



NAMIBIA

2013 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE

February 2014

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 2013 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 7, 2013, 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 January 10, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Press Release** summarizing the views of the Executive Board.

The following document has been or will be separately released.

Selected Issues Paper

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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NAMIBIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

January 10, 2014

KEY ISSUES

Setting: Namibia's positive growth record over the years has raised overall incomes and led to positive economic outcomes. However, growth has not translated into sufficient job creation contributing to persistently high unemployment and income inequality.

Outlook and risks: Real GDP growth is expected to moderate to 4 percent in 2013 from 5 percent in 2012 reflecting weak global demand for exports partially offset by solid growth in domestic demand. The uncertain global environment and a possible delay in finalizing negotiations for the Economic Partnership Agreement (EPA) with the European Union are key risks.

Policy mix: Given the peg to the South African rand, staff urges the authorities to return to fiscal prudence through greater expenditure control. In case of more adverse shifts in the global economic environment than currently anticipated, staff advocates for allowing the automatic stabilizers to operate on the revenue side.

Medium-term: With an uncertain external environment, staff recommends the authorities pursue a "growth-friendly" fiscal consolidation reining in unproductive current spending, while protecting growth-promoting capital spending. Staff welcomes efforts by the government to look into ways to steer a gradual reduction of the wage bill which would improve labor market outcomes. Measures to enhance domestic revenue mobilization would help balance the fiscal consolidation strategy.

Financial stability and inclusion: The government's emphasis on enhancing financial inclusion, while preserving the stability of the financial system, is appropriate. Although the level of household indebtedness has stabilized, it remains elevated. Thus, staff commends the authorities for initiatives taken to strengthen their surveillance of the financial sector and thereby help minimize the associated vulnerabilities.

Growth and diversification: Achieving higher growth would require a set of efficiency-driven reforms to reinvigorate productivity drivers. Delivering good outcomes on policies for greater diversification would require supportive measures to liberalize the service sectors and reduce the domestic regulatory burden for firms.

Past advice: There is broad agreement between the Fund and the authorities on macroeconomic policy and structural reform priorities. The authorities also view the Fund as a valuable partner for their capacity building efforts.

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

Discussions took place in Windhoek October 24–November 7, 2013. The team comprised Messrs. Leigh (head), Canales-Kriljenko, Jonelis, Stepanyan, and Ms. Parulian (all AFR). Ms. Gulde-Wolf participated in meetings in the first three business days of the mission. Mr. Schuler from the World Bank also participated in the meetings. Ms. Robertson provided excellent editorial assistance.

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SETTING, CURRENT CONDITIONS, OUTLOOK, AND RISKS

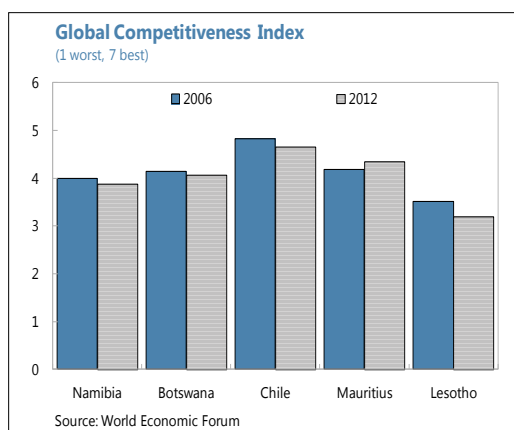
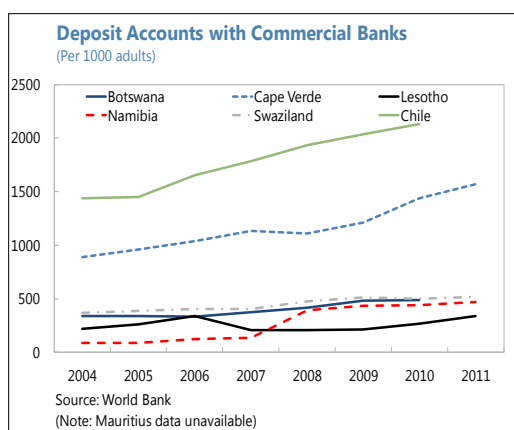
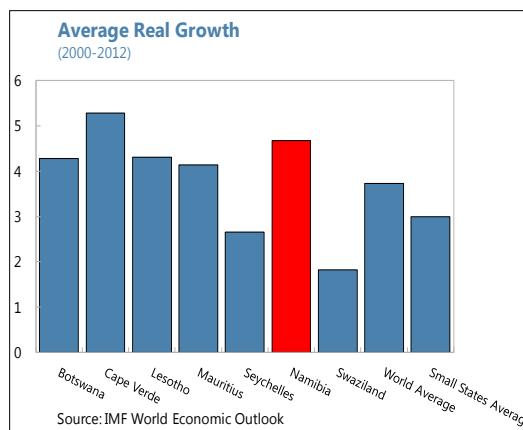
A. The Long-Term Setting

1. Namibia's economic performance in the last decade has been strong.

Real GDP growth outperformed the average for its small middle-income (SMIC) peers in sub-Saharan Africa. The rebound from the 2009 global financial crisis was also quick and strong and growth outpaced the global average for the last two to three years.

2. At the same time, the economy continues to face enormous socio economic development and structural challenges, amidst high unemployment and income inequality.¹ These socio-economic challenges are multidimensional, but three stand out:

- Dual economy.** At independence in 1990, Namibia inherited a dual economy with the four interrelated challenges of low economic growth, a high rate of poverty, inequitable distribution of wealth and income, and high unemployment. On the one hand, a highly productive capital-intensive mining sector generates GDP growth but creates fewer jobs; on the other hand, most of the population particularly those in the north, depend on subsistence agriculture.
- Inadequate access to finance.** The economic duality has also resulted in less financial inclusion with a significant proportion of the population unbanked compared to SMIC peers.
- Skill shortage.** The development and retention of superior skills needed by both the private and public sectors are key challenges for Namibia. Namibia has



¹Namibia's official unemployment rate was at 27.4 percent at end-2012. In addition, GDP per capita and scores on UN Human Development Indicators are also weaker than its peers' median (small middle income countries).

also lost ground on its rankings in the Global Competitiveness Index of 2012/13—Namibia ranked 92nd out of 144, lower than the ranking of 83rd, it achieved in 2011/12 in part due to its educational outcomes.²

3. Securing sustained higher growth, creating jobs and reducing inequality are the government’s key policy priorities. In this context, with the government pushing a “Growth at Home” strategy, the 4th National Development Plan (NDP 4) identified the following economic sectors as priorities: (i) logistics, (ii) tourism, (iii) manufacturing, and (iv) agriculture. The 10-year Namibia Financial Sector Strategy (NFSS) launched in 2012 serves as the blue print to enhance financial inclusion.

4. Political economy context: Many analysts expect the 2014 presidential elections to be smooth. The candidate from the South West Africa People's Organization (SWAPO), the party in power since independence, was selected in November 2012 through an internal democratic process.

B. Current Conditions

5. Although the Namibian economy bounced back strongly from the 2008—09 global financial crisis, since then growth has continued to soften—reflecting a combination of weak net external demand and solid contribution from domestic demand (Figure 1).

- Output growth slowed from about 5¾ percent in 2011 to 5 percent in 2012. This moderation reflected a combination of decelerating net external demand partly offset by a solid contribution from domestic demand. From the expenditure side of GDP, domestic demand was relatively strong in 2012, with private consumption and investment growing by about 4.5 and 1.1 percent respectively in real terms, while net external demand declined by 0.6 percent.
- Preliminary official data suggest the moderation in growth continued in the first half of 2013, reflecting weak global demand for exports, which more than offset the solid growth in the nonmineral sector most notably in retail trade.³ The impact of severe drought to some extent weakened economic activity in the agriculture sector.

6. Favorable credit conditions supported domestic demand growth (Figure 1). As elsewhere, interest rates and by extension costs of borrowing in Namibia are at historically low levels. Credit extension to households grew by 14 and 13 percent in 2012 and in the first half 2013, and household indebtedness remained elevated at 84.7 percent as of June 2013. Corporate debt levels

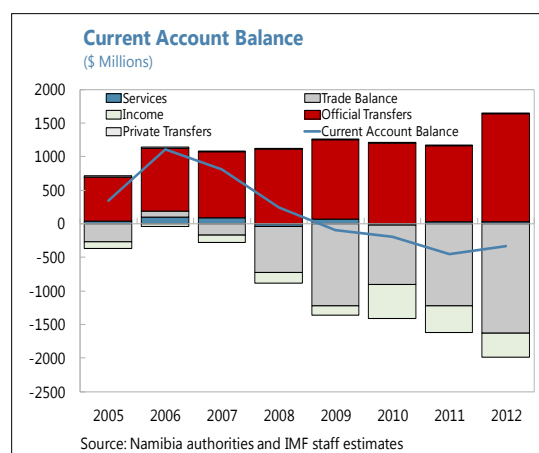
² These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

³ It is worth noting, however, that the quarterly production side GDP data for Namibia is not comprehensive, and is based on a sample of sectoral performance that is not usually a perfect predictor of the annual GDP outturn.

also grew about 18 percent as of June 2013, reflecting the increase in new foreign borrowing and a weaker exchange rate, albeit from a relatively low base compared to household debt.⁴

7. Notwithstanding the fiscal over performance in FY2012/13, the underlying FY2013/14 budget measures on the whole aimed to spur domestic demand. The fiscal outturn in FY2012/13 was significantly better than expected, the overall deficit was 0.3 percent compared to 3.9 percent projected in the original budget. This is mainly due to savings in capital spending driven by under execution of the government's Targeted Intervention Program for Employment and Economic Growth (TIPEEG)⁵, and stronger-than-expected revenue performance (including receipts from the Southern Africa Customs Union (SACU)). However, the fiscal stance in FY2013/14 is expansionary (Table 2b) and the budget announced measures to boost private consumption in the form of reduction in individual income tax rates and changes in the thresholds. The gradual alignment of corporate tax rates also aims to spur domestic private investment.

8. Reflecting the fiscal withdrawal in 2012/13, the current account deficit narrowed in 2012 (Figure 1). The current account deficit declined to 2.6 percent of GDP in 2012 from a deficit of 3.5 percent in 2011. This outcome was driven mainly by an increase in official transfers through higher-than-projected SACU revenues, and savings made in capital spending, driven by the under-execution of the government's TIPEEG. Despite narrowing of the current account deficit, the official reserves coverage stood at just 3 months of import cover at end-2012 compared to 3.5 months in 2011 because of portfolio outflows.⁶



⁴ The rise in corporate foreign borrowing reflects the increased in short-term loans by resident banks and long term loans acquired by companies mainly in the mining and to a lesser extent the fishing sectors particularly in the first quarter of 2013.

⁵ The Targeted Intervention Program for Employment and Economic Growth (TIPEEG), launched in FY2011/12 and extends to FY2013/14 with a target to create 104,000 direct and indirect jobs between 2011 and 2014.

⁶ Namibia's net portfolio investment has been traditionally negative (except in 2011 when Namibia issued a Eurobond), with most of the activity taking place on the balance sheets of resident non-banks who tend to add to their portfolio investments abroad and are allowed to invest 70 percent of their assets abroad. With this background, 2012 was arguably a good year because the net portfolio balance was less negative than in earlier years (except in 2011) in both dollar terms and percent of GDP.

9. While the external competitiveness indicators for Namibia give mixed results, the overall assessment points to a mild overvaluation (Text Table and Appendix I).

On the one hand, Namibia's dollar has depreciated in real effective terms in line with the South Africa rand. On the other hand, Namibia's current account balance is more negative than those that would be predicted by panel estimates from macroeconomic developments. This together with inadequate reserve coverage suggests that the exchange rate is arguably mildly overvalued but that the overall external position remains broadly sound.

Estimated Real Exchange Rate Misalignment ¹ (negative numbers suggest undervaluation)	
Macroeconomic Balance ²	2.6
External Sustainability ³	9.4
Deviation from long-run real exchange rate level ⁴	-12.9
Equilibrium Real Effective Exchange Rate ⁵	-11.9
Purchasing Power Parity ⁶	-9.1

¹The misalignment estimates are larger for the 2013 point estimate because short-term factors have not played their way through, which is why the table presents the numbers for the 2016 forecasts.

² Calculated using CGER proposed coefficients for macro variables and trade elasticities. Misalignment computed for 2016 forecasts.

³ For a net foreign asset position of 20 percent of GDP, the average of the last 10 years. The overvaluation would be 14.3 percent with the net foreign asset position of 2012. Misalignment

⁴ Percent difference between observation in June 2013 and the monthly average between December 1996 and July 2013.

⁵ Calculated from an updated panel regression in which the only significant variable is the terms of trade, with a 53 percent adjusted R squared. Real exchange rate for 2013 is for June 2013. Misalignment computed for 2016 forecasts.

⁶ Calculated from an updated panel regression that follows the CGER methodology. Real exchange rate for 2013 is for June 2013. Misalignment computed for 2016 forecasts.

C. Outlook and Risks

10. Outlook

Output: Staff projects that real GDP will grow by 4.3 percent in 2013 with strong nonmineral GDP growth and an anemic mining sector (Table 3). Growth is expected to pick up slightly to 4.5 percent by 2016 supported by the strong construction sector owing to a planned public housing program and recovery in the mining sector through the full-capacity production of the Husab uranium mine.

External position: The current account deficit is expected to widen in the next two years before narrowing in 2016. The widening is mainly due to the FDI funded construction imports related to the Husab uranium mining project. The deficit is expected to narrow starting from 2016, supported by the public sector savings generated by the planned fiscal consolidation, recovery in diamond demand, and the phasing down of the construction stage of the Husab uranium mine.

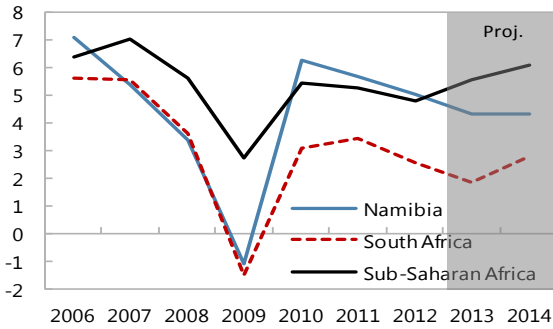
11. Risks

There are significant downside risks to the near-term outlook, both from global spillovers and domestic developments. The main near-term risks to output relate to the uncertain external environment, protracted economic and financial volatility especially for emerging markets, as well as lower than anticipated growth in emerging markets, which could constrain export demand (see staff's risk assessment matrix (RAM)). A global oil shock would also affect Namibia's terms of trade, worsen the current account and ultimately economic activity as Namibia is a net oil importer. Policy uncertainty in South Africa can also affect Namibia through the monetary exchange rate peg link. In addition, a delay in finalizing negotiations of the Economic Partnership Agreement (EPA) with the European Union could pose additional risks to nonmineral exports, such as beef, grape, and fish products (Appendix III).

Figure 1. Namibia: Recent Macroeconomic Performance and Outlook

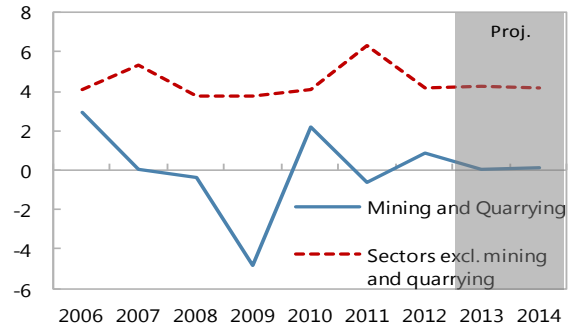
Economic growth has moderated...

Real GDP Growth
(Annual Percentage Change)



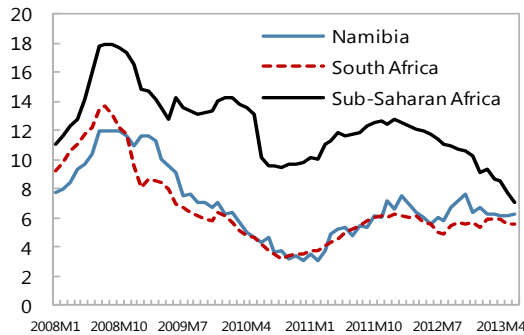
...owing to weaker mining sector performance especially diamond production.

Contributions to Real GDP Growth
(Annual Percentage Change)



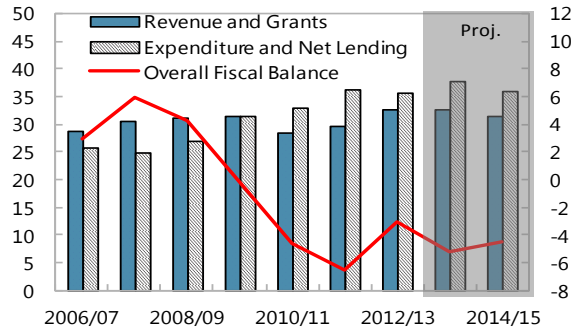
Inflation continued to moderate, largely on account of the slowdown in price of food, electricity, gas, and fuel.

Inflation
(Percent)



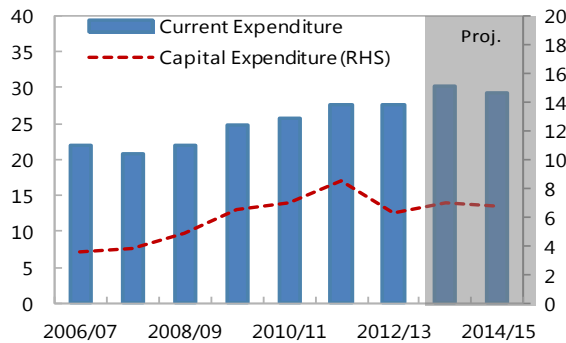
The fiscal deficit has declined owing to lower execution of capital projects...

