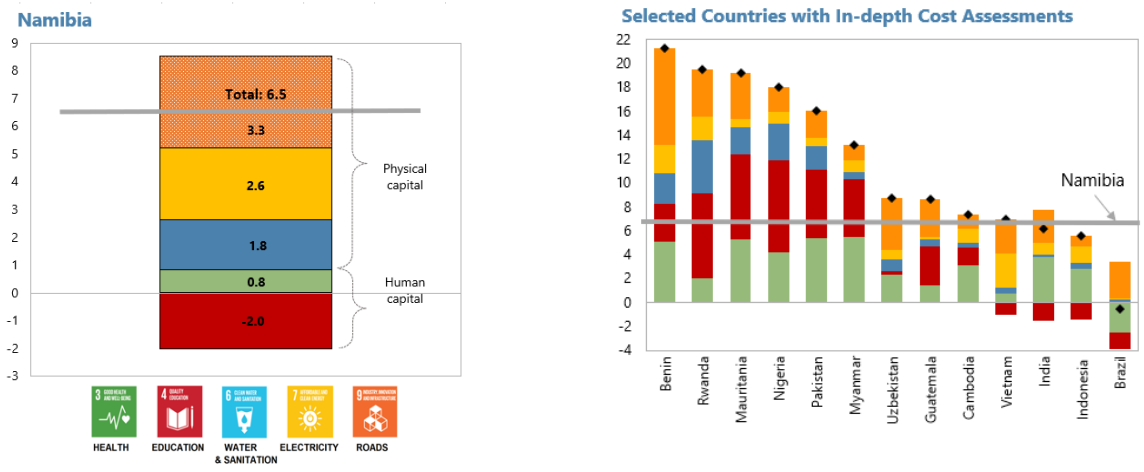
Figure AIX.4. Additional Spending in Critical SDG Sectors

Source: IMF staff calculations.
Note: Country-group and country-specific desk estimates are based on the IMF SDG Costing Tool, 3rd edition.

11. Further analysis, including by policymakers, can explore options for financing the SDG spending needs. While it was beyond the scope of the technical assistance mission underlying this Annex, future work by authorities and development partners would be useful to determine the role, opportunities, and challenges in enabling the needed spending through: (i) more vigorous domestic revenue mobilization through revenue administration and tax policy measures and through structural reforms, (ii) grants, (iii) concessional loans, (iv) expenditure reallocation and increasing efficiency, and (v) strengthening the business environment to enable private financing. An IMF study of four case countries found, for example, that Rwanda, Nigeria, Pakistan, and Cambodia would be able to cover 33, 35, 57, and 100 percent, respectively, of their SDG financing needs through the above steps (i), (iv), and (v)—albeit in some cases with delay past the 2030 goal year—pointing to the need for significant international development assistance in the form of grants and concessional loans for three of these case countries.[12]

[12] Benedek et al. 2021. A Post-Pandemic Assessment of the Sustainable Development Goals. SDN/2021/003. International Monetary Fund.

Figure AIX.5. Additional Annual Spending in Namibia and Other Countries



12. Beyond spending to achieve SDGs, managerial and policy constraints need to be addressed, and lessons for future risks can be drawn from COVID-19 and the impact of climate change. The estimates assume that Namibia would be able to combine different inputs efficiently to deliver across the analyzed sectors. This outcome would require important reforms. For example, while increasing the focus on health issues, the pandemic has strained Namibia's health systems and has exposed the criticality of making the system resilient to future health shocks. In education, wage restraint combined with a stronger reorientation of public resources to early childhood education can be expected to improve learning outcomes at later years without additional outlays. In the water and sanitation sector, climate change will call for resilient infrastructure alternatives along with more efficient use of existing water. In the electricity sector, authorities are considering some diversification to other renewable sources, given the potential vulnerability of hydropower facilities to climate-change-induced drought in the decades to come, and in light of the highly favorable environment for wind and solar energy. In the case of road infrastructure, investments for making roads climate-resilient can be concentrated on the far north-east area of the country near the Zambezi River, where the threat of floods is highest.

INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 17, 2023

Prepared By

African Department in collaboration with other departments and the World Bank

CONTENTS

RELATIONS WITH THE FUND

As of September 30, 2023

Membership Status:
Joined: September 1990, Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	191.10	100.00
IMF holdings of currency	382.10	199.95
Reserve position in Fund	0.15	0.08

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	313.55	100.00
Holdings	179.33	57.19

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Emergency Assistance (RFI 2021)	191.1	100

Latest Financial Commitments:

***Outright Loans*:**

Type	**Date of Commitment**	**Date Drawn/Expired**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RFI	3/31/2021	4/6/2021	191.10	191.10

Projected Payments to the IMF:
(SDR Million; based on existing use of resources and present holdings of SDRs)

		Forthcoming			
	2023	2024	2025	2026	2027
Principal		47.78	95.55	47.78	
Charges/Interest	3.90	14.86	10.69	6.29	5.55
Total	**3.90**	**62.64**	**106.24**	**54.07**	**5.55**

Implementation of HIPC Initiative Not Applicable

Exchange Rate Arrangement. The currency of Namibia is the Namibian dollar. The de facto and de jure exchange rate arrangement is classified as "conventional peg", vis-à-vis the South African rand. The Namibian dollar is pegged at par with the rand. Namibia is a member of the Common Monetary Area (CMA) and the CMA agreement establishes the fixed exchange rate arrangement.

Namibia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement, as of September 20, 1996. It maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for restrictions in place for security reasons notified to the Fund pursuant to Decision No. 144-(52/51).

Article IV Consultation. Namibia is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on December 7, 2022.

Safeguards Assessments. A first-time safeguards assessment of the BoN, conducted in connection with the Rapid Financing Instrument (RFI) approved by the Executive Board on April 12, 2021, was completed in March 2023. The assessment found relatively well-established safeguards, including audit mechanisms and financial reporting practices that broadly follow international standards. The central bank has a strong control and risk culture, which is supported by a sound risk management function. As recommended by the assessment, the BoN strengthened foreign reserves management practices, including through approving a project plan to modernize operations, enhancing reporting to the Board, and ensuring the BoN has unconditional access for balance of payment purposes to the assets as part of the swap agreements with domestic public entities. The BoN Act's provisions on autonomy could also be further strengthened to align with leading practices.

Capacity Development

The Fund has been providing Namibia with technical assistance (TA) and training in the following key areas: public financial management (PFM), tax and customs administration, financial supervision and regulation, liquidity management, macroprudential policies, cyber risk regulation and supervision, AML/CFT legal drafting, macroeconomic modelling capacity, and macroeconomic statistics. Specific capacity development projects since 2018 include:

Fiscal Affairs Department (FAD)

FAD TA has focused on strengthening public financial management, notably the budgetary process, project selection and management of fiscal risks; tax and customs administration, including the establishment of a national revenue agency; and tax policy.

Year	Purpose	Department
2023	Review of organizational structure of MoF	FAD
2023	Customs Administration - Customs induction training	FAD
2023	Tax administration - Audit	FAD
2023	PFM - Budget preparation & management	FAD
2023	Customs Administration - Customs procedures	FAD
2023	Tax administration - Compliance Risk Management	FAD
2023	SDG costing	FAD
2023	Customs Administration Performance Management	FAD
2023	Customs Administration - Risk management and training & development	FAD
2022	Customs Administration - Customs procedures	FAD
2022	Tax administration - Business process review	FAD
2022	Tax revenue administration - Executive development	FAD
2022	Customs Administration - BCP	FAD
2022	Customs Administration Performance Management	FAD
2022	PFM-PIM	FAD
2022	Governance of extrabudgetary entities	FAD
2022	FADPFM - SDG budgeting	FAD
2022	FADEP - SDG costing	FAD
2022	PFM legal framework reform	FAD
2021	PFM-Budget Preparation	FAD
2022	SDG Costing	FAD
2022	Mid-term Budget Review	FAD
2022	Tax administration: interactive learning and workshops	FAD
2021	PFM-Fiscal Risk Management	FAD
2021	Macro-fiscal forecasting	FAD
2021	Tax revenue administration	FAD
2021	Tax policy unit	FAD
2020	Exemptions	FAD
2020	Risk management	FAD
2019	Customs Post Clearance Audit	FAD
2019	SOEs fiscal risks	FAD

Monetary and Capital Markets Department (MCM)

MCM TA has focused on banks and non-banks financial institution stress testing capacity, including for the insurance system, banking supervision and regulation, macroprudential policies and cyber risk management.

Year	Purpose	Department
2023	Central Bank Digital Currency	MCM
2023	Cyber Risk Regulation and Supervision	MCM
2023	Financial crisis management - bank resolution framework	MCM
2023	Banking Regulation and Supervision - Risk-based Supervision (RBS) framework	MCM
2023	Macroprudential Policies	MCM
2022	Cyber security	MCM
2022	Macroprudential Policies	MCM
2022	Debt management strategy	MCM
2021	Banking Regulation and Supervision	MCM
2021	Stress test	MCM
2021	Cyber Risk Regulation and Supervision Capacity Development	MCM
2021	Risk-based Supervision (RBS) system	MCM
2020	National Payment Systems Development	MCM
2019	Training and capacity building for ACH Assessment	MCM

Institute for Capacity Development (ICD)

ICD launched in 2021 a multi-year macroeconomic frameworks TA project with the Bank of Namibia to improve economic analysis and forecasting capabilities, streamline the decision-making process, and strengthen the monetary policy communication strategy. So far, TA delivery has focused on macroeconomic forecasting capacity, including nowcasting.

