INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/373

NAMIBIA

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NAMIBIA

December 2016

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 2016 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 2, 2016 consideration of the staff report that concluded the Article IV consultation with Namibia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 2, 2016, following discussions that ended on September 21, 2016, 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, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Namibia.

The documents listed below have been or will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

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December 8, 2016

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Namibia

On December 2, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Namibia.

Since the financial crisis, Namibia has experienced remarkable growth and economic progress. Strong policy frameworks and expansionary domestic policies have contributed to macroeconomic stability, robust growth, and rising living standards. Yet, deep-rooted structural impediments have kept unemployment high and unresponsive to growth, contributing to persistently high inequality.

In 2015, growth remained strong, but vulnerabilities increased. Despite a severe drought, real GDP grew by 5.3 percent buoyed by construction in the mining and housing sectors, and expansionary fiscal policy. However, with strong domestic demand and declining Southern African Customs Union (SACU) revenue, the current account registered a double-digit deficit. In combination, the large fiscal deficit, the depreciation of the Namibian dollar along with the South African rand, to which it is pegged, and the issuance of a Eurobond in November 2015 increased public debt to about 40 percent of GDP, close to the median of similarly-rated emerging economies. At the same time, continued rapid credit growth contributed to fast growing residential real estate prices and elevated household indebtedness. Headline inflation rose to 6.9 percent in September, from the 3.4 average in 2015, mostly due to rising food prices caused by the drought.

Fiscal and monetary policies are on a tightening course. The government has revised the FY16/17 budget and announced the intention to reduce the fiscal deficit in the coming years. In the context of the peg with the South African rand, the Bank of Namibia raised its policy rate in 2015 and in 2016 to 7 percent, at par with the South African Reserve Bank's rate.

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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.

The outlook remains positive with considerable vulnerabilities and risks. Growth is projected to temporarily weaken in 2016 to 1.6 percent as the construction of large mines ends and the government starts consolidating; it would then accelerate to about 5 percent in 2017–18 as production from new mines ramps up. However, without further deficit reduction, public debt is projected to increase above 60 percent by 2021. On the positive side, the current account deficit is expected to narrow to around 5 percent of GDP on the back of larger mining exports. Inflation is anticipated to decline to 6 percent by 2017 as food prices normalize.

Downside risks dominate the outlook and stem mainly from possible further declines in SACU revenues and commodity prices, lower growth in mining and construction, and sudden corrections in housing prices and domestic credit. With limited buffers, shocks could be amplified by abrupt policy responses, especially if combined with sovereign credit rating downgrades. Linkages between banks and non-bank financial institutions could further amplify shocks.

Executive Board Assessment[2]

Executive Directors welcomed Namibia's robust economic performance and rising living standards in the past several years. Directors noted, however, that while medium-term growth prospects remain positive, rising public debt, a widening current account deficit, low international reserves, and further declines in commodity prices pose risks. They underscored that continued strong commitment to sound policies and structural reforms will be key to preserving macroeconomic stability, managing financial sector risks, and promoting job creation and inclusive growth.

Directors welcomed the authorities' debt and fiscal strategy, and agreed that additional consolidation over the medium term will be necessary to put public debt on a declining path. Noting the authorities' preference for some front-loading, they emphasized that adjustment efforts should be carefully calibrated and focus on both revenue and expenditure measures while safeguarding priority capital and social spending, thus minimizing the impact on growth. Directors noted that measures to contain the public wage bill, curtail transfers to state-owned enterprises (SOEs) and other entities, as well as the strengthening of public financial management and revenue administration would help facilitate the adjustment and ensure equitable burden sharing. They also encouraged steps to reform SOEs to strengthen their governance, oversight, and performance.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors noted that fiscal consolidation would lift pressure on monetary policy and that, in the context of the peg with the South African rand, the authorities should consider maintaining the policy rate at par, or with limited positive spread, with the South African Reserve Bank's rate.

Directors recognized that Namibia's financial sector is generally stable, and called for continued efforts to monitor and manage risks from rising housing prices, household indebtedness, and linkages between banks and non-bank financial institutions. They commended the central bank for introducing loan-to-value-limits for non-primary residence purchases, and recommended that further targeted macro-prudential measures to tame housing price dynamics be explored. Directors recognized that the tight linkages between banks and non-bank financial institutions are macro critical and stressed the importance of monitoring and assessing possible financial stability risks from such linkages. In this context, Directors encouraged steps to improve the financial regulatory architecture and to enhance the central bank's capacity to assess macrofinancial risks and exercise macroprudential controls.

Directors emphasized that implementation of well-focused structural reforms is necessary to address high unemployment and income inequality. They highlighted that priority should be given to reducing skill mismatches through targeted education and training programs, simplifying business regulations, including improving the functioning of the labor market. Directors welcomed the authorities' intention to improve the targeting of key social assistance programs, including cash transfers and housing subsidies to make further inroads in reducing inequality and poverty.

Namibia: Selected Economic Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est	Proj	Proj	Proj	Proj	Proj	Proj
National account and prices									
GDP at constant prices	5.7	6.5	5.3	1.6	5.1	5.4	4.3	4.1	3.9
GDP deflator	8.7	6.8	-0.2	6.6	6.0	5.7	5.7	5.7	5.8
GDP at market prices (N$ billions)	123	140	147	159	177	197	217	239	263
GDP at market prices (Fiscal Year) (N$ billions)	127	141	150	163	182	202	223	245	269
GDP per capita (US$, constant 2000 exchange rate)	8,060	8,988	9,270	9,957	11,001	12,158	13,301	14,522	15,822
Consumer prices (end of period)	4.9	4.6	3.7	7.3	6.0	5.7	5.8	5.7	5.7
External sector									
Exports (US$)	6.0	-0.9	-11.6	-0.4	16.1	9.7	6.1	4.0	3.1
Imports (US$)	1.6	8.3	-2.7	-16.8	8.0	7.6	4.6	4.5	3.4
Terms of trade (deterioration = -)	4.7	3.5	-9.1	-2.8	-0.7	-0.3	-0.8	-1.1	-0.8
Real effective exchange rate (period average)	-8.7	-5.9	-1.7	...	...	...	...	...	...
Exchange rate (N$/US$, end of period)	10.5	11.6	15.6	...	...	...	...	...	...
Money and credit									
Domestic credit to the private sector	14.5	16.5	13.8	8.4	10.1	10.1	10.0	9.8	9.6
Base money	-0.8	35.7	-5.0	10.0	10.0	10.0	10.0	10.0	10.0
M2	12.4	7.8	10.2	8.3	11.4	11.4	10.3	10.1	9.9
Interest rate (percent)	5.5	6.0	6.5	…	…	…	…	…	…
Investment and Savings									
Investment	25.2	33.0	34.2	27.4	26.4	25.2	24.9	24.7	24.7
Public	6.4	7.3	8.0	5.4	6.4	7.2	6.9	6.7	6.7
Private	20.2	25.5	25.5	22.0	20.0	18.0	18.0	18.0	18.0
Change Inventories	-1.5	0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Savings	21.2	25.4	20.5	17.7	21.4	20.2	20.2	19.9	19.8
Public	3.0	0.4	-1.6	-3.1	-2.5	-2.3	-2.1	-2.2	-2.5
Private	18.2	25.0	22.1	20.8	23.9	22.6	22.3	22.1	22.3
Central government budget 1/									
Revenue and grants	33.4	35.4	34.9	31.3	32.3	32.0	31.7	31.5	31.3
Of which: SACU receipts	11.6	12.8	11.6	8.6	9.3	8.9	8.7	8.4	8.2
Expenditure and net lending	37.3	42.0	43.6	38.4	40.3	40.3	39.3	39.3	39.5
Primary balance (deficit = -)	-2.6	-5.2	-7.0	-4.0	-4.7	-4.7	-3.8	-3.6	-3.6
Overall balance	-4.0	-6.6	-8.7	-7.1	-8.0	-8.4	-7.6	-7.8	-8.2
Overall balance: Non-SACU	-15.6	-19.5	-20.3	-15.8	-17.3	-17.3	-16.3	-16.3	-16.4
Public debt/GDP	24.2	25.5	39.8	43.1	47.4	51.6	54.9	58.2	61.6
Gross public and publicly guaranteed debt/GDP	27.9	28.8	44.7	50.5	54.6	59.1	62.1	65.1	68.2
External sector									
Current account balance									
(including official grants)	-4.0	-7.6	-13.7	-9.7	-5.0	-4.9	-4.7	-4.8	-4.9
External public debt (including IMF)	7.9	7.6	13.1	17.4	17.1	17.1	17.2	17.1	16.6
Gross official reserves									
US$ millions	1,505	1,198	1,580	1,604	1,679	1,714	1,782	1,849	1,912
Percent of GDP	12.9	9.9	16.8	16.2	15.8	15.0	14.6	14.3	13.9
Months of imports of goods and services	2.2	1.8	2.8	2.7	2.6	2.5	2.5	2.5	2.5
External debt/GDP 2/	39.1	42.8	50.8	60.4	60.8	60.9	61.4	62.0	59.5
Memorandum item:									
Population (in million)	2.2	2.2	2.3	2.3	2.3	2.3	2.4	2.4	2.4

Sources: Namibian authorities and IMF staff estimates and projections.

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

2/ Public and private external debt.

INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

November 17, 2016

KEY ISSUES

Context. Namibia has experienced strong growth and economic stability, but faces significant challenges and structural issues. Public debt is rising and reserve coverage is below safe levels. Banks' balance sheets appear robust, but rising housing prices and household indebtedness pose macro-financial concerns. Deep-rooted structural problems have kept unemployment and income inequality unacceptably high.

Outlook, risks, and challenges. 2016 growth is projected at 1.6 percent, accelerating in 2017–18. Downside risks dominate the outlook and stem from possible fall in SACU revenue, lower growth in mining and construction, and corrections in the housing and credit markets. With limited buffers, shocks could be amplified by abrupt policy responses, especially if combined with a sovereign credit rating downgrade. Namibia's key policy challenges are to preserve macroeconomic stability, manage financial stability risks, and make inroads in reducing unemployment and inequality.

Fiscal and monetary policy. The 2016 budget introduced a tighter fiscal stance, but additional adjustment is needed to preserve debt sustainability. Adjustment needs to be carefully designed to reduce the impact on growth. It needs to be gradual and combine both revenue and expenditure measures, while safeguarding capital and social spending. Reforms of public financial management systems and the revenue administration, and key interventions to improve SOEs performance would create space for adjustment and ensure a more equitable burden sharing. To support the peg, the policy rate should remain at par, or with a limited positive spread, with the SARB's rate.

Financial stability. Risks from rising housing prices, household indebtedness, and linkages between banks and NBFIs need to be monitored and managed. The introduction of LTV limits for non-primary residence purchases is welcomed and could be complement by DSTI limits. Improving the financial regulatory architecture is critical to provide the BoN with the powers to assess macro-financial risks and exercise macro-prudential controls.

Structural reforms. Targeted structural reforms could significantly increase job creation and deliver more inclusive growth. Reforms to reduce skill mismatches and simplify business regulations would have the highest impact on employment. Better targeting of key social assistance programs could make further inroads in reducing inequality and extreme poverty.

Approved By
Anne-Marie Gulde-Wolf (AFR) and Daria Zakharova (SPR)

Discussions for the 2016 article IV consultation were held in Windhoek during September 8–21, 2016. The team comprised Mr. Palomba (head), Ms. Marchettini, Messrs. Nose, Torres (AFR), and Mr. Melina (RES). Ms. Gulde-Wolf (AFR) also joined the mission. Mr. Sishi (OED) participated in the discussions. Ms. Robertson provided editorial assistance for the preparation of this report.

CONTENTS

CONTEXT: ROBUST GROWTH WITH GROWING VULNERABILITIES 4

OUTLOOK AND RISKS 6

POLICY DISCUSSIONS 7

A. Designing Fiscal Consolidation 7

B. Managing Systemic Risks in the Financial Sector 13

C. Lowering Unemployment and Reducing Inequality 18

STAFF APPRAISAL 22

BOXES

1. State Owned Enterprises in Namibia 12
2. Household Vulnerability 15
3. Increasing the Efficiency of Fiscal Policy to Reduce Inequality 21

FIGURES

1. High Unemployment and Income Inequality 24
2. Robust Growth, Rising Inflation and Monetary Policy 25
3. Growing External Vulnerabilities 26
4. Rising Fiscal Vulnerabilities 27
5. Sound Banking Sector and Improved Financial Inclusion 28
6. Macrofinancial Risks from the Housing Market and Linkages Between Banks and Non-Bank Financial Institutions 29
7. High Unemployment and Employment Little Responsive to Growth 30
8. Structural Impediments Limiting Growth and Employment 31

TABLES

1. Selected Economic Indicators, 2013–21 32
2. Balance of Payments, 2013–21 33

3a. Fiscal Operations of the Central Government, 2013/14–21/22 (N$ millions) 34

3b. Fiscal Operations of the Central Government, 2013/14–21/22 (Percent of GDP) 35

4. Monetary Accounts, 2013–21 36

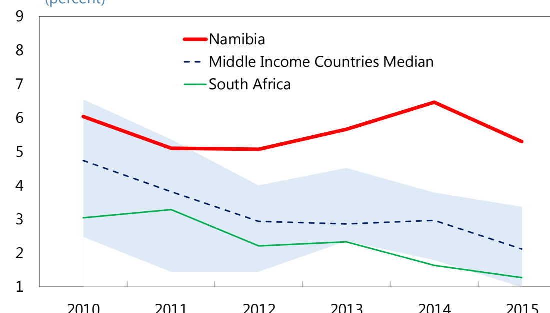
5. Financial Sector Indicators, 2010–March 2016 ___ 37
6. Millennium Development Goals, 1995–2015 ___ 38

ANNEXES

I. External Sector Assessment ___ 39
II. Risk Assessment Matrix ___ 47
III. Debt Sustainability Analysis ___ 48
IV. Macro-Financial Risks from the Housing Boom ___ 58

CONTEXT: ROBUST GROWTH WITH GROWING VULNERABILITIES

1. Since the financial crisis, Namibia has experienced robust growth and resilience to shocks, but vulnerabilities have been building up while unemployment remains high. Despite being a small commodity–dependent economy exposed to external shocks, since 2010, average annual real GDP growth exceeded 5 percent. The peg to the South African rand contributed to moderate inflation. However, four years of expansionary fiscal policy have led to a sharp increase in public debt. The current account deficit has widened, and the international reserve coverage has declined below safe levels (Table 1). At the same time, strong credit growth and supply constraints have contributed to fast-growing housing prices and high household indebtedness. Yet, unemployment remains high and little responsive to growth, contributing to maintain high income inequality, second only to South Africa (Figure 1).



2. In 2015, growth remained strong, but external and fiscal vulnerabilities gained prominence (Table 1).

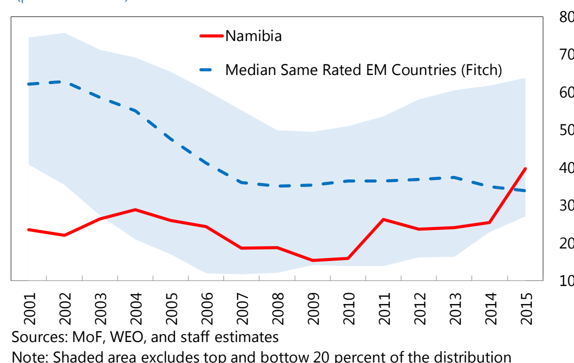
- Despite a severe drought, real GDP grew by 5.3 percent (6.5 percent in 2014) buoyed by construction in the mining and housing sectors, and expansionary fiscal policy. Strong public consumption and investment underpinned growth. Accommodative monetary conditions contributed to further boost bank credit and domestic demand (Figure 2). The economy, however, decelerated in the first half of 2016, with real GDP contracting in 2016Q2 as growth in construction and government services slowed down.

- Strong domestic demand and declining SACU transfers widened the current account deficit to 13.7 percent of GDP (7.6 percent in 2014). On the positive side, the 2015 Eurobond issuance improved reserve coverage to 2.8 months of projected imports (Annex I). However, other external buffers have thinned: external debt increased to about 51 percent of GDP (42¾ percent in 2014); external gross financing needs rose to 31 percent of GDP, well above the average of past years; and, the net international investment position, while still positive, declined to 4 percent of GDP from 15 percent in 2014 (Table 2; Figure 3). Moreover, since December 2015, reserve coverage has fallen, to 2.2 months of imports (August 2016).[1]

[1] Reserves for the year are, however, expected to be boost by two currency swaps.

- Expansionary fiscal policy caused the fiscal deficit to widen to an estimated 10.2 percent of GDP as subsidies and capital spending increased and SACU revenue declined (Table 3b).[2] The large deficit, combined with the issuance of the 2015 Eurobond and currency depreciation (because of the peg to the South African rand), led public debt to jump to 39.8 percent of GDP (from 25.5 percent), above the authorities' threshold of 35 percent of GDP and the median of similarly rated emerging market economies. The expansionary fiscal stance also increased government's gross financing needs, covered in part by the Eurobond and in part by purchases of government securities by domestic financial institutions (Figure 4). These developments led to pressure on sovereign credit ratings, with Fitch revising Namibia's ratings outlook from stable to negative in September 2016.

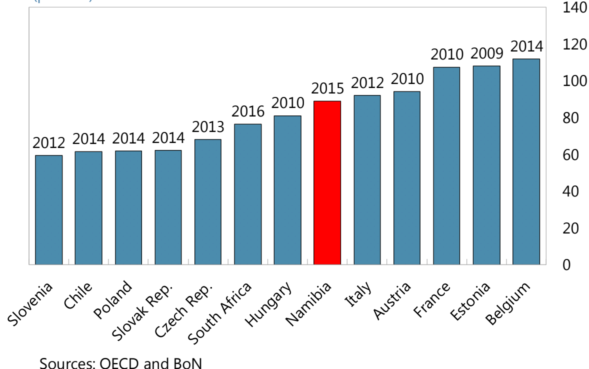
Public Debt on Higher Side of Emerging Market Peers
(percent of GDP)



Sources: MoF, WEO, and staff estimates
Note: Shaded area excludes top and bottow 20 percent of the distribution

3. **Domestic demand has been partly fueled by strong credit growth that has contributed to fast-rising housing prices and high household indebtedness.** Since 2010, credit growth to the private sector averaged 13¾ percent (13.8 in 2015), although slowed down in early 2016 (Figure 5). Corporate lending and mortgage loans, particularly to households, drove credit growth and supported rising housing prices that over the period increased on average by 14 percent. At the same time, household indebtedness reached about 90 percent of disposable income in 2015 (81 percent in 2013), higher than in South Africa and close to the level of advanced economies.

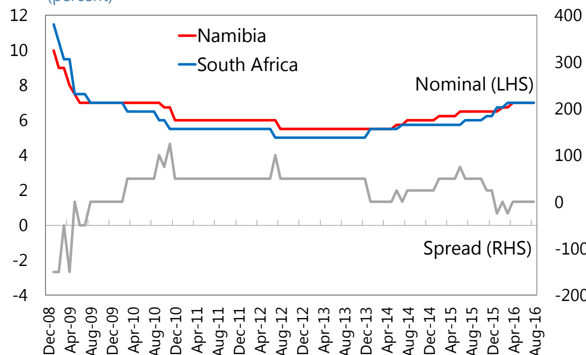
High Household Debt to Disposable Income
(percent)



Sources: OECD and BoN

4. **Against this background, monetary and fiscal policy have recently turned on a tightening course.** After averaging 3.4 percent in 2015, in 2016 headline inflation started rising and reached 6.9 percent in September, mostly due to higher food prices reflecting the drought, and increases in rental costs and administrative prices. In the context of the peg to the South African rand, the Bank of Namibia (BoN) raised the policy rate, both in 2015 and 2016, to reach 7 percent on par with the South Africa Reserve Bank (SARB)'s rate (Figure 2). In addition, with the FY16/17 budget (March 2016) and mid-year revised budget, the

Repo Rates Increasing
(percent)



[2] Deficit in FY2015/16 reflects below the line information. Preliminary above-the-line data suggest a deficit of about 8.7 percent of GDP.

government started implementing spending reductions and announced medium-term fiscal consolidation plans to bring public debt on a declining path.

5. Acknowledging long-term challenges, the government elected in 2015 has devised plans to boost growth and increase employment, while preserving macroeconomic stability. In the context of their 2030 vision, authorities are articulating a new national development plan (NDP), and implementing industrial policies to support labor-intensive sectors. However, the impact of some past initiatives, including tax incentives, has been limited, particularly on job creation and economic diversification, and a review is ongoing. At the same time, macroeconomic stability has been maintained, with the latest economic policies broadly reflecting recent Fund's advice.

OUTLOOK AND RISKS

6. The economy will slow down in 2016 and vulnerabilities are rising. As the construction of large mines comes to an end and the government starts consolidating, real GDP growth is foreseen to slow temporarily to 1.6 percent in 2016. Inflation is expected to decline to 6 percent only by end-2017 as food prices normalize. Growth is projected to accelerate to above 5 percent in 2017-2018, as production from the new Husab uranium mine ramps up, before converging to a long-term rate of about 4 percent. However, because of low SACU revenue over the medium-term, future fiscal deficits are expected to remain large and public debt to increase to above 60 percent of GDP by 2021. Financing the government would require significant shifts in asset allocations of domestic financial institutions, possibly crowding out private sector credit. On the positive side, larger mining exports and tighter domestic policies would halve the trade deficit to about 12⅓ percent of GDP, with the current account deficit stabilizing at around 5 percent of GDP. In this context, SACU transfers and capital and financial flows will continue playing a key stabilizing role in the Namibian economy and in financing future trade deficits (Annex I).[3]

7. Risks to the outlook are tilted to the downside. The main external risks to the Namibian economy arise from further commodity price declines as China rebalancing proceeds, accelerated fall in SACU revenue as the South African economy continues to slow, and lower demand for exports and domestic services as growth in the European trade partners and Angola remains sluggish. Domestic risks are equally prominent and weigh heavily on the outlook, especially from slower growth in the mining and construction sectors, sudden correction in overvalued housing prices and domestic credit, and possible funding risks from the government's large financing needs and slower fiscal adjustment.

8. The limited buffers could potentially force abrupt policy responses that would amplify the adverse impact of shocks. Should risks materialize, exports and growth would decrease, creating further pressure on fiscal and external accounts, and international reserves. Given the limited buffers, shocks could prompt an abrupt fiscal adjustment that would exacerbate the negative short-term impact on the economy, as the effects of appropriate fiscal and structural reforms would

[3] Over the medium term, SACU revenues are projected to remain below their recent peak, and to decline as a share of GDP, as Namibia's nominal GDP growth is expected to exceed the growth rate of SACU revenues dominated by low growth in South Africa.

take time to materialize (Annex II). The impact would be particularly damaging if accompanied by downgrades of the sovereign credit rating, which could prompt further increases in interest rates for both the public and private sector. In addition, sharp reversals in housing prices, coupled with elevated household indebtedness, could negatively affect financial intermediation through a deterioration in banks' asset quality and profitability, and in turn growth.

Authorities' views

9. The authorities broadly agree with the outlook and staff's risk assessment, but have a more optimistic view on short-term growth prospects. They expect a milder slowdown in 2016 largely because of lower fiscal multiplier assumptions. However, they agree that near-term domestic risks weigh heavily on the outlook, particularly risks from government's large financing needs. They concur that forced fiscal adjustment could amplify the negative effects of shocks on the economy. To mitigate risks, they have revised the FY16/17 budget and brought forward their fiscal adjustment plans.

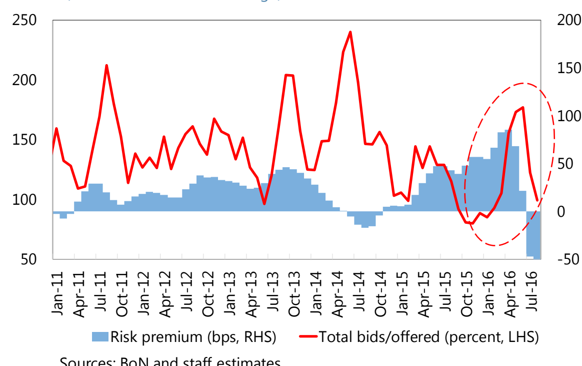
POLICY DISCUSSIONS

Namibia's key challenges are to preserve macroeconomic stability and make inroads in reducing high unemployment and income inequality. With recent expansionary fiscal policy contributing to rising public debt and external vulnerabilities, discussions focused on the need for: (i) anchoring additional fiscal adjustment in a credible medium-term plan that minimizes the negative impact on growth; (ii) managing risks from overvalued housing prices and the large non-bank financial sector; and (iii) advancing structural reforms to generate sufficient jobs to reduce unemployment and inequality.

A. Designing Fiscal Consolidation

10. The authorities' 2016 budget and medium-term fiscal strategy marked a departure from past policies, outlining significant fiscal adjustment to bring public debt below their target of 35 percent of GDP. The budget envisaged nominal reductions in recurrent expenses—particularly goods and services and transfers to SOEs—and the postponement of non-productive capital outlays to yield a deficit 4.7 percent of GDP. The medium-term strategy foresaw negative growth in real primary expenses and contained capital spending dynamics to reduce the deficit to 2.1 percent of GDP and the public debt ratio to about 28 percent of GDP by FY18/19. However, the extent and quality of measures underpinning medium-term spending reductions remained to be identified. In the October mid-year budget review, the authorities introduced further spending reductions of about 2.8 percent of GDP for the remainder of FY16/17 to partially offset lower than excepted revenue, and revised the deficit to 6.3 percent of GDP, with a pro-cyclical stance. Reductions included a freeze on new hiring, and cuts to not yet executed capital and non-wage recurrent expenditure. The authorities also recognized that achieving their medium-term fiscal targets requires additional fiscal adjustment, and announced the intention to strengthen their adjustment plans going forward.

11. Under staff's baseline scenario, which includes budget spending plans, fiscal deficits would remain large and public debt continue rising. The revised FY16/17 budget projects higher revenue than staff. As a result, staff foresees the fiscal deficit to be higher at about 7.1 percent of GDP in FY16/17, and reach 8-8½ percent of GDP by 2018/19. Debt would reach about 52 percent of GDP by FY18/19, and continue rising over the projection period to above 60 percent of GDP. Under this scenario, government's gross financing needs would remain large, creating pressures on domestic financial markets and possible crowding out and funding risks.[4] Moreover, the fiscal outlook is subject to significant risks.[5] Recent additional reductions in the FY16/17 budget spending may be difficult to implement fully given the short time schedule, with the risk that the deficit for the year exceeds plans. In addition, if macro-economic shocks and contingent liabilities materialize, public debt could rise to about 80-90 percent of GDP by 2021 (Annex III).



Staff Medium-Term Projections (Baseline scenario) 1/

(percent of GDP, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021
Real GDP Growth (annual change)	5.3	1.6	5.1	5.4	4.3	4.1	3.9
Credit to the Private Sector (annual change)	13.8	8.4	10.1	10.1	10.0	9.8	9.6
Fiscal Balance	-8.7	-7.1	-8.0	-8.4	-7.6	-7.8	-8.2
Revenue	34.9	31.3	32.3	32.0	31.7	31.5	31.3
Expenditure	43.6	38.4	40.3	40.3	39.3	39.3	39.5
Current Expenditure	36.9	34.7	34.5	34.3	33.7	33.8	33.9
Capital Expenditure	6.7	3.7	5.8	6.0	5.7	5.5	5.5
Primary Fiscal Balance	-7.0	-4.0	-4.7	-4.7	-3.8	-3.6	-3.6
Gross Financing Needs	16.3	15.1	18.3	20.0	18.7	18.7	22.5
Public Debt (excl. guarantees)	39.8	43.1	47.4	51.6	54.9	58.2	61.6
Current Account Balance	-13.7	-9.7	-5.0	-4.9	-4.7	-4.8	-4.9
Gross International Reserves (months of imports)	2.8	2.7	2.6	2.5	2.5	2.5	2.5

1/ Fiscal data refer to fiscal year. Projections reflect revised FY16/17 budget.

12. Additional fiscal adjustment is needed to bring public debt on a declining path and preserve macro-economic stability. Fiscal adjustment should be anchored in a credible medium-term framework and carefully calibrated to limit negative effects on growth.

[4] Crowing out of domestic credit could occur as domestic banks increase their holdings of government securities to finance the fiscal deficit. Under this assumption, satisfying the remainder of government's gross financing needs in FY16/17-18/19 would still require non-bank financial institutions (NBFIs) to increase their holdings of government securities from 14 percent of GDP in 2015 to about 23 percent in 2018.

[5] Risks include: weaker growth, lower commodity prices, slower fiscal adjustment, materialization of contingent liabilities, particularly for SOEs, and higher borrowing costs.