Fiscal Balance
(Percent of GDP)



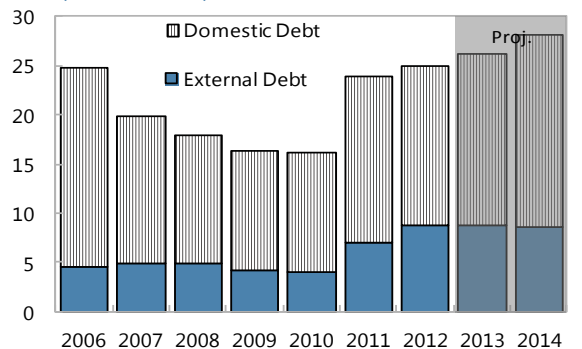
however, current spending remains elevated...

Capital and Current Expenditures
(Percent of GDP)



and the public debt-to-GDP ratio has increased significantly.

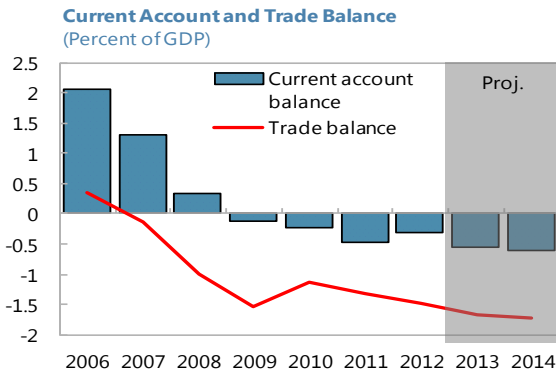
Public Debt
(Percent of GDP)



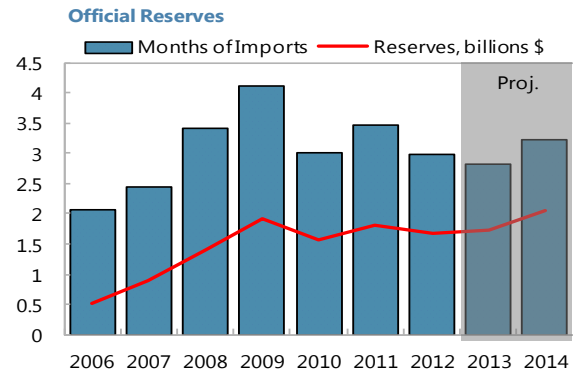
Sources: Namibian authorities and IMF staff estimates.

Figure 1. Namibia: Recent Macroeconomic Performance and Outlook (concluded)

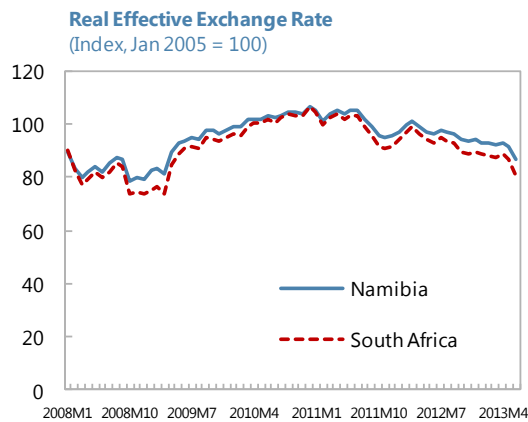
The current account continues to be in deficit...



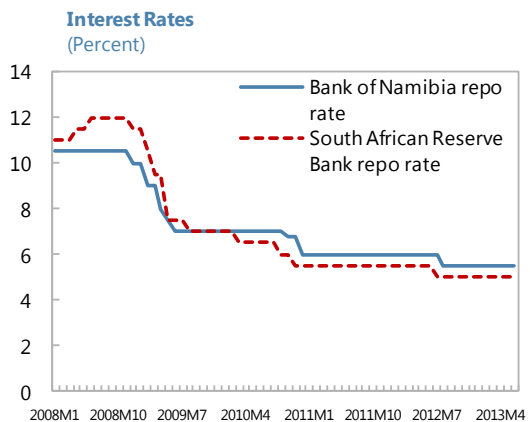
and international reserves are below the 2009 peak.



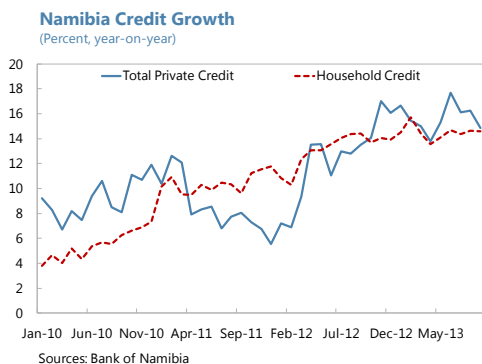
The REER largely tracks that of South Africa...



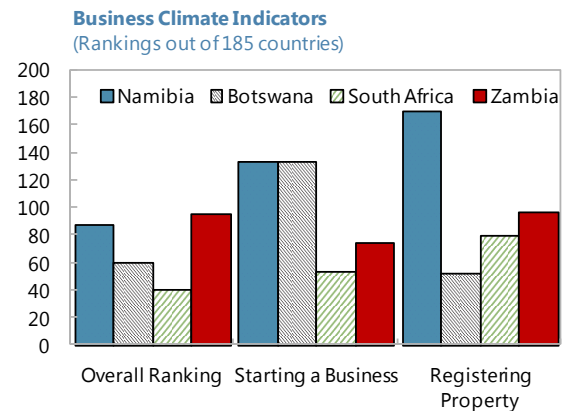
and the BoN reduced its repo rate broadly in line with the SARB.



Overall credit growth remains respectable...



...but a challenging business climate may be undermining investment opportunities.



Sources: Namibian authorities, World Bank Doing Business Indicators 2011, and IMF staff estimates.

There are some medium-term fiscal and external risks both through a protracted low global growth and the uncertainties surrounding future SACU revenues.⁷ A protracted period of slower European growth could generate negative spillovers through trade linkages as a large share of Namibia's total exports—mainly diamonds, uranium, beef, unrefined copper and fish—are destined for Europe. Namibia's growth prospects are further clouded by the challenges posed by high levels of unemployment, poverty and inequality. These challenges require the need to create stronger engines of more inclusive growth.

POLICY DISCUSSIONS

The authorities largely agreed with the staff's assessment of recent economic developments, outlook, and prospects but emphasized that Namibia's growth remains above the world average. They acknowledged the need to pursue a "growth-friendly" fiscal consolidation plan and contain the size of wage bill in a manner that gives priority to job creation and reduce inequality. This year's consultation focused on four main themes: (i) responding to inward spillovers from the current global downturn and policy uncertainty in South Africa; (ii) rebuilding fiscal policy buffers: prudent fiscal and wage policies to strengthen external sustainability and reduce unemployment; (iii) promoting financial inclusion and stability; and (iv) reinvigorating growth and enhancing export diversification.

A. Policy Theme 1: Near-Term Macroeconomic Policies and Global Spillovers

12. Near-term macroeconomic policy stance

- **Fiscal policy:** In staff's view, given the exchange rate peg, the FY2013/14 budget did not sufficiently build on the gains made in improving the underlying fiscal position in FY 2012/13. Staff reiterated the need to unwind the TIPEEG in FY 2013/14 as originally planned, which will pave the way for returning to fiscal prudence. Staff welcomed the emphasis in the FY2013/14 budget to strengthen public financial management and rationalize loss-making state-owned enterprises (SOE) and reduce their perpetual dependency on the public finances. These efforts should pave the way for a smooth transition to a comprehensive medium-term fiscal consolidation strategy.
- **The authorities broadly concurred with staff on the need to rein in current spending.** They emphasized their efforts in improving the efficiency of public spending through the strengthening of public financial management and the other active reform agenda outlined in the FY 2013/14 budget. On TIPEEG, the authorities explained that it represents a repackaging of existing projects under the line ministries' pipeline, instead of a newly-designed public

⁷ Customs and excise revenue from SACU are collected into a common revenue pool and managed by the South African National Treasury. The revenues paid to SACU members in each year are based on forecasted revenues with under or over payment corrected with a 2-year lag.

employment program. These projects will likely proceed after the TIPEEG program ends.⁸ The Ministry of Finance (MoF) and the SOE Governing Council are conducting a joint study, that they consider as high priority, to assess compliance of SOEs with the SOE Act's requirements which should pave the way to reduce their dependency on the budget.

13. Managing global spillovers

- Namibia is highly exposed to global risks mainly through trade channels (Appendix II).** Trade linkages are important as they affect export receipts that determine sustainable levels of imports and fiscal spending. Discussion with various agencies suggest that while economic spillovers from South Africa warrant close monitoring, the direct spillovers would likely not be that large, in part because most of Namibia's export go to other major trading partners including Europe and the United States. External vulnerabilities remain contained, but would benefit from additional reserve coverage to provide further support to the peg.
- If further adverse temporary global spillovers beyond the staff's baseline scenario lead to a decline in export commodity prices and a significant loss of revenues, staff advised the authorities to allow the automatic stabilizers to work on the revenue side.**⁹ This implies that the government should refrain from taking tax measures to compensate for the associated loss in mineral revenues or reducing expenditures to meet the government's budget deficit target. Although this will delay the medium term consolidation path envisaged under the FY2013/14 budget, in staff's view, it should not undermine medium-term fiscal or debt sustainability given the temporary nature of the shock (Table 1 and debt sustainability annex).¹⁰
- The authorities noted the staff's view about the potential global spillovers to Namibia, including developments in South Africa that warrant close monitoring.** They reiterated that Namibia's exports destinations are relatively diversified. Additionally, the funding base of banks is largely domestic, and post 2015, mineral exports are expected to increase upon the completion of the new Swakop Uranium mine, which is expected to become the second largest uranium mine in the world. The authorities do not expect major effects on Namibia's mining sector from large demonstration for wage increases in South Africa's mines, as Namibia's industrial relations tend to be less confrontational. However, there would be significant impact on business and economic activity if the recurring labor strikes were to disrupt the supply of goods from South Africa to Namibia. On vulnerabilities, they noted that Namibia has gained fiscal space given the achievement of a balanced budget in FY2012/13 and the relatively low debt level.

⁸ The authorities expect that some of these projects would be financed by public private partnerships (PPP) going forward.

⁹ Namibia does not have automatic stabilizers on the expenditure side.

¹⁰ Namibia's debt ratio has been historically low and is expected to remain within the authorities' announced target of 35 percent of GDP over the medium term (see the DSA annex which uses the Fund's new template for market access countries).

B. Policy Theme 2: Pursuing a “Growth-Friendly” Fiscal Consolidation and Improving Labor Market Outcomes

14. Medium-term fiscal consolidation plan

- **In the staff’s view, the pace of the government’s medium-term fiscal consolidation strategy is not ambitious enough to support the much needed rebuilding of the fiscal buffers (Text Table).** The

FY2013/14 budget targets a deficit of 6.3 percent of GDP— above the previous medium-term expenditure framework (MTEF’s) target of 5 percent, reflecting the increase in government spending by 2.5 percent of GDP, mainly on wages and subsidies and transfers to state-owned enterprises (SOEs).

Central Government Operations 2010/11 - 2015/16 ¹							
(In percent of total GDP, unless otherwise indicated)							
	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	2015/16
	Actual	Actual	Budget	MTEF	Staff	MTEF	Staff
Total revenue & grants	31.3	34.5	32.9	35.2	35.6	30.6	31.3
SACU revenue	7.5	12.5	12.1	13.4	13.4	8.0	8.0
Revenue excluding SACU	23.8	22.0	20.8	21.8	22.2	22.6	23.3
Total expenditure & net lending	39.7	34.8	39.2	36.0	34.4	34.2	31.4
Overall balance ²	-8.4	-0.3	-6.3	-0.8	1.2	-3.5	0.0
Structural balance ³	-6.7	-3.0	-7.5	-4.6	-2.6	-3.2	0.3

Source: Namibia authorities and Fund staff estimates and projections.

¹ Staff’s fiscal numbers may differ from the authorities’ numbers due to the difference in classification. Staff records “Return of capital from lending and equity participation” as a net lending, while authorities record it as non-tax revenue. Also, staff adds to the expenditure the loans borrowed outside the budget for specific projects.

² The improvement in the overall balance in 2014/15 is due to higher-than-projected SACU revenue, which at the time of this report is still yet to be approved by the Council of Ministers. Without this windfall the deficit would have been 4.1 percent of GDP.

³ Structural balance is calculated by adjusting the overall balance for the cyclical component of budget revenue, because there are no automatic stabilizers on the expenditure side. The large volatility in the overall balance during 2012/13-13/14, which is not evident in the structural balance is due to a windfall in SACU revenue.

- **Staff recommends that the authorities articulate a “growth-friendly” medium term fiscal consolidation strategy.** This should aim to rein in current spending (wages and transfers and subsidies to SOEs) while preserving productive capital and infrastructure spending in a low growth environment. Staff advises the government to aim to achieve a broadly balanced fiscal position by 2015/16 mainly through reducing current spending to help rebuild reserves to an adequate level combined with measures to reduce tax expenditures. Given the fixed exchange rate regime and the fact that Namibia remains susceptible to global shocks and outward spillovers amplified by an open capital account and lower buffers, beyond stabilizing the debt level, Namibia needs to rebuild its reserves buffer. The gap between Namibia’s reserves holdings and its adequate level is expected to widen in the future, with unchanged policies. Therefore, a more ambitious fiscal effort beyond the authorities’ MTEF would be advisable, through a balanced budget by FY2015/16.¹¹
- **The authorities broadly concurred with staff on the need to rein in the current spending and to improve the quality of public spending, while supporting development needs.** They affirmed their medium-term fiscal consolidation efforts and noted that government transfers to SOEs include funding for infrastructure projects, which should be viewed favorably from a broader national development perspective. As parts of effort to strengthen public financial management, the authorities explained their plan to improve the tender system by creating a

¹¹ A detailed analysis of reserve adequacy for small MICs in the region, including Namibia, which applied a range of methodologies for assessing reserve adequacy, is contained in a recent staff paper (SM/13/22).

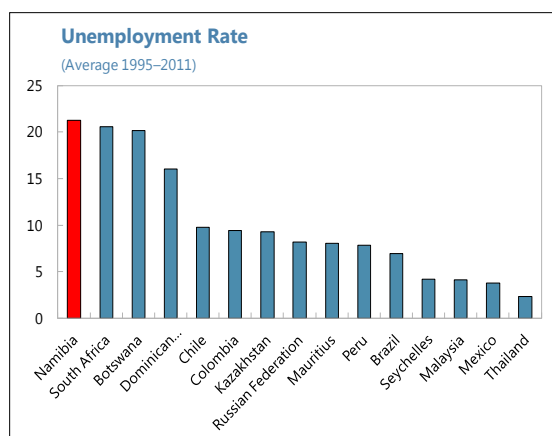
bid evaluation committee comprising of professionals and free of political influence. They also plan to introduce changes in the mode of appointment of Tender Board members and the power of other related institutions.

15. The contribution of revenue mobilization to fiscal consolidation

- **In staff's view, broadening the tax base should be an integral pillar of a balanced medium-term fiscal consolidation process.** Staff recommends the rebalancing of revenue-raising and expenditure-cutting measures by complementing the measures in the budget with policies that increase the domestic tax base. Staff also recommends integrating tax expenditure quantifications (forgone tax revenues arising from granting tax incentives) into the budget process.
- **The authorities concurred that expenditure restraint will be supported by efforts to broaden the revenue base and improve revenue administration.** They noted the significant progress in building the capacity of the Large Taxpayer Unit (LTU) and the plan to establish an autonomous revenue agency in the next three to four years, which would modernize revenue collection and improve domestic revenue generation. The authorities also noted that the effective tax rates on the mining sector are quite high. The revenue office has also resorted to active third party collection for outstanding tax arrears. A good standing certificate is still a requirement for tender purposes. A tax arrears project has also been constituted under the project office, focusing on collection of the 800 highest tax debt cases.

16. The distortions created by public employment and wage policies in the labor market

- **Staff's analysis suggests that reforms aimed at reducing rents of public employees and the size of public employment would improve labor market outcomes.**¹² While labor market statistics are generally weak in many countries, available indicators for Namibia suggest that on average public sector wages are higher relative to the private sector, especially when compared with other middle-income countries (MICs), although for Namibia this premium is mostly at the lower end of the public sector skill distribution. The TIPEEG program has created fewer jobs than expected.¹³



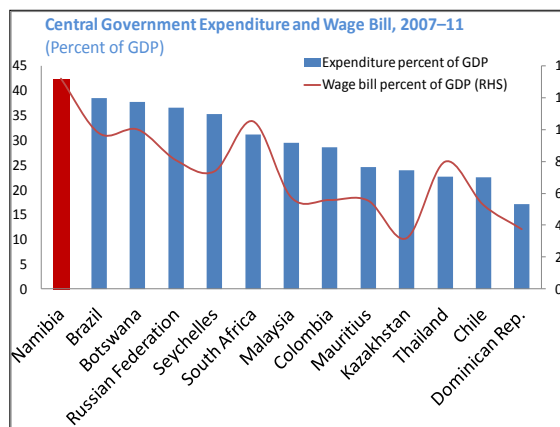
¹² See chapter 1 of the selected issues paper (SM/13/246). This paper, which looks at the public sector employment's impact on labor market outcomes for MICs, was presented at the Fund-wide Small Islands Club on July 25, 2013.

