



# NAMIBIA

October 2015

## 2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NAMIBIA

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 2015 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 September 18, 2015 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 September 18, 2015, following discussions that ended on July 7, 2015, 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 September 1, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- 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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### **IMF Executive Board Concludes 2015 Article IV Consultation with Namibia**

On September 18, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Namibia.<sup>1</sup>

Namibia has maintained robust Real Gross Domestic Product (GDP) growth since the global financial crisis, although in 2014 it was somewhat weaker. The GDP growth slightly moderated to 4½ percent in 2014, largely owing to lower global demand for Namibia's main export commodities (e.g., diamond, uranium). Inflation remained contained, due to low international commodity prices (e.g., fuel). The government's large scale fiscal program contributed to job creation, and unemployment declined somewhat (to 28 percent in 2014).

Growth performance has been underpinned by a rapid increase in credit. Average annual growth of private sector credit has exceeded 15 percent since 2012, with strong demand from both households and corporates. This credit expansion has been boosted by historically low interest rates, following South Africa's monetary policy. Net credit to the government has also risen to meet its large domestic financing needs.

Namibia's fiscal policy stays expansionary, to promote growth and employment. In 2014/15, though the Southern African Customs Union (SACU) revenues and domestic revenues increased, the government increased its recurrent and capital expenditures more, resulting in an overall fiscal deficit of 3¾ percent of GDP. For 2015/16, the budget envisages a larger deficit, with increased expenditures and lower SACU revenues (declined by 1¾ percent of GDP from 2014/15). In light of the financing needs, the government has been exploring the scope for tapping international capital markets.

These developments resulted in increased pressure on external balances, while house prices also rose. With the significant increase in import demand, the current account continued to deteriorate in 2014, and international reserves declined to 1½ months of imports by May 2015. House prices have increased by 87 percent over the last five years, driven by several factors (e.g., the growth in disposable income, relatively low interest rates, purchases for short term capital gains, and structural factors).

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<sup>1</sup> 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.

Namibia's growth outlook is clouded with downside risks, while facing significant policy challenges. The main near-term risks are associated with (i) highly volatile SACU revenues, (ii) rapid growth of house prices, and (iii) external environment. In addition, Namibia continues to face serious development challenges, including high unemployment and inequality. Its main policy challenges are therefore to strengthen its resilience to exogenous shocks and manage systemic risks in the financial sector, while promoting inclusive growth and job creation.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors agreed with the thrust of the staff appraisal. They commended Namibia's robust macroeconomic performance following the global financial crisis. While medium-term growth prospects remain good, they noted that risks are increasing. The recent expansionary fiscal policy—while contributing to job creation—has increased pressure on external balances and put downward pressure on international reserves. Volatile revenues from the Southern African Customs Union (SACU) and rising housing prices are adding to uncertainties. Against this backdrop, Directors called for continued commitment to sound policies and structural reforms to build adequate policy buffers, preserve financial sector stability, and reduce unemployment and inequality.

Directors welcomed the authorities' commitment to pursue growth-friendly fiscal consolidation, noting that a sustained effort will be needed with the aim to build international reserves. They stressed the importance of containing the government wage bill and reducing subsidies and transfers to state-owned enterprises, as well as strengthening revenue administration and public financial management, while safeguarding critical social and development needs. In view of the prospective decline in SACU revenues, they also suggested that tapping international capital markets could help increase buffers, but noted that the associated interest rate, rollover, and exchange rate risks need to be managed carefully. Directors commended the authorities' plan to undertake a midyear budget review, which would incorporate their fiscal consolidation measures.

Directors acknowledged that Namibia's financial system is generally sound, but called for vigilance on recent housing market developments. They highlighted the close macrofinancial linkages, and cautioned that accelerating real estate prices—combined with high concentration of banks' mortgage lending—could pose risks to the financial sector and the real economy. In this respect, Directors commended the Bank of Namibia for its plan to introduce loan-to-value limits for nonprimary resident purchases, and recommended further targeted macroprudential measures to safeguard financial stability. In light of the significant size of nonbank financial institutions and their close inter-linkages, greater supervision of this sector is essential. Directors also encouraged further steps to enhance cross-border coordination.

Directors welcomed the authorities' intention to address high unemployment and inequality. In view of high youth unemployment, Directors supported the authorities' objective to reduce skill

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<sup>2</sup> At the conclusion of the discussion, the Deputy 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>

mismatches through improving education and job-related skills development. They also emphasized the importance of further improving business conditions and facilitating financial intermediation with proper supervisory oversight.

### Namibia: Selected Economic Indicators, 2011–20 (Baseline Scenario)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Est	Proj	Proj	Proj	Proj	Proj
National account and prices										
GDP at constant prices 1/	5.1	5.1	5.1	4.5	4.8	5.0	6.2	5.8	4.5	4.4
GDP deflator	3.8	12.6	11.3	11.7	6.1	6.0	6.0	6.0	5.8	5.8
GDP at market prices (N\$ billions)	90.1	106.7	124.9	145.7	162.0	180.4	203.1	227.7	251.5	277.6
GDP at market prices (US\$ billions)	12.4	13.0	12.9	13.6	12.9	13.7	14.9	16.2	17.4	18.7
GDP per capita (US\$, constant 2000 ex. rate)	6,150	7,184	8,287	9,539	10,519	11,615	12,966	14,416	15,796	17,289
Consumer prices (end of period)	7.4	6.4	4.9	4.6	5.2	5.5	5.8	5.8	5.7	5.7
External sector										
Exports (US\$)	9.8	-0.4	6.0	-0.4	-6.7	6.8	15.4	9.6	2.4	2.3
Imports (US\$)	7.9	17.9	1.6	11.0	-5.9	7.3	0.3	3.2	1.6	3.6
Terms of trade (deterioration = -)	6.5	-9.0	-4.0	-2.9	-1.4	-5.6	-2.3	-2.1	-2.0	-1.9
Real effective exchange rate (period average)	-1.6	-3.9	-8.7	-5.9	...	...	...	...	...	...
Exchange rate (N\$/US\$, end of period)	8.1	8.5	10.5	11.6	...	...	...	...	...	...
Money and credit										
Domestic credit to the private sector	9.3	16.9	14.5	16.5	9.5	9.0	10.4	11.4	10.3	10.0
Base money	69.9	-9.5	22.7	16.7	7.7	8.2	9.3	9.4	9.5	9.4
M2	19.8	5.3	8.6	7.7	9.8	9.7	10.9	11.0	10.5	10.4
Interest rate (percent)	6.0	5.5	5.5	6.0	...	...	...	...	...	...
Investment and Savings										
Gross Investment	22.7	25.9	26.1	28.0	29.6	32.7	22.4	19.1	19.0	18.9
Public	8.2	7.2	6.7	4.3	4.6	4.7	4.4	4.1	4.0	3.9
Private	14.4	18.7	19.4	23.7	25.0	28.0	18.0	15.0	15.0	15.0
Gross domestic savings	13.0	13.1	9.4	6.9	8.4	11.2	7.6	7.7	9.3	9.7
Gross national savings	17.5	16.7	17.8	14.1	15.4	15.7	9.6	8.5	9.6	9.8
Central government budget 2/										
Revenue and grants	31.7	32.9	32.2	35.1	33.0	29.7	30.7	31.1	30.7	30.4
Of which: SACU receipts	7.6	12.4	11.3	12.1	10.3	6.8	7.6	7.9	7.7	7.5
Expenditure and net lending	40.3	34.5	36.4	38.9	39.7	37.6	35.9	35.0	34.7	34.6
Primary balance (deficit = -)	-7.3	-0.1	-2.9	-2.4	-5.2	-5.9	-2.8	-1.4	-1.4	-1.4
Overall balance	-8.5	-1.6	-4.2	-3.8	-6.7	-7.8	-5.2	-4.0	-4.0	-4.1
Overall balance: Non-SACU	-16.1	-14.0	-15.6	-15.8	-17.0	-14.7	-12.8	-11.9	-11.7	-11.6
Public debt/GDP	26.2	24.0	22.7	24.0	28.3	33.3	34.9	35.3	36.1	36.9
Gross PPG debt/GDP	28.1	25.9	26.8	27.2	34.7	41.5	45.6	45.3	46.1	46.9
External sector										
Current account balance										
(including official grants)	-2.9	-5.6	-3.9	-9.9	-12.1	-16.3	-10.7	-7.8	-6.9	-7.1
External public debt (including IMF)	6.4	7.8	6.9	7.2	8.9	10.8	11.7	11.8	11.6	10.9
Gross official reserves										
US\$ millions	1,800	1,774	1,526	1,220	1,079	1,045	1,106	1,233	1,355	1,397
Percent of GDP	14.5	13.6	11.8	8.95	8.4	7.6	7.4	7.6	7.8	7.5
Months of imports of goods and services	3.0	2.8	2.2	1.8	1.5	1.5	1.5	1.6	1.7	1.7
External debt/GDP 3/	41.4	35.6	38.4	40.4	47.2	48.6	49.0	49.5	50.6	51.4
Memorandum item:										
Population (in million)	2.1	2.1	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3

Sources: Namibian authorities and Fund staff estimates and projections..

1/ Figures include public enterprise and central government investment.

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

3/ Public and private external debt.



# NAMIBIA

## STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

September 1, 2015

### KEY ISSUES

**Context.** Namibia has achieved robust growth with price stability, though high unemployment and inequality persist. Its expansionary fiscal policy—while contributing to job creation—has increased pressures on external balances, lowering international reserves to 1½ months of imports.

**Risks.** The near-term outlook is clouded with risks. Revenues from the Southern African Customs Union (SACU) are expected to decline in coming years, reflecting the slowdown in the South African economy. Rising house prices, combined with commercial banks' high exposure to mortgages, raise macroprudential concerns. These risks, unless properly addressed, could weaken growth and increase the economy's fragility.

**Strengthening international reserve buffer.** A tighter fiscal policy stance—coupled with additional external financing—could strengthen international reserves over the medium term, while preserving critical social spending.

**Safeguarding financial stability.** The rapid rise in real estate prices—combined with the high concentration of banks' mortgage lending—poses risks to the financial sector and the economy. This risk should be promptly addressed through targeted macroprudential policies and improved supervision of links between the banking and nonbank financial sector.

**Addressing unemployment.** Namibia's key challenges are its high income inequality and structural unemployment. To tackle them, it is important to enhance skills development and vocational training and upgrade the education quality, while promoting private sector investment, including through further improvement in business conditions.

**Past advice.** There was broad agreement with the authorities on macroeconomic policies and structural reform priorities, but the implementation of past advice has been uneven. Specifically, although they acknowledged the need to pursue a growth-friendly fiscal consolidation and rein in current spending, there have been no major policy changes since the last consultation.

Approved By  
**Anne-Marie Gulde-Wolf and  
 Ranil Manohara Salgado**

Discussions took place in Windhoek June 24–July 7, 2015. The team comprised Jiro Honda (head), Daniela Marchettini, Manabu Nose, Friska Parulian, and Jose Torres (all AFR). Ms. Dlamini (OED) and Mr. Schuler (the World Bank) also participated in the meetings. Excellent editorial assistance was provided by Breda Robertson.

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## CONTEXT: ROBUST GROWTH WITH RISKS

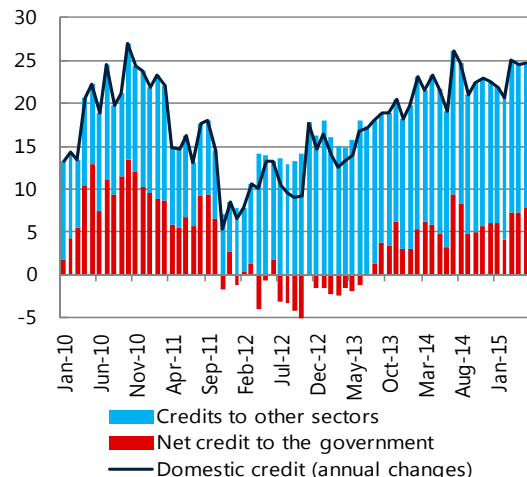
**1. Namibia is a small, upper middle-income country with close economic linkages to South Africa.** With Lesotho, Swaziland, and South Africa, Namibia is a member of the Common Monetary Area (CMA). Under the CMA, the Namibian dollar is pegged at par to the South African rand, which is also legal tender in the country. CMA members and Botswana constitute the Southern African Customs Union (SACU).

**2. Namibia has maintained robust growth since the global financial crisis, although in 2014 it was somewhat weaker** (Figure 1). Despite strong growth in construction activities in mining and housing sectors, real GDP growth moderated to 4½ percent in 2014 (from 5 percent in 2013), largely owing to lower global demand for Namibia’s main export commodities (e.g., diamond, and uranium).<sup>1</sup> Inflation remained contained, due to low international commodity prices (e.g. fuel). The government’s large scale fiscal program contributed to job creation (including many temporary jobs in construction), and unemployment declined somewhat (to 28.1 percent in 2014 from 29.6 percent in 2013).<sup>2</sup>

**3. Growth performance has been underpinned by a rapid increase in credit (Box 1).** Average annual growth of private sector credit has exceeded 15 percent since 2012, with strong demand from both households and corporates (particularly construction, real estate, and trade and accommodation). Private credit expansion has been boosted by historically low interest rates, following South Africa’s monetary policy. Net credit to the government has also risen, reflecting the expansionary fiscal policy stance. Overall money supply grew by 14.3 percent (year-on-year) as of May 2015. Rapid credit growth over the last decade has been accompanied by improved access to financial services, with a larger share of the Namibian population having access to financial services.<sup>3</sup>

*Growth buoyed by robust private sector credit.*

**Domestic Credit**  
(Contribution to annual credit growth)



Sources: Namibian authorities and IMF staff estimates.

<sup>1</sup> In view of high international commodity prices from 2000 through 2011, Namibia experienced a wave of exploration and investments. The three largest developments in the sector include: (i) the Otjikoto gold mine (from December 2014), (ii) the Tschudi copper mine (from February 2015), and (iii) the Husab uranium mine (from end 2016). Despite the recent decline in commodity prices, these investments are expected to continue, as they are at an advanced phase. These new mines will further contribute to growth over the next few years (mining is expected to account for 15 percent of GDP by 2018).

<sup>2</sup> To respond to the high unemployment in the aftermath of the global financial crisis, the authorities implemented the Targeted Intervention Program for Employment and Economic Growth for 2011/12–2013/14, with a three-year large-scale fiscal expansion (with a budget allocation of N\$9.1 billion (10 percent of GDP)).

**4. Namibia's fiscal policy remains expansionary, to promote growth and employment.** In 2014/15, supported by relatively high SACU revenues and further efforts in domestic revenue collection (e.g., enhanced collection of tax arrears and higher compliance), the government increased its expenditures (e.g., wages, goods and services, and capital spending), resulting in an overall fiscal deficit of 3¾ percent of GDP.<sup>4,5</sup> For 2015/16, the budget envisages a larger deficit, with increases in subsidies and transfers, and capital expenditures and lower SACU revenues (declined by 1¾ percent of GDP from 2014/15).<sup>6</sup> Based on recent economic data, the revenue forecast underlying the budget seems overestimated, and the deficit could reach 6¾ percent of GDP.<sup>7</sup> The government is exploring the scope for tapping international capital markets.<sup>8</sup>

**Fiscal Balance (In percent of GDP)**

	2012/13	2013/14	2014/15	2015/16	
	Act	Act	Est	Budget	Staff estimate
<b>Total revenue and grants</b>	<b>32.9</b>	<b>32.2</b>	<b>35.1</b>	<b>35.5</b>	<b>33.0</b>
Domestic revenue	20.3	20.7	22.9	25.1	22.7
SACU revenue	12.4	11.3	12.1	10.3	10.3
Grant	0.2	0.2	0.1	0.0	0.0
<b>Expenditures</b>	<b>34.5</b>	<b>36.4</b>	<b>38.9</b>	<b>40.6</b>	<b>39.7</b>
Current expenditure	27.7	29.7	30.9	32.4	31.6
Personnel	12.5	13.8	14.4	14.0	14.0
Goods and services	4.8	5.0	5.5	5.6	5.6
Interest payment	1.5	1.4	1.3	2.3	1.5
Subsidies and transfers	8.9	9.5	9.7	10.6	10.6
Capital expenditure*	6.2	6.8	7.9	8.2	8.2
Net lending	0.6	0.0	0.0	0.0	0.0
<b>Overall balance</b>	<b>-1.6</b>	<b>-4.2</b>	<b>-3.8</b>	<b>-5.1</b>	<b>-6.7</b>
Overall balance (excl. SACU revenue)	-14.0	-15.6	-15.8	-15.4	-17.0

\* Including externally financed capital projects that are not channeled through the state account.  
Sources: Namibian authorities and IMF staff estimates

<sup>3</sup> According to FinScope, the ratio of Namibian population excluded from financial services declined from 52 percent in 2007 to 31 percent in 2011, close to the target (26 percent) of the Namibia Financial Sector Strategy (NFSS).

<sup>4</sup> As part of the revenue collection efforts, a Large Taxpayer Office was established in June 2014, which contributed to improving tax compliance rates in Windhoek and satellite cities. A dedicated tax collection unit will be fully operational in 2015/16 which will help reduce tax evasion in remote areas.

<sup>5</sup> The increase in personnel cost was mainly due to a civil service salary increase (of 10 percent), coupled with the implementation of the "job evaluation and regrading" system which resulted in notch increase of 2 percent.

<sup>6</sup> Subsidies and transfers are expected to increase by 0.9 percentage points of GDP from 2014/15, owing to an increase in financial support to public enterprises for: (i) strengthening the medical care of public servants, (ii) enhancing the educational assistance (financial aid to students and universities to improve access to vocational training and tertiary education), and (ii) developing and rehabilitating of infrastructure (railway, airport, and road maintenance).

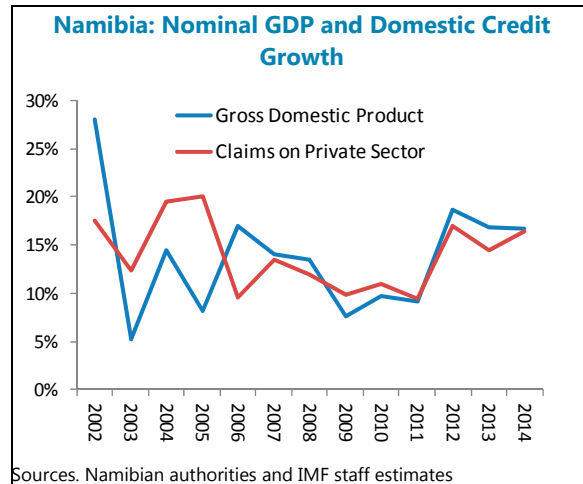
<sup>7</sup> The authorities acknowledged that their revenue estimates are overstated and plan to reassess revenue forecast in the upcoming mid-year budget review (in October).

<sup>8</sup> The Namibian government has issued foreign bonds in the recent past: (i) a US\$500 million Eurobond in October 2011, (ii) a ZAR 850 million 10-year bond on the Johannesburg Stock Exchange (JSE) in November 2012, and (iii) ZAR 800 million 5-year and 7-year bonds on the JSE in June 2015. As of July 2015, Namibia retains Baa3 rating from Moody's and BBB rating from Fitch.

### Box 1. Credit and GDP Growth and Financial Stability

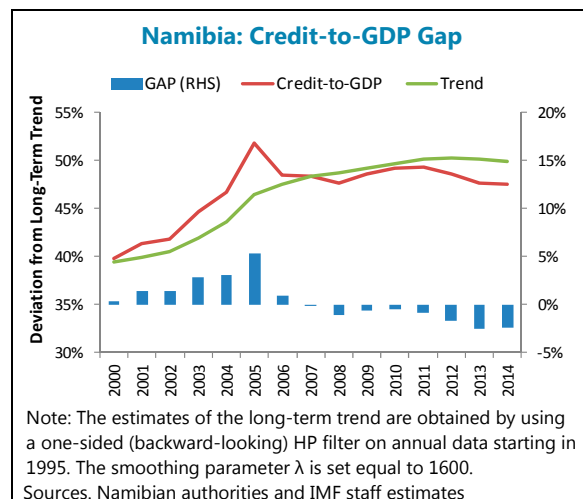
Time series analysis suggests the existence of a long-term relation between domestic credit to the private sector and economic growth in Namibia, despite the fact that a short-term direction of causality could not be identified. Rapid credit expansion, however, raises concerns in terms of financial stability.

- The direction of the short-term causal relationship between private domestic credit and GDP growth could not be identified using VAR-based estimates.** The lack of Granger causality between private domestic credit (from banks)<sup>1</sup> and output could be attributable to three factors: (i) domestic credit flows mainly to the construction and real estate sectors, whose share of GDP is relatively small (about 8 percent); (ii) economic activity in Namibia largely depends on government spending and mining activities (mostly financed with external flows); and (iii) private credit and GDP growth appear to be coincident indicators and this potential simultaneity makes the estimation of the direction of causality difficult (see Figure).



- However, a cointegration analysis reveals the existence of a long-term relationship between credit and output.** The Johansen test reveals the existence of a cointegration equation between the quarterly series of credit and GDP (a long-term relationship). According to these estimates, based on a VECM specification with 4 lags, a 1 percent increase in real credit is associated with a 0.47 percent increase in real GDP in the long-run. In addition to the direct contribution to the construction and real estate sectors, financial intermediation is expected to support growth through the mobilization of savings, promotion of information sharing, enhancement of resource allocation, and risk management. In Namibia bank credit is also critical to provide trade finance and thus facilitates mining and construction activities.

- The large credit expansion might have been accompanied by systemic risk build-up.** Despite the positive effects on growth, rapid credit growth and concentration in the loan book (Box 3) raise financial stability concerns, through contributing to pushing house prices above fundamentals. The analysis of the credit-to-GDP gap could not confirm excessive credit growth, as the credit-to-GDP ratio has been below its historical trend over the past few years (see Figure). The interpretation of this, however, warrants some caution, given that the very rapid credit growth following independence may have biased upward the long-term trend. Furthermore, overall credit may mask potential risks contained in specific sectors (e.g., growth in personal loans).

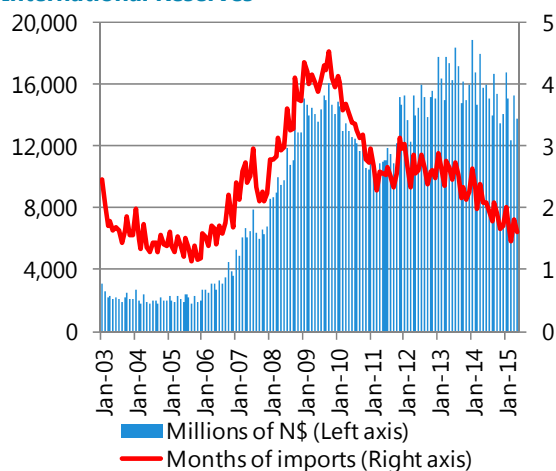


1/ In the absence of information on credit from non-bank financial institutions (NBFIs), the analysis is based on bank credit to the private sector. The contribution of NBFIs to private sector intermediation is, however, expected to be limited, as NBFIs invest mainly in government bonds, bank deposits, and dual listed companies (in South Africa and Namibia).

**5. These developments resulted in increased pressure on external balances, while real estate prices have risen.** With a significant increase in import demand (partly associated with construction requirements of the mining sector), the current account continued to deteriorate in 2014, and international reserves declined to 1½ months of imports by May 2015. House prices have risen significantly over the past years, driven by the growth in disposable income, relatively low interest rates, accommodative fiscal policies, purchases for short-term capital gains, and structural factors (urbanization, shortage in the supply of housing and serviced land, etc.).

*With increasing import demand, pressures on international reserves are mounting.*

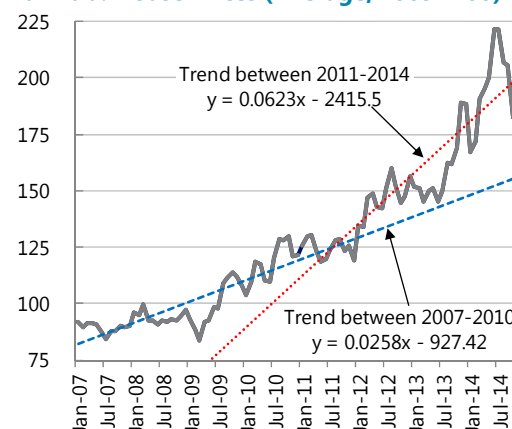
**International Reserves**



Sources: Namibian authorities and IMF staff estimates.