- Under staff's macroeconomic assumptions, a further 4½-5½ percent of GDP in measures (depending on multipliers) would likely be required over FY17/18-19/20 to bring the public debt ratio on a declining path by FY19/20 and eventually below 35 percent of GDP, as envisaged by the authorities. Spreading the additional adjustment over three years would limit the negative impact on growth and concentrate the adjustment at a time when growth is projected to be above its long-term trend. The adjustment would bring additional benefits. It would support further external adjustment and result in safer levels of reserve coverage (Annex I). It would also contain government's gross financing needs, reducing crowding out and funding risks, although lower growth could temporarily reduce banks' profitability and asset quality. In addition, fiscal adjustment would lift pressures on monetary policy. In this context, the BoN should maintain the policy rate at par, or with limited positive spread, with the SARB's rate to support the peg. Bringing public debt below 35 percent of GDP by FY19/10, as planned by the authorities, would improve the fiscal outlook, but put significant downward pressure on short-term growth.

Staff Medium-Term Projections (Reform scenario) 1/

(percent of GDP, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021
Real GDP Growth (annual change)	5.3	1.6	4.7	4.8	3.6	3.7	3.9
Credit to the Private Sector (annual change)	13.8	8.3	11.1	11.1	11.0	11.0	11.0
Fiscal Balance	-8.7	-7.2	-6.4	-5.0	-2.3	-2.0	-1.9
Revenue	34.9	31.3	32.8	33.0	33.2	33.0	32.9
o/w additional measures (cumulative) (% of baseline GDP)	...	...	0.4	0.9	1.3	1.3	1.3
Expenditure	43.6	38.4	39.1	38.0	35.5	35.1	34.8
Current Expenditure	36.9	34.7	33.3	31.9	29.8	29.5	29.2
o/w additional measures (cumulative)	...	...	1.3	2.6	3.9	3.9	3.9
Capital Expenditure	6.7	3.7	5.8	6.1	5.7	5.6	5.6
Primary Fiscal Balance	-7.0	-4.1	-3.2	-1.5	1.2	1.4	1.4
Adjustment (% of Baseline GDP)	...	...	1.7	3.4	5.2	5.2	5.2
Gross Financing Needs	16.3	15.1	16.7	15.3	11.0	10.0	12.6
Public Debt (excl. guarantees)	39.8	43.2	46.0	47.2	45.9	44.3	42.7
Current Account Balance	-13.7	-9.7	-4.0	-2.6	-0.8	-0.7	-0.7
Gross International Reserves (months of imports)	2.8	2.7	2.8	3.1	3.5	3.7	3.7

1/ Fiscal data refer to fiscal year. Fiscal adjustment equally spread over three years starting in FY17/18, and assumed to be a quarter from revenue.

- Staff recommends the additional adjustment to be based on quality measures with low short-term multipliers to limit the negative impact on growth. A combination of increases in indirect revenue (e.g., ¼ of the adjustment) and expense reductions, while protecting capital and social spending, would minimize the impact of fiscal adjustment.[6] While ambitious, the adjustment appears feasible if credibly designed. Staff proposed a menu of measures to be considered by

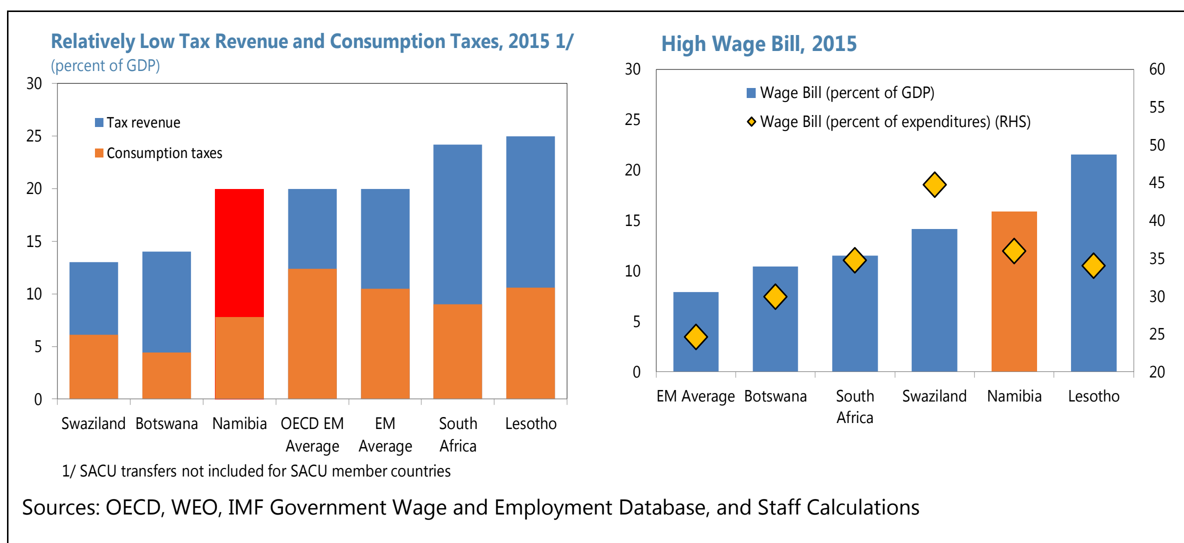
[6] Based on the Selected Issues Paper on "Calibrating Growth-Friendly Fiscal Consolidation in Namibia."

the authorities, in some cases deepening existing policies. On the revenue side, staff suggested to focus on measures with low multipliers (e.g., excises, VAT base, property taxation, tax incentives). On the expenditure side, policy options include: (i) containing the dynamics of the bloated government wage bill by constraining inflation adjustment, limiting new hires to critical areas (e.g., education and health), and reducing allowances; (ii) curtailing subsidies and transfers to SOEs and other entities through reforming SOEs and reviewing intragovernmental arrangements; and (iii) consolidating and improving the targeting of key social programs. The FY16/17 budget already included reductions in travel and non-essential purchases.

Possible Fiscal Adjustment Measures, FY17/18-FY19/20
(Percent of GDP)

Measure	Budget Savings
Total	Up to 8.0
Revenue measures	Up to 3
Increase domestic levies (e.g., fuel levy, luxury good excises)	1.2
Increase SACU excises above Union uniform rates (e.g., alcohol, tobacco)	0.8
Reduce tax incentives	n.a.
Widen the VAT tax base	n.a.
Remodule PIT rates	0.3-0.6
Improve VAT productivity	0.4
Expenditure measures	Up to 5
Limit inflation wage adjustment and new hiring	1.3-1.9
Halve transfers to SOEs	0.3
Reduce transfers to other extra-budgetary entities and local authorities (increase tax powers of the latter)	1.2
Better targeted social transfers	1.2
Reprioritize capital budget	0.3

Source: MOF, and IMF staff estimates



Sources: OECD, WEO, IMF Government Wage and Employment Database, and Staff Calculations

13. Fiscal adjustment should be accompanied by structural reforms in public financial management and revenue administration. Improved spending efficiency and better revenue collection are critical to create space for adjustment, minimize the adverse growth impact of the consolidation, and ensure equitable burden sharing. Reforms should focus on:

- ***Public financial management (PFM).*** An early enactment of the 2015 Public Procurement Act (scheduled for FY2017/18), and stronger procurement processes could reduce waste and free resources for consolidation. Strengthening the macro-fiscal forecasting capacity at the ministry of finance, and accelerating plans to reform budget formulation and execution processes and the PFM legal framework could enhance the preparation and implementation of consolidation plans. Improving public investment management (e.g., project appraisal, implementation) would help support more efficient growth-enhancing spending. Finally, as the authorities plan to boost their efforts for public-private partnerships (PPP), a well-designed legal framework is needed to avoid excessive risk taking.

- ***Revenue administration.*** A recent international assessment has signaled significant room for improvement in the organization structure, business processes, and human resource management of the revenue administration. The authorities' plans to create a semi-autonomous revenue authority possibly by 2017 are, therefore, timely and welcomed. Nonetheless, while gains from improving revenue administration in Namibia are potentially large, cross-country experience suggests that reaping the benefits of such changes may take time. To bring forward some of the benefits of better revenue administration, staff recommends to continue prioritizing the collection of tax arrears, and enhancing internal business process and IT systems.

14. Concrete steps to reform the SOEs are needed to lower budgetary costs and improve confidence and growth. With a few exceptions, most SOEs operate at a loss and represent a significant burden for public finances and a source of fiscal risks. At the same time, they operate in key service and network industries and are critical to service delivery and infrastructure development (Box 1). The authorities are aware that SOEs face a number of financial and governance challenges and have recently created a Ministry of Public Enterprises as a step toward strengthening the monitoring of the sector and enhancing its performance. Reforms should focus on key areas, including: (i) stronger and timely oversight of the financial performance of key SOEs; (ii) full implementation of the legally mandated governance framework (e.g., business plans, performance agreements, and reporting obligations); and (iii) a clear demarcation between commercial, developmental and social activities to strengthen accountability, and foster greater private participation.

Authorities' views

15. The authorities concur that changes in the macroeconomic outlook have significantly worsened the fiscal position. They noticed that in addition to a shortfall in revenues, which widened the deficit, the sharp increase in the public debt ratio in 2015 was due to the depreciation of the currency, a low GDP deflator, and the Eurobond issuance, which was partly saved. They are cognizant that current policies, if not recalibrated, would keep public debt on a rising path, threatening hard-won macro-economic stability. Therefore, they have introduced significant spending reductions in the revised FY16/17 budget, and plan to strengthen their fiscal consolidation strategy going forward.

16. They affirmed their commitment to undertake additional fiscal adjustment to bring public debt on a declining path. They concur that significant adjustment is needed to bring the public debt ratio below 35 percent of GDP. They noticed that the adjustment could be phased over time, but have a preference for some frontloading to ease funding pressures and bring public debt below 35 percent over the next three years. They also noticed that fiscal adjustment should be based on quality measures with low multipliers to contain the negative impact of consolidation on growth, while protecting social spending. In this respect, they intend to focus on measures with the least adverse impact on economic activity, such as inefficient current spending and capital outlays that do not directly enter into productive processes.

Box 1. State Owned Enterprises in Namibia

Namibia's State Owned Enterprises (SOEs) play an important role in key sectors of the economy. There are about 30 SOEs and 3 stated owned financial institutions.1/ Most of the large SOEs operate in key service and network industries, and often in monopoly positions, such as telecommunications (Telecom Namibia), electricity (NamPower), water (NamWater), and transportation (Air Namibia). Because of their position, they play a key role in service delivery and in carrying out the government's infrastructure development plans, funded through budget transfers often complemented by direct borrowing guaranteed by the government. In addition, SOEs engage in other quasi-fiscal activities, such as pricing services below cost or market price (e.g., water supply in rural areas).

The financial performance of the largest SOEs is generally poor. With a few exceptions (e.g., NamPower, NamPort), they operate at a loss and have high leverage ratios (e.g., Air Namibia, TransNamib, Road Contractor Company) that make them particularly vulnerable to interest rate shocks. In several cases, SOEs stay solvent only because of government transfers and bailouts (e.g., Air Namibia).

Namibia: Profitability, Leverage, Trasfers, and Reporting for Largest SOEs

	Last Before Most Recent Available	Most recent Available	Last Financial Statement Available	Transfers MTEF 2016-18 (N$ Million)
NamPower				
ROE	3.8%	4.0%	2015	
Debt to Equity Ratio	20.6%	18.4%		
NamWater				
ROE	23.2%	15.4%	2015	
Debt to Equity Ratio	52.5%	57.5%		
MeatCo.				
ROE	0.9%	3.9%	2014/15	15
Debt to Equity Ratio	68.0%	126.7%		
Namibia Post Ldt				
ROE	10.4%	-1.0%	2014/15	
Debt to Equity Ratio	20.4%	21.7%		
NamPort				
ROE	8.2%	8.4%	2013/14	159
Debt to Equity Ratio	30.5%	42.5%		
Telecom Namibia				
ROE	-7.4%	-91.2%	2013/14	
Debt to Equity Ratio	81.1%	158.1%		
TransNamib				
ROE	-45.4%	-391.8%	2013	932
Debt to Equity Ratio	50.2%	346.2%		
Road Contractor Company				
ROE	Negative profit	124.6%	2011	62
Debt to Equity Ratio	-4619.0%	768.7%		
Air Namibia				
ROE	n.a.	n.a.	2006	2,185
Debt to Equity Ratio	n.a.	n.a.		

Sources: Companies' annual reports

SOEs represent a significant burden on public finances. The main fiscal cost comes from annual budget transfers. Despite a policy to reduce spending, the FY16/17-18/19 Medium-Term Fiscal Framework projects annual transfers to SOEs to be around 1.5 percent of GDP mainly to transportation companies (e.g., Air Namibia), with only one company (co-owned with the private sector) paying dividends. In addition, some SOEs have outstanding loan balances and interest arrears with the central government.2/ They are also a source of significant fiscal risks as their debt (about 4.3 percent of GDP in 2015) is largely guaranteed by the government The authorities expect the stock of guaranteed debt to increase further in the future as SOEs execute new development projects.

The authorities are aware that SOEs face a number of financial and governance challenges that require overhauling reforms. In addition to their poor financial position, compliance with reporting requirements is weak, with most of the SOEs not publishing regular annual reports or financial statements. Furthermore, information on the aggregate performance of the sector is not available. Moreover, governance remains poor and compliance with national legislation (e.g., appointment of management, remuneration, and audits) is weak.3/ Recognizing the role of SOEs and their problems, the authorities have started spearheading various initiatives. In 2015, they created the Ministry of Public Enterprises with the mandate to oversee the functions and responsibilities of 98 parastatals, including SOEs, and reform the sector; and, in 2016, they set up a centralized reporting framework with key SOEs responding to the new ministry.

1/ In absence of publicly available up-to-date data, the number of SOEs is estimated using various sources.
2/ See 2015 Summary Report of the Auditor General for FY12/13.
3/ Deloitte (2013), Namibia, 2013 Governance Survey.

17. In authorities' views, a combination of revenue and spending measures, and structural reforms, including for SOEs, would help to contain the negative effects of consolidation. They concur that some taxes could be raised (e.g., excises) and expenditure reduced, particularly the wage bill. They noticed that the degree of spending cuts could be mitigated by exploring the scope for public-private partnerships (PPP), particularly in the outer years, and by further improving revenue administration. To this end, they expect to finalize new PPP legislation by end-2016 and introduce a semi-autonomous revenue agency. They also pointed out that improving and fully implementing the existing Public Enterprises Governance Act and the new centralized reporting framework could improve public companies' performance and help rationalize public transfers.

B. Managing Systemic Risks in the Financial Sector

18. Namibia has a large and stable financial sector dominated by non-bank financial institutions (NBFIs). The banking system (assets about 68 percent of GDP) appears well capitalized and profitable. Credit quality is high with low NPLs, and liquidity above regulatory requirements (Table 5). Against a sound banking system, growth in bank loans has been in the double digits for longer than a decade, contributing to increased household indebtedness and buoyant housing prices. At the same time, Namibia has large NBFIs (gross assets of about 260 percent of GDP) with average solvency level in 2015 exceeding statutory requirements. However, financial and ownership interconnections between banks and NBFIs and foreign linkages make Namibia's financial sector rather complex, complicating the assessment of capital and liquidity adequacy of individual institutions. In addition, the financial sector plays an important role in government financing, holding half of government debt (Figure 4). Financial inclusion indicators have lately improved and are close to some comparator countries (Figure 5).

19. As the financial system expands and private indebtedness remains high, specific financial risks with potentially large effects on the economy have gained prominence (Figure 6). The main sources of possible systemic risks are:

- *Overvalued residential real estate prices and banks' mortgage exposure.* Exuberant growth in housing prices combined with banks' and households' large exposures to mortgages (with total mortgages being more than half of banks' loans) raise concerns about risks from possible housing price corrections (Country Report No. 15/276). Staff estimates that housing prices are on average overvalued by about 16 percent. Stress testing exercises suggest that all banks are resilient to moderate stress. In the case of very severe stress, some banks would need to significantly deleverage to preserve their capital buffers. Only under an extreme tail-risk scenario, some banks could face difficulties in complying with capital requirements.[7] Under both severe and tail-risk stress scenarios, the drop

Namibia. Residential Housing Price Overvaluation

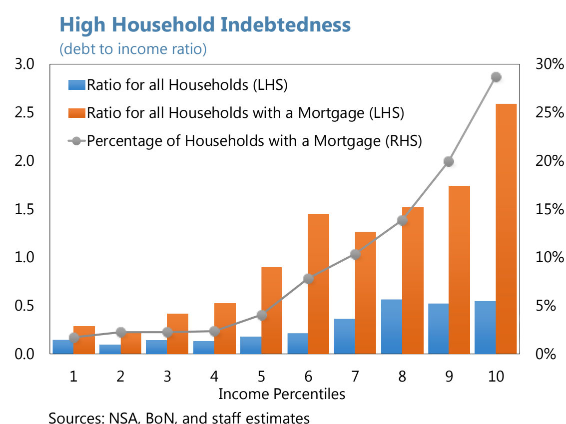
	Jun-16	Sep-14
Regression Analysis	22.2	19.8
Price to Income	12.6	18.0
Price to Rent	13.5	17.0
Average	16.1	18.3

Source: Staff estimates

[7] In absence of detailed data, the NPL impact of various shocks are estimated using cross country regressions. A severe stress entails a correction in housing prices, interest rate increases, and lower but still positive growth. A tail-

in commercial bank credit would potentially have strong negative effects on growth over the long term (Annex IV).[8]

- *Household indebtedness and balance sheet vulnerabilities*. Elevated household indebtedness and debt service to income ratios raise concerns about household vulnerabilities to income and interest shocks and the resilience of banks. While information on individual borrowers' income sources and indebtedness is not available, stress-tests on estimated households' balance sheets suggest that middle and upper-middle income households are particularly vulnerable to both income and interest rate shocks (Box 2).[9] Banks appear, however, resilient to the estimated increases in NPL under severe shock scenarios (entailing a one-year decline in real income and increase in interest rates).[10]



Sources: NSA, BoN, and staff estimates

- *Linkages between NBFIs and banks*. Money and asset management funds (investment funds) are tightly linked to banks. They provide about half of banks' funding, and are often part of the same financial conglomerate, creating complex ownership structures. At the same time, investment funds are twice as large as banks and, as of end-2015, had about 60 percent of GDP in assets invested in foreign equity markets, possibly exposing them to external shocks (Figure 6). Balance sheet analysis suggests that a limited redemption shock to investment funds (of less than 3 percent of their assets caused, for example, by an external or confidence shock), that forces reallocations in funds' assets away from bank deposits, could potentially lead to severe liquidity shortages for banks, affecting credit availability and potentially leading to a decline in growth.[11]

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risk scenario entails overcorrection in housing prices, significant interest rate increases, and a severe recession. Stress tests assume no use of profits, which could be used to absorb part of the losses and reduce the need for deleveraging. For details, see Annex IV.

[8] Past analysis suggests that a 1 percent negative change in real credit is associated with 0.47 percent decline in real GDP in the long run (Country Report No. 15/276).

[9] The estimated household balance sheets are obtained by combining household survey information with a large sample of individual mortgage loans.

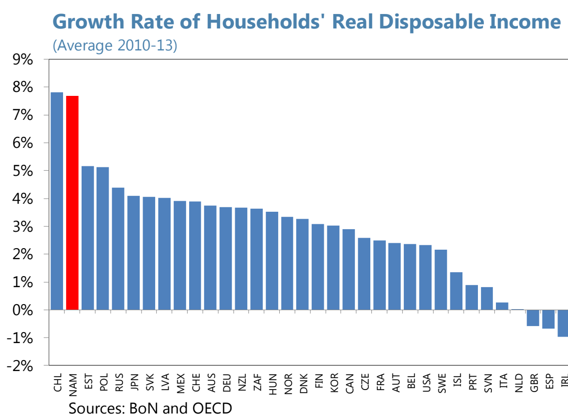
[10] However, given that more than 50 percent of banks' total mortgage portfolio is concentrated with households in the top income quintile, an asymmetric shock affecting the specific sources of income of these households could have larger effects (Box 2).

[11] In addition, shocks to investment funds could reduce their ability to finance the government. However, in absence of well-developed secondary markets, the effect would mainly be on new issuances and possibly in terms of higher interest cost or financing shortages for the government. Based on Selected Issues Paper on "Macro-Financial Risks from Linkages Between Banks and Non-Bank Financial Institutions."

Box 2. Household Vulnerability[1]

Several years of sustained growth in mortgage lending has led to indebted households. Household debt reached about 90 percent of disposable income in 2015, higher than in South Africa and close to the levels of advanced economies. The high indebtedness is largely explained by sizable mortgage loans, which in 2015 constituted about 85 percent of bank credit to households. Moreover, household survey data suggest that the average debt to income ratio is significantly higher for high-income households.

Sustained income growth and low interest rates have supported households' repayment capacity. Over 2010-13, growth in real disposable income in Namibia averaged about 8 percent, well above the level of OECD countries with available data. Strong income growth has contributed to maintain residential mortgage impairment figures broadly stable, notwithstanding a high debt service burden compared to BIS reporting countries, respectively 21 percent and 10 percent. A significant part of the debt burden is due to large interest payments that average about 11¾ percent of outstanding mortgage loans, despite historically low interest rates.



Sources: BoN and OECD

Households are vulnerable to income and interest rate shocks, but banks appear resilient to such shocks. Due to the absence of borrowers' information, staff assessed the vulnerability of individual household groups by estimating households' balance sheets. The estimates combine data from the most recent household survey (2009/10) with a large sample of individual mortgage loans. The estimated balance sheets were then used to perform stress testing and assess the vulnerability of individual household groups. The tests simulate an increase in interest rates of 200bps or 300bps under different assumptions on real income growth rates. Shocks are assumed to be identical across income deciles.[2] Results show that, under the 300bp interest rate shock, the share of vulnerable households could rise between 4¼ (in the case of no real growth in gross income) to 10⅓ percent (with a 3 percent decline in real gross income). Middle and upper-middle deciles of the income distribution appear to be the most vulnerable to shocks. The impact on lower income households is smaller as they have lower debt levels and are dependent on subsidies and transfers excluded from the income definition. Despite their higher indebtedness, the impact on higher income households is also limited because of their large buffers. Under these shocks, banks' arrears on mortgages would increase by 4-5 times up to 9 percent of total loans, but could still be absorbed by banks' capital buffers.

Asymmetric shocks to the income sources of high income households could have larger effect on banks. Since almost 55 percent of total mortgages are accounted by the top two deciles of the household income distribution, a shock to their sources of income could have significant effects. For instance, lowering the nominal income of these households by 15 percent, combined with a 300bp increase in interest rates, could increase mortgage arrears up to 20-21 percent. Under this scenario, the system would on average be resilient, but some banks could face difficulties in complying with capital requirements.

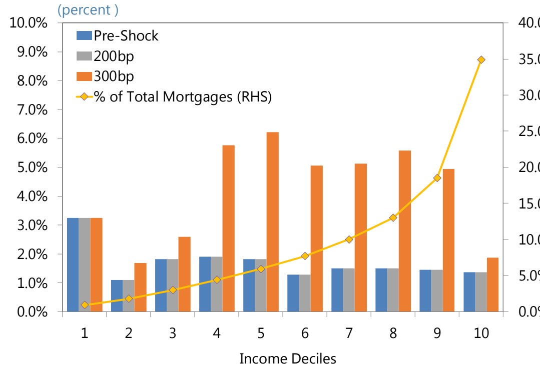
1/ Analysis based on M. Leika and D. Marchettini, (2016), "A Generalized Framework for the Assessment of Household Vulnerability Using Microdata", forthcoming.

2/ Households are classified as vulnerable if their financial margins (i.e. the gross income left after deducting mortgage payments and basic living costs) are lower than estimated vulnerability thresholds. Different thresholds for each combination of income decile and geographical region are computed using a signaling detection approach and calibrated to obtain the highest in-sample predictive performance. It is worth noting that debt to income ratios calculated using survey data do not match aggregate values reported in the authorities' Financial Stability Report.

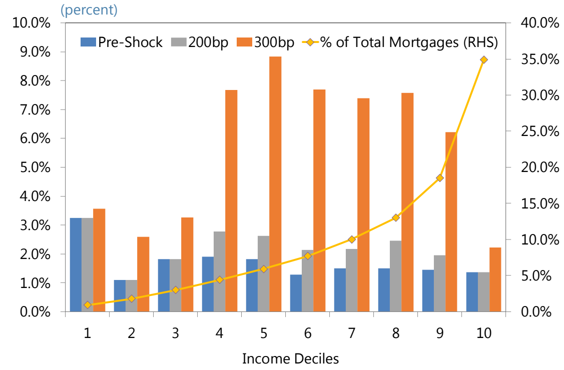
Box 2. Household Vulnerability (concluded)

Share of Vulnerable Households Pre- and Post-Income and Interest Shocks 1/

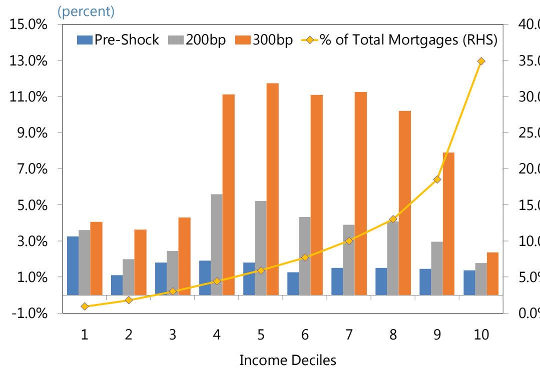
Scenario: Zero Real Gross Income Growth
(percent)



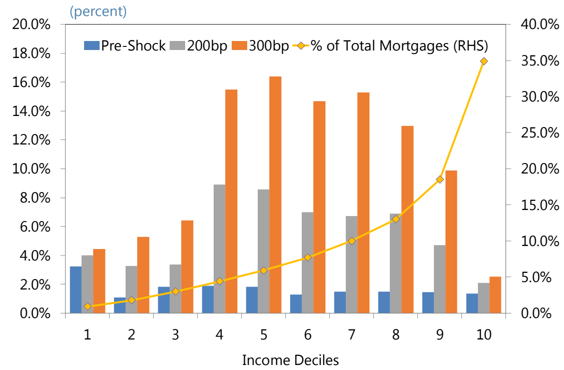
Scenario: One Percent Decline in Real Gross Income
(percent)



Scenario: Two Percent Decline in Real Gross Income
(percent)

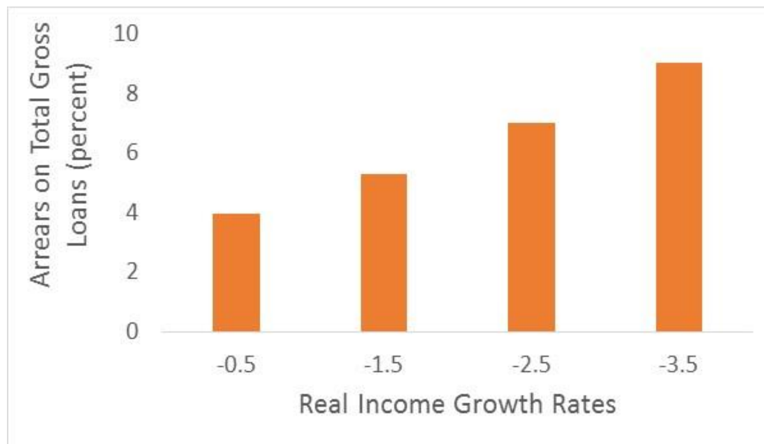


Scenario: Three Percent Decline in Gross Income
(percent)



Simulated Arrear Increase Under a 300bp Interest Rate Shock and Alternative Income Scenarios

(in percent of Total Mortgage Loans)



1/ Inflation is assumed to average 6.5 percent.

20. A number of measures would strengthen the authorities' ability to manage the different sources of systemic risk arising from the financial sector:[12]

- ***Introducing further macroprudential measures to curb risks from the housing market, including debt-service-to income ratio (DSTI) limits.*** While structural distortions in the real estate market should be addressed directly, macroprudential policies can help mitigate the risks from overvalued housing prices. To tame these risks, the authorities have recently introduced loan-to-value (LTV) limits for non-primary home purchases to be effective in 2017. These could be complemented by DSTI limits, which would rely on recent reforms of credit information systems.[13] DSTI limits would help address the tendency of LTV limits to become less binding as property prices increase and curb already high households' debt service to income ratios. At the same time, it is important to extend the limits to non-bank financial institutions engaged in the real estate business to avoid regulatory leakages. In addition, as risks to the banking sector may arise from primary residential mortgages, authorities could, at a later stage, consider introducing LTV limits on such mortgages. These limits should be carefully designed and timed to avoid hampering affordability for lower income groups and sudden price corrections.

- ***Strengthening the supervision of NBFIs.*** Over the past years, NAMFISA has been strengthening its capacity to supervise and regulate NBFIs. However, the Financial and Institutions Market (FIM) Bill needs to be approved and enacted to create a modern and adequate regulatory and supervisory framework. In addition, NAMFISA could take further steps toward risk-based supervision of systemic NBFIs.