¹³ A number of capacity issues prevented TIPEEG from creating as many jobs as initially estimated. One of these factors was the lack of skilled engineers to implement projects targeted by TIPEEG. As a result, the authorities had to

(continued)

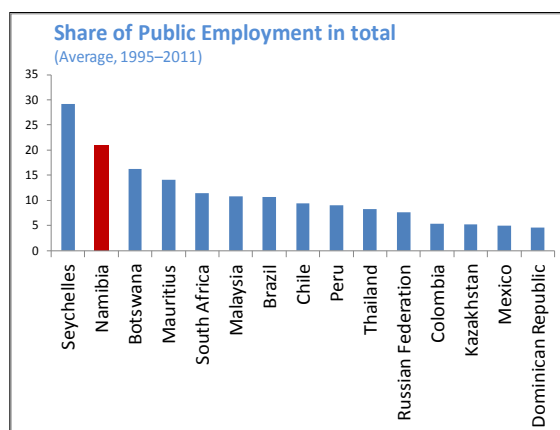
- **Staff urges the government to articulate a clearer set of measures that would underpin the reduction of the wage bill as a share of GDP to improve labor market outcomes.**

Staff’s analysis suggests that reforms aimed at reducing rents of public employees and providing complementary services to that of the private sector, would improve labor market outcomes. Specifically, staff urges the government to limit public sector wage awards below nominal GDP per capita growth, which takes into account both inflation and economy-wide productivity gains. Other policy measures that staff recommended to the authorities include in the short-term—streamlining the system of nonwage payments, including tighter eligibility criteria for allowances; over the medium-term—rationalizing the size and structure of government, and strengthening payroll systems.



- **The authorities questioned the staff’s approach of looking at the impact of fiscal policy on labor market outcomes,** and highlighted the challenges they face in

dealing with wages and public employment in an environment of relatively high unemployment. On the wage bill, they questioned the notion of a wage premium in government wages over those of the private sector, however conceded that if such a premium were to exist, it would be largely concentrated at the lower end of the wage ladder, while the middle and senior civil servants earn relatively lower wages compared with their private sector and SOEs peers. They noted that efforts by the government in the past to outsource the work by low-skilled civil servants have not been generally successful. The authorities emphasized their medium-term fiscal consolidation efforts such as the plans by the department of public servants management located at the Prime Minister’s office to link civil servants’ pay with performance (Table 1). Beyond this, they had to allow an increase in employment in the education and health sectors which are priority sectors in their national development strategy.

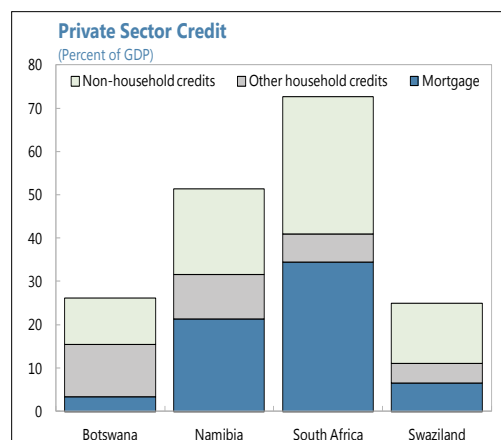
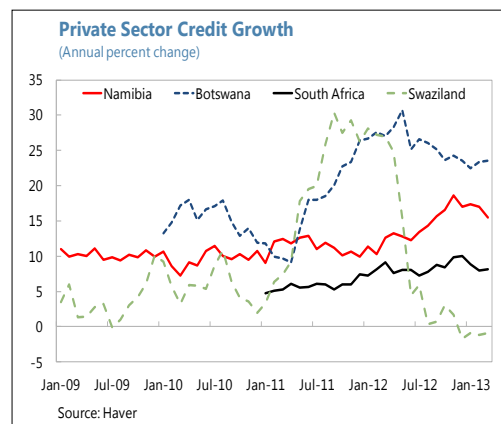
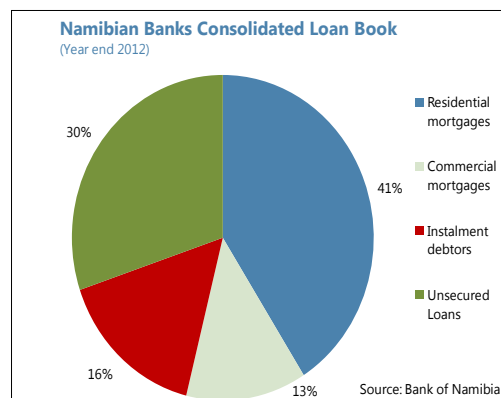


hire engineers from neighboring countries to make up for this lack of expertise. Another issue relates to the time the tender system took to approve projects and TIPEEG projects had to be put on a fast track approval process.

C. Policy Theme 3: Strengthening Financial Stability While Pursuing Greater Financial Inclusion

17. Financial sector

- Financial indicators.** Namibia’s banking system is profitable and well-capitalized with relatively low nonperforming loans (Table 8). However, potential sources of vulnerability to financial stability exist through the large concentration of the loan book in mortgages and the short-term maturity of deposits in the banking system. The nonbanking sector has grown significantly in recent years and its asset size is now about 140 percent of GDP.
- Household indebtedness.** Available data published by the Bank of Namibia (BoN) suggests household debt to disposable income remains elevated at just above 80 percent. Households (some of which include public sector employees), also now take unsecured loans (with direct deduction of the payments from their wages), albeit from a low base, to finance both consumption and in some cases investment spending. There is also a concern that a return to high interest rates from the current historical low rates could adversely affect households’ ability to repay their mortgages.
- Balancing financial inclusion and financial stability.** The 2011–21 Namibia Financial Sector Strategy is sound and strikes an appropriate balance between financial inclusion and stability. Staff welcomes the recently launched pro-poor financial product, such as basic bank account with low or no fees. One major concern, however, is that an increase in financial access without sufficient safeguards, could potentially undermine financial stability. Staff’s analysis using bank-level data for MICs in the region that was presented to the authorities, suggests that increasing financial access through encouraging household savings accounts and improving small and medium-sized enterprises (SME) access to financing enhances financial stability. In contrast, on the lending side, increasing household borrowing can pose potential risks to financial stability.¹⁴



¹⁴ See chapter 2 of the Selected Issues Paper.

18. Staff commends the authorities for taking measures to bolster the surveillance system for monitoring financial sector risk. These include the following:

- **Macprudential tools:** Staff supports the BoN's plans to use macroprudential measures including the loan-to-value ratio to address increasing credit risk from household lending and commends its high quality financial stability reports. While at this stage, household indebtedness does not pose imminent risks to macroeconomic and financial stability, in the absence of macroprudential and other measures to contain such risks, it could eventually give rise to systemic effects that would require macroeconomic adjustments.
- **National credit bureaus:** Staff also commends BoN's ongoing work to introduce regulations for credit bureaus by end-2013. Thus, over time, screening of borrowers will improve.
- **Enhancing financial literacy and consumer education on household borrowing:** Staff welcomes the consumer Financial Literacy Initiative (FLI) in the NFSS, which serves as a national platform for financial education of the general population.
- **Close monitoring of developments in the property market:** Staff also welcomes ongoing work by the BoN to strengthen its monitoring of the property market. The government plans to consider public private partnerships (PPP) as a vehicle to help municipalities service land and thereby ease the restrictions on availability of serviced land, which could moderate property price increases.

19. Further measures to strengthen their surveillance framework and minimize the vulnerabilities in the financial sector include the following:

- **A study of households' balance sheets:** Staff sees merit in carrying out a comprehensive assessment of households' borrowing, disposable income, and investment activities and monitoring them on a regular basis. Staff also believes that close cooperation between the BoN, Namibia Statistical Agency (NSA) and the nonbank regulatory agency (NAMFISA) should help facilitate the compilation of such statistics.
- **Judicious use of pro-poor products for enhancing financial inclusion:** Staff advocates for promoting stability friendly financial inclusion through savings-oriented instead of excessive consumption-oriented financial inclusion. Such measures could include reducing financing constraints for SMEs engaged in productive projects (including through the SME Bank that was licensed in December 2012) and helping poor households cope with external shocks through breaking up liquidity constraints. These measures should also avoid excessive build-up of household debt that will only lead to debt-distressed households and thus undermine the authorities' broader development agenda on enhancing more inclusive growth.
- **Reducing the maturity mismatch in the banking system:** Historically, these deposits have been broadly stable, as most of them represent nonbank financial corporations' liabilities on account of contractual savings from pension and life insurance policies. This said, staff

recommends that the authorities take measures to encourage banks to reduce the maturity mismatch on a gradual basis such as those envisaged in Basel III.

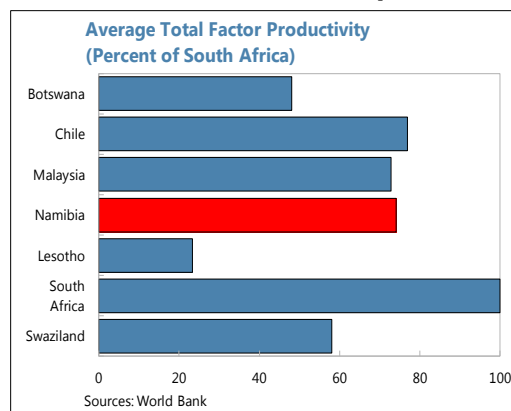
- **While Namibia has taken some steps towards improving its AML/CFT regime**, staff encourages the authorities to take further measures in line with the agreed action plan with FATF, as part of their ongoing efforts to strengthen financial stability.

20. The authorities broadly concurred with the assessment and emphasis on efforts to closely monitor the pace of household borrowing including borrowing within and outside the banking system. The BoN continues to closely monitoring trends in the property market, household lending and risks to financial stability as regularly published in their Financial Stability Report (FSR). The BoN and NAMFISA are also preparing regulations governing credit bureaus. In addition, with NAMFISA, the government has gone through an exercise to overhaul and modernize the regulatory regime governing the nonbank financial sector. Beyond these efforts, regular meetings are held between the Chief Executive Officer of NAMFISA, the Minister of Finance and the Governor as well as the meeting of the Financial Stability Committee to discuss cross-cutting issues for the financial sector.

D. Policy Theme 4: Reinvigorating Growth, Enhancing Inclusion and Promoting Economic Diversification

21. Enhancing growth and export diversification

- **Namibia's positive growth record over the years has delivered good economic outcomes.** However, based on an analysis conducted by staff (SM/13/22), growth has also become less inclusive in recent years. Staff and the authorities agree that going forward Namibia's growth would have to rely less on fiscal stimulus and more on efficiency and innovation driven growth, underpinned by private sector development to boost economy-wide productivity.
- **Boosting potential growth would require a set of reform-oriented, innovative policies to reinvigorate total factor productivity.**¹⁵ These include increasing the quality of public spending through ongoing reforms in public financial management and the government tender system. Other measures include improving the efficiency and effectiveness of the tax system, reducing the cost of doing business and the skill mismatch in the labor market, and diversifying the economy, all of which are part of current government policy intentions.



¹⁵ See chapter 1 of the Selected Issues Paper which presents a cross-country analysis for middle income countries of the factors that can boost total factor productivity (TFP) and thereby increase potential growth.

- Despite numerous diversification initiatives, Namibia's exports remains highly concentrated.** The mining sector and government services occupy a significant share of GDP, while the export of mineral-related products accounts for about 50 percent of total exports. Such concentration yields less broad-based and sustainable growth and increases exposure to external shocks and thus gives rise to macroeconomic volatility. Delivering good outcomes from the diversification policies would require supportive measures to liberalize the service sectors, reduce the domestic regulatory burden for firms and improve the process for approving work permits for high-skilled labor.
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- Sources: World Bank. The Services Trade Restrictiveness Index is based on World Bank surveys covering 103 countries and 5 major services sectors: financial services, retail distribution, telecommunications, transportation, and professional services (accounting, auditing, and legal services).
- The coverage of Namibia's social protection programs has increased significantly since 2001; however, the effectiveness of the social protection schemes has fallen short of expectations.** While some of the social protection programs such as social pension and disability grants have played a poverty-reduction role, the poverty impact of some other programs has been less than hoped for. The sharp increase in the number of recipients, in particular in response to HIV/AIDS pandemic, reflect aggressive government outreach throughout the country, especially in the north-central region. Namibia could achieve much better success in reducing poverty if it targeted the poor directly.¹⁶ Therefore, enhancing the efficiency and sustainability of the social safety nets would require simplifying the existing schemes to remove overlaps and making them more targeted which is in line with the government's current policy intentions.
 - The authorities are aware of the economy's long-term structural challenges.** NDP4 emphasized the government's intention to reinvigorate reforms and lay the foundations for greater private sector development in Namibia. They noted their on-going re-assessment of the Export Processing Zones (EPZ) policies given their limited economic impact to date, while focusing on targeted programs that would leverage on the value chains of businesses (either manufacturing or the provision of international trade services). Their current strategy involves developing commodity-based value chains to enhance growth and economic diversification. This strategy ("Growth at Home") also involves a comprehensive review that aims to improve the investment climate, the ease of doing business, support SMEs and pursue deeper economic integration.

¹⁶ Namibia has made considerable progress towards achieving universal primary education, but continues to battle with high repetition and drop-out rates, and low attendance and survival rates in primary education.

E. Other Surveillance Issues

22. Data quality is broadly adequate for surveillance, although there is room for improvement. Staff welcomes the steady progress being made by the Namibia Statistical Agency (NSA) and commends the recent rebasing of the country's consumer price statistics. Staff also commends the NSA for its good work on strengthening the quality of labor market statistics for Namibia. Such efforts would also help the government to monitor the impact and progress made from its ongoing policies for reducing the unemployment rate. That said, challenges remain in ensuring consistency between the quarterly and annual data for GDP and the compilation of expenditure side of the national accounts. Staff supports the authorities' request for further Fund support in the areas of capacity building, including through technical assistance. Finally, in line with some of its upper-middle income country peers, staff urges the Namibian authorities to work toward a medium-term goal of subscribing to the IMF's Special Data Dissemination Standard.

STAFF APPRAISAL

23. Namibia has made impressive strides in economic development since gaining independence in 1990. The positive growth record in recent years has raised overall incomes and delivered good economic outcomes.

24. However, the solid growth has not led to sufficient job creation and lower inequality. The government remains the largest employer in the economy and TIPEEG is yet to put a significant dent on the high level of structural unemployment.

25. The 4th National Development Plan (NDP4) serves as the authorities' blueprint for structural transformation. Staff welcomes a tightly focused NPD4 that emphasizes returning to high and sustained growth, reducing income inequality and enhancing job creation through reforms that lay the foundation for greater private sector development.

26. The period ahead will require a delicate balancing act in the implementation of macroeconomic policies because of global spillovers and domestic policy developments. The uncertain global environment especially for emerging markets and a possible delay in finalizing negotiations of the EPA with the EU are key risks. In a more adverse global scenario than anticipated, the authorities should allow the automatic stabilizers to work on the revenue side and avoid discretionary fiscal measures to support domestic demand.

27. Staff recommends that the government pursue a "growth-friendly" medium-term fiscal consolidation strategy. This should aim to rein in current spending (wages and transfers and subsidies to SOEs) while preserving growth-promoting capital. Staff welcomes plans by the department of public servants management to link civil servants' pay with performance. Staff also commends the measures being put in place by the government to improve domestic revenue generation which bodes well for a balanced fiscal consolidation. Staff advocates for a broadly balanced fiscal position by FY2015/16 to help rebuild the fiscal and reserve buffers.

28. Staff commends the sense of urgency shown by the government to address the state of finances of the State-owned enterprises (SOEs). Speedy implementation of SOE performance agreements is needed to put them on a financially viable footing.

29. The government's emphasis on enhancing greater financial inclusion through its financial sector strategy, while preserving the stability of the financial system, is appropriate. While the level of household indebtedness has stabilized, it remains elevated. In staff's view, this in itself does not pose imminent risk to macroeconomic and financial stability. Staff commends the authorities for the initiatives taken to strengthen their surveillance of the financial sector.

30. Achieving sustainable growth would require a set of reform-oriented innovative policies to reinvigorate productivity growth. These include increasing the quality of public spending, improving the business environment, implementing supportive measures to liberalize the service sectors, reducing the domestic regulatory burden on firms and the skill mismatch in the labor market. Staff commends the authorities' efforts to strengthen public financial management including bringing Namibia's procurement system in line with international standards.

