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NAMIBIA

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2019 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

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 2019 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time, following discussions that ended on June 4, 2019, 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 August 2, 2019.
- An **Informational Annex** prepared by the IMF staff.

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IMF Executive Board Concludes 2019 Article IV Consultation with Namibia

On August 30, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Namibia and considered and endorsed the staff appraisal without a meeting.

During 2010–15, Namibia experienced a period of exceptional growth but macroeconomic imbalances rose, resulting in public debt sharply increasing and international reserves falling below adequate levels. Rapid credit growth fueled fast-rising house prices and elevated private sector indebtedness. Robust growth masked slowing productivity growth and declining external competitiveness, hindering the long-term growth prospects of the economy. Income inequality and unemployment remained very high.

With the temporary stimuli now ended, the economy is rebalancing while the government is implementing a significant fiscal consolidation. Real GDP declined in 2017 and, at a slower pace, in 2018. The current account deficit has narrowed significantly, despite a decline in Southern Africa Customs Union (SACU)'s receipts. Credit to the private sector slowed and the house price real growth rate turned negative. The authorities have implemented significant fiscal adjustment. However, public debt remains on a rising path, and government's growth financing needs are elevated. International reserves improved, although remain below adequate levels. The financial sector has so far been resilient, although with the economic slowdown, banks' assets quality has deteriorated.

A likely slow recovery, the need for further fiscal adjustment to bring public debt to a sustainable path, persistent inequalities and structural impediments to growth, point to a challenging outlook. Real GDP is projected to mildly contract in 2019, before gradually recovering. Absent structural reforms, growth is expected to converge to a long-term level of about 3 percent, which is too low to deliver meaningful improvements in per capita income and reduce unemployment. Pending further actions, public debt would continue rising, although at a more moderate pace than in the

[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.

past. While the current account deficit is expected to stabilize at around 4 percent of GDP, international reserves coverage would gradually decline.

Downside risks weigh on the outlook. Risks emanate from possible fiscal slippages that could trigger further debt increases; declines in SACU revenue; and, low demand for key exports due to rising trade tensions and weaker global growth. With a highly interconnected financial sector, macro-financial feedback loops could amplify the adverse effects of shocks.

Executive Board Assessment

In concluding the 2019 Article IV consultation, Executive Directors endorsed staff's appraisal, as follows:

Namibia's economy is rebalancing, but significant challenges remain. After a period of exceptional growth and rising macroeconomic imbalances, public debt remains on a rising path, international reserves below adequate levels, and growth has come to a halt. Years of strong growth masked slowing productivity and declining external competitiveness, hindering growth prospects, while income inequality and unemployment have remained high.

The authorities' fiscal consolidation objectives strike an appropriate balance between stabilizing public debt and supporting the economy, but actions are needed to deliver this outcome. In the short term, staff assess that an additional ¾–1 percent of GDP in measures is required to contain the FY19/20 fiscal deficit within the budget target. Policies to deliver the adjustment planned for the next two years (about 2 percent of GDP) also need to be fully defined.

Policies should combine spending reductions and selected revenue increases that can enhance the long-term growth prospects of the economy, while protecting the poor. Measures should include: continuing the authorities' policy of containing salary indexation and new hires, applying the policy to all public entities; rationalizing transfers to public entities and enterprises; and, expanding tax bases by reducing exemptions and special tax regimes. Over time, these policies would help bring wage dynamics closer to the productivity trends, improve service delivery, and create a level-playing field for private investors, with positive effects on external competitiveness and long-term growth. Widening the coverage of children's grants, better targeting of housing programs, and a more progressive personal income tax would help protect the poor and strengthen the distributive role of fiscal policies. In this context, the BoN should keep the policy rate broadly in line with the SARB's rate and maintain the peg.

Fiscal reforms are essential for the success of the authorities' adjustment plans. Rationalizing public enterprises and extrabudgetary entities, strengthening revenue administration, and improving budget and expenditure controls are critical steps to deliver the planned fiscal adjustment. To strengthen the credibility of the fiscal adjustment plans and reduce risks, it also

important to control off-budget financing of investment projects, develop a fiscal risks framework, and publish a risks statement. In consultation with the authorities, a Fund's medium-term capacity development strategy has been developed to support improvements in some of these areas.

Accelerating structural reforms would boost productivity and competitiveness and long-term growth, while supporting the fiscal adjustment strategy. Structural reforms should focus on reducing policy uncertainty and removing existing obstacles to stronger and more inclusive growth. Reforms should aim to: streamline business regulations (e.g., lowering regulatory compliance costs); reduce the high electricity and transportation costs (e.g., reforming public enterprises operating in these sectors); contain public sector salary dynamics to better align productivity and wage dynamics in the economy; and, avoid regulations hampering domestic competition (e.g., preferential procurement rules). Over time, it is important to reduce non-tariff obstacles to exports (e.g., quotas, imports ban, SACU-related restrictions); address shortages of well-educated and skilled workers through better access and quality of higher education, vocational and on-the-job training programs; and foster the adoption of new technologies (e.g., better broadband services). The potential gains from improvements in the above areas could be large.

Actions are needed to further strengthen the oversight of the financial sector, particularly of the large non-bank financial industry. Despite a recent increase in NPLs, the financial sector remains sound. However, with a large non-bank financial industry, planned legislative changes to address existing regulatory gaps in the industry (e.g., NAMFISA, Financial Institutions and Market bills) should be adopted expeditiously, while reviving efforts to introduce risk-based supervision. With the BoN set to have an explicit macroprudential mandate to regulate a deeply interconnected financial sector, the coordination framework between the BoN, NAMFISA and the Ministry of Finance should be strengthened, including through the creation of the planned Financial Stability Committee. Complementing the macroprudential toolkit with DSTI limits and other macroprudential measures would better manage risks from the highly leveraged private sector. Finally, efforts to develop a full crisis management and resolution framework should be stepped up, including by granting BoN and NAMFISA full resolution powers of financial institutions, and operationalizing emergency lending assistance.

Namibia: Selected Economic Indicators, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel	Proj	Proj	Proj	Proj	Proj	Proj
	(Percentage change, unless otherwise indicated)									
National account and prices										
GDP at constant prices	6.1	1.1	-0.9	-0.1	-0.2	1.6	2.4	3.2	3.9	3.0
GDP deflator	2.0	9.4	9.7	6.5	4.4	5.2	5.2	5.3	5.6	5.3
GDP at market prices (N$ billions)	150	166	181	192	200	214	231	251	275	298
GDP at market prices (FY) (N$ billions)	154	170	183	194	204	218	236	257	281	304
GDP per capita (US$, constant 2000 exchange rate)	9,489	10,298	10,994	11,478	11,745	12,313	13,017	13,886	14,951	15,909
Consumer prices (end of period)	3.7	7.3	5.2	5.1	4.8	5.5	5.5	5.5	5.5	5.5
External sector										
Exports (US$)	-15.7	-2.4	19.0	12.2	0.4	7.1	4.6	5.6	6.7	4.3
Imports (US$)	-5.4	-12.8	-1.0	4.0	4.0	4.3	5.5	4.3	6.6	5.3
Terms of trade (deterioration = -)	3.7	0.5	-11.7	-0.3	2.6	-0.9	-0.8	-1.0	-0.7	-0.7
Real effective exchange rate (period average)	-2.5	-3.3	10.7	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange rate (N$/US$, end of period)	15.6	13.7	12.3	14.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Money and credit										
Domestic credit to the private sector	13.8	8.6	5.0	7.0	5.3	5.8	6.6	7.6	8.6	8.4
Base money	-5.0	24.7	10.3	5.7	5.0	10.0	10.0	10.0	10.0	10.0
M2	10.2	4.9	9.5	10.8	4.3	6.8	7.7	8.7	9.7	8.4
Interest rate (percent)	6.5	7.0	6.8	6.8	…	…	…	…	…	…
	(Percent of GDP)									
Investment and Savings										
Investment	31.5	23.5	16.2	12.5	17.1	18.0	18.5	19.0	19.0	18.9
Public	8.2	7.8	5.7	4.1	5.6	6.0	6.0	6.0	6.0	6.0
Private	24.4	14.4	9.7	8.5	11.5	12.0	12.5	13.0	13.0	13.0
Change Inventories	-1.1	1.3	0.8	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Savings	19.5	8.0	11.2	10.4	13.0	15.7	14.7	14.8	14.7	14.5
Public	-1.5	-3.5	-1.6	-2.1	-1.7	-0.5	-1.1	-1.3	-1.4	-1.5
Private	21.1	11.6	12.8	12.5	14.7	16.2	15.8	16.1	16.1	15.9
Central government budget 1/										
Revenue and grants	33.9	30.0	32.0	28.7	28.9	30.8	29.8	30.0	30.0	30.0
Of which: SACU receipts	11.3	8.3	10.7	8.9	9.3	10.9	9.7	9.7	9.7	9.7
Expenditure and net lending	42.4	38.9	35.5	34.1	35.2	36.0	36.0	36.2	36.3	36.4
Primary balance (deficit = -)	-6.8	-6.4	-0.5	-2.2	-2.0	-0.7	-1.7	-1.5	-1.4	-1.3
Overall balance	-8.5	-9.0	-3.4	-5.4	-5.6	-4.4	-5.5	-5.6	-5.6	-5.7
Primary balance: Non-SACU	-18.0	-14.7	-11.2	-11.1	-11.3	-11.6	-11.4	-11.2	-11.1	-11.0
Public debt/GDP	39.9	42.6	41.0	45.8	49.2	50.9	51.4	53.0	54.3	56.0
Of which: domestic	22.1	27.8	27.1	29.0	32.0	34.2	36.7	39.9	42.3	44.8
Gross public and publicly guaranteed debt/GDP	44.5	47.8	46.9	51.8	55.8	58.1	59.2	61.4	63.3	65.3
External sector										
Current account balance										
(including official grants)	-13.5	-15.4	-5.0	-2.1	-4.1	-2.3	-3.8	-4.2	-4.2	-4.5
External public debt (including IMF)	17.8	14.8	13.9	16.8	17.2	16.7	14.7	13.1	12.1	11.2
Gross official reserves										
US$ millions	1,580	1,791	2,216	2,156	2,407	2,740	2,573	2,489	2,515	2,572
Percent of GDP	16.4	14.8	15.1	16.1	17.0	18.6	16.7	15.3	14.5	14.1
Months of imports of goods and services	3.0	3.5	4.2	3.9	4.2	4.5	4.0	3.7	3.5	3.4
External debt/GDP 2/	47.2	58.4	61.7	58.4	62.5	62.5	60.7	59.1	57.9	57.7
Memorandum item:										
Population (in million)	2.3	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7

Sources: Namibian authorities and Fund staff estimates and projections.

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

2/ Public and private external debt.

INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

August 2, 2019

KEY ISSUES

Context. Namibia's economy is rebalancing, but significant challenges remain. The fiscal and current account deficits have narrowed, and credit and house prices growth has decelerated. However, public debt remains on a rising path, reserve coverage is below adequate levels, and growth has recently halted. Past years of strong growth masked slowing productivity and deteriorating external competitiveness, hindering the country's development prospects; while income inequality and unemployment remain persistently high.

Outlook and risks. Real GDP is projected to mildly contract in 2019. In the absence of structural reforms, growth is expected to converge to a long-term level that is too low to deliver significant improvements in per capita income. Downside risks emanate from possible fiscal slippages that could trigger further debt increases; lower SACU revenue, and weak demand for key exports.

Fiscal and monetary policy. Immediate measures are needed to deliver the authorities' fiscal adjustment plans and bring public debt to a sustainable path. Policies should combine spending reductions and revenue increases that support long-term growth. Better targeting of cash transfers would protect the poor. Reforming public enterprises, improving revenue administration and public financial management, and managing fiscal risks are essential to deliver the adjustment plans. To support the peg, Bank of Namibia (BoN) should keep the policy rate broadly in line with the South African Reserve Bank (SARB)'s rate.

Structural reforms. Structural reforms are urgently needed to strengthen productivity and external competitiveness, and boost long-term growth. Reforms should streamline business regulations, contain public sector wage dynamics, and reduce costs of key production inputs. Over time, it is important to remove non-tariff barriers to exports, foster the adoption of new technologies, and address shortages of skilled workers.

Financial stability. The financial system remains sound. Recent improvements in large exposures regulation are welcome steps. However, legislative changes to address regulatory gaps for the NBFIs should be accelerated. Finalizing the BoN's macroprudential mandate, and expanding the macroprudential toolkit are critical steps to manage macro-financial risks. Efforts to develop a full crisis management and resolution framework should be stepped up.

Approved By
David Robinson (AFR) and Nathan Porter (SPR)

Discussions for the 2019 Article IV consultation took place in Windhoek during May 22–June 4, 2019. The team comprised Mr. Palomba (head), Ms. Ganum, Messrs. Jardak and Peralta-Alva (all AFR). Ms. Nainda (OED) participated in the discussions. Mr. Alonso (FAD), Ms. Cheptea (AFR), Ms. Rehman (RES) and Mr. Ugazio (STA) contributed from HQ. Mses. Li and Prado de Guzman (both AFR) provided research and editorial assistance for the preparation of this report.

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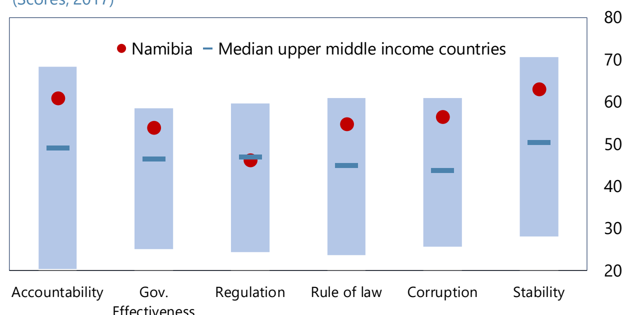
A SLOW RECOVERY AND LONG-TERM CHALLENGES

1. Among Southern Africa economies, Namibia stands out for its considerable economic and social progress, notwithstanding high unemployment and inequality. Despite being a small and commodity-dependent economy exposed to external shocks, over the last two decades annual per capita GDP growth averaged 2.6 percent, resulting in better living standards and lower poverty, and in one of most gender-equal countries in the world.[1] The country's strong institutional and governance framework, among the best-rated in Africa, underpinned these developments. Robust Southern Africa Customs Union (SACU)'s receipts contributed to economic stability and strong growth. However, growth has not benefited all Namibians. Unemployment remains high (about 33 percent), particularly for the youth (46 percent), and inequality, although declining, is one of the highest in the world (Figure 1).[2] Moreover, the economy remains highly dependent on volatile SACU receipts and vulnerable to fluctuations in commodity exports.

Strong Governance and Institutions
(Scores, 2017)

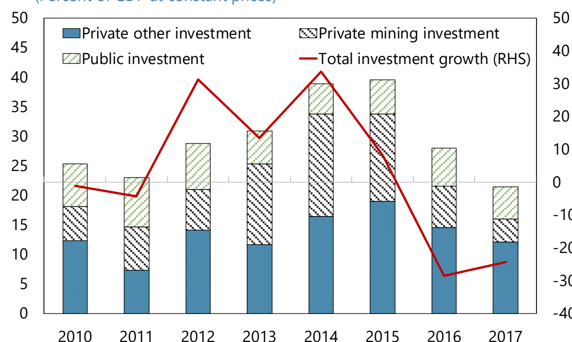


Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank) 2017 and IMF staff calculations.
Note: Shaded areas exclude top and bottom 10% of the distribution of upper middle income countries (sample size: 53 observations). Scores are rescaled to 0-100 range. The 90% confidence interval of the Control of Corruption Estimate for Namibia ranges from 52 to 61.

2. After a period of exceptional growth and rising economic imbalances, in 2016 the economy began rebalancing and contracting, and development bottlenecks became apparent (Figure 2).

- During 2010–15, the construction of large mines and expansionary fiscal policies temporarily boosted investment, and annual GDP growth averaged 5¾ percent. The peg with the South African rand contributed to contain inflation. However, macroeconomic imbalances built up. Large fiscal deficits led to a sharp increase in public debt. The current account deficit widened, and international reserves fell below adequate levels (Annex I). Rapid credit growth fueled fast rising housing prices, and elevated private sector indebtedness.

Temporary Factors Boosted Investment
(Percent of GDP at constant prices)



Source: NSA.

[1] Commodities (e.g., diamonds, copper, uranium) constitute about 45 percent of the country's exports of goods and about 8 percent of GDP. In 2018, Namibia was ranked the tenth most gender-equal country in the world (Global Gender Gap Report, World Economic Forum).

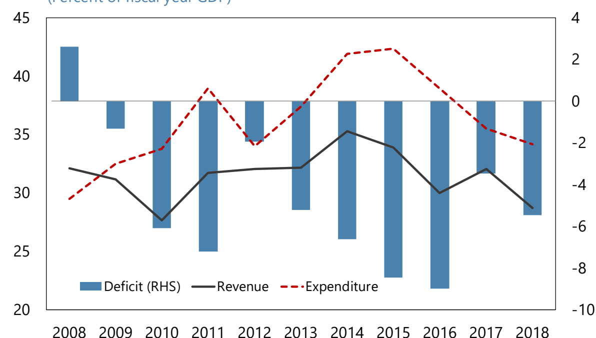
[2] For an analysis on the impediments to employment, see IMF Country Reports16/373 and 16/374.

- In 2016–17, the engines that temporarily boosted growth grounded to a halt. Real GDP began contracting as construction in the mining sector returned to pre-2010 levels and the government started implementing consolidation plans to stabilize the public debt-to-GDP ratio. With weak domestic demand, the economy started rebalancing. The current account deficit sharply narrowed, and credit and house price growth decelerated. In the process, it became apparent that past strong growth had masked slowing productivity growth and deteriorating competitiveness.

3. In 2018, the economy contracted further, although at a slower pace (Table 1). Real GDP declined by 0.1 percent (-0.9 percent in 2017), despite a sharp increase in mining production that only partially offset a weak non-mining economy. Private and public investment continued to decline, and with the protracted contraction, unemployment reached post-global crisis highs. The weak economic performance continued in recent quarters, as construction and sale activities contracted further.

4. While contracting, the economy continued rebalancing and the external position adjusted. The current account deficit in 2018 narrowed further to 2.1 percent of GDP (5 percent in 2017) and the external position was broadly in line with macroeconomic fundamentals and desirable policies (Annex I). Weak imports and rising commodity exports more than offset a decline in SACU receipts, strengthening the current account. However, external vulnerabilities continued to linger. Total external debt remained around 60 percent of GDP (47¼ percent in 2015). Moreover, international reserve coverage remained about 4 months of projected imports, supported by government's external borrowing and Bank of Namibia (BoN)'s past swap operations[3] (Figure 3).

5. The government implemented fiscal consolidation measures to stabilize the public debt ratio but faced significant headwinds, particularly from lower SACU revenue. In 2016, the government embarked on medium-term consolidation plans and, over the last three years, has reduced non-interest public expenditures by about 10 percent of GDP, largely through reductions in non-wage recurrent spending and capital outlays (Tables 2–3). However, spending reductions did not fully translate into lower deficit, as they were in part offset by declining domestic and SACU revenue, and increased interest payments. In FY18/19, the government continued containing public spending, but the fiscal deficit increased by about 2 percent of GDP, to 5½ percent, largely because of lower



Source: MoF.

[3] During 2017–18, the AfDB provided budget support to the government of about ZAF6,000 million. Since 2015, the BoN has entered in asset swap agreements, mainly with the government pension fund, of about US$600 million.

revenue.[4] As the deficit remained large, public debt increased to 45¾ percent of GDP (51¾ percent including guarantees). Gross financing needs remained high (about 17 percent of GDP) and were largely financed through domestic market issuances (Figure 4). Against this background, Moody's and Fitch confirmed Namibia's sovereign credit rating one notch below investment grade, with a negative outlook.[5]

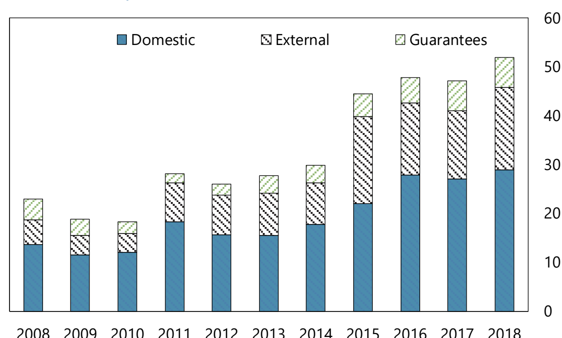
6. Private sector credit and house prices growth decelerated, while private sector indebtedness remained elevated. After years of double digit increases, nominal credit growth to the private sector sharply declined in 2017 and stabilized at around 6.8 percent in 2018.[6] With liquidity easing, the deceleration was mostly driven by weak demand from a highly-leveraged private sector and the implementation of some macroprudential measures (Figure 5).[7] Weak credit and economic conditions contributed reducing the growth rate in residential house prices to 1.7 percent (9¾ percent average over the past five years). The economic slowdown began affecting the banking sector's asset quality. Over the last two years, NPLs more than doubled, although from very low levels. More recently, banks have started tightening lending conditions. With government's financing needs still high, banks' direct exposures to the public sector continued rising and reached about 10 percent of banks' total assets (7 percent in 2016).

7. With a still weak economy, headline inflation declined, and the central bank maintained its policy stance unchanged. After averaging 6.2 percent in 2017, headline inflation declined to 4.3 percent in 2018 mostly because of low increases in food prices. Inflation remained subdued in the first months of 2019, reflecting economic slack and limited increases in utility prices. In the context of the currency peg, the BoN left the policy rate unchanged until mid-2019 and broadly in line with the South African Reserve Bank (SARB)'s rate and did not reflect the SARB's rate increase in November 2018, citing stable inflation and still slowing economic activity.

8. Despite the ongoing rebalancing, fiscal vulnerabilities remain high and structural impediments cloud the prospects for robust growth.

- *Fiscal vulnerabilities.* Over the last four years, the public debt ratio has almost doubled and remains on a rising path. Government's gross financing needs were largely met on the domestic

Government Debt Rising
(Percent of fiscal year GDP)



Sources: BoN, MoF, and IMF staff calculations.

[4] The decline in SACU revenue in FY18/19 largely reflected an adjustment, under the SACU revenue-sharing formula, to offset overpayments in previous years, as well as a historically declining trend.

[5] Namibia lost its investment grade rating in 2017.

[6] Given the volatility of credit series, credit growth refers to 12-month averages.

[7] During 2016–17, the authorities introduced minimum down-payment requirements for instalment credit and loan-to-value (LTV) limits for non-primary home purchases.

market, deepening the linkages between the financial sector and the government. Moreover, large external amortizations are expected in the coming years.

- *Tamed long-term growth prospects.* Strong growth early in the decade, in part due to one-off factors, masked deteriorating trends in productivity growth and in external competitiveness, and a decline in potential growth. With tamed long-term growth prospects, in the absence of policy action, the economy will be unable to generate meaningful gains to reduce unemployment and inequality.

OUTLOOK AND RISKS

9. A slow recovery, the need for fiscal adjustment to preserve debt sustainability, persistent inequalities, and structural impediments to growth point to a challenging outlook. Real GDP is projected to contract by about 0.2 percent in 2019, as a poor rainy season and a temporary reduction in diamond production weigh on a still tentative recovery. Growth is expected to turn positive in 2020 and gradually strengthen over time to converge to a long-run rate of about 3 percent that is too low to produce the improvements in per capita income experienced in the past. As the economy recovers, headline inflation is projected to rise gradually and remain below 6 percent. Under staff's baseline scenario, which assumes that the government broadly delivers the FY19/20 budget target with no further adjustment afterward, the public debt ratio would continue rising. Government's gross financing needs would remain large (about 18 percent of GDP), possibly crowding out private sector credit and posing funding risks. On the positive side, buoyant mineral exports and more stable SACU receipts would stabilize the current account deficit at around 4 percent of GDP, although international reserve coverage would decline as external debt coming due is assumed to be partially redeemed (Table 4). Both fiscal and external accounts will continue to heavily depend on SACU receipts, which remain critical to preserve macroeconomic stability.

Staff Medium-Term Projections (Baseline)1/

(Percent of GDP, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP Growth (annual change)	-0.9	-0.1	-0.2	1.6	2.4	3.2	3.9	3.0
Credit to the Private Sector (annual change)	5.0	7.0	5.3	5.8	6.6	7.6	8.6	8.4
Fiscal Balance	-3.4	-5.4	-5.6	-4.4	-5.5	-5.6	-5.6	-5.7
Revenue	32.0	28.7	28.9	30.8	29.8	30.0	30.0	30.0
Expenditure	35.5	34.1	35.2	36.0	36.0	36.2	36.3	36.4
Additional measures (cumulative)			0.7	0.7	0.7	0.7	0.7	0.7
Fiscal Balance (excluding SACU)	-14.1	-14.4	-14.9	-15.4	-15.2	-15.2	-15.3	-15.3
Primary Balance	-0.5	-2.2	-2.0	-0.7	-1.7	-1.5	-1.4	-1.3
Primary Balance (excluding SACU)	-11.2	-11.1	-11.3	-11.6	-11.4	-11.2	-11.1	-11.0
Gross Financing Needs	16.3	16.7	17.0	17.0	21.1	17.6	16.3	17.8
Public Debt (excl. guarantees)	41.0	45.8	49.2	50.9	51.4	53.0	54.3	56.0
Current Account Balance	-5.0	-2.1	-4.1	-2.3	-3.8	-4.2	-4.2	-4.5
Gross International Reserves (months of imports)	4.2	3.9	4.2	4.5	4.0	3.7	3.5	3.4

1/ Fiscal data refer to fiscal year.

10. Domestic and external downside risks weigh on the outlook. The outlook critically depends on the government's ability to deliver on its FY19/20 fiscal deficit target. If budget plans are not fully implemented, namely no measures are taken this fiscal year, and no adjustment takes place going forward, fiscal and external balances would deteriorate. Public debt would rise faster

than projected under the baseline and approach 60 percent of GDP by the end of the projection period, and international reserve coverage would decline further. These trends could be exacerbated by poor rainy seasons that would negatively affect growth. External risks are also prominent. Consolidation setback could combine with possible declines in SACU revenue if South Africa's growth prospects deteriorate. Moreover, rising protectionist pressures and weaker global growth would negatively affect exports and GDP growth, prompting a deterioration in the external and fiscal accounts and a reduction in international reserves coverage. Similarly, tighter global financial conditions, driven by a possible decline in global risk appetite, could trigger higher financing costs and funding difficulties, particularly through South African markets (Annex II).

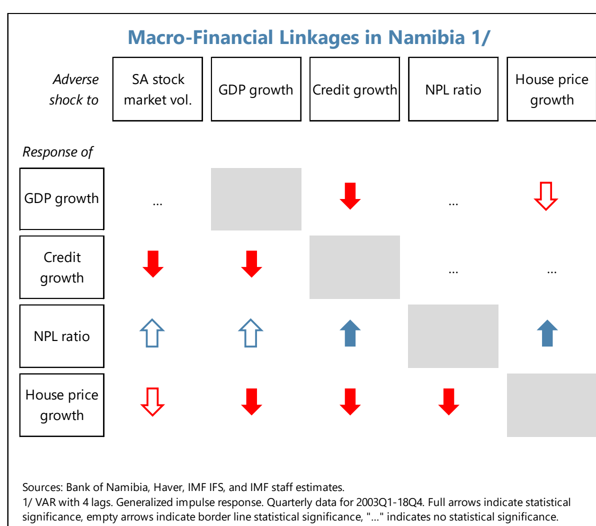
Staff Medium-Term Projections (Scenario with no Fiscal Adjustment)1/

(Percent of GDP, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP Growth (annual change)	-0.9	-0.1	0.0	1.6	2.5	3.2	3.9	3.0
Credit to the Private Sector (annual change)	5.0	7.0	5.5	5.9	6.7	7.6	8.6	8.4
Fiscal Balance	-3.4	-5.4	-6.3	-5.2	-6.3	-6.4	-6.5	-6.6
Revenue	32.0	28.7	28.9	30.8	29.7	29.9	29.9	30.0
Expenditure	35.5	34.1	35.2	35.9	36.0	36.3	36.5	36.6
Fiscal Balance (excluding SACU)	-14.1	-14.4	-15.5	-16.1	-16.0	-16.0	-16.2	-16.3
Primary Balance	-0.5	-2.2	-2.7	-1.3	-2.4	-2.2	-2.1	-2.0
Primary Balance (excluding SACU)	-11.2	-11.1	-11.9	-12.3	-12.1	-11.8	-11.7	-11.6
Gross Financing Needs	16.3	16.7	17.6	17.7	21.8	18.5	17.2	18.7
Public Debt (excl. guarantees)	41.0	45.8	49.7	52.1	53.3	55.6	57.6	59.9
Current Account Balance	-5.0	-2.1	-4.3	-2.6	-4.2	-4.6	-4.6	-4.9
Gross International Reserves (months of imports)	4.2	3.9	4.1	4.3	3.8	3.3	3.1	2.9

1/ Fiscal data refer to fiscal year.