*House prices have increased by 87 percent over the last five years.*

**Namibia: House Prices (Average, 2009=100)**



Sources: FNB House Price Index and IMF staff estimates.

**6. The government's policy priority is to continue to address social and development challenges.** In the recent presidential and parliamentary elections in November 2014, the South West Africa People's Organization (SWAPO) party obtained a landslide victory.<sup>9</sup> The new government indicated its intention to: (i) continue to address significant social and development challenges, (ii) ameliorate the persistently high unemployment, inequality, and poverty, (iii) safeguard macroeconomic policies, and (iv) promote economic diversification and transformation of the Namibian economy to be more inclusive and resilient to shocks.

**7. Namibia's real effective exchange rate appears moderately overvalued** (Annex 2).

Namibia's current account continued to deteriorate since its peak in 2006, owing to the large import needs associated with investments in the mining sector and the expansionary fiscal policy. The IMF staff's estimates suggest the exchange rate could be about 8 percent overvalued. The current account, however, might not necessarily improve with the exchange rate depreciation by this degree, as far as the expansionary fiscal policy continues.

<sup>9</sup> The SWAPO party has ruled Namibia since independence in 1990. President Hage Geingob (former prime minister) and Prime Minister Kuugongelwa-Amadhila (former minister of finance) were sworn in on March 21, 2015, together with new cabinet members, including the Minister of Finance Calle Schlettwein (former minister of trade).

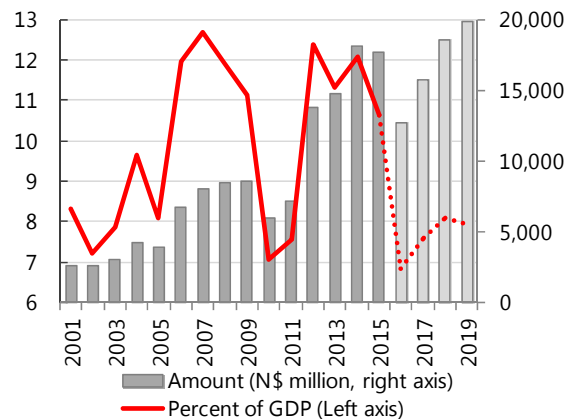
## OUTLOOK AND RISKS

**8. Namibia’s growth outlook—5 percent on average during 2015–2020—is positive, but clouded with downside risks (Annex IV).** Growth is expected to pick up slightly to 6 percent by 2017/18, supported by mining and construction sectors, then somewhat weaken over the medium term, once the production from new mines (copper, gold, uranium) reaches full capacity. The baseline scenario assumes a significant decline in SACU revenues in coming years. The main near-term risks are associated with (i) the highly volatile SACU revenues (about one-third of fiscal revenues) and the risk of a decline beyond what is captured in the baseline, (ii) rapid growth of house prices, and (iii) external environment.

- Emerging uncertainty for the prospects of SACU revenues poses risk to the economy. In coming years, reflecting the slowdown in the South African economy, SACU revenues are projected to decline as a share of GDP.<sup>10</sup> Further increases in the current account deficit could erode already low international reserves.
- A possible sharp reversal of the house price trend, coupled with the expected increases in interest rates, could affect financial intermediation, private sector consumption, and growth, including through (i) affecting borrowers’ repayment capacity and eventually banks’ asset quality and profitability, and (ii) lowering the consumption of highly indebted households and housing construction.
- Possible deterioration in external environments also pose risk to the economy. If international capital flows to South Africa will significantly decline, adverse spillovers to Namibia would rise, possibly channeled through lower trade, financial flows, and SACU revenues. In addition, further deterioration of the euro-area economies may generate significant negative spillovers to the Namibian economy through trade linkages as a large share of Namibia’s total exports—mainly uranium ore, diamonds, beef, unrefined copper and fish—are destined for the European market. Finally, given its export base, Namibia remains vulnerable to further decline in international prices of its main commodity exports.

*The SACU revenues are expected to decline in coming years.*

**Namibia: SACU Revenue Projections**



Sources: Namibian authorities and IMF staff estimates and projections.

<sup>10</sup> There is a downside risk for the projection, depending on the developments of the South African economy. Furthermore, SACU revenues may decline further with the expected revision to the revenue sharing formula.

**9. The authorities share staff’s concerns and are addressing the policy options to deal with emerging risks.** The authorities concur with staff’s concern on the prospects for SACU revenues and other risks. To respond to the possible SACU revenue fall, the authorities plan to adopt a tighter fiscal policy stance, so that it would avoid crowding out private sector credit, and would allow for the robust growth momentum to continue—supported by mining, construction, and services sectors.

## POLICY DISCUSSIONS

*Namibia’s main short-term challenges are to build adequate international reserves to strengthen its resilience to exogenous shocks and manage systemic risks in the financial sector. From a longer-term perspective, promoting inclusive growth and job creation remain key priorities. The 2015 Article IV consultation focused on how Namibia can address these challenges and risks.*

### A. Reducing External Vulnerabilities

#### **Risks from low international reserves**

**10. Namibia’s international reserves have markedly declined since 2009, making it vulnerable to exogenous shocks under the exchange rate peg.** The reserves stood at US\$1 billion (8¼ percent of GDP or 1½ months of imports) as of end-May 2015, declining by about 9 percent points of GDP since 2009, while Namibia’s external balances are heavily dependent on volatile inflows (exports of mineral products and SACU revenues).

**11. According to the IMF’s metric for market access countries, Namibia’s international reserves are significantly below their adequate level.** The current level of reserves is only about 60 percent of the minimum adequate level (3–5 months of imports or 16–20 percent of GDP, Annex 1). Moreover, in the past fifteen years the level of reserves has been sub-optimal about seventy percent of the time. Given Namibia’s membership in the CMA (and, hence, the peg to the South African rand), sub-optimal reserves make the country more vulnerable to exogenous shocks. The authorities concurred with the need to build adequate international reserves and agreed with the proposed level of 3–5 months of imports (as it coincides with the Bank of Namibia’s (BoN’s) own estimates).

**12. Staff’s baseline scenario envisages a moderate fiscal consolidation with enhanced external financing, though not enough to sufficiently raise international reserves.** Under this scenario, growth would rise to 6 percent by 2017/18 supported by mining and construction. Fiscal balances would be broadly consistent with the government’s current medium-term indicative target (deficits of 5 percent of GDP on average over the medium term), with upfront consolidation efforts. However, due to the lack of detail of government’s consolidation plans over the medium term, the pace of adjustment is assumed to stall after a few years (consolidation fatigue). External financing of about N\$12 billion (6 percent of GDP) would be required over the next five years to mitigate the impact of the SACU revenue shock. As a result, international reserves would remain at around

1½–2 months of imports, and public debt would exceed the government’s target of 35 percent of GDP.

<b>Staff Medium-Term Projections (Baseline scenario)</b>										
(Percent of GDP, unless otherwise indicated)										
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Prel.	Prel.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP growth (annual change)	5.1	5.1	5.1	4.5	4.8	5.0	6.2	5.8	4.5	4.4
Credits to private sector (annual change)	9.3	16.9	14.5	16.5	9.5	9.0	10.4	11.4	10.3	10.0
Fiscal balance	-8.5	-1.6	-4.2	-3.8	-6.7	-7.8	-5.2	-4.0	-4.0	-4.1
Total revenue	31.7	32.9	32.2	35.1	33.0	29.7	30.7	31.1	30.7	30.5
of which SACU revenues	7.6	12.4	11.3	12.1	10.3	6.8	7.6	7.9	7.7	7.5
Total expenditure	40.3	34.5	36.4	38.9	39.7	37.6	35.9	35.0	34.7	34.6
Recurrent expenditure	29.6	27.7	29.7	30.9	31.6	29.2	28.2	27.9	27.6	27.5
Capital expenditure	9.3	6.2	6.8	7.9	8.2	8.4	7.7	7.2	7.2	7.2
Current account balance (including grants)	-2.9	-5.6	-3.9	-9.9	-12.1	-16.3	-10.7	-7.8	-6.9	-7.1
Gross international reserves (month of imports)	3.0	2.8	2.2	1.8	1.5	1.5	1.5	1.6	1.7	1.7
Total public debt	26.2	24.0	22.7	24.0	28.3	33.3	34.9	35.3	36.1	36.9

Sources: Namibian authorities and IMF staff estimates and projections.

**Policies to strengthen resilience**

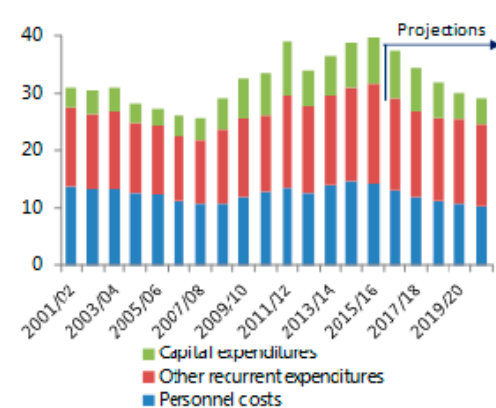
**13. With enhanced fiscal consolidation measures (reform scenario), adequate international reserves and modest debt levels (below the government’s debt ceiling) would be achievable over the medium term, while safeguarding critical social and development spending.**

A significant fiscal consolidation—with spending cuts of 9–10 percent of GDP over the next five years—is required to achieve a balanced budget over the medium term, with a view to increasing the reserve coverage to three months of imports (consistent with the minimum adequate level). An external bond issuance (or other form of external financing) of about N\$12 billion over the next five years would help to mitigate the SACU revenue shock, while public debt would remain below 35 percent of GDP. For this purpose, stepped-up efforts over the medium term are called for with the following policy measures:

- *Contain expenditures*, based on a growth-friendly fiscal consolidation strategy—aiming to rein in current spending (wages and transfers and subsidies to public enterprises) while preserving productive infrastructure spending (as discussed for the 2013 Article IV consultation)—could mitigate the negative impact on the economy. For this purpose, it is important to restrain non-priority spending (particularly in goods and services and subsidies, and transfers to public enterprises) and the wage bill. Policy measures for constraining the wage bill include: (i) freezing wages in real terms, (ii) limiting new

*With the envisaged fiscal consolidation under the reform scenario, expenditures would return to the 2003–2007 levels.*

**Fiscal Expenditures (Percent of GDP)**



Sources: Namibian authorities and IMF staff estimates and projections.



hiring to critical areas (e.g., education, health), and (iii) reducing various allowances, overtime, and bonus payments.<sup>11,12</sup> As an initial step, the government plans to reduce travel expenses (by enforcing a limit on the number of official trips per year).

- *Enhance revenue administration.* Further efforts for domestic revenue collection—including through improving tax compliance, reducing tax expenditures, and prioritizing the collection of tax arrears—are essential to the consolidation (as they would limit the reliance on expenditure cuts).
- *Increase external financing, within the government's debt ceiling.* In view of the relatively low level of Namibia's public debt, external financing—through external bond (preferably rand denominated) or other options (e.g., borrowing from international partners, or credit lines)—should be sought, while carefully assessing the associated interest rate and rollover risks, in light of the envisaged normalization of monetary policy in advanced countries. It is also essential to (i) monitor the liabilities of all regional and local authorities and the fiscal risk from increasing explicit/implicit sovereign guarantees for public enterprises, and (ii) diversify the debt portfolio (to reduce rollover risks).
- *Support fiscal consolidation with structural measures,* including strengthening public financial management (e.g., introducing a single treasury account, conducting public expenditure reviews, enacting a new public financial management bill), improving data reporting and monitoring of state-owned enterprises, revising public procurement bill, and strengthening public investment management (e.g., improving project appraisals and implementation). These efforts, together with enhanced domestic revenue collection, would help to create a fiscal space for critical social and development spending and to mitigate the adverse impacts of consolidation on growth, while maintaining capital expenditures.

<b>Staff Medium-Term Projections (Reform Scenario)</b>										
(Percent of GDP, unless otherwise indicated)										
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Prel.	Prel.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP growth (annual change)	5.1	5.1	5.1	4.5	4.8	5.0	6.1	5.7	4.6	4.4
Credits to private sector (annual change)	9.3	16.9	14.5	16.5	9.3	10.4	11.6	12.0	13.0	13.1
Fiscal balance	-8.5	-1.6	-4.2	-3.8	-6.7	-7.8	-3.9	-0.9	0.2	0.7
Total revenue	31.7	32.9	32.2	35.1	33.0	29.7	30.5	30.9	30.5	30.2
of which SACU revenues	7.6	12.4	11.3	12.1	10.3	6.8	7.6	7.9	7.7	7.5
Total expenditure	40.3	34.5	36.4	38.9	39.7	37.6	34.4	31.8	30.3	29.5
Recurrent expenditure	29.6	27.7	29.7	30.9	31.6	29.2	27.1	25.9	25.2	24.4
Capital expenditure	9.3	6.2	6.8	7.9	8.2	8.4	7.4	5.9	5.1	5.1
Current account balance (including grants)	-2.9	-5.6	-3.9	-9.9	-12.1	-16.3	-10.2	-6.2	-4.6	-4.8
Gross international reserves (month of imports)	3.0	2.8	2.2	1.8	1.5	1.5	1.7	2.2	2.7	3.2
Total public debt	26.2	24.0	22.7	24.0	28.3	33.3	33.7	31.2	28.2	24.9

Sources: Namibian authorities and IMF staff estimates and projections.

<sup>11</sup> Based on the budget outturn for 2014/15, overtime payments are estimated at 5.5 percent of total remuneration and bonus payments about 4 percent.

<sup>12</sup> To reduce allowances for public sector workers, the government plans to tighten the eligibility (e.g., housing allowance, daily remunerative allowances) and to reduce the number and size of allowances.



**14. The authorities affirmed their intention to tighten their fiscal policy stance, with stepped-up revenue efforts and expenditure control, along the lines envisaged under the reform scenario.** They concurred with the need to rein in spending, improve its quality, and enhance external financing, while supporting the country's development needs. They pointed that there would be scope for rationalizing government's transfers to public enterprises (by 2¼ percentage points of GDP) by strengthening their monitoring, while acknowledging the importance of containing wages. They agreed with the need to strengthen international reserves (as envisaged under the reform scenario), while noting that the degree of spending cuts could be mitigated, by further improving domestic revenue administration and exploring the scope for public-private partnerships. Over the medium term, improvements in tax collection are expected from the establishment of an autonomous revenue agency. Furthermore, the authorities intend to improve spending efficiency, through strengthening their cash management and expenditure control (e.g., by introducing a real-time budget reporting system). For the first time, the government is planning to undertake a midyear budget review (in October) to update their medium-term fiscal framework with the SACU revenue shock and specify their intended fiscal consolidation measures.

## **B. Managing Systemic Risks in the Financial Sector**

**15. Namibia has enjoyed steady financial sector developments.** The banking system is well capitalized and profitable, with low levels of nonperforming loans (Table 6). Nonbank financial institutions (NBFIs) are also well capitalized, with the average solvency level exceeding the statutory requirement. Both the banking sector and NBFIs expanded rapidly, underpinning Namibia's robust growth performance. Vigorous private credit growth (to both household and corporate sectors) has buoyed economic activity mainly through its contributions to construction and real estate.

**16. These developments, however, have been accompanied by a potential buildup of macrofinancial risks.** Namibia's financial sector has a complex structure, interconnected internally and externally, with potential for system-wide and cross-border contagion (Box 2). The Namibian banking sector is well regulated, while there is a scope to further strengthen the NBFIs supervision. In addition, house prices have been increasing since independence, raising concern about a potential real estate bubble, whose risks are heightened by the high concentration of banks' loan book in mortgages and the elevated households' indebtedness (Box 3).

### Box 2. Structure of Financial Sector<sup>1</sup>

Namibia has a complex and tiered financial system structure, which is closely interconnected, with tight links to South African markets and institutions. NBFIs—mainly consisting of long-term insurance, pension funds, investment managers, and unit trusts—dominate the financial system, in terms of asset size. The banking sector is comparatively small and highly concentrated, with the four biggest banks (of which three are South African subsidiaries) controlling more than 90 percent of the total assets in the sector.

Namibia’s financial sector is supervised and regulated by the BoN and the Namibia Financial Institutions Supervisory Authority (NAMFISA). The BoN has the objective to promote and maintain a sound financial system, with the responsibility to supervise the banking institutions. The NAMFISA is responsible for supervising NBFIs. To ensure coordination among the relevant authorities on matters related to financial stability, in 2014 the Financial System Stability Committee (FSSC)—an inter-agency advisory and coordinating body (comprising the BoN, NAMFISA, and the Ministry of Finance)—was established.

In view of the structure of the financial sector, the following sources of systemic risks can be identified:

- The NBFIs—given their large size and interconnectedness—could be source of systemic risk. Interlinkages have different forms, through cross-ownerships by a few large conglomerates and also through funding and debt exposures with unit trusts and asset managers playing a central role (Figure). The tight linkages of NBFIs with banking institutions increase the potential for system-wide contagion.
- Namibia’s financial system has many cross-border links, especially with South Africa. Three of the four largest banks in Namibia are subsidiaries of South African banks. These interlinkages expose Namibia to potential channels of contagion and systemic risks, while funding flows from South Africa to Namibia’s financial institutions are currently limited.

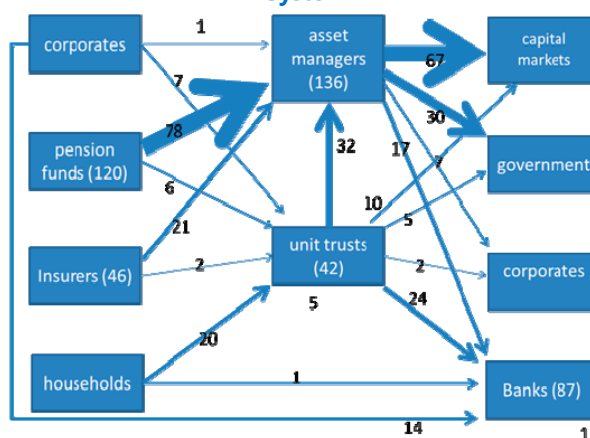
**Namibia: Financial Sector Structure**

	Number	Asset (in percent of GDP)			
		2011	2012	2013	2014
Commercial banks	6	66.5	62.7	60.8	n.a.
Nonbanks <sup>1</sup>	479	244.7	246.9	244.3	241.0
Long-term insurance	17	29.7	29.6	28.8	28.2
Short-term insurance	13	2.9	2.8	2.7	3.3
Medical aid funds	9	0.9	0.8	0.8	0.8
Pension funds	113	77.4	80.1	83.1	83.8
Unit trusts	13	30.5	30.0	29.4	29.5
Investment managers	33	101.7	101.9	97.4	95.4
Micro-lending	281	1.7	1.6	2.1	n.a.
Total <sup>1</sup>	485	311.3	309.5	305.2	n.a.

Sources: Bank of Namibia and NAMFISA.

1. Including cross-holding of assets.

**Figure. Funding Links within Namibia’s Financial System**



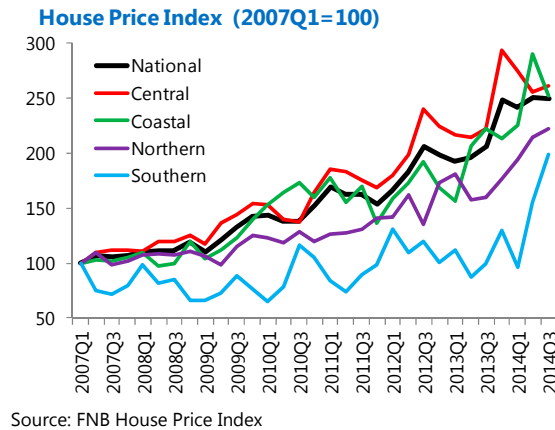
Sources: Bank of Namibia, Financial Stability Report, June 2015; NAMFISA Quarterly Statistical Bulletin 2014 Q4.

Notes: The numbers in brackets refer the total size of the relevant sector (total assets, in N\$ billion). The arrows depict gross exposures from one sector to the other (thicker arrows for larger exposures). The numbers at the arrows depict the sizes of the relevant gross exposures (N\$ billion). Cross-ownership relations are excluded.

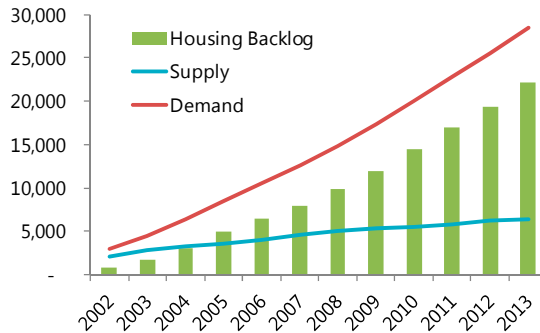
<sup>1/</sup> This Box is based on the findings of the TA mission on “Establishing an Effective Macroprudential Framework” (June 2015).

### Box 3. Developments in the Real Estate Market and Financial Stability<sup>1</sup>

Namibia’s real estate prices have recorded a sharp increase over the past several years, though the pace of increase softened somewhat in recent months. The house price index (estimated by the First National Bank (FNB)) indicates that between 2009 and 2014 the average price of properties in the residential segment increased by about 85 percent.<sup>2</sup> In particular, the prices have grown faster in the central and coastal areas—which include the capital Windhoek and the coastal city of Walvis Bay—and in the low- and middle-value segments.



Estimated Housing Demand and Supply in Windhoek



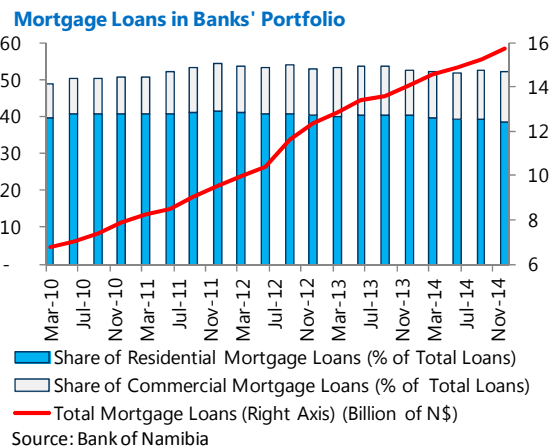
Sources: Bank of Namibia and NSA, and IMF staff estimates.

Note: Housing demand and supply are estimated based on population growth projections and completed residential building plans, respectively. Housing backlog is assumed null in 2001.

Multiple factors—fundamental, cyclical, and speculative factors—have contributed to soaring house prices. Specifically these factors include: (i) urbanization and migration of population from rural areas to major cities; (ii) increase in disposable income; (iii) acute shortage of supply due to the slow provision of serviced land by local authorities; (iv) low interest rates; (v) fiscal expansion and government incentive programs for home loans; (vi) home purchases for investment purposes, including some cash buying by foreigners.

Staff’s assessment—based on (i) common housing ratios, and (ii) regression analysis—suggests that the recent house price surge at the current pace might not be sustainable. At a national level, house price over-valuation is estimated at around 20 percent. The over-valuation is expected to be higher in the low- and middle-value segments, where the housing backlog is the largest. In addition to social implications, these developments raise financial stability concerns as they signal that the market might face soon an affordability bottleneck that may trigger house prices reversal.

A possible sharp reversal of the prevailing house price trend could impact financial stability in view of banks’ high exposure to the real estate sector (with the mortgage sector accounting for 52 percent of total loans at end-2014) and high household debt of disposable income (estimated by the BoN at around 85 percent in 2014).



1/ This section is based on the Selected Issues Paper on “Macro-Financial Risks Associated with Housing Boom”.

2/ The FNB house price index—the only available house price index for Namibia—records residential price developments based on bonds registered for natural persons at the Deeds office.