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

Table 1. Namibia: Authorities' Response to Past IMF Policy Recommendations

	IMF 2011 & 2012 Article IV Recommendations	Authorities' Response
Fiscal Policy	<ul style="list-style-type: none"> -Tighten fiscal stance over the medium term -Keep public debt below the announced target -Set a target on non-SACU fiscal balance to isolate fiscal policy from volatile SACU revenues. - Unwinding the TIPEEG at the end of the initiative 	<p><i>Partially consistent with staff policy advice</i></p> <p>The FY2013/14 budget is fairly expansionary although the current MTEF envisages fiscal consolidation in the medium term after the TIPEEG initiative. Public debt has been kept below the announced target. The fiscal stance is not formally delinked from SACU revenue but in the past, any fiscal surplus has been used to redeem expensive outstanding debt.</p>
	<ul style="list-style-type: none"> - Contain the wage bill -Articulate bold measure to achieve wage restraint through tightening the allowances requirements and hiring freeze -Formalizing wage rule accounting both expected inflation and productivity -Tightening the link between pay and performance 	<p><i>Partially consistent with staff policy advice</i></p> <p>The ongoing work by the department of public servants management located at the Prime Minister's office tries to find ways to gradually reducing the size of government over the medium-term. However, the recent regrading exercise is expected to increase the wage bill in near future. This exercise also plans to link civil servants' pay with performance.</p>
State owned enterprises (SOEs)	<ul style="list-style-type: none"> -Accelerate reforms of SOEs -Bring into effect the SOEs Governance Act, and establish the institutional and legal framework for PPPs 	<p><i>Partially consistent with staff policy advice</i></p> <p>Implementation of performance agreements with SOEs is sluggish although the SOEs policy framework was approved by Parliament in 2010. Ministry of Finance and SOE Council are conducting a joint study to assess the SOE compliance to the SOE Acts.</p>
Monetary policy	<ul style="list-style-type: none"> - Continue to support the exchange rate peg to the rand which has anchored macroeconomic and financial stability. -Further alignment of the BoN policy rate with that of SARB. 	<p><i>Broadly consistent with staff policy advice</i></p> <p>Exchange rate peg to South Africa has been maintained. The BoN has consistently kept its policy rate 50 basis points above the SARB repo rate.</p>
Reserve Policy	<ul style="list-style-type: none"> -Increase reserve build-up 	<p><i>Partially consistent with staff policy advice</i></p> <p>Reserves have fluctuated around 3 months of imports.</p>

Table 1. Namibia: Authorities' Response to Past IMF Policy Recommendations (concluded)

Financial Sector Policy	<p>-Strengthen regulation and supervision of nonbank financial institutions</p> <p>-Enhanced monitoring of commercial banks' exposure to mortgage lending and consider pre-emptive measures to enhance banks' capacity to absorb shocks.</p>	<p><i>Fully consistent with staff policy advice</i></p> <p>The Bank of Namibia continues to strengthen its monitoring of the property market sector and publishes regularly the Financial Stability Report (FSR). Risks weights on mortgage loans are above Basel II norms. NAMFISA has strengthened its capacity to regulate and supervise the nonbank sector in close collaboration with the BoN and the Ministry of Finance. Beyond these efforts, the regular meetings held between NAMFISA, the Minister of Finance and the Governor as well as the meeting of the Financial Stability Committee to discuss cross-cutting issues for the financial sector are proceeding.</p>
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Table 2. Namibia: Risk Assessment Matrix (RAM)¹

Nature/Source of Threat	Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
External Risks			
<i>Short-term</i> Protracted economic and financial volatility, especially for emerging markets	<i>H</i>	<i>M. Lower availability in external saving to fund current account and fiscal deficit. Indirect impact from global financial spillovers on likely currency depreciation in South Africa that could improve competitiveness and external investment position.</i>	See paragraph 13 in the main text.
Global oil shock triggered by geopolitical events (driving oil prices to \$150 per barrel)	<i>L</i>	<i>M-H. As Namibia is an oil importer, the increase in the relative price of oil will adversely affect the terms of trade, worsen the current account, and adversely affect inflation and economic activity.</i>	See paragraph 13 in main text. In the past, the authorities have usually implemented an almost full pass through of changes in international oil prices to local pump prices and staff expects them to so in this scenario.
<i>Medium-term</i> Sustained decline in commodity prices	<i>L</i>	<i>M-H. Adverse effect on terms of trade, current account and fiscal balances, with long-term consequences for growth.</i>	See paragraph 13 in the main text.
Protracted period of slower European growth.	<i>M</i>	<i>M. Adverse effect on the current account and fiscal balances, with long-term consequences for growth.</i>	See paragraph 13 in the main text.
Lower than anticipated emerging market growth potential, including China	<i>M</i>	<i>M. Lower commodity prices, lower potential growth and wider current account and fiscal deficits. Possible deterioration in debt dynamics from higher interest rates and lower growth.</i>	See paragraph 13 in the main text.
Spillovers from South African developments, including persistent labor unrests in South Africa's mining sector	<i>L</i>	<i>L. Higher gold or platinum prices would not affect Namibia, but possible reputational effect through similar structural issues. Events that increase South African risk will affect monetary conditions in Namibia.</i>	See paragraph 13 in the main text.
1/ Based on the latest G-RAM. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path discussed in this staff report (which is the scenario most likely to materialize in the view of the staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this 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's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.			

Table 2. Namibia: Risk Assessment Matrix (concluded)

Domestic Risks			
Delayed fiscal consolidation	<i>L, M</i>	<i>M. Persistent current account deficits that could erode reserve coverage and sustainability of the peg.</i>	See paragraph 14 in main text.
Delays in finalizing negotiations of the Economic Partnership Agreement with the European Union	<i>L,M</i>	<i>L. Could pose risk for non-mineral export such as beef, grape, and fish. Could pose risks for non-mineral exports such as beef, grape and fish</i>	See paragraph 13 in main text.
Residential property price fall	<i>L</i>	<i>M. Larger nonperforming loans, bank losses, lower equity, and potential need for recapitalization or support.</i>	See paragraph 18 in main text.

Table 3. Namibia: Selected Economic and Financial Indicators, 2009–17

	2009	2010	2011	Est. 2012	Projections				
					2013	2014	2015	2016	2017
(Annual percentage change, unless otherwise indicated)									
National account and prices									
GDP at constant prices 1/	-1.1	6.3	5.7	5.0	4.3	4.3	4.5	4.6	4.7
GDP deflator	4.0	1.5	7.1	11.5	6.2	5.9	5.8	5.6	5.5
GDP at market prices (N\$ billions)	75.1	81.0	91.7	107.3	118.9	131.3	145.1	160.2	176.9
GDP per capita (US\$, constant 2000 exchange rate)	5147	5509	6181	7178	7884	8638	9466	10367	11352
period average	8.8	4.5	5.0	6.5	6.2	5.9	5.7	5.6	5.5
Consumer prices (end of period)	7.0	3.1	7.2	6.4	6.0	5.8	5.7	5.5	5.5
External sector									
Exports (US\$)	-1.7	28.8	9.8	-8.7	1.8	4.0	9.3	12.4	9.6
Imports (US\$)	12.6	12.9	14.9	0.4	7.8	7.6	4.7	0.9	4.8
Export volume	17.9	-3.2	-7.2	2.4	4.5	7.2	11.4	18.7	9.6
Import volume	43.5	2.0	5.7	-0.2	1.8	1.8	2.1	2.1	4.8
Terms of trade (deterioration -)	6.1	20.2	8.8	-11.4	-4.4	-6.0	-4.6	-3.8	-4.0
Real effective exchange rate (period average)	9.9	12.1	1.3	...	...	...	...	...	...
Exchange rate (N\$/US\$, end of period)	7.4	7.1	8.1	8.7	...	...	...	...	...
Real effective exchange rate (Jan 2000 = 100)	108.0	117.6	105.7	108.0	...	...	...	...	...
Central government budget 2/									
Revenue and grants	31.4	27.9	31.3	34.5	32.9	35.2	30.6	31.6	31.5
<i>Of which</i> : SACU receipts 3/	11.2	7.1	7.5	12.5	12.1	13.4	8.0	8.2	8.1
Expenditure and net lending	33.6	33.6	39.7	34.8	39.2	36.0	34.2	33.8	34.1
<i>Of which</i> :									
Personnel expenditure	11.8	12.9	13.3	12.7	14.4	14.0	13.2	12.8	12.8
Capital expenditure and net lending	7.8	7.2	10.5	6.4	7.5	6.7	5.9	6.0	6.2
Primary balance (deficit = -)	-0.6	-4.5	-7.2	1.2	-4.5	1.2	-1.3	0.1	-0.2
Overall balance 4/	-2.2	-5.7	-8.4	-0.3	-6.3	-0.8	-3.5	-2.2	-2.6
Overall balance: Non-SACU	-13.4	-12.8	-15.9	-12.8	-18.4	-14.2	-11.6	-10.5	-10.8
Public debt/GDP 5/	15.6	16.1	25.9	25.0	26.6	28.5	29.9	30.6	31.7
Gross public and publicly guaranteed debt/GDP	19.0	18.5	27.8	26.9	28.5	30.4	31.8	32.5	33.6
External sector									
Current account balance									
(including official grants)	-1.1	-1.8	-3.5	-2.6	-5.5	-6.1	-7.8	-3.0	0.3
(excluding official grants)	-14.4	-12.6	-12.4	-14.8	-19.3	-20.7	-18.4	-12.5	-9.0
External public debt (including IMF)	4.9	4.4	6.2	8.2	8.8	8.6	8.4	7.9	7.4
Gross official reserves 6/									
US\$ millions	1,918.7	1,581.0	1,811.4	1,684.7	1,720.7	2,047.9	2,203.4	2,265.8	2,426.6
Months of imports of goods and services	4.1	3.0	3.5	3.0	2.8	3.2	3.4	3.4	3.4
External debt/GDP 7/									
US\$ millions	2,505.8	3,481.2	4,861.0	4,905.4	4,949.2	4,640.9	4,977.1	5,275.6	5,486.9
Percent of GDP	28.3	31.5	38.0	37.5	40.4	35.7	36.1	36.0	35.3

Sources: Country authorities and Fund staff estimates and projections.

1/ Figures include public enterprise and central government investment.

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

3/ Figures based on SACU Commission Report November 2013, it still yet to be approved by Council of Ministers.

4/ The improvement in the overall balance in 2014/15 is due to higher-than-projected SACU revenue, which at the time of this report is still yet to be approved by the Council of Ministers. Without this windfall the deficit would have been 4.1 percent of GDP.

5/ Additional debt was issued in 2008 to build up the redemption account for the maturing bonds.

6/ Includes SDR allocations in 2009.

7/ Public and private external debt.

Table 4. Namibia: Balance of Payments, 2009–17

	2009	2010	2011	Est.	Projections					
				2012	2013	2014	2015	2016	2017	
(Millions of U.S. dollars; unless otherwise indicated)										
Current account	-98.8	-197.7	-448.4	-336.9	-673.2	-794.6	-1,079.5	-446.1	53.9	
Trade balance	-1,225.1	-889.1	-1,226.1	-1,632.3	-1,997.8	-2,301.2	-2,209.9	-1,691.3	-1,524.1	
Exports, f.o.b.	3,114.6	4,010.3	4,404.0	4,019.9	4,094.1	4,256.5	4,653.8	5,232.8	5,735.3	
<i>Of which:</i>										
Diamonds	540.2	827.2	882.1	984.2	963.4	943.7	944.9	971.7	1,000.8	
Other minerals	728.6	938.4	927.2	851.9	855.5	854.6	1,012.5	1,258.6	1,502.9	
Fish	339.9	408.9	421.4	403.7	397.5	390.2	390.5	396.1	405.9	
Imports, f.o.b.	-4,339.7	-4,899.4	-5,630.2	-5,652.2	-6,091.8	-6,557.7	-6,863.7	-6,924.1	-7,259.4	
Services (net)	71.9	-19.5	26.2	33.7	8.5	47.0	122.4	241.1	336.0	
Transportation	-79.1	-82.2	-112.1	-109.7	-121.3	-127.1	-122.7	-103.1	-101.3	
Travel	281.7	292.9	310.2	331.6	383.4	445.6	524.5	616.7	719.8	
Other services	-130.7	-230.3	-171.9	-188.1	-253.7	-271.5	-279.4	-272.4	-282.5	
Income (net)	-135.7	-503.0	-397.6	-356.5	-395.2	-447.7	-463.1	-398.8	-223.0	
Compensation of employees	-4.0	-15.2	-13.9	-6.8	-12.0	-10.9	-9.9	-10.9	-10.6	
Investment income	-131.7	-487.8	-383.7	-349.7	-383.3	-436.8	-453.2	-387.9	-212.4	
Current transfers	1,190.1	1,214.0	1,149.2	1,618.2	1,711.4	1,907.4	1,471.1	1,402.9	1,465.0	
Of which: SACU receipts 1/	1,015.0	937.0	915.2	1,477.6	1,494.2	1,710.1	1,286.1	1,203.1	1,271.0	
Capital and financial account	193.8	266.0	1,071.7	351.9	709.2	509.1	894.9	486.0	186.9	
Capital account	66.3	110.5	186.5	148.5	148.5	161.2	152.7	154.1	156.0	
Financial account	127.5	155.5	885.1	203.4	560.7	347.9	742.2	331.9	30.9	
Direct investment	526.7	788.4	811.5	391.7	1,022.1	1,150.6	949.7	601.8	429.0	
Portfolio investment	-616.3	-632.8	31.0	-545.4	-535.8	-525.0	-574.3	-598.9	-640.1	
Other investment	217.1	-0.1	42.6	357.1	74.4	-277.7	366.8	329.0	241.9	
Reserve assets (increase -) 2/	-525.9	535.8	-238.5	121.0	-36.0	-327.2	-305.5	-162.4	-240.8	
Errors and omissions	430.8	-604.1	-384.8	-136.0	0.0	0.0	0.0	0.0	0.0	
Memorandum items:				(Percent of GDP)						
Trade Balance	-13.8	-8.0	-9.6	-12.5	-16.3	-17.7	-16.0	-11.5	-9.8	
Current account/GDP										
Including transfers	-1.1	-1.8	-3.5	-2.6	-5.5	-6.1	-7.8	-3.0	0.3	
Excluding transfers	-14.4	-12.6	-12.4	-14.8	-19.3	-20.7	-18.4	-12.5	-9.0	
Nonmineral, non-SACU current account/GDP	-26.9	-26.2	-24.8	-27.9	-32.5	-33.1	-31.3	-26.5	-23.9	
Exports of goods and nonfactor services (GNFS)	3,760.2	4,691.0	5,144.5	4,695.8	4,828.9	5,070.4	5,564.3	6,255.1	6,877.7	
Exports/GDP (percent)	42.4	42.4	40.2	35.9	39.4	39.0	40.3	42.7	44.2	
Imports of GNFS	4,913.3	5,599.6	6,344.5	6,294.3	6,818.2	7,324.7	7,651.8	7,705.3	8,065.8	
Imports/GDP (percent)	55.5	50.7	49.6	48.1	55.6	56.3	55.4	52.6	51.9	
Gross International reserves (end of period) 2/	1,919	1,581	1,811	1,685	1,721	2,048	2,203	2,266	2,427	
Months of imports of goods and services	4.1	3.0	3.5	3.0	2.8	3.2	3.4	3.4	3.4	
Ratio of reserves/short-term debt	4.6	2.4	1.8	2.8	2.5	2.8	2.9	3.2	3.4	
Short-term debt (US\$ millions)	417.5	652.3	1,029.9	611.4	677.8	742.8	765.4	699.3	721.3	
External debt/GDP (percent)	28.3	31.5	38.0	37.5	40.4	35.7	36.1	36.0	35.3	
External debt (US\$ millions) from IIP 3/	2,505.8	3,481.2	4,861.0	4,905.4	4,949.2	4,640.9	4,977.1	5,275.6	5,486.9	
Exchange rate (N\$/US\$, end of period)	7.4	7.1	8.1	8.7	...	...	...	...	...
Exchange rate (N\$/US\$, period average)	8.5	7.3	7.2	8.2	...	...	...	...	...
GDP at market prices (US\$ Millions)	8,859.3	11,052.4	12,794.0	13,072.5	12,253.4	13,001.7	13,805.6	14,656.4	15,547.0	

Sources: Country authorities and Fund staff estimates and projections.

1/ Southern African Customs Union.

2/ Includes SDR allocations in 2009.

3/ International investment position.

Table 5a. Namibia: Central Government Operations Under Baseline Scenario, 2011/12–2017/18

	2011/12	MTEF 2012/13-2014/15			Projections		
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	(Millions of Namibian dollars)						
Total revenue and grants	29,917	38,050	40,121	47,470	45,613	51,996	57,202
Revenue	29,739	37,881	39,929	47,470	45,613	51,996	57,202
Tax revenue	27,053	35,277	37,452	44,932	42,998	49,097	54,001
Personal income tax	7,326	8,880	7,929	10,522	12,057	13,314	14,698
Corporate income tax	3,916	5,045	5,550	6,229	6,995	7,867	8,503
Diamond mining	841	1,004	1,049	1,104	1,148	663	731
Other mining	10	17	59	71	82	1,034	1,142
Nonmining	3,065	4,025	4,442	5,055	5,765	6,170	6,630
VAT and sales taxes	7,782	6,269	8,199	8,916	10,722	13,004	14,518
Taxes on international trade (includes SACU receipts)	7,137	13,796	14,727	18,117	11,982	13,541	14,766
Other taxes	892	1,286	1,047	1,147	1,243	1,373	1,515
Nontax revenue	2,685	2,605	2,477	2,539	2,615	2,899	3,201
Diamond and other mineral royalties	937	862	936	929	994	1,097	1,212
Administrative fees, including license revenues	483	701	552	585	608	671	741
Other	1,265	1,042	989	1,025	1,013	1,131	1,248
Grants	179	168	193	0	0	0	0
Expenditures and net lending	37,961	38,393	47,858	48,530	50,863	55,634	61,970
Current expenditures	27,922	31,302	38,707	39,552	42,068	45,711	50,652
Personnel	12,690	13,948	17,536	18,874	19,576	20,959	23,138
Goods and services	5,467	5,475	7,029	7,091	7,736	8,213	9,067
Interest payments	1,131	1,720	2,246	2,707	3,289	3,875	4,466
Domestic	1,060	1,420	1,847	2,279	2,829	3,381	3,957
Foreign	72	300	399	428	459	495	509
Subsidies and transfers	8,375	9,806	11,896	10,881	11,468	12,663	13,980
Capital expenditure	8,795	6,372	9,142	8,995	8,812	9,942	11,339
Acquisition of capital assets	4,111	3,516	5,916	6,132	5,610	6,789	7,858
Project Financed (extrabudgetary)	1,354	355	302	332	392	452	499
Capital transfers	3,330	2,501	2,923	2,531	2,810	2,701	2,982
Net lending	1,243	720	10	-17	-17	-19	-21
Overall balance 1/ 2/	-8,044	-344	-7,737	-1,059	-5,250	-3,638	-4,768
Overall balance excluding grants	-8,222	-512	-7,930	-1,059	-5,250	-3,638	-4,768
Primary balance	-6,912	1,376	-5,491	1,648	-1,962	237	-303

Sources: Country authorities and Fund staff estimates and projections.