11. Macro-financial feedback loops could intensify the effect of shocks. External shocks and negative developments in South Africa could increase volatility in regional financial markets and tighten domestic banks' funding (e.g., through lower NBFIs' wholesale deposits), causing a deceleration in private sector credit. In turn, lower credit to the private sector could lead to lower growth and further declines in real house price growth and faster NPLs increases. With already elevated household indebtedness and rising NPLs, these developments could further deteriorate banks' asset quality and lower financial intermediation, with adverse feedback effects on growth and the risk that negative expectations amplify negative loopholes.



Sources: Bank of Namibia, Haver, IMF IFS, and IMF staff estimates.
1/ VAR with 4 lags. Generalized impulse response. Quarterly data for 2003Q1-18Q4. Full arrows indicate statistical significance, empty arrows indicate border line statistical significance, "..." indicates no statistical significance.

Authorities' Views

12. The authorities broadly agreed with the medium-term outlook and staff's risks assessment, although they expect growth to be slightly positive in 2019. They stressed that

recent data point to the economy bottoming out, although they concurred that temporarily low mining production and possibly tighter fiscal conditions might weigh on this year growth performance. They agreed that the outlook critically depends on the government delivering its FY19/20 and medium-term fiscal targets. They also noted that external shocks would pose additional pressure on a fragile short-term outlook. To mitigate risks, they intend to fully deliver the FY19/20 fiscal targets.

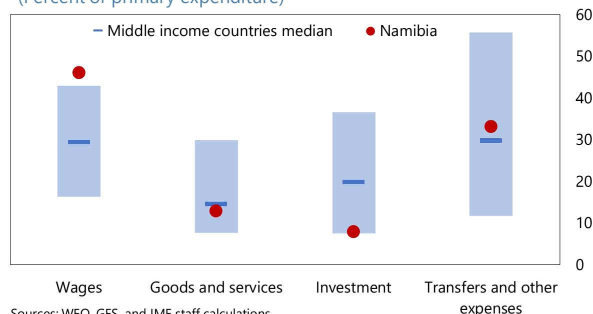
POLICY DISCUSSIONS

Discussions focused on: (i) identifying actions and strategies to credibly deliver the authorities' fiscal adjustment plans to bring public debt to a sustainable path, while supporting long-term development, (ii) pursing reforms to boost productivity, external competitiveness, and long-term growth potential; and (iii) advancing financial sector reforms to better manage macro-financial risks and buttress economic development.

A. Designing and Anchoring Fiscal Adjustment Plans

13. The authorities plan additional fiscal adjustment to stabilize the public debt ratio, but policies to fully deliver the adjustment are yet to be identified. The authorities' budget envisages a pause in fiscal adjustment in FY19/20 and a reduction in the primary fiscal deficit (excluding SACU revenue) of about 2 percent of GDP over the next two years.[8] The authorities expect these plans to stabilize the public debt ratio at around 52 percent of GDP by FY21/22. The budget also provides for reorienting spending toward investment outlays to better support growth. The authorities intend to achieve most of the adjustment and spending reallocations through containing personnel costs and further curbing non-wage recurrent spending. However, policies to contain salary dynamics need to be defined, and the strategy to restructure key extrabudgetary entities and reduce transfers is still under preparation. Moreover, non-wage operational spending is already at historically low levels and further reductions are unlikely to be sustainable.

High Personnel Spending, 2017
(Percent of primary expenditure)



Sources: WEO, GFS, and IMF staff calculations.
Note: Shaded areas exclude top and bottom 10% of the distribution (sample size: 93 countries). Transfers and other expenses are estimated as general government expenses net of expenditures in goods and services, salaries, and interest payments. For Namibia, only transfers are included.

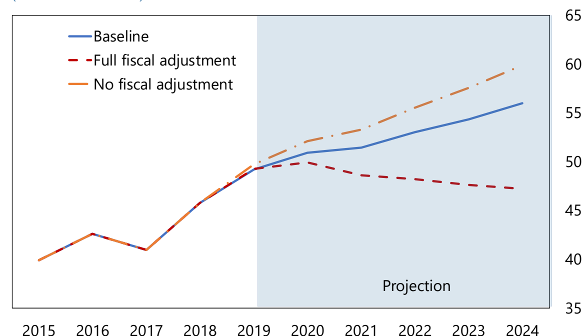
14. Staff estimate that, without additional actions, the FY19/20 fiscal deficit would exceed the budget target, and public debt would continue to rise. Staff expect the FY19/20 fiscal deficit to rise to about 6⅓ percent of GDP as spending pressures from the previous year (e.g., wages, transfers), rising interest payments, and the ongoing drought weigh on this year budget and raise

[8] In the absence of reliable measurements of the cyclically-adjusted fiscal balance, changes in the primary balance, excluding volatile SACU revenue, provides a good approximation of fiscal efforts.

financing risks. Under the baseline scenario, which includes the authorities' commitment to contain the FY19/20 deficit within the budget target and no measures going forward, public debt would gradually rise and approach 56 percent of GDP over the projection period. This outlook is subject to significant risks, particularly from contingent liabilities as the financial situation of some public entities is rapidly deteriorating (Annex III).

15. If the authorities define policies to fully deliver their medium-term adjustment objectives, the public debt ratio would start slowly declining. Under such a scenario, debt would peak at about 50 percent of GDP in 2020 and slowly decline afterwards, remaining below the DSA risk thresholds and broadly in line with the level of similarly rated peers. Authorities' fiscal adjustment objectives would strike a reasonable balance between stabilizing public debt dynamics and supporting the emerging recovery.

Public Debt under Different Scenarios
(Percent of FY GDP)



Sources: MoF and IMF staff estimates.

Staff Medium-Term Projections (Scenario with Full Fiscal Adjustment)1/
(Percent of GDP, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP Growth (annual change)	-0.9	-0.1	-0.2	1.2	2.0	3.1	3.8	3.0
Credit to the Private Sector (annual change)	5.0	7.0	5.3	5.3	6.2	7.5	8.6	8.4
Fiscal Balance	-3.4	-5.4	-5.6	-3.2	-3.5	-3.3	-3.3	-3.1
Revenue	32.0	28.7	28.9	30.9	29.9	30.1	30.1	30.1
Expenditure	35.5	34.1	35.3	36.1	36.1	36.2	36.1	36.0
Additional measures (cumulative)			0.7	2.1	2.9	2.9	2.9	2.9
Fiscal Balance (excluding SACU)	-14.1	-14.4	-14.9	-14.2	-13.2	-13.1	-13.0	-12.9
Primary Balance	-0.5	-2.2	-2.0	0.6	0.3	0.5	0.6	0.7
Primary Balance (excluding SACU)	-11.2	-11.1	-11.3	-10.4	-9.5	-9.3	-9.2	-9.1
Gross Financing Needs	16.3	16.7	17.0	15.8	19.1	15.4	13.9	15.2
Public Debt (excl. guarantees)	41.0	45.8	49.3	49.9	48.6	48.2	47.6	47.2
Current Account Balance	-5.0	-2.1	-4.1	-1.7	-2.7	-3.0	-2.9	-3.2
Gross International Reserves (months of imports)	4.2	3.9	4.2	4.7	4.5	4.4	4.6	4.8

1/ Fiscal data refer to fiscal year.

16. Immediate measures and strategic decisions are needed to strengthen the fiscal framework and stabilize public debt dynamics, while supporting long-term growth. The authorities should identify measures to contain the FY19/20 fiscal deficit within the budget target and deliver the adjustment objectives planned for the next two years, as well as develop a well-balanced debt management strategy.

- In the short-term, an additional ¾–1 percent of GDP in measures is needed to broadly attain the FY19/20 fiscal deficit target. The additional adjustment would also help maintain financing needs closer to the level of past years.[9]

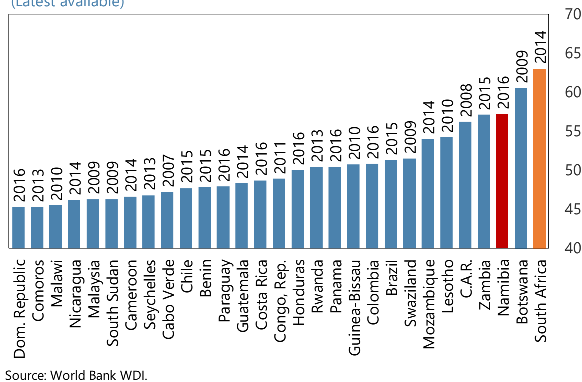
[9] Government's FY19/20 financing needs would remain around 16–17 percent of GDP. In line with past years, the authorities intend to cover these needs through a combination of multilateral loans and domestic financing.

- For the next two years, a combination of long-lasting reductions in key spending items and selected revenue increases could deliver the planned additional adjustment of 2 percent of GDP, while enhancing the long-term growth prospects of the economy. Staff discussed a menu of measures, including: (i) continuing the authorities' policy of limiting new hires and containing salary indexation over the current and the next two years and apply these policies to all public entities;[10] (ii) reforming and rationalizing the functions of key public entities and enterprises to reduce their burden on the budget; and, (iii) improving the efficiency of social spending by implementing spending reviews particularly in the education and health sectors. On the revenue side, measures should focus on creating a level-playing field for private investors and expanding tax bases, by eliminating special tax regimes, reducing exemptions (e.g., corporate income tax, VAT), and eliminating tax loopholes. Staff also discussed design options for some of these policies that could limit their short-term adverse effects on growth (e.g., reducing the impact on low-income and cash-constrained households).
- In the context of still inadequate international reserves, the government's debt strategy should better balance the management of upcoming external debt maturities with the need to preserve adequate international reserves and contain government's gross financing needs.

Over time, these measures would help better align wage dynamics in the economy to productivity trends; moreover, they will improve service efficiency and the cost of key utility services, with positive effects on productivity, external competitiveness, and long-term growth.

17. The adjustment should be accompanied by measures to mitigate the effects on low-income households and strengthen the redistributive capacity of fiscal policy. Fiscal policy plays an important role in reducing poverty and inequality, particularly through cash transfers programs but their effectiveness has been recently declining (Annex IV).[11] While much of the improvement will need to come from stronger growth and the creation of quality jobs, there is room to adopt well-targeted policies to reduce the adverse effects on the poor from the needed fiscal adjustment (Figure 6). The most effective policy options include: (i) broadening the coverage of children grants; (ii) improving the targeting of existing housing programs, some of which are regressive; and, (iii) increasing the progressivity of the personal income tax.

Countries with Highest Income Inequality
(Latest available)



Source: World Bank WDI.

[10] For an analysis of public wage bill dynamics in Namibia and the SACU region, see IMF Country Report 18/56.

[11] Fiscal policy is estimated to reduce headcount poverty by about 3 percentage points, and the Gini coefficient by about 3 points.

18. The success of government's consolidation efforts depends on the ability to rationalize extra-budgetary entities and public enterprises and manage risks from off-budget operations.

- *Extra-budgetary entities and public enterprises (PE)* deliver essential services and operate in sectors key to the development of the country (e.g. electricity, transportation). However, they often provide costly production inputs and, with a few exceptions, represent a significant burden for the budget (about 9½ percent of GDP per year) and a source of fiscal risks for the government (Annex III). Aware of these challenges, the authorities have begun reforming the medical aid scheme for public employees, have recently adopted a new governance structure for the sector, and plan to facilitate private sector participation in key network industries by partially re-privatizing a telecoms operator and further liberalizing the electricity market. However additional reform efforts are needed to enhance the efficiency of public services and support private sector activity, while contributing to fiscal adjustment. Reforms should focus on: (i) fast-tracking turnaround plans for key loss-making enterprises (e.g., Air Namibia, TransNamib); (ii) reviewing the cost structure of all entities and enforcing limits on fast-rising wage costs; (iii) separating commercial and social activities of PE, limiting transfers to the latter, and reviewing service tariffs where needed (e.g., NamWater); (iv) reviewing the mandate of all entities and enterprises, retaining only those for which a rationale for public intervention exists; and, (iv) enforcing a stronger accountability framework (e.g., board appointments, borrowing and taxation powers, publication of financial statements);

- *Fiscal risks and off-budget operations.* The authorities have recently introduced several initiatives to support infrastructure investment through off-budget financing, including public-public partnerships (PPP), PE's investment financing, and the state-owned development bank. If not properly managed, off-budget financing of public projects may weaken the transparency of fiscal accounts, undermine public entities' balance sheets and create contingent liabilities that could derail consolidation efforts. To manage and control these risks, it is critical to further develop the fiscal risks framework, publish a risks statement, and widen the coverage of fiscal accounts beyond the central government.

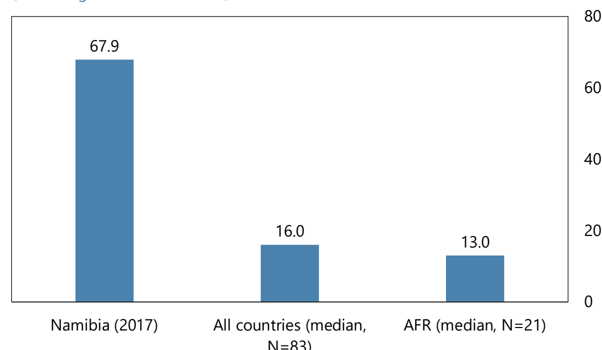
19. Implementing the authorities' adjustment plans requires fiscal reforms to strengthen public financial management and revenue administration.

- *Public financial management (PFM).* Recent spending overruns highlight the need to improve PFM systems. In the near-term, accelerating the adoption of a new information system and a chart of accounts is critical to strengthen budget preparation and execution processes, improve fiscal reporting, and help better manage tight budgets. Finalizing the long-outstanding PFM bill and amendments to the State Finance Act would provide a framework to guide further medium-term reforms. Finally, the full implementation of the 2015 Public Procurement Act regulations, and the extension of new procurement rules to all public entities should be fast tracked. The new rules should focus on delivering

value-for-money and not be used to pursue broad developmental objectives that would complicate procurement processes and reduce opportunities for cost savings.[12]

- *Revenue administration.* A recent decline in tax collection efficiency points to the need and room to improve revenue administration.[13] Aware of the issues, the authorities have recently rolled out an integrated tax system to automate internal processes, and plan to create a semi-autonomous revenue authority by late 2019. However, reaping the benefits of such changes takes time and, in the interim, it is particularly important to strengthen the capacity of the administration to conduct in-house audits of large taxpayers and develop risk-based audit and enforcement collection programs. A simplified tax regime for small taxpayers could help reduce the compliance and administrative burden. Finally, the authorities should prioritize the collection of tax arrears and avoid tax amnesties that would undermine tax compliance.

High Uncollected Tax Arrears, 2015
(Percentage on tax collections)



Source: International Survey on Revenue Administration.

20. As the government consolidates, the BoN should keep the policy rate broadly in line with the SARB's rate and maintain the peg. The peg with the South African rand has so far served Namibia reasonably well, providing an effective nominal anchor, keeping inflation low, and lowering transaction costs.[14] Within the context of the currency peg, the BoN has been able to tailor, to some extent, the policy rate to better fit the cyclical position of the economy. At times, however, given the rand variability, the peg has implied exchange rate volatility, possibly hampering the development of non-mining export-led activities, particularly by smaller investors. To preserve competitiveness and flexibility, as well as exchange rate alignment to fundamentals, it is critical, in the context of the peg, to maintain fiscal discipline, address structural rigidities, and foster factors mobility.

Authorities' Views

21. The authorities noted their commitment to take all necessary measures to deliver the FY19/20 fiscal deficit target. They will continue implementing wage cost-reducing policies, contain

[12] Under the 2015 Act, the authorities are expected to issue regulations on exclusive bidding for local producers and have recently published directives giving preference to local suppliers for a large set of goods and services.

[13] A recent international assessment identified several important weaknesses in revenue administration, including: inadequate data integrity, absence of well-documented processes and procedures, lack of service delivery standards, and limited control over taxpayer compliance.

[14] For an assessment of the peg regime, see Bank of Namibia, Annual Report, 2015.

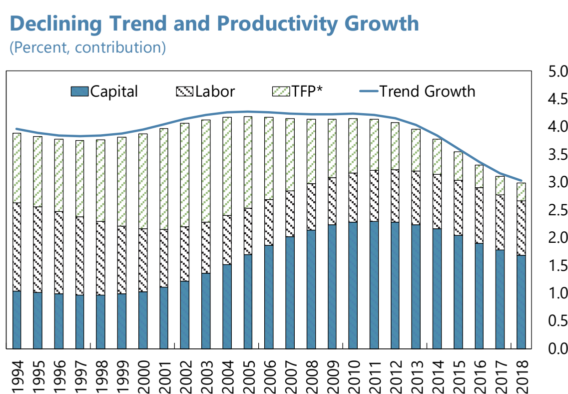
the execution of non-essential recurrent and capital spending and, if needed, implement revenue measures.

22. They reiterated their commitment to gradual fiscal consolidation and are considering various policy options to deliver the fiscal adjustment planned for the next two years. They noted that a gradual adjustment is needed to reduce the negative impact on the incipient recovery. They intend to restrain remuneration increases and hires throughout the entire public sector and reform public enterprises and entities. However, they noted that hiring pressures, particularly in the health sector need to be accommodated over time and that PE's restructuring strategies will need to be implemented gradually. In addition, next year, the authorities intend to introduce measures to broaden the tax bases and close loopholes (e.g., corporate income taxation, VAT), increase sin taxes, and strengthen tax arrears recovery. To protect the poor, they have recently increased old age grants and plan to better target the main cash transfers. To avoid derailing adjustment plans, they have also developed, with Fund's assistance, a fiscal risks framework and intend to publish a fiscal risks statement. On procurement, the authorities reiterated their commitment to use procurement rules to empower local suppliers and producers without significantly compromising savings.

B. Pursuing Supply-Side Reforms to Boost Long-Term Growth

23. Structural impediments are limiting productivity growth, reducing competitiveness, and hindering the long-term growth potential of the economy. Since the early 2000s, capital formation has proceeded at a blistering pace, concentrated in the mining, manufacturing, and transportation sectors, but total factor productivity growth (TFP) has been falling and is now at the lowest level since independence.[15] As a reflection, the country's ranking in competitiveness and regulatory indicators has declined, held back by, among others, weaknesses in the business and regulatory environment, the lack of a well-educated labor force, and limited ability to adopt new technologies (Figure 7). At the same time, both the contribution of exports to growth and the country's market shares of non-mining exports have declined as competitiveness has been dented by high and increasing labor costs, high production inputs (e.g., electricity) and logistics costs, and a plethora of non-tariff barriers, both in Namibia and in the region (e.g., rules of origin, import bans) (Figure 8). Together with a general uncertainty about the regulatory environment, these factors have deepened the recent slowdown and are negatively affecting the long-term potential of the economy.

Declining Trend and Productivity Growth
(Percent, contribution)



Sources: NSA, Penn World Table, and IMF staff estimates.
Note: Production function approach used with capital share that equals to 42% is applied.

[15] Over the last decade, on average manufacturing, transportation, and government services sectors accounted for about 40–50 percent of gross fixed capital formation, and mining activities for about 20 percent.

24. The authorities' policies to support investment, particularly in the manufacturing sector, have been unable to boost productivity and competitiveness and a review is underway. The tax-free export processing zones and tax incentives for manufacturers have had limited impact on export diversification and the manufacturing industries and are being phased out. The 2016 Investment Promotion Act is under review to remove unintended impediments to investment. Overall, awareness is rising that reforms are needed to remove impediments to productivity and foster a stronger export-led growth.

25. There is significant room to undertake supply-side reforms to strengthen productivity, competitiveness, and long-term growth, while preserving macroeconomic stability (Annexes V–VI). Some of the near-term reforms would support fiscal consolidation efforts, others would need to be developed over time. To work, reforms ought to reduce regulatory uncertainties and balance demands for citizens' empowerment with competitiveness objectives. Among others, reforms are needed to:

- *Improve product market regulations and business conditions.* Removing the causes contributing to high electricity and transportation costs, including by reforming PE operating in these sectors, and prioritizing investment in trade-supportive infrastructure, would lower production and trade costs and bolster productivity and competitiveness. Moreover, streamlining business regulations (e.g., starting businesses, lowering regulatory compliance costs), reviewing regulations hampering competition in domestic markets and delaying public procurement (e.g., preferential procurement rules), and reducing obstacles to exports, particularly logistics and non-tariff costs (e.g., quotas, imports bans, customs procedures, SACU-related restrictions) would help foster private sector and export-led growth.

- *Establish a well-structured-salary policy for the public sector.* Containing growth in public sector wages would help reduce the disconnect with the economy's productivity trends, and improve external competitiveness, while contributing to fiscal adjustment.

- *Foster technological readiness.* Strengthening the capacity to adopt new technologies is one of the most promising ways to increase productivity growth in Namibia. This requires policies to promote e-services, increase the speed and affordability of broadband services, advance ICT literary and digital skills.

- *Invest in human capital and reduce skill mismatches.* Shortages of skills is one of the main obstacles to development in Namibia. Ameliorating the availability of skills would increase potential growth and the capacity of the economy to absorb a rising labor force. This requires, in the short-term, increasing labor permits for skilled workers and, over time, improving access and quality of secondary and tertiary education and the efficiency of public education spending, and enhancing vocational and on-the-job training programs.

26. The potential gains from removing key structural impediments to growth would likely be large (Annex V).[16] Structural reforms would help Namibia's productivity growth to catch up with emerging market economies. In the process, growth could increase by about 1¾ percentage points per year if, for example, Namibia closes half of the gap with emerging market economies in the regulatory quality, product market efficiency, and the capacity to adopt new technologies.

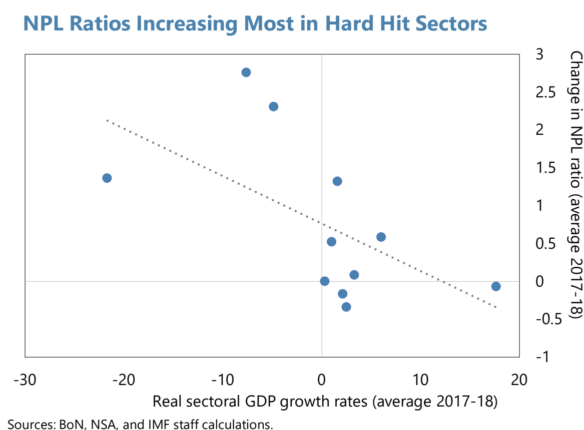
Authorities' Views

27. The authorities consider supply-side reforms and fiscal adjustment policies the pillars to preserve macroeconomic stability and boost long-term growth. They believe that a few measures will bear immediate fruit, including establishing the national single window facility and finalizing the review of the Investment Promotion Act. They also intend to encourage private sector participation in the electricity sector by modifying the current single buyer model, and in the telecommunications sector by partially re-privatizing a telecoms provider. They noted, however, that preference provisions in public procurement procedures are needed to improve the productive capacity of the economy and develop an industrial basis. Finally, they have recently appointed a high-level panel of experts to provide advice on ways to accelerate economic recovery and employment creation.

C. Managing Macro-Financial Risks and Fostering Economic Development

28. The economic slowdown has affected the financial sector, although the impact is so far contained. The banking sector (assets about 70 percent of GDP) remains well capitalized and liquidity indicators have recently improved. Excess liquidity has, however, been largely invested in government securities, increasing banks' exposures to sovereign risk. With the economy contracting, banks' asset quality has deteriorated. NPLs have more than doubled over the last two years, particularly in the sectors most affected by the economic contraction (Figure 9).[17] With the financial cycle lagging real sector developments, NPLs are likely to remain on a rising path and continue weighing on banks' profitability and asset quality. Negative feedback loops could further amplify these effects. The performance in the large NBFI sector, comprising a fully-funded pension fund and insurance companies (assets about 150 percent of GDP)

NPL Ratios Increasing Most in Hard Hit Sectors



Sources: BoN, NSA, and IMF staff calculations.

[16] Staff analysis of potential gains from structural reforms relies on third party indicators that should be interpreted with caution due to their perception-based nature, lack of international standards in the methodology for each indicator, and uncertainty around the representativeness of survey samples.

[17] The NPLs figures likely overstate asset quality in the banking sector due to misclassification issues unveiled in 2017. The BoN has recently issued new directives to address these issues.

remained positive. The solvency levels exceeded regulatory requirements, amid a decline in funding levels and excess assets.

29. With the economy still rebalancing, the negative economic cycle could amplify macro-financial risks arising from the structural vulnerabilities of the financial sector. As emphasized in the 2018 FSSA, it is important to monitor and manage such risks, including:

- *Banking sectors' concentration risks.* Banks' highly concentrated loan books and their reliance on wholesale deposits point to significant liquidity, and counterparty and asset-class concentration risks. Regarding liquidity risks, the BoN's latest stress tests indicate that the banking sector can withstand liquidity shortfalls with serious limitations only arising in the case of severe shocks.[18]

- *Private sector indebtedness.* Corporate and household leverage is elevated and comparable to levels prevailing in advanced economies. This notwithstanding, domestic banks' exposures to corporations is limited and corporates' foreign exposures appear largely concentrated in the naturally hedged mining sector, containing risks. However, elevated household indebtedness, combined with banks' large exposure to residential mortgages, raises concerns about banks' resilience to households' vulnerabilities, especially with depressed real income growth and an estimated house price overvaluation still around 8 percent. A forward-looking stress tests analysis, allowing for changes in banks' credit risks and credit growth in response to the macroeconomic environment, suggests that banks' balance sheets are resilient to a more than a full correction in the house price overvaluation and a doubling in NPLs.

Residential House Price Overvaluation

	Dec-18	Jun-17	Jun-16	Sep-14
Regression Analysis	9.5	10.9	22.2	19.8
Price to Income	6.5	9.2	12.6	18.0
Price to Rent	8.9	10.2	13.5	17.0
Average	8.3	10.1	16.1	18.3

Sources: BoN and IMF staff estimates.

- *Interconnections among financial institutions.* Asset managers and money market funds account for about a quarter of banks' deposits and have significant foreign investments, exposing the banking system to external risks. Given the significant role played by asset management companies and money market funds (about 170 percent of banks' assets), these interconnections create potentially large contagious risk channels and need to be monitored (Annex VII).[19]

- *Sovereign-financial sector nexus.* Over the past few years, the financial sector's exposure to the sovereign have risen substantially, as government's high financing needs coincided with increases in domestic asset requirements for institutional investors. The domestic financial

[18] See the April 2019 Namibia Financial Stability Report.

[19] IMF Country Report 16/376.

sector holds most of government's domestic debt, about 13 percent of the sector's assets (Annex VII).

30. The authorities have taken some actions to manage key vulnerabilities and implement the 2018 FSSA's recommendations, but progress in some areas has been slow (Annex VIII).[20]

- *Financial sector oversight framework and NBFI regulation and supervision.* The oversight framework of the financial sector needs a significant overhaul and some legislative changes have been recently approved.[21] However, major bills upgrading the regulatory framework for the NBFI sector, including the NAMFISA and the Financial Institutions and Market (FIM) bills, have not been approved yet. The passage of these bills should be prioritized as they address significant gaps in the current regulations of NBFIs and would allow NAMFISA to strengthen the oversight of the sector. At the same time, NAMFISA should revive efforts to introduce risk-based supervision.

- *Banking sector oversight.* The BoN has continued improving its supervisory regime.[22] However, important shortcomings remain. Following on the recent directives to clear loan classification issues, the BoN should stand ready to take supervisory actions to support the directives implementation and continue monitoring the valuation of collateral. Given banks' liquidity risks, the authorities should accelerate steps to remove obstacles to the adoption of the Basel III liquidity framework, such as eliminating differential tax and regulatory treatments across deposit-taking institutions and introducing a centralized securities depository.