- ***Monitoring and assessing financial stability risks from banks and NBFIs linkages.*** Investment funds and their linkages with banks are macro critical and warrant closer scrutiny. The BoN is the best placed institution to take the lead in assessing financial stability risks arising from such linkages and conduct stress tests on banks considering possible shocks to and from investment funds. Better knowledge of inter-group linkages could also deepen the understanding of risks arising within financial conglomerates. In general, the authorities should accelerate their plans to improve the financial regulatory architecture and provide the BoN with the powers and instruments to assess macro-financial risks and exercise macro-prudential controls for the whole financial sector. In addition, they should step up efforts to introduce consolidated supervision to account for complex ownership and financial linkages across institutions in assessing risks, and to prevent regulatory arbitrage of capital and liquidity requirements.

- ***Addressing information and data gaps.*** The authorities have made significant efforts to improve data availability, although additional progress is needed. NAMFISA should continue to improve the collection of granular data, and eventually develop financial sector indictors (FSIs) for NBFIs and adequate databases to move towards risk-based supervision. The BoN could accelerate its efforts to improve the existing housing price indices. It should also develop wealth

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[12] Policy advice reflects recommendations from the IMF technical assistance on macroprudential policies (June 2015).

[13] Since May 2014, credit providers are required to submit both negative and positive credit performance information to all registered credit bureaus.

and debt household surveys (and/or collect borrower data from banks and credit bureaus) to allow a better assessment of the risks stemming from the household sector, and fill data gaps to better understand the linkages inside the financial system.

Authorities' view

21. The authorities concur with the assessment of financial risks and are taking steps to address key vulnerabilities. They noticed that the implementation of the new LTV limits and the recently enacted regulations on minimum down-payments for instalment credit (2016 Credit Amendment Act) would curb credit growth and risks from the housing market. Based on the experience in other countries, the BoN will explore options to introduce DSTI limits at a later stage. However, the authorities noticed that introducing macroprudential limits on primary residences is not desirable at this stage in light of structural housing shortages and potential social implications.

22. They are cognizant of potential risks from banks and NBFIs linkages. The authorities noted that a shock to investment funds might not necessarily drain the liquidity in the system if, for example, deposits are re-directed from investment funds to banks, posing lower systemic risks than staff analysis suggests. However, they recognized the importance of having a strong institutional framework with a leading role for the BoN in assessing systemic risks arising from interconnections within the financial system and in conducting macroprudential policy. To this effect, they have finalized a Financial Stability Policy Framework. The framework will lead to the enactment of new legislation expected to improve coordination across the institutions in charge of regulating and supervising the financial system (BoN, NAMFISA and MoF). NAMFISA concurred with the need to enhance its regulatory capacity, including with technical assistance from the IMF, and move towards risk-based supervision. The authorities expect the approval of pending bills (particularly the NAMFISA and FIM bills) will significantly strengthen the regulatory environment for NBFIs.

C. Lowering Unemployment and Reducing Inequality

23. Structural impediments are limiting the impact of growth on unemployment, especially among youth. Despite registering one of the highest average growth rates in Africa over the past 20 years, unemployment, particularly among youth, remains high, suggesting that it is structural. When compared to other countries, the elasticity of employment to growth appears constrained, among others, by: (i) skills mismatches due to the lack of a well-educated labor force; (ii) weaknesses in the business environment, including cumbersome regulations, and difficulties in starting businesses and obtaining work permits; and, (iii) growth dynamics dominated by less labor-intensive sectors. (Figures 7–8).

24. The authorities' reform agenda focuses on growth-enhancing policies to support employment, but the impact of key policies has been limited and a review is undergoing. The 2011-13 Targeted Intervention Program for Employment and Economic Growth (TIPEEG) mainly led to the creation of temporary jobs.[14] The creation of tax-free export processing zones (EPZ) and various tax incentive schemes have had only limited impact on export diversification and

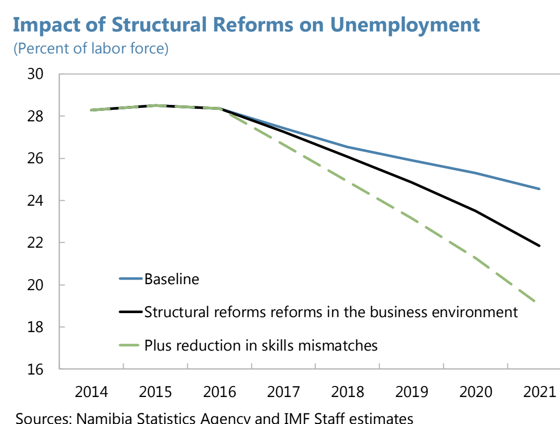
[14] For an evaluation, see the National Planning Commission, Annual Report 2013-14.

employment. More recently, the authorities have started a review of tax incentive schemes with the objective, among others, to support the labor-intensive manufacturing sector. They have also begun implementing their "Growth at Home" strategy to support industries considered instrumental for job creation and domestic value-added. Moreover, they have enacted a new Investment Promotion Act to promote entrepreneurship and foreign investment. Also, in an attempt to ameliorate skill mismatches, in 2016 the government extended free education to secondary schooling and provided additional funding for vocational training.

25. A package of well-targeted reforms aimed to increase the elasticity of employment to growth could significantly boost job creation and deliver more inclusive growth. Structural reforms in two key areas could potentially have significant impact:[15]

- *Reduce skill mismatches.* Reducing mismatches due to the lack of well-educated labor force is the most promising way to increase the elasticity of employment to growth. This requires improving access and quality of higher education, and providing incentives to transition to tertiary education and vocational training.[16] Moreover, improving the quality of primary and junior secondary education and strengthening programs to acquire on-job training would facilitate the transition to higher education and to the labor market.

- *Improve business conditions.* Simplifying business regulations (e.g., starting businesses, registering property, buying industrial land) and reviewing the functioning of the labor market (e.g., reducing restrictions on work permits for skilled workers, simplifying labor dispute processes) have the potential to improve employment elasticity. In addition, reforms in these areas might boost labor-intensive SMEs, and the manufacturing sector with positive effects on employment.

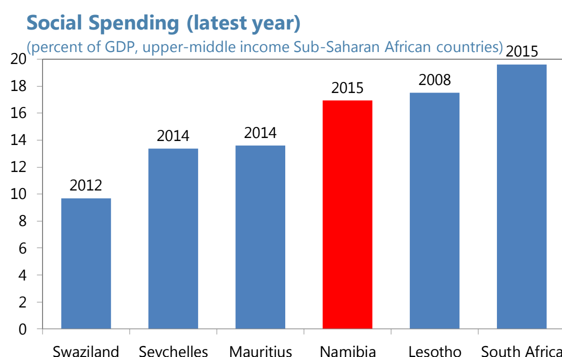


Staff estimates that bringing the level of skill mismatch and business regulation to the world median could potentially reduce unemployment in Namibia by a fifth over the medium term.

[15] Based on Selected Issues Paper on: "Toward More Inclusive Growth in Namibia: Potential Gains from Structural Reforms."

[16] Recent studies (e.g., Asian Development Bank, 2015) find that in presence of skill mismatches, technical and vocational education and training in national education planning and budgeting lead to significant job creation (e.g., in Germany, Korea and Singapore).

26. Consolidation and better targeting of social assistance programs could make further inroads in reducing inequality and extreme poverty. Compared to other middle income countries, Namibia allocates a relatively high share of GDP to social spending, including direct cash transfers, subsidies, and education and health expenditure. This spending contributes to reduce inequality and extreme poverty. However, according to a forthcoming World Bank study, the impact of key social programs on inequality could greatly improve by introducing proxy means testing for some cash transfers (e.g., old age pensions, child support grants) and housing subsidies, and by enhancing the quality and coverage of education (Box 3).



Source: IMF Government Finance Statistics, Namibian and South African authorities, and staff calculations.
Note: Fiscal coverage is general government for South Africa, and central government for other countries.

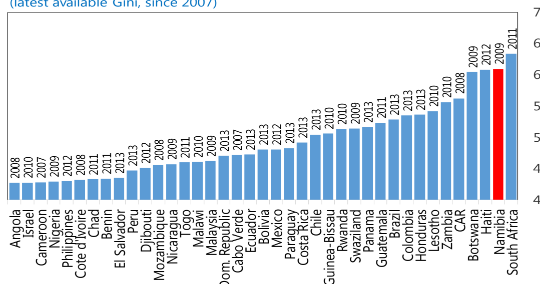
Authorities' view

27. The authorities intend to continue addressing high unemployment, income inequality and poverty with focused structural reforms and better targeting of social programs. They have recently created the Ministry of Poverty Eradication and Social Welfare to focus policy efforts. They also recognize that reducing skill mismatches and promoting a more attractive business environment are priorities for development. The recent Harambee Prosperity Plan translates some of these priorities into a set of specific actions. Moreover, the authorities argued that a number of strategic industries such as agri-business, logistics, tourism and manufacturing need to be supported to foster domestic value-added and job creation. A fifth NDP is under preparation to coordinate government's policies geared toward promoting growth and job creation. Finally, with the assistance of development partners, the authorities have started reviewing key social programs to improve their capacity to reduce income inequality and poverty.

Box 3. Increasing the Efficiency of Fiscal Policy to Reduce Inequality 1/

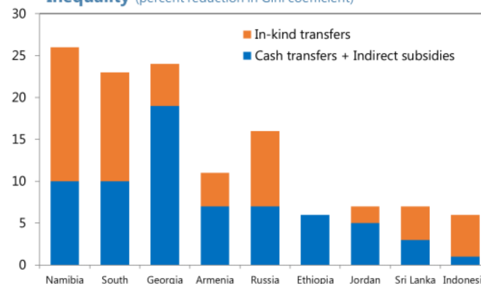
While poverty in Namibia has declined, income inequality remains one of the highest in the world, second only to South Africa. From the early 1990s to 2009/10, the poverty headcount declined from 70 percent to 15 percent.[2] However, income inequality remains high with a Gini coefficient of 60.7 (in 2009/10, latest year available), the second highest in the world, largely reflecting legacies of unequal wealth distribution from the pre-independence period. Reducing poverty and inequality is, therefore a national priority and a policy challenge for development.

Countries with Highest Income Inequality
(latest available Gini, since 2007)



In Namibia, fiscal policy and, in particular, large social spending play a key role in reducing both income inequality and poverty. In 2015, social spending was about 17 percent of GDP (40 percent of total public spending), higher than in most middle-income countries. It includes direct cash transfers (e.g., old age pensions, children, disability, veteran's grants), other subsidies (e.g., housing, water), and large in-kind spending in education and health. According to a World Bank's forthcoming incidence analysis, social programs such as cash transfers and subsidies reduce inequality by about 10 percent and by 25 percent once combined with in-kind spending. At the same time, cash transfers reduce extreme poverty by 8 percent, although taxes and other subsidies marginally increase poverty.

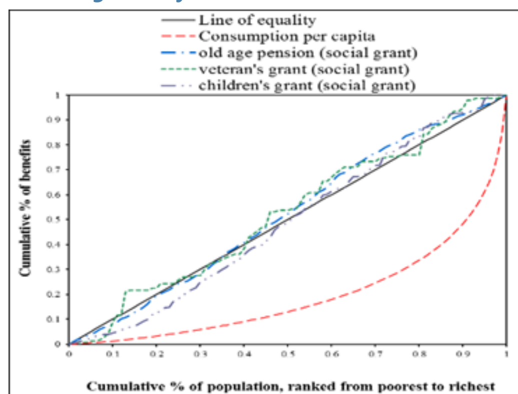
Impact of Social Programs on Reducing Income Inequality (percent reduction in Gini coefficient)



Source: World Bank CEQ Report

The impact of social spending on income inequality could greatly improve through better targeting and improved efficiency. Preliminary findings from the World Bank's equity study (forthcoming) suggest that targeting accuracy of direct cash transfers (i.e., the share of total transfers going to the bottom quintile of the income distribution) is poor, and the impact of such transfers on inequality as measured by the Gini coefficient is much lower than, for example, in South Africa. Water subsidies appears better targeted, while housing subsidies have room for improvement. Moreover, despite high public spending in education, education outcomes are rather poor. Against this background, reforming cash transfers and housing subsidies by introducing proxy means testing could strengthen their impact on inequality, without additional budget strains. Moreover, improving the quality of education and access to secondary and tertiary education would help reap the benefits from high education expenditures.

Progressivity of Direct Cash Transfers



Source: World Bank CEQ Report

1/ The analysis is based on the World Bank's "Namibia Commitment to Equity (CEQ)" study (forthcoming). The study relies on 2009/10 Household Income data and real social spending for the same period. Since then, targeting policies have not significantly changed, while total spending in terms of GDP has increased.

2/ The headcount poverty is estimated using the national poverty line.

STAFF APPRAISAL

28. Since the financial crisis, Namibia has experienced strong growth, but faces rising vulnerabilities and high unemployment and income inequality. Strong policy frameworks, expansionary domestic policies, and buoyant credit growth have contributed to macroeconomic stability, robust growth, and rising living standards. However, vulnerabilities are building up. Public debt is on a rising path, the current account deficit is in the double digits, and international reserve coverage is below safe levels. At the same time, rapid credit growth contributed to fast-growing residential real estate prices, and elevated household indebtedness. In addition, deep-rooted structural impediments have kept unemployment high and unresponsive to growth, contributing to persistently high income inequality.

29. Namibia faces significant policy challenges, while risks to the outlook are tilted to the downside. Growth is projected to weaken in 2016, and accelerate in 2017-18. With public debt rising and large external deficit, downside risks dominate the outlook and stem from possible declines in SACU revenues and commodity prices, lower growth in mining and construction, and corrections in housing prices and domestic credit. With limited buffers, shocks could be amplified by abrupt policy responses, especially if combined with sovereign credit rating downgrades. Against this outlook, Namibia's key policy challenges are to preserve macroeconomic stability with additional fiscal adjustment to maintain debt sustainability, while minimizing the effects on growth, manage risks from the financial sector, and make inroads in reducing high unemployment and income inequality.

30. The 2016 budget marked a welcome shift to a tighter fiscal stance, but additional fiscal adjustment is needed to bring public debt on a declining path. Staff welcomes the authorities' intention to strengthen their adjustment plans as envisaged in the FY16/17 Mid-Year Budget Review. The additional adjustment should be carefully designed to reduce the impact on growth. It needs to be spread over time and based on quality measures with low short-term multipliers. A combination of revenue measures and expense reductions, while protecting capital and social spending, would minimize the growth impact. Policies should include limiting the public wage bill, curtailing transfers to SOEs and other entities, and increase indirect tax revenues. Fiscal structural reforms to enhance the country's public financial management systems and strengthen revenue administration would create space for fiscal adjustment, and ensure equitable burden sharing. Concrete progress on reforming SOEs to improve their oversight, governance, and performance, is essential to lower budget transfers, and improve growth and public services.

31. Fiscal consolidation will support external adjustment and safer levels of reserves, while lifting pressure on monetary policy. In this context, the BoN should maintain the policy rate at par, or with limited positive spread, with the SARB's rate to support the peg, and sustain healthier international reserve levels.

32. Risks from fast growing housing prices, household indebtedness, and links between banks and large non-bank financial institutions should be carefully monitored and managed. Staff welcomed the recent introduction of LTV limits for non-primary residence purchases, and encouraged the authorities to complement the new regulation with DSTI limits and explore

additional macro-prudential measures as needed. As investment funds and their linkages with banks are macro critical, the authorities should monitor and assess possible financial stability risks from such linkages. In this context, they should accelerate their plans to improve the financial regulatory architecture and provide the BoN with the necessary powers to assess macro-financial risks and exercise macro-prudential control for the whole financial sector.

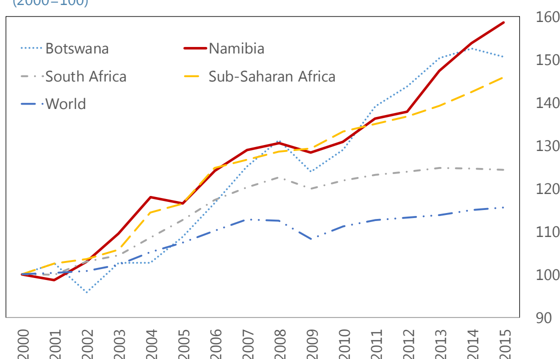
33. A package of well-targeted structural reforms and reforms of social programs could significantly boost job creation and deliver more inclusive growth. Staff supports the authorities' commitment to structural reforms and better targeting of social programs. Structural reforms should focus on reducing skill mismatches (e.g., improving access to higher and vocational education, on-job training) and simplifying business regulations (e.g., starting businesses, registering property, and reducing labor market restrictions) as they have the highest potential to boost employment and deliver more inclusive growth. Better targeting of key social assistance programs, including cash transfers and housing subsidies, could make further inroads in reducing inequality and poverty.

34. It is proposed that the next Article IV consultation with Namibia be held on the standard 12-month cycle.

Figure 1. High Unemployment and Income Inequality

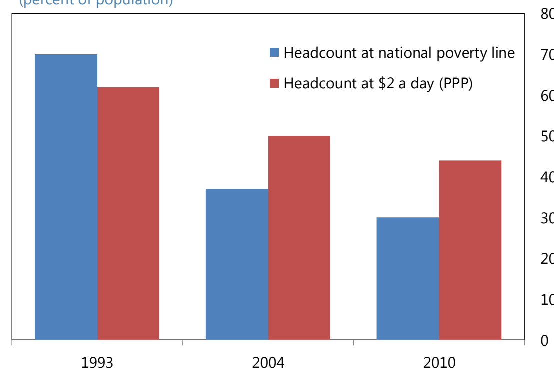
Per capita income has greatly improved over the last decades ….

Real Income Per Capita
(2000=100)



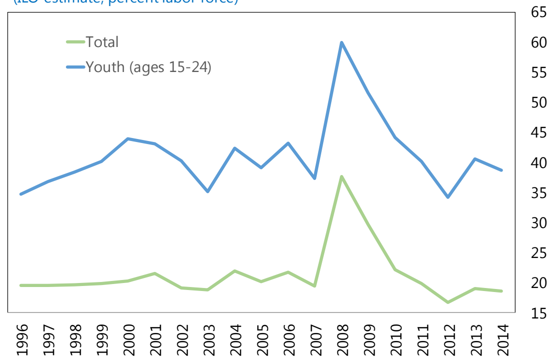
…along with significant reduction in poverty.

Poverty Rates
(percent of population)



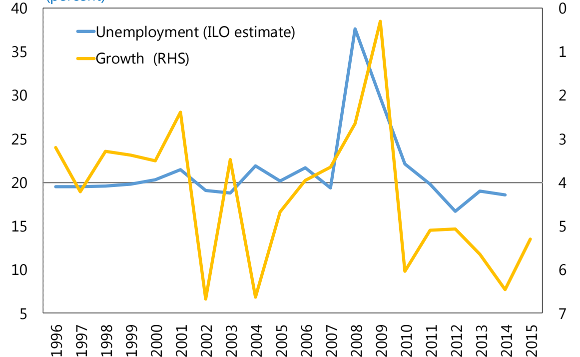
However, unemployment continues to be high, particularly for youth…

Unemployment Rate
(ILO estimate, percent labor force)



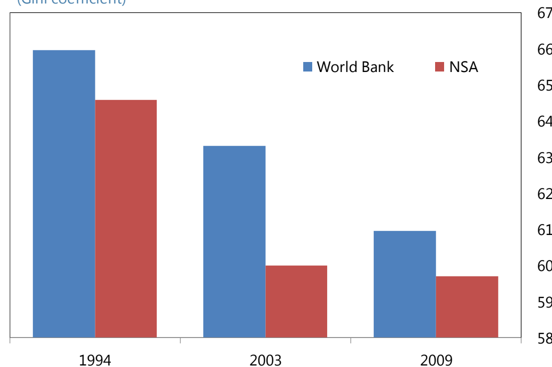
…and is little responsive to growth.

GDP Growth and Unemployment
(percent)



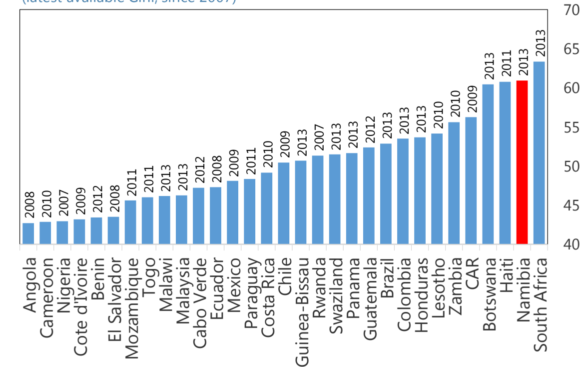
Income inequality has improved…

Income Inequality
(Gini coefficient)



…but remains high, second only to South Africa.

Countries with Highest Income Inequality
(latest available Gini, since 2007)

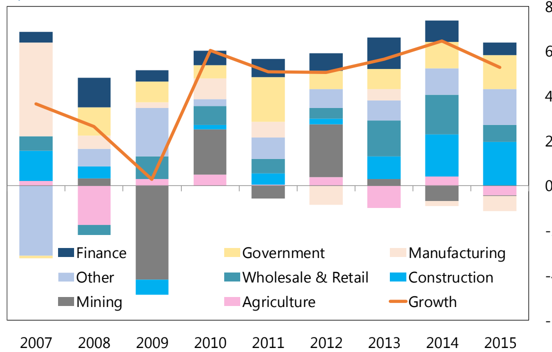


Sources: Namibia Statistics Agency, World Bank WDI, ILO, IMF staff calculations.

Figure 2. Robust Growth, Rising Inflation and Monetary Policy

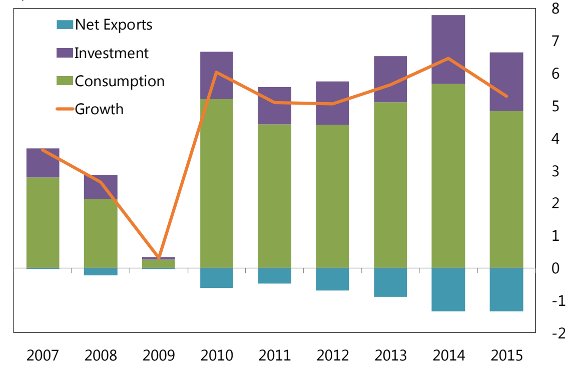
Growth has been robust, recently driven by strong construction activity and expansionary fiscal policy....

Growth by Sector
(percent)



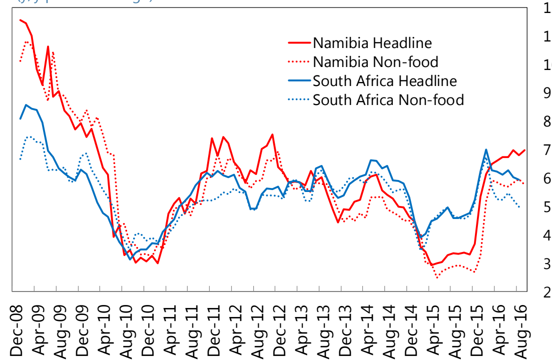
...with vigorous domestic demand offsetting the negative effect of net exports.

Contribution to Growth, Expenditure
(percent)



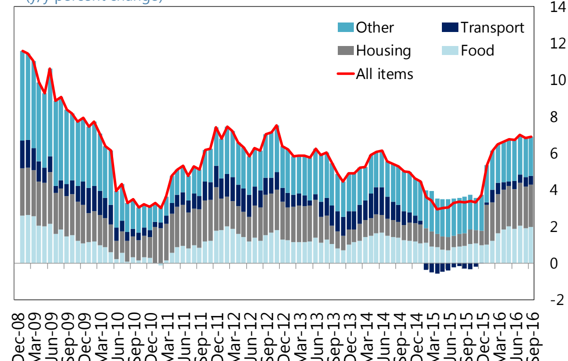
While moderate, inflation has been rapidly rising since late 2015....

Inflation
(y/y percent change)



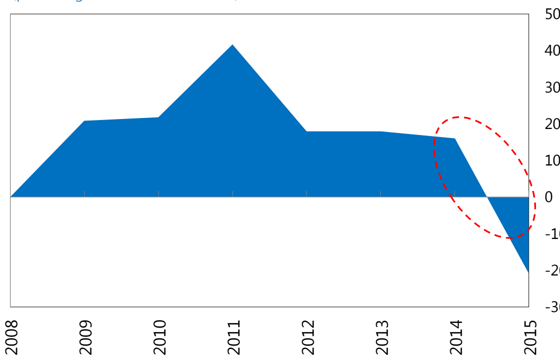
...driven by increasing housing costs and food prices....

Inflation Components
(y/y percent change)



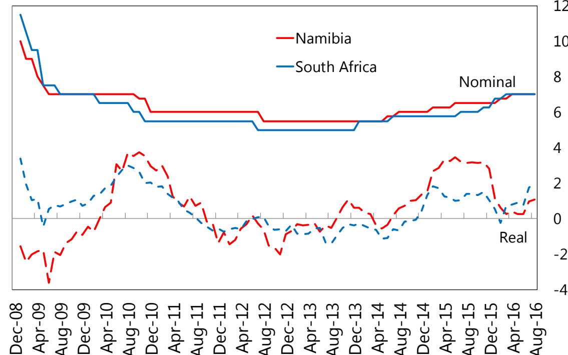
...as the country endures a prolonged drought.

Rainfalls in Namibia
(percentage deviation from mean)



The BoN has recently increased its repo rate following South Africa's tightening, but real rates remain low.

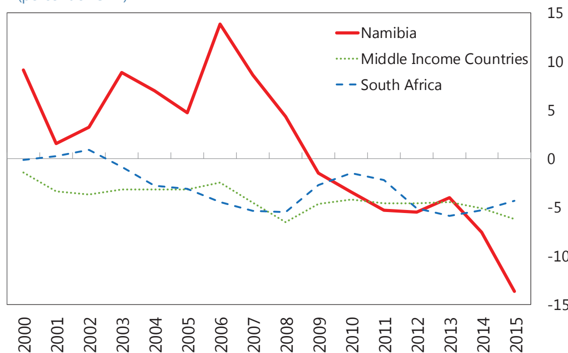
Repo Rates
(percent)



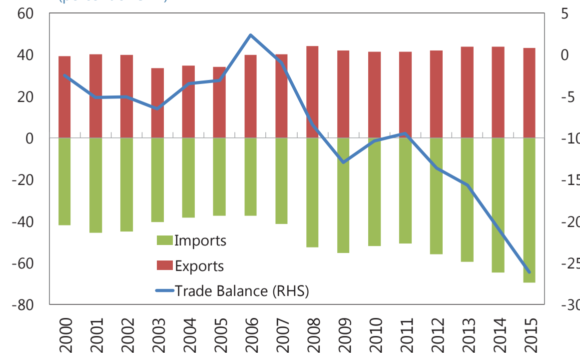
Sources: Namibia Statistics Agency, Bank of Namibia, South African Reserve Bank,World Bank, IMF staff calculations.

Figure 3. Growing External Vulnerabilities

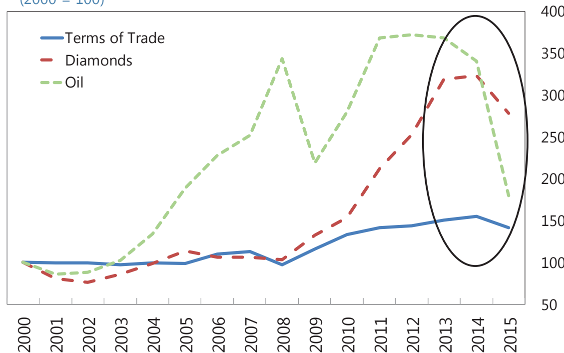
The current account continues to deteriorate....



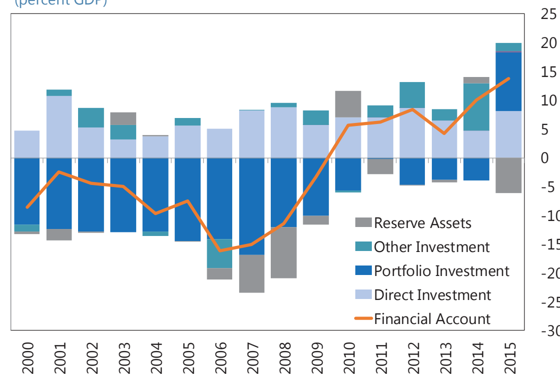
...led by a surge in imports and a widening trade deficit.



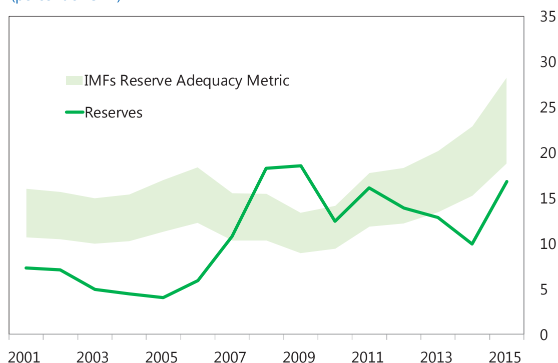
Terms of trade have recently deteriorated with the fall in oil prices in part offsetting the decline in export prices



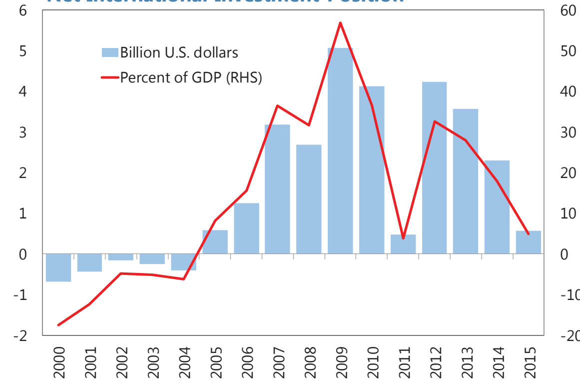
Non-FDI flows recently surged with the Eurobond issuance and long-term loans for mining companies...