1/ "Overall balance" includes externally financed project spending (except for roads) that is not channeled through the state account.

2/ The improvement in the overall balance in 2014/15 is due to higher-than-projected SACU revenue, which at the time of this report is still yet to be approved by the Council.

Without this windfall the deficit would have been 4.1 percent of GDP.

Note: Staff's fiscal numbers may differ from the authorities' numbers due to the difference in classification. Staff records "Return of capital from lending and equity participation" as a net lending, while authorities record it as non-tax revenue. Also, staff adds to the expenditure the loans borrowed outside the budget for specific projects.

Table 5b. Namibia: Central Government Operations Under Baseline Scenario, 2011/12–2017/18

	2011/12	MTEF 2012/13–2014/15			Projections		2017/18
		2012/13	2013/14	2014/15	2015/16	2016/17	
	(Percent of GDP; unless otherwise indicated)						
Total revenue and grants	31.3	34.5	32.9	35.2	30.6	31.6	31.5
Revenue	31.1	34.4	32.7	35.2	30.6	31.6	31.5
Tax revenue	28.3	32.0	30.7	33.3	28.9	29.9	29.8
Personal income tax	7.7	8.1	6.5	7.8	8.1	8.1	8.1
Corporate income tax	4.1	4.6	4.6	4.6	4.7	4.8	4.7
Diamond mining	0.9	0.9	0.9	0.8	0.8	0.4	0.4
Other mining	0.0	0.0	0.0	0.1	0.1	0.6	0.6
Nonmining	3.2	3.7	3.6	3.8	3.9	3.8	3.7
VAT and sales taxes	8.1	5.7	6.7	6.6	7.2	7.9	8.0
Taxes on international trade (includes SACU receipts)	7.5	12.5	12.1	13.4	8.0	8.2	8.1
Other taxes	0.9	1.2	0.9	0.9	0.8	0.8	0.8
Nontax revenue	2.8	2.4	2.0	1.9	1.8	1.8	1.8
Diamond and other mineral royalties	1.0	0.8	0.8	0.7	0.7	0.7	0.7
Administrative fees, including license revenues	0.5	0.6	0.5	0.4	0.4	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.2	0.2	0.2	0.0	0.0	0.0	0.0
Expenditures and net lending	39.7	34.8	39.2	36.0	34.2	33.8	34.1
Current expenditures	29.2	28.4	31.7	29.4	28.3	27.8	27.9
Personnel	13.3	12.7	14.4	14.0	13.2	12.8	12.8
Goods and services	5.7	5.0	5.8	5.3	5.2	5.0	5.0
Interest payments	1.2	1.6	1.8	2.0	2.2	2.4	2.5
Domestic	1.1	1.3	1.5	1.7	1.9	2.1	2.2
Foreign	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Subsides and transfers	8.8	8.9	9.8	8.1	7.7	7.7	7.7
Capital expenditure	9.2	5.8	7.5	6.7	5.9	6.0	6.2
Acquisition of capital assets	4.3	3.2	4.9	4.6	3.8	4.1	4.3
Project Financed (extrabudgetary)	1.4	0.3	0.2	0.2	0.3	0.3	0.3
Capital transfers	3.5	2.3	2.4	1.9	1.9	1.6	1.6
Net lending	1.3	0.7	0.0	0.0	0.0	0.0	0.0
Overall balance 1/ 2/	-8.4	-0.3	-6.3	-0.8	-3.5	-2.2	-2.6
Overall balance excluding grants	-8.6	-0.5	-6.5	-0.8	-3.5	-2.2	-2.6
Overall balance excluding cyclical component of SACU revenue	-5.4	-2.9	-8.8	-1.5	-2.6	-1.8	-2.6
Primary balance	-7.2	1.2	-4.5	1.2	-1.3	0.1	-0.2

Sources: Country authorities and Fund staff estimates and projections.

1/ "Overall balance" includes externally financed project spending (except for roads) that is not channeled through the state account.

2/ The improvement in the overall balance in 2014/15 is due to higher-than-projected SACU revenue, which at the time of this report is still yet to be approved by the Council of Ministers. Without this windfall the deficit would have been 4.1 percent of GDP.

Note: Staff's fiscal numbers may differ from the authorities' numbers due to the difference in classification. Staff records "Return of capital from lending and equity participation" as a net lending, while authorities record it as non-tax revenue. Also, staff adds to the expenditure the loans borrowed outside the budget for specific projects.

Table 6. Namibia: Monetary Developments, 2009–2017

	2009	2010	2011	Est. 2012	Projections				
					2013	2014	2015	2016	2017
(In millions of Namibian dollars, end of period; unless otherwise indicated)									
Bank of Namibia									
Reserve money	2,556	3,244	5,509	4,984	5,788	6,394	7,065	7,802	8,614
Currency	1,705	1,909	2,398	2,773	3,407	3,764	4,159	4,593	3,750
Reserves	851	1,334	3,111	2,211	2,381	2,630	2,906	3,209	4,864
Net foreign assets	14,079	9,098	13,114	13,011	13,169	17,002	20,974	23,660	27,436
Net domestic assets	-10,014	-5,855	-7,605	-8,027	-7,381	-10,608	-13,908	-15,858	-18,821
Domestic credit	-6,968	-3,483	-5,949	-6,652	-6,695	-11,014	-14,204	-16,141	-19,145
Government (net)	-6,967	-3,481	-5,949	-6,652	-6,696	-11,015	-14,206	-16,143	-19,147
Banks	-1,466	-1,599	42	44	1,522	1,681	1,857	2,051	2,305
Other items (net) 1/	6,958	3,477	5,941	6,644	6,687	11,003	14,190	16,125	19,126
Monetary survey									
Broad money (M2)	49,568	53,195	57,286	67,078	74,286	82,058	90,674	100,130	110,552
Currency	1,157	1,293	1,698	1,686	2,996	3,303	3,643	4,017	3,174
Deposits	48,315	51,902	55,589	65,392	71,290	78,756	87,031	96,113	107,378
Net foreign assets	25,336	20,608	23,710	20,241	21,240	25,360	29,671	32,707	36,852
Net domestic assets	23,208	32,587	36,819	43,471	53,047	56,698	61,003	67,422	73,700
Domestic credit	24,114	32,881	34,330	40,399	47,176	50,182	55,097	62,521	72,036
Claims on central government (net)	-5,846	-1,839	-649	-1,340	951	-879	-1,325	215	1,999
Claims on private sector	36,592	40,663	44,441	51,971	57,557	63,578	70,254	77,580	87,206
Others	-6,632	-5,942	-9,463	-10,232	-11,332	-12,517	-13,832	-15,274	-17,169
Other items (net) 1/	-906	-294	2,489	3,072	5,871	6,516	5,906	4,901	1,664
Base money	2,556	3,244	5,509	4,984	5,788	6,394	7,065	8,802	10,614
Currency outside banks	1,705	1,909	2,398	2,773	3,407	3,764	4,159	4,593	3,750
Commercial bank deposits	851	1,334	3,111	2,211	2,381	2,630	2,906	4,209	6,864
Memorandum items:									
Base money (annual % change)	20.3	26.9	69.8	-9.5	16.1	10.5	10.5	24.6	20.6
Credit to the private sector (annual % change)	10.0	11.1	9.3	16.9	10.7	10.5	10.5	10.4	12.4
M2-to-GDP ratio (in percent)	66.0	65.7	62.5	62.5	62.5	62.5	62.5	62.5	62.5
Base money multiplier (M2/base money)	19.4	16.4	10.4	13.5	12.8	12.8	12.8	11.4	10.4
Credit to the private sector (in percent of GDP)	48.7	50.2	48.5	48.4	48.4	48.4	48.4	48.4	49.3
Contribution to change in broad money									
Broad money	3.6	7.3	7.7	17.1	10.7	10.5	10.5	10.4	10.4
Currency	0.0	0.3	0.8	0.0	2.0	0.4	0.4	0.4	-0.8
Deposits	6.8	7.2	6.9	17.1	8.8	10.1	10.1	10.0	11.3
Net foreign assets	24.6	-9.5	5.8	-6.1	1.5	5.5	5.3	3.3	4.1
Net domestic assets	15.8	18.9	8.0	11.6	14.3	4.9	5.2	7.1	6.3
Domestic credit	-3.6	17.7	2.7	10.6	10.1	4.0	6.0	8.2	9.5
Government (net)	-2.5	8.1	2.2	-1.2	3.4	-2.5	-0.5	1.7	1.8
Private sector	7.0	8.2	7.1	13.1	8.3	8.1	8.1	8.1	9.6
Others 2/	-8.1	1.4	-6.6	-1.3	-1.6	-1.6	-1.6	-1.6	-1.9
Other items net	19.4	1.2	5.2	1.0	4.2	0.9	-0.7	-1.1	-3.2
Memorandum items:									
Reserve money (annual % change)	20.3	26.9	69.8	-9.5	16.1	10.5	10.5	10.4	10.4
Private sector credit (annual % change)	10.0	11.1	9.3	16.9	10.7	10.5	10.5	10.4	12.4
Velocity	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Money multiplier	19.4	16.4	10.4	13.5	12.8	12.8	12.8	12.8	12.8
Net foreign assets (US\$ millions)	3,433.1	2,890.1	2,911.7	2,317.1	2,178.2	2,511.4	2,823.5	2,992.2	3,239.1
Bank of Namibia	1,907.8	1,276.0	1,610.4	1,489.4	1,350.5	1,683.7	1,995.8	2,164.5	2,411.4
Commercial banks	1,525.4	1,614.1	1,301.3	827.7	827.7	827.7	827.7	827.7	827.7
Domestic interest rates (end of period)									
Deposit rate	5.1	4.4	4.2	4.0	...	...	...	...	...
Lending rate	10.8	9.1	8.8	8.6	...	...	...	...	...
BoN repo rate	7.0	6.0	6.0	5.5	...	...	...	...	...
Three-month T-bill rate	7.4	5.7	5.9	5.5	...	...	...	...	...

Sources: Country authorities and Fund staff estimates and projections.

1/ Including valuation.

2/ End of period.

Table 7. Namibia: Millennium Development Goals, 1990–2012 or Latest

	1990	1995	2000	2012 or Latest
Eradicate extreme poverty and hunger 1/				
Income share held by lowest 20%	...	1.4	...	...
Malnutrition prevalence, weight for age (% of children under 5)	21.5	...	20.3	...
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	...	49.0	...	...
Prevalence of undernourishment (% of population)	29.0	29.0	21.0	33.9
Achieve universal primary education 2/				
Literacy rate, youth female (% of females ages 15–24)	90.0	...	93.0	95.1
Literacy rate, youth male (% of males ages 15–24)	86.0	...	91.0	91.1
Persistence to grade 5, total (% of cohort)	...	...	84.0	92.8
Primary completion rate, total (% of relevant age group)	...	71.0	92.0	81.1
School enrollment, primary (% net)	...	...	90.0	85.1
Promote gender equality and empower women 3/				
Proportion of seats held by women in national parliament (%)	7.0	18.0	22.0	...
Ratio of girls to boys in primary education (%)	108.0	100.0	101.0	98.6
Ratio of girls to boys in secondary education (%)	122.0	...	112.0	...
Ratio of young literate females to males (% ages 15–24)	...	...	84.0	104.3
Share of women employed in the nonagricultural sector (% of total employment)	...	...	42.8	...
Reduce child mortality 4/				
Immunization, measles (% of children ages 12–23 months)	76.0	68.0	69.0	74.0
Mortality rate, infant (per 1,000 live births)	49.0	48.0	51.0	28.3
Mortality rate, under-5 (per 1,000)	72.0	71.0	77.0	38.7
Improve maternal health 5/				
Births attended by skilled health staff (% of total)	68.0	...	76.0	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	200.0
Combat HIV/AIDS, malaria, and other diseases 6/				
Incidence of tuberculosis (per 100,000 people)	322.0	465.0	671.0	723.0
Prevalence of HIV, female (% ages 15–24)	...	...	...	6.5
Prevalence of HIV, total (% of population ages 15–49)	...	...	...	13.4
Tuberculosis cases detected under DOTS (%)	...	22.0	77.0	64.0
Ensure environmental sustainability 7/				
CO2 emissions (metric tons per capita)	0.0	1.1	1.0	1.5
Forest area (% of land area)	11.0	10.0	10.0	8.8
Improved sanitation facilities (% of population with access)	26.0	29.0	32.0	32.3
Improved water source (% of population with access)	57.0	70.0	81.0	93.4
Nationally protected areas (% of total land area)	...	...	...	14.9
Develop a global partnership for development 8/				
Mobile phone subscribers (per 100 people)	0.0	0.0	4.0	103.0
Telephone mainlines (per 100 people)	3.7	4.7	5.9	7.2
Internet users (per 100 people)	0.0	0.0	1.6	12.9

Source: World Development Indicators database, 2010.

1/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than US\$1 a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

2/ Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

3/ Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

4/ Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

5/ Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.

6/ Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

7/ Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

8/ Goal 8 targets: Develop further an open, rule-based, predictable, non discriminatory trading and financial system. Address the special needs of the least developed countries. Address the special needs of landlocked countries and small island developing nations.

Table 8. Namibia: Financial Sector Indicators, 2007–Jun 2013

	2007	2008	2009	2010	2011	2012	Mar-13	Jun-13
(In percent; unless otherwise indicated)								
Banking indicators								
Capital adequacy								
Capital to assets	7.9	8.0	7.9	8.4	7.8	8.0	7.9	8.0
Regulatory capital to risk-weighted assets	15.7	15.5	15.0	15.3	14.0	14.2	14.2	14.4
Regulatory tier I capital to risk-weighted assets	11.6	11.8	11.7	11.1	10.8	10.9	10.9	10.7
Nonperforming loans net of provisions to capital	7.2	10.4	8.7	3.8	0.8	1.1	1.7	1.9
Asset quality								
Large exposure to capital	166.1	170.5	176.5	178.5	190.4	176.5	139.3	141.3
Nonperforming loans to total gross loans	2.8	3.1	2.7	2.0	1.5	1.3	1.4	1.5
Sectoral distribution of loans to total loans								
Agriculture & Forestry	2.8	3.3	3.4	3.4	3.1	4.1	4.1	4.3
Mining	2.0	1.8	2.7	1.7	0.9	2.2	2.4	2.1
Manufacturing	2.2	3.0	2.0	2.3	2.7	2.5	2.5	2.4
Construction	1.7	1.7	1.5	2.9	2.3	3.2	3.5	3.4
Electricity, Gas and water	0.3	0.5	0.6	0.5	0.6	0.8	0.9	0.9
Trade and accommodation	6.3	6.2	4.5	16.7	24.1	21.3	21.0	20.7
Transport and communications	1.4	1.2	1.8	2.2	2.1	2.3	2.3	2.7
Finance, real estate, and business services	18.9	21.8	24.6	20.2	15.0	13.3	13.3	13.9
Other services (including government)	4.6	4.2	4.1	3.8	3.2	2.8	2.9	2.8
Individuals	58.0	54.5	51.8	44.1	43.3	45.2	45.0	44.9
Other	1.7	1.7	3.1	1.9	2.8	2.2	2.1	2.0
Earnings and profitability								
Trading income to total income	5.6	6.9	5.3	6.5	9.3	7.4	6.8	7.0
Return on assets	3.5	4.2	3.0	3.5	3.7	3.3	2.7	3.0
Return on equity	44.9	52.1	38.4	41.9	47.1	40.5	33.8	37.8
Interest margin to gross income	53.4	45.3	47.8	51.3	54.2	58.8	57.7	55.5
Noninterest expenses to gross income	56.9	51.9	57.9	57.3	52.3	54.0	54.0	54.0
Spread between reference lending and deposit rates	5.3	5.4	4.9	4.7	5.5	4.4	...	...
Personnel expenses to noninterest expenses	49.8	50.9	48.7	49.5	51.5	58.1	53.9	52.1
Liquidity								
Spread between highest and lowest interbank rate	2.3	1.2	4.1	9.7	0.3	0.6	...	...
Liquid assets to total assets	1.1	1.1	1.0	1.0	1.0	1.2	1.1	1.1
Liquid assets to short-term liabilities	9.2	10.1	10.0	10.7	12.4	10.9	10.3	10.1
Customer deposits to total (non-interbank) loans	97.8	103.9	109.8	106.3	114.7	106.4	105.0	104.6
Exposure to foreign exchange risk								
Net open position in foreign exchange to capital	0.3	0.9	0.4	1.3	2.7	2.8	4.1	4.9
Foreign currency-denominated loans to total loans	0.1	0.2	0.0	0.1	0.3	1.3	1.6	1.2
Foreign currency-denominated liabilities to total liabilities	2.7	1.6	2.0	3.7	1.9	2.5	2.6	2.0
Financial system structure								
Number								
Banks	4	4	4	5	5	5	5	6
Private commercial	1	1	1	1	1	1	1	1
State-owned	0	0	0	0	0	0	0	1
Foreign-owned subsidiaries	3	3	3	4	4	4	4	4
Branches of foreign banks	0	0	0	0	0	0	0	0
Assets (N\$ billions)								
Banks	36.5	41.6	47.7	51.5	59.9	67.1	69.3	70.1
Private commercial	9.6	11.6	13.8	14.7	17.3	19.8	20	20.6
State-owned	0	0	0	0	0	0	0	0
Foreign-owned subsidiaries	26.9	30	33.9	36.8	42.6	47.3	49.3	50.3
Branches of foreign banks	0	0	0	0	0	0	0	0
Deposits (N\$ billions)								
Banks	28.9	32.7	40.0	43.3	50.5	55.3	56.6	57.7
Private commercial	8.1	9.2	12.1	12.6	14.7	16.8	16.9	17.0
State-owned	0	0	0	0	0	0	0	0
Foreign-owned subsidiaries	20.8	23.5	27.9	30.7	35.8	38.5	39.4	40.7
Branches of foreign banks	0	0	0	0	0	0	0	0