- *Macroprudential policy framework.* The amended BoN Act would give an explicit macroprudential mandate to the BoN, addressing a key shortcoming in the oversight of the financial sector. To operationalize the new macroprudential framework, the authorities should strengthen the coordination between the BoN, NAMFISA and the Ministry of Finance (MoF), including through the creation of the planned Financial Stability Committee. The macroprudential toolkit should also be expanded to include debt service-to-income (DSTI) limits and other tools to help curb risks from highly leveraged households.

- *Crisis preparedness and management framework*. The recent approval of a deposit guarantee scheme is a first step toward creating an effective crisis management framework. Additional actions include: granting BoN and NAMFISA full resolution powers of financial institutions; requiring banks to submit recovery and resolution plans; operationalizing emergency

[20] IMF Country Report 18/66 (2018 FSSA).

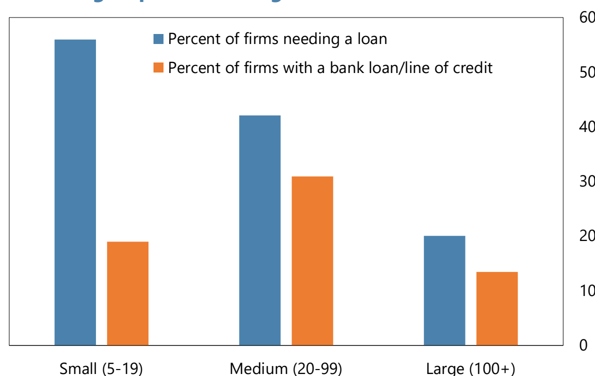
[21] The Deposit Insurance and the Microlending Acts have been recently approved. Amendments to the BoN Act, strengthening the independence and assigning to the BoN an explicit macroprudential mandate, are expected to be effective this year.

[22] The BoN, has recently aligned individual concentration limits with best international practices and plan to introduce behavioral adjustments to the liquidity regime in 2019.

lending assistance; and strengthening cooperation with the SARB on resolution planning of large groups.

31. The financial sector can play a key role to foster further financial inclusion and support economic growth. Although levels of financial inclusion compare favorably to other upper-middle income countries and have recently improved, access to credit is limited, particularly for SME.[23] Moreover, credit is concentrated in households' mortgages and on corporations operating in the non-tradable sectors, thus having limited effects on long-term growth dynamics. Enhancing credit allocation towards more productive sectors would support stronger growth. An improved credit information system, a secured transaction framework for movable assets, and a modernized solvency regime would facilitate financial access for SMEs. At the same time, reassessing the mandate of the poorly performing state-owned financial institutions, particularly in housing and agriculture, would help strengthen further the developmental role of the financial sector.

Financing Gap Remains High for Small Firms



Source: World Bank Enterprise Survey (2014).

Authorities' Views

32. The authorities acknowledged the rising risks and emphasized that large capital buffers allow banks to withstand significant increases in NPLs. They noted that structural impediments (e.g., banks reliance of wholesale deposits, absence of adequate high-quality liquid assets) are delaying the adoption of the Basel III liquidity framework. In the context of the BoN's new macroprudential mandate, they intend to strengthen the cooperation framework with NAMFISA and the MoF and will assess the opportunity to introduce new macroprudential tools at a later stage. They also noted that a special resolution regime for the BoN will be included in the planned revisions to the Banking Institution Act. Finally, the authorities recognized that delays in enacting key legislation is upholding the overhaul of the oversight framework of the sector, particularly for NBFIs. To accelerate the process, they intend to table key bills, including the NAMFISA and NBFI bills, in the coming months.

OTHER ISSUES

33. Improving capacity in the public sector will be important to support the authorities' policy efforts. A medium-term strategy has been developed, in consultation with the authorities, to integrate surveillance priorities with the Funds' capacity development activities focusing on: improving PFM systems and fiscal risks management, creating a new revenue authority, supporting

[23] According to the 2017 Global Findex Survey, 80 percent of adults had bank accounts, but only 9 percent borrowed from financial institutions, while in recent years SME credit has on average declined below 1 percent of GDP.

the implementation of the 2018 FSSA's recommendations, and strengthening economic statistics (Appendix I).

34. Statistical data are broadly adequate for surveillance purposes, although further improvements, particularly in the fiscal and national accounts, would be welcomed. Amongst others, the coverage of fiscal accounts should be expanded, producer price statistics produced, and the consistency of external sector statistics improved (Informational Annex).

STAFF APPRAISAL

35. Namibia's economy is rebalancing, but significant challenges remain. After a period of exceptional growth and rising macroeconomic imbalances, public debt remains on a rising path, international reserves below adequate levels, and growth has come to a halt. Years of strong growth masked slowing productivity and declining external competitiveness, hindering growth prospects, while income inequality and unemployment have remained high.

36. The authorities' fiscal consolidation objectives strike an appropriate balance between stabilizing public debt and supporting the economy, but actions are needed to deliver this outcome. In the short term, staff assess that an additional ¾–1 percent of GDP in measures is required to contain the FY19/20 fiscal deficit within the budget target. Policies to deliver the adjustment planned for the next two years (about 2 percent of GDP) also need to be fully defined.

37. Policies should combine spending reductions and selected revenue increases that can enhance the long-term growth prospects of the economy, while protecting the poor. Measures should include: continuing the authorities' policy of containing salary indexation and new hires, applying the policy to all public entities; rationalizing transfers to public entities and enterprises; and, expanding tax bases by reducing exemptions and special tax regimes. Over time, these policies would help bring wage dynamics closer to the productivity trends, improve service delivery, and create a level-playing field for private investors, with positive effects on external competitiveness and long-term growth. Widening the coverage of children's grants, better targeting of housing programs, and a more progressive personal income tax would help protect the poor and strengthen the distributive role of fiscal policies. In this context, the BoN should keep the policy rate broadly in line with the SARB's rate and maintain the peg.

38. Fiscal reforms are essential for the success of the authorities' adjustment plans. Rationalizing public enterprises and extrabudgetary entities, strengthening revenue administration, and improving budget and expenditure controls are critical steps to deliver the planned fiscal adjustment. To strengthen the credibility of the fiscal adjustment plans and reduce risks, it also important to control off-budget financing of investment projects, develop a fiscal risks framework, and publish a risks statement. In consultation with the authorities, a Fund's medium-term capacity development strategy has been developed to support improvements in some of these areas.

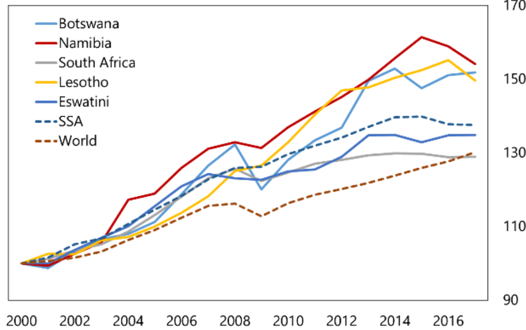
39. Accelerating structural reforms would boost productivity and competitiveness and long-term growth, while supporting the fiscal adjustment strategy. Structural reforms should focus on reducing policy uncertainty and removing existing obstacles to stronger and more inclusive growth. Reforms should aim to: streamline business regulations (e.g., lowering regulatory compliance costs); reduce the high electricity and transportation costs (e.g., reforming public enterprises operating in these sectors); contain public sector salary dynamics to better align productivity and wage dynamics in the economy; and, avoid regulations hampering domestic competition (e.g., preferential procurement rules). Over time, it is important to reduce non-tariff obstacles to exports (e.g., quotas, imports ban, SACU-related restrictions); address shortages of well-educated and skilled workers through better access and quality of higher education, vocational and on-the-job training programs; and foster the adoption of new technologies (e.g., better broadband services). The potential gains from improvements in the above areas could be large.

40. Actions are needed to further strengthen the oversight of the financial sector, particularly of the large non-bank financial industry. Despite a recent increase in NPLs, the financial sector remains sound. However, with a large non-bank financial industry, planned legislative changes to address existing regulatory gaps in the industry (e.g., NAMFISA, Financial Institutions and Market bills) should be adopted expeditiously, while reviving efforts to introduce risk-based supervision. With the BoN set to have an explicit macroprudential mandate to regulate a deeply interconnected financial sector, the coordination framework between the BoN, NAMFISA and the Ministry of Finance should be strengthened, including through the creation of the planned Financial Stability Committee. Complementing the macroprudential toolkit with DSTI limits and other macroprudential measures would better manage risks from the highly leveraged private sector. Finally, efforts to develop a full crisis management and resolution framework should be stepped up, including by granting BoN and NAMFISA full resolution powers of financial institutions, and operationalizing emergency lending assistance.

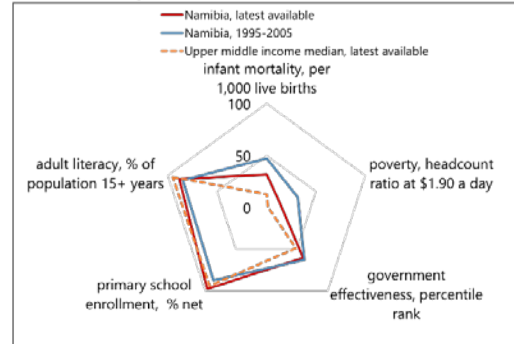
41. Staff proposes that the next article IV consultation with Namibia takes place on the standard 12-month cycle.

Figure 1. Namibia: Improved Living Standards and Strong Governance, yet High Inequality and Persistent Unemployment

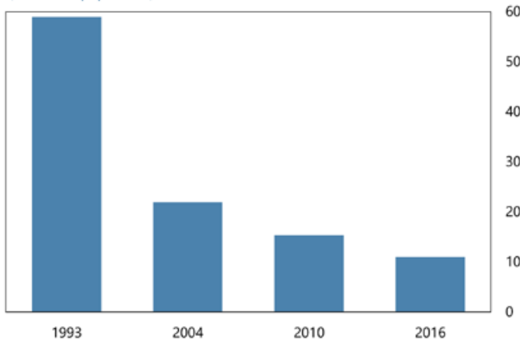
Over the past decades, Namibia's per capita income has been increasing and outperforming countries in the region…



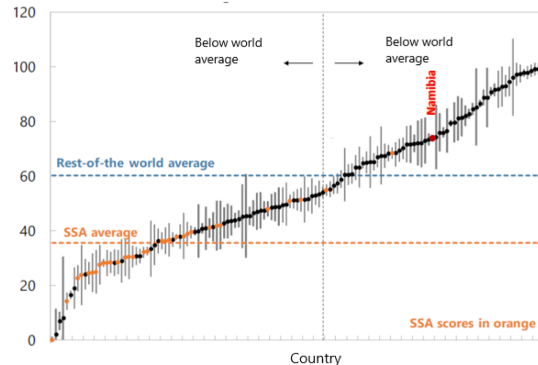
… resulting in improved living standards…



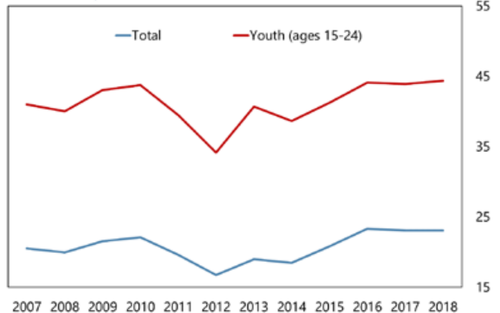
…and lower poverty.



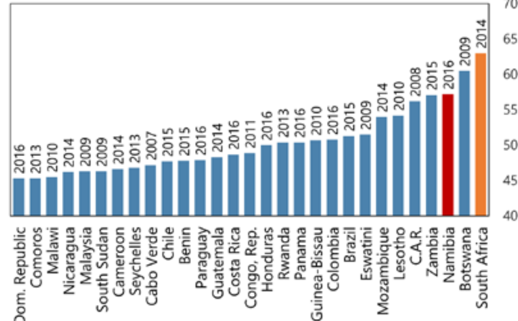
Strong institutional and governance frameworks underpinned social and economic progress



Yet, unemployment remains persistently high, particularly among youth, and…



…income inequality, although declining is one of the highest in the world.

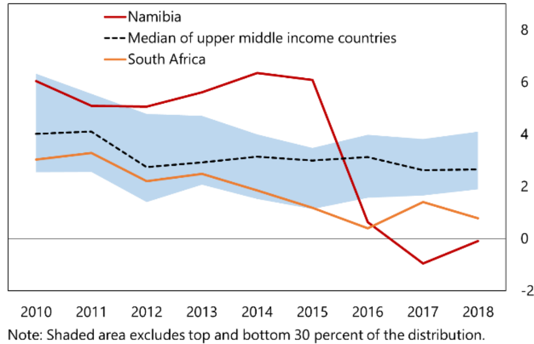


Sources: Namibia Statistics Agency, Bank of Namibia, ILO, World Bank WDI, Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank) 2017, PRS Group: Intertional Country Risk Guide (ICRG), and IMF staff calculations.

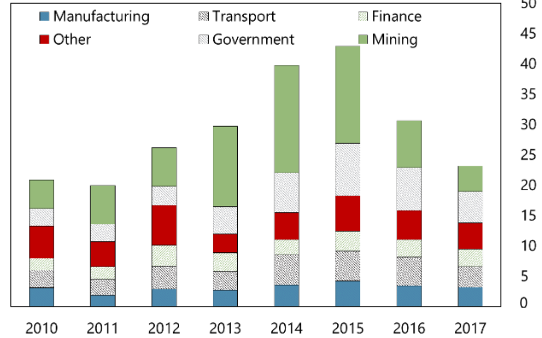
1/ Refers to the governance sub-component from International Country Risk Guide (ICRG)'s political risk index. Higher value indicates lower risk.

Figure 2. Namibia: An Economy Rebalancing

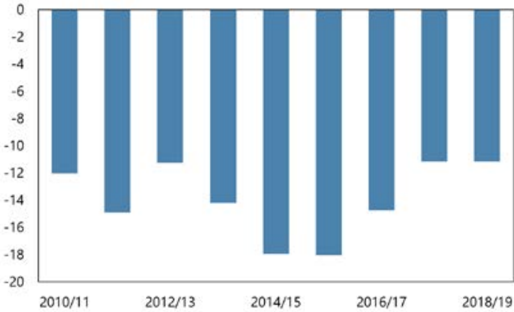
After years of growth performance exceeding peers, the economy decelerated and started contracting …



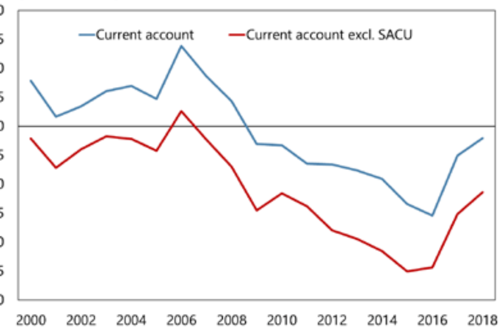
…as the temporary stimulus from the construction of large mines dissipated, and…



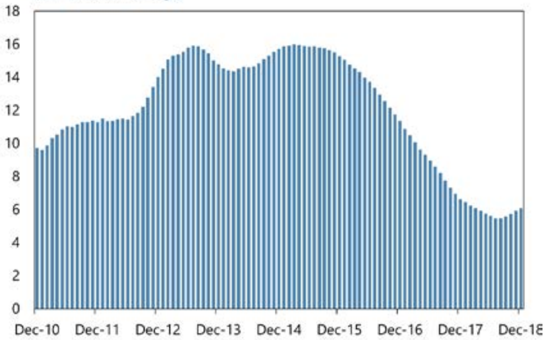
…the government began consolidating.



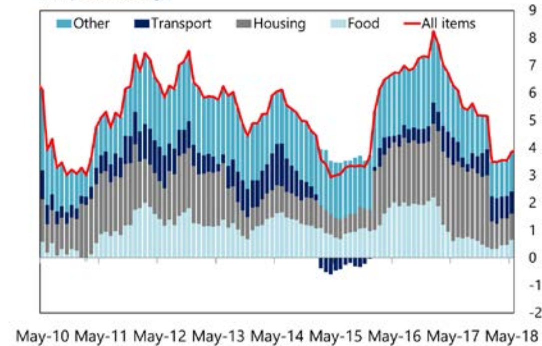
Recent developments triggered a rebalancing process: the current account deficit sharply narrowed….



…and growth in credit to the private sector decelerated, …



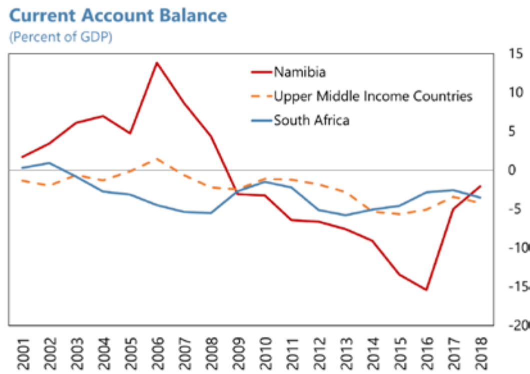
… contributing to lower inflation.



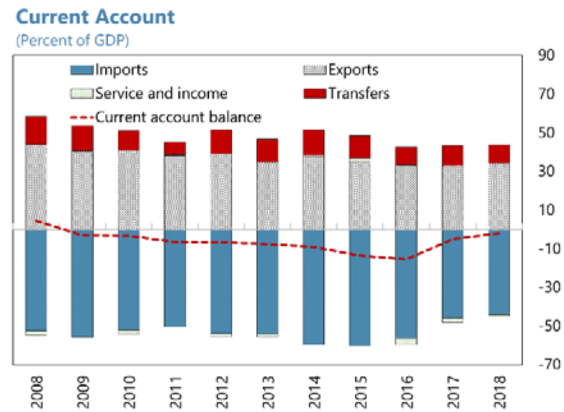
Sources: Namibia Statistics Agency, Bank of Namibia, Ministry of Finance, and IMF staff calculations.

Figure 3. Namibia: A Sharp External Adjustment, yet Lingering Vulnerabilities

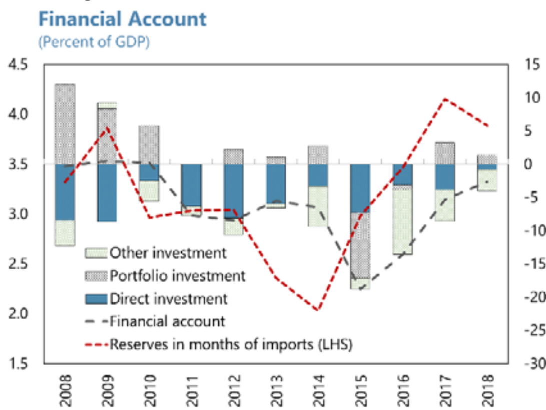
With the economy contracting, the current account deficit has abruptly narrowed…



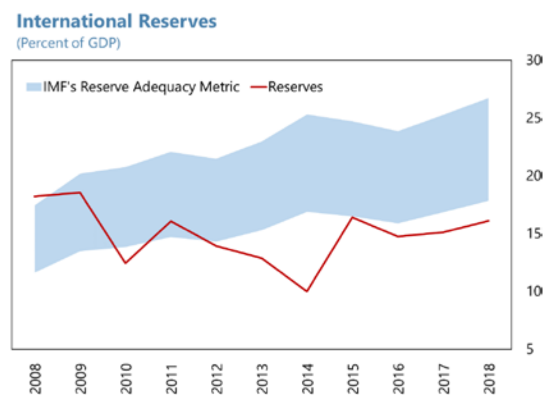
…as the trade deficit halved, reflecting both a sharp compression in imports and rising exports, from newly completed mines…



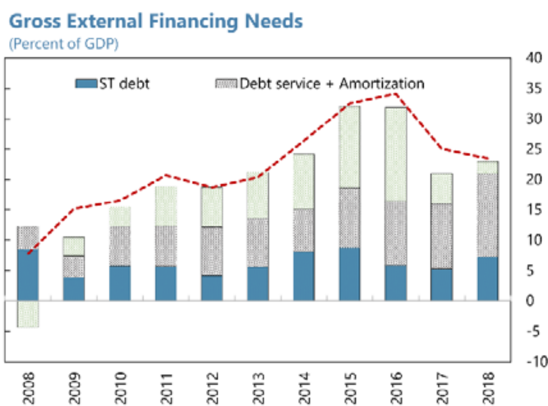
Better current account and government's external borrowing boosted international reserves …



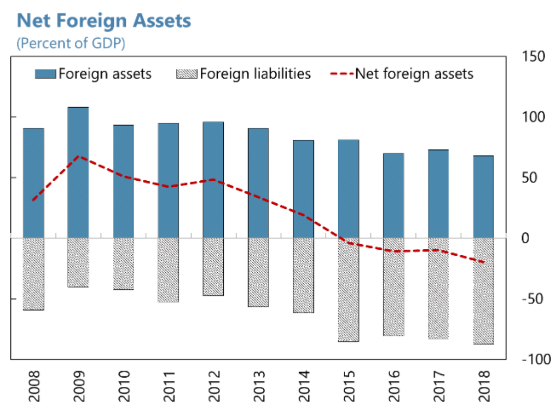
… although they remain below adequate levels.



However, external gross financing needs remain elevated, and…



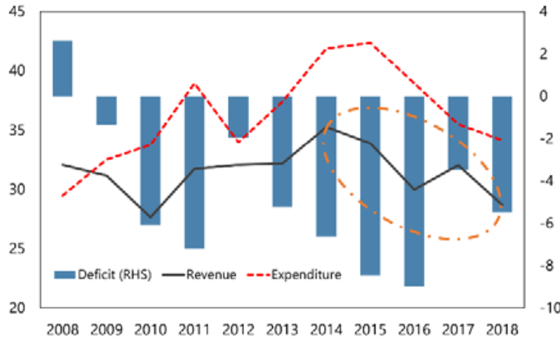
… the net international investment position is on a declining path.



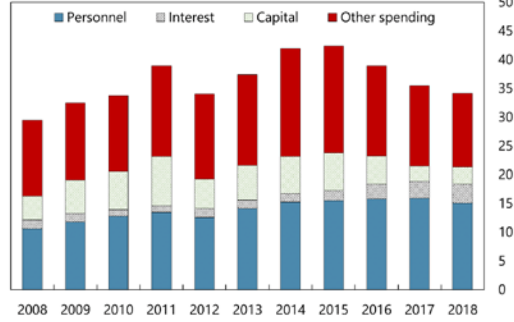
Sources: Bank of Namibia, Namibia Statistics Agency, and IMF staff calculations.

Figure 4. Namibia: Fiscal Consolidation Against Headwinds and Public Debt Still Rising

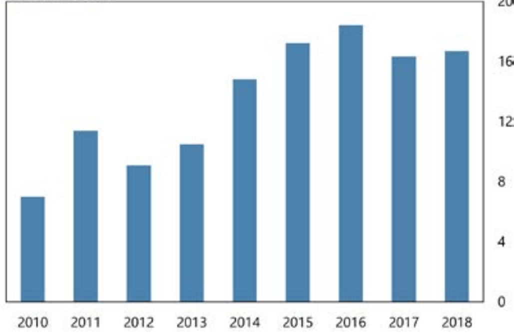
Over the last two years, the government has achieved significant consolidation, despite revenue headwinds, …



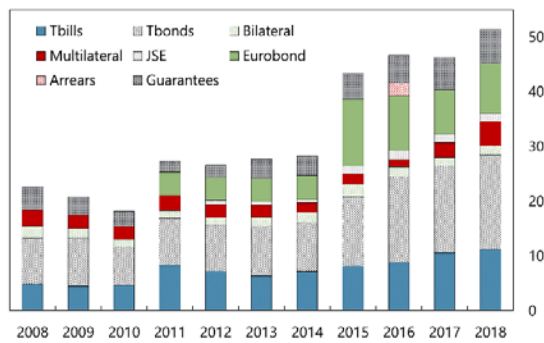
…mostly through large reductions in non-wage recurrent spending and capital outlays.



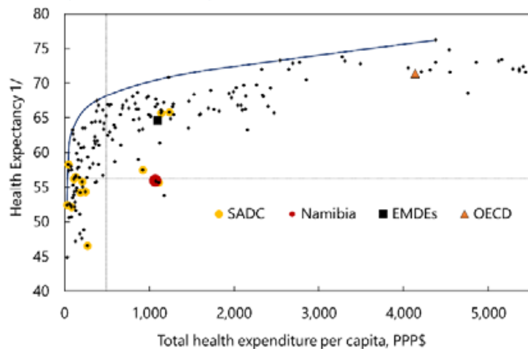
Yet, with still large deficit and debt maturities, government's gross financing needs remained elevated…



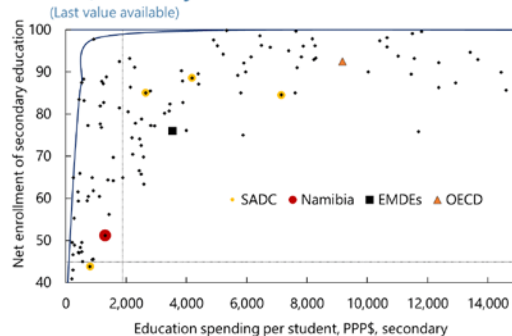
…and, the public debt ratio continued rising.



While significant spending inefficiencies remain, particularly in the health and …



…education sectors.

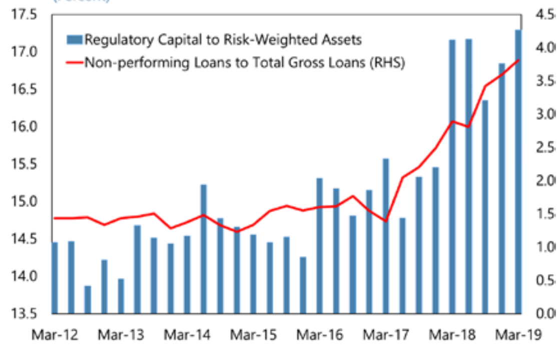


Sources: Bank of Namibia, NAMFISA, Ministry of Finance, World Bank World Development Indicators, and IMF staff calculations.

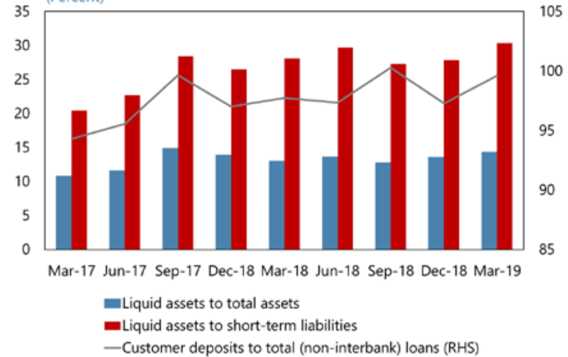
1/ Healthy life expectancy is a measure of health expectancy that applies disability weights to compute years of life expected.

Figure 5. Namibia: Resilient Banking Sector and Decelerating Credit

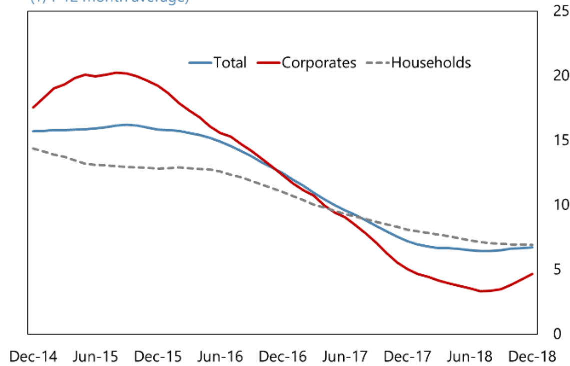
The weak economy started weighing on banks' asset quality, but banks remain well capitalized, ….



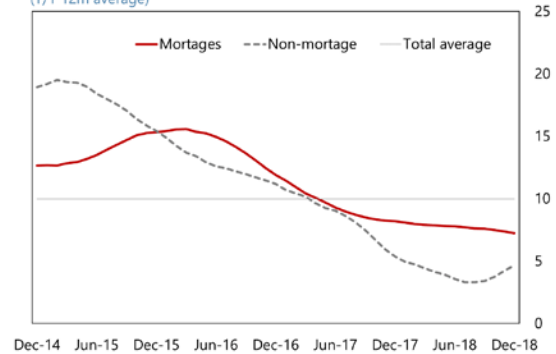
…and liquidity buffers recently improved.