**17. A few sources of systemic risks, potentially affecting financial stability and the economy, are identified.**

- **Possible house price correction (Box 3 and the Selected Issues Paper).** The staff's stress-testing exercise—based on a possible overvaluation of house prices by up to 20 percent—suggests some resilience of the banking sector.<sup>13</sup> Under severe but plausible risk scenarios (entailing a moderate house price correction, a mild increase in interest rates, and decline in commodity prices), all banks would be able to absorb the shocks with their large capital buffers and remain compliant. However, in the most adverse tail-risk scenarios (entailing large house price correction and significant increase in interest rates, followed by severe economic recession), some banks could face difficulty in complying with the capital requirement. Under the most extreme scenario, commercial bank credit could drop significantly three years after the shock, and growth could potentially decline by about 10 percent.
- **Potential outflow of banks' wholesale deposits.** Commercial banks rely largely on wholesale funding, mainly in the form of short-term wholesale deposits (70–80 percent of total bank funding). Short maturities of this funding, against long maturities of bank assets, expose banking institutions to liquidity and maturity risks. These risks are heightened by the low level of international reserves that, in the context of the fixed exchange rate regime, could challenge the BoN's capacity to act as a lender of the last resort.
- **Large NBFIs and their close inter-linkages with banks (Box 2).** NBFIs' deposits are the most significant source of funding for banks. These funding linkages, together with tight ownership links, create the potential for system-wide contagion, which calls for close monitoring of their activities, although significant data and resource gaps make such oversight challenging.
- **Cross border financial linkages (Box 2).** Namibia's financial system has many cross-border links, especially with South Africa, through cross-border investments and ownership, which expose the country to contagion and systemic risk shocks.

**18. In light of these risks, targeted macroprudential measures should be explored to enhance the resilience of the financial system, while carefully monitoring the developments in real estate markets and the financial sector.** Those measures include:<sup>14</sup>

- **Introducing loan-to-value ratio (LTV) and debt service-to-income ratio (DSTI) limits.** While underlying distortions in the real estate markets should be addressed, targeted

<sup>13</sup> Since independence, Namibia has never experienced a financial crisis, thus the stress testing exercise uses cross-country evidence of large reductions in housing prices, while exploring four scenarios: (i) a modest decline in house prices and a decline in oil prices that reduces cash purchases from foreign investors, (ii) a modest decline in house prices and a decline in international prices of Namibia's export commodities, (iii) a large decline in house prices, a decline in international prices of Namibia's export commodities, and significant increase in interest rates, and (iv) a severe economic recession accompanied by a significant decline in house prices and in private sector credit.

<sup>14</sup> Policy advice in this area is based on the recommendations from the IMF technical assistance on macroprudential policies (June 2015).

macroprudential policies could be considered to mitigate systemic risks. In particular, LTV limits on non-primary residences—under consideration by the BoN—could constrain house purchases financed with mortgage loans for investment purposes. The limits could be complemented by DSTI limits, because LTV limits become less binding as property prices increase. As these limits are subject to the risk of leakage, it is important to closely monitor nonbank activities and extend the limits to other financial institutions engaged in real estate business. In addition, as risks to the financial system may arise from primary residential mortgages, Staff suggested the BoN to also consider imposing, as needed, LTV limits on primary residences to limit households' indebtedness and vulnerability to a house price shock. These measures should be designed, calibrated, and timed to mitigate financial stability risks without hampering affordability for lower income groups and causing excessive house price corrections, which may have financial stability implications. Furthermore, as these macroprudential policies cannot address the underlying drivers of rising real estate prices (including the acute supply constraints, delays in the delivery of serviced land, and the absence of a capital gains tax), they should go hand in hand with efforts to address these causes. Deeper financial markets can also offer alternative investment options and help reduce speculative housing demand.

- **Further strengthening the supervision of NBFIs.** While NAMFISA has made progress in strengthening its capacity to supervise and regulate nonbank financial institutions, the Financial Institutions and Markets (FIM) Bill—which provides a modernized and flexible regulatory and supervisory framework—needs to be enacted soon. To strengthen financial stability, NAMFISA could adopt additional criteria for its risk-based supervision, to capture institutions' contribution to systemic risks, such as size, complexity, and interconnectedness. NAMFISA's significant resource and capacity constraints need to be addressed to implement the new framework.
- **Further enhancing cross-border coordination.** While the authorities have been proactive in such coordination, there is scope to explore further measures. MOUs are in place with the SARB, South Africa's Financial Services Board, and the Bank of Botswana. The BoN regularly participates in supervisory colleges for South African banking groups. Nevertheless, given the important cross-border links between the Namibian and South African financial systems, macroprudential measures adopted would need coordination, including through reciprocity agreements. In addition, the existing MOUs with SARB for cross-border banks should be expanded to cover resolution and crisis management (see IMF Country Report No. 14/340). Cross-border cooperation for the insurance sector (including on coordination on crisis management) should also be strengthened, given the systemic size of these institutions.<sup>15</sup>

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<sup>15</sup> The recent Financial System Stability Assessment (FSSA) suggests that South Africa's banking system is well capitalized and profitable, although banks need larger liquidity capacity to meet Basel regulatory requirements by 2018. The FSSA identifies slow growth and rising interest rates as major risks to the banking sector.

- **Establishing a body in charge of macroprudential policy.** This entails: (i) giving this body an explicit macro-prudential mandate, and the necessary legal powers to exercise it; and (ii) providing this body with experienced staff, the availability of granular data and an enhanced IT framework.
- **Addressing information and data gaps.** Improving data availability is a prerequisite for risk identification and to conduct effective macroprudential policies. Improving granular data collection should be prioritized with a defined time schedule. Staff acknowledges the authorities' efforts to address the data gaps, including BoN's ongoing work to develop a new housing index (together with NSA and the Deeds office) and NAMFISA's commitment to develop FSIs for the non-bank financial sector with IMF technical assistance.
- **Leveraging on recent progress in AML/CFL legislation.** Significant progress in enhancing the AML/CFT regime resulted in Namibia's recent exit from the Financial Action Task Force monitoring process. In preparation for the next assessment in 2017, authorities are encouraged to effectively utilize AML/CFT tools in order to protect against national money laundering/terrorist financing risks and ensure financial stability.

**19. The authorities concurred with staff's assessment of systemic risk and the need for macroprudential policies.** Fully acknowledging the risks associated with rising house prices, the BoN intends to introduce LTV limits for non-primary residences and explore further measures as needed, although imposing LTV limits for primary residences will be difficult, in light of Namibia's housing shortage. NAMFISA concurred with the need to enhance its capacity and seek for technical assistance, while waiting for the enactment of the FIM Bill. The authorities recognized the importance of having a strong institutional framework to conduct macroprudential policy and explained the setup of the FSSC as a step to increase the involvement of and coordination across relevant institutions (BoN, NAMFISA, and MoF). To formalize the objectives and functions of the FSSC, the authorities are currently working on a MOU.

## C. Lowering Unemployment and Diversifying the Economy

**20. Namibia continues to face persistently high unemployment—particularly among the youth.** The implementation of the Targeted Intervention Programme for Employment and Economic Growth in 2011/12–2013/14 led to significant job creation (including many temporary construction jobs). However, according to the 2014 labor force survey, youth unemployment rate remains particularly high (39.2 percent), suggesting significant underutilization of labor. Furthermore, this underscores Namibia's key challenge of lack of skilled labor or marketable skills among the young.<sup>16</sup>

<sup>16</sup> It is commonly accepted in Namibia that the probability of employment increases significantly with tertiary education. According to the latest Labor Force Survey 2014, the highest unemployment rates are found amongst persons with junior secondary and primary education (34.2 and 29.5 percent respectively), before falling sharply with tertiary education.

The government plans to step up its efforts in this area, by introducing free secondary education (from 2016), expanding the secondary school system through enrolment in vocational education, implementing the skills levy, and establishing entrepreneurship training and internships.

**21. Despite some progress in economic diversification, it has not led to sufficient job creation.** Although the share of mining in GDP has gradually increased (as investment activities have been tilted toward this sector), it is by nature not labor intensive. On the other hand, there has been modest investment in labor-intensive industries (e.g., manufacturing), while the Namibian authorities embarked on an export diversification strategy through the creation of export processing zones (EPZ) focusing on manufacturing. In view of the relatively limited outcome of the policy, the government intends to gradually phase out the EPZ with a view to moving from its cash and tax incentives towards infrastructure and technology incentives. In the meantime, the government has been implementing the “Growth at Home” strategy which focuses on three strategic intervention areas: (i) supporting value addition, upgrading and diversification for sustained growth, (ii) securing market access at home and abroad, and (iii) improving the investment climate.<sup>17</sup>

**22. Namibia has maintained a relatively high ranking in the Doing Business Index (88<sup>th</sup> out of 189), but weaknesses remain in the ease of starting a business, registering property, and access to finance.**<sup>18</sup> The authorities share the need to improve business condition and are taking steps to establish a one-stop shop for investors to significantly reduce the time and procedures required to start a business; through the Investment Bill and the creation of the Business and Intellectual Property Authority. According to the 2014 Enterprise Surveys (conducted by the World Bank), access to finance is perceived by firms as the biggest business environment obstacle, despite the progress in financial inclusion.

**23. To promote job creation and address high youth unemployment, in addition to the above-mentioned growth-friendly fiscal consolidation, policy efforts from multiple perspectives are called for.** Previous staff assessments identified skill mismatches as one of the key causes of Namibia’s high unemployment (Appendix V, IMC Country Report No. 13/43). It can be also partly attributed to (i) the lack of progress in economic diversification, in particular in labor-intensive industries, (ii) lack of marketable skills, and (iii) inadequate business conditions to attract higher private sector investment. While the government is stepping up efforts to address unemployment, further improvements in the following areas would be particularly important:

- *Further improve business conditions to encourage investment in labor-intensive production (e.g., manufacturing), including through reducing costs and procedures for opening a business.*

<sup>17</sup> Under this strategy, the authorities have expanded strategic industries to include agro and fish processing, steel manufacturing and metal fabrication, automotive, chemical, and jewelry industry.

<sup>18</sup> These indicators should be interpreted with caution owing to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.



- *Facilitate financial intermediation with proper supervisory oversight.* Despite the steady progress in financial inclusion, continuous efforts to improve financial inclusion are important, while safeguarding financial stability. Following the BoN's initiative to conduct the intermediate assessment of the Namibia Financial Sector Strategy, a scope for an FSAP could be sought to obtain a comprehensive assessment.
- *Reduce skill mismatches,* through improving education and job related skills to improve employability. In light of the high youth unemployment, it is especially important to equip the youth (during secondary school) with marketable job skills and enhance skills development and vocational training for those unemployed. To this end, the authorities should (i) ameliorate the curriculum and quality of basic education, (ii) upgrade the quality of teachers, and (iii) revamp the mapping between the national development strategy and industry's needs through the design of improved skill training at vocational schools. Policy actions in these areas, set under the Fourth National Development Plan (NDP4) for the period 2012/13-2016/17, should be swiftly implemented.

**24. The authorities shared the urgent need to address high unemployment and inequality.**

Job creation is a priority for the new government. To this end, it plans to focus on infrastructure investments (such as transportation and energy) to create jobs and enhance long term growth. Acknowledging the temporary nature of these jobs, the authorities argue that they have identified strategic industries such as agri-business, logistics, tourism, and manufacturing, with a view to enhancing job creation over the long term. Furthermore, recognizing the mismatch of skills, the government intends to improve education and job-related skills aimed at employability and transitioning between sectors and productivity levels. They also point to the importance of augmenting the quality of education spending.

## STAFF APPRAISAL

**25. Since the global financial crisis, Namibia has enjoyed robust growth, buoyed by construction in mining and housing sectors as well as the expansionary fiscal policy.** Such vigorous growth was mirrored in the rapid credit growth. These developments have raised overall incomes and contributed to job creation, though Namibia's unemployment remains high. In the meantime, the pressure on external balances has increased, while real estate prices have risen.

**26. Namibia faces significant policy challenges, while its growth prospects are increasingly clouded with downside risks.** While robust growth is expected to continue in coming years led by mining and construction, near-term risks have increased, associated the highly volatile SACU revenues in the absence of sufficient international reserves and the potential systemic risk from rapid real estate price increases. Those risks, unless properly addressed, could weaken growth and adversely affect the economy's sustainability. In this light, Namibia's key short-term policy challenges are therefore to build an adequate international reserve buffer to strengthen its resilience to exogenous shocks and to manage potential systemic risks in the financial sector.



**27. Staff welcomes the authorities' intention to shift toward a tighter fiscal policy stance, while safeguarding critical social and development needs.** While a fiscal consolidation with additional external financing would be essential to build adequate international reserves over the medium term, such consolidation would need to be growth-friendly and hence contain significant structural elements. To help implement the consolidation, it is also important to enhance the country's efforts for public financial management reforms and further strengthen tax administration. For external financing, staff calls for careful assessments on the associated interest rate, rollover, and exchange rate risks, while monitoring the liabilities of all regional and local authorities and the fiscal risk from increasing explicit/implicit sovereign guarantees for public enterprises.

**28. Risks associated with recent housing market development should be carefully addressed.** Fast growth in real estate prices—combined with the high concentration of banks' mortgage lending—pose risks to the financial sector and the economy. To address such risks, staff suggested targeted macroprudential policies, including the introduction of LTV and DSTI limits. To this end, staff welcomes the BONs plans to introduce LTV limits for non-primary resident purchases and explore further measures as needed. Given the magnitude of the risk and its possible consequences, macroprudential policies should be implemented promptly, while carefully assessing their effects and consequences.

**29. Staff shares the authorities' concern on unemployment and welcomes their intention to address this issue as a policy priority.** It is important to progress in economic diversification, particularly in labor-intensive industries. In light of the high youth unemployment, for those with limited access to higher education, marketable skills should be explored, through enhancing skills development and vocational training and upgrading the education quality.

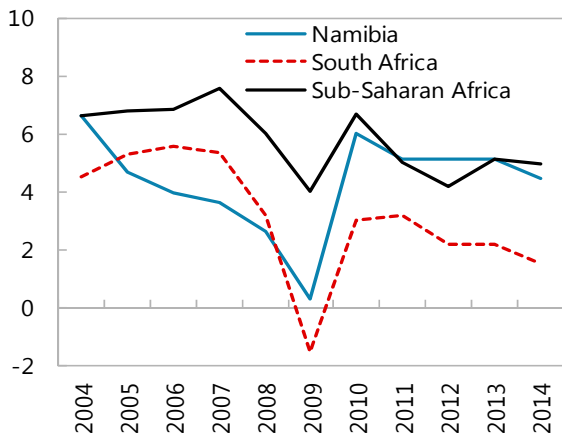
**30. Staff recommends that the next Article IV consultation** with Namibia take place on the standard 12-month cycle.

**Figure 1. Growth Performance**

*Robust growth continued since the 2009 recession....*

**Real GDP Growth**

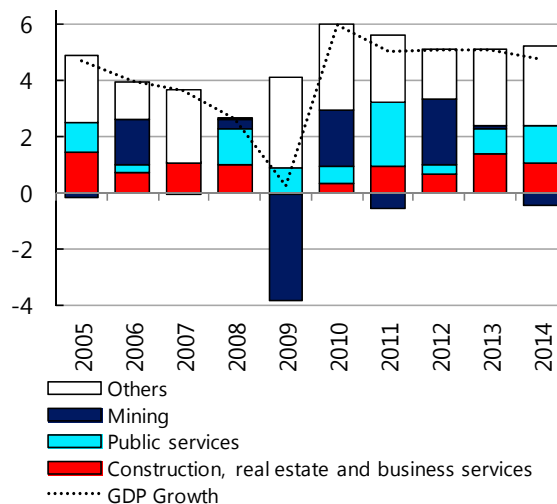
(Annual percentage change)



*... supported by active construction in mining and housing sectors*

**Contributions to Real GDP Growth by Sector**

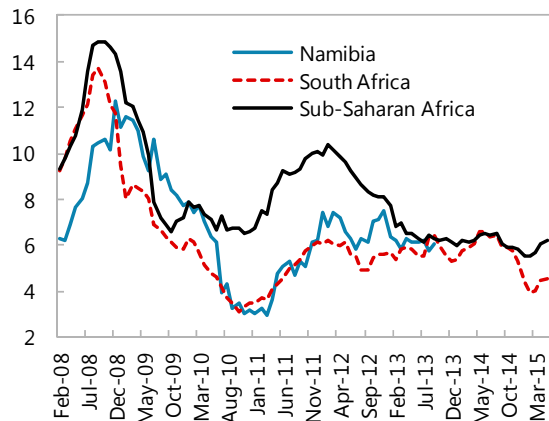
(Percent)



*Inflation stayed modest.*

**Inflation**

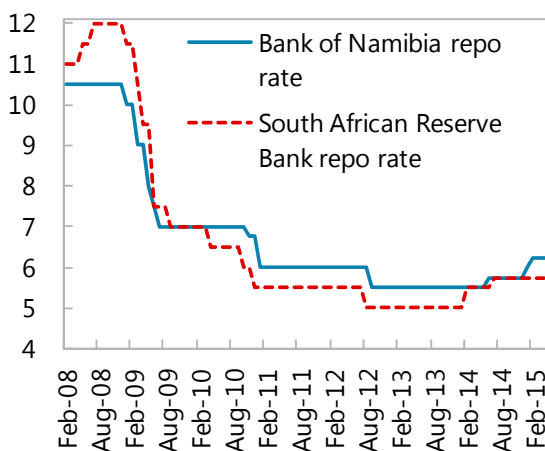
(Percent)



*Interest rates are rising, following South Africa.*

**Interest Rates**

(Percent)



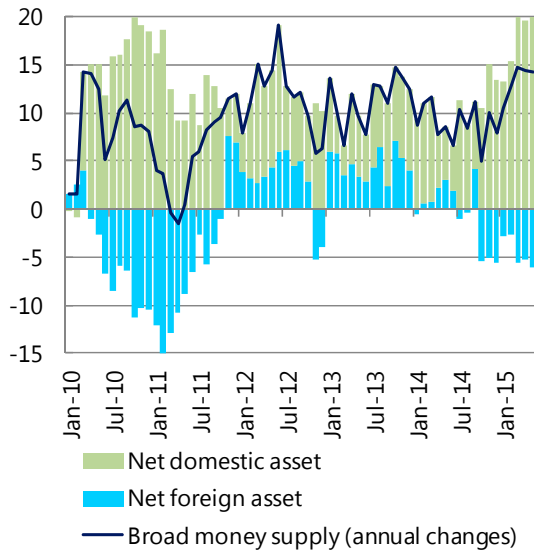
Sources: Country authorities and IMF staff estimates.

**Figure 2. Namibia: Monetary and Financial Sector Developments**

Money growth has recently been driven by domestic asset.

**Contributions to Broad Money Growth**

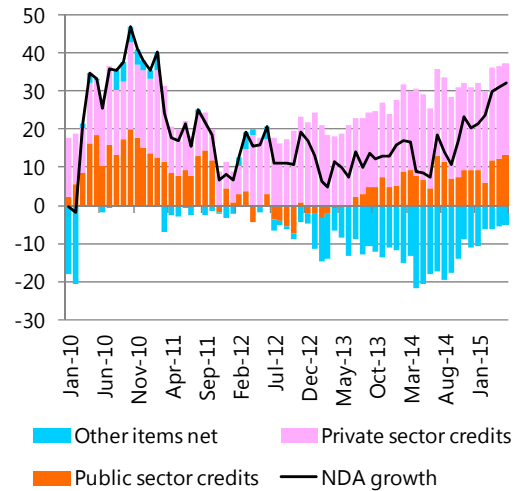
(percentage point)



Specifically, private sector credits have rapidly increased.

**Contributions to Broad Money Growth**

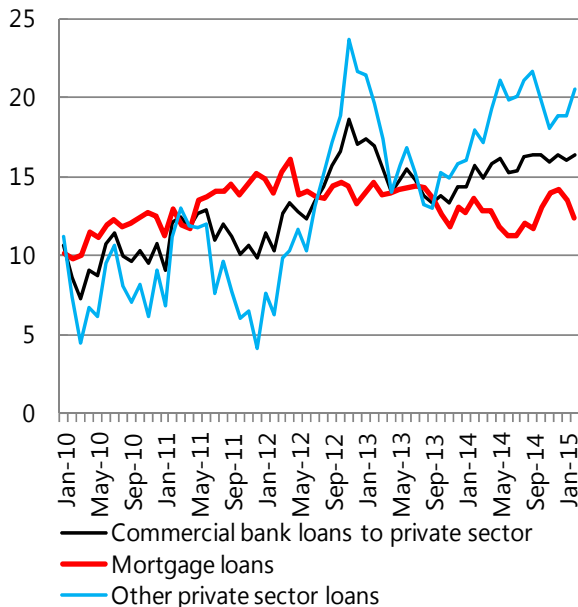
(percentage point)



Growth in private sector credit was driven by both businesses and individuals (personal loans and residential mortgages).

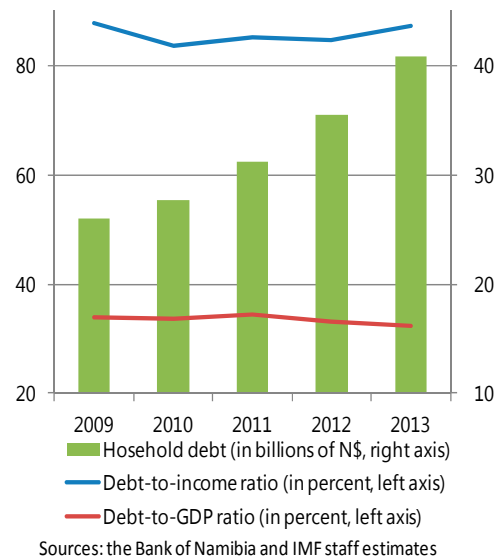
**Commercial Bank Loans to Private Sector**

(Annual changes, in percent)



Domestic household debt is estimated to have increased.

**Estimated Household Debt**



Sources: Namibian authorities and IMF staff estimates

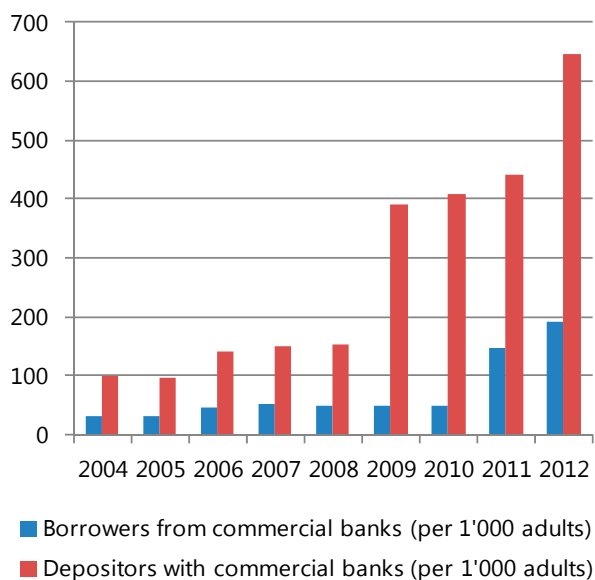
Sources: the Bank of Namibia and IMF staff estimates

**Figure 2. Namibia: Monetary and Financial Sector Developments (concluded)**

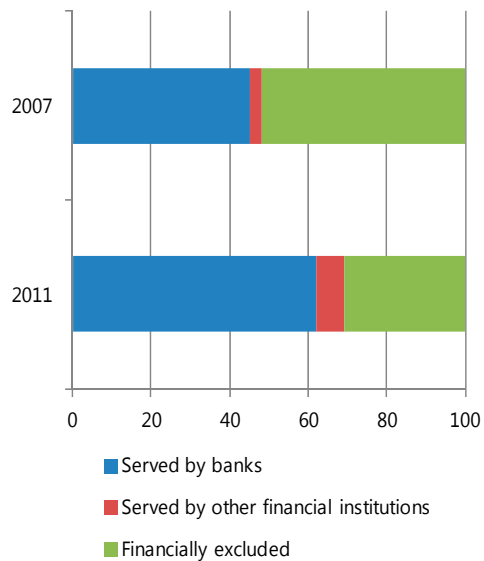
Access to financial services has recently grown fast ...

...and thus financial exclusion has declined.