...and reserves temporarily increased, but remained below the IMF's adequacy metric.



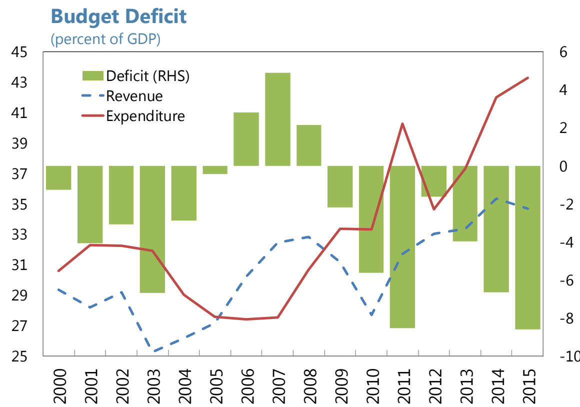
The NIIP has rapidly deteriorated due to the increase in liabilities and the currency depreciation.



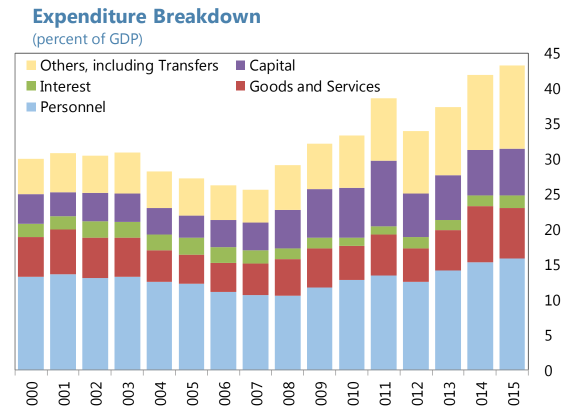
Sources: Bank of Namibia, Namibia Statistics Agency, IMF staff calculations.

Figure 4. Rising Fiscal Vulnerabilities

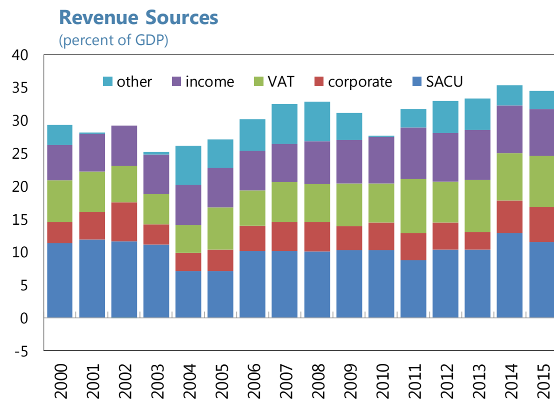
Fiscal policy remains expansionary....



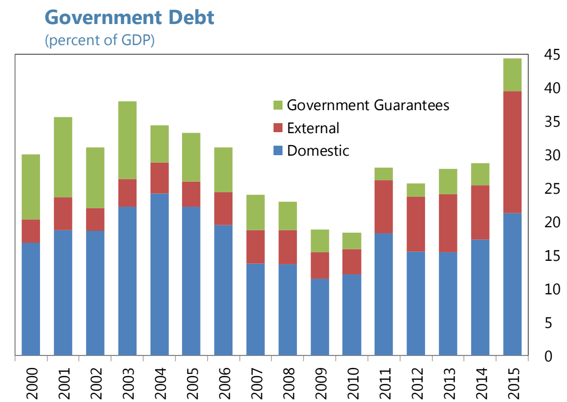
...led by increases in transfers and goods and services....



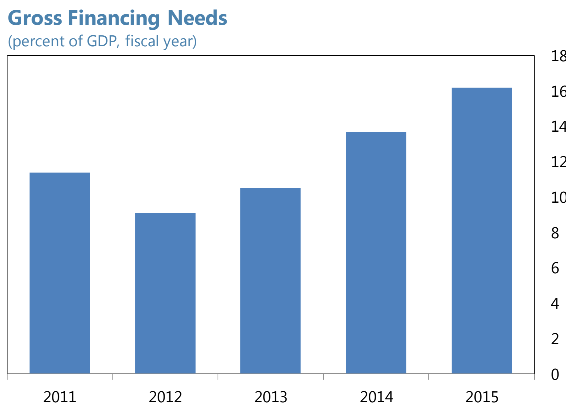
...while revenues as a share of GDP have remained roughly constant.



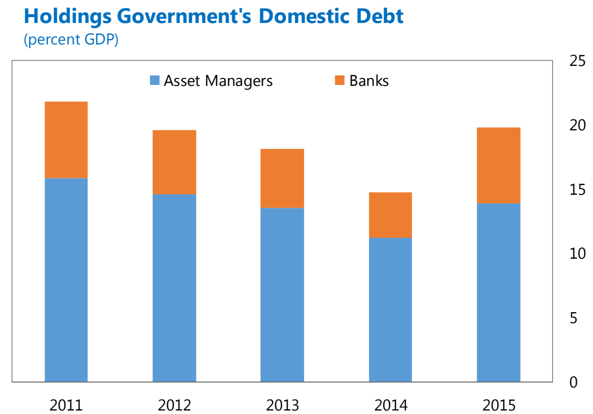
Government's indebtedness sharply increased in 2015, mostly due to the Eurobond issuance and currency depreciation.



The government's financing needs remain elevated...



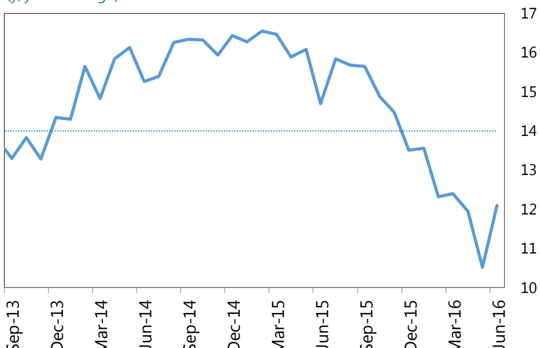
...and security issuances have been mostly absorbed by the non-bank financial sector.



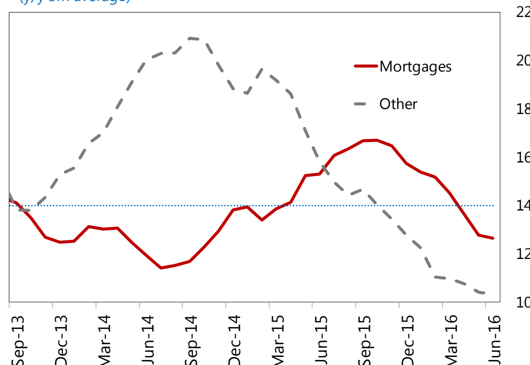
Sources: Bank of Namibia, Namibia Statistics Agency, FAD Tax Revenue Database, IMF staff calculations.

Figure 5. Sound Banking Sector and Improved Financial Inclusion

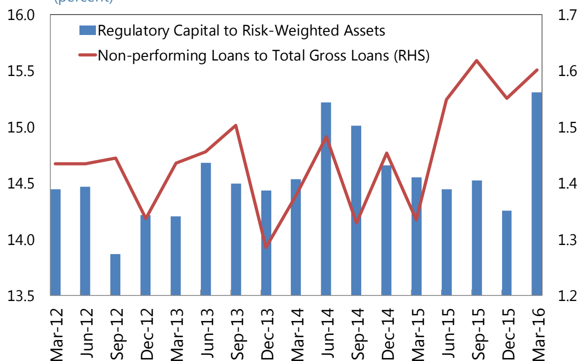
Credit growth remains healthy, recently slowing down….



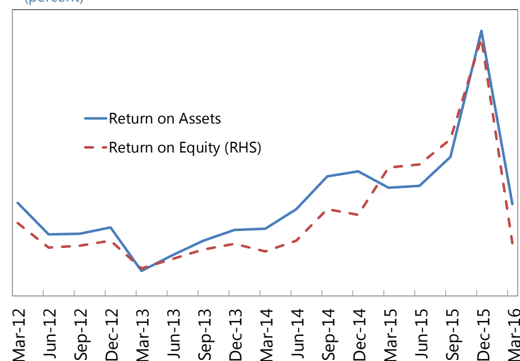
… with non-mortgage loans leading the decline.



Banks are adequately capitalized with good credit quality….

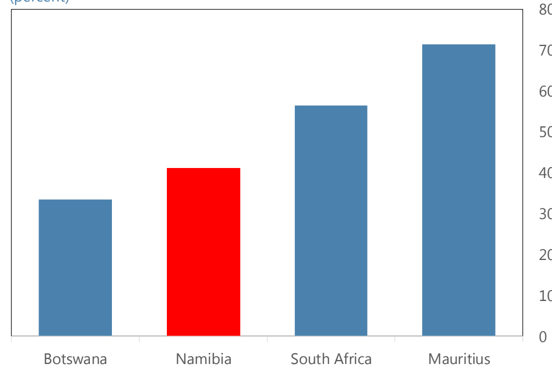


…and on average high profitability.



Financial inclusion has improved…

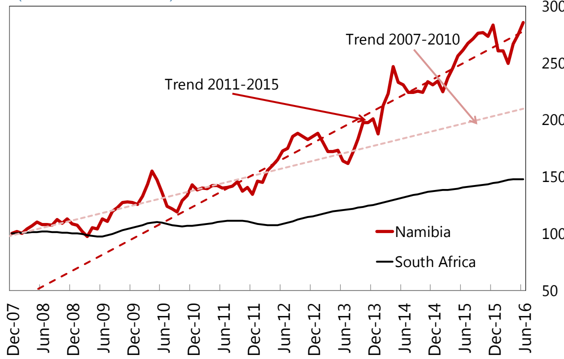
…and bank access for individuals at the lower end of the income distribution is close to neighboring countries.



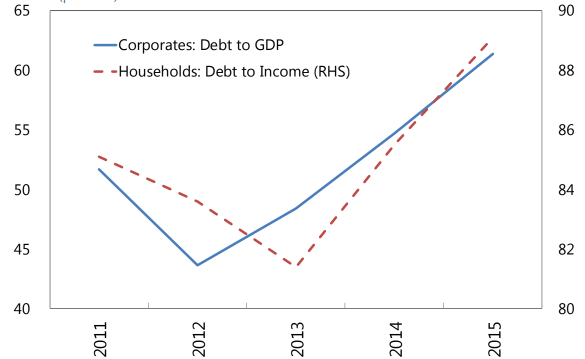
Sources: IFS, IMF FSI, Demirguc-Kunt, 2015, IMF Financial Access Survey, FINSTAT.

Figure 6. Macrofinancial Risks from the Housing Market and Linkages Between Banks and Non-Bank Financial Institutions

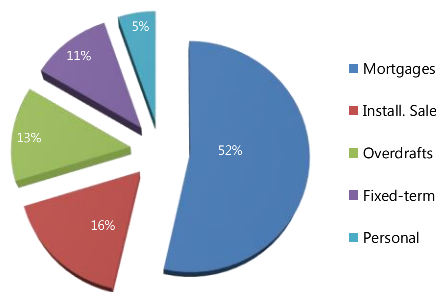
Macrofinancial risks are mounting, with rapidly rising housing prices, ….



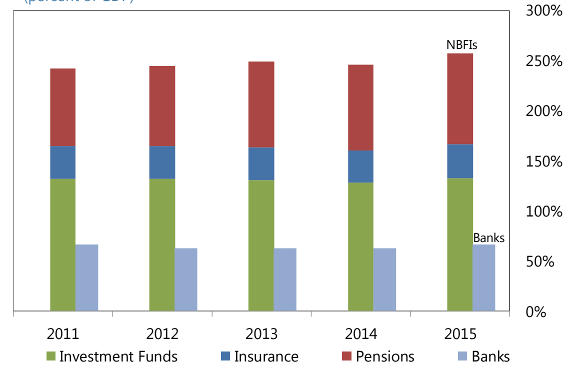
…high and increasing private sector indebtedness…



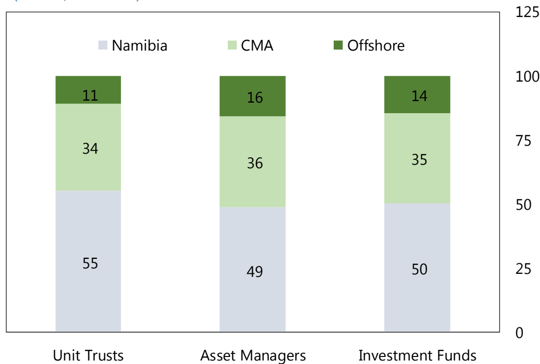
…and large concentration of banks' loans in mortgages.



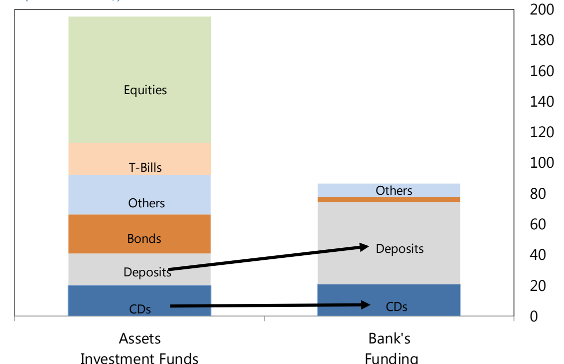
Investment funds are twice as large as commercial banks….



…hold large and volatile foreign exposures…



…while accounting for 50 percent of bank's funding.

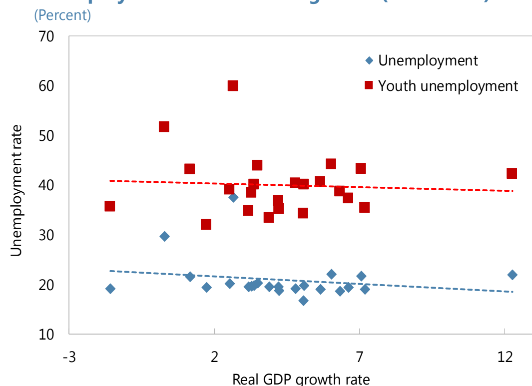


Sources: First National Bank, ABSA, Bank of Namibia Financial Stability Report, Namfisa, IMF MCM TA Report, 2015.

Figure 7. High Unemployment and Employment Little Responsive to Growth

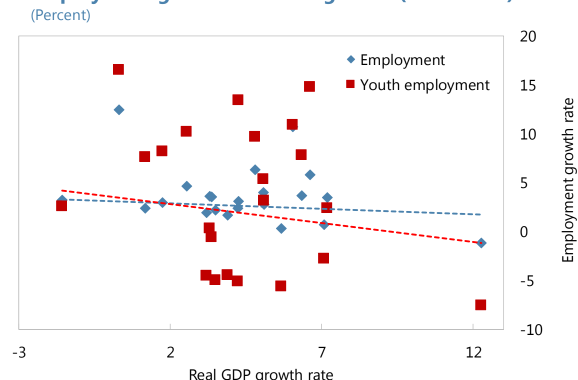
Unemployment has been persistently high and shows little correlation with GDP growth.

Unemployment rate and GDP growth (1992-2014)
(Percent)



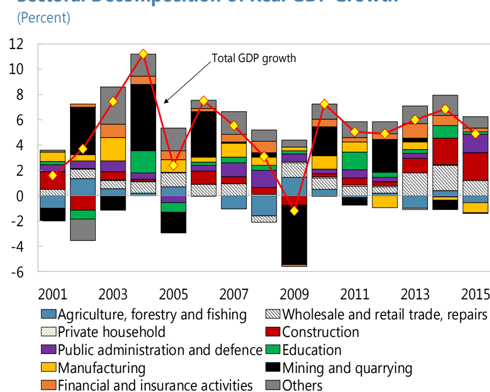
Total and youth employment are also little responsive to growth.

Employment growth and GDP growth (1992-2014)
(Percent)



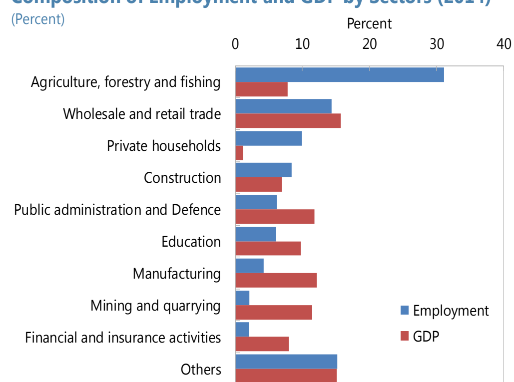
While mining has dominated growth over the last few years...

Sectoral Decomposition of Real GDP Growth
(Percent)



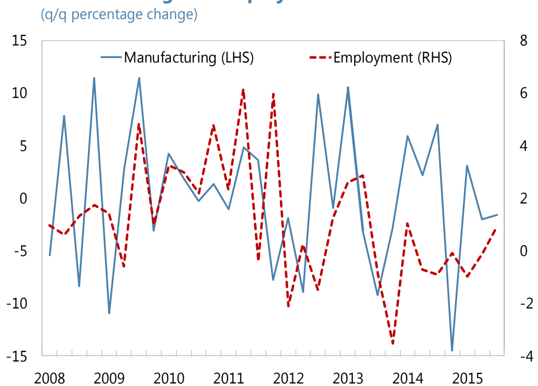
...mining contributes little to employment, unlike agriculture and whole and retail sale sectors

Composition of Employment and GDP by Sectors (2014)
(Percent)



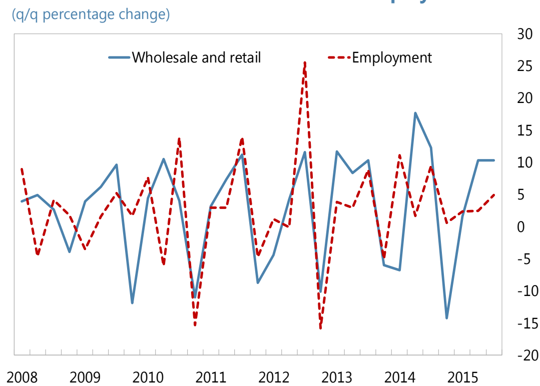
Instead, growth in the manufacturing displays a strong correlation with GDP growth, and so ...

Manufacturing and Employment Growth
(q/q percentage change)



... does growth in the wholesale and retail trade sector.

Wholesale and Retail Trade - GDP and Employment
(q/q percentage change)

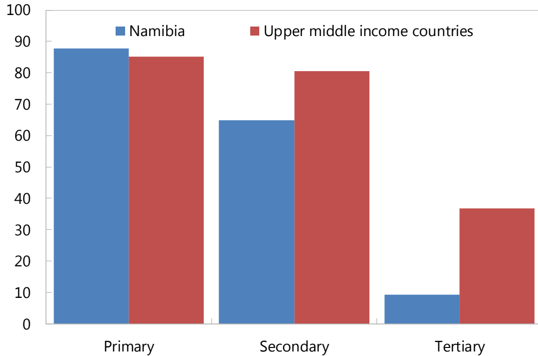


Sources: Bank of Namibia, ILO, Namibian Statistics Agency, World Bank, and IMF staff estimates.

Figure 8. Structural Impediments Limiting Growth and Employment

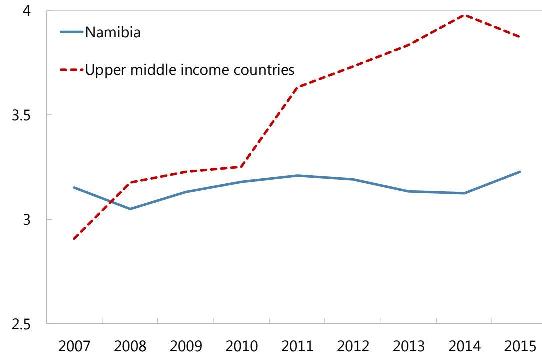
Relative to upper middle-income countries, Namibia exhibits significantly lower tertiary education enrolment...

Education Enrolment (2015)
(In percent)



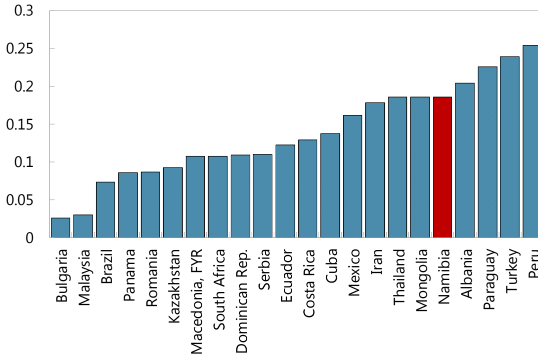
... lower scores for higher education and training, ...

Quality of Higher Education and Training
(Index, 1-7)



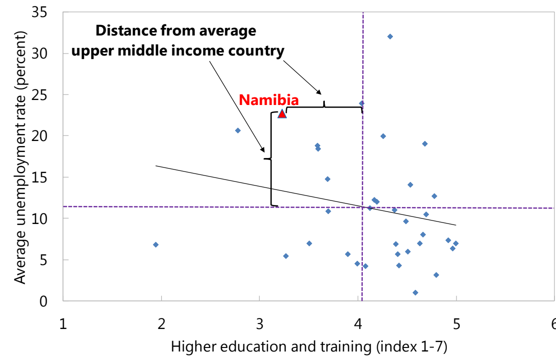
... and one of the highest skill mismatches.

Skill Mismatch Index
(Index)



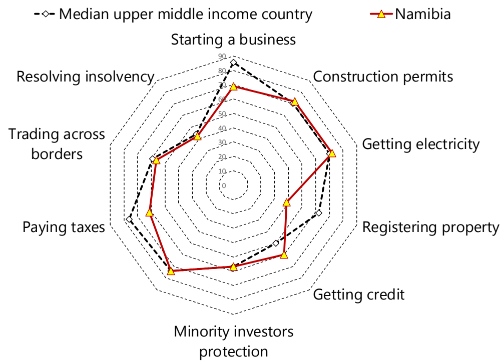
While low quality of higher education is in general associated with higher unemployment rates

Unemployment and quality of higher education



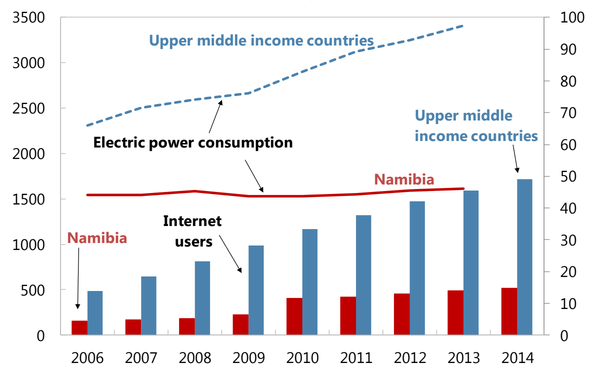
Weaknesses in business regulations constrain starting businesses, registering property, and paying taxes.

Business regulations
(Index)



Despite good infrastructure, gaps remain particularly in accessing electricity and internet services

Electric Power Consumption and Interenet Users
(LHS: kWh per capita; RHS: Internet User per 100 people)



Sources: ILO, Namibia Statistics Agency, World Bank, World Economic Forum and IMF staff estimates.

Table 1. Namibia: Selected Economic Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est	Proj	Proj	Proj	Proj	Proj	Proj
	(percentage change, unless otherwise indicated)								
National account and prices									
GDP at constant prices	5.7	6.5	5.3	1.6	5.1	5.4	4.3	4.1	3.9
GDP deflator	8.7	6.8	-0.2	6.6	6.0	5.7	5.7	5.7	5.8
GDP at market prices (N$ billions)	123	140	147	159	177	197	217	239	263
GDP at market prices (Fiscal Year) (N$ billions)	127	141	150	163	182	202	223	245	269
GDP per capita (US$, constant 2000 exchange rate)	8,060	8,988	9,270	9,957	11,001	12,158	13,301	14,522	15,822
Consumer prices (end of period)	4.9	4.6	3.7	7.3	6.0	5.7	5.8	5.7	5.7
External sector									
Exports (US$)	6.0	-0.9	-11.6	-0.4	16.1	9.7	6.1	4.0	3.1
Imports (US$)	1.6	8.3	-2.7	-16.8	8.0	7.6	4.6	4.5	3.4
Terms of trade (deterioration = -)	4.7	3.5	-9.1	-2.8	-0.7	-0.3	-0.8	-1.1	-0.8
Real effective exchange rate (period average)	-8.7	-5.9	-1.7	...	...	...	...	...	...
Exchange rate (N$/US$, end of period)	10.5	11.6	15.6	...	...	...	...	...	...
Money and credit									
Domestic credit to the private sector	14.5	16.5	13.8	8.4	10.1	10.1	10.0	9.8	9.6
Base money	-0.8	35.7	-5.0	10.0	10.0	10.0	10.0	10.0	10.0
M2	12.4	7.8	10.2	8.3	11.4	11.4	10.3	10.1	9.9
Interest rate (percent)	5.5	6.0	6.5	...	...	...	...	...	...
	(percent of GDP)								
Investment and Savings									
Investment	25.2	33.0	34.2	27.4	26.4	25.2	24.9	24.7	24.7
Public	6.4	7.3	8.0	5.4	6.4	7.2	6.9	6.7	6.7
Private	20.2	25.5	25.5	22.0	20.0	18.0	18.0	18.0	18.0
Change Inventories	-1.5	0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Savings	21.2	25.4	20.5	17.7	21.4	20.2	20.2	19.9	19.8
Public	3.0	0.4	-1.6	-3.1	-2.5	-2.3	-2.1	-2.2	-2.5
Private	18.2	25.0	22.1	20.8	23.9	22.6	22.3	22.1	22.3
Central government budget 1/									
Revenue and grants	33.4	35.4	34.9	31.3	32.3	32.0	31.7	31.5	31.3
Of which: SACU receipts	11.6	12.8	11.6	8.6	9.3	8.9	8.7	8.4	8.2
Expenditure and net lending	37.3	42.0	43.6	38.4	40.3	40.3	39.3	39.3	39.5
Primary balance (deficit = -)	-2.6	-5.2	-7.0	-4.0	-4.7	-4.7	-3.8	-3.6	-3.6
Overall balance	-4.0	-6.6	-8.7	-7.1	-8.0	-8.4	-7.6	-7.8	-8.2
Overall balance: Non-SACU	-15.6	-19.5	-20.3	-15.8	-17.3	-17.3	-16.3	-16.3	-16.4
Public debt/GDP	24.2	25.5	39.8	43.1	47.4	51.6	54.9	58.2	61.6
Gross public and publicly guaranteed debt/GDP	27.9	28.8	44.7	50.5	54.6	59.1	62.1	65.1	68.2
External sector									
Current account balance									
(including official grants)	-4.0	-7.6	-13.7	-9.7	-5.0	-4.9	-4.7	-4.8	-4.9
External public debt (including IMF)	7.9	7.6	13.1	17.4	17.1	17.1	17.2	17.1	16.6
Gross official reserves									
US$ millions	1,505	1,198	1,580	1,604	1,679	1,714	1,782	1,849	1,912
Percent of GDP	12.9	9.9	16.8	16.2	15.8	15.0	14.6	14.3	13.9
Months of imports of goods and services	2.2	1.8	2.8	2.7	2.6	2.5	2.5	2.5	2.5
External debt/GDP 2/	39.1	42.8	50.8	60.4	60.8	60.9	61.4	62.0	59.5
Memorandum item:									
Population (in million)	2.2	2.2	2.3	2.3	2.3	2.3	2.4	2.4	2.4

Sources: Namibian authorities and Fund staff estimates and projections.

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

2/ Public and private external debt.