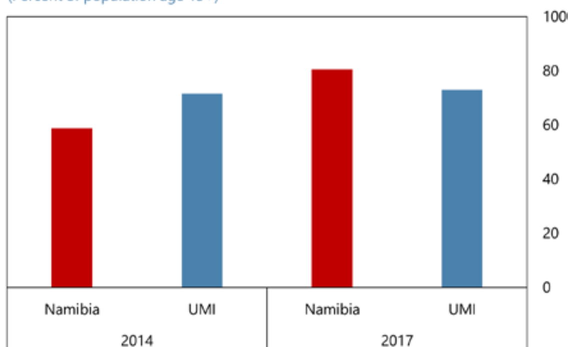
Private sector credit growth, particularly to businesses has been decelerating…



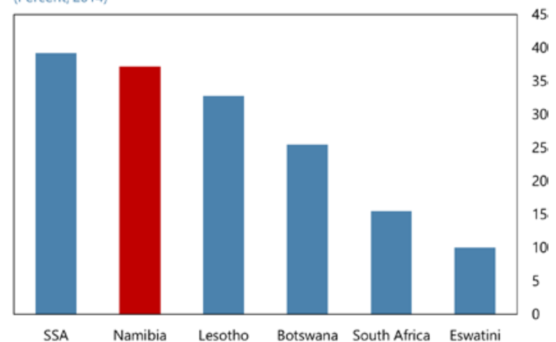
…with growth in both mortgage and non-mortgage loans declining.



Financial inclusion compares well to peers…



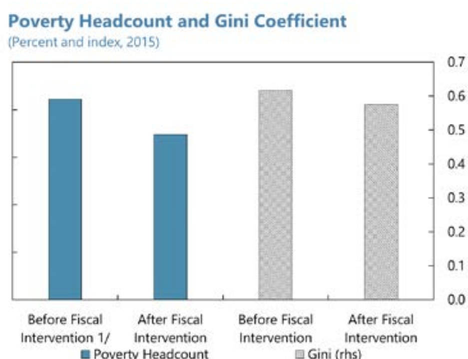
…but firms, particularly smaller ones, experience constraints to access credit.



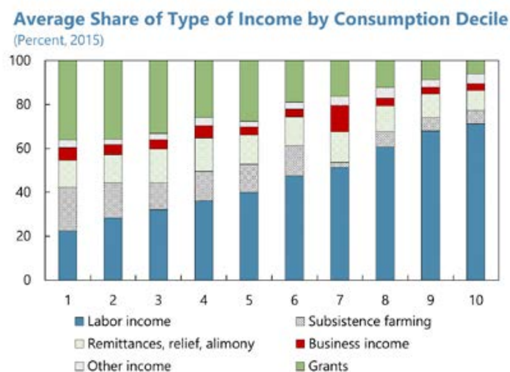
Sources: Bank of Namibia, Namibia Statistics Agency, First National Bank, World Bank Enterprise Survey, World Bank Findex Survey, and IMF staff calculations.

Figure 6. Namibia: Poverty and Inequality Key Challenges to Development

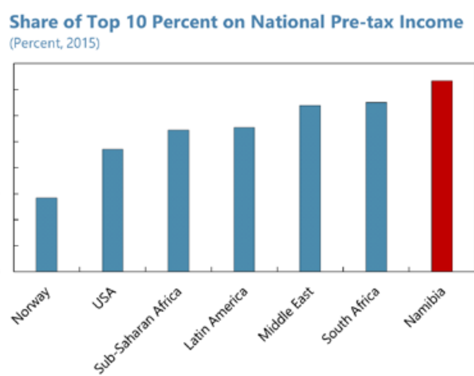
Fiscal policy plays a key role in reducing poverty and inequality…



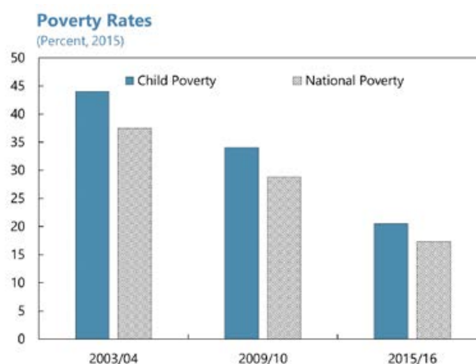
…despite limited targeting, as even the richest households benefit from cash grants.



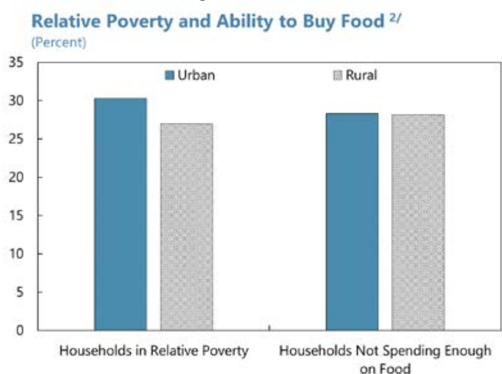
This notwithstanding, income remains highly concentrated…



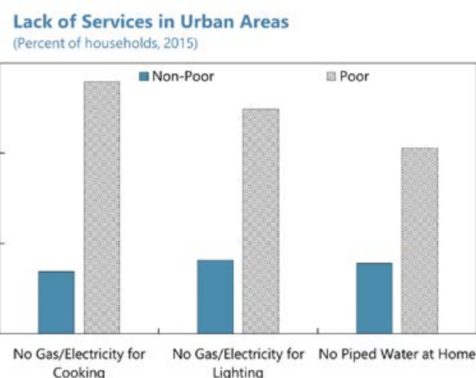
…and poverty for specific categories like children is particularly high.



Moreover, relative poverty is high in both urban and rural areas, including access to food, …



…and urban poor lack most basic services.



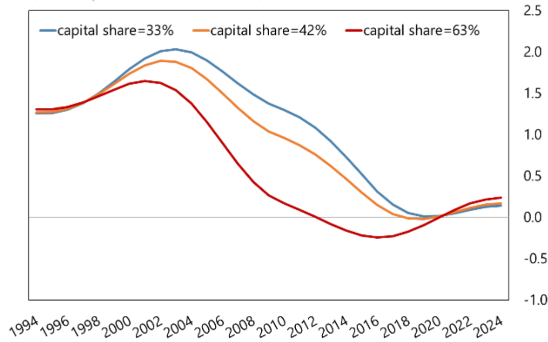
Sources: Namibia Household Income and Expenditure Surveys, IMF staff estimates, and Does Fiscal Policy Benefit the Poor and Reduce Inequality in Namibia? The World Bank, 2017.

1/ Fiscal intervention includes personal income and payroll taxes and direct transfers.

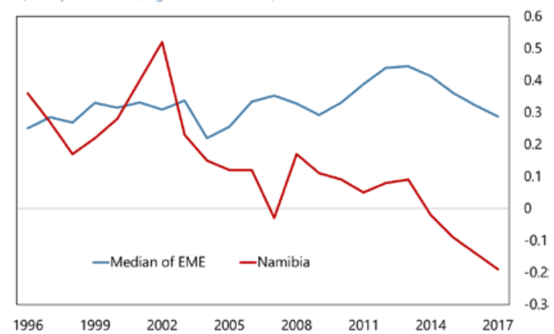
2/ Households with expenditure below 60 percent of the median for their area (urban/rural) are poor in relative terms. Not spending enough on food refers to household food expenditures below the food poverty line.

Figure 7. Namibia: Supply-Side Constraints Limiting Productivity and Growth

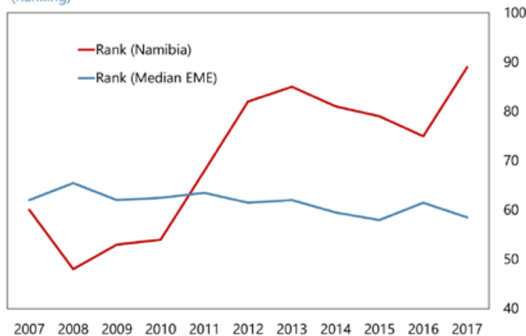
Since 2000, total factor productivity growth has been on a declining trend.



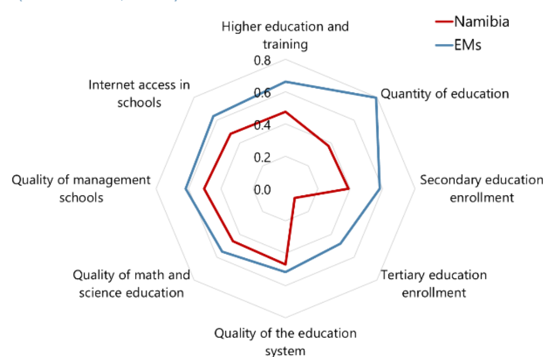
On the back of a deteriorating regulatory environment, and ….



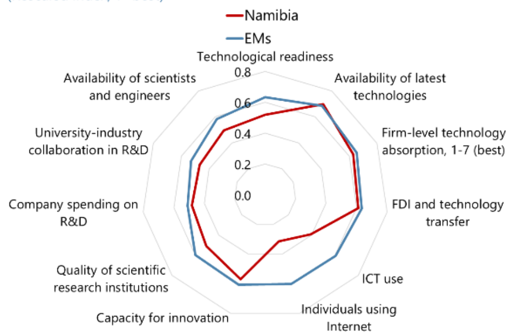
… a worsening in the competitiveness ranking.



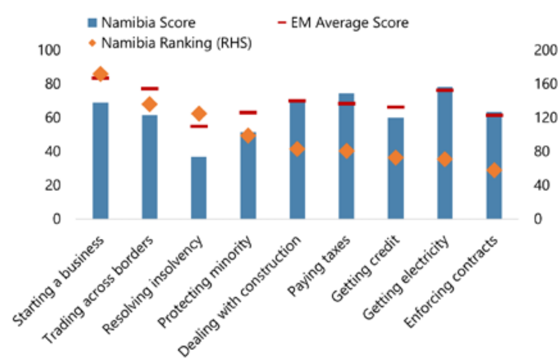
Productivity growth is held back by lack of well-educated and skilled workers, …



…limited technological readiness, …



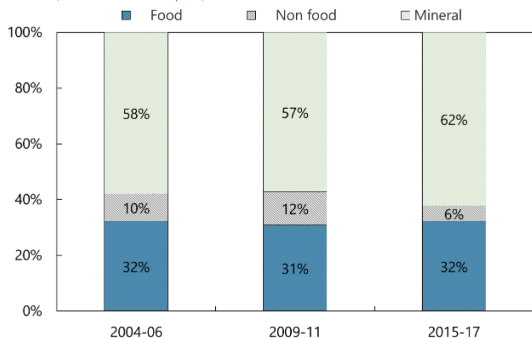
…and weaknesses in the business environment.



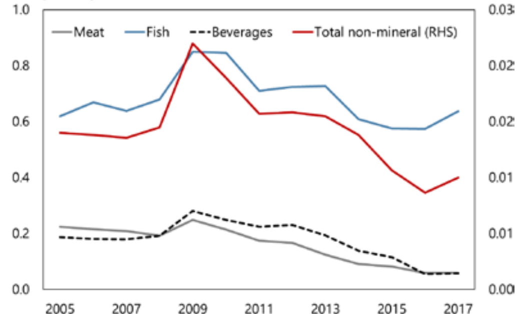
Sources: WEF Global Competitiveness Index 2017/18, ILO, Penn World Table, World Bank Doing Business 2019, IMF staff calculations, and Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank) 2017.

Figure 8. Namibia: Declining Exports Competitiveness

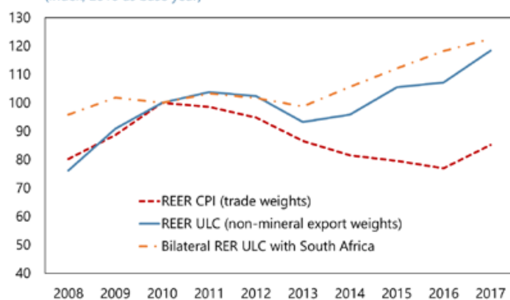
Over the last decade, Namibia's exports remained dependent on mineral exports …



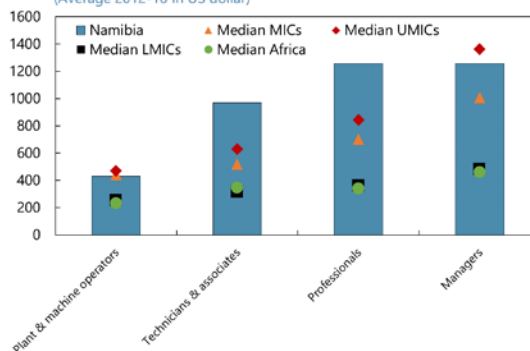
…and non-mineral export market shares have declined…



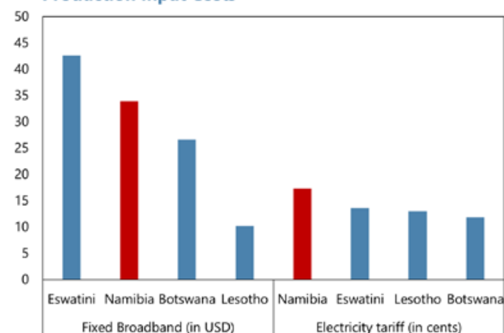
… partly reflecting a real appreciation of the exchange rate as ULC increased fast.



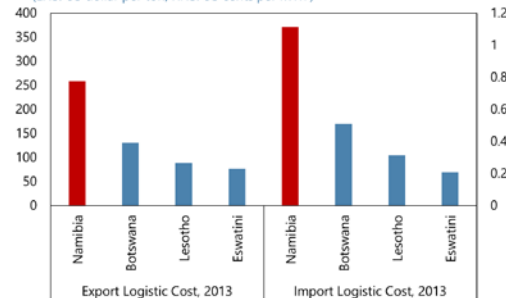
Export competitiveness is held back by relatively high salaries, particularly for skilled workers, …



…costly production inputs, and…



… several non-tariff barriers.

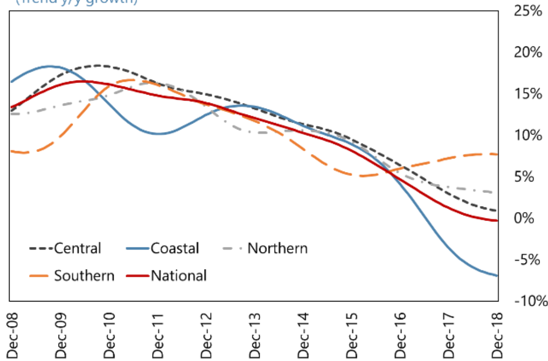


Sources: Bank of Namibia, UN Comtrade, Namibia Statistics Agency, ILO, Ministry of Finance, World Bank World Development Indicators, and IMF staff calculations.

Figure 9. Namibia: Persistent Macro-Financial Vulnerabilities

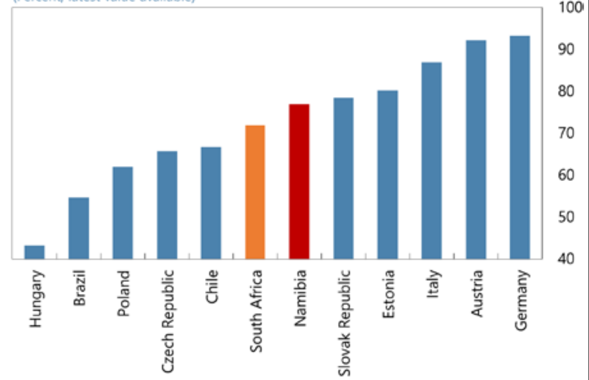
After years of fast growth, house prices have recently decelerated, and market overvaluation declined, …

Residential Price Index
(Trend y/y growth)



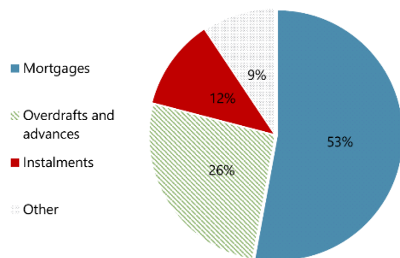
…but banks remain vulnerable as household indebtedness is high …

Household Debt to Disposable Income
(Percent, latest value available)



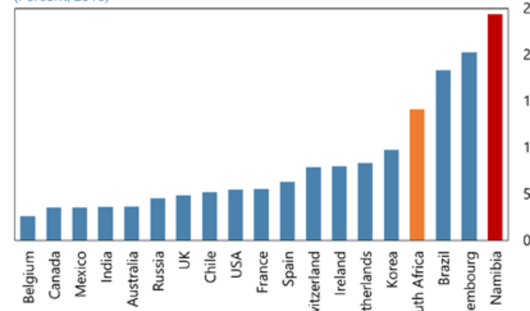
…and banks' loans are concentrated on mortgages.

Compositions of Banks' Loans
(Percent of assets, 2017)



Moreover, banks' funding is highly dependent on wholesale deposits from other financial institutions …

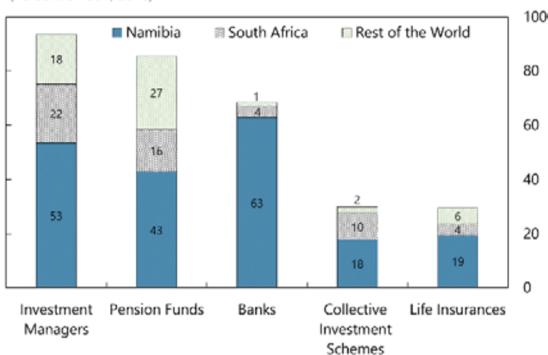
Banks' Funding from Other Financial Institutions 1/
(Percent, 2016)



1/ Defined as non-bank financial institutions, e.g. pension funds, insurances.

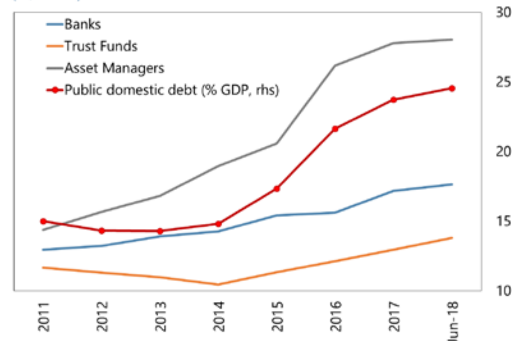
…which have large foreign exposures, exacerbating the system vulnerability to external shocks.

Asset Exposures by Institution
(Percent of GDP, 2016)



Moreover, the financial sector is increasingly exposed to sovereign risks through rising holdings of government securities.

Holdings of Government's Debt
(N$ billion)



Sources: Bank of Namibia, BIS, OECD, Finanical Stability Board: Global Shadow Banking Monitoring Report 2017, South African Reserve Bank, and IMF staff calculations.

Table 1. Namibia: Selected Economic Indicators, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel	Proj	Proj	Proj	Proj	Proj	Proj
	(percentage change, unless otherwise indicated)									
National account and prices										
GDP at constant prices	6.1	1.1	-0.9	-0.1	-0.2	1.6	2.4	3.2	3.9	3.0
GDP deflator	2.0	9.4	9.7	6.5	4.4	5.2	5.2	5.3	5.6	5.3
GDP at market prices (N$ billions)	150	166	181	192	200	214	231	251	275	298
GDP at market prices (Fiscal Year) (N$ billions)	154	170	183	194	204	218	236	257	281	304
GDP per capita (US$, constant 2000 exchange rate)	9,489	10,298	10,994	11,478	11,745	12,313	13,017	13,886	14,951	15,909
Consumer prices (end of period)	3.7	7.3	5.2	5.1	4.8	5.5	5.5	5.5	5.5	5.5
External sector										
Exports (US$)	-15.7	-2.4	19.0	12.2	0.4	7.1	4.6	5.6	6.7	4.3
Imports (US$)	-5.4	-12.8	-1.0	4.0	4.0	4.3	5.5	4.3	6.6	5.3
Terms of trade (deterioration = -)	3.7	0.5	-11.7	-0.3	2.6	-0.9	-0.8	-1.0	-0.7	-0.7
Real effective exchange rate (period average)	-2.5	-3.3	10.7	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange rate (N$/US$, end of period)	15.6	13.7	12.3	14.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Money and credit										
Domestic credit to the private sector	13.8	8.6	5.0	7.0	5.3	5.8	6.6	7.6	8.6	8.4
Base money	-5.0	24.7	10.3	5.7	5.0	10.0	10.0	10.0	10.0	10.0
M2	10.2	4.9	9.5	10.8	4.3	6.8	7.7	8.7	9.7	8.4
Interest rate (percent)	6.5	7.0	6.8	6.8	…	…	…	…	…	…
	(percent of GDP)									
Investment and Savings										
Investment	31.5	23.5	16.2	12.5	17.1	18.0	18.5	19.0	19.0	18.9
Public	8.2	7.8	5.7	4.1	5.6	6.0	6.0	6.0	6.0	6.0
Private	24.4	14.4	9.7	8.5	11.5	12.0	12.5	13.0	13.0	13.0
Change Inventories	-1.1	1.3	0.8	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Savings	19.5	8.0	11.2	10.4	13.0	15.7	14.7	14.8	14.7	14.5
Public	-1.5	-3.5	-1.6	-2.1	-1.7	-0.5	-1.1	-1.3	-1.4	-1.5
Private	21.1	11.6	12.8	12.5	14.7	16.2	15.8	16.1	16.1	15.9
Central government budget 1/										
Revenue and grants	33.9	30.0	32.0	28.7	28.9	30.8	29.8	30.0	30.0	30.0
Of which: SACU receipts	11.3	8.3	10.7	8.9	9.3	10.9	9.7	9.7	9.7	9.7
Expenditure and net lending	42.4	38.9	35.5	34.1	35.2	36.0	36.0	36.2	36.3	36.4
Primary balance (deficit = -)	-6.8	-6.4	-0.5	-2.2	-2.0	-0.7	-1.7	-1.5	-1.4	-1.3
Overall balance	-8.5	-9.0	-3.4	-5.4	-5.6	-4.4	-5.5	-5.6	-5.6	-5.7
Primary balance: Non-SACU	-18.0	-14.7	-11.2	-11.1	-11.3	-11.6	-11.4	-11.2	-11.1	-11.0
Public debt/GDP	39.9	42.6	41.0	45.8	49.2	50.9	51.4	53.0	54.3	56.0
Of which: domestic	22.1	27.8	27.1	29.0	32.0	34.2	36.7	39.9	42.3	44.8
Gross public and publicly guaranteed debt/GDP	44.5	47.8	46.9	51.8	55.8	58.1	59.2	61.4	63.3	65.3
External sector										
Current account balance										
(including official grants)	-13.5	-15.4	-5.0	-2.1	-4.1	-2.3	-3.8	-4.2	-4.2	-4.5
External public debt (including IMF)	17.8	14.8	13.9	16.8	17.2	16.7	14.7	13.1	12.1	11.2
Gross official reserves										
US$ millions	1,580	1,791	2,216	2,156	2,407	2,740	2,573	2,489	2,515	2,572
Percent of GDP	16.4	14.8	15.1	16.1	17.0	18.6	16.7	15.3	14.5	14.1
Months of imports of goods and services	3.0	3.5	4.2	3.9	4.2	4.5	4.0	3.7	3.5	3.4
External debt/GDP 2/	47.2	58.4	61.7	58.4	62.5	62.5	60.7	59.1	57.9	57.7
Memorandum item:										
Population (in million)	2.3	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7

Sources: Namibian authorities and Fund staff estimates and projections.

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

2/ Public and private external debt.

Table 2. Namibia: Fiscal Operations of the Central Government, 2015/16–24/25

(N$ millions)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				Prel	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	52,216	50,849	58,768	55,741	58,928	67,175	70,103	76,941	84,130	91,431
Domestic revenue	52,064	50,849	58,768	55,669	58,761	67,094	70,016	76,846	84,026	91,319
Tax revenue	48,919	47,575	54,590	52,436	55,322	63,244	65,540	71,756	78,433	85,199
Personal income tax	10,794	12,002	13,267	13,534	14,303	15,293	16,606	18,048	19,578	21,218
Corporate income tax	7,723	7,708	7,860	6,914	7,080	7,670	8,424	9,565	10,579	11,637
o/w Diamond mining	2,199	1,611	1,654	1,496	1,470	1,607	1,861	2,411	2,762	3,163
VAT and sales taxes	12,014	12,430	12,604	13,227	13,563	14,858	16,043	17,482	19,119	20,730
Taxes on international trade (includes SACU receipts)	17,355	14,071	19,597	17,375	18,922	23,866	22,786	24,830	27,155	29,442
Other taxes	1,033	1,363	1,261	1,386	1,454	1,557	1,681	1,832	2,003	2,172
Nontax revenue	3,146	3,274	4,178	3,233	3,440	3,850	4,476	5,090	5,592	6,119
Diamond and other mineral royalties	1,369	1,368	1,546	1,607	1,734	2,025	2,205	2,426	2,679	2,960
Adminstrative fees, including license revenues	628	902	1,267	1,116	1,170	1,253	1,353	1,474	1,612	1,748
Other	1,149	1,004	1,365	510	535	572	918	1,190	1,301	1,411
Grants	152	0	0	72	167	81	87	95	104	113
Expenditure and net lending 1/	65,259	66,076	65,080	66,303	71,778	78,418	84,828	93,029	101,960	110,839
Current expenditure	55,202	57,670	60,255	60,557	63,195	69,198	74,891	82,209	90,127	98,096
Personnel	23,961	26,738	29,141	29,312	30,367	32,948	35,749	38,787	42,084	45,661
Goods and services	10,794	10,281	6,886	6,860	7,197	8,306	8,968	10,032	10,972	11,896
Interest payments and borrowing charges	2,630	4,312	5,430	6,311	7,367	8,250	8,940	10,387	11,914	13,263
Domestic	2,031	2,831	3,638	4,041	4,767	5,586	6,362	7,602	9,170	10,477
Foreign	593	1,479	1,785	2,267	2,596	2,660	2,574	2,781	2,741	2,783
Borrowing related charges	7	2	8	4	4	4	4	4	4	4
Subsidies, transfers and guarantees	17,817	16,339	18,798	18,075	18,264	19,695	21,234	23,003	25,157	27,276
Capital expenditures 2/	10,050	8,396	4,865	5,806	8,570	9,206	9,923	10,805	11,817	12,725
Acquisition of capital assets	7,441	7,537	3,839	5,027	6,249	6,653	7,301	9,265	10,133	10,986
Project Finance (extrabudgetary)	684	0	0	0	1,068	1,408	1,411	0	0	0
Capital transfers	1,925	860	1,025	779	1,253	1,145	1,210	1,540	1,684	1,739
Net lending	7	10	-40	-61	12	13	14	16	17	19
Overall balance 2/	-13,043	-15,227	-6,312	-10,562	-12,849	-11,243	-14,725	-16,088	-17,830	-19,408
Primary balance	-10,412	-10,915	-881	-4,251	-5,482	-2,993	-5,785	-5,701	-5,916	-6,145
Measures	0	0	0	0	1,400	1,541	1,669	1,819	1,989	2,157
After measures										
Overall balance 2/	-13,043	-15,227	-6,312	-10,562	-11,449	-9,703	-13,056	-14,269	-15,841	-17,251
Primary balance	-10,412	-10,915	-881	-4,251	-4,082	-1,453	-4,116	-3,883	-3,927	-3,989
Financing	13,614	16,301	7,564	8,813	11,450	9,703	13,056	14,269	15,841	17,251
Domestic financing (net)	1,902	16,169	4,846	6,123	8,711	8,965	15,538	15,890	16,189	17,597
of which: Accounts Payable	0	3,864	-3,864	0	0	0	0	0	0	0
External financing (net)	13,398	132	2,718	2,690	2,739	738	-2,482	-1,621	-347	-346
Disbursements	13,484	492	3,000	3,000	3,068	1,908	5,211	500	500	500
Project loans	684	0	0	0	1,068	1,408	1,411	0	0	0
External bond	12,800	492	0	0	0	500	3,800	500	500	500
Amortization	-86	-360	-282	-310	-329	-1,170	-7,693	-2,121	-847	-846
Discrepancy	572	1,074	1,252	-1,749	0	0	0	0	0	0
Memorandum items:										
Primary Balance (excluding SACU receipts)	-27,767	-24,986	-20,478	-21,626	-23,004	-25,319	-26,902	-28,712	-31,082	-33,431
Primary Balance (excluding SACU and mineral revenues)	-31,336	-27,966	-23,679	-24,729	-26,209	-28,951	-30,968	-33,549	-36,523	-39,555
Public and publicly guaranteed debt	68,604	81,030	86,097	100,568	113,696	126,703	139,529	157,610	177,788	198,647
Public debt	61,459	72,282	75,198	88,917	100,249	110,997	121,158	136,051	152,526	170,344
Domestic 3/	34,010	47,237	49,775	56,218	65,265	74,537	86,519	102,461	118,704	136,302
External	27,450	25,045	25,423	32,699	34,984	36,460	34,640	33,591	33,822	34,042
GDP at market prices (Fiscal Year)	154,063	169,656	183,489	194,185	203,744	218,129	235,524	256,647	280,681	304,328

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

1/ FY16/17 expenditures include domestic arrears incurred in the year and paid in FY17/18. The authorities record arrears at the time of payment.