**Namibia: Access to Banking Services**

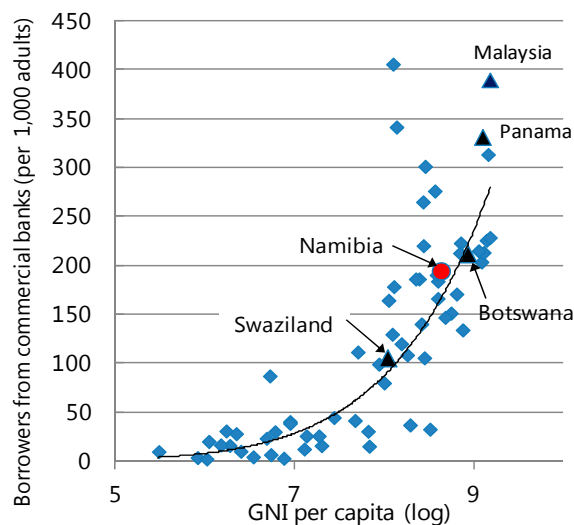


**Namibia: Financial Exclusion**



**Access to Bank Lending in Developing Countries**

(Most recent data)



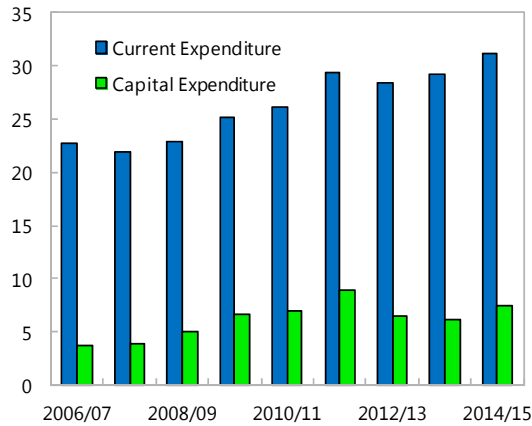
Sources: Namibian authorities, World Bank, FinScope Survey, and IMF staff estimates.

**Figure 3. Namibia: Fiscal Balances**

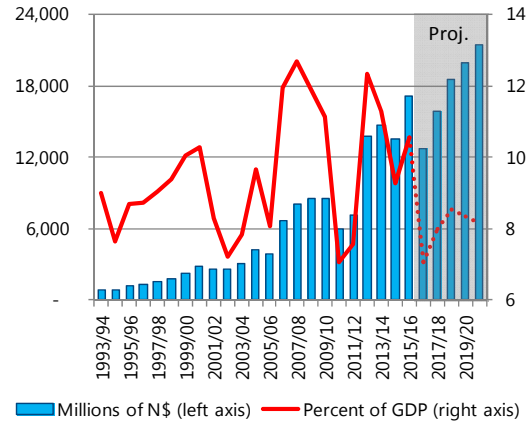
*Current and capital expenditures continued to expand.*

*The SACU revenues are expected to fall, reflecting the slowdown in the South African economy.*

**Current and Capital Expenditures**  
(Percent of GDP)



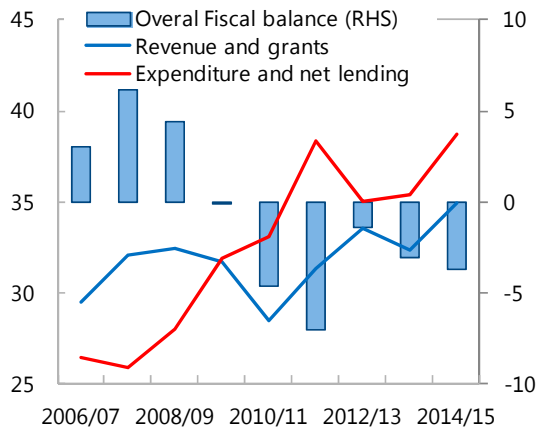
**SACU Revenues**



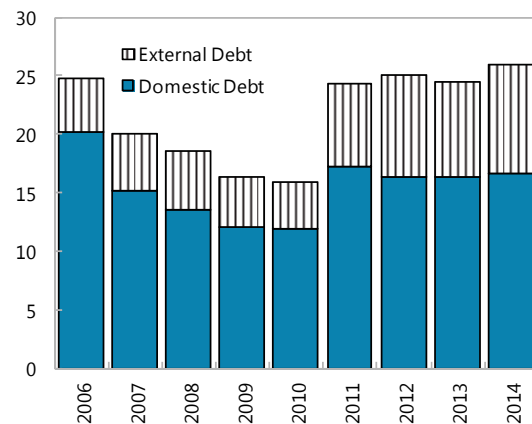
*As a result, fiscal deficits are expected to widen in coming years.*

*Public debt recently increased but remains within the government's target of 35 percent of GDP.*

**Fiscal Balance**  
(Percent of GDP)



**Public Debt**  
(Percent of GDP)

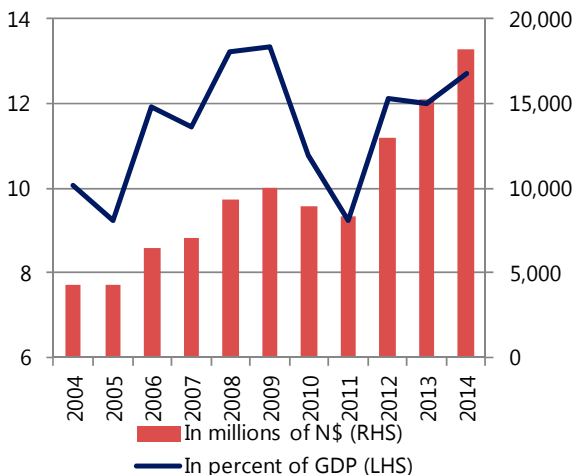


Sources: Namibian authorities and IMF staff estimates and projections.

**Figure 4. Balance of Payments Developments**

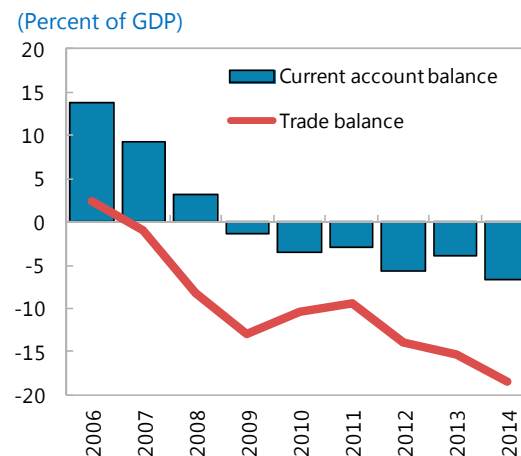
Though SACU revenues recovered following the 2011 SACU revenue shock...

**Current Transfers**



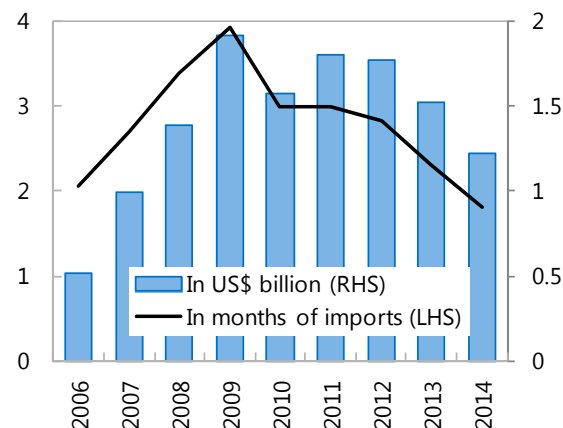
...trade deficits widened due to strong import demand and low international commodity prices for main export items.

**Current Account and Trade Balances**



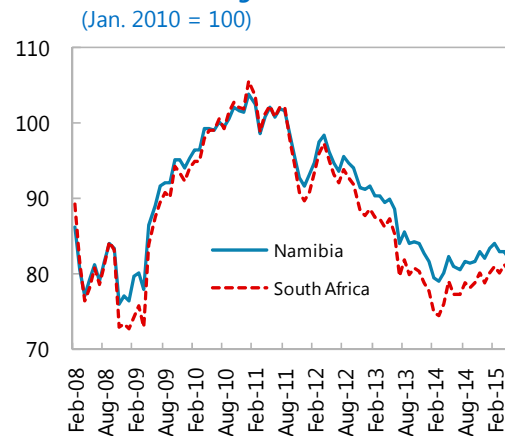
As a result, international reserves continued to decline.

**International Reserves**



Real effective exchange rate has recently weakened.

**Real Effective Exchange Rate**



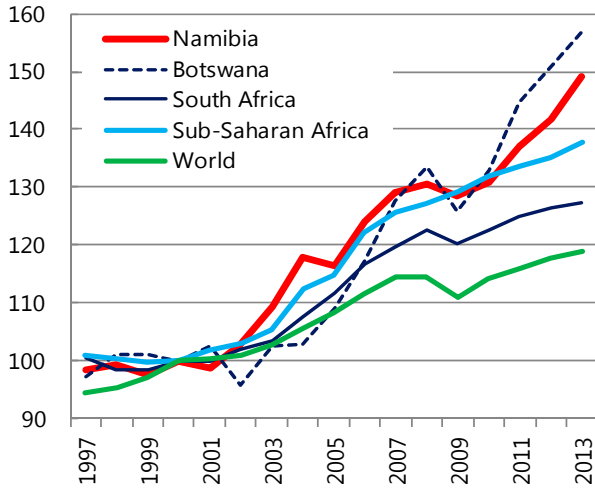
Sources: Namibian authorities and IMF staff estimates.

**Figure 5. Poverty and Inequality**

Namibia achieved robust growth in per capita income...

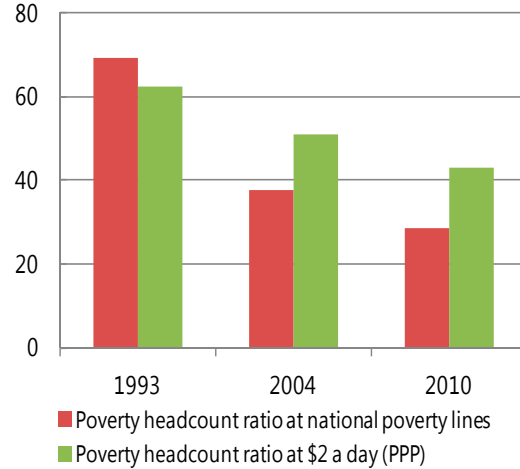
**Real Income Per Capita**

(2000=100, Real GNI per capita)



...and also made progress in poverty reduction.

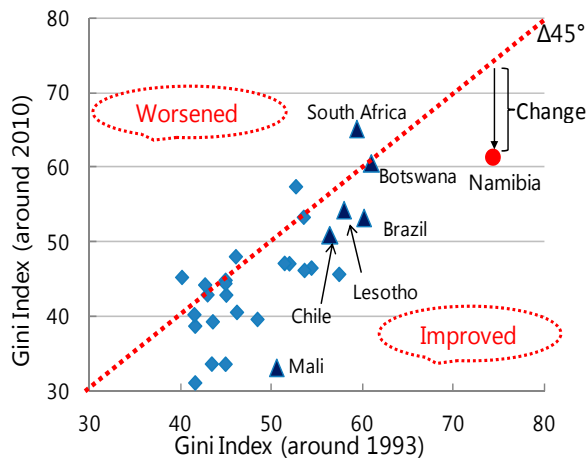
**Poverty Ratios (In percent of population)**



Income inequality was significantly reduced since the independence...

**GINI Index: Changes from 1993 to 2010**

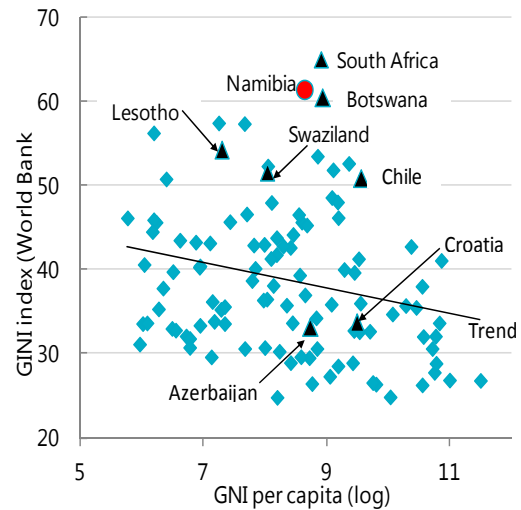
(Countries with high GINI index in early 1990s)



...but it remains high, compared with peer countries with similar per capita income peers.

**Inequality and Income Level<sup>1</sup>**

(Most recent data)



1. Countries of which GINI index is available since 2008.

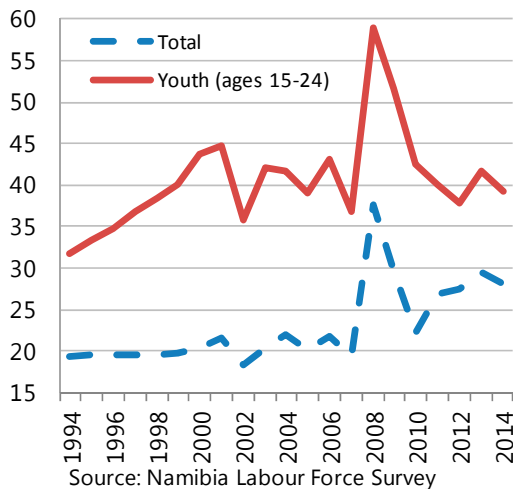
Sources: Country authorities, World Bank, and IMF staff estimates.

**Figure 6. Selected Labor Indicators**

While unemployment has declined since the peak of the crisis it remains above the pre-crisis level.

**Namibia: Unemployment Rate**

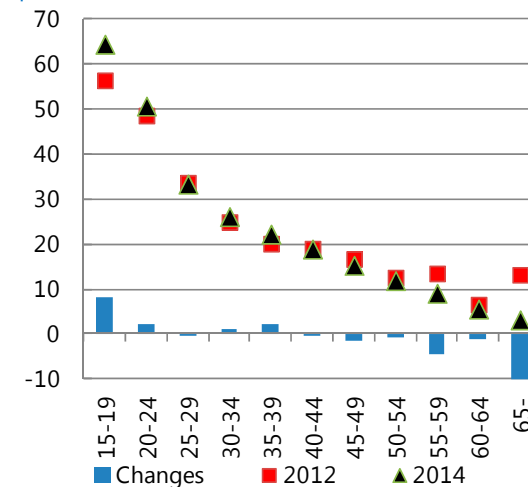
(percent of labor force)



Including those not actively seeking for jobs, unemployment for youth has reached an alarming level

**Unemployment Rate by Age**

(percent of labor force)

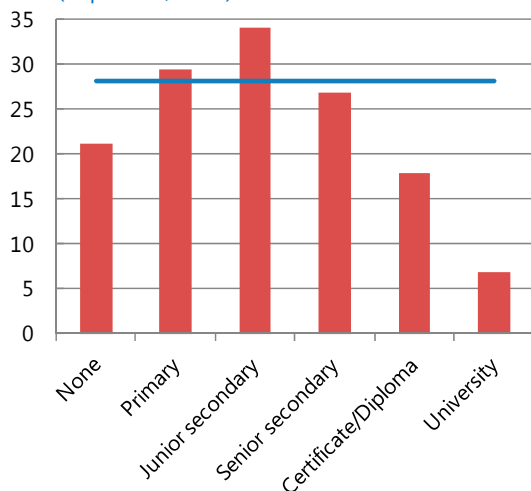


Note: Unemployment data is from the Namibia Labor Force Survey where available. Intervening years are ILO estimates.

Unemployment is especially high for those with lower educational attainment.

**Unemployment Rate by Educational Attainment**

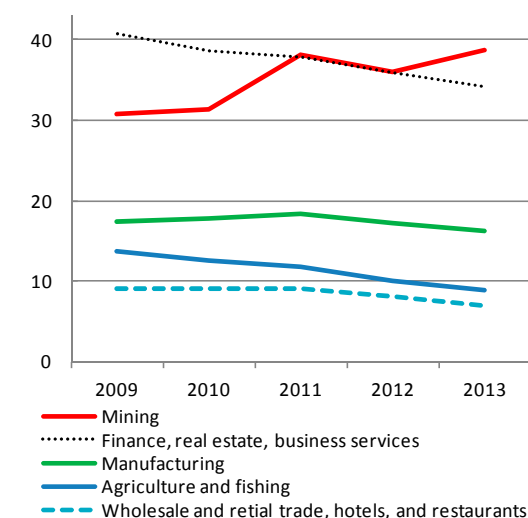
(In percent, 2014)



Investment activities have been active in mining industry that is least labor-intensive, though investment in manufacturing has been modest.

**Fixed Capital Stock by Industry**

(Percent of GDP)



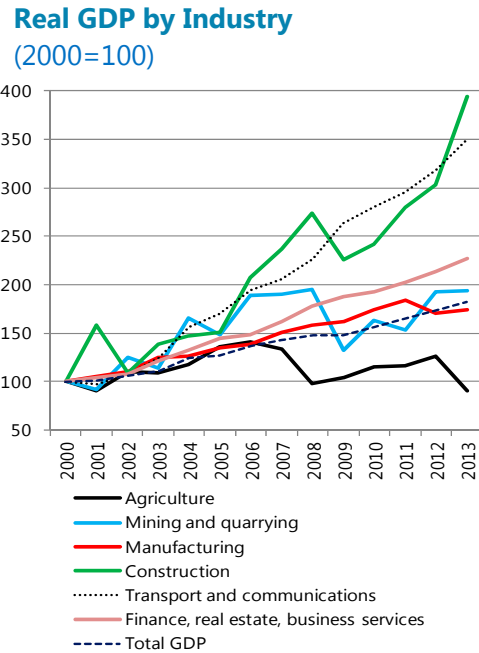
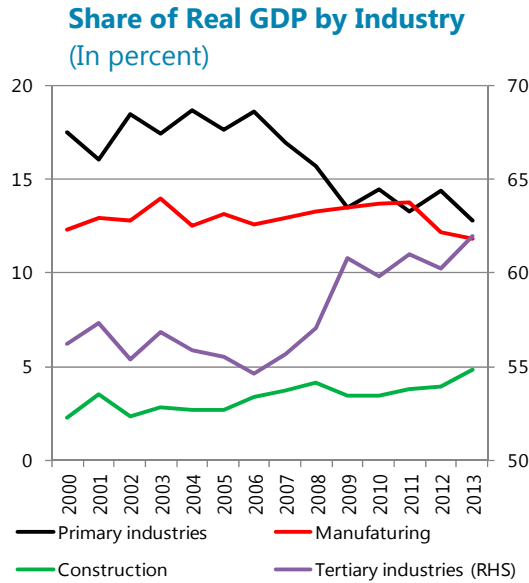
Sources: Namibian authorities, World Bank, and IMF staff estimate.



**Figure 7. Economic Structure (Economic Diversification)**

*The share of manufacturing recently declined, while service sectors have further expanded.*

*Specifically, transport and communications, construction, and some other service sectors have steadily grown.*



Sources: Namibian authorities and IMF staff estimates.

**Table 1. Namibia: Selected Economic Indicators, 2011–20 (Baseline Scenario)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Est	Proj	Proj	Proj	Proj	Proj
(percentage change, unless otherwise indicated)										
National account and prices										
GDP at constant prices 1/	5.1	5.1	5.1	4.5	4.8	5.0	6.2	5.8	4.5	4.4
GDP deflator	3.8	12.6	11.3	11.7	6.1	6.0	6.0	6.0	5.8	5.8
GDP at market prices (N\$ billions)	90.1	106.7	124.9	145.7	162.0	180.4	203.1	227.7	251.5	277.6
GDP at market prices (usd\$ billions)	12.4	13.0	12.9	13.6	12.9	13.7	14.9	16.2	17.4	18.7
GDP per capita (US\$, constant 2000 exchange rate)	6,150	7,184	8,287	9,539	10,519	11,615	12,966	14,416	15,796	17,289
Consumer prices (end of period)	7.4	6.4	4.9	4.6	5.2	5.5	5.8	5.8	5.7	5.7
External sector										
Exports (US\$)	9.8	-0.4	6.0	-0.4	-6.7	6.8	15.4	9.6	2.4	2.3
Imports (US\$)	7.9	17.9	1.6	11.0	-5.9	7.3	0.3	3.2	1.6	3.6
Terms of trade (deterioration = -)	6.5	-9.0	-4.0	-2.9	-1.4	-5.6	-2.3	-2.1	-2.0	-1.9
Real effective exchange rate (period average)	-1.6	-3.9	-8.7	-5.9	...	...	...	...	...	...
Exchange rate (N\$/US\$, end of period)	8.1	8.5	10.5	11.6	...	...	...	...	...	...
Money and credit										
Domestic credit to the private sector	9.3	16.9	14.5	16.5	9.5	9.0	10.4	11.4	10.3	10.0
Base money	69.9	-9.5	22.7	16.7	7.7	8.2	9.3	9.4	9.5	9.4
M2	19.8	5.3	8.6	7.7	9.8	9.7	10.9	11.0	10.5	10.4
Interest rate (percent)	6.0	5.5	5.5	6.0	...	...	...	...	...	...
(percent of GDP)										
Investment and Savings										
Gross Investment	22.7	25.9	26.1	28.0	29.6	32.7	22.4	19.1	19.0	18.9
Public	8.2	7.2	6.7	4.3	4.6	4.7	4.4	4.1	4.0	3.9
Private	14.4	18.7	19.4	23.7	25.0	28.0	18.0	15.0	15.0	15.0
Gross domestic savings	13.0	13.1	9.4	6.9	8.4	11.2	7.6	7.7	9.3	9.7
Gross national savings	17.5	16.7	17.8	14.1	15.4	15.7	9.6	8.5	9.6	9.8
Central government budget 2/										
Revenue and grants	31.7	32.9	32.2	35.1	33.0	29.7	30.7	31.1	30.7	30.4
Of which: SACU receipts	7.6	12.4	11.3	12.1	10.3	6.8	7.6	7.9	7.7	7.5
Expenditure and net lending	40.3	34.5	36.4	38.9	39.7	37.6	35.9	35.0	34.7	34.6
Primary balance (deficit = -)	-7.3	-0.1	-2.9	-2.4	-5.2	-5.9	-2.8	-1.4	-1.4	-1.4
Overall balance	-8.5	-1.6	-4.2	-3.8	-6.7	-7.8	-5.2	-4.0	-4.0	-4.1
Overall balance: Non-SACU	-16.1	-14.0	-15.6	-15.8	-17.0	-14.7	-12.8	-11.9	-11.7	-11.6
Public debt/GDP	26.2	24.0	22.7	24.0	28.3	33.3	34.9	35.3	36.1	36.9
Gross public and publicly guaranteed debt/GDP	28.1	25.9	26.8	27.2	34.7	41.5	45.6	45.3	46.1	46.9
External sector										
Current account balance										
(including official grants)	-2.9	-5.6	-3.9	-9.9	-12.1	-16.3	-10.7	-7.8	-6.9	-7.1
External public debt (including IMF)	6.4	7.8	6.9	7.2	8.9	10.8	11.7	11.8	11.6	10.9
Gross official reserves										
US\$ millions	1,800	1,774	1,526	1,220	1,079	1,045	1,106	1,233	1,355	1,397
Percent of GDP	14.5	13.6	11.8	8.9	8.4	7.6	7.4	7.6	7.8	7.5
Months of imports of goods and services	3.0	2.8	2.2	1.8	1.5	1.5	1.5	1.6	1.7	1.7
External debt/GDP 3/	41.4	35.6	38.4	40.4	47.2	48.6	49.0	49.5	50.6	51.4
Memorandum item:										
Population (in million)	2.1	2.1	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3

Sources: Namibian authorities and Fund staff estimates and projections.

1/ Figures include public enterprise and central government investment.

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

3/ Public and private external debt.