Table 2. Namibia: Balance of Payments, 2013–21
(US$ millions, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Proj	Proj	Proj	Proj	Proj	Proj
Current account	-515	-976	-1,572	-1,007	-561	-588	-601	-653	-706
Trade balance	-1,984	-2,578	-2,917	-1,756	-1,566	-1,585	-1,579	-1,680	-1,753
Exports, f.o.b.	4,649	4,607	4,073	4,058	4,710	5,168	5,483	5,701	5,878
Of which:									
Diamonds	1,212	1,291	1,163	1,179	1,263	1,371	1,495	1,539	1,587
Other minerals	769	663	658	643	1,121	1,361	1,431	1,477	1,483
Imports, f.o.b.	-6,632	-7,185	-6,989	-5,813	-6,276	-6,753	-7,062	-7,382	-7,632
Services (net)	-12	-105	-89	-9	-29	-42	-8	10	5
Transportation	-282	-345	-364	-283	-308	-333	-347	-361	-381
Travel	285	263	236	219	231	250	271	293	313
Other services	-15	-23	40	55	48	41	69	79	73
Income (net)	-96	-27	-54	-309	-77	-141	-224	-234	-244
Compensation of employees	-6	-3	-4	-4	-4	-4	-4	-4	-4
Investment income	-90	-24	-49	-304	-73	-137	-219	-230	-240
Current transfers	1,576	1,733	1,487	1,067	1,112	1,180	1,209	1,251	1,286
Official transfers	1,559	1,720	1,477	1,053	1,100	1,168	1,197	1,239	1,274
Of which: SACU receipts	1,502	1,592	1,362	978	1,018	1,077	1,114	1,154	1,188
Other transfers	17	13	10	13	12	12	12	12	12
Capital and financial account	823	1,128	2,555	587	667	653	698	749	804
Capital account	129	138	137	114	125	136	143	153	162
Financial Account	694	990	2,417	474	542	517	555	596	643
Direct Investment	814	490	1,040	401	426	451	482	512	538
Portfolio Investment	-390	-272	1,329	-328	-318	-408	-433	-460	24
Other Investment	270	772	48	401	435	473	506	544	80
Errors and Omissions	-556	-467	-418	0	0	0	0	0	0
				percent of GDP					
Current account	-4.0	-7.6	-13.7	-9.7	-5.0	-4.9	-4.7	-4.8	-4.9
Trade balance	-15.6	-20.0	-25.4	-16.9	-14.1	-13.2	-12.4	-12.4	-12.2
Exports	36.5	35.8	35.4	39.0	42.3	43.2	43.0	41.9	40.9
Imports	-52.1	-55.9	-60.8	-55.9	-56.4	-56.4	-55.3	-54.3	-53.1
Services (net)	-0.1	-0.8	-0.8	-0.1	-0.3	-0.4	-0.1	0.1	0.0
Income (net)	-0.8	-0.2	-0.5	-3.0	-0.7	-1.2	-1.8	-1.7	-1.7
Current transfers	12.4	13.5	12.9	10.3	10.0	9.9	9.5	9.2	8.9
Of which: SACU receipts	11.8	12.4	11.8	9.4	9.1	9.0	8.7	8.5	8.3
Capital and financial account	6.5	8.8	22.2	5.6	6.0	5.5	5.5	5.5	5.6
Capital account	1.0	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Financial account	5.5	7.7	21.0	4.6	4.9	4.3	4.3	4.4	4.5
Direct Investment	6.4	3.8	9.0	3.9	3.8	3.8	3.8	3.8	3.7
Portfolio Investment	-3.1	-2.1	11.6	-3.2	-2.9	-3.4	-3.4	-3.4	0.2
Other Investment	2.1	6.0	0.4	3.9	3.9	4.0	4.0	4.0	0.6
Memorandum items:									
Gross International Reserves (end of period)	1,505	1,198	1,580	1,604	1,679	1,714	1,782	1,849	1,912
Months of imports of goods and services	2.2	1.8	2.8	2.7	2.6	2.5	2.5	2.5	2.5
External debt (US$ millions) from IIP	4,972	5,501	5,842	6,289	6,769	7,289	7,841	8,431	8,557
Short-term debt (US$ millions)	1,033	1,008	917	928	971	956	943	950	955
Exchange rate (N$/US$, period average)	9.7	10.8	12.8	…	…	…	…	…	…
GDP at market prices (US$ millions)	12,720	12,864	11,497	10,403	11,135	11,973	12,766	13,600	14,376

Sources: Namibian authorities and Fund staff estimates and projections.

Table 3a. Namibia: Fiscal Operations of the Central Government, 2013/14–21/22

(N$ millions)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Est	Proj	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	42,355	49,950	52,200	51,090	58,759	64,650	70,652	77,236	84,422
Domestic revenue	42,077	49,840	52,049	50,927	58,596	64,469	70,452	77,017	84,180
Tax revenue	38,906	46,832	48,903	48,339	55,516	60,991	66,760	73,077	80,137
Personal income tax	9,537	10,193	10,794	12,410	13,998	15,663	17,492	19,506	21,778
Corporate income tax	3,434	7,019	7,722	7,553	8,400	9,240	10,090	11,066	12,222
o/w Diamond mining	655	1,980	2,199	2,180	2,375	2,558	2,761	3,038	3,337
VAT and sales taxes	10,098	10,266	11,903	12,701	14,375	15,975	17,612	19,377	21,289
Taxes on international trade (includes SACU receipts)	14,727	18,117	17,355	14,121	16,852	18,035	19,296	20,650	22,095
Other taxes	1,736	1,234	1,129	1,553	1,690	1,878	2,070	2,278	2,503
Nontax revenue	3,171	3,008	3,146	2,588	3,080	3,479	3,692	3,940	4,043
Diamond and other mineral royalties	293	1,244	1,369	1,160	1,502	1,800	1,831	1,892	1,943
Adminstrative fees, including license revenues	1,495	772	628	685	763	848	935	1,029	1,081
Other	1,383	992	1,149	742	815	831	926	1,019	1,019
Grants	278	110	152	163	163	181	200	220	241
Expenditure and net lending	47,408	59,334	65,262	62,721	73,362	81,574	87,666	96,483	106,409
Current expenditure	39,375	50,198	55,205	56,619	62,794	69,414	75,020	82,879	91,461
Personnel	17,932	21,655	23,961	25,565	28,122	30,777	33,527	36,461	39,651
Goods and services	7,331	11,310	10,794	9,164	10,490	12,401	13,115	14,429	15,852
Interest payments	1,796	2,066	2,633	5,037	6,025	7,482	8,537	10,405	12,244
Domestic	1,381	1,600	2,031	2,994	3,837	5,083	5,893	7,515	9,184
Foreign	407	466	596	2,043	2,188	2,399	2,644	2,889	3,060
Subsidies and transfers	12,316	15,168	17,817	16,852	18,157	18,754	19,841	21,585	23,714
Capital expenditures	8,039	9,132	10,050	6,097	10,567	12,161	12,639	13,593	14,933
Acquisition of capital assets	6,557	6,004	7,441	4,918	8,890	9,329	10,032	10,792	11,857
Project Finance (extrabudgetary)	678	578	684	0	0	681	681	681	748
Capital transfers	804	2,550	1,925	1,179	1,676	2,152	1,926	2,119	2,328
Net lending	-6	4	7	5	2	-2	7	10	14
Overall balance 1/	-5,053	-9,383	-13,061	-11,631	-14,603	-16,923	-17,014	-19,246	-21,987
Primary balance	-3,256	-7,314	-10,428	-6,594	-8,578	-9,442	-8,476	-8,842	-9,743
Financing	5,053	9,383	13,061	11,631	14,603	16,923	17,014	19,246	21,987
Domestic financing (net)	5,067	8,931	1,902	9,451	13,428	15,566	15,714	17,946	20,518
External financing (net)	400	300	13,398	2,180	1,175	1,358	1,300	1,300	1,469
Disbursements	678	578	13,484	2,500	1,500	1,681	1,681	1,681	10,998
Project loans	678	578	684	0	0	681	681	681	748
External bond	0	0	12,800	2,500	1,500	1,000	1,000	1,000	10,250
Amortization	-278	-278	-86	-320	-325	-323	-381	-381	-9,529
Discrepancy	414.7	-151.9	2,238.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Overall Balance (excluding SACU receipts) 1/	-19,780	-27,500	-30,416	-25,752	-31,455	-34,958	-36,310	-39,896	-44,082
Overall Balance (excluding SACU and mineral revenues) 1/	-20,728	-30,724	-33,984	-29,092	-35,332	-39,316	-40,901	-44,825	-49,363
Public and publicly guaranteed debt	35,428	40,722	66,929	82,402	99,387	119,496	138,523	159,721	183,891
Public debt	30,663	35,958	59,563	70,463	86,286	104,330	122,472	142,797	166,106
Domestic	19,629	24,528	32,113	41,082	53,693	67,945	82,366	98,975	119,692
External	11,034	11,430	27,450	29,381	32,593	36,386	40,106	43,822	46,414
GDP at market prices (Fiscal Year)	126,937	141,280	149,665	163,329	181,968	202,213	222,932	245,284	269,475

Sources: Namibian authorities; and Fund staff estimates and projections. Fiscal year: April-March.

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

Table 3b. Namibia: Fiscal Operations of the Central Government, 2013/14–21/22
(Percent of GDP)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Est	Proj	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	33.4	35.4	34.9	31.3	32.3	32.0	31.7	31.5	31.3
Revenue	33.1	35.3	34.8	31.2	32.2	31.9	31.6	31.4	31.2
Tax revenue	30.7	33.1	32.7	29.6	30.5	30.2	29.9	29.8	29.7
Personal income tax	7.5	7.2	7.2	7.6	7.7	7.7	7.8	8.0	8.1
Corporate income tax	2.7	5.0	5.2	4.6	4.6	4.6	4.5	4.5	4.5
o/w Diamond mining	0.5	1.4	1.5	1.3	1.3	1.3	1.2	1.2	1.2
VAT and sales taxes	8.0	7.3	8.0	7.8	7.9	7.9	7.9	7.9	7.9
Taxes on international trade (includes SACU receipts)	11.6	12.8	11.6	8.6	9.3	8.9	8.7	8.4	8.2
Other taxes	1.4	0.9	0.8	1.0	0.9	0.9	0.9	0.9	0.9
Nontax revenue	2.5	2.1	2.1	1.6	1.7	1.7	1.7	1.6	1.5
Diamond and other mineral royalties	0.2	0.9	0.9	0.7	0.8	0.9	0.8	0.8	0.7
Administrative fees, including license revenues	1.2	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other	1.1	0.7	0.8	0.5	0.4	0.4	0.4	0.4	0.4
Grants	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure and net lending	37.3	42.0	43.6	38.4	40.3	40.3	39.3	39.3	39.5
Current expenditure	31.0	35.5	36.9	34.7	34.5	34.3	33.7	33.8	33.9
Personnel	14.1	15.3	16.0	15.7	15.5	15.2	15.0	14.9	14.7
Goods and services	5.8	8.0	7.2	5.6	5.8	6.1	5.9	5.9	5.9
Interest payments	1.4	1.5	1.8	3.1	3.3	3.7	3.8	4.2	4.5
Domestic	1.1	1.1	1.4	1.8	2.1	2.5	2.6	3.1	3.4
Foreign	0.3	0.3	0.4	1.3	1.2	1.2	1.2	1.2	1.1
Subsidies and transfers	9.7	10.7	11.9	10.3	10.0	9.3	8.9	8.8	8.8
Capital expenditure	6.3	6.5	6.7	3.7	5.8	6.0	5.7	5.5	5.5
Acquisition of capital assets	5.2	4.2	5.0	3.0	4.9	4.6	4.5	4.4	4.4
Project Financed (extrabudgetary)	0.5	0.4	0.5	0.0	0.0	0.3	0.3	0.3	0.3
Capital transfers	0.6	1.8	1.3	0.7	0.9	1.1	0.9	0.9	0.9
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 1/	-4.0	-6.6	-8.7	-7.1	-8.0	-8.4	-7.6	-7.8	-8.2
Primary balance	-2.6	-5.2	-7.0	-4.0	-4.7	-4.7	-3.8	-3.6	-3.6
Financing	4.0	6.6	8.7	7.1	8.0	8.4	7.6	7.8	8.2
Domestic financing (net)	4.0	6.3	1.3	5.8	7.4	7.7	7.0	7.3	7.6
External financing (net)	0.3	0.2	9.0	1.3	0.6	0.7	0.6	0.5	0.5
Disbursements	0.5	0.4	9.0	1.5	0.8	0.8	0.8	0.7	4.1
Project loans	0.5	0.4	0.5	0.0	0.0	0.3	0.3	0.3	0.3
External bond	0.0	0.0	8.6	1.5	0.8	0.5	0.4	0.4	3.8
Amortization	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-3.5
Discrepancy	0.3	-0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Overall Balance (excluding SACU receipts) 1/	-15.6	-19.5	-20.3	-15.8	-17.3	-17.3	-16.3	-16.3	-16.4
Overall Balance (excluding SACU and mineral revenues) 1/	-16.3	-21.7	-22.7	-17.8	-19.4	-19.4	-18.3	-18.3	-18.3
Public and publicly guaranteed debt	27.9	28.8	44.7	50.5	54.6	59.1	62.1	65.1	68.2
Public debt	24.2	25.5	39.8	43.1	47.4	51.6	54.9	58.2	61.6
Domestic	15.5	17.4	21.5	25.2	29.5	33.6	36.9	40.4	44.4
External	8.7	8.1	18.3	18.0	17.9	18.0	18.0	17.9	17.2

Sources: Namibian authorities and Fund staff estimates and projections. Fiscal year: April-March

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

Table 4. Namibia: Monetary Accounts, 2013–21 1/
(N$ millions, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Proj	Proj	Proj	Proj	Proj	Proj
Central Bank									
Reserve money	4,942	6,707	6,372	7,010	7,710	8,482	9,330	10,263	11,289
Currency	3,373	4,118	4,495	4,944	5,192	5,451	5,724	6,010	6,311
Reserves	1,569	2,589	1,877	2,065	2,519	3,030	3,606	4,253	4,978
Net foreign assets	13,900	11,690	24,545	19,593	21,767	23,271	25,399	27,595	30,026
Net domestic assets	-8,958	-4,983	-18,173	-12,584	-14,057	-14,790	-16,070	-17,333	-18,737
Monetary survey									
Broad money (M2)	68,958	74,366	81,945	88,754	98,876	110,178	121,532	133,790	146,985
Currency	2,137	2,544	3,042	3,399	3,501	3,601	3,720	3,845	3,975
Deposits	66,821	71,822	78,903	85,354	95,374	106,577	117,811	129,945	143,010
Net foreign assets	23,332	19,516	30,081	25,274	27,679	29,398	31,738	34,145	36,834
Net domestic assets	45,625	54,850	51,864	63,480	71,196	80,780	89,794	99,644	110,151
Domestic credit	62,866	77,065	83,315	99,529	112,455	126,714	142,338	159,038	177,061
Claims on central government (net)	269	4,002	-1,608	7,470	10,998	14,965	19,361	23,978	29,030
Claims on private sector	59,486	69,282	78,862	85,449	94,092	103,561	113,946	125,126	137,130
Others	3,111	3,781	6,061	6,609	7,365	8,188	9,032	9,935	10,901
Other items (net) 2/	-17,241	-22,215	-31,451	-36,049	-41,259	-45,934	-52,544	-59,394	-66,911
Monetary base	4,942	6,707	6,372	7,010	7,710	8,482	9,330	10,263	11,289
Currency outside banks	3,373	4,118	4,495	4,944	5,192	5,451	5,724	6,010	6,311
Commercial bank deposits	1,569	2,589	1,877	2,065	2,519	3,030	3,606	4,253	4,978
				percent of GDP					
Credit to the private sector	48.5	49.7	53.8	53.8	53.2	52.5	52.4	52.3	52.1
Broad money (M2)	56.2	53.3	55.9	55.9	55.9	55.9	55.9	55.9	55.9
Monetary base	4.0	4.8	4.3	4.4	4.4	4.3	4.3	4.3	4.3
				percentage change					
Credit to the private sector	14.5	16.5	13.8	8.4	10.1	10.1	10.0	9.8	9.6
Broad money (M2)	12.4	7.8	10.2	8.3	11.4	11.4	10.3	10.1	9.9
Monetary base	-0.8	35.7	-5.0	10.0	10.0	10.0	10.0	10.0	10.0
Memorandum items:									
Velocity	1.8	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Money multiplier	14.0	11.1	12.9	12.7	12.8	13.0	13.0	13.0	13.0
Exchange rate (N$/US$)	10.5	11.6	15.6	16.0	16.7	17.3	17.9	18.4	19.2
Domestic interest rates (end of period)									
Deposit rate	4.0	4.2	4.9	...	...	...	...	...	...
Lending rate	8.3	8.7	9.3	...	...	...	...	...	...
BoN repo rate	5.5	6.0	6.5	...	...	...	...	...	...
Three-month T-bill rate	5.4	6.3	7.5	...	...	...	...	...	...

Sources: Namibian authorities and Fund staff estimates and projections.

1/ End of period.

2/ Including valuation.

Table 5. Namibia: Financial Sector Indicators, 2010–March 2016

(Percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	Mar-15	Sep-15	Dec-15	Mar-16
Banking indicators									
Capital adequacy									
Capital to assets	8.4	7.8	8.0	8.6	10.3	10.4	10.7	10.9	10.4
Regulatory capital to risk-weighted assets	15.3	14.0	14.2	14.4	14.7	14.4	14.5	14.3	15.3
Regulatory tier I capital to risk-weighted assets	11.1	10.8	10.9	11.5	11.9	10.9	12.3	11.8	12.2
Nonperforming loans net of provisions to capital	3.8	0.8	1.1	-0.7	0.6	2.2	2.9	2.2	2.4
Asset quality									
Large exposure to capital	130.0	147.0	135.0	112.5	170.9	156.8	143.7	212.5	123.9
Nonperforming loans to total gross loans	2.0	1.5	1.3	1.3	1.5	1.5	1.6	1.6	1.6
Bank provisions to nonperforming loans	...	...	...	...	...	...	...	...	...
Earnings and profitability									
Trading income to total income	6.5	9.3	7.4	6.5	5.9	...	...	...	...
Return on assets 1/	3.5	3.7	3.3	3.1	3.6	3.5	3.7	4.8	3.3
Return on equity 1/	41.9	47.1	40.5	31.4	34.9	41.1	44.2	56.5	31.4
Interest margin to gross income	51.3	54.2	58.8	54.7	56.8	56.9	54.2	57.4	58.0
Noninterest expenses to gross income	57.3	52.3	54.0	54.8	52.8	51.7	47.8	51.6	51.7
Personnel expenses to noninterest expenses	49.5	51.5	58.1	50.3	49.7	98.6	110.7	101.7	118.3
Liquidity									
Liquid assets to total assets	10.7	12.4	10.9	10.7	11.6	12.1	12.3	11.7	10.8
Liquid assets to short-term liabilities	19.1	22.2	20.7	19.7	21.1	29.4	23.1	21.9	21.3
Customer deposits to total (non-interbank) loans	106.3	114.7	106.4	102.5	98.6	98.9	99.6	95.2	100.2
Exposure to foreign exchange risk									
Net open position in foreign exchange to capital	1.3	2.7	2.8	1.7	2.4	10.3	9.6	5.1	-0.6
Foreign currency-denominated loans to total loans	0.1	0.3	1.3	2.0	1.4	1.3	1.3	1.5	1.2
Foreign currency-denominated liabilities to total liabilities	3.7	1.9	2.5	3.7	3.3	3.7	2.6	3.7	3.0

Sources: Bank of Namibia and IMF staff estimates.

1/ Before taxes.

Table 6. Namibia: Millennium Development Goals, 1995–2015

	1995	2000	2005	2008	2009	2010	2011	2012	2013	2014	2015
Goal 1: Eradicate Extreme Poverty and Hunger											
Employment to population ratio, 15+, total (%)	45.1	45.0	48.9	39.7	43.9	47.7	48.0	48.8	49.0	...	...
Employment to population ratio, ages 15-24, total (%)	23.1	17.3	22.1	15.8	18.1	19.7	19.9	20.5	21.0	...	...
Income share held by lowest 20%	...	...	...	...	...	3.4	...	...	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	...	20.3	...	...	...	...	...	...	...	...	...
Poverty headcount ratio at national poverty line (% of population)	...	...	...	...	28.7	...	...	...	...	...	...
Prevalence of undernourishment (% of population)	39.0	27.7	25.2	31.1	33.3	34.6	32.9	29.3	...	...	...
Vulnerable employment, total (% of total employment)	...	27.7	...	13.5	...	34.6	26.4	32.7	...	...	...
Goal 2: Achieve universal primary education											
Literacy rate, youth female (% of females ages 15-24)	...	...	...	...	...	...	...	...	...	...	...
Literacy rate, youth male (% of males ages 15-24)	...	...	...	...	...	...	...	...	...	...	...
Persistence to last grade of primary, total (% of cohort)	...	81.6	76.9	82.6	84.5	...	...	...	...	...	...
Primary completion rate, total (% of relevant age group)	69.4	91.2	85.3	78.7	84.3	81.2	...	85.4	...	...	...
Total enrollment, primary (% net)	85.7	89.2	88.3	87.1	86.9	86.6	...	88.5	...	...	...
Goal 3: Promote gender equality and empower women											
Proportion of seats held by women in national parliaments (%)	...	25.0	26.9	26.9	26.9	24.4	24.4	24.4	24.4	25.6	41.3
Ratio of female to male tertiary enrollment (%)	155.0	...	85.5	128.0	...	...	...	...	...	...	...
Ratio of female to male primary enrollment (%)	99.5	100.0	99.7	98.3	97.9	97.6	...	96.9	...	...	...
Ratio of female to male secondary enrollment (%)	118.0	112.0	112.0	...	...	...	...	...	...	...	...
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	...	42.8	...	...	...	...	...	42.4	...	...	...
Goal 4: Reduce child mortality											
Immunization, measles (% of children ages 12-23 months)	68.0	69.0	73.0	73.0	76.0	75.0	74.0	76.0	82.0	...	...
Mortality rate, infant (per 1,000 live births)	47.2	49.3	45.7	40.9	39.1	37.5	36.1	35.6	35.2	...	...
Mortality rate, under-5 (per 1,000)	69.6	75.5	72.8	61.9	58.8	55.7	52.6	50.6	49.8	...	...
Goal 5: Improve maternal health											
Adolescent fertility rate (births per 1,000 women ages 15-19)	95.6	85.2	77.3	70.5	66.6	62.7	58.8	54.9	...	...	...
Births attended by skilled health staff (% of total)	...	75.5	...	...	...	...	...	...	...	...	...
Contraceptive prevalence (% of women ages 15-49)	...	43.7	...	...	...	...	...	...	...	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	280.0	270.0	250.0	...	...	160.0	...	...	130.0	273.0	265.0
Pregnant women receiving prenatal care (%)	...	90.6	...	...	...	...	...	...	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases											
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	...	25.5	...	...	...	...	...	...	0.0	...	...
Condom use, female (% ages 15-24)	...	...	44.0	44.0	...	...	...	...	...	...	...
Condom use, male (% ages 15-24)	...	...	66.0	66.0	...	...	...	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	557.0	1510.0	1520.0	1080.0	939.0	820.0	736.0	683.0	651.0	...	...
Prevalence of HIV, female (% ages 15-24)	6.4	11.1	8.1	5.7	5.3	4.9	4.8	4.8	651.0	...	...
Prevalence of HIV, total (% of population ages 15-49)	7.5	15.9	16.4	15.3	15.0	14.8	14.6	14.5	4.8	...	...
Tuberculosis case detection rate (all forms)	17.0	38.0	48.0	59.0	60.0	63.0	66.0	65.0	14.3	...	...
Goal 7: Ensure environmental sustainability											
CO2 emissions (kg per PPP $ of GDP)	0.2	0.2	0.2	0.2	0.2	0.2	...	...	...	...	...
CO2 emissions (metric tons per capita)	1.0	0.9	1.1	1.7	1.5	1.5	...	...	...	...	...
Forest area (% of land area)	10.2	9.8	9.3	9.0	8.9	8.9	8.8	8.7	...	...	...
Improved sanitation facilities (% of population with access)	25.6	27.7	29.6	30.7	31.1	31.5	31.8	32.2	...	34.0	34.0
Improved water source (% of population with access)	73.3	79.1	84.6	87.7	88.8	89.7	90.7	91.7	...	90.0	91.0
Marine protected areas (% of total surface area)	0.5	0.5	0.5	0.5	8.3	28.0	...	28.0	...	28.1	...
Goal 8: Develop a global parternership for development											
Net ODA received per capita (current US$)	115.0	80.3	61.7	99.6	152.0	118.0	131.0	117.0	...	...	...
Debt service (PPG and IMF only, % of exports, excluding workers'	1.5	2.1	1.4	2.5	2.1	...	...	...	0.0	...	...
remittances)	1.5	2.1	1.4	2.5	2.1	...	...	...	...	...	...
Daily newspapers (per 1,000 people)	...	...	...	...	...	...	...	...	...	...	...
Mobile cellular subscriptions (per 100 people)	0.2	4.3	18.1	46.2	56.1	89.5	99.0	95.0	118.0	113.8	...
Telephone lines (per 100 people)	4.8	5.8	6.9	6.9	6.9	7.2	7.2	7.6	8.0	7.8	...
Other											
Fertility rate, total (births per woman)	4.6	4.0	3.6	3.4	3.4	3.2	3.2	3.1	...	...	...
GNI per capita, Atlas method (current US$)	2420	2110	3390	4200	4	4350	4990	5600	5870	...	...
GNI, Atlas method (US$ million, current)	4010	4000	6860	8870	8850	9490	11100	12600	13500	...	...
Gross capital formation (% of GDP)	19.5	17.1	19.7	28.3	6.4	24.1	22.4	26.8	24.5	...	...
Life expectancy at birth, total (years)	56.4	48.7	45.9	47.3	47.9	62.5	63.3	63.9	...	...	...
Literacy rate, adult total (% of people ages 15 and above)	...	...	...	...	...	...	...	...	...	...	...
Population, total (million)	1.7	1.9	2.0	2.1	2.1	2.2	2.2	2.3	2.3	...	...
Trade (% of GDP)	94	85	81	121	125	108	103	103	104	...	...
Unemployment, total (% of total labor force)	19.5	20.3	20.2	37.6	29.7	22.1	19.8	16.7	16.9	...	...

Source: World Bank.

Annex I. External Sector Assessment

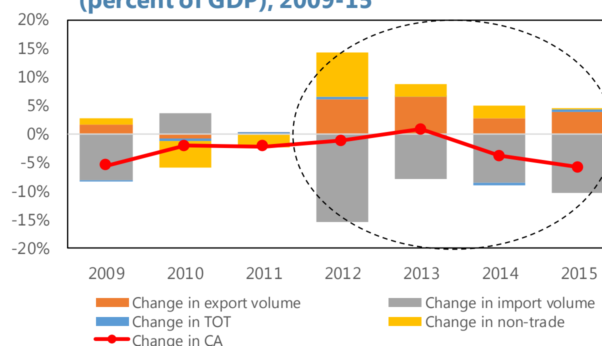
This annex assesses: (i) external imbalances and long term vulnerabilities, (ii) the adequacy of international reserve coverage, and (iii) the level of the exchange rate.

A. External Sector Imbalances and Long-Term Vulnerabilities

1. Since 2006, Namibia's current account (CA) balance has been constantly deteriorating, raising the possibility that structural vulnerabilities are building up. Following stable surpluses in the first half of the 2000s, the CA balance turned negative in 2009 and reached a deficit of 13.7 percent in 2015. The deterioration has been mainly driven by a widening trade deficit (25 percent of GDP in 2015), despite a REER depreciation, only partially offset by higher SACU transfers that have smoothed the impact on the current account. The larger CA deficits have been largely financed by increased FDI and lower portfolio outflows.

2. The recent CA deterioration is explained mainly by changes in volumes with price variations playing a minor role. With the Namibian economy recovering fast from the global financial crisis, over 2012-15 import volumes grew on average 7 percentage points faster than export volumes, contributing negatively to the CA. Changes in terms of trade (on average 1 percent per year) and in other non-trade flows played only a minor role, with the exception of 2012 when SACU transfers temporarily increased absorbing part of the trade deficit.[1]

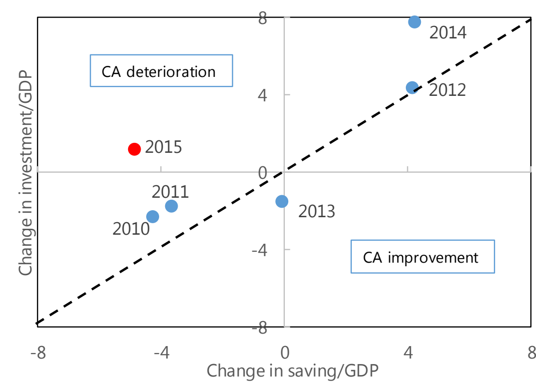
Contribution to the change in current account (percent of GDP), 2009-15



Source: BoN, IMF, Bloomberg, and staff estimates.

3. On average, fast-growing private investment and declining public savings have underpinned the CA deterioration. While there are significant fluctuations across years, the widening CA deficit has been driven by a rapid increase in private investment (rising on average 0.9 percentage points of GDP per year over 2010-15), particularly in 2012 and 2014. However, at the same time, public savings have on average declined by 1.3 percentage points of GDP per year, reaching a lower point in 2015, as the fiscal deficit peaked.

Change in saving-investment and CA gap



Source: BoN and staff's estimates.

[1] As customary, the change in the CA balance can be decomposed into changes in: export and import volumes, terms-of-trade, and other non-trade flows (e.g., service, income, transfers).

4. A sizable component of the trade deficit appears to be structural rather than cyclical, suggesting that CA deficits should be expected in the future. Different methods can be used to isolate the structural and cyclical components, including the Hodrick-Prescott (HP) and the Baxter-King's Band-Pass (BP) filters, and informed identification of one-off imports (e.g., machinery, fuel) related to the construction of new large mines, and other cyclical components. [2] All these methods suggest that in 2015 the structural component of the CA deficit was about 8½ percent of GDP, comparable to the CA norm estimated under the IMF's EBA-lite CA model (see below). In this context, SACU transfers and financial flows will continue to play a key stabilizing role in the Namibian economy to finance future trade deficits.