2/ Includes externally financed project spending not channeled through the state account. For 2017/18 and 2018/19, it also includes capital expenditures originally classified outside the budget (about and 0.7 percent of GDP in FY17/18 and 0.5 percent of GDP in 2018/19.

3/ Includes short-term loans from the central bank

Table 3. Namibia: Fiscal Operations of the Central Government, 2015/16–24/25
(Percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				Prel	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	33.9	30.0	32.0	28.7	28.9	30.8	29.8	30.0	30.0	30.0
Revenue	33.8	30.0	32.0	28.7	28.8	30.8	29.7	29.9	29.9	30.0
Tax revenue	31.8	28.0	29.8	27.0	27.2	29.0	27.8	28.0	27.9	28.0
Personal income tax	7.0	7.1	7.2	7.0	7.0	7.0	7.1	7.0	7.0	7.0
Corporate income tax	5.0	4.5	4.3	3.6	3.5	3.5	3.6	3.7	3.8	3.8
o/w Diamond mining	1.4	0.9	0.9	0.8	0.7	0.7	0.8	0.9	1.0	1.0
VAT and sales taxes	7.8	7.3	6.9	6.8	6.7	6.8	6.8	6.8	6.8	6.8
Taxes on international trade (includes SACU receipts)	11.3	8.3	10.7	8.9	9.3	10.9	9.7	9.7	9.7	9.7
Other taxes	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Nontax revenue	2.0	1.9	2.3	1.7	1.7	1.8	1.9	2.0	2.0	2.0
Diamond and other mineral royalties	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0
Administrative fees, including license revenues	0.4	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other	0.7	0.6	0.7	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Grants	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending 1/	42.4	38.9	35.5	34.1	35.2	36.0	36.0	36.2	36.3	36.4
Current expenditure	35.8	34.0	32.8	31.2	31.0	31.7	31.8	32.0	32.1	32.2
Personnel	15.6	15.8	15.9	15.1	14.9	15.1	15.2	15.1	15.0	15.0
Goods and services	7.0	6.1	3.8	3.5	3.5	3.8	3.8	3.9	3.9	3.9
Interest payments	1.7	2.5	3.0	3.3	3.6	3.8	3.8	4.0	4.2	4.4
Domestic	1.3	1.7	2.0	2.1	2.3	2.6	2.7	3.0	3.3	3.4
Foreign	0.4	0.9	1.0	1.2	1.3	1.2	1.1	1.1	1.0	0.9
Subsidies, transfers and guarantees	11.6	9.6	10.2	9.3	9.0	9.0	9.0	9.0	9.0	9.0
Capital expenditure 2/	6.5	4.9	2.7	3.0	4.2	4.2	4.2	4.2	4.2	4.2
Acquisition of capital assets	4.8	4.4	2.1	2.6	3.1	3.1	3.1	3.6	3.6	3.6
Project Financed (extrabudgetary)	0.4	0.0	0.0	0.0	0.5	0.6	0.6	0.0	0.0	0.0
Capital transfers	1.2	0.5	0.6	0.4	0.6	0.5	0.5	0.6	0.6	0.6
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 2/	-8.5	-9.0	-3.4	-5.4	-6.3	-5.2	-6.3	-6.3	-6.4	-6.4
Primary balance	-6.8	-6.4	-0.5	-2.2	-2.7	-1.4	-2.5	-2.2	-2.1	-2.0
Measures	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
After measures										
Overall balance 2/	-8.5	-9.0	-3.4	-5.4	-5.6	-4.4	-5.5	-5.6	-5.6	-5.7
Primary balance	-6.8	-6.4	-0.5	-2.2	-2.0	-0.7	-1.7	-1.5	-1.4	-1.3
Financing	8.8	9.6	4.1	4.5	5.6	4.4	5.5	5.6	5.6	5.7
Domestic financing (net)	1.2	9.5	2.6	3.2	4.3	4.1	6.6	6.2	5.8	5.8
of which: Accounts Payable	0.0	2.3	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	8.7	0.1	1.5	1.4	1.3	0.3	-1.1	-0.6	-0.1	-0.1
Disbursements	8.8	0.3	1.6	1.5	1.5	0.9	2.2	0.2	0.2	0.2
Project loans	0.4	0.0	0.0	0.0	0.5	0.6	0.6	0.0	0.0	0.0
External bond	8.3	0.3	0.0	0.0	0.0	0.2	1.6	0.2	0.2	0.2
Amortization	-0.1	-0.2	-0.2	-0.2	-0.2	-0.5	-3.3	-0.8	-0.3	-0.3
Discrepancy	0.4	0.6	0.7	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary Balance (excluding SACU receipts)	-18.0	-14.7	-11.2	-11.1	-11.3	-11.6	-11.4	-11.2	-11.1	-11.0
Primary Balance (excluding SACU and mineral revenues)	-20.3	-16.5	-12.9	-12.7	-12.9	-13.3	-13.1	-13.1	-13.0	-13.0
Public and publicly guaranteed debt	44.5	47.8	46.9	51.8	55.8	58.1	59.2	61.4	63.3	65.3
Public debt	39.9	42.6	41.0	45.8	49.2	50.9	51.4	53.0	54.3	56.0
Domestic 3/	22.1	27.8	27.1	29.0	32.0	34.2	36.7	39.9	42.3	44.8
External	17.8	14.8	13.9	16.8	17.2	16.7	14.7	13.1	12.1	11.2

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

1/ FY16/17 expenditures include domestic arrears incurred in the year and paid in FY17/18. The authorities record arrears at the time of payment.

2/ Includes externally financed project spending not channeled through the state account. For 2017/18 and 2018/19, it also includes capital expenditures originally classified outside the budget (about and 0.7 percent of GDP in FY17/18 and 0.5 percent of GDP in 2018/19.

3/ Includes short-term loans from the central bank

Table 4. Namibia: Balance of Payments, 2015–24 /1
(US$ millions, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel	Proj	Proj	Proj	Proj	Proj	Proj
Current account	-1,583	-1,740	-684	-301	-586	-338	-586	-694	-741	-831
Trade balance	-3,172	-2,429	-1,773	-1,534	-1,744	-1,703	-1,840	-1,856	-1,975	-2,132
Exports, f.o.b.	3,227	3,151	3,749	4,208	4,226	4,526	4,733	4,998	5,334	5,561
Of which:										
Diamonds	878	704	745	841	753	819	818	865	989	1,020
Other minerals	672	730	834	1,103	1,213	1,433	1,552	1,651	1,734	1,796
Imports, f.o.b.	-6,399	-5,580	-5,522	-5,742	-5,969	-6,229	-6,573	-6,854	-7,309	-7,693
Services (net)	223	-181	44	105	86	78	78	97	104	117
Transportation	-76	-64	-19	-35	-39	-46	-51	-51	-57	-60
Travel	422	208	270	327	321	333	348	369	393	414
Other services	-122	-326	-207	-186	-195	-209	-220	-220	-232	-237
Income (net)	-36	-196	-365	-267	-305	-337	-431	-583	-614	-656
Compensation of employees	-11	-2	-9	-1	-4	-4	-3	-4	-4	-3
Investment income	-25	-194	-356	-266	-301	-332	-428	-580	-610	-653
Current transfers	1,402	1,067	1,409	1,395	1,376	1,623	1,607	1,648	1,744	1,840
Official transfers	1,393	1,025	1,378	1,350	1,337	1,585	1,566	1,609	1,705	1,800
Of which: SACU receipts	1,362	1,008	1,368	1,354	1,329	1,580	1,564	1,604	1,701	1,797
Other transfers	9	42	31	45	39	39	41	40	40	40
Capital and financial account	-2,318	-1,666	-906	-515	-819	-705	-458	-646	-803	-923
Capital account	-108	-132	-182	-131	-164	-169	-165	-183	-193	-202
Financial Account	-2,210	-1,533	-724	-384	-655	-536	-293	-463	-610	-721
Direct Investment	-853	-349	-520	-120	-352	-365	-360	-398	-422	-442
Portfolio Investment	-1,159	-86	434	205	118	126	134	143	152	163
Other Investment	-197	-1,098	-638	-469	-421	-296	-66	-208	-339	-442
Errors and Omissions	-333	292	211	-265	…	…	…	…	…	…
				percent of GDP						
Current account	-13.5	-15.4	-5.0	-2.1	-4.1	-2.3	-3.8	-4.2	-4.2	-4.5
Trade balance	-27.0	-21.5	-13.1	-10.6	-12.1	-11.4	-11.8	-11.2	-11.2	-11.5
Exports	27.4	27.9	27.6	29.0	29.4	30.3	30.3	30.2	30.3	30.0
Imports	-54.4	-49.5	-40.7	-39.6	-41.5	-41.7	-42.0	-41.5	-41.5	-41.5
Services (net)	1.9	-1.6	0.3	0.7	0.6	0.5	0.5	0.6	0.6	0.6
Income (net)	-0.3	-1.7	-2.7	-1.8	-2.1	-2.3	-2.8	-3.5	-3.5	-3.5
Current transfers	11.9	9.5	10.4	9.6	9.6	10.9	10.3	10.0	9.9	9.9
Of which: SACU receipts	11.6	8.9	10.1	9.3	9.3	10.6	10.0	9.7	9.7	9.7
Capital and financial account	-19.7	-14.8	-6.7	-3.5	-5.7	-4.7	-2.9	-3.9	-4.6	-5.0
Capital account	-0.9	-1.2	-1.3	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Financial account	-18.8	-13.6	-5.3	-2.6	-4.6	-3.6	-1.9	-2.8	-3.5	-3.9
Direct Investment	-7.3	-3.1	-3.8	-0.8	-2.4	-2.4	-2.3	-2.4	-2.4	-2.4
Portfolio Investment	-9.9	-0.8	3.2	1.4	0.8	0.8	0.9	0.9	0.9	0.9
Other Investment	-1.7	-9.7	-4.7	-3.2	-2.9	-2.0	-0.4	-1.3	-1.9	-2.4
Memorandum items:										
Gross International Reserves (end of period)	1,580	1,791	2,216	2,156	2,407	2,740	2,573	2,489	2,515	2,572
Months of imports of goods and services	3.0	3.5	4.2	3.9	4.2	4.5	4.0	3.7	3.5	3.4
External debt (US$ millions) from IIP	5,558	6,589	8,372	8,471	8,981	9,346	9,491	9,773	10,188	10,703
Short-term debt (US$ millions)	656	717	1,048	1,012	858	909	957	934	914	928
Exchange rate (N$/US$, period average)	12.8	14.7	…	…	…	…	…	…	…	…
GDP at market prices (US$ millions)	11,769	11,283	13,562	14,513	14,368	14,943	15,634	16,524	17,593	18,548

Sources: Namibian authorities and Fund staff estimates and projections.

1/ Namibia adopted BPM6 in 2016 and revised BOP statistics back to 2009.

Table 5. Namibia: Monetary Accounts, 2015–24 1/

(N$ millions, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel	Proj	Proj	Proj	Proj	Proj	Proj
Central Bank										
Reserve money	6,372	7,945	8,761	9,256	9,082	9,990	10,989	12,088	13,297	14,627
Currency	4,495	4,394	4,658	4,521	4,747	4,984	5,234	5,495	5,770	6,058
Reserves	1,877	3,551	4,103	3,735	4,335	5,006	5,756	6,593	7,527	8,568
Net foreign assets	24,275	24,329	26,255	28,370	31,683	36,978	36,251	37,661	38,216	38,759
Net domestic assets	-17,903	-16,384	-17,495	-20,113	-22,601	-26,988	-25,261	-25,573	-24,919	-24,132
Monetary survey										
Broad money (M2)	81,934	85,949	94,143	104,353	108,799	116,227	125,193	136,086	149,297	161,875
Currency	3,042	2,884	3,096	2,944	3,134	3,294	3,288	3,018	5,819	6,057
Deposits	78,892	83,065	91,047	101,409	105,665	112,934	121,905	133,067	143,477	155,817
Net foreign assets	29,792	26,502	29,640	38,250	41,396	46,967	46,529	48,243	49,108	49,961
Net domestic assets	52,142	59,447	64,502	66,103	67,403	69,260	78,664	87,843	100,189	111,914
Domestic credit	83,316	95,879	106,201	113,610	122,629	128,411	142,646	154,108	167,919	179,948
Claims on central government (net)	-1,608	3,905	9,665	10,555	14,003	13,348	19,801	21,807	24,169	24,115
Claims on private sector	78,863	85,606	89,902	96,221	101,323	107,160	114,272	122,974	133,563	144,816
Others	6,061	6,368	6,634	6,835	7,303	7,904	8,573	9,328	10,186	11,017
Other items (net) 2/	-31,174	-36,432	-41,699	-47,507	-55,227	-59,151	-63,983	-66,265	-67,730	-68,034
				percent of GDP						
Credit to the private sector	52.5	51.6	49.8	50.1	50.6	50.1	49.6	49.1	48.6	48.6
Monetary base	4.2	4.8	4.9	4.8	4.5	4.7	4.8	4.8	4.8	4.9
Broad money (M2)	54.6	51.8	52.1	54.3	54.3	54.3	54.3	54.3	54.3	54.3
				percentage change						
Credit to the private sector	13.8	8.6	5.0	7.0	5.3	5.8	6.6	7.6	8.6	8.4
Monetary base	-5.0	24.7	10.3	5.7	5.0	10.0	10.0	10.0	10.0	10.0
Broad money (M2)	10.2	4.9	9.5	10.8	4.3	6.8	7.7	8.7	9.7	8.4
Memorandum items:										
Velocity	1.8	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Money multiplier	12.9	10.8	10.7	11.3	12.0	11.6	11.4	11.3	11.2	11.1
Exchange rate (N$/US$)	15.6	13.7	12.3	14.4	…	…	…	…	…	…
Domestic interest rates (end of period)										
Deposit rate	4.9	5.7	6.1	5.6	…	…	…	…	…	…
Lending rate	9.3	9.9	10.0	10.2	…	…	…	…	…	…
BoN repo rate	6.5	7.0	6.8	6.8	…	…	…	…	…	…
Three-month T-bill rate	7.2	8.9	7.9	7.6	…	…	…	…	…	…

Sources: Namibian authorities and Fund staff estimates and projections.

1/ End of period.

2/ Including valuation.

Table 6. Namibia: Financial Sector Indicators, 2010–2019
(Percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	Mar-19
Banking indicators										
Capital adequacy										
Capital to assets	10.7	10.9	10.6	11.1	11.3	11.4	11.5	11.7	11.4	11.2
Regulatory capital to risk-weighted assets	15.3	14.0	14.2	14.4	14.7	14.3	15.1	15.5	16.8	17.3
Regulatory tier I capital to risk-weighted assets	11.1	10.8	10.9	11.5	11.9	11.8	12.4	12.6	13.9	14.0
Asset quality										
Large exposure to capital	142	155	146	120	148	138	125	141.0	135.5	126.4
Nonperforming loans to total gross loans	2.0	1.5	1.3	1.3	1.2	1.6	1.5	2.5	3.6	3.8
Earnings and profitability										
Trading income to total income	3.5	9.3	7.0	6.5	5.7	6.5	4.6	4.8	5.1	4.6
Return on assets 1/	3.2	3.2	3.1	3.1	3.4	3.7	3.5	3.0	2.9	2.7
Return on equity 1/	32.0	31.9	32.3	31.9	33.8	36.0	32.6	28.0	25.0	24.1
Interest margin to gross income	51.3	54.2	55.5	54.7	56.8	57.4	56.7	55.1	56.7	57.6
Noninterest expenses to gross income	57.3	52.3	56.6	54.8	52.7	51.6	51.0	54.3	55.7	57.0
Personnel expenses to noninterest expenses	49.5	51.5	52.3	50.3	49.7	50.4	49.5	53.7	51.0	53.7
Liquidity										
Liquid assets to total assets	10.9	14.0	11.8	11.8	12.7	12.1	11.9	13.9	13.6	14.3
Liquid assets to short-term liabilities	19.1	22.2	20.7	19.7	20.9	21.9	23.5	26.5	27.9	30.4
Customer deposits to total (non-interbank) loans	106.3	114.7	106.4	102.5	98.6	95.2	95.4	97.0	97.3	99.6
Exposure to foreign exchange risk										
Net open position in foreign exchange to capital	1.1	2.7	2.4	2.6	2.7	5.1	2.7	2.6	7.6	2.6
Foreign currency-denominated loans to total loans	0.1	0.3	1.3	2.0	1.4	1.5	0.9	0.5	0.2	0.0
Foreign currency-denominated liabilities to total liabilities	3.7	1.9	2.5	3.7	3.3	3.7	2.8	4.7	3.7	4.4
Memorandum item:										
Holdings government debt to risk-weighted assets	7.8	16.0	13.7	12.8	10.9	13.0	13.9	16.9	18.8	19.1

Sources: Bank of Namibia and IMF staff estimates.

1/ Before taxes.

Annex I. External Sector Assessment

With the economic rebalancing, Namibia's external position strengthened further in 2018 and is broadly consistent with fundamentals and desirable policy settings. The current account narrowed, helped by buoyant exports as new mines came into production. However, lower net capital inflows have limited the impact on reserves, which remained below adequate levels.

A. External Sector Assessment

1. This section assesses the external position of Namibia. It uses two IMF panel regression-based methodologies, the current account (CA) and the Real Effective Exchange Rate (REER) and External Balance Assessment (EBA) models, supplemented by an analysis of recent developments in the net international investment position (NIIP), and in the adequacy of international reserves.

Net International Investment Position

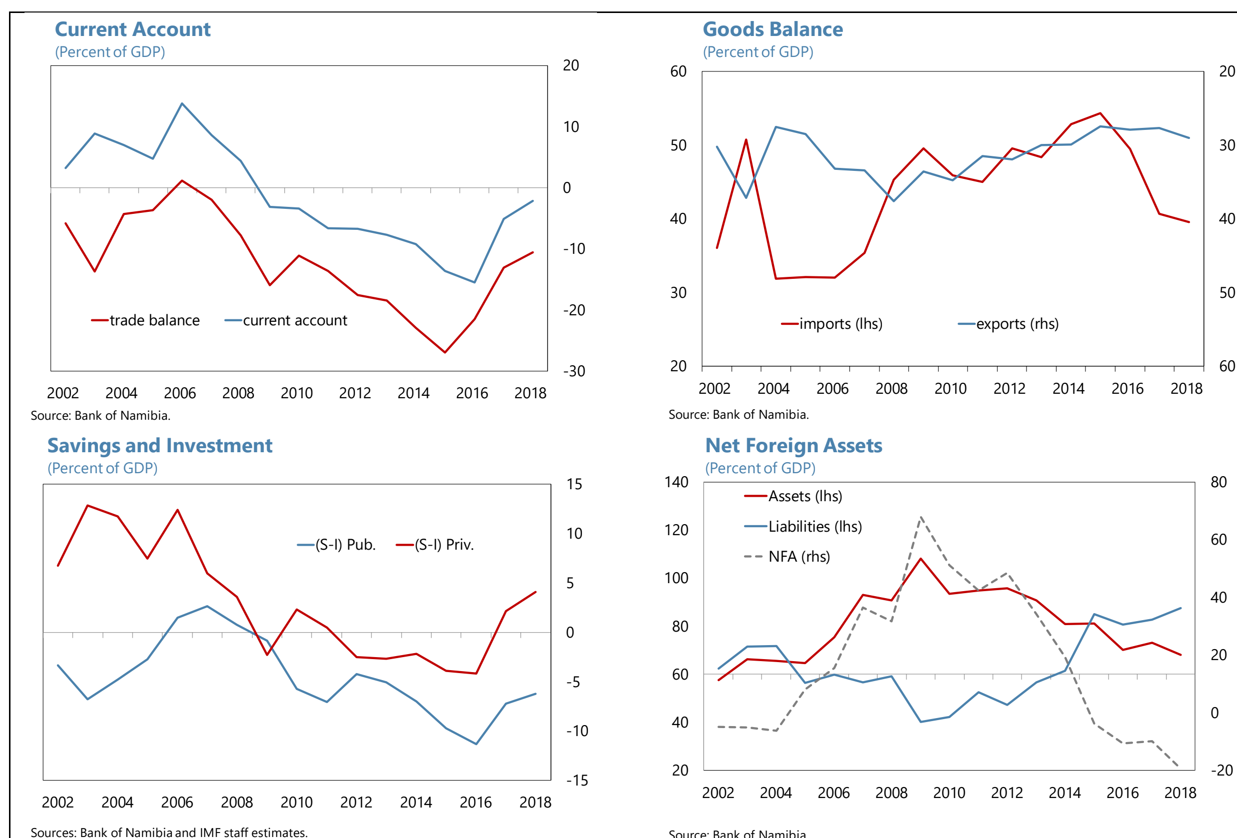
2. Background. The NIIP has been deteriorating since 2009, and in 2018 the net foreign position reached -19.5 percent of GDP (-9.8 percent in 2017) from a positive net position in the previous years. The deterioration was largely due to the sharp increase in external liabilities in the form of net FDIs, (mostly in the mining sector) and more recently external debt (59 percent of GDP) from both non-financial corporations and the government, following the issuance of the 2015 Euro-Bond. In addition, the increase in the domestic investment requirement for the pension funds and insurance companies announced in 2016–17 has contributed to the reduction in foreign assets.

3. Assessment. Under Staff's baseline scenario, the decline in external debt, in part driven by a reduction in government external debt, would likely contribute improve the NIIP going forward. The main risks arise from the high external debt especially for the private sector. However, these risks are moderated given that a large part is due to parent companies.

Current Account

4. Background. During 2006–15, the CA balance steadily deteriorated, moving from a surplus to a deficit of 15.4 percent of GDP in 2015. This was the result of a sharp increase in imports, on account of expansionary fiscal policy and the construction of large mines. The increase in imports was accompanied by a drop in nonmineral exports (14 percent of GDP in 2015 from 21 percent of GDP in 2009), which was only partially offset by higher SACU transfers over 2012–15. These trends came to a halt in 2016 when the construction of large mines ended, and the government started consolidating. The CA deficit declined to 5 percent of GDP in 2017 and dropped further to 2.1 percent of GDP in 2018, despite higher oil prices and lower SACU revenue, supported by a surge in exports of goods and services (1.7 percent of GDP), in particular mineral exports, as new mines began operating. Moreover, nonmineral exports of goods have also increased, benefiting from higher prices and stronger demand from regional partners. A savings and investment decomposition suggest that the main driver of the CA improvement in 2018 is the private sector,

although the government restrained wage policies may have indirectly contributed to lower private consumption.



5. Assessment. Using the EBA-lite revised CA methodology[1], the multilaterally consistent cyclically-adjusted CA norm is estimated at -3.8 percent of GDP (with a policy gap of -2.7 percent of GDP)[2] compared to a cyclically-adjusted CA of -1.8 percent of GDP in 2018. However, the model delivers a substantial residual of about 5 percent of GDP that may reflect both structural and temporary factors not captured by the model. An important factor is the intertemporal inconsistency in mining investment and production. Following several years of significant growth, in recent years, private sector investment has been declining, reaching 8.4 percent of GDP in 2018 (the lowest level since 1994), mainly driven by mining investment, despite the recovery in exports/savings. Going forward, mining investment is expected to return to historical levels, based on announced plans of existing mining companies. In addition, the CA is subject to high statistical uncertainty; net errors and omissions reached -1.8 percent of GDP. Accounting for a higher level of investment (e.g., 2017 private investment, about 9.7 percent of GDP, which is low by historical standards), the underlying cyclically-adjusted CA balance would be at -3.1 percent of GDP, suggesting an undervaluation of the

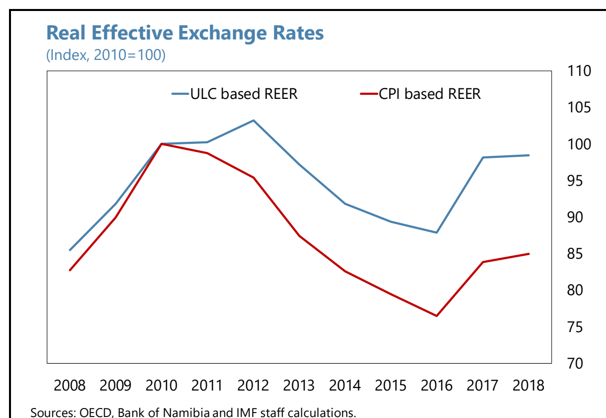
[1] See IMF Background note "Review of the EBA-Lite Methodology," 2018.

[2] The policy gap is mostly explained by capital controls (-1.6 percent of GDP), large public health expenditure, a proxy for social insurance spending, (-1.8 percent of GDP), while the change in reserves and fiscal policy contributed positively to the policy gap (0.4 percent of GDP and 0.07 percent of GDP, respectively).

REER of 2 percent, and signaling that the exchange rate is broadly in line with fundamentals and desirable policies.

Real Effective Exchange Rate

6. Background. The Namibian dollar is pegged at par to the South African rand and developments in the real exchange rate largely follows changes in the nominal exchange rate of the rand. Namibia's REER has experienced large fluctuations over the past decade, depreciating by 23 percent between 2010–2016 and appreciating by 12 percent thereafter (-13 percent over 2010–17). In 2018, the REER had been broadly stable on average despite some intra-year volatility. However, the CPI-based measure likely underestimates the weakening of cost competitiveness. In a context of a rapid increase in wages in excess of productivity growth, the ULC-deflated REER has been more stable with a depreciation of only 2 percent over 2010–18). The decoupling of both measures is attributable to a fast increase in real wages in excess of productivity.

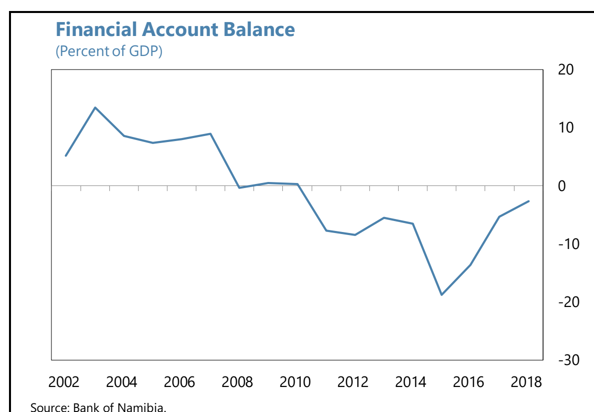


7. Assessment. The EBA-lite REER model using the CPI-based measure suggests an undervaluation of 9 percent. However, using the ULC-based REER, the model suggests a REER gap of +4.5 percent. Given the limitations of using the CPI-based REER in assessing the cost competitiveness of the economy, staff rely more on the CA methodology and assesses the external position as broadly in line with fundamentals and desirable policies.