**Table 2. Namibia: Balance of Payments, 2011–20 (Baseline Scenario)**  
(US\$ millions, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Est	Proj	Proj	Proj	Proj	Proj
Current account	-356	-733	-507	-1,355	-1,557	-2,229	-1,593	-1,262	-1,201	-1,331
Trade balance										
Exports, f.o.b.	4,404	4,385	4,649	4,630	4,318	4,612	5,323	5,835	5,977	6,117
Of which:										
Diamonds	882	1,005	1,212	1,291	1,193	1,230	1,241	1,209	1,201	1,195
Other minerals	927	850	769	672	680	929	1,535	1,957	1,951	1,952
Fish	626	526	414	377	380	314	326	335	345	359
Imports, f.o.b.	-5,535	-6,527	-6,632	-7,365	-6,930	-7,436	-7,456	-7,696	-7,815	-8,097
Services (net)	-38	351	-14	-103	-115	-121	-61	-25	37	72
Transportation	-108	-135	-282	-332	-306	-333	-329	-337	-335	-345
Travel	310	332	285	259	246	263	300	336	370	404
Other services	-241	155	-17	-30	-55	-50	-32	-23	2	12
Income (net)	-336	-521	-86	-191	-252	-345	-521	-672	-769	-855
Compensation of employees	-14	-7	-6	-3	-5	-5	-4	-5	-5	-5
Investment income	-322	-514	-80	-188	-247	-341	-516	-667	-764	-851
Current transfers	1,149	1,580	1,576	1,675	1,423	1,061	1,121	1,295	1,369	1,433
Official transfers	1,133	1,564	1,560	1,662	1,407	1,047	1,107	1,281	1,354	1,418
Other transfers	17	17	17	13	15	15	14	15	15	15
Of which: SACU receipts 1/	915	1,478	1,502	1,592	1,378	1,049	1,104	1,271	1,351	1,413
Capital and financial account	1,107	1,267	749	1,275	1,502	2,218	1,672	1,405	1,343	1,391
Capital account	187	148	129	138	135	140	153	167	178	192
Financial Account	920	1,119	619	1,138	1,367	2,078	1,518	1,238	1,165	1,199
Direct Investment	812	1,145	814	601	768	1,152	906	900	730	782
Portfolio Investment	30	-594	-492	-509	45	332	-38	-372	-325	-389
Other Investment	79	568	298	1,045	554	594	650	710	760	805
Errors and Omissions	-526	-561	-507	-219	0	0	0	0	0	0
Overall balance	225	-27	-266	-298	-55	-11	78	144	142	60
Memorandum items:										
Gross International Reserves (end of period) 2/	1,800	1,774	1,526	1,220	1,079	1,045	1,106	1,233	1,355	1,397
Months of imports of goods and services	3.0	2.8	2.2	1.8	1.5	1.5	1.5	1.6	1.7	1.7
Short-term debt (US\$ millions)	1,230	756	1,033	1,000	1,005	948	997	988	984	979
External debt/GDP (percent)	41	36	38	40	47	49	49	50	51	51
External debt (US\$ millions) from IIP 3/	5,146	4,626	4,972	5,512	6,067	6,663	7,315	8,027	8,788	9,595
GDP at market prices (US\$ millions)	12,426	13,002	12,938	13,632	12,855	13,703	14,924	16,215	17,370	18,661

Sources: Namibian authorities and Fund staff estimates and projections.

1/ South African Customs Union.

2/ Includes SDR allocations in 2009.

3/ International investment position.

**Table 3a. Namibia: Fiscal Operations of the Central Government, 2010/11–20/21 (Baseline Scenario)**  
(N\$ millions)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Est	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	23,378	29,917	36,590	41,890	52,597	55,062	55,323	64,271	72,628	79,240	86,791
Domestic revenue	23,354	29,739	36,405	41,611	52,487	55,017	55,160	64,108	72,446	79,038	86,569
Tax revenue	21,393	27,053	34,234	39,486	50,075	52,666	52,396	60,621	68,517	74,836	82,069
Personal income tax	5,945	7,326	8,189	9,537	12,522	13,973	15,603	17,544	19,590	21,637	23,901
Corporate income tax	3,585	3,916	4,510	3,434	7,149	7,673	8,550	9,569	10,551	11,511	12,715
o/w Diamond mining	354	841	994	655	1,980	1,747	1,883	1,961	1,998	2,063	2,279
VAT and sales taxes	5,057	7,782	6,971	8,199	11,127	12,502	13,985	15,957	17,899	19,623	21,676
Taxes on international trade (includes SACU receipts)	5,976	7,137	13,796	14,727	18,117	17,123	12,700	15,800	18,521	19,905	21,391
Other taxes	830	892	768	1,690	1,160	1,395	1,557	1,751	1,955	2,160	2,386
Nontax revenue	1,961	2,685	2,171	2,126	2,413	2,351	2,764	3,487	3,929	4,203	4,500
Diamond and other mineral royalties	882	937	944	293	852	928	1,175	1,490	1,700	1,740	1,780
Administrative fees, including license revenues	545	483	211	450	590	624	696	783	874	966	1,067
Other	534	1,265	1,016	1,383	970	800	893	1,214	1,355	1,497	1,653
Grants	24	179	184	278	110	45	163	163	182	201	222
Expenditures and net lending	28,142	37,961	38,395	47,408	58,224	66,226	69,920	75,147	81,859	89,651	98,574
Current expenditures	22,153	27,922	30,803	38,595	46,337	52,630	54,264	59,088	65,155	71,201	78,223
Personnel	10,797	12,690	13,925	17,932	21,594	23,270	24,073	25,505	28,480	31,456	34,747
Goods and services	4,105	5,467	5,290	6,551	8,182	9,262	8,818	9,318	10,301	10,809	11,283
Interest payments	966	1,131	1,719	1,796	1,991	2,455	3,599	5,036	5,979	6,849	7,795
Domestic	881	1,060	1,419	1,389	1,556	2,024	2,695	3,720	4,399	5,022	5,833
Foreign	85	72	300	407	435	432	904	1,316	1,580	1,827	1,963
Subsidies and transfers	6,285	8,375	9,869	12,316	14,569	17,642	17,774	19,229	20,395	22,088	24,398
Capital expenditure	5,989	8,795	6,887	8,819	11,883	13,587	15,666	16,071	16,717	18,463	20,367
Acquisition of capital assets	3,335	4,111	5,371	7,337	8,597	11,095	11,468	12,490	13,877	15,327	16,902
Project Financed (extrabudgetary)	1,259	1,354	302	678	583	815	2,708	2,061	1,143	1,262	1,394
Capital transfers	1,395	3,330	1,214	804	2,703	1,677	1,490	1,520	1,697	1,874	2,070
Net lending	0	1,243	705	-6	5	10	-10	-11	-13	-14	-15
Overall balance 1/	-4,764	-8,044	-1,805	-5,519	-5,627	-11,164	-14,597	-10,876	-9,231	-10,411	-11,784
Overall balance excluding grants	-4,788	-8,222	-1,989	-5,797	-5,737	-11,209	-14,760	-11,039	-9,413	-10,612	-12,006
Primary balance	-3,798	-6,912	-86	-3,722	-3,636	-8,709	-10,998	-5,840	-3,252	-3,562	-3,989
Financing	4,764	8,044	1,805	5,519	5,627	11,164	14,597	10,876	9,231	10,411	11,784
Domestic financing (net)	3,678	3,233	908	5,115	5,321	6,643	9,166	7,075	6,333	8,460	10,958
External financing (net)	1,086	4,810	896	403	306	4,521	5,431	3,801	2,898	1,951	826
Disbursements	1,259	5,004	1,152	678	583	4,815	5,708	4,061	3,143	2,262	1,394
Project loans	1,259	1,354	302	678	583	815	2,708	2,061	1,143	1,262	1,394
External bond	0	3,650	850	0	0	4,000	3,000	2,000	2,000	1,000	0
Amortization	-174	-194	-256	-275	-278	-294	-277	-260	-244	-311	-568
Memorandum items:											
Public and publicly guaranteed debt	15,500	26,526	28,854	34,856	40,715	57,807	77,153	95,399	105,903	118,975	133,656
Public debt	13,487	24,734	26,740	29,516	35,950	47,119	61,996	73,093	82,541	93,172	105,153
Domestic	10,233	17,245	17,698	20,053	23,897	30,540	39,706	46,781	53,114	61,574	72,532
External	3,254	7,489	9,042	9,463	12,053	16,579	22,290	26,312	29,427	31,597	32,621

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

1/ "Overall balance" includes externally financed project spending that is not channeled through the state account such as the Kudu Gas project.

**Table 3b. Namibia: Fiscal Operation of the Central Government, 2010/11–20/21 (Baseline Scenario)**  
(Percent of GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
					Est	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	27.7	31.7	32.9	32.2	35.1	33.0	29.7	30.7	31.1	30.7	30.5
Revenue	27.6	31.5	32.7	32.0	35.0	33.0	29.6	30.6	31.0	30.6	30.4
Tax revenue	25.3	28.7	30.8	30.4	33.4	31.6	28.2	29.0	29.3	29.0	28.8
Personal income tax	7.0	7.8	7.4	7.3	8.4	8.4	8.4	8.4	8.4	8.4	8.4
Corporate income tax	4.2	4.2	4.1	2.6	4.8	4.6	4.6	4.6	4.5	4.5	4.5
o/w Diamond mining	0.4	0.9	0.9	0.5	1.3	1.0	1.0	0.9	0.9	0.8	0.8
VAT and sales taxes	6.0	8.3	6.3	6.3	7.4	7.5	7.5	7.6	7.7	7.6	7.6
Taxes on international trade (includes SACU receipts)	7.1	7.6	12.4	11.3	12.1	10.3	6.8	7.6	7.9	7.7	7.5
Other taxes	1.0	0.9	0.7	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Nontax revenue	2.3	2.8	2.0	1.6	1.6	1.4	1.5	1.7	1.7	1.6	1.6
Diamond and other mineral royalties	1.0	1.0	0.8	0.2	0.6	0.6	0.6	0.7	0.7	0.7	0.6
Administrative fees, including license revenues	0.6	0.5	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other	0.6	1.3	0.9	1.1	0.6	0.5	0.5	0.6	0.6	0.6	0.6
Grants	0.0	0.2	0.2	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Expenditures and net lending	33.3	40.3	34.5	36.4	38.9	39.7	37.6	35.9	35.0	34.7	34.6
Current expenditures	26.2	29.6	27.7	29.7	30.9	31.6	29.2	28.2	27.9	27.6	27.5
Personnel	12.8	13.5	12.5	13.8	14.4	14.0	12.9	12.2	12.2	12.2	12.2
Goods and services	4.9	5.8	4.8	5.0	5.5	5.6	4.7	4.5	4.4	4.2	4.0
Interest payments	1.1	1.2	1.5	1.4	1.3	1.5	1.9	2.4	2.6	2.7	2.7
Domestic	1.0	1.1	1.3	1.1	1.0	1.2	1.4	1.8	1.9	1.9	2.0
Foreign	0.1	0.1	0.3	0.3	0.3	0.3	0.5	0.6	0.7	0.7	0.7
Subsidies and transfers	7.4	8.9	8.9	9.5	9.7	10.6	9.6	9.2	8.7	8.6	8.6
Capital expenditure	7.1	9.3	6.2	6.8	7.9	8.2	8.4	7.7	7.2	7.2	7.2
Acquisition of capital assets	3.9	4.4	4.8	5.6	5.7	6.7	6.2	6.0	5.9	5.9	5.9
Project Financed (extrabudgetary)	1.5	1.4	0.3	0.5	0.4	0.5	1.5	1.0	0.5	0.5	0.5
Capital transfers	1.7	3.5	1.1	0.6	1.8	1.0	0.8	0.7	0.7	0.7	0.7
Net lending	0.0	1.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 1/	-5.6	-8.5	-1.6	-4.2	-3.8	-6.7	-7.8	-5.2	-4.0	-4.0	-4.1
Overall balance excluding grants	-5.7	-8.7	-1.8	-4.5	-3.8	-6.7	-7.9	-5.3	-4.0	-4.1	-4.2
Primary balance	-4.5	-7.3	-0.1	-2.9	-2.4	-5.2	-5.9	-2.8	-1.4	-1.4	-1.4
Financing	5.6	8.5	1.6	4.2	3.8	6.7	7.8	5.2	4.0	4.0	4.1
Domestic financing (net)	4.4	3.4	0.8	3.9	3.6	4.0	4.9	3.4	2.7	3.3	3.8
External financing (net)	1.3	5.1	0.8	0.3	0.2	2.7	2.9	1.8	1.2	0.8	0.3
Disbursements	1.5	5.3	1.0	0.5	0.4	2.9	3.1	1.9	1.3	0.9	0.5
Project loans	1.5	1.4	0.3	0.5	0.4	0.5	1.5	1.0	0.5	0.5	0.5
External bond	0.0	3.9	0.8	0.0	0.0	2.4	1.6	1.0	0.9	0.4	0.0
Amortization	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2
Memorandum items:											
Public and publicly guaranteed debt	18.3	28.1	25.9	26.8	27.2	34.7	41.5	45.6	45.3	46.1	46.9
Public debt	16.0	26.2	24.0	22.7	24.0	28.3	33.3	34.9	35.3	36.1	36.9
Domestic	12.1	18.3	15.9	15.4	16.0	18.3	21.3	22.4	22.7	23.9	25.5
External	3.9	7.9	8.1	7.3	8.0	9.9	12.0	12.6	12.6	12.2	11.5

Sources: Namibian authorities and Fund staff estimates and projections.

1/ "Overall balance" includes externally financed project spending that is not channeled through the state account such as the Kudu Gas project.

**Table 4. Namibia: Monetary Accounts, 2011–20 (Baseline Scenario)<sup>1/</sup>**  
(N\$ millions, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Est	Proj	Proj	Proj	Proj	Proj
<b>Bank of Namibia</b>										
Reserve money	5,508	4,984	6,115	7,138	7,687	8,314	9,090	9,941	10,888	11,913
Currency	2,397	2,773	3,600	4,280	4,525	4,894	5,383	5,922	6,514	7,165
Reserves	3,110	2,211	2,515	2,858	3,162	3,420	3,707	4,019	4,374	4,747
Net foreign assets	13,027	13,364	13,716	11,690	11,893	11,997	13,336	15,701	18,137	19,325
Net domestic assets	-7,542	-8,380	-7,600	-4,552	-4,206	-3,683	-4,246	-5,759	-7,248	-7,412
<b>Monetary survey</b>										
Broad money (M2)	60,529	63,712	69,184	74,528	81,839	89,756	99,547	110,511	122,098	134,742
Currency	1,697	1,686	2,364	2,706	2,806	3,015	3,306	3,634	4,033	4,477
Deposits	58,832	62,026	66,821	71,822	79,032	86,741	96,241	106,877	118,065	130,266
Net foreign assets	23,172	20,902	23,148	19,516	19,976	19,998	21,383	24,049	26,148	26,477
Net domestic assets	36,781	43,082	44,768	55,002	63,439	72,489	81,048	89,336	99,455	112,298
Domestic credit	34,338	40,399	47,246	60,611	70,539	77,851	86,910	96,187	106,821	120,373
Claims on central government (net)	-643	-1,340	269	4,002	8,766	10,879	13,592	15,031	17,773	22,950
Claims on private sector	44,443	51,971	59,486	69,282	75,863	82,659	91,290	101,662	112,115	123,339
Others	-9,463	-10,232	-12,510	-12,673	-14,090	-15,687	-17,972	-20,507	-23,067	-25,917
Other items (net) <sup>2/</sup>	2,443	2,683	-2,478	-5,609	-7,099	-5,362	-5,862	-6,851	-7,366	-8,075
Base money	5,508	4,984	6,115	7,138	7,687	8,314	9,090	9,941	10,888	11,913
Currency outside banks	2,397	2,773	3,600	4,280	4,525	4,894	5,383	5,922	6,514	7,165
Commercial bank deposits	3,110	2,211	2,515	2,858	3,162	3,420	3,707	4,019	4,374	4,747
<b>Memorandum items:</b>										
Base money (annual % change)	69.9	-9.5	22.7	16.7	7.7	8.2	9.3	9.4	9.5	9.4
Credit to the private sector (annual % change)	9.3	16.9	14.5	16.5	9.5	9.0	10.4	11.4	10.3	10.0
M2-to-GDP ratio (percent)	67.2	59.7	55.4	51.1	50.5	49.8	49.0	48.5	48.5	48.5
Base money multiplier (M2/base money)	11.0	12.8	11.3	10.4	10.6	10.8	11.0	11.1	11.2	11.3
Credit to the private sector (percent of GDP)	49.3	48.7	47.6	47.5	46.8	45.8	45.0	44.7	44.6	44.4
Velocity	1.5	1.7	1.8	2.0	2.0	2.0	2.0	2.1	2.1	2.1
Money multiplier	11.0	12.8	11.3	10.4	10.6	10.8	11.0	11.1	11.2	11.3
Domestic interest rates (end of period)										
Deposit rate	4.2	4.00	3.96	4.54	...	...	...	...	...	...
Lending rate	8.8	8.60	8.20	8.93	...	...	...	...	...	...
BoN repo rate	6.0	5.50	5.50	6.00	...	...	...	...	...	...
Three-month T-bill rate	5.9	5.50	5.64	6.25	...	...	...	...	...	...

Sources: Namibian authorities and Fund staff estimates and projections.

<sup>1/</sup> End of period.

<sup>2/</sup> Including valuation.

Table 5. Namibia: Millennium Development Goals, 1995–2013

	1995	2000	2005	2008	2009	2010	2011	2012	2013
<b>Goal 1: Eradicate Extreme Poverty and Hunger</b>									
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	...
<b>Goal 2: Achieve universal primary education</b>									
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	...
<b>Goal 3: Promote gender equality and empower women</b>									
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
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	...
<b>Goal 4: Reduce child mortality</b>									
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
<b>Goal 5: Improve maternal health</b>									
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
Pregnant women receiving prenatal care (%)	...	90.6	...	...	...	...	...	...	...
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>									
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
<b>Goal 7: Ensure environmental sustainability</b>									
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	...
Improved water source (% of population with access)	73.3	79.1	84.6	87.7	88.8	89.7	90.7	91.7	...
Marine protected areas (% of total surface area)	0.5	0.5	0.5	0.5	8.3	28.0	...	28.0	...
<b>Goal 8: Develop a global partnership for development</b>									
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' remittances)	1.5	2.1	1.4	2.5	2.1	...	...	...	0.0
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
Telephone lines (per 100 people)	4.8	5.8	6.9	6.9	6.9	7.2	7.2	7.6	8.0
<b>Other</b>									
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.

**Table 6. Namibia: Financial Sector Indicators, 2010–December 2014**  
(Percent, unless otherwise indicated)

	2010	2011	2012	2013	Jan-14	Mar-14	Sep-14	Dec-14
<b>Banking indicators</b>								
<b>Capital adequacy</b>								
Capital to assets	8.4	7.8	8.0	8.6	10.1	10.3	10.0	10.3
Regulatory capital to risk-weighted assets	15.3	14.0	14.2	14.4	14.5	15.2	15.0	14.7
Regulatory tier I capital to risk-weighted assets	11.1	10.8	10.9	11.5	11.7	12.3	12.4	11.9
Nonperforming loans net of provisions to capital	3.8	0.8	1.1	-0.7	-0.1	0.9	-0.3	0.6
<b>Asset quality</b>								
Large exposure to capital	130.0	147.0	135.0	112.5	112.7	151.5	134.4	170.9
Nonperforming loans to total gross loans	2.0	1.5	1.3	1.3	1.4	1.5	1.3	1.5
Bank provisions to nonperforming loans								
<b>Earnings and profitability</b>								
Trading income to total income	6.5	9.3	7.4	6.5	5.6	6.7	5.6	5.9
Return on assets	3.5	3.7	3.3	3.1	3.1	3.3	3.5	3.6
Return on equity	41.9	47.1	40.5	31.4	30.5	31.8	35.6	34.9
Interest margin to gross income	51.3	54.2	58.8	54.7	56.3	56.5	57.5	56.8
Noninterest expenses to gross income	57.3	52.3	54.0	54.8	54.2	53.4	51.1	52.8
Personnel expenses to noninterest expenses	49.5	51.5	58.1	50.3	52.2	51.8	52.8	49.7
<b>Liquidity</b>								
Liquid assets to total assets	10.7	12.4	10.9	10.7	10.1	10.5	12.2	11.6
Liquid assets to short-term liabilities	19.1	22.2	20.7	19.7	18.5	19.0	21.2	21.1
Customer deposits to total (non-interbank) loans	106.3	114.7	106.4	102.5	101.3	100.1	106.4	98.6
<b>Exposure to foreign exchange risk</b>								
Net open position in foreign exchange to capital	1.3	2.7	2.8	1.7	4.8	7.3	1.0	2.4
Foreign currency-denominated loans to total loans	0.1	0.3	1.3	2.0	1.7	1.7	1.8	1.4
Foreign currency-denominated liabilities to total liabilities	3.7	1.9	2.5	3.7	3.0	3.3	2.7	3.3

Sources: Bank of Namibia and IMF staff estimates.

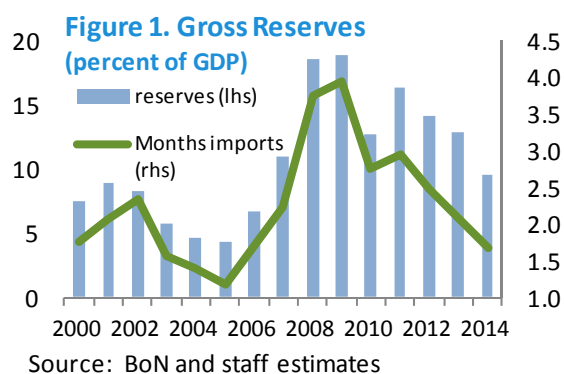


## Annex I. Assessing International Reserve Adequacy

Namibia's international reserves have continuously declined since 2009 and are far below their optimal level according to the IMF's metric. Given the bleak prospects for SACU transfers, and the fixed exchange rate, it is important to implement policies that would help to secure sufficient international reserve buffer for future shocks.

### A. Background

**1. Namibia's international reserves have continuously declined since their peak in 2009.** In May 2015, reserves were US\$1.1 billion (8.2 percent of GDP or 1.5 months of imports), a decline of about 9 percent of GDP since 2009.<sup>1, 2</sup> The decline in import coverage is larger than as a share of GDP, as imports have soared due to the needs of large mining construction projects currently underway.



### B. Reserve Adequacy

**2. Traditional metrics of adequacy are narrowly-based and often provide conflicting signals.** Simple rules of thumb—such as (i) three months of imports, (ii) full cover of short-term debt plus debt service, or (iii) twenty percent of broad money—are attractive for their simplicity, but are arbitrary and more importantly only focus on one aspect of vulnerability. Since a balance of payments crisis can arise from a range of sources, the IMF's metric is a risk-weighted measure based on observed outflows in past exchange market pressure events.<sup>3</sup>

**3. The IMF's metric for market access countries encompasses different sources of risk, such as external liabilities, trade, and measures of potential capital flight.**<sup>4</sup> More specifically it takes into account four specific sources of risk: (i) export earnings intended to capture the potential loss that could arise from a terms of trade shock; (ii) short term debt at remaining maturity (short term debt plus debt service) attempts to incorporate the liquidity (rollover) risk; (iii) portfolio investments plus medium and long-term debt, to account for other drains caused by non-residents'

<sup>1</sup> The authorities generally concurred with the assessment from the last two Article IV consultations (in 2011 and 2013) that reserves were below their adequate level. However the reserve coverage has continued to deteriorate as policies have remained unchanged.

<sup>2</sup> Reserves are temporarily higher at the beginning of each quarter when SACU payments are received.

<sup>3</sup> See further details in IMF (2011, 2013 and 2014).

<sup>4</sup> A different IMF methodology is employed for low income countries, without market access, and where the current account dominate the capital account shocks. This alternative is not relevant for Namibia, which is an upper middle income country, with market access, and a fair degree of openness in the capital account (with substantial inflows and outflows in the capital account). Namibia's latest external issuance was a 10 year Eurobond for US\$500 million in November 2011. The government is currently considering its options for external financing but this time seems to favor rand issuance in the South African market.

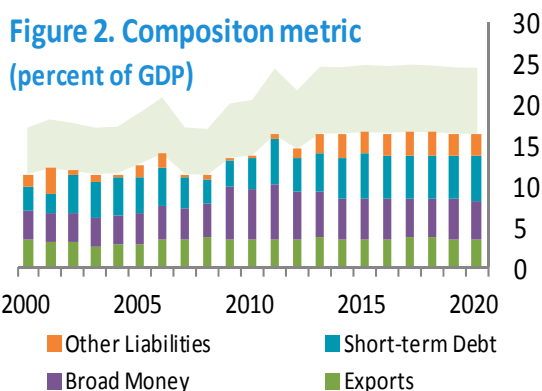
investment; and (iv) broad money used as a proxy for resident capital flight. Other potential sources of risk, such as derivative exposures or exchange rate misalignments are not incorporated due to data limitations for a number of countries.