Actual and structural CA deficit in 2015 (in percent of GDP)

Actual CA deficit	-13.7	
Structural CA deficit	-8.5	*
Remove mining-related imports	-7.5	
Hodrick-Prescott filter	-9.7	
Band-Pass filter	-8.2	
CA norm	-8.0	**

* Average of deficits estimated by 3 methods.

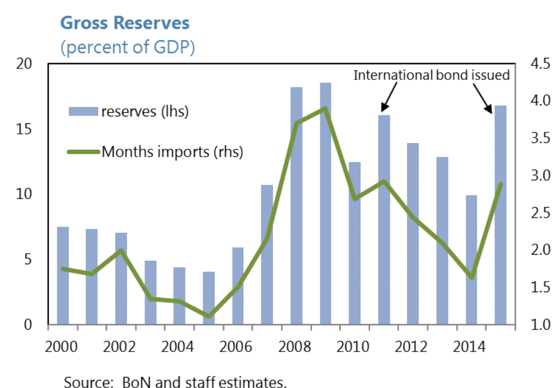
** Estimate from EBA-lite CA model

B. International Reserve Adequacy

Namibia's international reserves have been declining since 2009 and only in 2015, boosted by the government's international bond issuance, have approached the lower bound of the desired level according to the IMF's metric. However, they are expected to remain below the optimal level after 2016. Given subdued medium-term prospects for SACU transfers and the fixed exchange rate, it is important to implement policies that could avoid the constant decline in reserves experienced in the past and help secure safer reserve buffers to face future shocks.

Recent trends

5. Namibia's international reserves have been declining since their peak in 2009 only temporarily boosted by the government's international bond issuances. Over the last five years, reserves declined from a peak of US$1.9 billion, equivalent to 3.9 months of imports in 2009 to US$1.2 billion in 2014 or 1.8 months of imports. At end 2015, reserves stood at US$1.6 billion, 16.8 percent of GDP or 2.8 months of imports, boosted by the issuance of a 10-year Eurobond (US$750 million). However, by June 2016, reserve coverage had already fallen to around two months of imports. The import coverage is expected to recover to 2.7 months by end-2016



[2] HP filter is applied to real export and import. BP filter separates periodic fluctuations between 6 and 32 quarters, while removing components at higher and lower frequencies. The non-statistical approach removes one-off imports and, in addition, cyclical factors for exports using a BP filter. Actual historical series of services, income, and transfers are added to the structural trade deficit to derive the structural CA balance. The filtering approach is backward-looking and does not account for any future events.

due to currency swaps with the Government Institutions Pension Fund (GIPF) and NamPower. Under Staff's baseline scenario, import coverage would further decline to 2.5 months in the coming years as the financial account returns to its long-term average.

Reserve Adequacy

6. Reserve adequacy is assessed using the composite IMF metric for market access countries that captures vulnerabilities from multiple sources. Traditional metrics of reserve adequacy usually focus on specific external vulnerability risks and fail to provide an overall view of coverage against likely risks. The IMF metric is designed to measure the vulnerabilities that might arise in a country's balance of payments during exchange market pressure events. More specifically, it takes into account four specific sources of risk: (i) low export earnings that could arise from a terms of trade shock; (ii) low rollover rates of short-term debt at remaining maturity (short term debt plus debt service); (iii) non-resident capital outflows on portfolio investments plus medium and long-term debt; and (iv) resident capital flight proxied by broad money. The relative risk weights for each of these component are based on observed outflows from emerging market countries during past periods of exchange market pressures. [3]

7. The IMF's metric could be better tailored to the Namibia case by accounting for the significant role of SACU transfers in Namibia's current account. As member of the Southern Africa Customs Union (SACU), Namibia receives a share of SACU's tax revenue as a transfer from South Africa. Over the last five years these transfers averaged about 11 percent of GDP, but shown large volatility, exposing the Namibia economy to SACU transfer shocks that depend on the performance of South African economy. One way to account for the SACU transfer risk is to adjust the IMF's standard metric by adding a SACU risk component.[4]

Assessment

8. In 2015, Namibia's international reserves approached the lower bound of the IMF's metric. Reserves on the range of 100-150 percent of the composite metric (in figures below, the shadowed area indicate the lower and upper bounds) are considered to be adequate. For Namibia, this corresponds to reserves between 20.7 and 31 percent of GDP, or between 3.6 and 5.4 months of imports. In the past fifteen years, the level of reserves has been sub-optimal about 80 percent of the time and was only adequate in 2008, 2009, and 2011 due to a combination of one-off events such as higher SACU transfers, mining revenues, the 2011 international bond issuance, and some expenditure restraint. In 2015, the level of reserves rose to about 80 percent of the minimum adequate level (73 percent of the Namibia tailored metric) mostly because of the government

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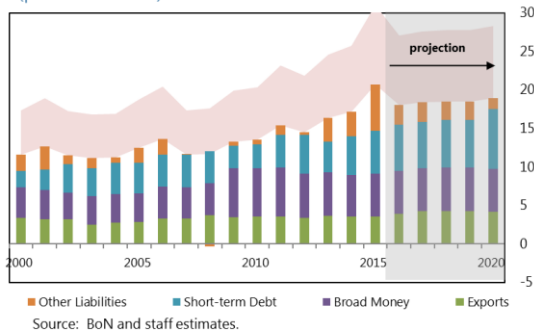
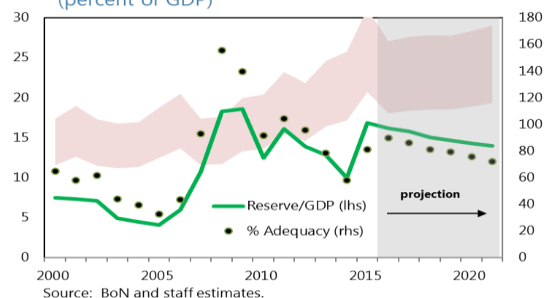
[3] For more details, see IMF (2011, 2013a and 2014).

[4] SACU revenue are introduced in the metric using a 20 percent risk weight. This weight is computed as the average of the declines during the previous fiscal crisis (in 2010-11) and the one observed in 2016.

Eurobond issuance. Looking ahead, in absence of reserve boosting events, reserves are expected to decline to only about 60 percent of the minimum adequate level.[5]





9. Going forward, adequate policies should help secure safer levels of international reserve buffers. The IMF metric analysis suggests that Namibia should aim to increase its international reserve to at least 3.5 months of imports (3.8 accounting for SACU-related risks). Gradually building such buffer would be highly desirable given the bleak prospects for SACU revenue and the fixed exchange rate. In this respect, sufficient fiscal restraint and additional foreign financing (particularly FDI as structural reforms take place) would help to avoid future decline in reserves and build additional buffers toward achieving a safer level of reserve coverage.

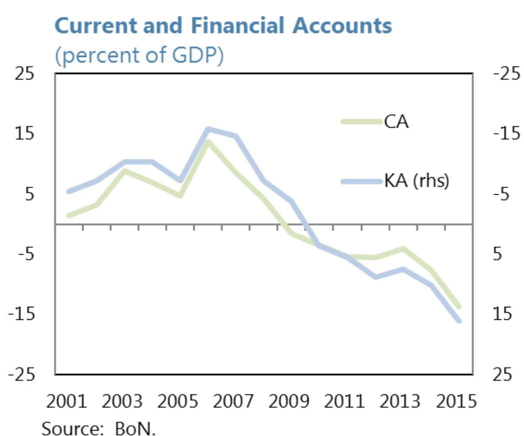
C. Exchange Rate Assessment

The Namibia's real effective exchange rate (REER) is moderately overvalued compared to the level that would be consistent with fundamentals. However, the estimated misalignment is crucially dependent on the assumption that the deterioration in the current account partly reflects temporary import needs from the construction of major mining projects, which are not related to the developments of the REER and were mostly financed with FDI.

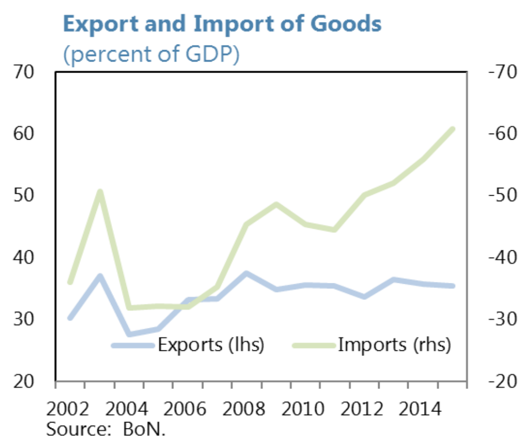
Background

10. Namibia's current account (CA) has been deteriorating since 2006 driven by rapid import growth. From stable surpluses registered in the first half of the 2000s, the CA moved to widening deficits in the second half of the century. This trend can be mostly attributed to rapid import growth, partly associated with construction requirements in the mining sector. In 2015, the CA registered a deficit of 13.7 percent of GDP, which is expected to shrink and to stabilize at about 5.5 percent of GDP in the medium-term as new mining projects come to full production.

[5] In August 2009 Namibia also received US$200 million from an additional SDR allocation.



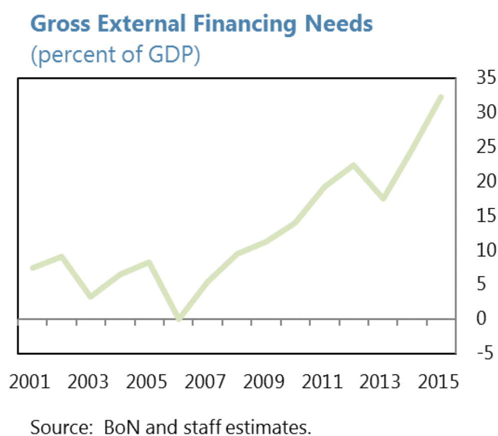
Source: BoN.



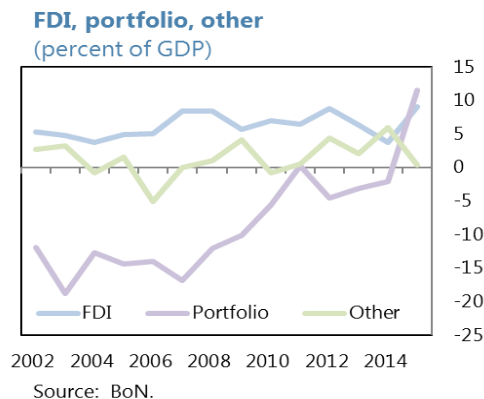
Source: BoN.

11. Increasing gross external financing requirements have been mostly financed with FDIs and other investments, except in 2015 when portfolio investments played a major role. In 2015, gross external financing requirements rose to about 32 percent of GDP in 2015 and were mostly covered by FDIs and long term loans to the mining sector (other investments), while net portfolio investments, typically negative as institutional investors invest abroad, turned positive as the government issued a Eurobond. In the same year, net FDI also increased by about 5 percent of GDP due to a one-off bond equity swap, which reduced other investments by roughly the same amount.

12. Namibia's REER has been depreciated since 2010, with an aceleration in 2015. On average, Namibia's REER has depreciated by about 30 percent since end-2010, and 12 percent only in 2015, (although it has recovered somewhat in 2016). Since the Namibian dollar is pegged to the South African rand, the depreciation has largely followed rand developments, although in real terms the depreciation has been slightly lower than in South Africa. At present, the REER is about 10 percent below its 10-year average. In 2016, the currency has appreciated somewhat.



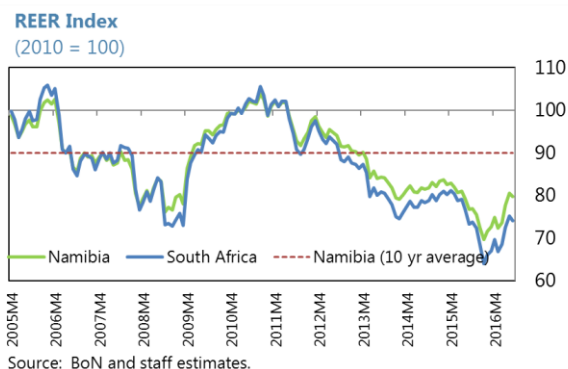
Source: BoN and staff estimates.



Source: BoN.

Methodology

13. The assessment of Namibia's REER is conducted using three alternative methodologies: two regression-based analyses (the CA and REER EBA-lite models) and a model free analysis based on the sustainability of the net foreign asset (NFA) position (External Sustainability EBA-lite approach). The EBA-lite assumes that the CA and the REER are both endogenous variables that are simultaneously determined as a function of domestic and external variables.[6] In doing so, it uses annual data for 146 countries for the 1995–2015 period, and incorporates fundamentals for low and middle-income countries. As a result, the methodology assesses the CA and REER in a multi-lateral consistent manner, as each country's variables are measured relative to a weighted-average of other countries' values.[7]



Source: BoN and staff estimates.

- **EBA-lite CA.** This model defines the CA gap as the difference between the observed CA deficit and an estimated "norm" based on domestic and external variables including economic fundamentals, policy variables, cyclical conditions, and the global environment. The CA gap is decomposed further into deviations of policies variables from their adequate levels (*policy gap*) and to regression *residuals* (the unexplained portion of the model).
- **EBA-lite REER.** This approach estimates the REER norm based on the same fundamentals used in the EBA-lite CA approach with the addition of the real short-term interest rate, which has proved to be an important determinant of short-run behavior of exchange rates.
- **External sustainability (ES)**. The model analyzes the sustainability of the NFA position based on an assumption about the desired level to stabilize the NFA to GDP ratio. Since there is no optimality condition for this ratio, various policy scenarios (target values) are typically assumed.

Assessment

14. Both the EBA-lite CA model and the ES approach point to a weaker external position than implied by medium-term fundamentals (i.e., overvaluation), while the REER model suggests a minor undervaluation (Table 1).

[6] Since the CA and REER are measured relative to other countries, they not only reflect a country's own characteristics but also external conditions within a simultaneously determined framework.

[7] For more details, see the EBA methodology in IMF (2013b).

- **CA and ES models.** Both the EBA-lite CA model and the ES approach suggest that the CA gap is sizable at about 4-5¾ percent of GDP.

  - According to the CA model, the CA gap is estimated to be -5.7 percent of GDP (fitted value of the regression is a CA deficit is 8.2 of GDP compared to an expected CA deficit of 13.7 percent in 2015). The gap is in part explained by residual components. This implies that a significant part of the CA gap comes from uncertainties due to volatile capital flows and temporary factors, including: temporary changes in oil import and mining export prices, and an import surge financed by FDI related to the development of new mines). The CA gap is then converted into an REER misalignment based on the estimated elasticity of the trade balance to changes in the REER (-0.25). According to this approach, the REER is *overvalued* by about 22½ percent, i.e., the currency would need to depreciate by this amount for the CA deficit to be reduced to the fitted value of the regression.

  - The ES approach points to a similar overvaluation. Using different scenario assumptions for the NFA to GDP ratio, targeting this ratio to: scenario (1) 5 percent of GDP (i.e., the 2015 level), the REER is overvalued by about 18 percent; and scenario (2) 8.7 percent of GDP (i.e., the average between 1995-2015), the REER would be overvalued by about 16-18 percent (Table 1).

- **REER model.** Differently from the other approaches, the REER Model suggests that the REER is *undervalued* and would need to appreciate by about 10 percent to reach the fitted value of the regression. This result however should be interpreted with caution as it does not capture recent structural changes in the Namibian economy (e.g., development of new uranium, gold, and copper mines, and fast-growing real estate market), which would have driven faster growth in investment and the REER appreciation due to weaker current account once they are incorporated into the REER model.[8]

15. Namibia's REER misalignment is possibly smaller as the recent deterioration in the CA does not seem related to exchange rate developments. In particular, the CA deficit is expected to eventually improve because imports are expected to fall as major mining construction projects come to an end and exports increase as the new mines rump up production. If imports from large construction projects are excluded, the CA deficit is estimated to be about 4.7 percentage points of GDP lower and the estimated overvaluation in the REER would only be about 4 percent.[9] The overvaluation could further be corrected if the government were to successfully embark in its planned fiscal consolidation. Finally, given the fixed exchange rate with the rand and the fact that about 60 percent of imports come from South Africa, a nominal depreciation would not necessarily result in CA improvements.

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[8] This approach has the shortcoming that it relies on fixed effect estimation, which forces each country's regression residuals to sum to zero over the sample period, which may make the results less reliable for countries with a short sample or where large structural changes have occurred which are not captured by the regression.

[9] In 2015 construction at the Husab uranium mine, the port of Walvis Bay, and Tschudi copper project continued. The overall investment for these projects is estimated at 5.9 percent of GDP in 2015 and 2.1 percent in 2016.

Table 1. Namibia: Real Exchange Rate Assessment Results

	EBA-lite CA model 1/	REER model 1/	ES approach 5/	
			Scenario 1	Scenario 2
CA reference 2/	-13.7	...	-4.9	-4.9
CA norm 3/	-8.0	...	-0.8	-0.3
CA gap	-5.7	...	-4.1	-4.6
o/w: Policy gap	3.0	...	...	...
REER gap 4/	22.6	-10.4	16.1	18.0

Source: IMF staff estimates.

1/ Based on EBA methodology (IMF 2013).

2/ For CA model, 2015 value; for REER model, 2021 value.

3/ CA model sets the desirable policy values on cyclically adjusted fiscal balance, change in reserves-to-GDP ratio, private credit-to-GDP ratio as projected in the staff's baseline framework for 2021.

4/ Positive numbers indicate overvaluation. Elasticity of CA to REER gap is -0.25.

5/ NFA-to-GDP ratio is assumed to stabilize to 5 percent (scenario 1) and 8.7 percent (scenario 2).

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International Monetary Fund. (2011). "Assessing Reserve Adequacy."

------. (2013a). "Assessing Reserve Adequacy−Further Considerations."

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------. (2016). "Methodological Note on EBA-LITE."

Annex II. Risk Assessment Matrix[1]

Source of Risk	Likelihood and Time Horizon	Expected Impact on Economy	Recommended Policy Response
Weaker than expected global growth and further suppressed commodity prices, triggered by structurally weak growth in key advanced and emerging market economies and medium-term slowdown in China.	***High/ Medium*** ***Medium Term***	***Medium.*** Deterioration of external accounts from depressed mining production and lower exports, lower SACU revenues and external financial inflows. Declining growth and rising debt ratios.	Step up structural reforms to promote growth and private sector development. If government's financing becomes problematic, temporarily tighten fiscal policy.
Tighter and more volatile global financial conditions, with sharp rise in risk premia with flight to safety; lower capital inflow into risk assets as investors respond to unanticipated changes in, among others, global growth prospects and financial fundamentals; FED policy rate path, escalating geopolitical tensions.	***Medium*** ***Short Term***	***High.*** Depreciation and asset price declines. Lower FDI and external financial flows could significantly worsen the external balance and trigger a disorderly adjustment of the current account. Asset price declines in South Africa could trigger shocks to foreign exposures of investment funds, decline in domestic bank deposits, force banks to deleverage with less credit availability, lower growth and employment. Higher inflation, lower growth and a deterioration in the fiscal balance.	Increase policy rate in line with South Africa. Tighten fiscal policy further, especially if financing becomes problematic, but protect social expenditures to minimize impact on the poor. If possible, seek additional external financing in rand to support international reserves.
Adjustment in domestic housing prices with sudden slowdown in credit growth and drop in construction activity, as prices suddenly adjust to fundamentals and interest rates increase.	***Medium*** ***Short- Medium Term***	***High.*** Increase in nonperforming loans, erosion of banks' capital buffers and deleveraging. Growth declines as residential construction boom and sustained credit growth end.	Monitor systemic risk buildup. Implement targeted macroprudential policies. Accelerate reform plans to create an effective resolution framework. In case of banking crisis, limit fiscal costs and support possibly declining demand.
Weaker than anticipated growth, e.g., triggered by delays and lower than expected production from the new uranium mine.	***Medium*** ***Short- Medium Term***	***Medium.*** Permanent lower growth. Higher current account deficit. Larger fiscal deficit.	Step up structural reforms to promote growth and private sector development.
Incomplete implementation of fiscal adjustment plans and materialization of SOEs' contingent liabilities	***Medium*** ***Short- Medium Term***	***Medium.*** Wider fiscal deficit. Rising funding requirements and financial costs. Sudden fiscal adjustment if financing options limited. Lower growth. Effects on the economy possibly amplified if accompanied by sovereign credit rating downgrade.	Tighten fiscal policy to preserve debt declining targets using quality measures with certain outcomes. Implement measures focused on SOEs' better governance and performance, including measures to reduce their deficit. Asset sales. Step up risk analysis and financial monitoring.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. Debt Sustainability Analysis

Namibia's debt sustainability indicators and outlook have recently deteriorated, particularly for public debt. The recent increase in central government debt and the high gross financing needs raise both sustainability and liquidity concerns. The public debt outlook is exposed to risks from delays or insufficient fiscal consolidation, historically volatile SACU revenue, and macro-economic shocks. Risks from exchange rate and rollover needs have increased because of the larger share of dollar denominated debt and the increased reliance on short-term debt. The profile of external debt indicates vulnerability to exchange rate depreciation and current account shocks.

A. Public Debt

Background

1. Namibia's public debt has been rising since 2010, driven by large primary deficits. Between FY10/11 and FY15/16, the debt to GDP ratio has more than doubled from 16 percent to 39.8 percent of GDP (44.7 percent of GDP including guarantees), with the primary deficit averaging 4½ percent of GDP over the same period. As a result, in 2015 public debt exceeded the authorities' own debt limit (35 percent of GDP).

2. The authorities have been recently diversifying their funding sources and borrowing instruments, expanding external borrowing and extending the yield curve. In 2015, they issued a new US$750 million ten-year Eurobond (the previous issuance was in 2011) and rand-denominated bonds for R1,550 million. On the domestic side, three new fixed-rate bonds were introduced to fill the gaps in the yield curve and extend the maturity structure to 30 years, in addition to new inflation-linked bonds.

3. The composition of public debt bears some exchange rate and rollover risks. As of end-2015, about 42 percent of public debt was denominated in non-rand foreign currencies (mainly US dollar).[1] Short-term treasury bills accounted for about 43 percent of government's domestic debt, about 1 percentage points higher than last year.

Outlook and Risks

4. The DSA baseline reflects staff macroeconomic projections and modifications to the authorities' funding strategy to account for large financing needs (see main text). Under staff baseline, gross financing needs are larger than projected by the government in its medium-term fiscal framework. To fill the gap, projections assume additional bond issuances, both in the domestic market and in the Johannesburg Stock Exchange (JSE), and T-bills; they also assume the rollover of

[1] Rand-denominated debt is classified as external debt, but it does not carry foreign exchange risk under the CMA's exchange rate arrangements.

the November 2011 Eurobond coming due in 2021. Finally, guaranteed debt is expected to remain on the high side to reflect the authorities' intention to provide SOEs with guarantees for financing new capital projects (see MTEF 2016/17-2018-19).[2]

5. **Debt sustainability analysis suggests that the debt ratio (including guaranteed debt) will continue rising over the projection period, approaching the distress threshold** (Figures 2-4). Under the baseline scenario, public debt will remain below the debt stress threshold of 70 percent of GDP, but including guaranteed debt would approach the distress threshold by 2021/22. With the primary deficit remaining below the debt stabilizing level, and considerable reliance on short-term debt, gross financing needs are expected to average about 19 percent over the projection period, above the distress threshold (10 percent of GDP).

6. **Stress analysis suggests the debt level and gross financing needs are particularly exposed to risks from macroeconomic shocks.** A macro-fiscal shock—entailing shocks to growth and interest rates, and a temporary lower primary balance—would result in a sharp increase in the debt-to-GDP ratio and gross financing needs to 93 and 30 percent, respectively (Figure 5). A contingent liability shock (with default of all guaranteed debt, equivalent to 20 percent of non-interest expenditures, combined with real GDP and interest rate shocks) and a SACU revenue shock (with a 5 percent of GDP reduction in SACU revenue, a temporary 2 percentage points real GDP growth shock and 225bps increase in interest rates) would result in an increase in the debt-to-GDP ratio and gross financing needs to about 80 and 27 percent of GDP, respectively. Exchange rate and real GDP shocks have slightly smaller effect on debt, with limited impact on gross financing needs (Figure 5).

7. **Under a reform scenario, public debt and gross financing needs would gradually trend down and remain below critical thresholds.** Under this scenario (see main text), additional measures of about 5 percent of GDP, spread over three years, would bring debt on a decline path and to around 49 percent of GDP by 2021/22, and contain gross financing needs on average to about 13 percent of GDP over the projection period.

B. External Debt

8. **In 2015, Namibia's gross external debt increased as the public sector returned to the international market.** The stock of public and publicly guaranteed (PPG) external debt (including SOEs) increased by 6 percent of GDP, reaching 15.6 percent of GDP at end-2015, due to new rand-denominated issuances in the JSE and the November 2015 Eurobond. Private sector external debt (about 70 percent of total external debt) rose little. About 85 percent of total external debt has long and medium-term maturities.

Breakdown of Namibia's External Debt, 2012-2015 1/

(In percent of GDP)	2012	2013	2014	2015
Total	35.5	39.1	42.8	50.8
Public and publicly guaranteed	9.1	10.1	9.6	15.6
Private	26.5	29.0	33.2	35.2
By maturity				
Short-term	5.8	8.1	7.8	8.0
Long and medium-term	29.7	31.0	34.9	42.8

Source: BoN, and IMF staff estimates

1/ As of end-June 2016

[2] Based on recently available data, the likelihood of materialization of these liabilities has averaged 6 percent over 2005/06-2012/13.

9. Namibia's external debt is projected to rise further in 2016, before stabilizing over the projection period at relatively moderate levels as the non-interest current account deficit narrows. The external debt-to-GDP ratio is expected to rise from 51 percent in 2015 to about 60½ percent of GDP in 2016, and stabilize over the projection period around this level. The non-interest current account deficit (CAD) is expected to be close to the debt-stabilizing level, supporting a slightly declining debt ratio (Table 1). Gross external financing needs (GEFN) are projected to average about 26 percent of GDP over the period 2016-2021, with short-term debt amortization amount to about 30 percent of the GEFN.

10. Sensitivity tests suggest that Namibia's external debt is particularly vulnerable to a current account and real depreciation shocks. Standardized sensitivity analysis indicates that a 30 percent exchange rate depreciation in 2017 would increase external debt to about 72 percent of GDP, as about 20 percent of the external debt is denominated in foreign currency. Assuming that the non-interest CAD would widen by an additional 4.2 percent of GDP (one-half standard deviation shock) during 2017-21, external debt would increase to about 78 percent of GDP by 2021. The impact of real interest rate shocks is contained due to the sizeable share of fixed-interest-rate debt.