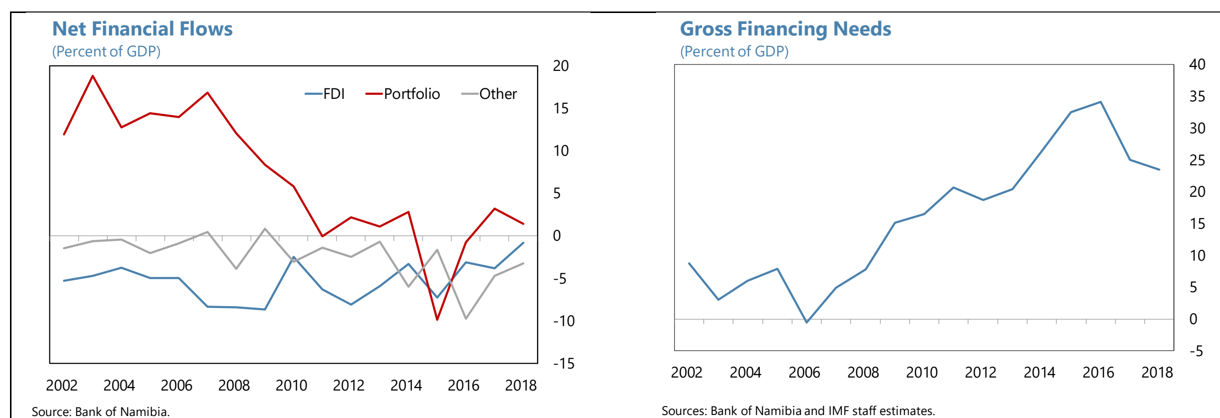
Model	Observed	Norm	Adjustment	Gap	REER Overvaluation
Cyclically Adjusted CA	-1.8%	-3.8%	-1.3%	0.7%	-2%
ln(REER-CPI)	4.46	4.54		n.a.	-9%
ln(REER-ULC)	4.59	4.54		n.a.	5%

Financial Account

8. Background. 2018 was marked by lower FDI and loans to the private (0.8 percent of GDP, the lowest level in the decade), as parent companies reduced their support to their local fellow enterprises given the better performance of the mining sector. At the same time, the portfolio outflows declined following the enforcement of higher domestic investment requirement on pensions funds. With the current account narrowing, gross external financing needs continued to drop from very high levels (34 percent of GDP in 2015) to about 23.5 percent of GDP.



9. Assessment. The FDI inflows have been on a downward path in recent years despite some volatility linked investments in the mining sector. While greater domestic assets requirements for the public funds could compensate for this drop in the short-term, the focus should be on accelerating reforms to improve the business climate and the country competitiveness, which has been deteriorating in recent years.

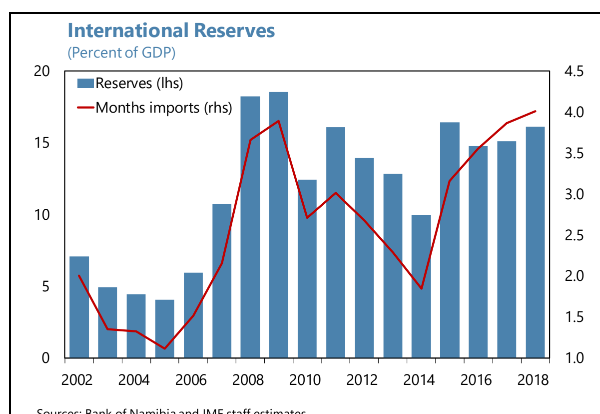


Source: Bank of Namibia.

Sources: Bank of Namibia and IMF staff estimates.

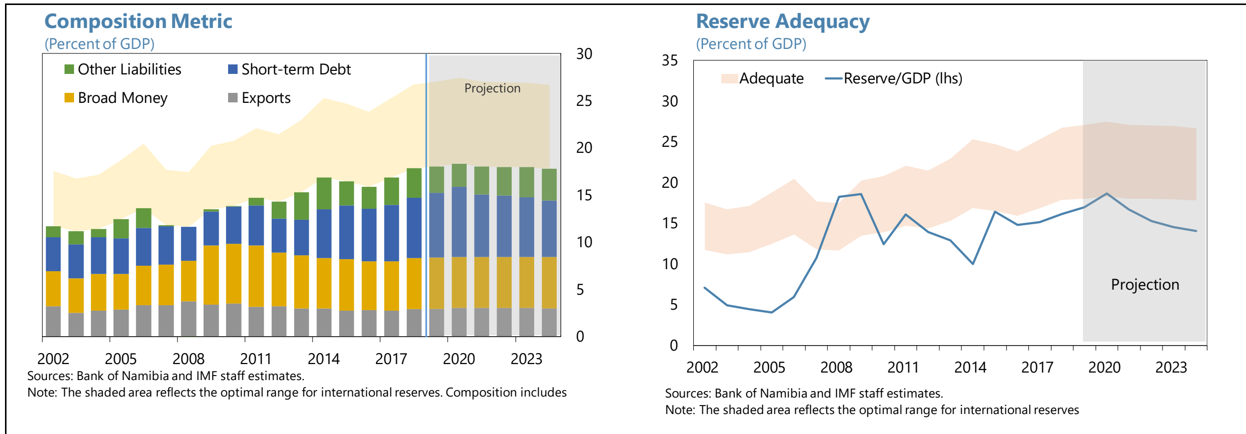
B. International Reserves Adequacy

10. Background. After falling for several years, reserves increased to 3.2 months of imports in 2015, boosted by the issuance of the Eurobond and some swap operations by BoN, and since then have been steadily increasing to about 4 months of imports (16.1 percent of GDP) reflecting an improving current account and higher external borrowing by the private sector.



Sources: Bank of Namibia and IMF staff estimates.

11. Assessment. International reserves at 16.1 percent of GDP are below the IMF's metric to assess reserve adequacy for market access countries (18–27 percent of GDP, which has been increasing mainly due to the upward trend in short-term debt). Under staff baseline scenario, reserves are expected to decline to around 3.5 months of imports (14 percent of GDP) by 2024 as the government redeems part of the external maturities coming due. However, should the authorities fully implement their adjustment plans, the reserves coverage should return to adequate levels.



Sources: Bank of Namibia and IMF staff estimates.
Note: The shaded area reflects the optimal range for international reserves. Composition includes

Sources: Bank of Namibia and IMF staff estimates.
Note: The shaded area reflects the optimal range for international reserves

Annex II. Risk Assessment Matrix[1]

Source of main risks	Relative Likelihood and Time Horizon	Expected impact on the economy	Recommended Policy Response
Rising protectionism and retreat from multilateralism, with increased financial market volatility, and negative consequences for growth, exacerbated by adverse changes in market sentiment and investment.	**High** **ST, MT**	**Medium/High** Larger current account and fiscal imbalances due to lower commodity prices, depressed exports, and lower SACU revenues as South Africa growth deteriorates; pressures on public debt and reserves and refinancing risks.	Accelerate structural reforms to promote growth and economic diversification by improving productivity growth competitiveness. Implement fiscal consolidation plans and consider additional adjustment depending on the size of buffers and the persistence of shocks.
Weaker than expected global growth, trigger by slowdown in the US, China and Europe with negative spillovers on the global economy and emerging markets (e.g., South Africa)	**Medium /High** **ST, MT**		
Sharp tightening of global financial conditions, triggered by tighter US monetary policy, rise in risk premium associated with concerns about debt levels in some euro area countries, disorderly Brexit or idiosyncratic policy missteps in large emerging markets.	**Low/Medium** **ST**	**Medium** Rand depreciation and inflationary pressures. Higher interest rates and reduced access to financial markets. Higher debt service and refinancing risks for the sovereign; pressures on highly leveraged households and banks' balance sheets. Additional strains on fiscal and external accounts.	Maintain policy rate in line with the South African Reserve Bank's rate. Seek external financing to support reserves. Monitor liquidity risks and accelerate Basel III liquidity requirements adoption, implement ELA framework. Modify debt management and tighten fiscal policy to reduce refinancing risks and cost.
Incomplete or weak policy implementation, that undermines confidence in the government's fiscal adjustment plans, e.g., triggered by political and capacity constraints, and materialization of contingent liabilities.	**Medium** **MT**	**High** Rising public debt, and tighter budget financing; declining international reserves; possible disorderly fiscal adjustment and deterioration in financial sector's asset quality.	Set an explicit numerical fiscal anchor. Identify permanent spending reductions and revenue rising measures that support long-term development. Accelerate reforms of public extra budgetary entities, continue policies restraining the wage bill. Implement mitigating measures for the most vulnerable. Monitor and manage key fiscal risks and financial sector vulnerabilities
Protracted drought and climate change in Southern Africa, that causes water shortages and lower production.	**Medium** **ST, MT**	**Medium** Higher food prices; lower electricity production; fiscal costs to support farmers and rural population; higher unemployment.	Strengthen and activate contingency plans for drought and natural disasters. Accelerate the structural transformation of the economy.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff under current policies). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more; ST and MT are meant to indicate that the risks could materialize within 1 year and 3 years, respectively). The RAM reflects staff's views on the sources of risk and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex III. Debt Sustainability Analysis

Over the last decade, Namibia's debt indicators have deteriorated significantly. The pace of deterioration recently slowed as the government tightened its fiscal stance. With still a large deficit, without additional actions, public debt would remain on a rising path and government's financing needs large, creating liquidity pressures. This leaves Namibia's debt outlook exposed to delayed fiscal consolidation and rollover risks, as well as vulnerable to macroeconomic and contingent liability shocks, with exchange rate risks compounding the risk assessment. The external debt profile indicates vulnerabilities to exchange rate depreciation and current account shocks.

A. Public Debt[1]

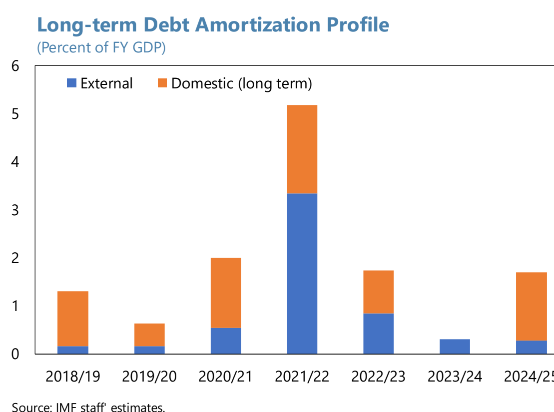
Background

1. Namibia's central government public debt ratio has been rising since 2010, although the pace of the increase has recently slowed down reflecting the government's consolidation efforts. Between FY10/11 and FY18/19, the public debt to GDP ratio increased from 16½ percent of GDP to 45¾ percent of GDP, as the primary deficit averaged about 4.2 percent of GDP. Sharp increases in recurrent expenditures, particularly wage and transfers, kept the deficit large and debt increasing. By FY15/16 public debt exceeded the authorities' own debt management ceiling (35 percent of GDP). Since FY16/17, authorities have embarked in a medium-term consolidation plan, government's primary spending has declined by about 10 percent of GDP by FY18/19, but a subdued economy, and volatile SACU revenues, resulted in still large primary deficits.

2. With rising gross financing needs, the authorities have been diversifying their funding sources. Between FY16/17 and FY18/19, gross financing needs averaged 17.1 percent of GDP, above the 15 percent of GDP DSA debt distress risk threshold. To cover these needs, authorities have been diversifying their funding sources and borrowing instruments, expanding external borrowing and somewhat extending maturities. In 2015, they issued a US$750 million ten-year Eurobond; between 2015 and 2016 they issued rand denominated bonds for about R2 billion; and in 2017–19 used an AFDB's budget support facility. At the same time, they expanded their debt maturity structure with 30-year instruments. Nevertheless, the domestic market remains the government's main source of financing. Banks tend to buy short-term debt, while non-bank institutions focus on the long-term fixed rate and inflation indexed debt instruments. Moreover, in 2016 the authorities announced (and enforced in 2018) a regulatory change increasing the minimum required investment in domestic assets for pension funds and other institutional investors from 35 to 45 percent of assets. This change resulted in increased domestic liquidity and domestic market absorption capacity, which has led to a tighter financial-sovereign nexus.

[1] Analysis based on central government debt and on fiscal year (April 1–March 31). It excludes government's guarantees to other entities. Guarantees are not called often and usually for small amounts. As of FY18/19, guarantees amounted to 6 percent of GDP. A legal limit of 10 percent of GDP is in place.

3. Nevertheless, the maturity and composition of public debt carry significant rollover risks and exchange rate vulnerabilities. Since FY11/12 domestic short-term debt has averaged about 40 percent of domestic debt and 26 percent of total debt. While the recent recourse to external borrowing has reduced reliance on short-term debt and extended the average debt maturity, it has created bullet amortization needs over the coming years. In addition, it has increased foreign exchange risks with non-rand foreign currency debt averaging about 22 percent of total debt over FY15/16–18/19 (from 15 percent in FY14/15).



Outlook and Risks

4. Under staff's baseline scenario, the public debt ratio will remain on a rising path, and government's gross financing needs will exceed debt distress levels (Figures 1–4). Under staff's projections, with no additional fiscal adjustment the public debt ratio would continue rising and approach 56 percent of GDP by FY24/25. The primary deficit would remain larger than the debt-stabilizing level and gross financing needs would continue to grow, peaking at 21 percent of GDP in FY21/22 as large external debt amortizations come due. Assuming some issuances in the Johannesburg Stock Exchange (JSE) and a partial roll-over of the Eurobond coming due in FY21/22, financing the deficit will require further absorption from domestic financial institutions that should increase their holdings of government securities by about 50–60 percent from current levels.

5. Alternative scenarios and stress analysis highlight additional vulnerabilities to macro and contingent liability shocks (Figures 4–5). With gross financing needs averaging above 17 percent of GDP, macro or contingent liability shocks could trigger a debt distress episode even if the debt level itself remains in a low or medium risk area. A contingent liability shock (with default of all guaranteed debt, equivalent to about 31½ percent of FY18/19 primary spending), combined with real GDP and interest rate shocks, would lead to a debt level and gross financing needs of 63.5 and 26.6 percent of GDP by FY21/22, respectively. A macro-fiscal shock—entailing shocks to growth and interest rates, and a temporary lower primary balance—would result in the sharpest increase in the debt-to-GDP ratio and gross financing needs to 75 and 29 percent, respectively. Exchange rate and temporary real GDP shocks have smaller effects on debt and on gross financing needs but nevertheless they both push the debt above the high risk of debt distress threshold given the initially high baseline debt ratio.

6. If the authorities fully implement their medium-term adjustment plans (2 percent of GDP over the next two years), the debt outlook would significantly improve. Under this scenario (see main text), public debt would peak in FY20/21 at about 50 percent of GDP and slightly decline afterwards. However, gross financing needs would remain high at around 16 percent of GDP.

B. External Debt[2]

7. Following several years of steady increase, in 2018, Namibia's external debt declined, reflecting the improvement in the current account. During 2013–2018, the stock of public external debt as the ratio to GDP roughly doubled, reaching 58.4 percent of GDP at end-2018, due to new external borrowing. Private sector external debt amounts to 74 percent of total external debt and is mostly loans between fellow enterprises. About 90 percent of total external debt has long and medium-term maturities.

Namibia's External Debt

(percent of GDP)	2013	2014	2015	2016	2017	2018
Total	37.1	43.0	47.2	58.4	61.7	58.4
Public (without guarantees)	8.6	8.5	15.7	15.4	14.0	16.1
Private	29.2	35.0	34.4	41.8	46.6	43.6
By maturity						
Short-term	8.1	8.0	5.6	6.4	7.7	7.0
Long and medium-term	29.0	35.0	41.7	52.0	54.0	51.4

Sources: BoN, and IMF staff estimates.

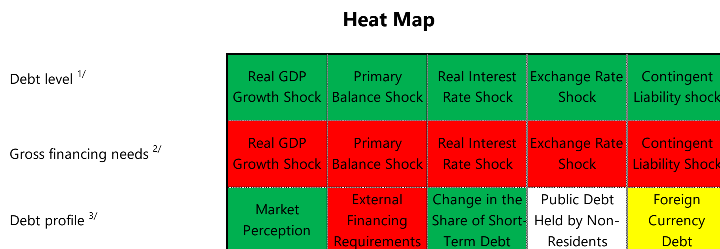
8. Namibia's external debt is projected to gradually decrease over time. The external debt-to-GDP ratio is foreseen to start decreasing after 2020 as mostly driven by pubic external debt (Table 1). Gross external financing needs (GEFN) are projected to average about 22.8 percent of GDP over the projection period, with short-term debt amortization amounting to about a third of the GEFN.

9. Sensitivity tests suggest the external debt is vulnerable to current account shocks. If the non-interest current account deficit widened by 3.5 percent of GDP (1/2 standard deviation shock) during 2019–23, the external debt would increase to about 82 percent of GDP by 2024. The impact of real interest rate shocks is small due to the sizeable share of fixed-rate debt. External debt is also limitedly sensitive to exchange rate depreciation. A 30 percent exchange rate depreciation would increase external debt to about 67 percent of GDP, as only about 20 percent of the external debt is denominated in a foreign currency different form the south African rand.

[2] Analysis based on calendar year.

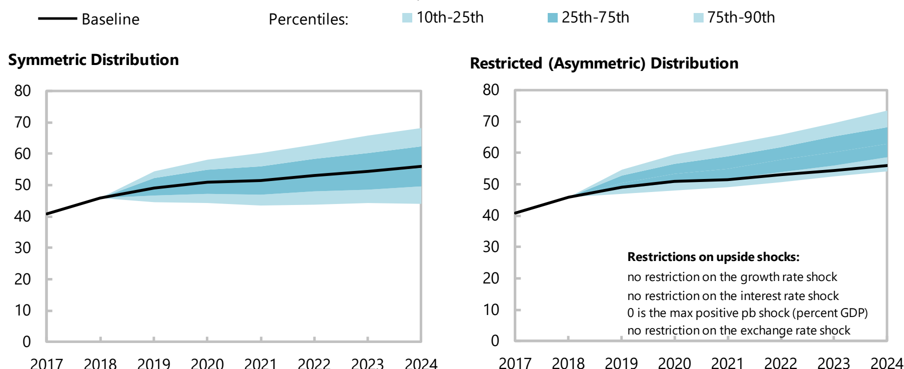
Figure 1. Namibia: Public DSA Risk Assessment

Heat Map



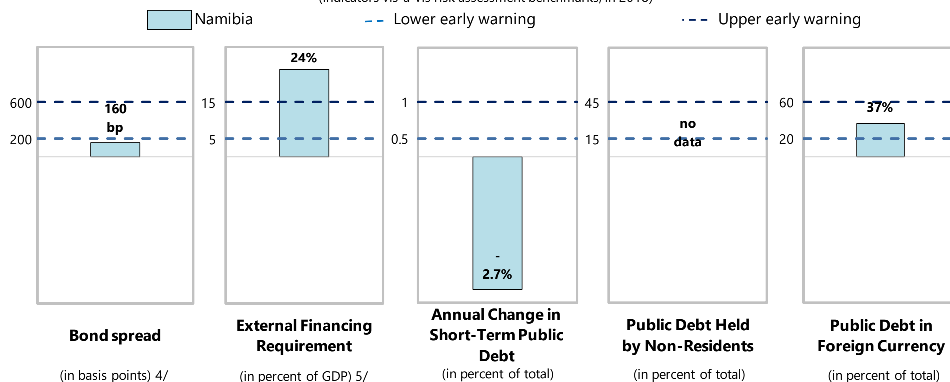
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



Source: IMF staff.

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

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

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

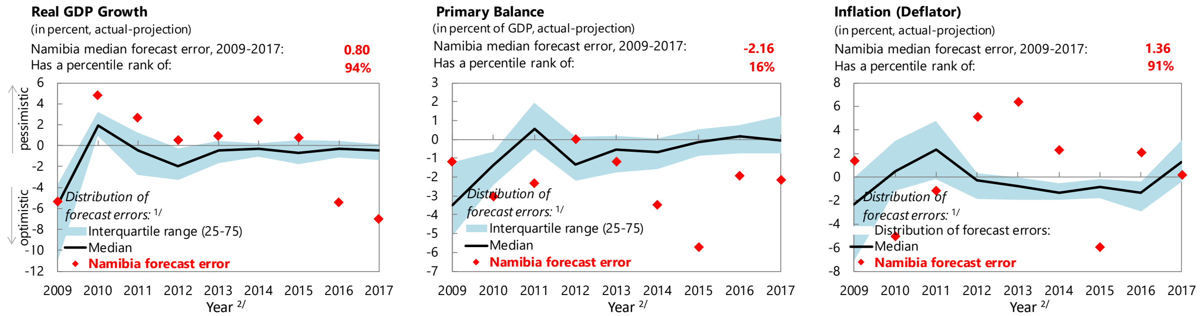
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 27-Nov-18 through 25-Feb-19.

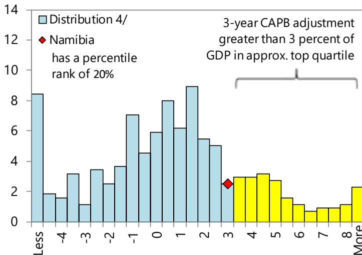
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

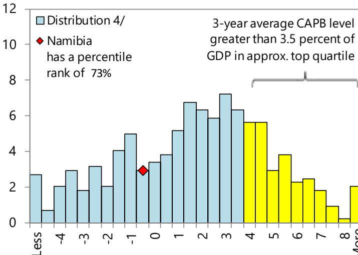
Figure 2. Namibia: Public DSA – Realism of Baseline Assumptions /1

Forecast Track Record, versus program countries

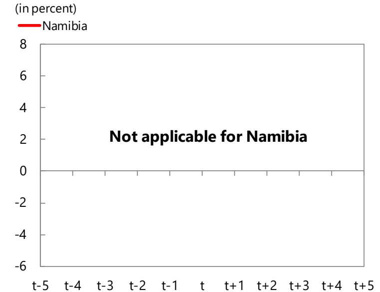


Assessing the Realism of Projected Fiscal Adjustment





Boom-Bust Analysis 3/



Source : IMF Staff.

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

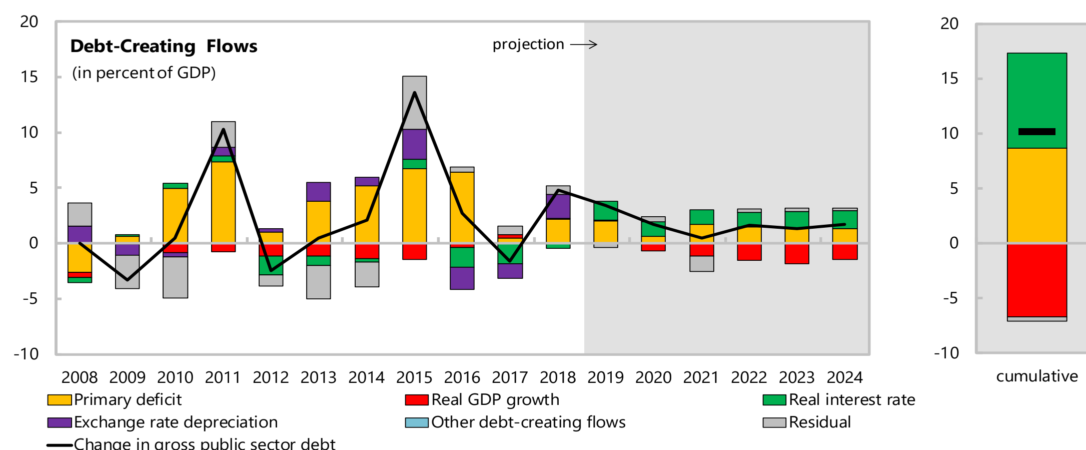
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	25.9	41.0	45.8	49.2	50.9	51.4	53.0	54.3	56.0
Public gross financing needs	7.8	16.3	16.7	17.0	16.9	21.1	17.4	16.3	17.8
Real GDP growth (in percent)	4.3	-0.9	-0.1	-0.2	1.6	2.4	3.2	3.9	3.0
Inflation (GDP deflator, in percent)	7.2	9.7	6.5	4.4	5.2	5.2	5.3	5.6	5.3
Nominal GDP growth (in percent)	11.5	8.2	5.8	4.9	7.1	8.0	9.0	9.4	8.4
Effective interest rate (in percent) [4/]	7.7	7.5	8.4	8.3	8.1	8.0	8.2	8.8	8.8

As of February 25, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		385
5Y CDS (bp)		258
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	n.a.	n.a.
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.7	-1.6	4.8	3.4	1.7	0.5	1.6	1.3	1.7	10.2	
Identified debt-creating flows	3.0	-2.3	4.0	3.8	1.3	1.9	1.3	1.0	1.5	10.7	
Primary deficit	3.7	0.5	2.2	2.0	0.7	1.7	1.5	1.4	1.3	8.6	0.2
Primary (noninterest) revenue and gr	31.8	32.0	28.7	28.9	30.8	29.8	30.0	30.0	30.0	179.5	
Primary (noninterest) expenditure	35.5	32.5	30.9	30.9	31.5	31.5	31.5	31.4	31.4	188.1	
Automatic debt dynamics [5/]	-0.7	-2.8	1.8	1.8	0.6	0.1	-0.2	-0.4	0.2	2.0	
Interest rate/growth differential [6/]	-1.2	-1.5	-0.4	1.8	0.6	0.1	-0.2	-0.4	0.2	2.0	
Of which: real interest rate	-0.3	-1.8	-0.4	1.7	1.3	1.3	1.3	1.4	1.7	8.7	
Of which: real GDP growth	-0.8	0.3	0.0	0.1	-0.7	-1.1	-1.5	-1.9	-1.5	-6.7	
Exchange rate depreciation [7/]	0.5	-1.4	2.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization Proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Eur	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.4	0.7	0.8	-0.4	0.4	-1.4	0.3	0.3	0.2	-0.4	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

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

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

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

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

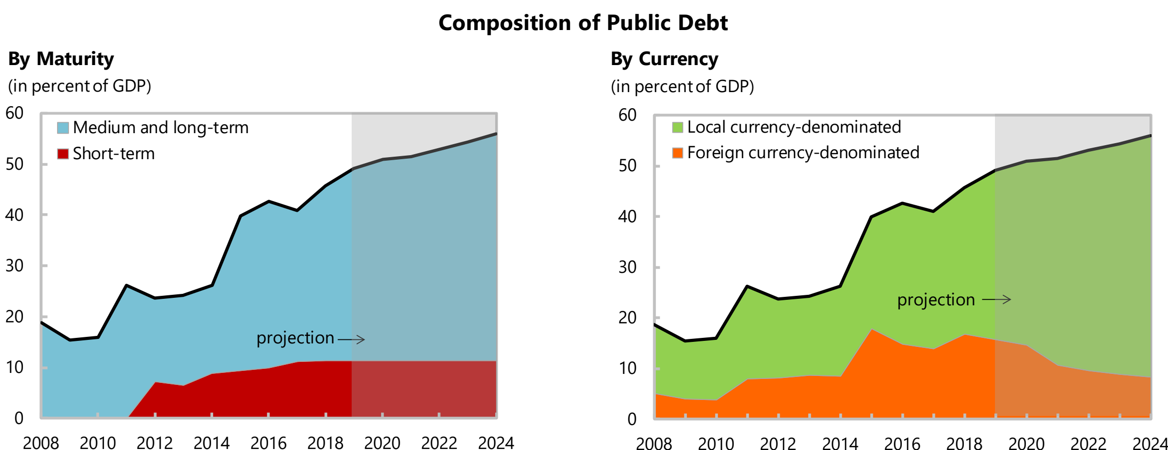
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