**4. The weights of the sources of risk on the IMF’s metric for market access countries are based on observed outflows during past periods of exchange market pressures.** More specifically, annual distributions of percentage changes for each of the items discussed above during periods of exchange market pressures are computed.<sup>5</sup> For each item, the metric takes the drains observed at the tenth percentile of the distribution. Separate distributions are estimated for countries with fixed exchange rate regimes.<sup>6</sup> The weights for countries with a fixed exchange rate are:

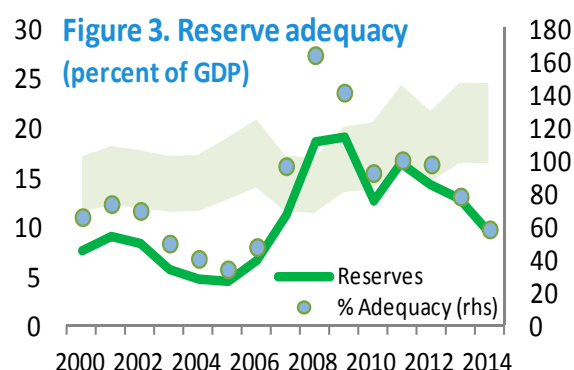
	Short-term Debt	Other Liabilities	Broad Money	Exports
Weights	30%	20%	10%	10%

### C. Results

**5. Namibia’s international reserves are far below their adequate level according to the IMF’s metric for market access countries.** Reserves on the range of 100-150 percent of the composite metric are considered to be adequate. The current level of reserves is only about 60 percent of the minimum adequate level. Moreover, in the past fifteen years the level of reserves has been sub-optimal about seventy percent of the time. More specifically, reserve coverage was only adequate between 2007 and 2010 due to a combination of higher SACU transfers and mining revenues, and some expenditure restraint.<sup>7</sup>



Source: BoN and staff estimates



Source: BoN and staff estimates

<sup>5</sup> As in Eichengreen et. al. (1997) an exchange market pressure index is constructed as a weighted average of reserve losses, exchange rate depreciation, and increases in interest rates. An episode of exchange market pressure occurs when the index deviates more than 1.5 times its standard deviation from the average.

<sup>6</sup> Different weights are also used for countries with capital controls or where commodity exports account for more than 50 percent of total exports, but neither of these conditions applies for Namibia.

<sup>7</sup> It is also important to note that in August 2009 Namibia received US\$200 million from an additional SDR allocation.

**6. It is important to implement policies that would help to secure sufficient international reserve buffer for future shocks.** Given the bleak prospects for SACU transfers, and the fixed exchange rate, increasing the reserve holdings is highly desirable. The government should implement a mix of fiscal restraint and additional foreign financing that would allow them to secure sufficient buffers for future shocks.

## References

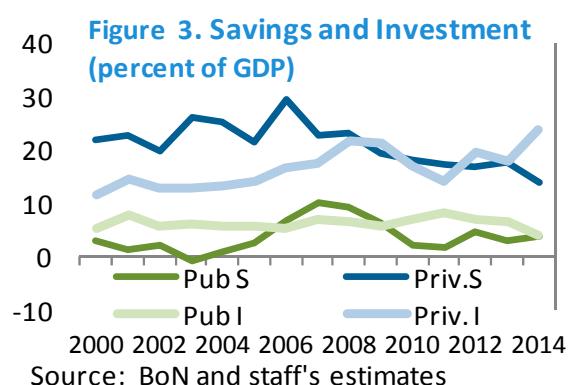
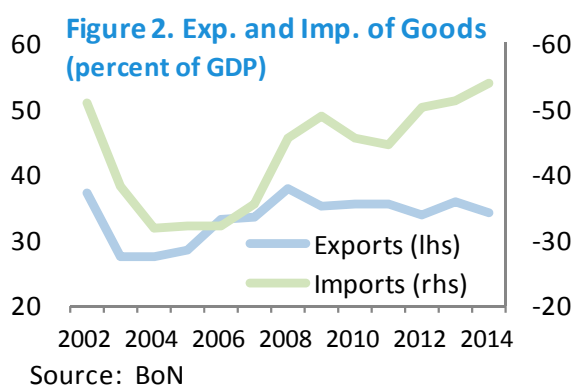
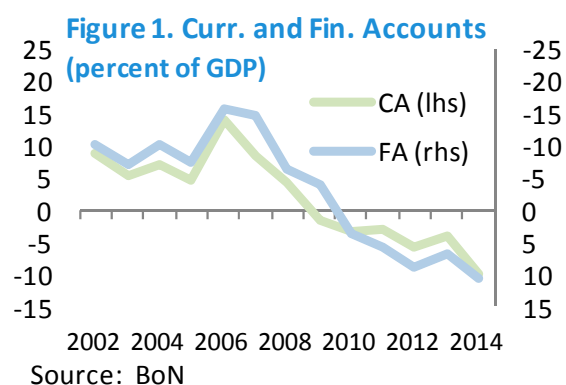
- International Monetary Fund (2011) "Assessing Reserve Adequacy."  
\_\_\_\_\_ (2013) "Assessing Reserve Adequacy—Further Considerations."  
\_\_\_\_\_ (2014) "Assessing Reserve Adequacy—Specific Proposals."

## Annex II. Exchange Rate Assessment

Staff analysis suggests that 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 (CA) mostly reflects temporary import needs from the construction of major mining projects, which are not related to the developments of the REER and until 2013 were mostly financed with FDI.

### A. Background

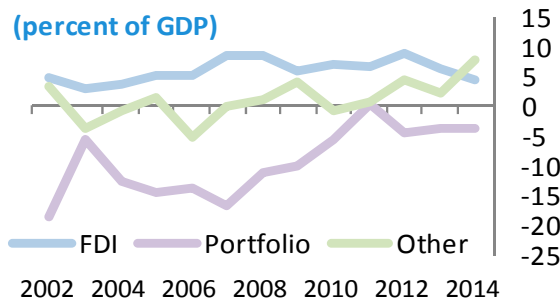
**1. Namibia's CA has continuously deteriorated since its peak in 2006.** Moreover, as seen in Figure 1, it went from persistent surpluses in the first half of the century to an uninterrupted deterioration in the second half. The CA deficit was 9.9 percent of GDP in 2014 and is expected to further deteriorate until 2016 before stabilizing at about 7.0 percent in the medium run. As shown in Figure 2, the worsening since 2006 can be mostly attributed to a constant increase in imports, associated with construction requirements of the mining sector. A savings and investment decomposition, presented in Figure 3, suggests that the main driver of the deterioration in the CA has been the worsening of both private and public savings that could be attributed to the expansionary fiscal stance.



**2. Namibia's CA deficit is mostly financed with FDI and other investments.** As can be seen in Figure 4, the net portfolio investment is negative due to large investments abroad from non-bank financial institutions. In 2014 there was a small recomposition between net FDI and other investments, as the mining sector seems to have increased its external indebtedness to compensate

a fall in equity financing. The gross external financing requirements, presented in Figure 5, have continuously increased to about 32 percent of GDP in 2014 –with about half corresponding to short term debt.

**Figure 4. FDI, portfolio, other investment (percent of GDP)**



Source: BoN

**Figure 5. Gross External Financing Requirements\* (percent of GDP)**

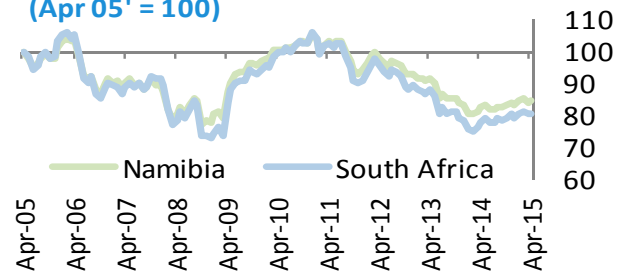


Source: BoN and staff estimates

\* Short-term external debt and amortizations

**3. Namibia’s REER has depreciated since end 2010.** Since the Namibian dollar is pegged to the South African rand, the depreciation has mostly followed the rand developments, as presented in Figure 6. On average, Namibia’s REER has depreciated by about 20 percent since end-2010 reversing the appreciation in 2009-10. However, the index is slightly above South Africa’s implying some loss of competitiveness in the past three years. Despite the depreciation, the REER remains below its long run average which suggests a decline in the REER consistent with fundamentals.

**Figure 6. REER Index (Apr 05' = 100)**



Source: BoN and staff estimates

## B. Exchange Rate Assessment

**4. The assessment of Namibia’s REER is conducted with the IMF’s CA EBA-lite model.** This is an extension of EBA that covers a broader group of countries and incorporates missing fundamentals for low and middle-income countries.<sup>1</sup> It employs annual data for 146 countries from 1995 to 2012. It assumes the CA and REER are endogenous variables simultaneously determined as a function of domestic and external variables (including fundamentals, policy variables, cyclical conditions and the global environment).<sup>2</sup> It assesses the CA and REER in a multi-lateral consistent

<sup>1</sup> See further details of the EBA methodology in IMF (2013).

<sup>2</sup> Since the CA and ER are measured relative to other countries, they not only reflect a country’s own characteristics but also external conditions within a simultaneously determined general equilibrium.

manner, as each country's variables are measured relative to a weighted-average of other countries' values.<sup>3</sup>

**5. Namibia's REER appears moderately overvalued.** The CA gap is defined as the difference between the observed value and the fitted values of the regression—which in turn corresponds to deviations of policies variables from their adequate levels and to regression residuals (the unexplained portion of the model). The CA deviation from its equilibrium value is then converted into an REER misalignment by employing estimated import and export elasticities. For Namibia, the CA gap is estimated to be 6.6 percent of GDP (only 1 percent of which could be attributed to policy gaps), as the fitted value of the regression is a CA deficit of 5.5 compared to an expected value of 12.1 for 2015. The estimated elasticity of the trade balance to changes in the REER is -0.24. Thus, the REER would need to depreciate by 27 percent for the CA deficit to be reduced to the fitted value of the regression.

**6. Namibia's REER misalignment is possibly smaller as the recent deterioration of the CA does not seem closely related to the ER developments.** In particular, the CA deficit will eventually improve as imports fall once major construction projects are completed and exports increase when new mines begin production. If imports from large construction projects are excluded, the CA deficit would be about 4.6 percentage points of GDP lower and the estimated overvaluation in the REER would only be about 8.3 percent.<sup>4</sup> The overvaluation could be corrected if the government were to successfully embark in its planned fiscal consolidation. Finally, given the fixed exchange rate with the rand, a nominal depreciation would not necessarily result in improvements in the CA.

## References

International Monetary Fund. (2013). "The External Balance Approach."

<sup>3</sup> This also implicitly recognizes that the developments in a small economy would mostly influence its own CA and REER.

<sup>4</sup> In 2015 the construction of the Husab uranium mine and the expansion of the port will begin, while the Tschudi copper project will continue. The planned investment for 2015 of these projects is estimated at 5.8 percent of GDP, resulting in a temporary increase of imports.

## Annex III. Debt Sustainability Analysis

*Though Namibia's public debt level remains low, continuous rise in public debt and increasingly high gross financing needs raise concerns. The main risk to the public debt outlook stems from possible delays in fiscal consolidation, the SACU revenue shock and rollover risks due to larger reliance on short-term domestic debt. The profile of external debt appears robust to interest rate shock, although the external debt trajectory indicates vulnerability to exchange rate depreciation and reduction in current transfer from South Africa.*

### A. Background

1. **Namibia's public debt (including public guarantees) remains low, although it has risen significantly since the global financial crisis in 2008-09.** The debt roughly doubled in nominal terms since the crisis, rising from 18.9 percent of GDP in 2009/10 to an estimated 26.8 percent of GDP by 2013/14.
2. **The composition of public debt bears little exchange rate risk given its reliance on debt denominated in Namibian dollar or in South African rand.** Most of the Namibian public debt is denominated in local currency, and the share of domestic debt is about 70 percent of total public debt in 2013/14. Treasury bonds account for around 58 percent of the government's domestic debt, while treasury bills (issued in tenors of 91, 182, 273, and 365 days) make up the balance of domestic debt.
3. **The publicly guaranteed debt significantly increased in recent years, threatening the compliance with the government's debt guarantee target.** For long, the Namibian authorities have respected implicit ceilings on public debt (below 35 percent of GDP) and publicly guaranteed debt (below 10 percent of GDP) to limit the accumulation of public and publicly guaranteed debt under the sustainable level. However, under the current medium-term expenditure framework (MTEF), the publicly guaranteed debt is expected to rise above the guaranteed debt target as the authorities plan to provide guarantees for financing large capital projects (including the Kudu-gas project, the Walvis Bay port facilities, and the national fuel storage facility).
4. **Namibia has been diversifying the external borrowing portfolio with enhancing access to the international bond market.** It issued two sovereign bonds; namely the US-dollar denominated Eurobond of US\$500 million in October 2011, and the R850 million South African Rand denominated bond on the Johannesburg stock Exchange in November 2012, both with 10-years tenure. Recently, the 5 year bond (R800 million, denominated in Rand) was issued on the Johannesburg stock exchange in June 2015. Three sovereign bonds occupy the large share of the existing external debt portfolio, followed by multilateral and bilateral loans for the rest.

## B. Medium Term Public DSA

**5. A heat map suggests that the country faces risks relating to its gross financing needs (Figure 1).** Under the baseline scenario, the gross financing needs would temporarily exceed the policy benchmark of 15 percent of GDP in 2016/17. All standard macro-fiscal shocks would raise the gross financing needs further, and the SACU revenue shock creates additional financing needs.

**6. Under the baseline scenario (consistent with the macroeconomic framework underlying the 2015 Article IV Staff Report), the public debt would stay modest over the medium term, although the fast pace of debt accumulation and the projected increase in gross financing needs raise concerns** (Figure 3 and 4). The public and publicly guaranteed (PPG) debt—expected to stay below the debt distress threshold (60 percent)—would grow fast from 27 percent of GDP in 2014/15 to 46 percent by 2019/20. Due to widening fiscal deficit in 2016/17, the gross financing needs are expected to increase to about 15 percent of GDP before gradually falling down over the medium term.

**7. The macro-fiscal stress tests demonstrate the rapid rise in the public debt-to-GDP ratio under the SACU revenue shock and the combined shock scenario, but the debt stock remains below the indicative policy threshold of 60 percent.** Two additional stress tests are conducted in Figure 5: the contingent liability shock and the SACU revenue shock. The contingent liability shock scenario (assuming temporary increase in non-interest expenditure to recapitalize banks, equivalent to 5 percent of the current size of banking system asset) demonstrates that the debt level will remain below the threshold level of 60 percent of GDP. The SACU revenue shock scenario (assuming reduction in revenue by 5 percent of GDP, real GDP growth by 2 percent in 2016/17 and 2017/18, combined and a rise in interest rate by 50 basis points) show that the level of debt distress could be elevated but remain below the threshold level even when the economy is hit much harder than the baseline scenario due to the SACU revenue shock.

**8. Under the tighter fiscal policy scenario (reform scenario), the public debt-to-GDP ratio and the gross financing needs would trend down after 2016.** With stepped-up fiscal consolidation efforts over the medium term, fiscal surplus is envisaged for 2019/20, while the public debt-to-GDP ratio would remain below the authorities' own debt ceiling of 35 percent.

## C. Medium Term External DSA

**9. Namibia's gross external debt is gradually increasing but remains at moderate level.** Under the baseline scenario, Namibia's external debt is projected to gradually increase up to about 50 percent of GDP (Table 1). Deterioration in current account due to smaller SACU receipts from South Africa and lowering commodity prices contribute to an increase in the external debt ratio. Private external debt accounted for around 80 percent of total external debt in 2013.

**10. The sensitivity tests suggest that Namibia's external debt-to-GDP ratio is particularly sensitive to a current account shock and real depreciation shock.** Standardized sensitivity analysis suggests that Namibia's external debt is resilient to interest rate and growth shocks, but a



30 percent real depreciation in 2015 would raise the external debt-to-GDP ratio to 66 percent in 2019 as most of private external debt is denominated in foreign currency.<sup>1</sup> Assuming that a current account deficit be 3.5 percent of GDP (one-half standard deviations) larger than projected in the baseline during 2015-19, the external debt-to-GDP ratio would increase to 67 percent of GDP by 2019.

## D. Conclusion

**11. Overall, high gross financing needs and the fast pace of debt accumulation raise concerns, and a tighter fiscal policy stance (as envisaged under the reform scenario) would ensure debt sustainability over the medium term.** With expected decline in SACU revenues and widening fiscal deficits, gross financing needs would rise further in coming years under the baseline scenario. While both public debt and external debt would stay within the range of moderate debt distress under the baseline scenario, the stress tests demonstrate that the debt dynamics could raise a concern for debt sustainability, if Namibia should fail to implement fiscal consolidation as planned, and/or if the SACU revenue is lower than projected under the baseline scenario. The external debt is also not resilient to unexpected rise in current account deficit and exchange rate depreciation. Shifting toward a tighter fiscal policy stance, along the lines envisaged under the reform scenario, is critical to ensure debt sustainability over the medium-term.

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<sup>1</sup> As about 90 percent of the loans are at fixed interest rate, the external debt does not appear to be particularly sensitive to the real interest rate shock.

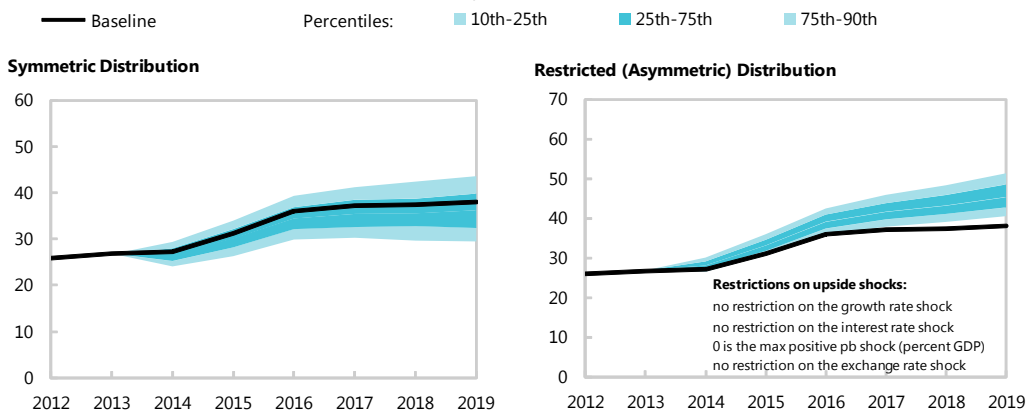
**Figure 1. Namibia Public DSA Risk Assessment**

**Heat Map**

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

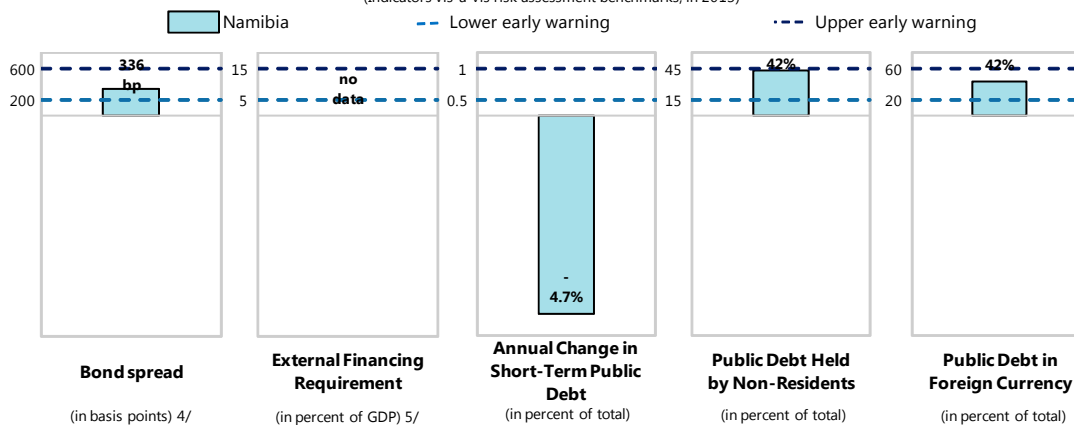
**Evolution of Predictive Densities of Gross Nominal Public Debt**

(in percent of GDP)



**Debt Profile Vulnerabilities**

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



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.

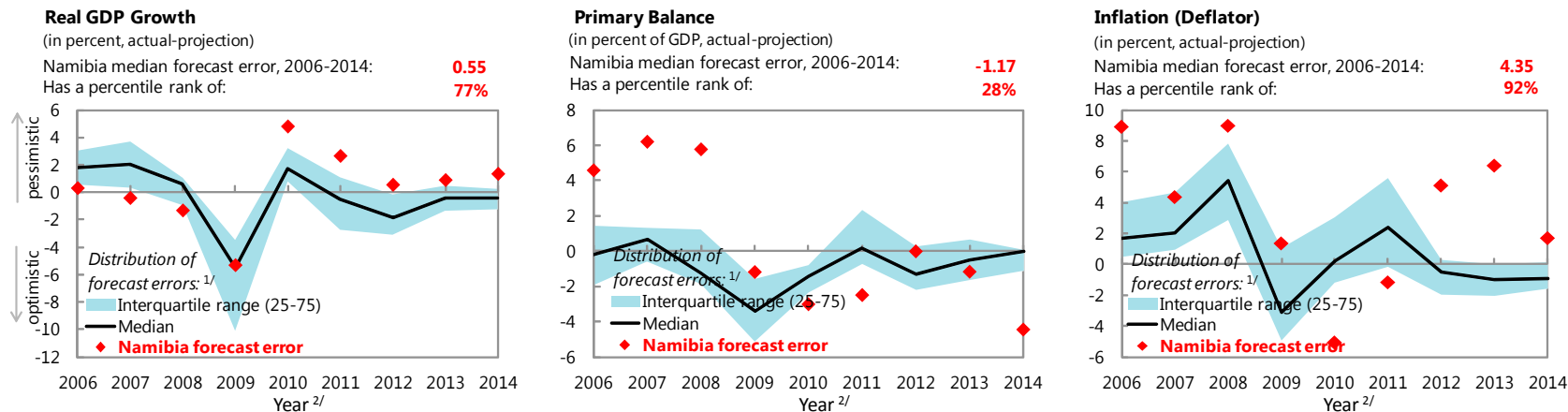
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 14-Feb-15 through 15-May-15.