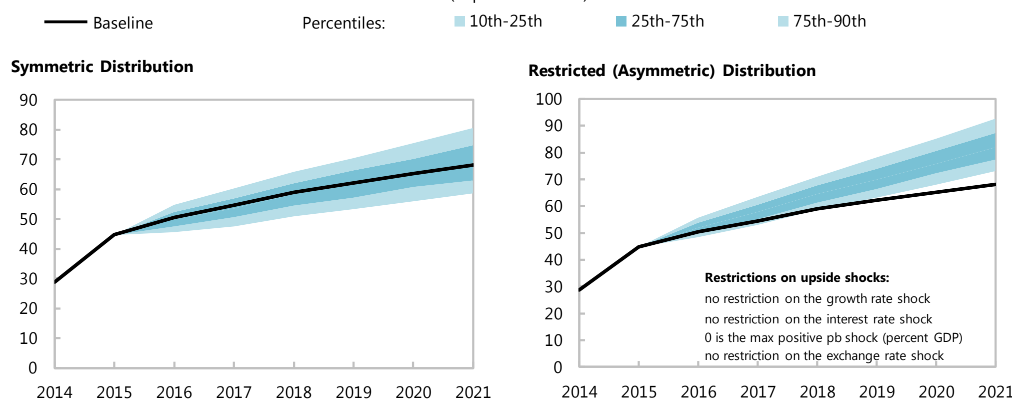
Figure 1. Namibia Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

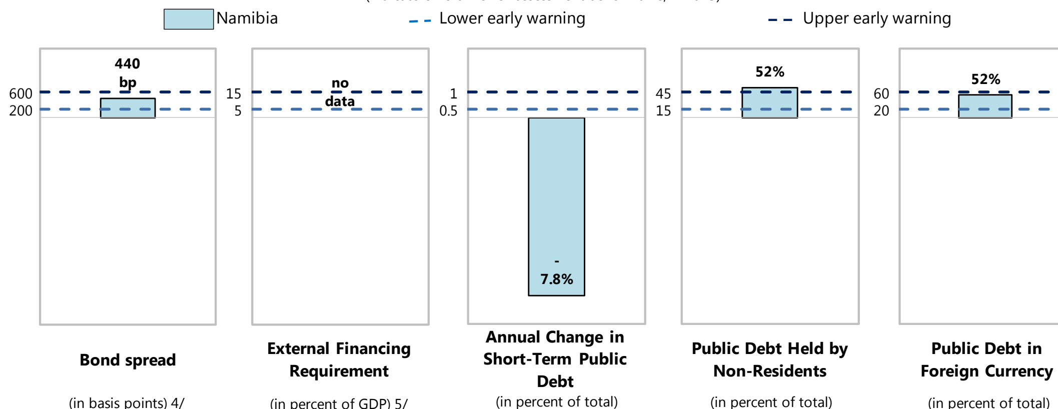
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

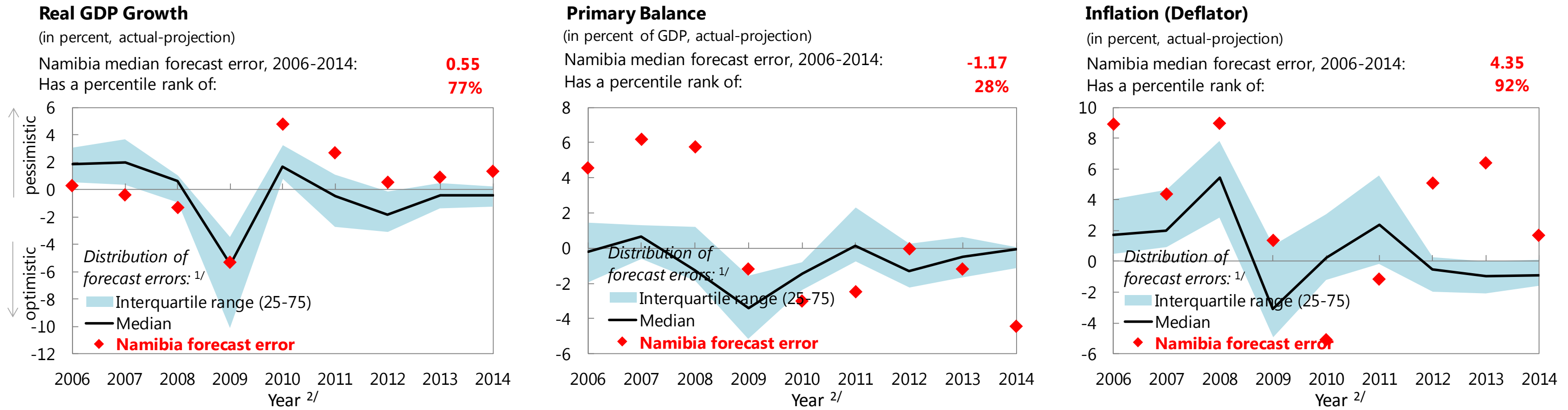
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 17-May-16 through 15-Aug-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

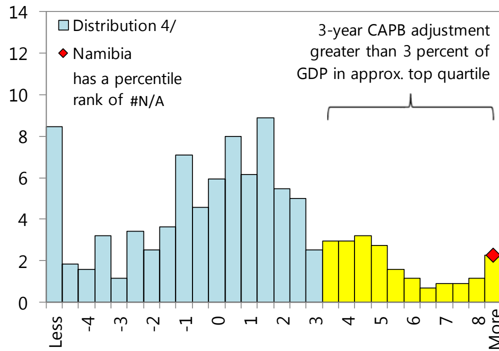
Figure 2. Namibia Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus program countries

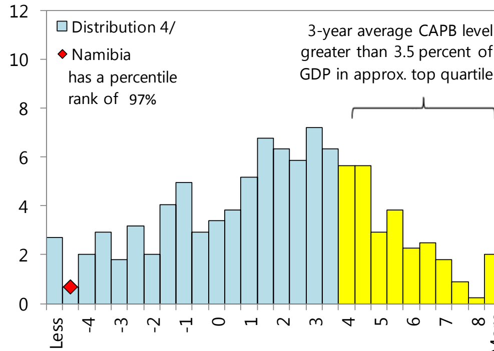


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

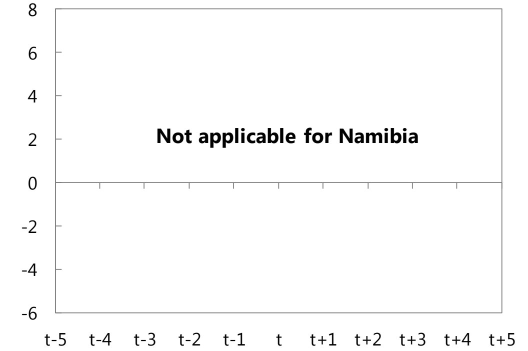


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Namibia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Namibia Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

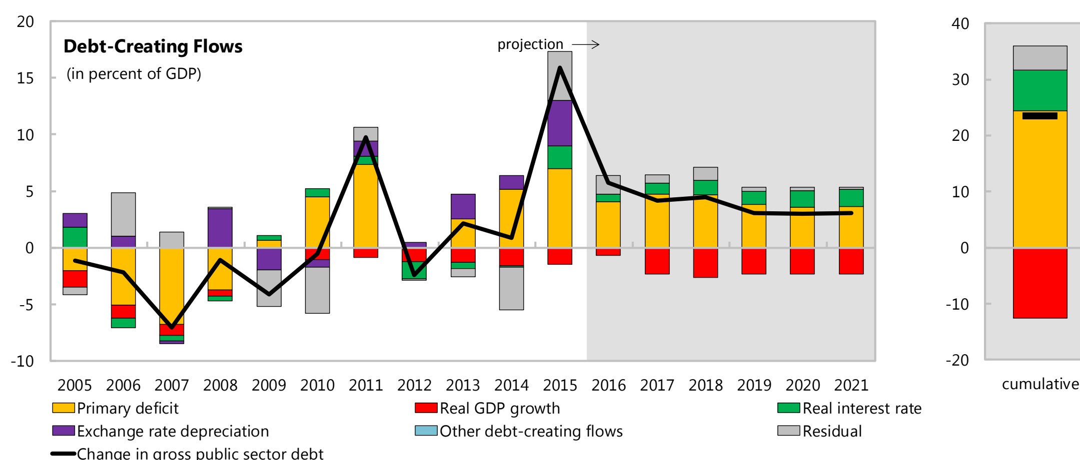
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections						As of August 15, 2016		
	2005-2013 [2]	2014	2015	2016	2017	2018	2019	2020	2021			
Nominal gross public debt	25.6	28.8	44.7	50.5	54.6	59.1	62.1	65.1	68.2	Sovereign Spreads		
Of which: guarantees	4.1	3.4	4.9	7.3	7.2	7.5	7.2	6.9	6.6	EMBIG (bp) 3/		336
Public gross financing needs	...	14.1	17.4	15.1	18.3	20.0	18.7	18.7	22.5	5Y CDS (bp)		N.A
Real GDP growth (in percent)	4.1	6.5	5.3	1.6	5.1	5.4	4.3	4.1	3.9	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	8.1	6.8	-0.2	6.6	6.0	5.7	5.7	5.7	5.8	Moody's	Baa3	Baa3
Nominal GDP growth (in percent)	12.7	11.3	5.9	9.1	11.4	11.1	10.2	10.0	9.9	S&Ps	n.a.	n.a.
Effective interest rate (in percent) [4]	8.5	6.7	7.3	8.5	8.6	8.7	8.2	8.5	8.6	Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-0.7	0.9	15.9	5.7	4.2	4.5	3.0	3.0	3.0	23.4	
Identified debt-creating flows	-0.5	4.7	11.5	4.1	3.4	3.3	2.7	2.7	2.9	19.1	
Primary deficit	-0.3	5.2	7.0	4.0	4.7	4.7	3.8	3.6	3.6	24.4	-0.7
Primary (noninterest) revenue and grants	31.1	35.4	34.9	31.3	32.3	32.0	31.7	31.5	31.3	190.1	
Primary (noninterest) expenditure	30.8	40.5	41.8	35.3	37.0	36.6	35.5	35.1	34.9	214.5	
Automatic debt dynamics [5]	-0.2	-0.5	4.6	0.1	-1.3	-1.3	-1.1	-0.9	-0.7	-5.3	
Interest rate/growth differential [6]	-1.0	-1.7	0.6	0.1	-1.3	-1.3	-1.1	-0.9	-0.7	-5.3	
Of which: real interest rate	0.0	-0.1	2.1	0.7	1.0	1.3	1.2	1.4	1.6	7.2	
Of which: real GDP growth	-1.0	-1.6	-1.5	-0.7	-2.3	-2.6	-2.3	-2.3	-2.3	-12.5	
Exchange rate depreciation [7]	0.8	1.2	4.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization Proceeds (negative)	0.0	0.0	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	
Other debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-0.2	-3.8	4.4	1.6	0.7	1.2	0.4	0.3	0.2	4.3	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as Publicly guaranteed debt. The authorities have a plan to provide guarantees for financing infrastructure projects (including the Kudu-gas project, the Walvis Bay Port facilities, and the national fuel storage facility) which are included as new public guarantees.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

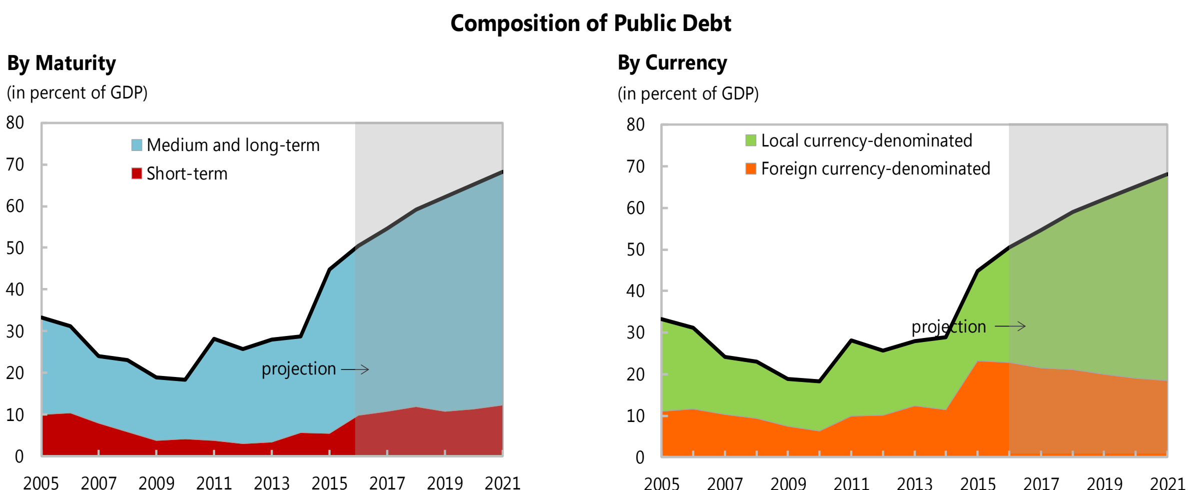
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

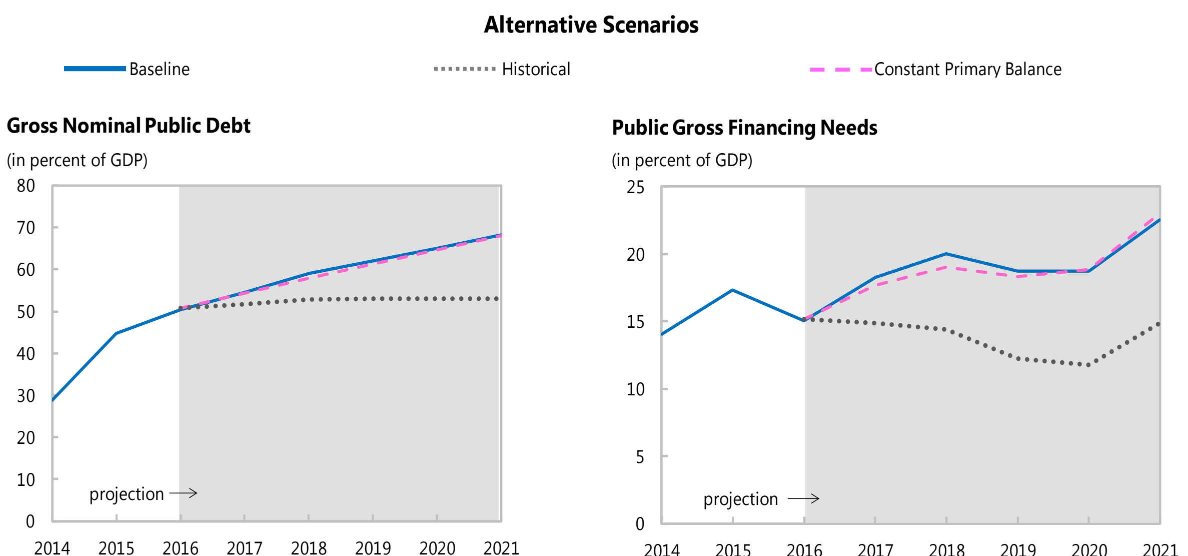
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. Namibia Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

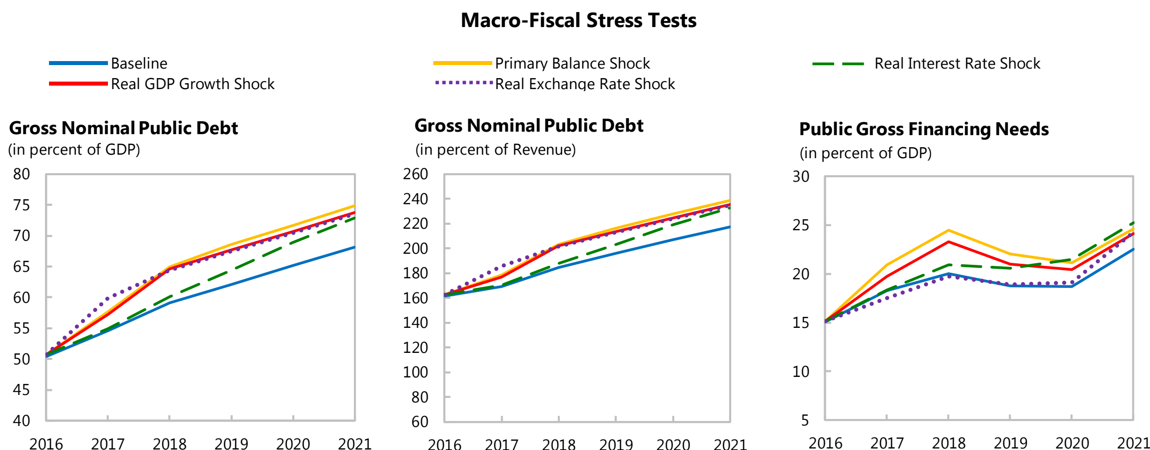
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.6	5.1	5.4	4.3	4.1	3.9
Inflation	6.6	6.0	5.7	5.7	5.7	5.8
Primary Balance	-4.0	-4.7	-4.7	-3.8	-3.6	-3.6
Effective interest rate	8.5	8.6	8.7	8.2	8.5	8.6
Constant Primary Balance Scenario						
Real GDP growth	1.6	5.1	5.4	4.3	4.1	3.9
Inflation	6.6	6.0	5.7	5.7	5.7	5.8
Primary Balance	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Effective interest rate	8.5	8.6	8.7	8.2	8.5	8.6

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.6	4.4	4.4	4.4	4.4	4.4
Inflation	6.6	6.0	5.7	5.7	5.7	5.8
Primary Balance	-4.0	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	8.5	8.6	8.1	7.4	7.6	7.6

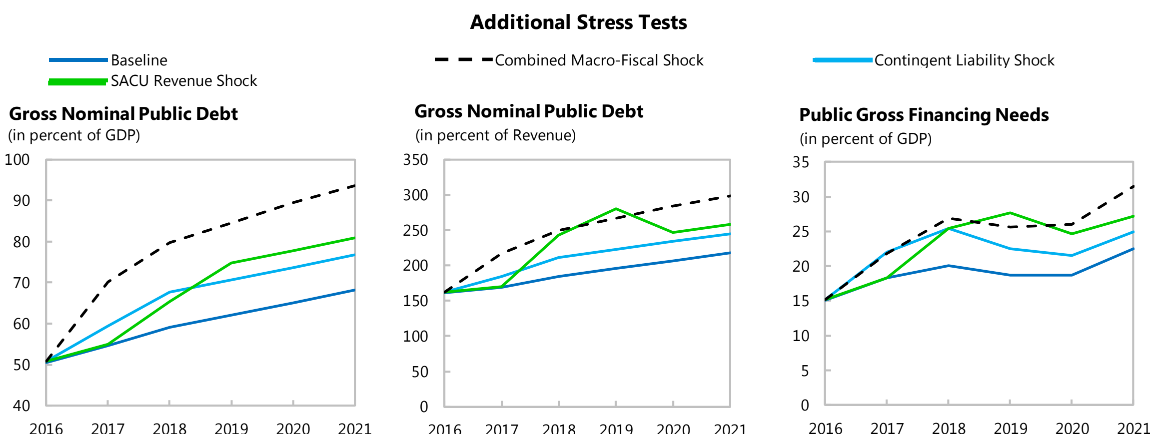
Source: IMF staff.

Figure 5. Namibia Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	1.6	4.6	4.9	3.8	4.1	3.9
Inflation	6.6	6.0	5.7	5.7	5.7	5.8
Primary balance	-4.0	-7.2	-7.2	-3.8	-3.6	-3.6
Effective interest rate	8.5	8.6	9.2	8.9	8.9	8.9
Real Interest Rate Shock						
Real GDP growth	1.6	5.1	5.4	4.3	4.1	3.9
Inflation	6.6	6.0	5.7	5.7	5.7	5.8
Primary balance	-4.0	-4.7	-4.7	-3.8	-3.6	-3.6
Effective interest rate	8.5	8.6	10.6	10.9	11.6	10.3
Combined Shock						
Real GDP growth	1.6	3.2	3.5	3.8	4.1	3.9
Inflation	6.6	5.5	5.3	5.7	5.7	5.8
Primary balance	-4.0	-7.2	-7.2	-3.8	-3.6	-3.6
Effective interest rate	8.5	10.1	10.0	10.5	11.2	10.0
SACU Revenue Shock						
Real GDP growth	1.6	5.1	3.4	2.3	4.1	3.9
Inflation	6.6	6.0	5.7	5.7	5.7	5.8
Primary balance	-4.0	-4.7	-9.7	-8.8	-3.6	-3.6
Effective interest rate	8.5	8.6	8.8	8.6	8.9	8.9

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	1.6	3.2	3.5	4.3	4.1	3.9
Inflation	6.6	5.5	5.3	5.7	5.7	5.8
Primary balance	-4.0	-5.8	-6.5	-3.8	-3.6	-3.6
Effective interest rate	8.5	8.6	8.8	8.4	8.6	8.7
Real Exchange Rate Shock						
Real GDP growth	1.6	5.1	5.4	4.3	4.1	3.9
Inflation	6.6	18.2	5.7	5.7	5.7	5.8
Primary balance	-4.0	-4.7	-4.7	-3.8	-3.6	-3.6
Effective interest rate	8.5	10.1	8.7	8.4	8.7	8.8
Contingent Liability Shock						
Real GDP growth	1.6	3.2	3.5	4.3	4.1	3.9
Inflation	6.6	5.5	5.3	5.7	5.7	5.8
Primary balance	-4.0	-7.2	-7.2	-3.8	-3.6	-3.6
Effective interest rate	8.5	10.7	8.9	8.6	8.7	8.8

Source: IMF staff.

Table 1. Namibia: External Debt Sustainability Framework, 2001–2021

(in percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	41.4	35.5	39.1	42.8	50.8			**60.4**	**60.8**	**60.9**	**61.4**	**62.0**	**59.5**	**-6.6**
Change in external debt	10.6	-5.9	3.6	3.7	8.0			9.6	0.3	0.1	0.5	0.6	-2.5	
Identified external debt-creating flows (4+8+9)	-6.8	-4.8	-1.8	5.4	9.6			4.9	-1.7	-1.9	-1.6	-1.4	-1.1	
Current account deficit, excluding interest payments	2.8	5.3	3.8	10.5	12.3			9.0	4.2	3.6	2.8	2.7	2.8	
Deficit in balance of goods and services	9.2	13.7	15.7	22.2	25.4			17.0	14.3	13.6	12.4	12.3	12.2	
Exports	41.4	42.0	43.7	44.1	43.2			47.5	50.7	51.5	51.2	50.1	49.1	
Imports	50.6	55.7	59.4	66.3	68.6			64.5	65.0	65.1	63.6	62.4	61.3	
Net non-debt creating capital inflows (negative)	-7.0	-8.7	-6.6	-4.8	-8.1			-3.9	-3.9	-3.8	-3.8	-3.8	-3.8	
Automatic debt dynamics 1/	-2.6	-1.5	1.1	-0.2	5.4			-0.2	-2.0	-1.7	-0.6	-0.2	-0.1	
Contribution from nominal interest rate	0.2	0.4	0.2	0.2	0.4			0.7	0.9	1.3	1.9	2.1	2.2	
Contribution from real GDP growth	-1.4	-2.0	-2.1	-2.5	-2.5			-0.9	-2.9	-3.0	-2.5	-2.4	-2.3	
Contribution from price and exchange rate changes 2/	-1.4	0.1	2.9	2.1	7.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	17.4	-1.0	5.3	-1.7	-1.6			4.7	2.0	2.0	2.1	1.9	-1.3	
External debt-to-exports ratio (in percent)	100.0	84.6	89.5	97.1	117.6			127.2	119.9	118.3	119.9	123.6	121.2	
Gross external financing need (in billions of US dollars) 4/	2.1	2.9	2.2	3.5	3.5			3.0	2.6	2.8	3.0	3.2	4.5	
in percent of GDP	16.6	22.4	17.2	27.4	30.8	10-Year	10-Year	28.7	23.8	23.6	23.2	23.2	31.5	
Scenario with key variables at their historical averages 5/								**60.4**	**56.2**	**52.3**	**49.0**	**45.9**	**39.2**	**-9.3**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Nominal GDP (US dollars)	12.4	13.0	12.7	12.9	11.5			10.4	11.1	12.0	12.8	13.6	14.4	
Real GDP growth (in percent)	5.1	5.1	5.7	6.5	5.3	4.4	1.9	1.6	5.1	5.4	4.3	4.1	3.9	
GDP deflator in US dollars (change in percent)	4.8	-0.3	-7.5	-5.0	-15.1	0.7	9.5	-10.9	1.8	2.0	2.2	2.3	1.7	
Nominal external interest rate (in percent)	0.8	0.9	0.7	0.6	0.7	2.0	2.0	1.2	1.5	2.3	3.3	3.7	3.7	
Growth of exports (US dollar terms, in percent)	9.3	6.1	1.6	2.0	-12.4	7.7	11.5	-0.5	14.2	9.2	6.1	4.3	3.5	
Growth of imports (US dollar terms, in percent)	7.0	15.3	4.2	13.0	-7.5	11.8	10.3	-15.0	7.9	7.6	4.3	4.5	3.8	
Current account balance, excluding interest payments	-2.8	-5.3	-3.8	-10.5	-12.3	-1.4	8.3	-9.0	-4.2	-3.6	-2.8	-2.7	-2.8	
Net non-debt creating capital inflows	7.0	8.7	6.6	4.8	8.1	7.0	1.4	3.9	3.9	3.8	3.8	3.8	3.8	
B. Bound Tests														
B1. Nominal interest rate is at historical average plus one standard deviation								**60.4**	**61.3**	**61.9**	**63.0**	**64.1**	**62.1**	**-6.2**
B2. Real GDP growth is at historical average minus one standard deviations								**60.4**	**61.3**	**61.9**	**62.9**	**64.0**	**61.9**	**-6.4**
B3. Non-interest current account is at historical average minus one standard deviations								**60.4**	**65.0**	**68.9**	**73.2**	**77.3**	**78.3**	**-7.5**
B4. Combination of B1-B3 using 1/2 standard deviation shocks								**60.4**	**63.4**	**65.9**	**68.9**	**71.8**	**71.5**	**-6.7**
B5. One time 30 percent real depreciation in 2006								**60.4**	**69.7**	**71.5**	**73.4**	**75.2**	**72.4**	**-9.1**

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

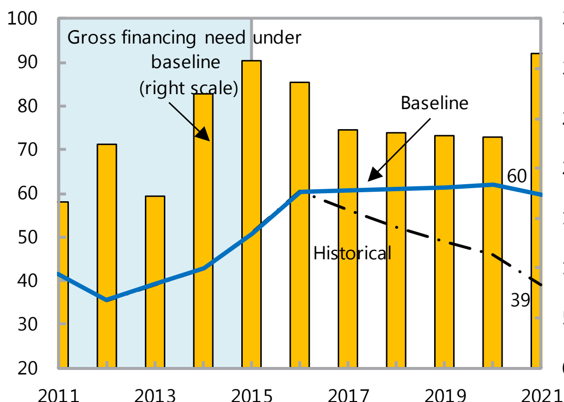
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

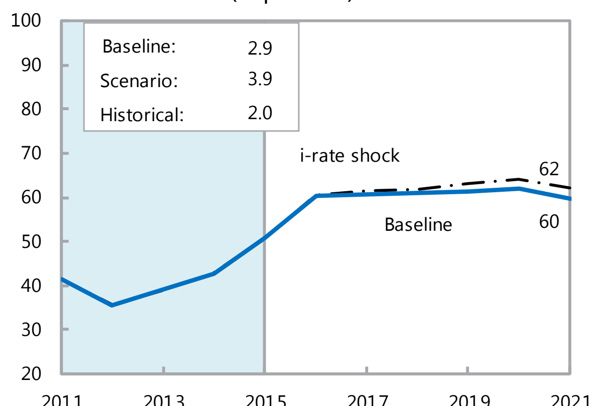
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

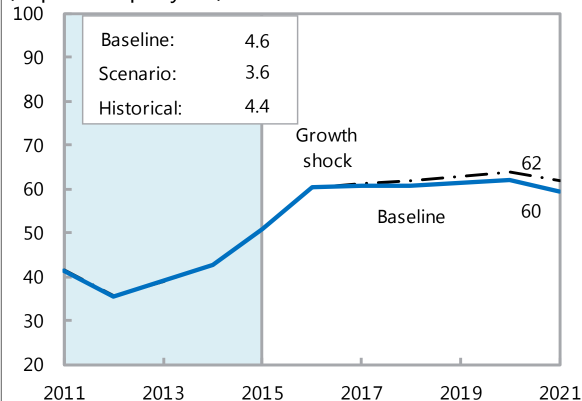
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

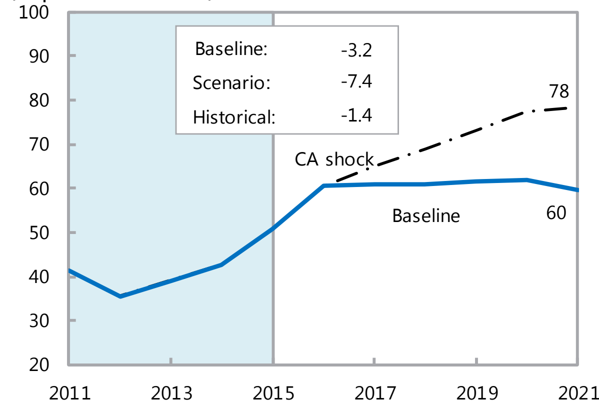
Figure 6. Namibia: External Debt Sustainability: Bound Tests 1/ 2/

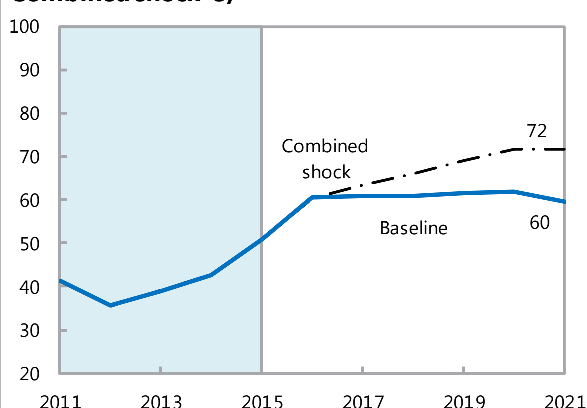
(External debt in percent of GDP)

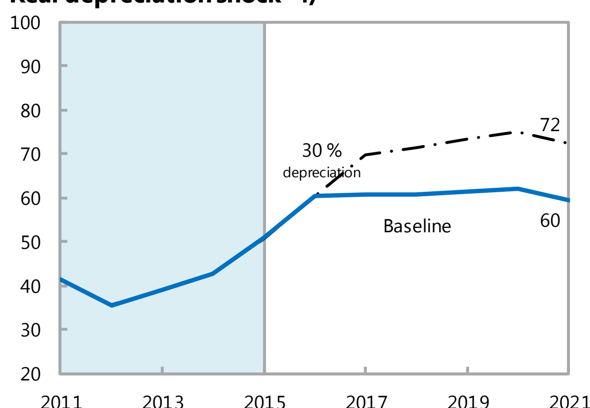








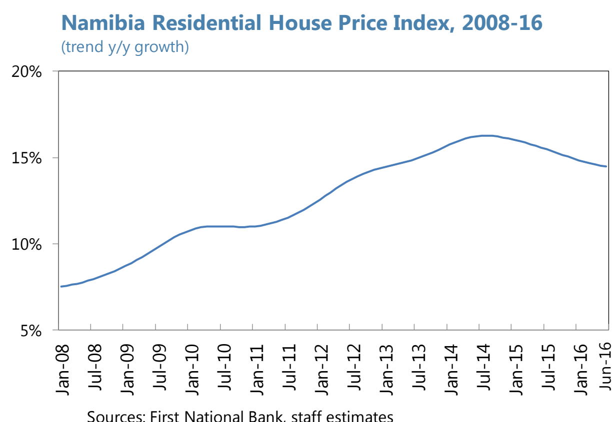




Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017.