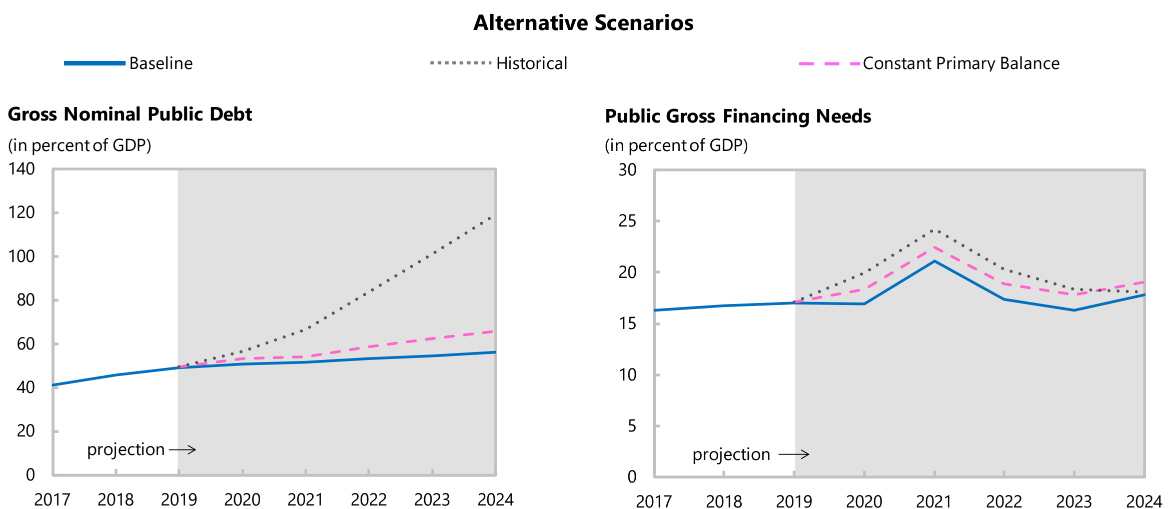
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

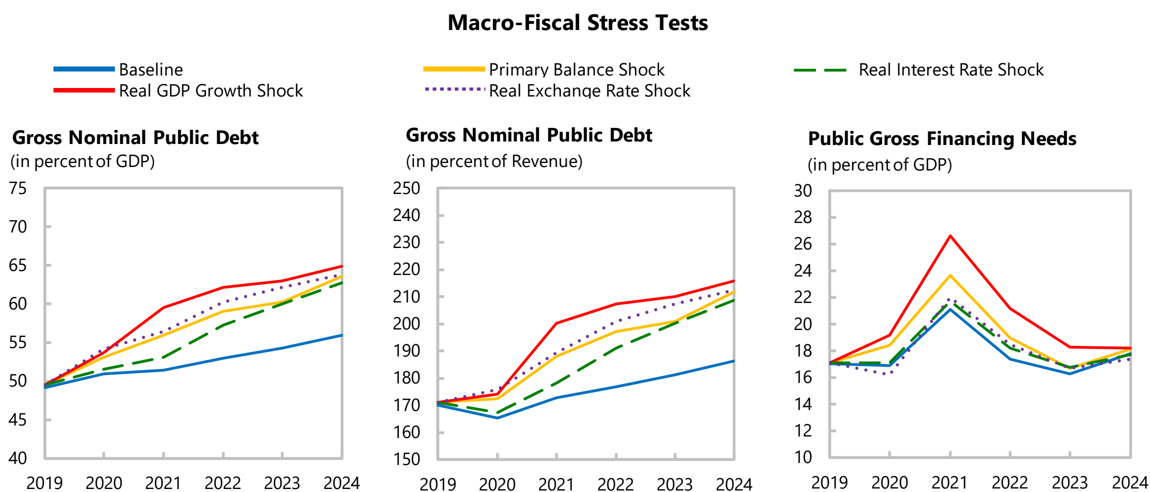
(in percent)

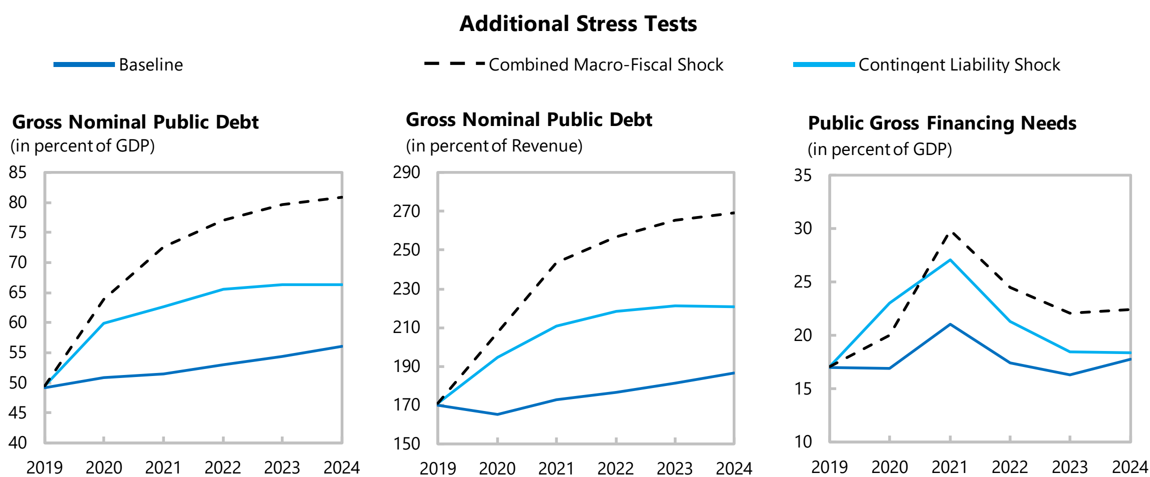
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-0.2	1.6	2.4	3.2	3.9	3.0
Inflation	4.4	5.2	5.2	5.3	5.6	5.3
Primary Balance	-2.0	-0.7	-1.7	-1.5	-1.4	-1.3
Effective interest rate	8.3	8.1	8.0	8.2	8.8	8.8
Constant Primary Balance Scenario						
Real GDP growth	-0.2	1.6	2.4	3.2	3.9	3.0
Inflation	4.4	5.2	5.2	5.3	5.6	5.3
Primary Balance	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Effective interest rate	8.3	8.1	7.8	7.8	7.8	7.0

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-0.2	3.5	3.5	3.5	3.5	3.5
Inflation	4.4	5.2	5.2	5.3	5.6	5.3
Primary Balance	-2.0	-3.9	-3.9	-3.9	-3.9	-3.9
Effective interest rate	8.3	8.1	6.5	5.6	4.7	3.6

Source: IMF staff.

Figure 5. Namibia: Public DSA – Stress Tests





Underlying Assumptions
(in percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	-0.2	1.6	2.4	3.2	3.9	3.0
Inflation	4.4	5.2	5.2	5.3	5.6	5.3
Primary balance	-2.0	-2.0	-3.1	-1.5	-1.4	-1.3
Effective interest rate	8.3	8.2	8.5	8.9	9.0	8.7
Real Interest Rate Shock						
Real GDP growth	-0.2	1.6	2.4	3.2	3.9	3.0
Inflation	4.4	5.2	5.2	5.3	5.6	5.3
Primary balance	-2.0	-0.7	-1.7	-1.5	-1.4	-1.3
Effective interest rate	8.3	8.2	9.2	9.7	10.2	10.0
Combined Shock						
Real GDP growth	-0.2	-1.4	-0.5	3.2	3.9	3.0
Inflation	4.4	4.5	4.4	5.3	5.6	5.3
Primary balance	-2.0	-2.1	-4.5	-1.5	-1.4	-1.3
Effective interest rate	8.3	9.4	9.0	9.7	10.2	9.9

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	-0.2	-1.4	-0.5	3.2	3.9	3.0
Inflation	4.4	4.5	4.4	5.3	5.6	5.3
Primary balance	-2.0	-2.1	-4.5	-1.5	-1.4	-1.3
Effective interest rate	8.3	8.2	8.6	9.3	9.3	9.0
Real Exchange Rate Shock						
Real GDP growth	-0.2	1.6	2.4	3.2	3.9	3.0
Inflation	4.4	16.7	5.2	5.3	5.6	5.3
Primary balance	-2.0	-0.7	-1.7	-1.5	-1.4	-1.3
Effective interest rate	8.3	9.4	8.1	8.5	8.9	8.6
Contingent Liability Shock						
Real GDP growth	-0.2	-1.4	-0.5	3.2	3.9	3.0
Inflation	4.4	4.5	4.4	5.3	5.6	5.3
Primary balance	-2.0	-5.6	-1.7	-1.5	-1.4	-1.3
Effective interest rate	8.3	9.1	9.1	8.7	9.0	8.7

Source: IMF staff.

Table 1. Namibia: External Debt Sustainability Framework, 2014–2024

(In percent of GDP, unless otherwise indicated)

	Actual													
	2014	2015	2016	2017	2018	10-Year Historical Average	10-Year Standard Deviation	2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	43.0	47.2	58.4	61.7	58.4			**62.5**	**62.5**	**60.7**	**59.1**	**57.9**	**57.7**	**-2.6**
Change in external debt	5.9	4.3	11.2	3.3	-3.4			4.1	0.0	-1.8	-1.6	-1.2	-0.2	
Identified external debt-creating flows (4+8+9)	5.6	10.0	14.3	-8.6	-2.5			1.7	-1.1	0.0	0.0	-0.3	0.5	
Current account deficit, excluding interest payments	8.9	13.1	14.8	4.2	0.5			2.3	0.3	1.7	2.2	2.3	2.6	
Deficit in balance of goods and services	-97.5	-95.2	-89.5	-78.8	-78.4			-81.1	-82.0	-82.4	-81.8	-82.0	-81.6	
Exports	37.7	35.1	33.2	33.0	34.3			34.8	35.6	35.6	35.6	35.7	35.4	
Imports	-59.8	-60.1	-56.3	-45.8	-44.1			-46.3	-46.5	-46.9	-46.2	-46.3	-46.2	
Net non-debt creating capital inflows (negative)	-3.2	-7.2	-3.1	-3.8	-0.8			-2.4	-2.4	-2.3	-2.4	-2.4	-2.4	
Automatic debt dynamics 1/	0.0	4.1	2.7	-9.0	-2.2			1.9	1.0	0.6	0.1	-0.3	0.2	
Contribution from nominal interest rate	0.2	0.3	0.6	0.8	1.6			1.8	1.9	2.1	2.0	1.9	1.9	
Contribution from real GDP growth	-2.3	-2.8	-0.6	0.4	0.0			0.1	-0.9	-1.5	-1.8	-2.2	-1.6	
Contribution from price and exchange rate changes 2/	2.1	6.6	2.6	-10.2	-3.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	0.2	-5.7	-3.2	11.9	-0.9			2.4	1.1	-1.8	-1.5	-0.9	-0.7	
External debt-to-exports ratio (in percent)	113.9	134.6	175.9	187.0	170.4			179.8	175.7	170.6	166.2	162.4	163.2	
Gross external financing need (in billions of US dollars) 4/	3.3	3.7	3.8	3.0	2.9			3.3	3.1	3.9	3.8	3.9	4.2	
in percent of GDP	25.9	31.5	33.3	22.5	20.0			22.9	21.0	25.0	23.1	22.4	22.6	
Scenario with key variables at their historical averages 5/								**59.3**	**60.7**	**59.1**	**58.0**	**57.5**	**57.1**	**-8.8**
														For debt stabilization
Key Macroeconomic Assumptions Underlying Baseline														
Nominal GDP (US dollars)	12.8	11.8	11.3	13.6	14.5			14.4	14.9	15.6	16.5	17.6	18.5	19.6
Real GDP growth (in percent)	6.4	6.1	1.1	-0.9	-0.1	3.5	3.0	-0.2	1.6	2.4	3.2	3.9	3.0	3.0
GDP deflator in US dollars (change in percent)	-5.4	-13.3	-5.2	21.2	7.1	2.5	11.3	-0.8	2.4	2.1	2.4	2.5	2.4	2.5
Nominal external interest rate (in percent)	0.6	0.7	1.3	1.7	2.7	1.2	0.7	3.0	3.2	3.4	3.4	3.4	3.4	3.4
Growth of exports (US dollar terms, in percent)	9.7	-14.4	-9.3	19.5	11.1	3.7	13.9	0.5	6.4	4.6	5.7	6.7	4.5	
Growth of imports (US dollar terms, in percent)	10.7	-7.4	-10.2	-2.4	3.2	4.1	9.3	4.0	4.3	5.5	4.3	6.6	5.3	
Current account balance, excluding interest payments	-8.9	-13.1	-14.8	-4.2	-0.5	-6.7	4.5	-2.3	-0.3	-1.7	-2.2	-2.3	-2.6	
Net non-debt creating capital inflows	3.2	7.2	3.1	3.8	0.8	4.9	2.6	2.4	2.4	2.3	2.4	2.4	2.4	
B. Bound Tests														
B1. Nominal interest rate is at historical average plus one standard deviation								**62.9**	**63.3**	**61.8**	**60.6**	**59.7**	**59.8**	**-4.4**
B2. Real GDP growth is at historical average minus one standard deviations								**64.3**	**66.3**	**66.1**	**66.0**	**66.2**	**67.4**	**-3.6**
B3. Non-interest current account is at historical average minus one standard deviations								**67.0**	**71.5**	**73.9**	**76.3**	**78.7**	**82.2**	**-5.7**
B4. Combination of B1-B3 using one standard deviation shocks								**67.0**	**71.6**	**74.0**	**76.5**	**79.1**	**82.8**	**-4.1**
B5. One time 30 percent real depreciation in 2018								**62.5**	**70.3**	**68.3**	**67.0**	**66.2**	**66.8**	**-6.3**

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 dollars, 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

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

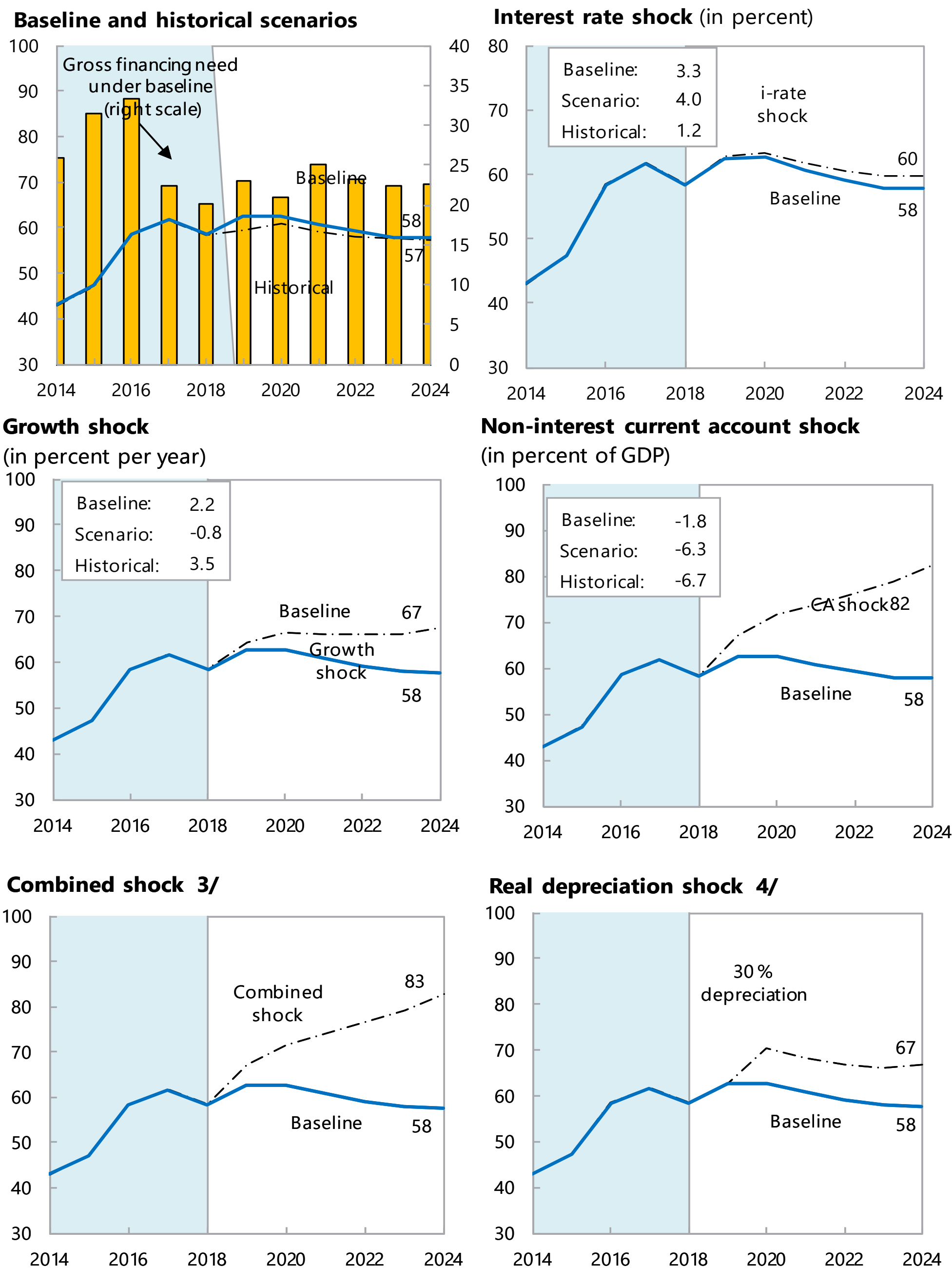
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(Percent of GDP)



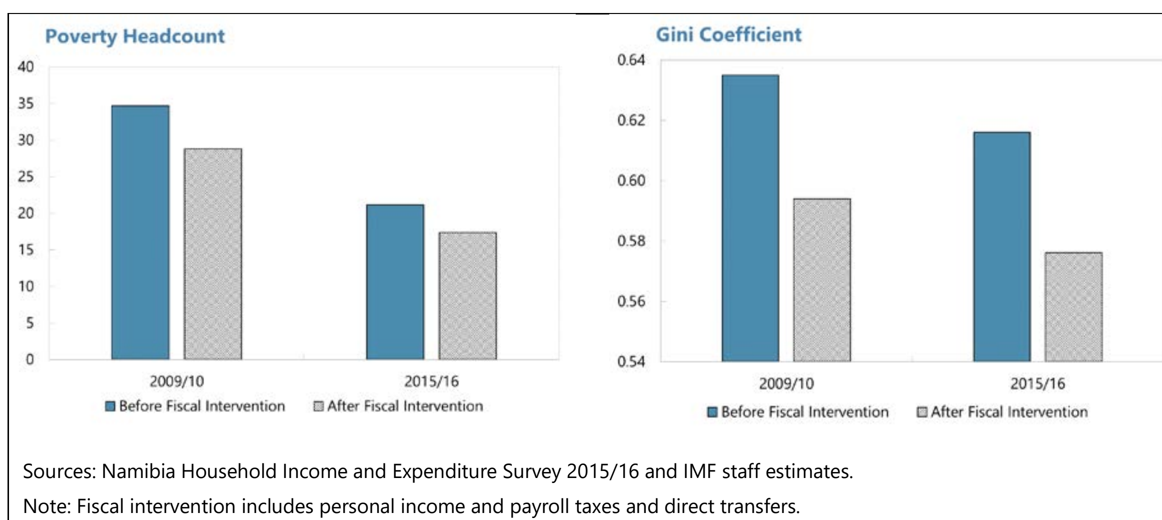
Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 2/3 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

Annex IV. Recent Trends in Poverty and Inequality in Namibia[1]

Over the past decade, poverty and inequality in Namibia have declined, driven by a combination of progressive fiscal policies and a reduction in market income inequality. The decline in market income inequality was associated with increased urbanization and improved educational attainment. However, the country remains one of the most unequal in the world, living conditions for the urban poor are bleak, child poverty remains high, and having a job does not always guarantee exiting poverty. While creating more and better jobs will be critical to make inroads into inclusive growth, there is room to enhance the redistributive role of fiscal policy that can contribute further to the reduction of poverty and inequality.

A. Introduction

1. Economic inequality and poverty in Namibia have declined in recent years, supported by the authorities' policies, yet inequality remains high by international standards.[2] Namibia has invested heavily in social safety nets, spending around 2 percent of GDP annually, one of the highest levels in the region. Combined with a decade of robust economic growth, social spending has contributed to a decline in poverty from 28.8 percent in 2009/10 to 17.4 percent in 2015/16. Economic inequality, as measured by the Gini coefficient, also declined from 0.58 to 0.56 between 2009/10 and 2015/16. However, Namibia remains one of the most unequal countries in the world.



Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.
Note: Fiscal intervention includes personal income and payroll taxes and direct transfers.

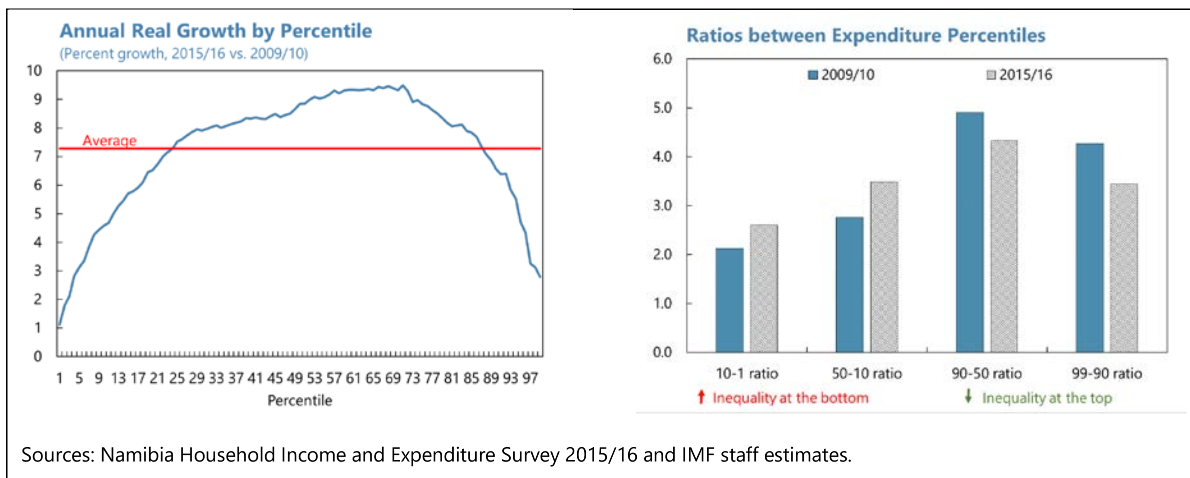
B. Recent Developments

2. The recent decline in inequality has particularly benefited the middle class. Since 2009/10, the consumption of households between the median and the 90th percentile of the

[1] Prepared by C. Alonso, in collaboration with J. Jellema and the Commitment to Equity Institute (www.commitmentoequity.org).

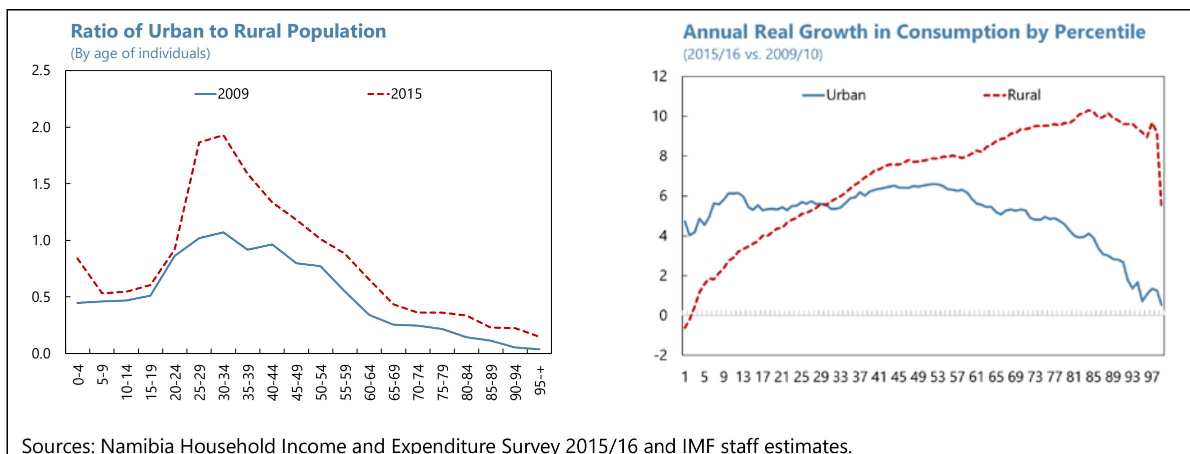
[2] Unless specified otherwise, inequality and poverty in this annex are defined in terms of annual consumption following the methodology outlined in the Namibia Household Income and Expenditure Survey 2015/16 Report.

distribution has experienced an average real growth rate of about 8.8 percent, as opposed to 6.5 percent for the bottom half of the households, and 4.9 percent for the top decile. Consumption growth for the bottom 10 percent of the households has only averaged 3 percent.
As a consequence, inequality at the bottom of the distribution has increased, while it has declined at the top. The median household consumes 3.5 times more than a household in the 10th decile, up from 2.8 times in 2009/10. On the other hand, a household in the 90th percentile consumes 4.3 times more than the median household, down from 4.9.



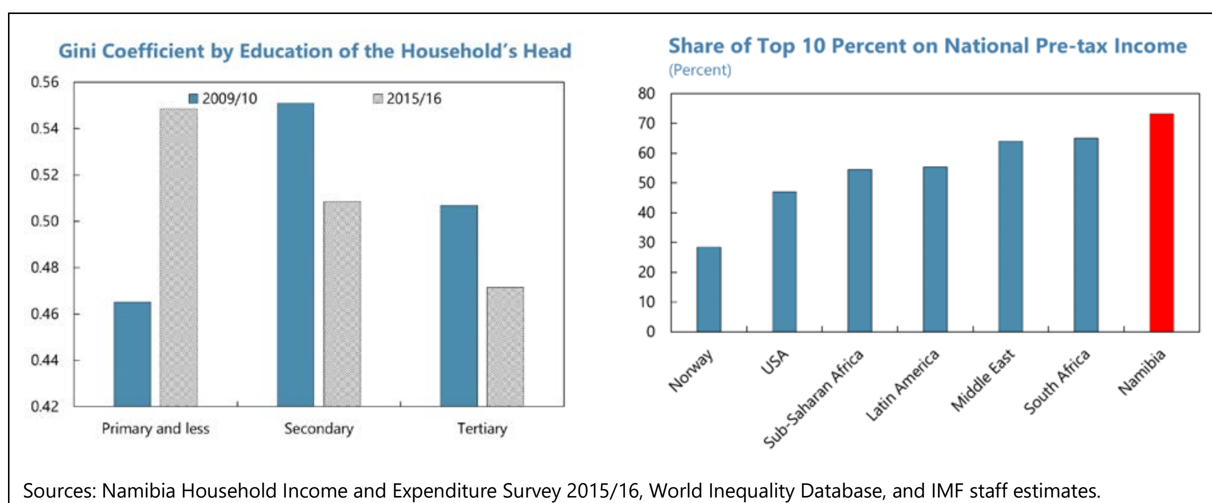
Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

3. Rapid urbanization has contributed to the decline in inequality. Namibia's population is rapidly urbanizing. The share of the population living in urban areas has increased from 37.9 percent in 2009/10 to 46.9 percent. More than half of households now live in urban areas. Migrants are mostly young adults, leading to a massive reallocation of the labor force towards more productive occupations. Today, there are almost twice as many people age 30–34 living in urban areas as there are in rural areas, while the ratio was just above even in 2009/10. The structural transformation from subsistence agriculture towards mostly urban services has led to a decline in overall inequality, and lower urban inequality. Urban areas have become less unequal with an average real growth rate of consumption of about 5.7 percent for the bottom half of the urban households as opposed to 1.5 percent for the top decile.



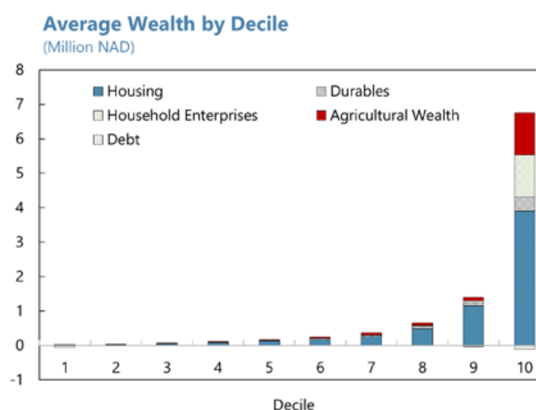
Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

4. **Raising educational attainment has also helped decrease inequality, but labor income remains highly concentrated in the top decile of the income distribution.** The share of household heads with primary education or less has declined from 48.6 percent in 2009/10 to 46.3 percent in 2015/16. Consistent with the observed increase in inequality in rural areas, inequality has increased for households with heads with low educational attainment. Unlike low educated ones, households with heads with secondary and tertiary education have experienced a decline in inequality, contributing to the overall reduction of the Gini coefficient. The wage premium for tertiary education (compared to primary education) has also gone down. Yet, labor income remains highly concentrated. The top decile receives two thirds of the total labor income in the country. For comparison, in terms of pre-tax market income, the top decile of Namibians gets 73 percent of national income, while the share is 65 percent in South Africa and 54 percent in the sub-Saharan Africa region as a whole.