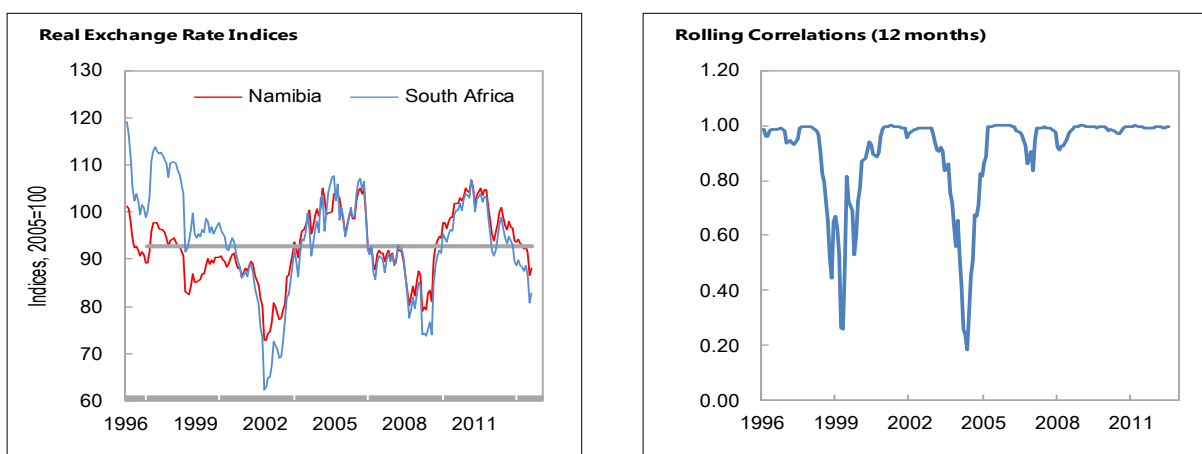
Sources: Bank of Namibia; and IMF staff estimates.

Appendix I. External Stability and Exchange Rate Assessment¹

1. Context: Namibia's external position remains broadly sound. The Namibian dollar has depreciated in real terms in line with the South African rand since mid-2011 (Figure 1). Namibia's imports come to a large extent from South Africa. The real effective depreciation of the Namibian dollar has helped with competitiveness and reduced external vulnerabilities,² while the FDI-funded development of the Swakop uranium mine would temporarily tend to increase the current account deficit, a process that has arguably started this year.

2. As in South Africa and many other sub-Saharan African economies, the Namibian current account balance worsened after the global financial crisis. From consistent surpluses that peaked in 2006, its current account turned into a moderate deficit expected to reach 5.5 percent of GDP in 2013. An analysis of the components shows that the deterioration clearly reflects an increase in imports in percent of GDP, while current account revenue (including exports and SACU transfers) declined to its 2001–04 average from its high level on the eve of the global financial crisis. A saving-investment decomposition suggests the main driver in the decline after the global crisis has been a reduction in the national saving rate, both in the private and public sectors with the latter reflecting the ongoing expansionary fiscal stance.

Figure 1. Influence of South Africa on Namibia's Real Effective Exchange Rate



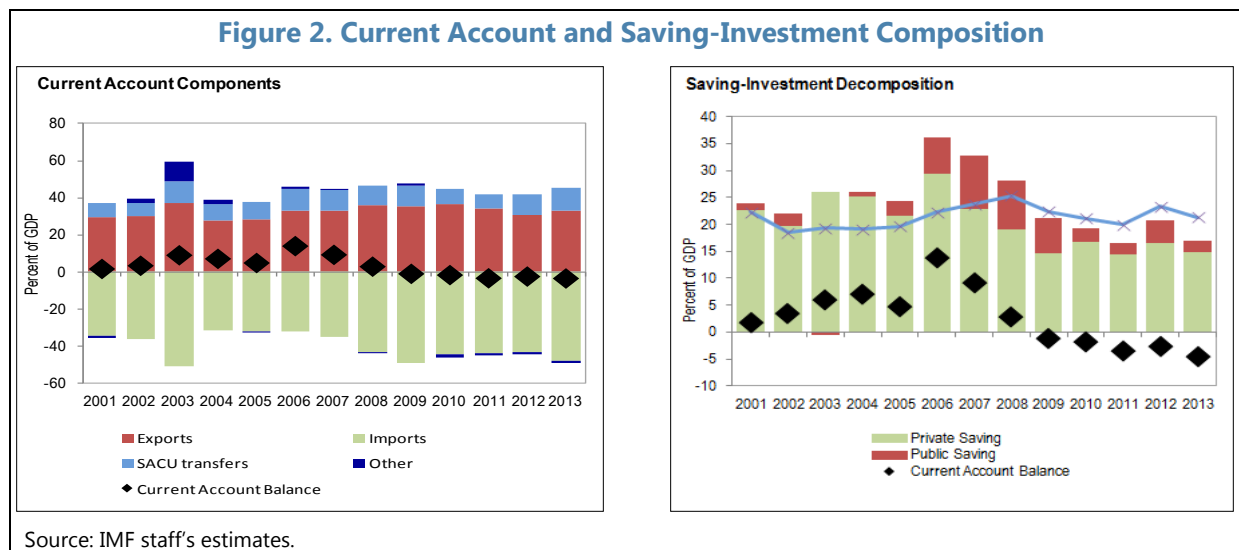
Source: IMF staff's estimates.

¹ Prepared by Jorge Ivan Canales-Kriljenko.

² Other indicators for competitiveness appear to broadly support this point such as wage-based proxies and recent trends in export performance (including export market shares). Although data availability prevents a proper analysis of the competitiveness based on Namibia's unit labor cost REER, the sparse wage data suggests that Namibian wages have increased significantly less than currency depreciation. Nevertheless, Namibia needs to pay close attention to wage developments, especially in the public sector, which could unduly influence those in the private sector, eroding external competitiveness.

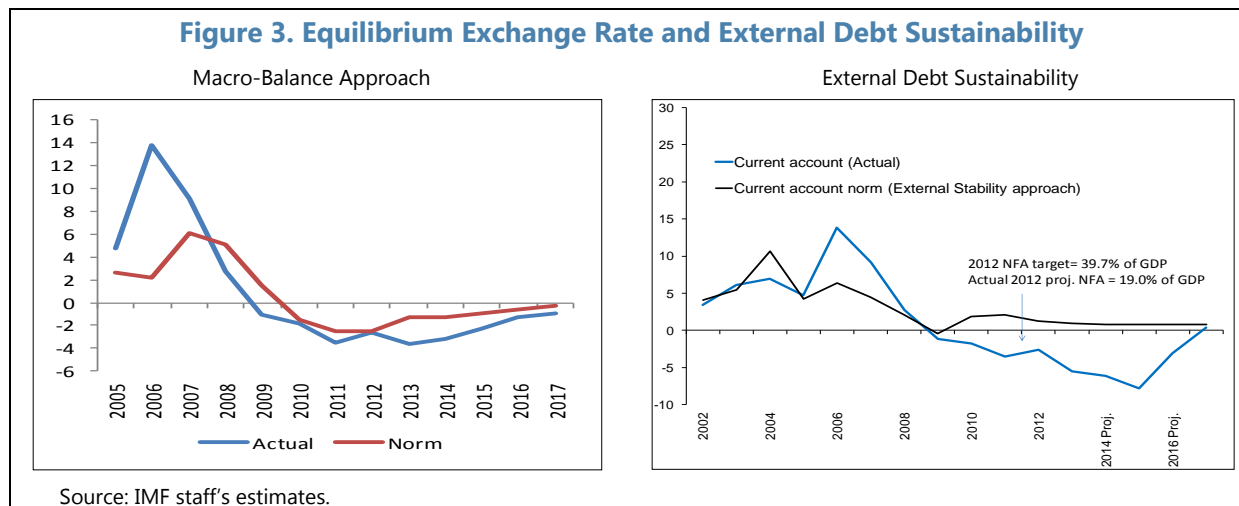
3. Competitiveness indicators for Namibia give mixed results. On the one hand, Namibia’s dollar has depreciated in real effective terms in line with the South Africa rand becoming more undervalued than its long-run average and levels predicted from empirical time series models, as computed by the CGER exercise. On the other hand, Namibia’s current account balance is more negative than those that would be predicted by panel estimates from macroeconomic developments or that would stabilize the large and positive net external position.

Figure 2. Current Account and Saving-Investment Composition



4. Indicators based on the current account suggest mild overvaluation. The macrobalance approach suggests that by mid-2013 the Namibian dollar would need to depreciate by 2.6 percent to take the current account level to its norm. The macroeconomic balance approach calculates the difference between the current account balance projected over the medium term at prevailing exchange rates, and a reference current account balance estimated with Namibian variables and parameters from a panel regression for emerging and developing economies. In turn, the external sustainability approach suggests the Namibian dollar would need to depreciate by 9.4 percent to stabilize Namibia’s net open position at about 20 percent of GDP.

Figure 3. Equilibrium Exchange Rate and External Debt Sustainability



- 5. Nevertheless, reduced form equilibrium real exchange rate analysis suggests a mild undervaluation.** Namibia's real exchange rate, as computed by the IMF's Information Notice System database, has been more appreciated than its 15-year moving average since October 2012. By July 2013, the degree of undervaluation measured this way was 10 percent. The real exchange rate is also undervalued, but to a lower degree, with respect to the level predicted by a panel regression based on macroeconomic fundamentals.
- 6. Taken together, overall the analysis suggests a slight overvaluation of the Namibian dollar from a medium-term perspective.** Its current level would seem to help contain offsetting pressures for a wider current account deficit and the expansionary fiscal stance.
- 7. Moreover, non-price or qualitative indicators of competitiveness suggest Namibia performs well relative to its peers.** Namibia has better institutions, more developed financial markets, and labor market efficiency than other middle-income countries. However, the country lags behind peer countries in health and primary education. These indicators suggest that overall Namibia needs to prioritize investment in health and primary education and diversify its export base and further expand its markets.

Appendix II. Managing Inward Global Spillovers¹

1. **Context: Namibia is highly exposed to global risks as a resource intensive and highly open economy.** The linkages have been documented in earlier consultations and previous and ongoing research (Canales Kriljenko, Gwenhamo, and Thomas, 2013; IMF, 2012; and Basdesvant and others, forthcoming). Global developments that affect world growth and financial conditions filter into real developments in Namibia, although domestic policies (especially fiscal) and domestic shocks have a significant impact on the final outcome. More than half of Namibia's exports—mainly diamonds, uranium ore, beef, unrefined copper, and fish—are destined for Europe, the United States, and Japan. Although coming from a low base, China and India are also becoming important trading partners.
2. **Global financial conditions affect Namibia mainly through the monetary link to South Africa.** Although Namibia is not an emerging market, its monetary conditions respond to global financial developments as if it were. The link is through the peg of the Namibian dollar to the South African rand, one of the most financially integrated emerging-markets. The widespread operation of South African financial firms in the country plays a supporting role. More recently, a reassessment of risk in South Africa has also spilled over to the real value of the Namibian dollar.
3. **South Africa has strong ties with other countries in the region, including its partners in the Southern African Customs Union (SACU)—Botswana, Lesotho, Namibia, and Swaziland (BLNS).** Thus, it is reasonable to expect that South Africa's business cycle and its long-term growth rate will affect its neighbors. While there are multiple linkages (trade, investment, financial, institutional) that appear plausible, formal econometric analysis has found their net spillover impact to be statistically insignificant. This reflects that Namibia's trade linkage with South Africa is mainly on the import side. South Africa appears to channel global economy shocks to the regional economy, rather than directly affecting countries in the region.² Overall, a possible explanation is that the multiple spillover channels operate in ways that offset each other, so their net impact is relatively small.³ Thus, once global developments and domestic policies are considered, South Africa does not seem to contribute much to the Namibian growth.
4. **Consistent with this evidence, the ongoing global slowdown has spilled over into Namibia, although their effect remains contained.** High frequency indicators based on a limited sample suggest the economy decelerated sharply in the second quarter through the indirect effect of lower export demand from trading partners and falling commodity prices, especially uranium. The worse terms of trade deterioration has tended to widen the current account deficit. The currency

¹ Prepared by Jorge Ivan Canales-Kriljenko.

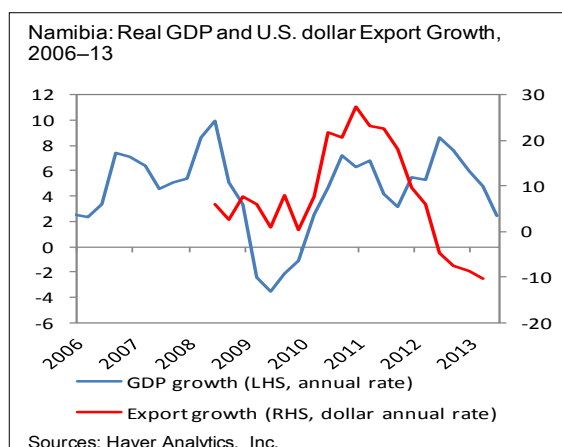
² A bulk of Namibia's exports goes to countries other than South Africa. See also Canales Kriljenko, Gwenhamo, and Thomas, 2013, IMF Working Paper, WP/13/31 (Washington: International Monetary Fund).

³ This explanation is based on ongoing work by staff in the IMF African Department's Southern II Division (Olivier Basdevant, Andrew Jonelis, Borislava Mircheva, Slavi Slavov) on the impact of the growth slowdown in South Africa on Namibia and other SACU members.

depreciation would tend to encourage exports and discourage imports at the margin, which would help contain the impact on the current account.

5. The global outlook remains broadly favorable although not as much as earlier envisaged and subject to downside risks.

Fund staff has identified an array of global risks that could adversely affect developments in Namibia (see risk assessment matrix). A further slowdown in advanced economies and emerging markets would likely spill over to Namibia through trade linkages. This would tend to lower growth prospects, lead to a decline in commodity prices, widen the current account deficit, and put pressure on fiscal finances. Global developments can also filter into Namibia on the financial side, albeit indirectly through South Africa.



6. Staff simulations (using both country-specific VAR and the Fund's GIMF) suggest that global spillovers to Namibia would be limited and short-lived in adverse scenarios beyond the baseline.

The adverse scenarios are based on a selected set of external risks in the Risk Assessment Matrix. Namibia's output growth would be lower by 1–1½ percentage points than the baseline, and the impact would dissipate in about one year. The transmission works mainly through the trade channel as lower global demand for diamonds results in a decline in Namibia's diamond exports. The resulting limited and transitory spillover impact reflects the storable nature of diamonds that allows adjustment of inventories, and also stems from the transitory impact of the initial shocks on the global economy. Thus, external vulnerabilities remain broadly contained, but would benefit from additional reserve coverage to provide further support for the exchange rate peg.⁴

7. In light of the assessment that global spillovers to Namibia would be limited and short-lived, staff believes that in the event of such an adverse scenario beyond the baseline, an appropriate response would be to let the automatic stabilizers work on the revenue side.

Namibia does not have automatic stabilizers on the expenditure side. Pursuing more active discretionary fiscal stimulus measures would not be recommended owing to the need to rebuild the fiscal policy buffers and the likelihood that the effect of fiscal expansion would leak abroad through imports in a highly open economy like Namibia.

⁴ This is based on staff's detailed assessment of reserve adequacy early this year which used multiple methodologies for assessing the optimal level of reserves for all the seven small middle-income countries in sub-Saharan Africa (SM/13/22).