Annex IV. Macro-Financial Risks from the Housing Boom[1]

1. While decelerating, residential real estate prices continue their fast growing trend. According to the First National Bank (FNB) house price index, in June 2016 trend growth in real estate prices in Namibia declined to 14.5 percent, compared to 16.3 percent at its peak in mid-2014. Prices are increasing by about 16 percent in the central area of Windhoek compared to 12 percent in the coastal area.[2] On average prices have doubled over the past five years. While growth remains buoyant, there are signs of cooling with the moderation in growth rates. However, the structural forces driving prices upward remain unchanged, including acute supply shortages and urbanization trends.[3]



2. On average, house prices remain overvalued, raising risks of possible price corrections. Using common housing ratios and regression analysis from a cross country sample of house price reversal as in the 2015 Article IV staff report, staff estimates that in June 2016 the house price overvaluation at national level was on average around 16 percent, slightly lower than estimated in the 2015 Article IV. The reduction is attributable both to the recent slowdown in price growth and to revisions to the historical values of the housing index.

Namibia. Residential Housing Price Overvaluation

	Jun-16	Sep-14
Regression Analysis	22.2	19.8
Price to Income	12.6	18.0
Price to Rent	13.5	17.0
Average	16.1	18.3

Source: Staff estimates

3. Despite their large exposure to mortgage loans, banks remain resilient to large house price corrections with pressures arising only under tail risk scenarios. Mortgages represent about half of bank's assets, and a possible sharp reversal of current house price trends could potentially have large impact on bank's balance sheets. The recent increases in interest rates could further amplify vulnerabilities. Using latest bank-by-bank balance sheet and income data available

[1] This annex updates and extends the analysis and results of the 2015 Selected Issues Paper: "Namibia: Macro-Financial Risks Associated with Housing Boom" (IMF Country Report No. 15/277), which provides details about methodology and stress tests.

[2] Anecdotal evidence suggests that commercial real estate prices are also rapidly increasing. Residential mortgages account for about ¾ of total outstanding mortgages.

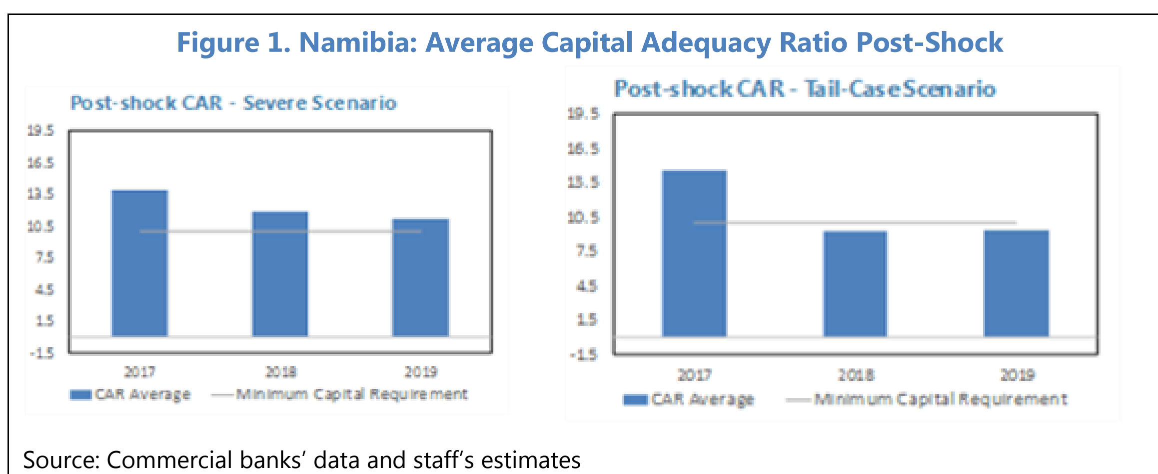
[3] In 2013, the government set up the Mass-Housing Program to ameliorate supply side shortages (see IMF Country Report No. 15/277). The program was halted in May 2015 after the SOE in charge failed to raise funding. It resumed on a smaller scale in the summer 2016. The program focuses on supporting low income individuals without access to credit.

(June 2016), staff's stress tests suggest that banks remain resilient to house price shocks. Under a severe adverse risk scenario (entailing a real growth slowdown to 1.5 percent over three years, a 15 percent fall in housing prices, and 300 bps interest rate increase), all banks could be able to absorb the shock and comply with the capital requirement (10 percent of RWA), albeit with some deleveraging. In an extreme tail-case scenario with a prolonged recession (10 percent contraction in real GDP), some banks could face difficulties in complying with capital requirements, the system would go through substantial deleveraging and bank credit could potentially decline by 20 percent. In both cases, deleveraging could be lower if banks use part of their profits to offset losses.

Table 1. Namibia: Macroeconomic Assumptions for Stress Test Calibration

	House Price Growth	Real GDP growth	Policy rate	Credit Growth	Notes
Baseline					House prices are assumed to grow in line with nominal GDP. GDP and credit growth rates are as in the staff baseline scenario. Interest rate increases based on South Africa's market implied interest rates forecasts (using forward rate agreements)
2017	11.4%	5.1%	+75bp	10.0%	
2018	11.5%	5.4%	+75bp	9.8%	
2019	10.3%	4.3%	Stable	9.8%	
Adverse Scenario					Construction, real estate, and mining growth rates for 2017 projected at –1.0%, -1.0%, and -32% (maximum historical drop), respectively. For 2018 at -4.9%, -4.9%, and -16%, for 2019 at -10.2%, -10.2%, and 8%. Credit growth is assumed to stall in 2017-18 and to decline in 2019 due to some banks' need to deleverage to face losses.
2017	-9.3%	-1.2%	+300bp	0%	
2018	-6.2%	1.0%	Stable	0%	
2019	0%	1.7%	Stable	-13.0%	
Tail-Case Scenario					GDP growth forecasts based on the average in countries that experienced boom/bust in housing and construction in the year of the bust and two years after. Credit growth estimates based on Hardy *et al.* (2013) rules of thumb for EM (severe stress) in 2017. Credit is assumed to stall in 2018 and to drop severely in 2019.
2017	-12.7%	0.9%	+300bp	-8.3%	
2018	-8.5%	-7.0%	Stable	0.0%	
2019	0%	-4.0%	Stable	-20.0%	

Figure 1. Namibia: Average Capital Adequacy Ratio Post-Shock



Source: Commercial banks' data and staff's estimates

INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 16, 2016

Prepared By

African Department
(in collaboration with other departments and the World Bank)

CONTENTS

FUND RELATIONS 2

JOINT WORLD BANK AND IMF WORK PROGRAM 5

STATISTICAL ISSUES 6

FUND RELATIONS

As of October 31, 2016

Membership Status

Joined: September, 1990; Article VIII

General resources account	**SDR (million)**	**Percent of Quota**
Quota	191.10	100.00
Fund holdings of currency	191.03	99.97
Reserve position in Fund	0.08	0.04

SDR Department	**SDR (million)**	**Percent of Quota**
Net cumulative allocation	130.39	100.00
Holdings	4.78	3.67

Outstanding Purchases and Loans None

Financial Arrangements None

Projected Obligations to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2017	2018	2019	2020
Principal				
Charges/Interest	0.17	0.17	0.17	0.17
Total	0.17	0.17	0.17	0.17

Implementation of HIPC Initiative None

Exchange Rate Arrangements. The Namibian dollar is pegged to the South African rand. Namibia accepted the obligations of Article VIII, Section 2, 3, and 4 of the Fund's Article of Agreement, as of September 20, 1996. In December 2015, the Bank of Namibia suspended an agreement with the Bank of Angola on mutual currency conversion in effect since June 2015 (that exchanged Angolan kwanzas or Namibian dollars to US dollars). Namibia maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation. Namibia is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on September 18, 2015.

Technical Assistance, 2012–16

Department	Dates	Purpose
Fiscal Affairs Department (FAD)	March 2012	Revenue Administration Tax
	June 2012	Trade Facilitation
	November 2012	Tax Administration
	November 2012	Risk Management Follow Up
	December 2012	Program Budgeting: Cash and Debt Management
	February 2013	Customs Administration
	March 2013	Namibia Excise Legislation
	April 2013	Public Financial Management
	April 2013	Tax Administration
	April 2013	Development of PBB Instruments
	May 2014	Customs Administration
	December 2014	Tax Administration
	January 2015	Diagnostic on Revenue Administration
	February 2015	Legal framework/Program budgeting
	February 2015	PFM Act
	April 2015	Customs Administration
	April 2015	Legal framework PFM
	June 2015	Tax Administration/Large Taxpayer Unit
	September 2015	PFM
	October 2015	Cash management
	January 2016	Customs Administration
	April 2016	PFM
	July 2016	IFMIS
	October 2016	Budgeting
Monetary and Capital Markets Department (MCM)	April 2012	Implementation of Basel II
	April 2012	Supervision of Non-Bank Financial Institutions
	May 2012	Stress Testing
	November 2012	Payment Systems
	November 2012	Monetary Operations
	November 2012	Bank Supervision
	April 2013	Compliance with Basel II
	April 2013	Capital market institutions
	April 2013	Strengthening Non-Bank Financial Institutions
	July 2013	Stress Testing
	January 2014	Stress Testing
	September 2014	Basel II
	February 2015	Financial Stability Framework
	April 2015	Basel III

	June 2015	Macroprudential Framework
	April 2016	Basel III
Statistical Department (STA)	May 2012	Quarterly and Annual National Accounts (DFID)
	Nov. 2012	Consumer Price Index
	January 2013	Quarterly National Accounts
	February 2013	Price Statistics
	April 2013	Standardized Reporting Monetary Data
	April 2013	BOP Statistics
	July 2013	Consumer Price Index
	November 2013	National Accounts
	November 2013	Consumer Price Index
	February 2014	National Accounts
	April 2014	Monetary Statistics
	April 2014	Open Data Initiative
	July 2014	National Accounts
	April 2015	Producer Price Index
	April 2015	BOP Statistics
	January 2016	GFS Statistics
	April 2016	e-GDDS
	September 2016	Monetary Statistics

JOINT WORLD BANK AND IMF WORK PROGRAM

Table 1. Namibia: World bank and IMF Planned Activities, December 2016-17
(as of November 2016)

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
World Bank Work program	• Southern Africa TA on Financial Inclusion (assessment of high cost of remittances and other issues pertaining to financial inclusion)	April 2017	Periodic policy notes through end June 2017
	• Regular macroeconomic monitoring	First quarter of 2017	Periodic notes and forecasts through 2017
	• Statistical Capacity TA (household survey data collection and analysis)	October 2016, March 2017	
	• Distributional Impact of Fiscal Policy in Namibia (dissemination)	October 2016, February 2016	
	• Poverty update note	February 2016	
IMF Work Program	• 2017 Article IV consultation	Late 2017	Early 2018
	• FSAP	During 2017	Early 2018
	• SOEs and local authorities	Early 2017	
	• Producer Price Index	Early 2017	
	• National Accounts	Early 2017	
	• PBB Implementation	Early 2017	
	• NBFI regulation	During 2017	
	• Macroprudential Policy	During 2017	
B. Requests for work program inputs			
Fund request to Bank	Periodic updates on progress with domestic structural reform agenda, including in context of NDP5, the Industrial Policy Strategy, and the Financial Sector Strategy.		
Fund request to Bank	Periodic updates on macroeconomic/fiscal developments and policies in Namibia and Fund analytical and technical assistance reports provided to the authorities.		

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings but is broadly adequate for surveillance. The authorities provide monthly core data to the Fund with a lag of one to two months, except for national accounts, fiscal data, external sector statistics, and trade data, which are reported quarterly and annually with longer lags. The Namibia Statistics Agency (NSA) was transformed into a fully autonomous agency in 2011 to enhance the capacity to collect and compile high quality national statistics.

National Accounts: The base year for national accounts (NA) is 2010. Quarterly national accounts (QNA) estimates at constant prices are disseminated on the NSA's website, though there is a need to improve its source data and coverage. Plans by NSA to produce current price QNA estimates are ongoing. The NSA is assessing the integration of VAT data in the NA compilation framework. 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. In recent years, TA in NA has been limited due to low interest from the statistical office.

Price Statistics: The base year for the consumer price index (CPI) is 2012. The index provides an adequate presentation of citizens' spending patterns. The CPI weights, introduced in the December 2012 index, were derived from the 2009/10 Household Income and Expenditure Survey. Labor market data, including labor force, employment, and wages are only collected on an annual basis (the latest annual labor force survey is for 2014). Assisted by the AFRITAC South, NSA launched a project to develop a producer price index (PPI).

Government Finance Statistics: Aggregated annual budgetary central government data by fiscal year are reported on a cash basis in the GFSM 2001 format, but lack detailed classifications and balance sheet data. No fiscal statistics are disseminated for extra budgetary institutions, consolidated central government, consolidated general government. Similarly, limited data is available to assess fiscal risks, including from public corporations.

Monetary and Finance Statistics: The Bank of Namibia (BoN) reports monthly monetary statistics based on standardized report forms (SRFs) for the BoN balance sheet and Other Depository Corporations (banks and money market funds). Concepts and definitions are broadly in line with the Monetary and Financial Statistics (MFS) manual. In September 2016 a TA mission visited the BoN to prepare the standardized report for the sectoral balance sheet of Other Financial Corporations (OFCs) (SRF 4SR). The BoN is expected to begin reporting OFC data covering pension funds, insurance companies and the Development Bank in 2017.

Financial Soundness Indicators: The BoN reports Financial Soundness Indicators (FSIs) for commercial banks on a quarterly basis. Banks classified as "specialized institutions" are not covered. Some improvements are needed for historical data, which will be submitted by the BoN by early 2017. No FSIs are provided for non-bank financial institutions.

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. Data is subject to substantial revisions. The BOP methodology is consistent with the fifth edition of the IMF's BOP Manual. There is room to improve the compilation of external sector statistics, particularly to reduce large errors and omissions and shorten publication time. The BoN has enhanced the compilation of capital and financial transactions and IIP statistics. However, further work is needed to expand the IIP coverage and ensure its consistency with BOP and MFS data.
II. Data Standards and Quality
Namibia has participated in GDDS /e-GDDS since 2002. A ROSC (Data Module) was published in 2002 and updated in 2005. In June 2016 Namibia implemented the recommendations of the Enhanced General Data Dissemination System (e-GDDS) by launching a National Summary Data Page (NSDP), which serves as a one-stop publication vehicle for essential macroeconomic and financial data in both human and machine-readable formats.
III. Reporting to STA
The MOF regularly reports annual data for publication in the Government Finance Statistics Yearbook. Work for reporting higher frequency data is ongoing. The BoN also regularly reports MFS, BOP and IIP data for publication in the International Financial Statistics (IFS) and the Balance of Payments Yearbook.

Table 1. Namibia: Common Indicators Required for Surveillance
(As of October 2016)

	Date of Latest Observation	Date Received	Frequency of Data [1]	Frequency of Reporting [1]	Frequency of Publication [1]	Memo Items	
						Data Quality—Methodological Soundness [2]	Data Quality—Accuracy and Reliability [2]
Exchange rates	9/11/2016	9/11/2016	D	D	D		
International reserve assets and liabilities of monetary authorities [3]	July 2016	Sept 2016	M	M	M		
International investment position	June 2016	Sept 2016	Q	Q	Q		
Reserve/base money	July 2016	Sept 2016	M	M	M	O, O, LO, LO	O, LO, O, O, O
Broad money	July 2016	Sept 2016	M	M	M		
Central bank balance sheet	July 2016	Sept 2016	M	M	M		
Consolidated balance sheet of the banking system	July 2016	Sept 2016	M	M	M		
Interest rates [4]	9/11/2016	9/11/2016	D	D	D		
Consumer price index	Aug 2016	Sept 2016	M	M	M		
Revenue, expenditure, balance, and composition of financing [5]—general government [6]	NA	NA					
Revenue, expenditure and balance—central government	Dec 2015	Mar 2016	A	A	A		
Composition of financing[4]—central government	Mar 2015	Sept 2016	Q	Q	Q		
Stocks of central government and central government-guaranteed debt [7]	Mar 2016	Sept 206	Q	Q	Q		
External current account balance	June 2016	Sep 2016	Q	Q	Q		
Exports and imports of goods	June 2016	Sept 2016	Q	Q	Q		
GDP/GNP	June 2016	Sept 2016	Q	Q	Q	O, O, O, LO	LNO, LO, LO, LO, O
Gross external debt	Mar 2016	Sept 2016	Q	Q	Q		

[1] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).
[2] Reflects the assessment provided in the data ROSC published in September, 2005, and based on the findings of the mission that took place from April 13 to 26, 2005, for the data set corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
[3] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[4] Both market-based and officially determined, including discount, money market, treasury bill, note, and bond rates.
[5] Foreign, domestic bank, and domestic nonbank financing.
[6] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[7] Including currency and maturity composition.

Statement by Mr. Mkwezalamba, Executive Director for Namibia and Mr. Sishi Alternate Executive Director
December 2, 2016

The Namibian authorities thank staff for the constructive and candid discussions during the Article IV consultation. They are broadly in agreement with staff's assessment of the challenges facing the economy, and share staff's views on the need to address fiscal and external vulnerabilities, as well as the urgency of implementing much-needed structural reforms. Discussions during the consultations contributed to the formulation of their ambitious fiscal consolidation strategy. These are reflected in the recent 2016 mid-year budget and the Medium-Term Budget Policy Statement for the 2017/18 – 2019/20 Medium-Term Expenditure Framework (MTEF), both of which were presented in October 2016.

In the years following the financial crisis, real growth in GDP exceeded 5 percent on average per year, underpinned by relatively low inflation and favorable domestic credit conditions. However, falling commodity export prices and a slowdown in the economies of trading partners have weighed on growth and government revenues. At the same time, efforts to address long-standing challenges of poverty and unemployment have eroded fiscal and external buffers that must now be restored. Nevertheless, Namibia's growth outlook is still positive and reflects an economy that is resilient, with strong fundamentals and effective policy management.

Recent economic developments and outlook

The Namibian economy grew in real terms by 5.3 percent in 2015, compared to 6.4 percent in 2014. The main contributors to growth were the construction sector and the public sector, while wholesale and retail sectors grew at a slower pace due to deterioration of household balance sheets. Although the major primary sectors of agriculture and mining declined due to the exogenous factors of drought and lower international commodity prices, private construction of new and existing mines, and increases in public sector investment in transportation infrastructure, saw the secondary sector grow strongly during this period.

The inflation rate rose to 6.9 percent in September 2016, compared to 3.4 percent over the same period in 2015. Inflation has been driven by rising housing costs, currency depreciation and higher food prices across the region as a result of drought conditions.

The current account deteriorated to around 13 percent of GDP in 2015 on the back of import-intensive construction by both the mining industry and the public sector. In addition, the decline in SACU contributed to the deterioration of the current account since the size of these revenues have amounted to around 12 percent of GDP in recent years, but are expected to decline to 9 percent of GDP in 2015/16. The completion of large infrastructure projects in 2015, including the Husab uranium mine, is envisaged to increase export earnings and improve the external position.

In the first quarter of 2016 GDP increased by 3.4 percent before a contraction of 1.2 percent was recorded in the second quarter. Nevertheless, the recent years' capital investments and improvements in agriculture present upside risks to growth as real GDP is expected to grow by 2.5 percent in 2016, implying a marginal rise in per capita incomes. Forecasting assumptions rely on a significant bottoming-out in agriculture, and some improvements in mining output, including a resurgence of metal ore output and aquatic diamond operations that will resume after the completion of a major ship maintenance project. Against this background, medium-term growth is projected to rebound to around 4.5 percent and 4.9 percent in 2017 and 2018, respectively. Namibia's economy is thus still projected by both staff and the authorities to exceed average growth rates for the region in the foreseeable future.

Given the current fiscal consolidation efforts and the small size of Namibia's population, much of the growth recovery is expected in the external sector, with exports projected to grow by 4.5 percent in 2016, compared to a contraction of 11.4 percent in 2015.

Fiscal policy

The government's sovereign debt management strategy caps public debt-to-GDP at 35 percent. However, a combination of slower growth and increased spending on development initiatives saw financing needs for the revised deficit of over 8 percent of GDP increase and the stock of debt rise to 40.1 percent at the end of 2015/16. The new debt stabilization strategy envisages public debt peaking at 42.4 percent in 2016/17, and thereafter a front-loaded fiscal adjustment is expected to reduce it to under 35 percent by 2019/20.

The recently tabled mid-year budget policy statement is a strong response to the policy imperatives faced by the authorities. Front-loaded fiscal consolidation, balanced with specific revenue measures and shifts in the composition of expenditure, has already begun and spending cuts amounting to 2.8 percent of GDP in the current year have been enacted by Parliament, with further cuts of around 6 percent of GDP over the next three years beginning in 2017/18. These cuts include the suspension of non-essential government capital projects that have not yet commenced, freezing civil service recruitment, and reductions in the spending ceiling for national defense. In the meantime, spending on core items such as materials and supplies for social service departments, and the employer's contribution to social security, has been protected. Although an impact on the economy can be expected, this strategy is consistent with the advice of staff to target high-quality cuts and avoid exacerbating the structural problems in the economy.

Improving revenue mobilisation is a priority for the authorities. In this regard, a number of measures have been introduced, including the implementation of a new carbon tax, and an increase in the fuel levy. In addition, various weaknesses in revenue administration are being addressed, such as a program for the recovery of tax arrears from VAT. Furthermore, a significant structural reform is being introduced in February 2017 with the tabling of the Namibia Revenue Agency Bill, which establishes an autonomous Revenue Agency for the first time.

The resulting budget effectively places the current fiscal path on a different trajectory from that reflected in staff's baseline scenario for debt sustainability and it is even stronger than the policy implications in staff's adjustment scenario. The budget should thus instill confidence and negate the need for abrupt policy action going forward.

Monetary and exchange rate policy

In the last two years, the repurchase rate has been raised by 100 basis points, and going forward inflation is expected to moderate in the first half of 2017 as drought conditions subside and as supply constraints in housing continue to be alleviated by the government's large scale housing program. Meanwhile, credit growth to both corporates and households slowed to 12 percent in the first nine months of 2016, from 15.6 percent in the corresponding period of 2015 . This is a welcome moderation in response to tighter monetary policy and this level of credit extension remains supportive of financial deepening and economic growth.

The exchange rate peg to the South African rand has contributed to lower inflation. However, the persistence of lower growth in neighboring economies and monetary tightening in the US present significant risks to the outlook. Poor growth and a rise in US interest rates is likely to dampen capital inflows into the region as the US yield curve steepens, and a weaker exchange rate for both the rand and the Namibian dollar would counteract the moderation of inflation and interest rates. In line with current policy, the authorities will continue to closely monitor developments in the rand, as well as broader macro-economic developments.

Although the issuance of a USD750 million Eurobond in December 2015 contributed to a higher debt stock, the use of USD300 million of the proceeds to supplement reserves and the asset swap arrangement with pension fund managers led to improvements in the level of international reserves to an import cover of 2.9 months in October 2016, compared to a 2.1 months of prospective imports registered earlier in the year. The authorities remain committed to taking advantage of opportunities to further build reserves.

Financial sector stability

Namibia's financial sector is stable, and banks can absorb moderate shocks arising from the residential market. The authorities' most recent financial stability review found that supply constraints are a major driver of house price inflation and that most NPLs emanate from mortgages. However, NPLs are currently at only 1.6 percent, well below the 4 percent trigger

level, and provisions in the banking system have been adequate, generally moving in line with NPLs.

The authorities are strongly committed to improved monitoring and supervisory action over NBFIs, and have assessed the current risks as unchanged when compared to the previous year. Furthermore, the majority of NBFIs in Namibia are dual-listed companies that are subsidiaries of South African banks and NBFIs. Accordingly, macro-prudential regulations and risk-based supervision by their home-country authorities must be taken into account in the financial sector stability assessment. Against this background, the Financial Stability Policy Framework for Namibia has been finalized. The framework encompasses legislative measures to improve coordination across institutions. The Bank of Namibia (BON) will play a leading role in monitoring systemic risks emanating from the interconnectedness of the financial system, particularly between banks and non-banks. The Namibia Financial Institutions Supervisory Authority (NAMFISA) is focused on building its technical capacity over the medium term, and the authorities wish to express their gratitude for the technical assistance that is being received from the Fund during the completion of this process.

The Financial Institutions and Markets (FIM) bill is likely to be enacted during the current financial year and, among other things, it will de-mutualize the Namibian Stock Exchange (NSX), thus opening up share ownership to a broader market. Furthermore, a Financial System Stability Committee, comprising the BON, NAMFISA and the Ministry of Finance, is now extensively monitoring three aspects of NBFIs, namely: the contagion amongst financial institutions, asset exposure to capital markets, and Namibia Stock Exchange (NSX) asset price inflation.

Household debts pose a more serious risk to the financial system in the medium term than NBFIs. The ratio of household debt to disposable income rose to 89.1 percent at the end of 2015, placing it on par with, and exceeding some, advanced economies. As evidenced by the above-mentioned decline in private credit growth, monetary tightening and stricter credit limits will curb excessive credit and address demand-side effects on house prices. The Credit Agreement Act, which was passed in June 2016, includes regulations stipulating loan-to-value (LTV) limits for secondary mortgages and minimum down-payments for motor vehicles. The authorities will take into account factors such as housing supply constraints and any negative social impact before implementing further measures.

Structural reforms

Namibia's structural reform agenda is focused on addressing high unemployment, inequality and poverty through the National Development Plan (NDP). The NDP is reviewed on a 5-year basis and since the inauguration of a new government in 2015, a program known as the Harambee Prosperity Plan has been introduced. It links the objectives of the NDP with the 3-year budget cycle by laying out a set of four objectives specifically for the medium-term, namely; promoting inclusive growth and job creation; development and investment in priority infrastructure; ensuring macro-economic stability and growth-friendly fiscal policy; and implementing targeted measures to reduce poverty and vulnerability.

Crowding-in private investment is central to government reform efforts. The broad approach to structural reforms is to promote partnerships between the public and private sector in specific industries that will help the economy diversify further beyond commodity production. In this regard, a new Public-Private Partnership bill was tabled and passed into law in November 2016 and a separate structure has been created within the Ministry of Finance to facilitate financial and legal processes for specific projects where private sector investment can be crowded-in for economic infrastructure projects. A major feature of the new law is the establishment of an inter-sectoral committee that will approve all bids for infrastructure projects. These projects range from affordable housing, irrigation schemes, energy, logistics, manufacturing and tourism. Feasibility studies for some of these have already been completed. Special economic zones for large-scale industrial developments are provided for in a new Investment Act that was recently enacted by Parliament.

High income inequality is generally the result of unemployment or under-employment. The authorities see the Harambee Prosperity Plan (HPP) as the most important tool to address unemployment and inequality. These measures are underpinned by policies to strengthen public institutions and build human capital The Namibian Training Authority (NTA) is a government agency created to help address skills mismatches identified in the NDP and the HPP. In addition, the HPP's focus on strategic industries is also meant to address youth unemployment in the country. Furthermore, a Ministry of Poverty Eradication and Social Welfare has also been established to develop solutions to poverty and child vulnerability, in line with one of the objectives of the HPP. The specific goal is to ensure a focused approach to dealing with poverty and social assistance in the country.

In addition to the creation of a modern tax administration structure, a new Ministry of Public Enterprises has been formed. It's mandate is to implement the provisions of the Public Enterprises Governance Act and compliance with new reporting framework for SOEs. The Ministry will also ensure that mandate overlaps are addressed and that fiscal transfers to entities are rationalized in order to eliminate waste and duplication. It will also pursue the partial listing of some SOEs on the NSX, which will lead to greater private sector participation.

Conclusion

Namibia faces significant headwinds in the pursuit of industrial development and inclusive growth. The authorities fully recognize the challenges and are determined to ensure that macro-economic stability and fiscal sustainability remain the bedrock of future growth and public policy. They are confident that the focus on fiscal sustainability, and the investments undertaken in recent years to improve transportation infrastructure and increase mining production, will yield positive results. Furthemore, a more assertive approach to managing financial sector risks will maintain financial system stability going forward. They express their appreciation to staff for the policy advice and the contribution that the Fund has made toward the country's structural reform agenda.