Year	Purpose	Department
2023	Macroeconomic Frameworks TA – Building a Quarterly Projection Model (QPM)	ICD
2022	Macroeconomic Frameworks TA – Near-term Forecasting of Inflation and Nowcasting of GDP	ICD
2021	Macroeconomic Frameworks TA – Scoping and Action Plan	ICD

Statistics Department (STA)

STA TA has focused on enhancing the quality of sectoral macroeconomic statistics as well as updating the consumer price index (CPI), developing the producer price index (PPI), Financial Soundness Indicators (FSI), and supporting Namibia's progress in the implementation of the international statistical standards.

Year	Name	Department
2023	Government Finance Statistics	STA
2023	Balance of Payments Statistics	STA
2023	National Accounts Real Sector	STA
2022	Development of PPI	STA
2022	National Accounts Real Sector	STA
2022	Government Finance Statistics	STA
2022	Balance of Payments Statistics	STA
2021	National Accounts Real Sector	STA
2020	Development of PPI	STA
2020	Real Sector - Prices	STA
2019	National Accounts	STA
2019	Government Finance Statistics	STA
2019	Consumer Prices/Producer Price	STA
2019	Rebasing CPI and developing PPI	STA
2019	Financial Soundness Indicators	STA

Legal Department (LEG)

LEG has provided TA in 2023, focusing on strengthening of the legal framework for the AML/CFT architecture and operationalization of the bank resolution framework to strengthen financial crisis management.

THE JMAP WORLD BANK AND IMF MATRIX

Table 1. Namibia: World Bank and IMF Planned Activities
(As of November 2023)

Title	Products	Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
World Bank Work Program	• Regular macroeconomic monitoring		Macroeconomic Briefs; and Notes to answer ad-hoc requests
	• Macroeconomic and Poverty Outlook		Bi-annual, April and October
	• Climate Change Development Report		FY 2024
	• Country Partnership Framework		FY 2024
	• Renewable Energy Scale Up Support Project - Technical assistance on income and expenditure surveys - Regional CEM on Drivers of Inclusive Growth - Methodology for Assessing Procurement Systems (MAPS) Report (November 2023) - Agriculture and Water Sector Public Expenditure Review (February 2024)		FY 2024
IMF Work Program	• 2023 Article IV consultation	September 2023	December 2023
	• Revenue administration TA	2023	
	• PFM, budget preparation and management TA	2023	
	• Macroprudential policy TA	2023	
	• Financial crisis management TA	2023	
	• Cyber risk regulation and supervision TA	2023	
	• CBDC TA	2023	
	• National accounts TA	2023	
	• Government finance statistics TA	2023	
	• External sector statistics TA	2023	
B. Requests for work program inputs			
Fund's requests to Bank	Periodic updates on progress with, social protection reviews, and inequality and social programs.		
Bank's request to the Fund	Periodic updates on macroeconomic developments and forecasts, and technical assistance provided.		

Note: For more details on previous and ongoing World Bank engagement with Namibia, please see: https://www.worldbank.org/en/country/namibia

STATISTICAL ISSUES

(As of October 30, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has shortcomings but is broadly adequate for surveillance. The most important shortcomings concern the coverage of fiscal accounts, recording of imports and financial flows related to oil exploration activity in national accounts and external sector statistics, producer price statistics, and some consistency issues in external sector statistics.
National Accounts: The base year for national accounts (NA) is 2015. The National Statistical Agency (NSA) compiles and disseminates quarterly gross domestic product (GDP) by production approach in current and constant prices, with one-quarter timeliness. The compiled and disseminated data for GDP meet the Special Data Dissemination Standard (SDSS) requirements for coverage, periodicity, and timeliness. The NA are produced bi-annually and revised for the past three years. Major revisions for back years such as correction of errors and changes to the economic structure to reflect current economic situations occur at longer intervals. The NSA started tracking the oil and gas exploration activity in the quarterly data, but not yet in the annual data.
II. Assessment of Data Adequacy for Surveillance
General: Data provision has shortcomings but is broadly adequate for surveillance. The most important shortcomings concern the coverage of fiscal accounts, recording of imports and financial flows related to oil exploration activity in national accounts and external sector statistics, producer price statistics, and some consistency of external sector statistics.
National Accounts: The base year for national accounts (NA) is 2015. The National Statistical Agency (NSA) compiles and disseminates quarterly gross domestic product (GDP) by production approach in current and constant prices, with one-quarter timeliness. The compiled and disseminated data for GDP meet the Special Data Dissemination Standard (SDSS) requirements for coverage, periodicity, and timeliness. The NA are produced bi-annually and revised for the past three years. Major revisions for back years such as correction of errors and changes to the economic structure to reflect current economic situations occur at longer intervals. The NSA started tracking the oil and gas exploration activity in the quarterly data, but not yet in the annual data.
Price Statistics: NSA compiles and disseminates the CPI data 15 days after the reference month. CPI weights are based on expenditures data from the 2009/10 Household Income and Expenditure Survey (HIES) and may not be representative of current expenditure patterns. These weights are severely outdated, and the NSA should update the CPI weights and item basket. Data from the 2015/16 HIES were deemed unusable. A new HIES is planned for 2024/25. Assisted by AFRITAC South, the NSA has compiled a producer price index (PPI). Itis currently supporting the NSA to expand coverage. Labor market data, including labor force, employment, and wages are only collected on a bi-annual basis (the latest annual labor force survey is for 2018).