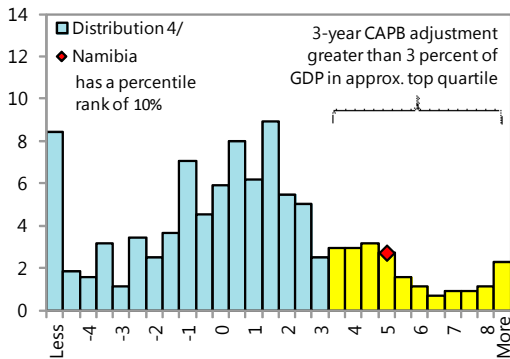
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

**Figure 2. Namibia Public DSA – Realism of Baseline Assumptions**  
**Forecast Track Record, versus program countries**

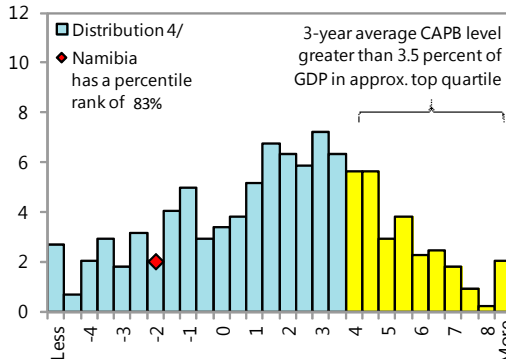


**Assessing the Realism of Projected Fiscal Adjustment**

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

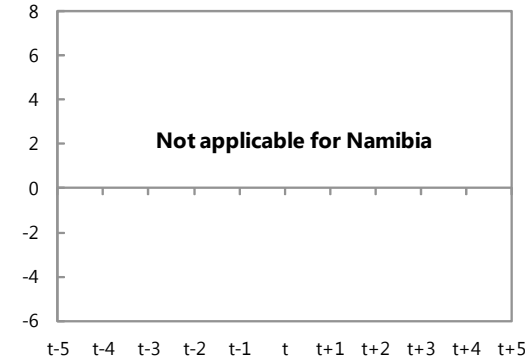


**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**  
 (Percent of GDP)



**Boom-Bust Analysis<sup>3/</sup>**

**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.

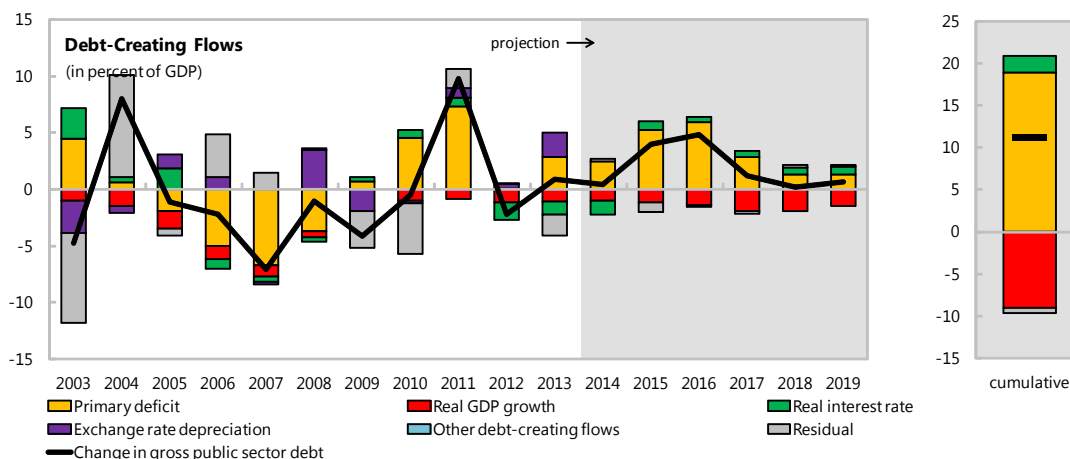
3/ Not applicable for Namibia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations 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 <sup>1/</sup>										As of May 15, 2015	
Actual			Projections								
	2003-2011 <sup>2/</sup>	2012	2013	2014	2015	2016	2017	2018	2019		
Nominal gross public debt	26.4	25.9	26.8	27.2	34.7	41.5	45.6	45.3	46.1	Sovereign Spreads	
Of which: guarantees	4.1	1.9	4.1	3.2	6.4	8.1	10.7	10.0	10.0	EMBIG (bp) 3/	336
Public gross financing needs	3.8	3.4	5.8	10.5	14.9	15.1	14.1	13.1	11.5	5Y CDS (bp)	N.A
Real GDP growth (in percent)	4.1	5.1	5.1	4.5	4.8	5.0	6.2	5.8	4.5	Ratings	Foreign Local
Inflation (GDP deflator, in percent)	6.7	12.6	11.3	11.7	6.1	6.0	6.0	5.9	5.8	Moody's	Baa3 Baa3
Nominal GDP growth (in percent)	11.4	18.0	16.9	15.2	11.2	11.7	12.4	11.7	10.4	S&Ps	n.a. n.a.
Effective interest rate (in percent) <sup>4/</sup>	9.3	6.9	6.7	6.7	9.6	7.9	8.2	8.2	8.2	Fitch	BBB- BBB

Contribution to Changes in Public Debt											
	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019		
Change in gross public sector debt	-0.3	-2.2	0.9	0.4	4.0	4.8	1.2	0.2	0.6	11.2	
Identified debt-creating flows	-0.3	-2.3	2.7	0.1	4.9	5.0	1.4	0.0	0.5	11.8	
Primary deficit	0.0	0.1	2.9	2.4	5.2	5.9	2.8	1.3	1.2	18.9	-0.8
Primary (noninterest) revenue and grants	29.4	32.9	32.2	35.1	33.0	29.7	30.7	31.1	30.7	190.4	
Primary (noninterest) expenditure	29.4	33.0	35.1	37.5	38.3	35.6	33.5	32.4	31.9	209.3	
Automatic debt dynamics <sup>5/</sup>	-0.3	-2.4	-0.2	-2.3	-0.4	-1.0	-1.4	-1.3	-0.8	-7.1	
Interest rate/growth differential <sup>6/</sup>	-0.4	-2.7	-2.3	-2.3	-0.4	-1.0	-1.4	-1.3	-0.8	-7.1	
Of which: real interest rate	0.6	-1.5	-1.1	-1.3	0.8	0.5	0.6	0.6	0.8	1.9	
Of which: real GDP growth	-1.0	-1.2	-1.1	-1.0	-1.2	-1.4	-2.0	-1.9	-1.5	-9.0	
Exchange rate depreciation <sup>7/</sup>	0.1	0.4	2.1	...	...	...	...	...	...	...	
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 <sup>8/</sup>	0.0	0.1	-1.8	0.3	-0.9	-0.2	-0.2	0.2	0.1	-0.6	



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;  $\pi$  = 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.

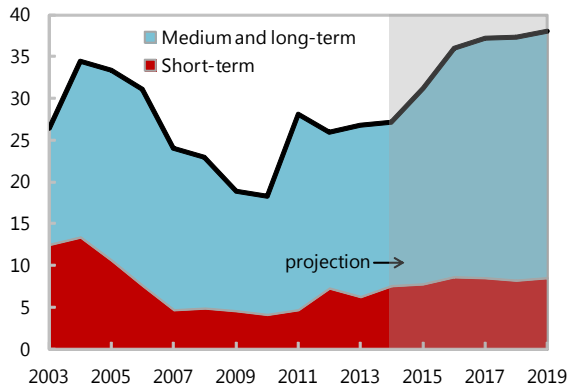
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

**Composition of Public Debt**

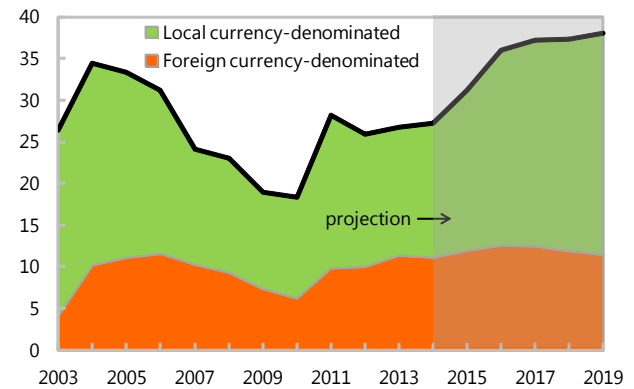
**By Maturity**

(in percent of GDP)



**By Currency**

(in percent of GDP)

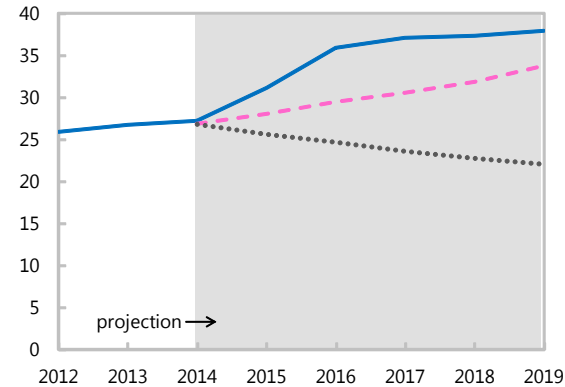


**Alternative Scenarios**

— Baseline      ..... Historical      - - - Constant Primary Balance

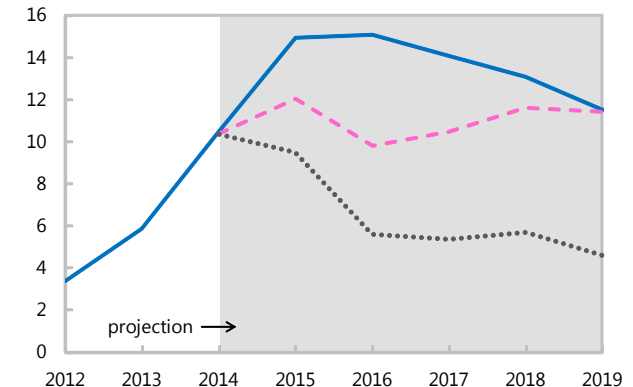
**Gross Nominal Public Debt**

(in percent of GDP)



**Public Gross Financing Needs**

(in percent of GDP)



**Underlying Assumptions**

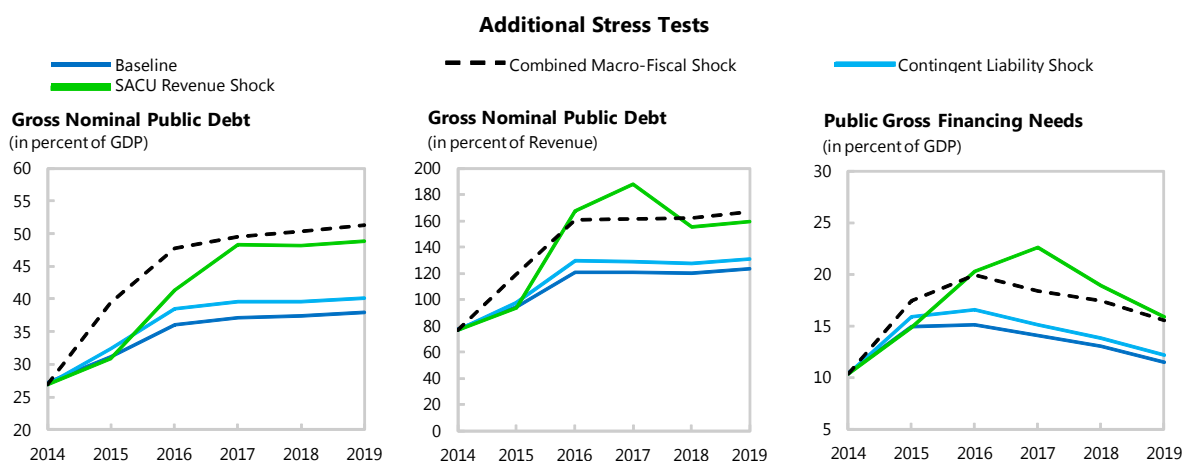
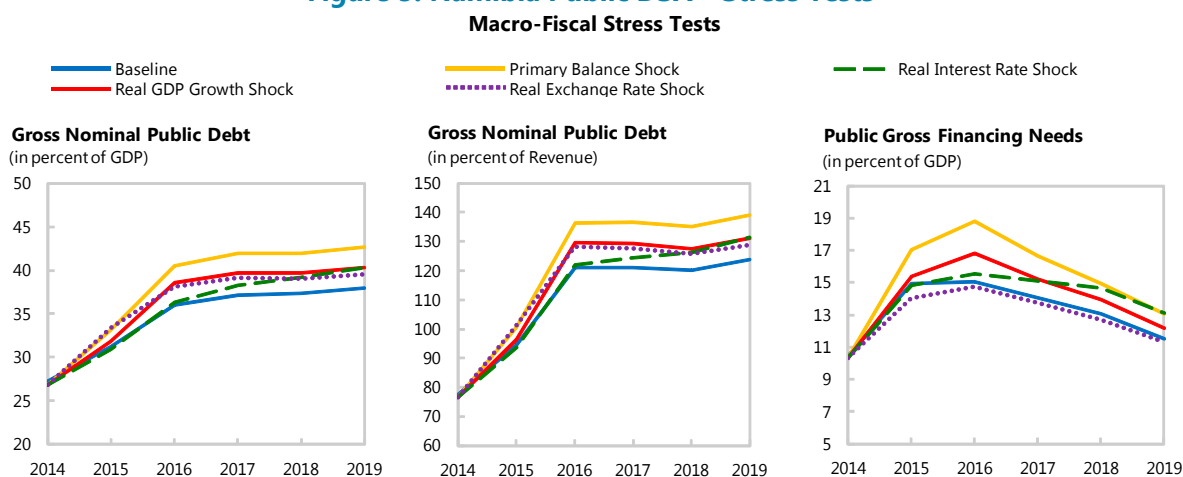
(in percent)

	2014	2015	2016	2017	2018	2019
<b>Baseline Scenario</b>						
Real GDP growth	4.5	4.8	5.0	6.2	5.8	4.5
Inflation	11.7	6.1	6.0	6.0	5.9	5.8
Primary Balance	-2.4	-5.2	-5.9	-2.8	-1.3	-1.2
Effective interest rate	6.7	9.6	7.9	8.2	8.2	8.2
<b>Constant Primary Balance Scenario</b>						
Real GDP growth	4.5	4.8	5.0	6.2	5.8	4.5
Inflation	11.7	6.1	6.0	6.0	5.9	5.8
Primary Balance	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Effective interest rate	6.7	9.6	7.9	8.1	8.1	8.1

	2014	2015	2016	2017	2018	2019
<b>Historical Scenario</b>						
Real GDP growth	4.5	4.3	4.3	4.3	4.3	4.3
Inflation	11.7	6.1	6.0	6.0	5.9	5.8
Primary Balance	-2.4	0.2	0.2	0.2	0.2	0.2
Effective interest rate	6.7	9.6	7.6	7.8	7.6	7.5

Source: IMF staff.

Figure 5. Namibia Public DSA – Stress Tests

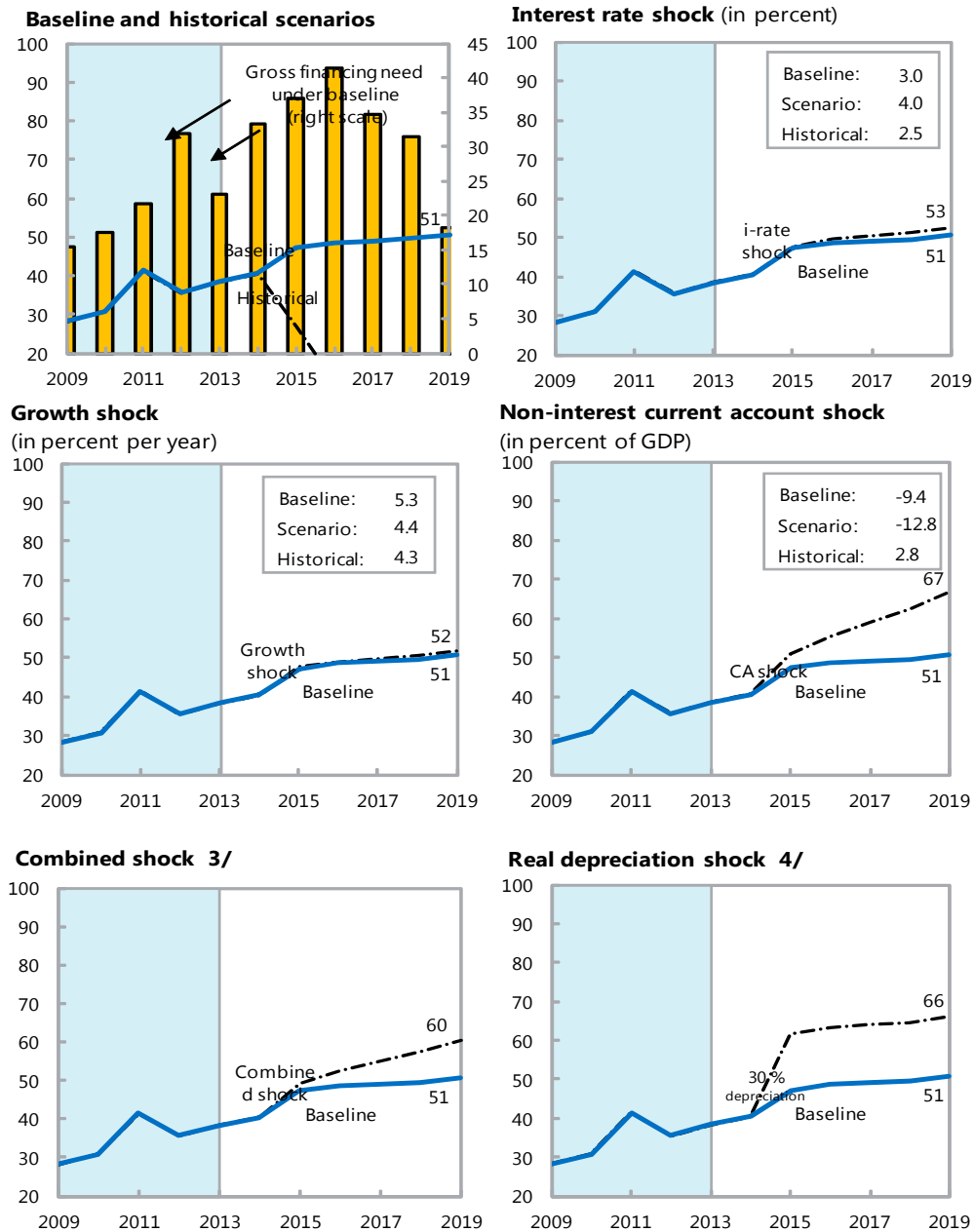


### Underlying Assumptions (in percent)

	2014	2015	2016	2017	2018	2019
<b>Primary Balance Shock</b>						
Real GDP growth	4.5	4.3	4.5	5.7	5.8	4.5
Inflation	11.7	6.1	6.0	6.0	5.9	5.8
Primary balance	-2.4	-7.4	-8.1	-2.8	-1.3	-1.2
Effective interest rate	6.7	9.6	8.5	8.9	8.5	8.6
<b>Real Interest Rate Shock</b>						
Real GDP growth	4.5	4.8	5.0	6.2	5.8	4.5
Inflation	11.7	6.1	6.0	6.0	5.9	5.8
Primary balance	-2.4	-5.2	-5.9	-2.8	-1.3	-1.2
Effective interest rate	6.7	9.6	9.9	10.8	11.2	9.9
<b>Combined Shock</b>						
Real GDP growth	4.5	3.0	3.2	5.7	5.8	4.5
Inflation	11.7	5.7	5.5	6.0	5.9	5.8
Primary balance	-2.4	-7.4	-8.1	-2.8	-1.3	-1.2
Effective interest rate	6.7	10.2	9.0	10.0	10.5	9.3
<b>SACU Revenue Shock</b>						
Real GDP growth	4.5	4.8	3.0	4.2	5.8	4.5
Inflation	11.7	6.1	6.0	6.0	5.9	5.8
Primary balance	-2.4	-5.2	-10.9	-7.8	-1.3	-1.2
Effective interest rate	6.7	9.6	8.0	8.6	8.7	8.7
<b>Real GDP Growth Shock</b>						
Real GDP growth	4.5	3.0	3.2	6.2	5.8	4.5
Inflation	11.7	5.7	5.5	6.0	5.9	5.8
Primary balance	-2.4	-5.6	-7.1	-2.8	-1.3	-1.2
Effective interest rate	6.7	9.6	8.0	8.3	8.2	8.3
<b>Real Exchange Rate Shock</b>						
Real GDP growth	4.5	4.8	5.0	6.2	5.8	4.5
Inflation	11.7	18.3	6.0	6.0	5.9	5.8
Primary balance	-2.4	-5.2	-5.9	-2.8	-1.3	-1.2
Effective interest rate	6.7	10.2	7.3	7.7	7.7	7.8
<b>Contingent Liability Shock</b>						
Real GDP growth	4.5	3.0	3.2	6.2	5.8	4.5
Inflation	11.7	5.7	5.5	6.0	5.9	5.8
Primary balance	-2.4	-5.9	-6.5	-2.8	-1.3	-1.2
Effective interest rate	6.7	10.7	8.0	8.3	8.2	8.3

Source: IMF staff.

**Figure 6. Namibia External Debt Sustainability: Bound Test 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 2015.

**Table 1. Namibia: External Debt Sustainability Framework, 2009-2019**  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -5.7
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
<b>Baseline: External debt</b>	28.2	30.9	41.4	35.6	38.4	<b>40.4</b>	<b>47.2</b>	<b>48.6</b>	<b>49.0</b>	<b>49.5</b>	<b>50.6</b>	
Change in external debt	4.6	2.6	10.6	-5.8	2.9	2.0	6.8	1.4	0.4	0.5	1.1	0.0
Identified external debt-creating flows (4+8+9)	-5.3	-9.6	-6.5	-5.0	-2.3	3.8	4.1	5.6	1.8	-0.4	0.5	0.0
Current account deficit, excluding interest payments	1.2	3.2	2.6	5.3	3.7	9.7	11.7	15.3	9.1	5.8	4.8	5.7
Deficit in balance of goods and services	13.0	10.3	9.4	13.8	15.4	20.8	21.2	21.5	14.7	11.6	10.3	
Exports	42.4	41.6	41.4	42.0	43.1	41.6	41.4	41.3	43.1	43.3	41.7	
Imports	55.4	51.9	50.8	55.8	58.5	62.4	62.6	62.8	57.8	54.9	52.0	
Net non-debt creating capital inflows (negative)	-5.8	-7.0	-6.6	-8.8	-6.4	-4.5	-6.0	-8.4	-6.1	-5.6	-4.2	-4.2
Net foreign direct investment, equity	5.8	7.0	6.5	8.8	6.3	4.4	6.0	8.4	6.1	5.5	4.2	
Net portfolio investment, equity	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	
Automatic debt dynamics 1/	-0.7	-5.9	-2.6	-1.5	0.4	-1.4	-1.7	-1.3	-1.2	-0.7	-0.1	-1.5
Denominator: 1+g+r+gr	1.0	1.3	1.1	1.0	1.0	1.1	0.9	1.1	1.1	1.1	1.1	1.1
Contribution from nominal interest rate	0.3	0.2	0.2	0.4	0.2	0.2	0.4	1.0	1.6	1.9	2.0	2.1
Contribution from real GDP growth	-0.1	-1.3	-1.4	-2.0	-1.8	-1.6	-2.0	-2.2	-2.8	-2.6	-2.1	-2.1
Contribution from price and exchange rate changes 2/	-1.0	-4.7	-1.4	0.2	2.0	...	...	...	...	...	...	-1.4
Residual, incl. change in gross foreign assets (2-3) 3/	10.0	12.3	17.1	-0.8	5.1	-1.8	2.7	-4.2	-1.4	0.9	0.6	0.0
External debt-to-exports ratio (in percent)	66.6	74.2	100.0	84.7	89.2	97.3	113.9	117.6	113.6	114.3	121.3	
<b>Gross external financing need (in billions of US dollars) 4</b>	1.4	2.0	2.7	4.1	3.0	4.5	4.8	5.7	5.2	5.1	3.2	
in percent of GDP	15.5	17.4	21.6	31.8	23.1	33.3	37.0	41.3	34.6	31.5	18.3	
<b>Scenario with key variables at their historical averages 5/</b>						<b>40.4</b>	<b>26.6</b>	<b>12.6</b>	<b>2.3</b>	<b>-5.3</b>	<b>-12.8</b>	<b>-5.6</b>
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						Historical Average	Standard Deviation					For debt stabilization
Nominal GDP (US dollars)	8.9	11.3	12.4	13.0	12.9	13.6	12.9	13.7	14.9	16.2	17.4	18.6
Real GDP growth (in percent)	0.3	6.0	5.1	5.1	5.1	4.3	1.8	4.5	4.8	5.0	6.2	5.8
Exchange rate appreciation (US dollar value of local currency)	-2.5	15.8	0.9	-11.7	-14.9	-1.8	11.3	-9.7	-15.2	-4.3	-3.2	-3.1
GDP deflator (change in domestic currency)	7.0	3.6	3.8	12.6	11.3	8.2	3.7	11.7	6.1	6.0	6.0	5.8
GDP deflator in US dollars (change in percent)	4.3	19.9	4.8	-0.5	-5.3	6.0	10.0	0.9	-10.0	1.5	2.5	2.7
Nominal external interest rate (in percent)	1.4	0.8	0.8	0.9	0.7	2.5	2.0	0.6	0.9	2.2	3.5	4.3
Growth of exports (US dollar terms, in percent)	0.3	24.8	9.7	6.1	2.0	13.4	12.6	1.7	-6.0	6.4	13.6	9.1
Growth of imports (US dollar terms, in percent)	10.2	19.2	7.8	14.9	4.4	14.6	7.8	12.3	-5.3	6.9	0.2	3.2
Current account balance, excluding interest payments	-1.2	-3.2	-2.6	-5.3	-3.7	2.8	6.9	-9.7	-11.7	-15.3	-9.1	-5.8
Net non-debt creating capital inflows	5.8	7.0	6.6	8.8	6.4	6.5	1.7	4.5	6.0	8.4	6.1	5.6
<b>B. Bound Tests</b>												
B1. Nominal interest rate is at historical average plus one standard deviation						<b>40.4</b>	<b>47.6</b>	<b>49.5</b>	<b>50.2</b>	<b>51.1</b>	<b>52.6</b>	<b>-5.3</b>
B2. Real GDP growth is at historical average minus one standard deviations						<b>40.4</b>	<b>47.5</b>	<b>49.1</b>	<b>49.7</b>	<b>50.5</b>	<b>51.9</b>	<b>-5.5</b>
B3. Non-interest current account is at historical average minus one standard deviations						<b>40.4</b>	<b>50.7</b>	<b>55.4</b>	<b>58.9</b>	<b>62.4</b>	<b>66.6</b>	<b>-6.2</b>
B4. Combination of B1-B3 using 1/2 standard deviation shocks						<b>40.4</b>	<b>49.3</b>	<b>52.7</b>	<b>55.0</b>	<b>57.3</b>	<b>60.4</b>	<b>-5.5</b>
B5. One time 30 percent real depreciation in 2006						<b>40.4</b>	<b>61.5</b>	<b>63.4</b>	<b>64.0</b>	<b>64.7</b>	<b>66.2</b>	<b>-7.5</b>

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.