Appendix III. Namibia's Negotiations for an Economic Partnership Agreement¹

1. **Context:** For more than a decade, the European Union (EU) has been negotiating trade agreements known as Economic Partnership Agreements (EPAs) with the Africa, the Caribbean, and the Pacific Group of States (ACP). The EU and ACP are committed to signing EPAs between the EU and regional groups of ACP countries, rather than bilaterally. Namibia is negotiating as part of the "SADC" group.²
2. **The benefit of an EPA for Namibia:** The European Union has historically been the biggest buyer of Namibia's exports. Fish, meat, and grapes generally account for 20–30 percent of the EU's imports from Namibia, but are where most market access would be lost if an EPA was not signed.
3. **Recent status of the negotiation:** The EU signed interim EPAs with Botswana, Lesotho, Mozambique, and Swaziland in 2009. The agreement has not been ratified yet. Namibia initiated the interim EPA but did not sign in 2009 and continues to seek changes to its provisions. As part of the negotiations Namibia was accorded duty free access, but if the EPA negotiations were to fail Namibian firms will lose preferential access to the EU and face MFN tariffs.
4. **The negotiation issues:** The EU and Namibia have resolved most negotiating issues. However, two major issues remain unresolved: (i) *Policy space*, namely the use of export taxes, infant-industry protection, and other trade restrictions that are central elements of Namibia's industrial policy; (ii) *Rules of origin for fish*: EU trade agreements use territorial waters (within 12 miles of land) as a criterion for determining the country of origin for fish imports. Namibia is seeking derogation for fish (especially tuna) caught within the 200-mile exclusive economic zone. Outstanding differences on safeguard measures applied to agricultural trade also remain, along with rules of origin for goods made with raw materials imported from outside the SADC EPA group, geographical indications, and trade-related issues (competition policy, government procurement, investment).

Potential economic impact: Using trade data for 2006 and comparing tariff rates faced in the EU market by Namibia and its competitors, the Overseas Development Institute (ODI) estimated that Namibian export revenue from fish, meat, and grapes would be reduced by €45.15 million a year.³ Namibia's meat industry would likely be hurt the worst. Namibia would not be competitive with South America, Australia, and New Zealand at most-favored nation (MFN) rates. The EU imposes MFN tariffs of 7.5–22 percent on fish, with rates varying according to species and type of processing. Namibia presently has a slight preference margin over most competitors, including South Africa. Grape exports will also suffer, but perhaps not to the same extent.

¹ This appendix is derived from a note that was prepared by Mr. Schuler (World Bank, Country Economist).

² SADC includes five SACU members plus Angola and Mozambique. It should be noted that most SADC members are negotiating EPAs as part of other groupings.

³ Overseas Development Institute, "Analysis of the Economic and Social Effects of Namibia's Potential Loss of Current Preference to the European Union," May 2007.



NAMIBIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 10, 2014

Prepared By

African Department

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FUND RELATIONS

As of November 30, 2013

Membership Status

Joined September, 1990; Article VIII

General resources account	<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

SDR Department	<u>SDR (million)</u>	<u>Percent of Quota</u>
Net cumulative allocation	130.39	100.00
Holdings	5.02	3.85

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>Forthcoming</u>			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Principal				
Charges/Interest	<u>0.13</u>	<u>0.13</u>	<u>0.13</u>	<u>0.13</u>
Total	<u>0.13</u>	<u>0.13</u>	<u>0.13</u>	<u>0.13</u>

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section

Implementation of HIPC Initiative None

Exchange Rate Arrangements

The exchange rate of the Namibia dollar is a fixed peg 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 or restrictions on the making of payments and transfer for current international transactions. The measure concerning a limit (50 percent of the ex-factory cost) on the provision of foreign exchange

for making advance payments for the import of capital goods in excess of N\$20 million has been removed.

Article IV Consultation

Namibia is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on February 8, 2013.

Technical Assistance, 2008–13

Department	Dates	Purpose
FAD	September 2008	Public Financial Management
	April 2009	Incorporating Budget Programs in the Government Accounting System
	June 2009	PPPs: Building a Framework for Managing Fiscal Risks
	November 2009	Follow up to Program Budgeting
	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	Custom Administration
	March 2013	Namibia Excise Legislation
	April 2013	Public Financial Management
	April 2013	Tax Administration
	April 2013	Development of PBB Instruments
MCM (MFD)	April 2008	Risk-based Supervision
	November 2008	Risk- based Supervision
	July 2009	Risk- based Supervision
	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	

STA	May 2008	National Accounts
	July 2008	Monetary and Financial Statistics
	July 2008	National Accounts (SDDS project)
	July 2008	Balance of Payments Statistics
	November 2008	National Accounts
	April 2009	Government Finance Statistics (GFSM 2001)
	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
	November 2013	National Accounts

JOINT WORLD BANK AND IMF WORK PROGRAM

As of end-November 2013

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	1. Economic Management TA (debt management, public expenditure management, SOE financing, PPP framework)	Feb-March 2014: Expenditure analysis tool (BOOST) mission Other activities will be handled by resident mission.	Activities will be delivered on an ongoing basis through mid-2015
	2. Statistical Capacity TA (household survey data collection and analysis)	Feb. 2014	Continuous through 2016
	3. Analysis and TA on business and financial institutional environment: <ul style="list-style-type: none"> • Doing Business Reform Memorandum • ICR ROSC • Review of competition legal framework • Product market regulation analysis • Payments system TA • Central securities depository TA 	Mar. 2014 Mar. 2014 Early 2014 Early 2014	Dec. 2013 Feb. 2014 Jun. 2014 Jun. 2014 End-2014 End-2014
	4. SACU/regional analysis of growth, fiscal, and poverty issues		Periodic policy notes through 2016

Title	Products	Provisional Timing of Missions	Expected Delivery Date
The Fund work program in the next 12 months	<ol style="list-style-type: none"> 1. 2013 Article IV consultation 2. TA (AFS): PFM 3. TA: Stress Testing 4. TA (AFS): External Trade Price 5. TA : PFM Act Regulation 6. TA : National Accounts 7. Data Work : Monetary Data Reported in SRF 8. TA : Bank Supervision and Regulation 9. TA : Revenue Administration 10. TA : Money Market Development <p>2014 Article IV Consultation</p>	<p>Oct-Nov 2013</p> <p>January 2014</p> <p>February 2014</p> <p>March 2014</p> <p>Oct-Nov 2013</p>	<p>Board meeting in February 2014</p> <p>Board meeting in February 2015</p>
B. Requests for work program inputs			
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, on Fund analysis and technical assistance provided to the GRN, and on the impact of global economic developments on Namibia.		

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but 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: National accounts estimation has not kept pace with changes to the structure of the economy. The authorities are in progress of rebasing the outdated national accounts base year (currently 2004). Seasonally adjusted quarterly national accounts (QNA) estimate, at 2004 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 well. The NSA is also assessing the integration of VAT data in the national accounts compilation framework. The National Accounts are produced bi-annually and is 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 NSA recently published the rebased consumer price index. This index provides a better presentation of the spending patterns of the citizens and their experience of inflation. The new 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 not regularly collected, which impedes the analysis of labor market development. The authorities are now carrying out regular annual labor force surveys.

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 gaps in term 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. Those data are 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 on 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 restate the IIP in a format that will allow for comparison 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 report 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 November 2013)

	Date of Latest Observation	Date Received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of Publication ¹	Memo Items	
						Data Quality—Methodological Soundness ²	Data Quality—Accuracy and Reliability ²
Exchange rates	11/25/2013	11/25/2013	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities ³	June 2013	Oct. 2013	M	M	M		
International investment position	June 2013	Oct. 2013	Q	Q	Q		
Reserve/base money	June 2013	Oct. 2013	M	M	M	O, O, LO, LO	O, LO, O, O, O
Broad money	June 2013	Oct. 2013	M	M	M		
Central bank balance sheet	June 2013	Oct. 2013	M	M	M		
Consolidated balance sheet of the banking system	June 2013	Oct. 2013	M		M		
Interest rates ⁴	11/25/2013	11/25/2013	D	D	D		
Consumer price index	Oct. 2013	Nov. 2013	M	M	M		
Revenue, expenditure, balance, and composition of financing ⁵ —general government ⁶	NA	NA					
Revenue, expenditure, balance, and composition of financing ⁴ —central government	June 2013	Nov. 2013	A/Q/	Q	Q		
Stocks of central government and central government-guaranteed debt ⁷	June 2013	Nov. 2013	A	A	A		
External current account balance	2013 Q2	Oct. 2013	A/Q	A	A		
Exports and imports of goods	2013 Q2	Oct. 2013	M	M	M		
GDP/GNP	2012	Oct. 2013	A	A	A	O, O, O, LO	LNO, LO, LO, LO, O
Gross external debt	June 2013	Oct. 2012	A/Q	A/Q	A/Q		

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

² Reflects the assessment provided in the data ROSC published in September, 2005, and based on the findings of the mission that took place from April 13 to 26, 2005, for the data set corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).

³ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

⁵ Foreign, domestic bank, and domestic nonbank financing.

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

⁷ Including currency and maturity composition.



INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

January 10, 2014

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Prepared by the Staff Representatives for the 2013
consultation with Namibia

MEDIUM TERM PUBLIC DEBT SUSTAINABILITY

Namibia's public debt remains low, although it has risen significantly since the global financial crisis in 2008–09. Although extremely low by international standards, the central government debt roughly doubled in nominal terms since the crisis, rising from 16 percent of GDP in 2009 to an estimated 29 percent of GDP by 2013.

The composition of public debt bears little exchange rate risk as most of the Namibian public debt is denominated in domestic currency or in South African rand, to which the Namibian dollar is pegged. In particular, about 70 percent of public debt takes the form of government bills and bonds, which has helped with the government's objective of developing the domestic capital market. Treasury bonds (known as internal registered stock or government bonds) maturing between 2014 and 2030 currently make up 53 percent of the government's domestic debt. Treasury bills make up the balance of domestic debt, and are issued in tenors of 91, 182, 273 and 364-days, with the 364-days accounting for 48 percent of total T-bills (as of December 2012).

On foreign debt, Namibia has issued two sovereign bonds; namely the US-dollar denominated Eurobond of US\$500 million on October 2011, and the R850 million South African Rand denominated bond on the Johannesburg Stock Exchange in November 2012, both with 10-years tenure. Accessing the international bond market has served to diversify Namibia's money market base.

Under the staff's baseline scenario, gross public debt would reach 35 percent of GDP by 2018/19 (Table 1). This assumes continuing fiscal consolidation, with the primary deficit averaging about 1.7 percent of GDP during 2013/14–18/19. Given uncertainty surrounding economic growth, the government plans to utilize a combination of spending restraint, revenue management, and deficit financing options to stabilize debt and avoid systematic erosion of fiscal space.

Figure 1 shows two alternative scenarios:

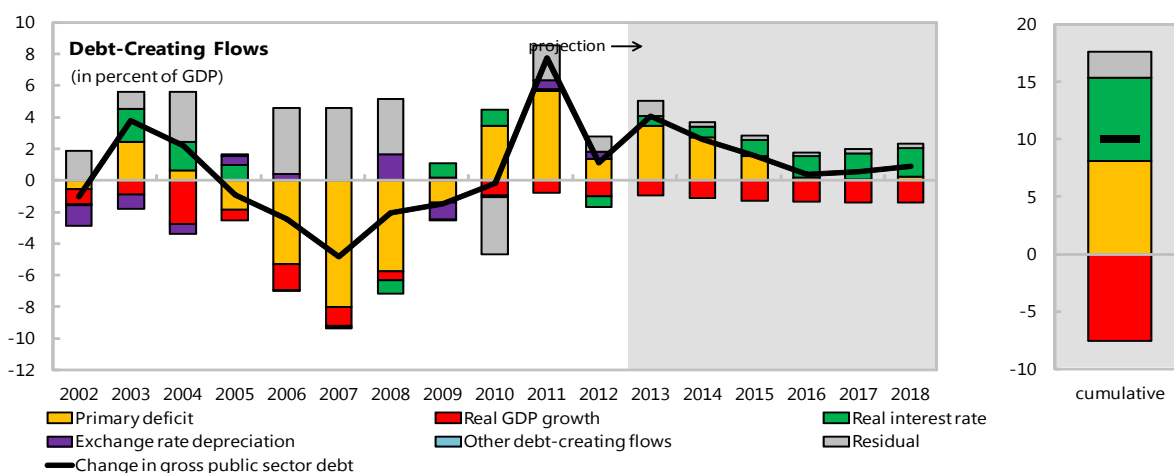
- Public debt would be lower than in the baseline if for the next five years, macroeconomic variables on their average level over the last decade in Namibia. The debt-to-GDP ratio would stabilize at a lower level because the fiscal balance and growth would be higher on average.
- Public debt would be much higher than in the baseline if the primary fiscal deficit remains constant at its 2013/14 level (3.5 percent of GDP) throughout the medium-term. In this case, the planned fiscal consolidation does not taken place and public debt would exceed 45 percent of GDP.

Table 1. Namibia Public Sector Debt Sustainability Analysis (DSA)–Baseline Scenario
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}										As of April 30, 2013		
	Actual			Projections								
	2002-2010 ^{2/}	2011	2012	2013	2014	2015	2016	2017	2018	Sovereign Spreads		
Nominal gross public debt	22.0	23.9	25.0	29.1	31.6	33.2	33.6	34.1	35.0	Spread (bp) ^{3/}		336
Public gross financing needs	0.1	6.9	3.1	4.1	9.1	12.2	12.8	13.9	16.4	CDS (bp)		N.A
Real GDP growth (in percent)	5.0	5.7	5.0	4.3	4.3	4.5	4.6	4.7	4.6	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	6.3	7.1	11.5	6.2	5.9	5.8	5.6	5.5	5.5	Moody's	Baa3	Baa3
Nominal GDP growth (in percent)	11.6	13.1	17.1	10.7	10.5	10.5	10.4	10.4	10.4	S&Ps	n.a.	n.a.
Effective interest rate (in percent) ^{4/}	9.6	8.3	8.8	9.2	8.9	9.6	10.3	11.1	11.8	Fitch	BBB-	BBB

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018		
Change in gross public sector debt	-0.8	7.75	1.10	4.0	2.6	1.6	0.4	0.5	0.9	10.0	
Identified debt-creating flows	-2.4	5.53	0.12	3.1	2.3	1.3	0.1	0.3	0.6	7.7	
Primary deficit	-1.8	5.7	1.3	3.5	2.7	1.5	0.2	0.1	0.2	8.1	0.7
Primary (noninterest) revenue and grants	29.1	30.9	33.3	33.2	32.2	31.0	31.5	31.6	31.5	190.9	
Primary (noninterest) expenditure	27.2	36.5	34.6	36.7	34.9	32.5	31.6	31.6	31.7	199.0	
Automatic debt dynamics ^{5/}	-0.6	-0.1	-1.2	-0.3	-0.4	-0.3	-0.1	0.2	0.4	-0.4	
Interest rate/growth differential ^{6/}	-0.4	-0.7	-1.7	-0.3	-0.4	-0.3	-0.1	0.2	0.4	-0.4	
Of which: real interest rate	0.6	0.1	-0.7	0.6	0.7	1.0	1.3	1.6	1.9	7.2	
Of which: real GDP growth	-1.0	-0.8	-1.0	-1.0	-1.1	-1.3	-1.4	-1.4	-1.4	-7.6	
Exchange rate depreciation ^{7/}	-0.2	0.5	0.5	...	...	...	...	...	...	...
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/Drawdown of Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities (Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	1.6	2.2	1.0	0.9	0.3	0.3	0.3	0.3	0.2	2.3	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Bond Spread over U.S. Bonds.

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

5/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = 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 denominator in footnote 4 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

8/ For projections, this line includes exchange rate changes during the projection period.

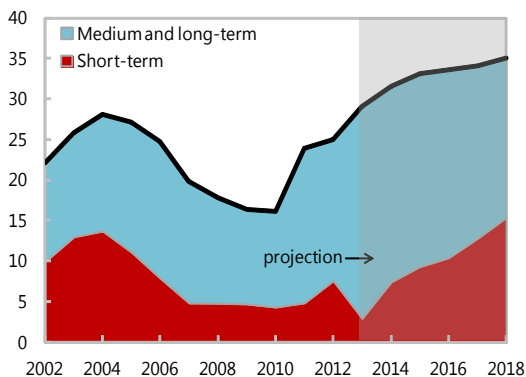
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Namibia Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

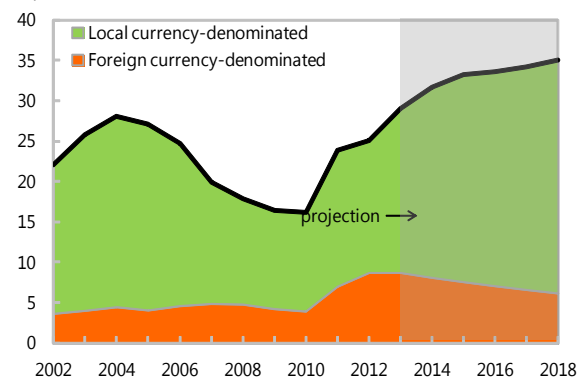
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

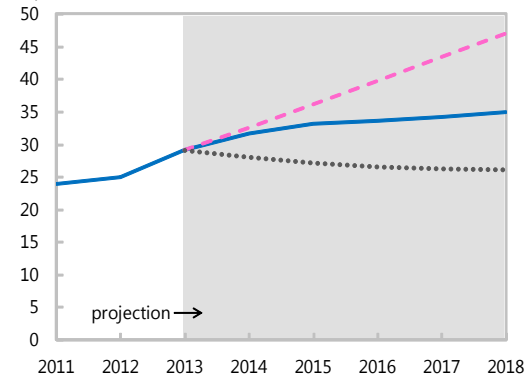
— Baseline

..... Historical

- - - Constant Primary Balance

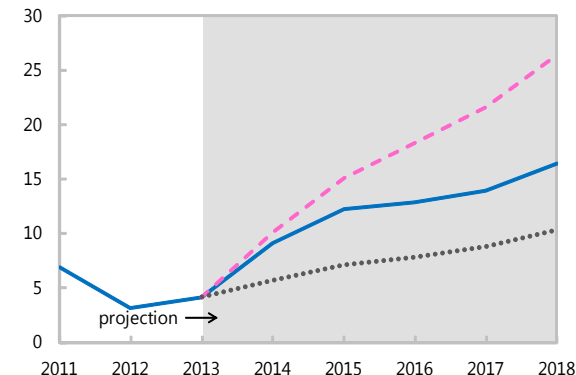
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario

	2013	2014	2015	2016	2017	2018
Real GDP growth	4.3	4.3	4.5	4.6	4.7	4.6
Inflation	6.2	5.9	5.8	5.6	5.5	5.5
Primary Balance	-3.5	-2.7	-1.5	-0.2	-0.1	-0.2
Effective interest rate	9.2	8.9	9.6	10.3	11.1	11.8

Historical Scenario

	2013	2014	2015	2016	2017	2018
Real GDP growth	4.3	5.1	5.1	5.1	5.1	5.1
Inflation	6.2	5.9	5.8	5.6	5.5	5.5
Primary Balance	-3.5	0.9	0.9	0.9	0.9	0.9
Effective interest rate	9.2	9.6	10.2	11.1	12.0	12.9

Constant Primary Balance Scenario

Real GDP growth	4.3	4.3	4.5	4.6	4.7	4.6
Inflation	6.2	5.9	5.8	5.6	5.5	5.5
Primary Balance	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5
Effective interest rate	9.2	9.6	9.8	10.0	10.2	10.2

Source: IMF staff.