Government Finance Statistics: Annual and monthly budgetary central government data by fiscal year are compiled on a cash basis in GFSM 2014 format. Progress has been made to compile annual general government operations.
Monetary and Financial Statistics (MFs): The Bank of Namibia (BoN) reports monthly monetary statistics based on standardized report forms (SRFs) for the BoN and Other Depository Corporations (banks and money market funds). Concepts and definitions are in line with the Monetary and Financial Statistics Manual. The BoN has started to report Other Financial Corporations (OFCs) data covering pension funds, insurance companies and the Development Bank since December 2017, and data have been published in the International Financial Statistics. Namibia reports data on several series indicators of the Financial Access Survey (FAS), including mobile and internet banking, mobile money, gender-disaggregated data, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial Soundness Indicators: The BoN reports Financial Soundness Indicators (FSIs) for banks on a quarterly basis for publication on the IMF website. FSIs currently do not cover nonbank financial institutions or other nonfinancial sectors.
Balance of Payment and International Investment Position Statistics: The BoN reports balance of payments (BOP) and international investment position (IIP) data on a quarterly basis (with a lag of one quarter for the IIP) following the Balance of Payments and International Investment Position Manual, sixth edition (BPM6). BoN is in the process of collecting disaggregated data on the recently intensifying oil and gas exploration activity. Once all data are fully processed, net IIP and current account are expected to undergo a significant revision.

I. Data Standards and Quality	
Namibia subscribed to the Special Data Dissemination Standards (SDDS) in December 2022.	Data ROSC was published in 2002 and updated in 2005.

Table 2. Namibia: Common Indicators Required for Surveillance
(As of October 30, 2023)

	Date of Latest Observation	Date Received	Frequency of Data [1]	Frequency of Reporting [1]	Frequency of Publication [1]
Exchange rates	Oct 2023	Oct 2023	D	D	D
International reserve assets and liabilities of monetary authorities [2]	Oct 2023	Oct 2023	M	M	M
International investment position	Q2/ 2023	Oct 2023	Q	Q	Q
Reserve/base money	Sep 2023	Oct 2023	M	M	M
Broad money	Sep 2023	Nov 2023	M	M	M
Central bank balance sheet	Sep 2023	Oct 2023	M	M	M
Consolidated balance sheet of the banking system	Sep 2023	Nov 2023	M	M	M
Interest rates [3]	10/30/2023	10/30/2023	D	D	D
Consumer price index	Sep 2023	Oct 2023	M	M	M
Revenue, expenditure, balance, and composition of financing [4]—general government [5]	NA	NA			
Revenue, expenditure, and balance—central government	Sep 2023	Oct 2023	M	M	M
Composition of financing[4]—central government	Sep 2023	Oct 2023	M	M	M
Stocks of central government and central government-guaranteed debt [6]	Jun 2023	Aug 2023	Q	Q	Q
External current account balance	Q2/ 2023	Sept 2023	Q	Q	Q
Exports and imports of goods	Q2/ 2023	Sept 2023	Q	Q	Q
GDP/GNP	Q2/ 2023	Sep 2023	Q	Q	Q
Gross external debt	Q2/ 2023	Sept 2023	Q	Q	Q

[1] Daily (D), weekly (W), monthly (M), quarterly (Q), biannual (B), annually (A), irregular (I), and not available (NA).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially determined, including discount, money market, treasury bill, note, and bond rates.
[4] Foreign, domestic banks, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Fiscal data provision has shortcomings but is broadly adequate for surveillance as the Central Government constitute more than 80 percent of the General Government (GG). Data gaps are mainly due to capacity constraint. The IMF has provided technical assistance in July 2022 and August – September 2023 to help the authorities compile general government data, expected to be finalized by December 2023.
[6] Including currency and maturity composition.