Annex IV. Namibia: Risk Assessment Matrix<sup>1</sup>

Nature/source of main risks	Likelihood of realization in the next three years	Expected impact on economy if risk is realized	Possible Policy Response
<p><b>Protracted period of slower growth in key advanced and emerging economies</b></p> <ul style="list-style-type: none"> <li>• <b>Euro area and Japan:</b> Weak demand and persistently low inflation from a failure to fully address crisis legacies and appropriately calibrate macro policies, leading to “new mediocre” rate of growth.</li> <li>• <b>Emerging markets:</b> Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.</li> </ul>	<p><i>HIGH (Euro area and Japan)</i> <i>MEDIUM (Emerging markets)</i></p> <ul style="list-style-type: none"> <li>• Protracted slower growth in Europe would adversely affect sugar exports (one of Namibia’s key export items) to Europe.</li> <li>• Protracted slower growth in South Africa could lower South Africa’s imports, weaken demand for Namibia’s exports, and further lower SACU revenues.</li> </ul>	<p><i>MEDIUM</i></p> <ul style="list-style-type: none"> <li>• External balances would deteriorate with lower SACU revenues and weaker import demands from Europe and Namibia’s neighboring countries. Economic growth would also be affected.</li> </ul>	<ul style="list-style-type: none"> <li>• Step up structural reforms to promote private sector development.</li> <li>• Diversify export markets.</li> <li>• Build sufficient international buffer, through fiscal consolidation and external financing.</li> </ul>
<p><b>Tighter or more volatile global financial conditions</b></p>	<p><i>HIGH</i></p> <ul style="list-style-type: none"> <li>• As a result of the expected FED’s liftoff, prices of risky assets could drop abruptly, as investors reassess underlying risk and move into safe assets, including the dollar.</li> </ul>	<p><i>HIGH</i></p> <ul style="list-style-type: none"> <li>• The central bank might be forced to substantially increase interest rates in line with the South African policy rates.</li> <li>• Lower financial flows could significantly worsen the external balance</li> <li>• Reduced growth and higher debt service costs could slow down the fiscal consolidation.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain additional external financing (denominated in rand) to avoid a sharp deterioration in international reserves</li> <li>• Implement fiscal consolidation by reducing recurrent expenditures and enhancing revenue mobilization.</li> <li>• Improve the efficiency of public spending by strengthening PFM and enhancing public sector reforms.</li> </ul>
<p><b>Adjustment of house prices in Namibia</b></p>	<p><i>MEDIUM</i></p> <ul style="list-style-type: none"> <li>• House prices in Namibia grew fast for several years, potentially deviating from economic fundamentals. Shocks, such as an interest rate hike, could lower demand and force price adjustments.</li> </ul>	<p><i>HIGH</i></p> <ul style="list-style-type: none"> <li>• With increase in nonperforming loans, commercial banks’ capital would be eroded, raising macroprudential concerns. Growth would also be adversely affected.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor the systemic risks and implement targeted macroprudential policies.</li> </ul>
<p><sup>1</sup> Based on the latest G-RAM. 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 of 30 percent or more). The RAM reflects staff views at the time of the PCM.</p>			



# NAMIBIA

## STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 1, 2015

Prepared By

African Department

### CONTENTS

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## FUND RELATIONS

(As of July 31, 2015)

### Membership Status

Joined September, 1990; Article VIII

<b>General resources account</b>	<u>SDR (million)</u>	<u>Percent of Quota</u>
Quota	136.50	100.00
Fund holdings of currency	136.43	99.95
Reserve position in Fund	0.08	0.06

<b>SDR Department</b>	<u>SDR (million)</u>	<u>Percent of Quota</u>
Net cumulative allocation	130.39	100.00
Holdings	4.87	3.73

**Outstanding Purchases and Loans** None

**Financial Arrangements** None

### Project Obligations to Fund

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

	<u>2015</u>	<u>Forthcoming</u> <u>2016</u>	<u>2017</u>	<u>2018</u>
Principal				
Charges/Interest	<u>0.03</u>	<u>0.07</u>	<u>0.06</u>	<u>0.06</u>
<b>Total</b>	<u>0.03</u>	<u>0.07</u>	<u>0.06</u>	<u>0.06</u>

**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.

Namibia is currently judged by the Fund to maintain an exchange system free of restrictions on the making of payments and transfer 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 January 29, 2014.

## Technical Assistance, 2010–15

Department	Dates	Purpose
FAD	January 2011	Initiating Tax Administration Reform
	January 2011	Developing the Agenda for Tax Reform
	February-March 2011	Managing the Budget on a Program Basis (MBPB)
	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
	June 2015	Tax Administration/ Large Taxpayer Unit
MCM (MFD)	March 2010	Payment Systems
	January 2011	Supervision of the NBFIs
	December 2011	Stress testing training
	April 2012	Implementation of Basel II
	April 2012	Supervision of Non-Bank Financial Institution
	Oct –Nov 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 Training
	January 2014	Stress Testing Training
	September 2014	Compliance with Basel II

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	February 2015	Financial Stability and Stress Testing
	April 2015	Implementation of Basel III
	June 2015	Macroprudential Policy Framework
STA	Jan-Feb. 2010	National Accounts
	April 2010	Balance of Payments Statistics
	April 2010	National Accounts (SDDS Project)
	Nov-Dec.2010	Quarterly National Accounts
	May 2011	Monetary and Financial Statistics (EDDI Project)
	May 2012	Quarterly and Annual National Accounts (DFID)
	Oct-Nov. 2012	Consumer Price Index
	January 2013	Quarterly National Accounts
	February 2013	Price Statistics
	April 2013	Standardized Reporting
	April 2013	BOP Statistics
	July 2013	Consumer Price Index
	November 2013	National Accounts
	April 2014	Monetary Statistics

# JOINT WORLD BANK AND IMF WORK PROGRAM

(As of end-August 2015)

Title	Products	Provisional Timing of Missions	Expected Delivery Date
<b>A. Mutual information on relevant work programs</b>			
The World Bank work program in the next 12 months	<ol style="list-style-type: none"> <li>1. Statistical Capacity TA (household survey data collection and analysis)</li> <li>2. SACU/regional analysis of growth, fiscal, and poverty issues</li> </ol>	<p>September 2015</p> <p>Oct-Nov 2015</p>	<p>Continuous through 2016</p> <p>Periodic policy notes through 2016</p>
The Fund work program in the next 12 months	<ol style="list-style-type: none"> <li>1. 2016 Article IV consultation</li> <li>2. TA : Monetary Financial Statistics</li> <li>3. TA (AFS): PFM Act</li> <li>4. TA (AFS): Cash Management</li> <li>5. TA: Government Finance Statistics</li> <li>6. TA: Consumer Price Index</li> <li>7. TA (AFS): Customs Administration</li> <li>8. TA : National Accounts</li> <li>9. TA (AFS) : Producer Price Index</li> </ol>	<p>Mid-2016</p> <p>August 2015</p> <p>September 2015</p> <p>October 2015</p> <p>November 2015</p> <p>January 2016</p>	
<b>B. Requests for work program inputs</b>			
Fund request to Bank	Periodic updates on progress with domestic structural reform agenda, including in context of NDP4, the Industrial Policy Strategy, and the Financial Sector Strategy.		
Bank request to Fund	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 is broadly adequate for surveillance. The authorities provide core monthly data to the Fund with a lag of one to two months, except for the national accounts and international trade data, which are reported quarterly and annually with longer lags. The authorities completed the 2009/10 National Household Income and Expenditure Survey (HIES) which allowed the re-estimated of the Gini coefficients. The Namibia Statistics Agency (NSA) was recently transformed into a fully autonomous agency in order to enhance the government's capacity to collect and compile high quality statistics.

**National Accounts:** The authorities have rebased the base year of the national accounts to 2010. Quarterly national accounts (QNA) estimates, at constant prices are disseminated on the NSA's website, though there is a need to improve the existing source data. Plans by NSA to produce current price QNA are progressing. The NSA is assessing the integration of VAT data in the national accounts compilation framework. The National Accounts are produced bi-annually and revised for the latest three years. Major revisions for back years such as correcting of errors and altering the economic structure to reflect current economic situations is filtered in but at longer intervals.

**Price Statistics:** The base year for the consumer price index is 2012. This index provides an adequate presentation of the spending patterns of the citizens and their experience of inflation. The CPI weights, introduced in the December 2012 index, are derived primarily from the Namibia Statistics Agency's 2009/10 Household Income and Expenditure Survey. Data on the labor market, 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, the NSA launched a project for development of Producer price index (PPI). According to the project framework, the first preliminary results are expected in the first quarter of 2016.

**Government Finance Statistics:** Annual budgetary central government data by fiscal year; which are reported on a cash basis in the *GFSM 2001* format, are reasonably complete, despite some lack of details. No fiscal statistics are compiled for extra budgetary institutions, consolidated central government, or consolidated general government.

**Monetary and Finance Statistics:** Monthly monetary statistics for the Bank of Namibia (BoN) and the other depository corporations (ODCs) are reported on a regular basis, although there is room to improve the timeliness of reporting, particularly with regard to BoN data. Beginning in April 2002, data are based on standardized report forms, which accord with the concepts and definition of the *Monetary and Financial Statistics Manual*.

**Balance of Payment and International Investment Position Statistics and External Debt:** Since 2001, the BoN has been reporting the balance of payments data on a quarterly basis with a lag of one quarter. The data is subject to substantial revisions. The methodology underlying the balance of payments is consistent with the fifth edition of the IMF's *Balance of Payment Manual*. There is room to improve the compilation of the BOP statistics most notably to lower the large errors and omissions. The international investment position (IIP) data are compiled quarterly with a lag of one quarter. The BoN has focused its work to improve the compilation of capital and financial transaction and IIP statistics. However, further work is needed to expand the coverage of the IIP and make it compatible with the balance of payments statistics.

**II. Data Standards and Quality**

Namibia has participated in the GDDS since late 2002. A ROSC (Data Module) was published in 2002 and updated in 2005.

**III. Reporting to STA**

The MOF reports on a regular basis annual data for publication in the *Government Finance Statistics Yearbook*. Work on establishing monthly reporting of high frequency data is still in progress.

The BoN reports monetary and financial statistics to STA regularly. Balance of payments and international investment position data are published in *International Financial Statistics (IFS)* and in the *Balance of Payments Yearbook*.



**Table 1. Namibia: Common Indicators Required for Surveillance**  
(As of July 2015)

	Date of Latest Observation	Date Received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of Publication <sup>1</sup>	Memo Items	
						Data Quality—Methodological Soundness <sup>2</sup>	Data Quality—Accuracy and Reliability <sup>2</sup>
Exchange rates	August 2015	August 2015	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities <sup>3</sup>	May 2015	July 2015	M	M	M		
International investment position	March 2015	June 2015	Q	Q	Q		
Reserve/base money	May 2015	July 2015	M	M	M	O, O, LO, LO	O, LO, O, O, O
Broad money	May 2015	July 2015	M	M	M		
Central bank balance sheet	May 2015	July 2015	M	M	M		
Consolidated balance sheet of the banking system	May 2015	July 2015	M	M	M		
Interest rates <sup>4</sup>	7/25/2015	7/25/2015	D	D	D		
Consumer price index	June 2015	July 2015	M	M	M		
Revenue, expenditure, balance, and composition of financing <sup>5</sup> —general government <sup>6</sup>	N.A.	N.A.					
Revenue, expenditure, balance, and composition of financing <sup>4</sup> —central government	March 2015	June 2015	A/Q/	Q	Q		
Stocks of central government and central government-guaranteed debt <sup>7</sup>	Dec. 2014	March 2015	A	A	A		
External current account balance	2015 Q1	June 2015	A/Q	A	A		
Exports and imports of goods	2015 Q1	June 2015	M	M	M		
GDP/GNP	2015 Q1	June 2015	Q	Q	Q	O, O, O, LO	LNO, LO, LO, LO, O
Gross external debt	2015 Q1	June 2015	A/Q	A/Q	A/Q		

<sup>1</sup> Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).

<sup>2</sup> 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).

<sup>3</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>4</sup> Both market-based and officially determined, including discount, money market, treasury bill, note, and bond rates.

<sup>5</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>6</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>7</sup> Including currency and maturity composition.



# NAMIBIA

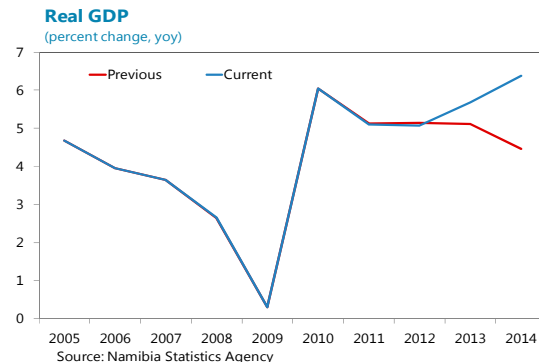
## STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

September 15, 2015

Prepared by African Department

**1. This supplement provides information that became available since the issuance of the staff report on September 2, 2015.** The Namibia Statistics Agency released on September 9 updated national accounts, with significant upward revisions for growth in 2013 and 2014.<sup>1</sup> This information does not alter the thrust of the staff appraisal.

**2. Namibia's real GDP growth was revised up to 6.4% from 4.5% for 2014 and to 5.7% for 2013.** The revision was mostly explained by the lower-than-estimated impacts of the drought in 2013 and faster growth of the construction sector (with growth in 2014 now at 40.5% up from 14.6%). The increase in construction sector resulted from constructions works in the mining sector and for the government's capital projects.



**3. The GDP revision implies only minor changes in key macroeconomic ratios.** Although real growth rates were increased, the deflator was revised downwards. Overall, Namibia's nominal GDP level for 2014 was lowered by 3.2 percent. As a result of the lower denominator, the 2014 debt-to-GDP ratio becomes 28.1 percent of GDP (rather than 27.2 percent), and the fiscal deficit is 3.9 percent of GDP (compared with 3.8 percent). On the external side, the 2014 current account deficit becomes 10.3 percent of GDP (instead of 9.9 percent).

<sup>1</sup> Given fewer data sources for the preliminary estimates, they are often subject to wide revision. The authorities are working jointly with AFRITAC South to enhance statistical capacity.

<b>Table. Namibia: Selected Economic Indicators, 2011–14</b>				
	2011	2012	2013	2014
	(percentage change, unless otherwise indicated)			
<b>National account and prices</b>				
GDP at constant prices 1/	5.1	5.1	5.7	6.4
GDP deflator	3.8	12.9	9.0	7.7
GDP at market prices (N\$ billions)	90.1	106.9	123.1	141.0
GDP at market prices (usd\$ billions)	12.4	13.0	12.8	13.2
GDP per capita (US\$, constant 2000 exchange rate)	6,149	7,192	8,173	9,231
Consumer prices (end of period)	7.4	6.4	4.9	4.6
<b>External sector</b>				
Exports (US\$)	9.8	-0.4	6.0	-0.4
Imports (US\$)	7.9	17.9	1.6	11.0
Terms of trade (deterioration = - )	6.5	-9.0	-4.0	-2.9
Real effective exchange rate (period average)	-1.6	-3.9	-8.7	-5.9
Exchange rate (N\$/US\$, end of period)	8.1	8.5	10.5	11.6
<b>Money and credit</b>				
Domestic credit to the private sector	9.3	16.9	14.5	16.5
Base money	69.9	-9.5	22.7	16.7
M2	19.8	5.3	8.6	7.7
Interest rate (percent)	6.0	5.5	5.5	6.0
	(percent of GDP)			
<b>Investment and Savings</b>				
Gross Investment	22.7	25.7	26.5	34.0
Public	8.2	7.2	6.8	4.4
Private	14.5	18.5	19.7	29.6
Gross domestic savings	13.0	13.0	9.4	12.4
Gross national savings	17.5	16.6	17.9	19.9
<b>Central government budget 2/</b>				
Revenue and grants	31.7	33.0	32.8	36.3
Of which: SACU receipts	7.6	12.4	11.5	12.5
Expenditure and net lending	40.3	34.6	37.1	40.1
Primary balance (deficit = - )	-7.3	-0.1	-2.9	-2.5
Overall balance	-8.5	-1.6	-4.3	-3.9
Overall balance: Non-SACU	-16.1	-14.1	-15.9	-16.4
Public debt/GDP	26.2	24.1	23.1	24.8
Gross public and publicly guaranteed debt/GDP	28.1	26.0	27.3	28.1
<b>External sector</b>				
Current account balance				
(including official grants)	-2.9	-5.6	-4.0	-10.3
External public debt (including IMF)	6.4	7.8	7.0	7.5
Gross official reserves				
US\$ millions	1,800	1,774	1,526	1,220
Percent of GDP	14.5	13.6	12.0	9.2
Months of imports of goods and services	3.0	2.8	2.2	1.8
External debt/GDP 3/	41.4	35.5	39.0	41.8
<b>Memorandum item:</b>				
Population (in million)	2.1	2.1	2.2	2.2
Sources: Namibian authorities and Fund staff estimates and projections.				
1/ Figures include public enterprise and central government investment.				
2/ Figures are for fiscal year, which begins April 1.				
3/ Public and private external debt.				

**Statement by Ms. Kapwepwe, Executive Director for Namibia,  
and Ms. Dlamini-Kunene, Advisor to the Executive Director for Namibia  
September 18, 2015**

My authorities appreciated the candid and productive engagement during the Article IV consultation and are broadly in agreement with the analytical thrust of the reports. They share similar assessments and concerns, especially on the outlook and risks to the fiscal and financial sectors. It is on this basis that authorities have already commenced half-yearly reviews of the budget and the medium-term expenditure outlook.

My authorities' execution of sound macroeconomic policies coupled with a focused development agenda has supported economic growth and augured well for macroeconomic stability and growth. These efforts have borne fruit; Namibia attained upper middle income status and has made significant achievements in improving the welfare of the people of Namibia through better access to health, potable water, education and financial services. Despite the positive developments made thus far, challenges remain including housing pressures, unemployment and income inequality. In this regard, they are committed to pursuing policies that will help alleviate these socioeconomic challenges, while safeguarding macroeconomic stability.

**Recent economic developments and outlook**

The revised full national statistics data released on September 10, 2015 indicate that the economy, supported by strong construction activity and wholesale and retail trade, GDP grew by 6.4 percent in 2014 from 5.7 percent in 2013. This number is higher than the April 2015 preliminary estimate of 4.5 percent indicating stronger than anticipated growth in the secondary and tertiary sectors which account for 17.7 percent of GDP and 57.7 percent of GDP respectively.

Buoyant construction activity and a recovery in the utilities sector contributed to the strong performance in the secondary sector, while wholesale and retail trade, transport and communication and education sectors were the major contributors to the strong growth in the tertiary sector. Mining activity on the other hand performed poorly, due to decreases in uranium and other mining and quarrying activity.

Inflationary pressures remained benign despite the exchange rate depreciation. Annual inflation rate averaged 5.4 percent in 2014, having fallen from 5.6 percent in 2013 due to transportation cost, a consequent of lower oil prices and a tighter monetary policy stance. The annual inflation rate continued to slow down on average during the first half of 2015. However, annual inflation rose to 3.3 percent in July 2015 from 3.0 percent in June 2015. Inflation is expected to rise slightly but remain within manageable levels.

The current account deficit continued to narrow to N\$580 million during the first quarter of 2015, compared to the previous quarter (N\$1.1 billion) and corresponding quarter of 2014 (N\$3.3 billion). The narrowed deficit was primarily due to a lower merchandise trade deficit, decreased outflows in investment income and sustained high current

transfers. As a percentage of GDP, current account deficit reduced to 0.4 percent in the first quarter of 2015. The stock of international reserves rose substantially by 20.2 percent to N\$14.8 billion during the second quarter of 2015 compared to the previous quarter, mainly due to the issuance of a new JSE bond worth N\$800 million. The favorable exchange rate also supported the positive developments in international reserves.

The economic outlook is positive with the anticipation of a recovery in global demand and new mines coming on stream. Real GDP growth is expected to increase on account of continued robust construction activity, an expected increase in mining production and activities in the wholesale and retail trade. However there are important downside risks, in particular the falling commodity prices, slow recovery in the country's main trading partner economies and adverse weather conditions. Furthermore, the projected decrease in SACU receipts is expected to negatively affect the economy and public finances.

### **Fiscal and debt policies**

Fiscal policy remains accommodative in line with the authorities' objective to support economic growth and job creation. The authorities are still committed to their consolidation objective that they announced in 2012 evidenced by the winding down as scheduled in 2013/14 budget, the Targeted Intervention Program for Employment and Economic Growth (TIPEEG) launched three years earlier. Strong revenue mobilization, higher SACU receipts and low debt allowed the authorities to increase spending, especially on infrastructure, goods and services and wages.

However, going forward, the projected fall in SACU receipts will exert pressure on fiscal revenues and negatively impact gross official reserves. In this respect, the authorities will pursue a fiscal consolidation path that is in line with fiscal and debt sustainability. They have already implemented cuts on recurrent spending such as travel and other related costs and these cuts will continue into the medium term. Further expenditure recalibration will entail postponement of non-priority and least productive capital spending associated with public administration infrastructure.

The public debt policy is underpinned by the country's 2005 Sovereign Debt Management Strategy which sets out fiscal limits. Though public debt has risen in the past few years, it remains low and sustainable. This is a consequence of the authorities' prudent management of public debt and a conservative benchmark of 35 percent of GDP.

### **Monetary and exchange rate policies**

The Bank of Namibia pursued a tighter monetary policy stance in 2014, in response to the acceleration in credit extension and rising property prices. Consequently, credit extended to the private sector has slowed, due to decreased demand by the corporate and household sectors for overdraft, mortgage and other loans and advances.

On the exchange rate policy, the authorities continue to view the exchange rate peg to the South African rand as an appropriate monetary policy anchor. They recognize that if gross official international reserves' continue to decline will compromise the credibility of the peg. At present, the stock of international reserves is 3.9 times higher than the currency in circulation therefore adequate to maintain the peg between the Namibia dollar and the rand. Going forward, the authorities will continue to safeguard the peg and build adequate buffers to buttress the economy's defenses against potential external shocks. In this regard, they are considering other options and a fiscal consolidation path that will boost the level of reserves in the medium-term.

### **Financial sector policies**

The banking sector remained sound, profitable and adequately capitalized. Asset quality improved as shown by the decrease in the non-performing loans (NPL) ratio during second half of 2014. However, the banking sector remains highly leveraged in the mortgage sector. The rapid increase in credit extension experienced in previous years, especially to the mortgage sector along with the rising household indebtedness have created vulnerabilities in the financial system. The possible threat to financial sector stability is a concern for the authorities. Given that the rapid growth in housing prices has been fueled to a larger extent by supply constraints, the authorities are considering options to speed up the process to facilitate the supply of serviced land. Additionally, the authorities appreciate staff's analysis of the macro-prudential risks in the selected issues paper and they concur on the need to consider macro prudential measures to curb speculative behavior. Nonetheless, going forward the banking sector's financial condition is expected to remain sound and healthy.

### **Structural reforms**

My authorities recognize that Namibia's success has raised the aspirations and expectations of Namibians which, makes urgent the need for them to ensure that the economic benefits are shared by the broader population. In this regard, they will continue to promote employment creation through economic diversification. To address youth unemployment they will promote development of functional technical skill through increased access to tertiary and vocational training.

### **Conclusion**

My Namibian authorities are committed to pursuing sound macroeconomic policies and implementing structural reforms to ensure more inclusive economic growth, address the high level of unemployment and reduce vulnerabilities while locking in the progress they have made so far to promote inclusion and accelerate convergence with SADC targets. They will continue to pursue a fiscal consolidation path that will restore and preserve medium to long-term fiscal sustainability.