MEDIUM-TERM EXTERNAL DEBT SUSTAINABILITY

Namibia's gross external debt remains moderate at about 40 percent of GDP, although it has almost doubled since 2008. The US\$500 million Eurobond issued in 2011 and the R850 million issued on the Johannesburg Stock Exchange in 2012 occupy the biggest share, followed by multilateral and bilateral loans for the rest. Original maturities of these loans range from 9 to 50 years, most with 10-year grace periods. About 90 percent of the loans are at fixed interest rates (ranging from zero to 4.27 percent).

Under the baseline, Namibia's gross external debt is projected to decline gradually from about 40 percent of GDP in 2013 to about 30 percent of GDP in 2018 (Table 2). Improvements in current account balances should support a reduction in the external debt ratio, as the new Swakop uranium mine reaches full production by 2017, uranium prices increase from their recent lows improving the terms of trade, and the planned fiscal consolidation takes place.

An alternative scenario suggests that if key debt-creating variables went back to their historical levels, Namibia's external debt would end up at about half the baseline line by the end of the forecasting period (Figure 2).

Simulations suggest that Namibia's external debt-to-GDP ratio is particularly sensitive to a current account shock, real depreciation shock, and a combination shock of deterioration in real interest rate, growth rate, and current account balance. On its own, Namibia's external debt does not appear to be particularly sensitive to a shock in interest rates and growth.

Table 2. Country: External Debt Sustainability Framework, 2008–18
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing non-interest current account 6/
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
1 Baseline: External debt	22.7	28.3	31.5	38.0	37.5	40.4	35.7	36.1	36.0	35.3	33.0	-3.0	
2 Change in external debt	-3.0	5.6	3.2	6.5	-0.5	2.9	-4.7	0.4	-0.1	-0.7	-2.3		
3 Identified external debt-creating flows (4+8+9)	-10.9	-4.9	-11.0	-7.2	-1.3	-4.6	-4.4	-0.6	-2.6	-4.7	-5.1		
4 Current account deficit, excluding interest payments	-3.6	0.8	1.6	3.3	2.2	5.2	5.8	7.5	2.5	-1.3	-2.5		
5 Deficit in balance of goods and services	8.2	13.0	8.2	9.4	12.2	16.2	17.3	15.1	9.9	7.6	7.9		
6 Exports	42.2	42.4	42.4	40.2	35.9	39.4	39.0	40.3	42.7	44.2	44.6		
7 Imports	50.4	55.5	50.7	49.6	48.1	55.6	56.3	55.4	52.6	51.9	52.5		
8 Net non-debt creating capital inflows (negative)	-8.1	-6.0	-7.2	-6.4	-3.0	-8.4	-8.9	-6.9	-4.1	-2.8	-2.4		
9 Automatic debt dynamics 1/	0.8	0.2	-5.4	-4.1	-0.5	-1.5	-1.3	-1.1	-1.0	-0.7	-0.1		
10 Contribution from nominal interest rate	0.8	0.3	0.2	0.2	0.3	0.3	0.3	0.4	0.5	0.9	1.4		
11 Contribution from real GDP growth	-0.9	0.2	-1.4	-1.5	-1.9	-1.7	-1.6	-1.5	-1.6	-1.6	-1.5		
12 Contribution from price and exchange rate changes 2/	0.8	-0.3	-4.2	-2.7	1.1	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	7.9	10.6	14.2	13.7	0.8	7.5	-0.3	1.0	2.6	4.0	2.8		
External debt-to-exports ratio (in percent)	53.8	66.6	74.2	94.5	104.5	102.5	91.5	89.4	84.3	79.8	74.0		
Gross external financing need (in billions of US dollars) 4	1.3	1.0	1.3	2.1	2.8	2.3	2.5	2.9	2.4	0.7	0.6		
in percent of GDP	15.0	11.3	11.4	16.3	21.2	10-Year	10-Year	18.4	19.0	21.2	16.5	4.3	3.4
Scenario with key variables at their historical averages 5/						40.4	26.6	15.2	6.3	-0.9	-8.4	-4.7	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Real GDP growth (in percent)	3.4	-1.1	6.3	5.7	5.0	5.1	3.4	4.3	4.3	4.5	4.6	4.7	4.6
GDP deflator in US dollars (change in percent)	-3.1	1.4	17.4	9.5	-2.7	9.7	13.2	-10.1	1.7	1.6	1.5	1.4	1.4
Nominal external interest rate (in percent)	3.3	1.4	0.8	0.8	0.9	2.6	1.9	0.7	0.9	1.1	1.6	2.7	4.2
Growth of exports (US dollar terms, in percent)	6.0	1.0	24.8	9.7	-8.7	14.1	14.2	2.8	5.0	9.7	12.4	10.0	7.0
Growth of imports (US dollar terms, in percent)	23.6	10.5	14.0	13.3	-0.8	15.7	9.8	8.3	7.4	4.5	0.7	4.7	7.4
Current account balance, excluding interest payments	3.6	-0.8	-1.6	-3.3	-2.2	4.1	6.1	-5.2	-5.8	-7.5	-2.5	1.3	2.5
Net non-debt creating capital inflows	8.1	6.0	7.2	6.4	3.0	5.6	1.9	8.4	8.9	6.9	4.1	2.8	2.4

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

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

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

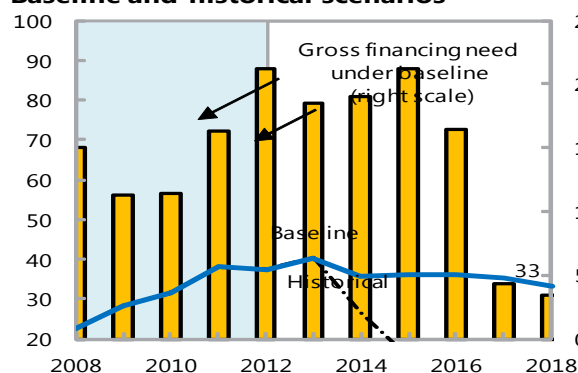
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

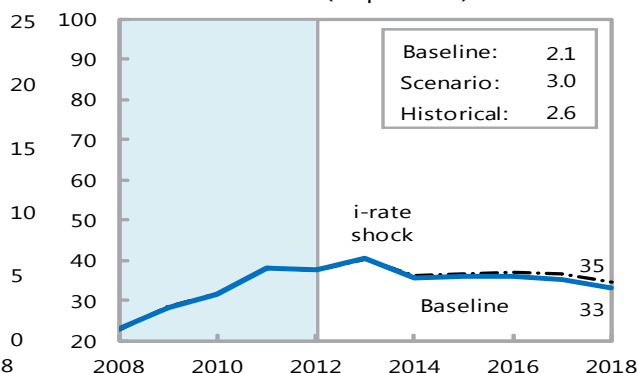
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 2. Country: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)

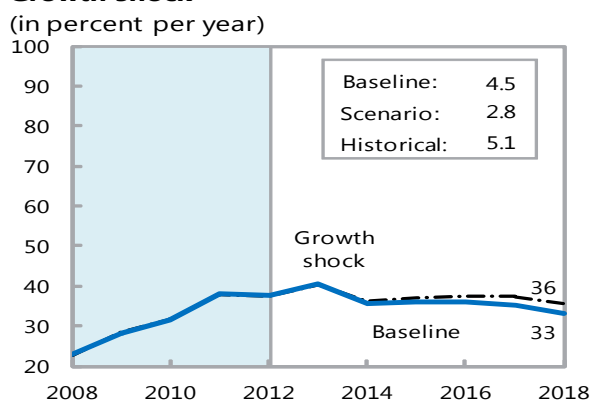
Baseline and historical scenarios



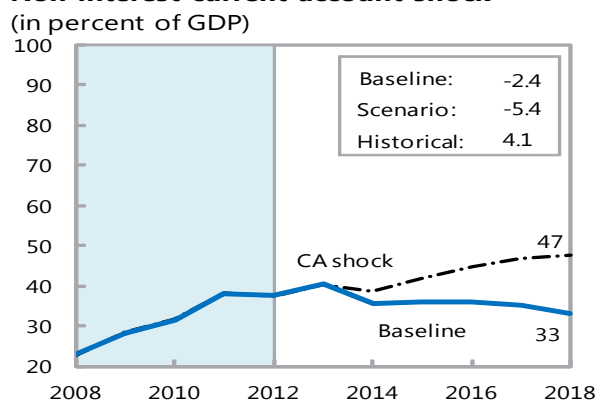
Interest rate shock (in percent)



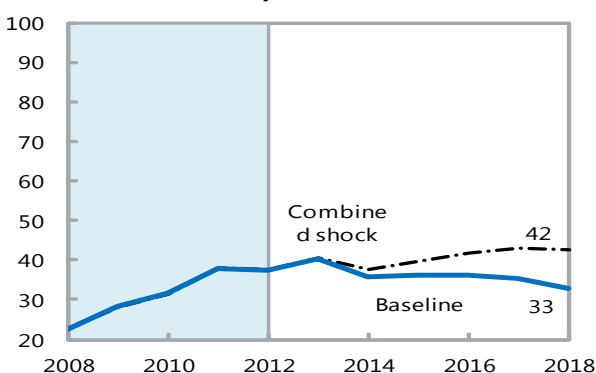
Growth shock



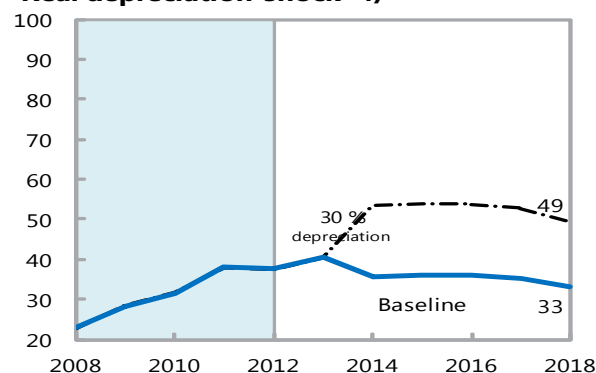
Non-interest current account shock



Combined shock 3/



Real depreciation shock 4/



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 2010.



INTERNATIONAL MONETARY FUND



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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Namibia

On January 29, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Namibia without a meeting.²

Namibia's real GDP grew by a healthy 5 percent in 2012. Preliminary data for the first half of 2013 suggest that growth has moderated; the slowdown reflects weak global demand for exports, which more than offset the solid growth in the nonmineral sector, most notably in retail trade. At end-October 2013 inflation stood slightly below 5 percent.

The fiscal outturn in the FY2012/13 (starting April) was significantly better than targeted; the overall deficit was 0.3 percent compared to 3.9 percent projected in the original budget. The strong performance reflects revenue over performance and some under-execution in capital spending.

Reflecting the fiscal withdrawal in FY2012/13, the current account deficit narrowed to 2.6 percent of GDP in 2012 from 3.5 percent in 2011. This outcome was driven mainly by an increase in official transfers in the form of higher-than-projected Southern African Customs Union (SACU) revenues, and savings made in capital spending. Despite the narrowing of the current account deficit, the official reserves coverage stood at just 3 months of imports at end-2012.

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

² Article IV consultations are concluded without a Board meeting when the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse-of-time basis; and (iv) the use of Fund resources is not under discussion or anticipated."

Namibia's banking system is highly profitable and well-capitalized, with relatively low nonperforming loans. Favorable credit conditions also supported domestic demand growth in recent years. The 2011–21 Namibia Financial Sector Strategy (NFSS) is sound and strikes an appropriate balance between financial inclusion and stability. The Bank of Namibia's semi-annual Financial Stability Reports have also rightly focused on the challenges that could emanate from the high household indebtedness and recommended appropriate policy responses to minimize the associated risks.

Staff projects that output growth would further moderate to about 4 percent in 2013. Mineral exports will likely remain subdued on account of weak external demand with growth slowing in Namibia's major trading partners. However, this factor would be partly offset by strong domestic demand growth emanating from the recent income tax reform, along with the fiscal expansion targeted in the FY2013/14 budget. The nonmineral sector, in particular construction, is expected to further rebound in the second half of 2013, on account of the development of the Swakop Uranium mine, which is expected to become the second largest uranium mine in the world.

The main near-term risks relate to the fragile and uncertain external environment, especially for emerging markets, which could constrain export demand. Further deterioration of the euro-area economies may generate significant negative spillovers through trade linkages as a large share of Namibia's total exports—mainly diamonds, uranium, beef, unrefined copper and fish—are destined for Europe. In addition, a delay in finalizing negotiation of Economic Partnership Agreement (EPA) with the European Union may bring additional risks to some nonmineral exports.

Executive Board Assessment

In concluding the 2013 Article IV consultation with Namibia, Executive directors endorsed staff's appraisal, as follows:

Namibia has made impressive strides in economic development since gaining independence in 1990. The positive growth record in recent years has raised overall incomes and delivered good economic outcomes.

However, the solid growth has not led to sufficient job creation and lower inequality. The government remains the largest employer in the economy and TIPEEG is yet to put a significant dent on the high level of structural unemployment.

The 4th National Development Plan (NDP4) serves as the authorities' blueprint for structural transformation. Staff welcomes a tightly focused NDP4 that emphasizes returning to high and sustained growth, reducing income inequality and enhancing job creation through reforms that lay the foundation for greater private sector development.

The period ahead will require a delicate balancing act in the implementation of macroeconomic policies because of global spillovers and domestic policy developments. The uncertain global environment especially for emerging markets and a possible delay in finalizing negotiations of the EPA with the EU are key risks. In a more adverse global scenario than anticipated, the authorities should allow the automatic stabilizers to work on the revenue side and avoid discretionary fiscal measures to support domestic demand.

Staff recommends that the government pursue a “growth-friendly” medium-term fiscal consolidation strategy. This should aim to rein in current spending (wages and transfers and subsidies to SOEs) while preserving growth-promoting capital. Staff welcomes plans by the department of public servants management to link civil servants’ pay with performance. Staff also commends the measures being put in place by the government to improve domestic revenue generation which bodes well for a balanced fiscal consolidation. Staff advocates for a broadly balanced fiscal position by FY2015/16 to help rebuild the fiscal and reserve buffers. Staff commends the sense of urgency shown by the government to address the state of finances of the State-owned enterprises (SOEs). Speedy implementation of SOE performance agreements is needed to put them on a financially viable footing.

The government’s emphasis on enhancing greater financial inclusion through its financial sector strategy, while preserving the stability of the financial system, is appropriate. While the level of household indebtedness has stabilized, it remains elevated. In staff’s view, this in itself does not pose imminent risk to macroeconomic and financial stability. Staff commends the authorities for the initiatives taken to strengthen their surveillance of the financial sector.

Achieving sustainable growth would require a set of reform-oriented innovative policies to reinvigorate productivity growth. These include increasing the quality of public spending, improving the business environment, implementing supportive measures to liberalize the service sectors, reducing the domestic regulatory burden on firms and the skill mismatch in the labor market. Staff commends the authorities’ efforts to strengthen public financial management including bringing Namibia’s procurement system in line with international standards.

Namibia: Selected Economic Indicators, 2009–14
(Annual percentage change, unless otherwise indicated)

	2009	2010	2011	2012	2013 Est.	2014 Proj.
Real GDP	-1.1	6.3	5.7	5.0	4.3	4.3
CPI (end of period)	7.0	3.1	7.2	6.4	6.0	5.8
Overall fiscal deficit/surplus (percent of GDP) ¹	-2.2	-5.7	-8.4	-0.3	-6.3	-0.8
Public debt (percent of GDP) ¹	15.6	16.1	25.9	25.0	26.6	28.5
Broad money (end period)	3.6	7.3	7.7	17.1	10.7	10.5
Credit to the private sector (end period)	10.0	11.1	9.3	16.9	10.7	10.5
Current account balance (percent of GDP)	-1.1	-1.8	-3.5	-2.6	-5.5	-6.1
International reserves						
US\$ millions	1918.7	1581.0	1811.4	1684.7	1720.7	2047.9
Months of imports of goods and services	4.1	3.0	3.5	3.0	2.8	3.2
Exchange rate (Namibia dollar/U.S. dollar, end of period)	7.4	7.1	8.1	8.7	...	...

Sources: Namibian authorities; and IMF staff estimates.

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