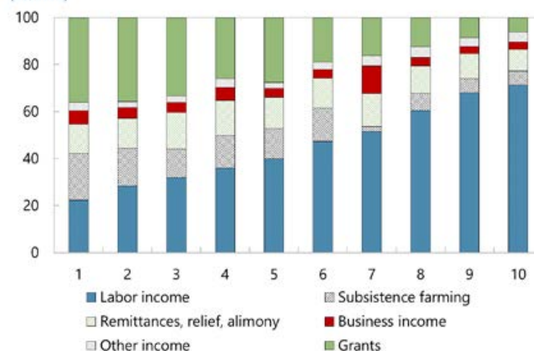
Sources: Namibia Household Income and Expenditure Survey 2015/16, World Inequality Database, and IMF staff estimates.

5. **Inequality in the distribution of wealth is massive, with housing wealth playing a key role.** Wealth inequality measured by the Gini coefficient is 0.82, compared to an index of 0.56 for consumption. The richest decile has 12 times as much wealth as the median household and more than 500 times wealth of the poorest decile. Wealth composition varies markedly across the distribution. While poor households' wealth is largely composed of durables and agricultural wealth, rich households own mostly real estate. Debt is an important component of net wealth for both the richest and the poorest households, while playing a limited role for the middle class.



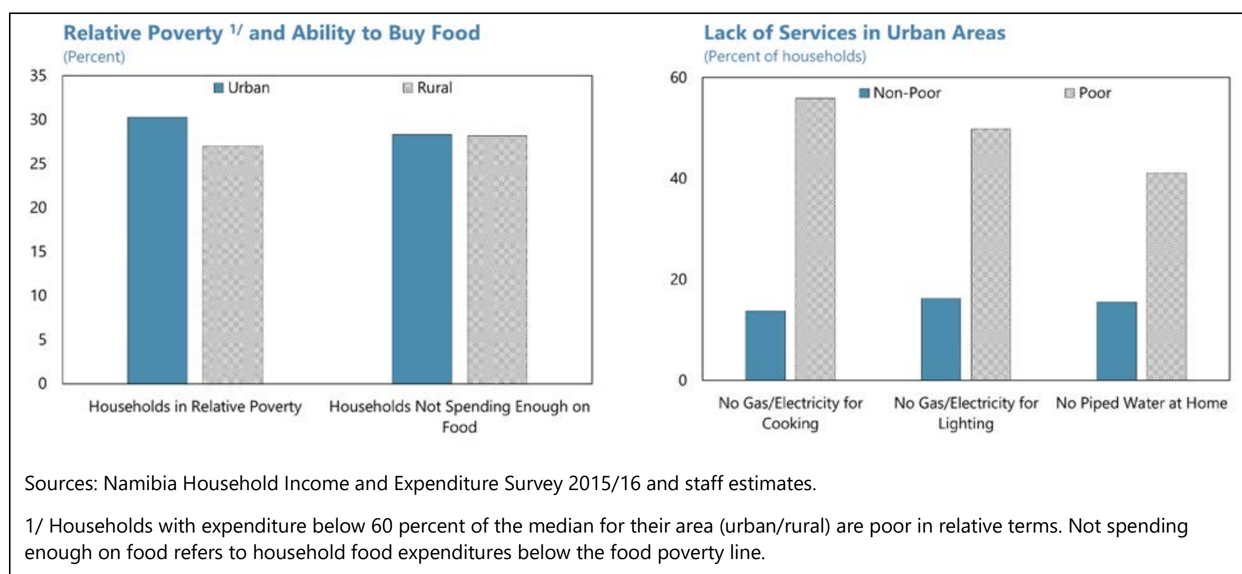
Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

6. While employment is critical to being well-off, it does not always allow people to exit poverty. Employment income is the largest source of income for richer households. Labor income represents on average 22 percent of income for households in the lowest decile, while it accounts for 71 percent of the income of the richest households. Nevertheless, having a full-time job is not always enough to exit poverty. The poverty rate among households whose head is full-time employed is still high at 7.6 percent driven by employment conditions in the private sector, particularly in agriculture. Households whose head is employed for a wage in agriculture have a poverty rate of 18.3 percent, as opposed to 5 percent for heads employed in non-agriculture activities, and 9.2 percent for self-employed heads, reflecting different productivity in those sectors.



Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

7. Absolute poverty is high in rural areas, and relative poverty is even higher in cities. When looking at absolute poverty, a quarter of the households in rural areas spend less than the national poverty line, whereas the fraction is lower than 10 percent for households living in urban areas. However, consumption profiles are very different between urban and rural areas, as the marketization of the latter is lower. Measuring poverty with relative lines, instead of a common absolute poverty line for each area, suggests that relative poverty is higher in urban than in rural areas. In urban areas, the poor account for 30.3 percent of the population, slightly above the countryside where the relative deprivation is 27.0 percent. Alternatively, considering the amount spent on food, the fraction of households spending less than the food poverty line is the same in urban and rural areas, because the urban poor spend a larger share of their relatively higher income

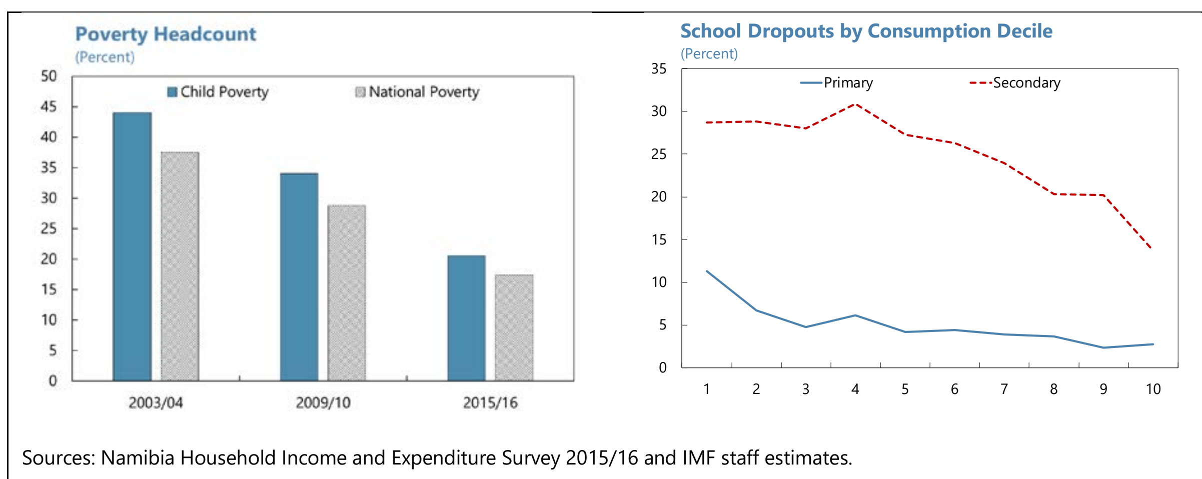


Sources: Namibia Household Income and Expenditure Survey 2015/16 and staff estimates.

1/ Households with expenditure below 60 percent of the median for their area (urban/rural) are poor in relative terms. Not spending enough on food refers to household food expenditures below the food poverty line.

on housing.[3] The majority of the urban poor lack services such as gas, electricity, and clean water. They benefit relatively less also from the government's cash transfers. Only a quarter of government spending on direct social transfers flows to urban areas. The disproportionate expense on rural areas reflects not only the lower household incomes, but also demographic differences with 70 percent of older adults and 61 percent of children living in the countryside.

8. **Children are still more likely than adults to be poor.** Child poverty declined from 34 percent in 2009/10 to 20.6 percent in 2015/16, but it is still higher than the overall poverty (17.4 percent). While the government offers child grants, data from the Namibia Household Income and Expenditure Survey 2015/16 suggests there are over 170,000 poor children who are not benefiting from the grant. Child poverty impends on educational attainment and thus, on the ability of poor children to improve their employment prospects and reduce their risk of poverty in the future. Children in rich households have lower primary and secondary education dropout ratios than children in poorer households. Expanding direct transfers for children and strengthening access to secondary education will be critical to guarantee employability of the youth, a group that is already experiencing very adverse employment outcomes.



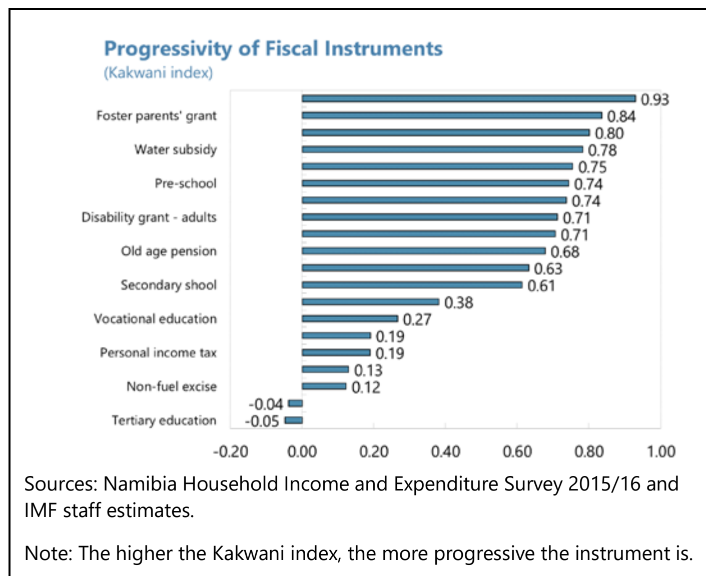
Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

C. Fiscal Policy in Namibia

9. **Overall fiscal policy in Namibia significantly reduces poverty and inequality, but the degree of effectiveness of different fiscal instruments varies widely.** Absent fiscal policy, the poverty rate would have been 21.1 percent instead of 17.4 and the Gini coefficient would have been 0.62 instead of 0.56. But there is substantial heterogeneity in how effective different instruments are at reducing poverty and inequality. For example, the housing subsidy component of the Building Together Program (BTP) is the most progressive and effective instrument (according to the Kakwani index), while the housing subsidy provided by the National Housing Enterprise is one of the least progressive tools. Moreover, direct transfers such as foster parents and disability grants are very progressive, while the veterans' grant is the least progressive direct transfer. Public health

[3] Urban poverty could be even higher considering that prices of foodstuff may be higher in cities and where households do not have the option to self-produce.

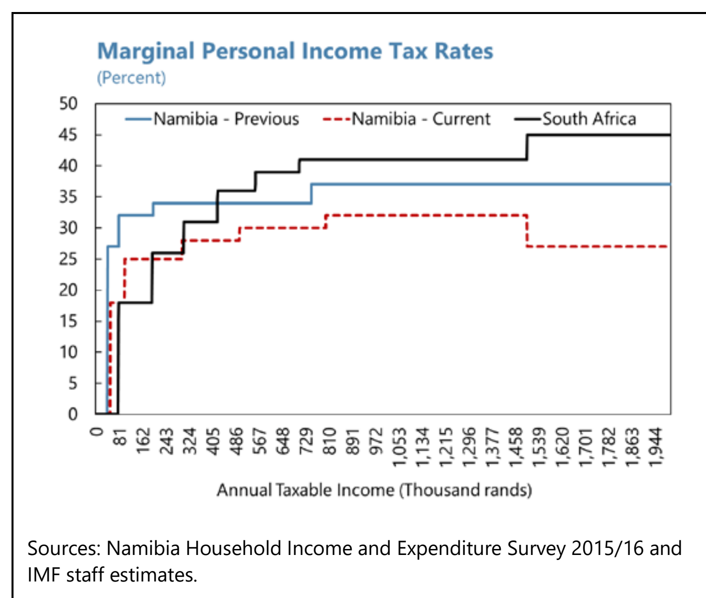
expenditures are progressive, whereas the progressivity of education spending, not surprisingly, declines with the level of education, with spending in tertiary education being regressive. When looking at the tax system, there are some mildly progressive instruments such as the personal income tax (PIT) and the excises, while the value added tax (VAT) is somewhat regressive.



Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

Note: The higher the Kakwani index, the more progressive the instrument is.

10. While the personal income tax reduces the inequality in income, it has become less progressive over time. The 2013 reform of the personal income tax schedule reduced rates at every income level, but richer households benefited relatively more of the rate reductions. As a result, the progressivity of the personal income tax, as measured by the Kakwani index, declined from 0.20 to 0.19. In Namibia, tax rates on low-income households are higher than in South Africa while they are lower for high-income households.



Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

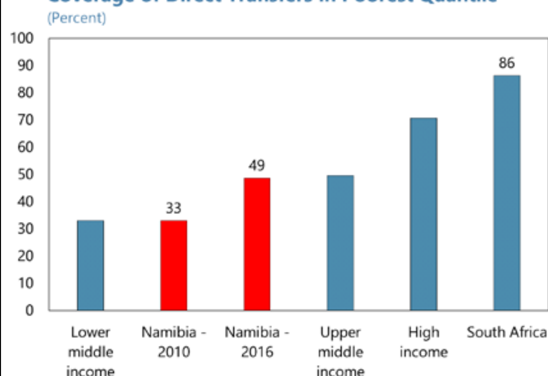
11. The recent expansion of direct transfers has reduced inequality and poverty, but weak targeting of such transfers constrains their effectiveness. Between 2009/10 and 2015/16, spending in direct transfers (e.g., old age grant, children's grants) increased from 1.6 percent of GDP to 2 percent. The increase helped raise coverage of the poorest quantile of the population to 49 percent (33 percent in 2009/10), closer to the mean performance of upper-middle income economies, but still lower than the 86 percent coverage experienced in South Africa. While the size and the coverage of direct transfers have improved, their effectiveness in terms of reducing poverty and inequality has declined, partly owing to the lack of adjustment in the targeting mechanisms to the changing features of poverty and inequality in the country. In addition, half of the increase in direct transfers spending went to the old age pension, which is granted to all Namibians older than 60 regardless of income. While the old age pension reduces poverty by 19.1 percent and inequality by 2.0 percent, it does so at a cost of 1.3 percent of GDP, over 60 percent of the spending in direct transfers.

Impact and Cost of Direct Transfers in Namibia

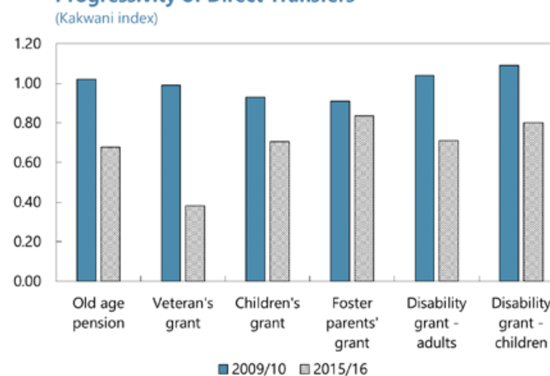
	Reduction in Poverty Headcount (%)		Reduction in Gini coefficient (%)		Cost (% of GDP)	
	2009/10	2015/16	2009/10	2015/16	2009/10	2015/16
All Direct Transfers	**31.6**	**27.2**	**5.0**	**3.5**	**1.6**	**2.0**
Old age pension	24.9	19.1	3.6	2.0	1.0	1.3
Veteran's grant	1.3	4.5	0.2	0.3	0.1	0.2
Children's grant	6.7	4.0	0.5	0.5	0.2	0.4
Foster parents' grant	1.9	3.0	0.2	0.3	0.1	0.0
Disability grant - adults	4.9	3.7	0.5	0.4	0.2	0.2
Disability grant - children	1.3	0.2	0.0	0.0	0.1	0.0

Sources: Namibia Household Income and Expenditure Survey 2015/16 and staff estimates.

Coverage of Direct Transfers in Poorest Quantile
(Percent)



Progressivity of Direct Transfers
(Kakwani index)



Sources: Namibia Household Income and Expenditure Survey 2015/16 and IMF staff estimates.

12. There is room to enhance the impact of fiscal policy to further mitigate poverty and inequality. Both spending and revenue measures can contribute to improve the distributional impact of fiscal policy: [4]

a. *Children's grants and old age pensions.* Doubling the coverage of children's grants appears to be one of the most effective policies to reduce poverty. For instance, increasing the number of children covered by the grant from the current 180,000 children to 360,000 would reduce poverty by 1.8 percent and inequality by 0.3 percent. Urban and child poverty would drop even more. The cost of such a policy would be around 0.4 percent of GDP.[5] Part of this cost could be covered by introducing a weak form of means-testing to the old age pension. For example, excluding the top 25 percent of richest households in terms of income could save 0.1–0.3 percent of GDP, without noticeable impact on inequality but possibly somewhat increasing poverty.[6]

b. *Housing subsidies.* Improving the targeting and doubling the coverage of the housing subsidy component of the BTP would reduce poverty, particularly in urban areas, at a very low fiscal cost.

c. *Personal income tax (PIT).* Increasing the progressivity of the PIT would reduce the Gini coefficient without affecting poverty, while raising revenue. For example, raising the top marginal rate to 39 (from 27 percent) and creating an additional income bracket for income greater than N$ 2.5 million taxed at 40 percent would reduce the Gini coefficient by 0.3 percent and raise about 0.2–0.5 percent of GDP in fiscal revenue.[7]

d. *Indirect taxation.* Eliminating some of the zero-rating under the VAT could raise enough revenue to offset possible negative distributional effects. For example, removing the zero-rate VAT for residential utilities and fuel products could increase revenues by about 0.1–0.6 percent of GDP, enough to offset for the negative effect on poverty if used to expand social programs.

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[4] For further details on the methodology of these simulations, please refer to "Does Fiscal Policy Benefit the Poor and Reduce Inequality in Namibia? The Distributional Impact of Fiscal Policy in Namibia", The World Bank, 2017.

[5] The simulation assumes that the expansion happens through an increase in the threshold of monthly income on which the benefit is tested. Currently, households need to report a monthly income below N$ 1,000 to be eligible for the grant. The simulation results do not assume increases in the administrative cost of expanding the targeting mechanism.

[6] Targeting the old age pension transfers may lead to an increase in poverty because some of the elders belonging to households in the top income quartile reside in households that, in terms of consumption (used to calculate poverty), are below the poverty line. The simulation results do not include the administrative cost of implementing a targeting mechanism in the program.

[7] While the optimal top marginal personal income tax rate is a highly-debated topic, the literature has found that revenue maximizing rates may lay between 50 and 60 percent. See "Fiscal policy and income inequality," IMF Policy Paper, 2014. Revenue estimates do not account for possible effort disincentive effects and profit shifting due to the higher tax rates.

e. *Housing taxation.* Property taxation would have meaningful distributional effects if tax rates are significant. For instance, a property tax of about 3½ percent on the value of the top 10 percent most expensive properties in the country would reduce the Gini coefficient by 0.1 percent, with limited revenue effects.[8]

Poverty, Distributional and Revenue Effects of Selected Fiscal Policy Changes

	Poverty headcount (% change)	Urban poverty (% change)	Child poverty (% change)	Gini coefficient (% change)	Revenue effect (% GDP)
Raise top marginal rates of PIT	0.0	0.0	0.0	-0.3	0.2 - 0.5
Remove VAT zero-rate for utilities	0.0	0.0	0.0	0.0	0.0 - 0.1
Remove VAT zero-rate for fuel products	0.4	0.0	0.4	0.0	0.1 - 0.5
Introduce housing tax	0.0	0.0	0.0	-0.1	0.0 - 0.1
Introduce means testing in old age pension	0.3	0.8	0.2	0.0	0.1 - 0.3
Double coverage of childrens' grant	-1.8	-4.7	-8.1	-0.3	-0.4
Improve targeting and double coverage of housing subsidy	-0.1	-0.3	0.0	0.0	0.0

Source: Namibia Household Income and Expenditure Survey 2015/16 and staff estimates.

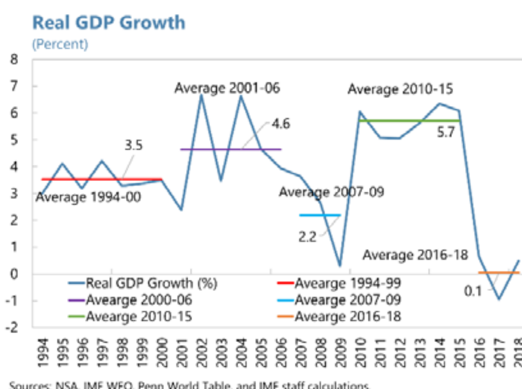
[8] Currently, property taxes are applied a local level. In Windhoek, property taxes are 0.08 percent of the assessed value of the land plus 0.0474 percent on the assessed value of the improvements. Simulations assume that part of the burden of the property tax would be borne by renters and not only owners.

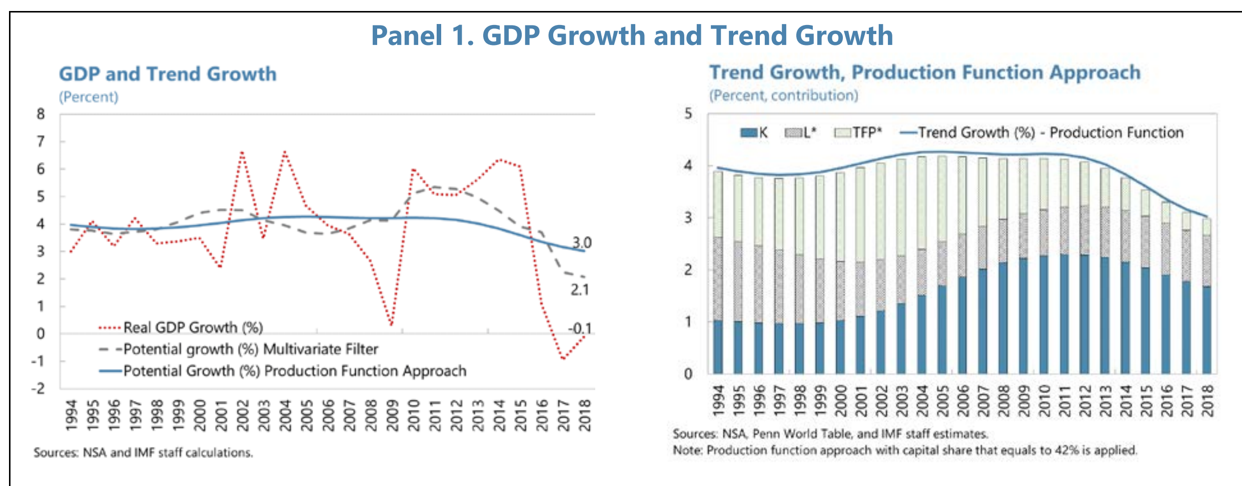
Annex V. Unleashing Growth Through Supply-Side Reforms[1]

Over the past decade, Namibia has experienced strong growth, but the contribution of total factor productivity to growth has been declining and is constraining the long-term potential of the economy. Several bottlenecks are hampering productivity growth, such as inefficiencies in the products market, particularly in network industries, a deteriorating business regulatory environment, lagging capacity to adopt new technologies, and lack of a high skilled labor force. Well-focused supply-side reforms that address these bottlenecks can significantly contribute to boost productivity growth in Namibia and increase long-term GDP growth by about 1¾ percent.

A. Declining Productivity and Growth Potential

1. Over the past decades, total factor productivity growth in Namibia has been on a declining trend and is constraining the growth potential of the economy. During 1994–2015, Namibia experienced a period of exceptional growth, with real GDP growth averaging about 4 percent (excluding the global financial crisis period). In addition, growth was even stronger during 2010-2015, as expansionary fiscal policies and the construction of large mines boosted demand. However, strong demand-driven growth masked low economic efficiency and declining total factor productivity growth (Panel 1). With limited fiscal space and no large private investment projects in sight, low productivity growth will hold back





[1] Prepared by C. Cheptea, P. Ganum, and A. Peralta. We are specially thankful to Lusine Lusinyan for advice and data sharing.

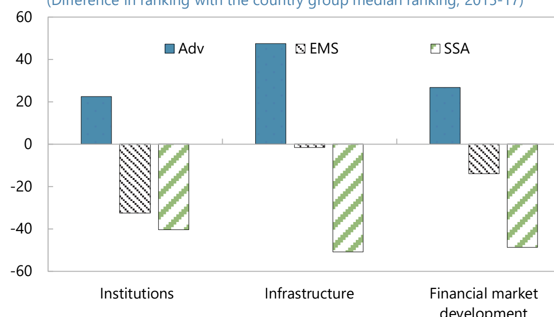
the country's future growth prospects.[2] Reviving productivity is therefore central to the growth and development of the country going forward. This annex evaluates key bottlenecks constraining productivity growth and examines supply side reforms that can improve Namibia's productivity performance and boost long-term growth.

B. What Holds Back Namibia's Productivity and Growth Potential[3]

2. Cross-country empirical evidence suggests that several structural factors matter for countries' productivity and growth performance. Evidence shows that institutional framework, quality of infrastructure, financial market development, market regulatory and business environment, among others, are associated with countries' TFP growth. The relevance of these factors may vary across countries' income group though (IMF, 2015).[4] For EMs, evidence shows that improving the business environment, easing labor market restrictions, and specific tax policy reforms system are the most important factors for improving productivity.

3. Namibia has strong institutions, good infrastructure, and well-developed financial markets that bode well for economic development. Namibia ranks better than the median of sub-Saharan African (SSA) countries, and better than the median of emerging market economies in the key pillars of the Global Competitiveness Index, including institutional framework and financial market development. Namibia's good quality infrastructure is reflected also in its favorable ranking when compared to the median of SSA countries.

Namibia's Structural Indicator Ranking Compared to Key Country Groups
(Difference in ranking with the country group median ranking, 2015-17)



Sources: WEF Global Competitiveness Index 2017/18 and IMF staff calculations.

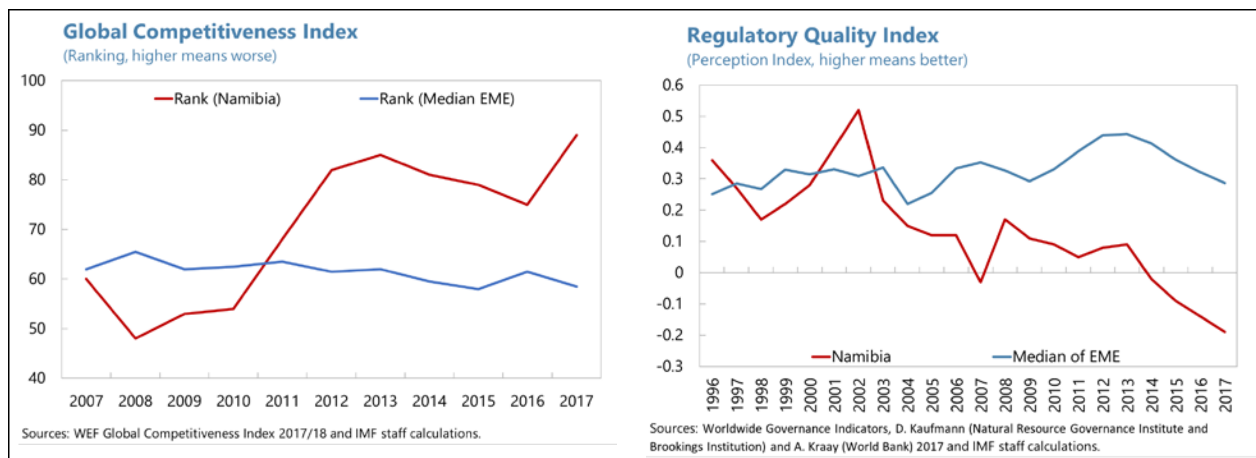
4. However, with productivity growth declining, the country's competitiveness and governance indicators have also deteriorated. In the early 2000s Namibia's ranking in the Global Competitiveness Index (GCI) and the regulatory quality for private sector development indicator compared well to the median emerging economy. Since then, Namibia's rankings in both indicators have been deteriorating though. The deterioration in the GCI ranking was mainly driven by

[2] For an analysis of long-term growth trends in Namibia using different methodologies, see IMF Country Report 18/56 and more recently, Bank of Namibia, Working Paper 2/2018 "Output gap and its determinants: Evidence for Namibia".

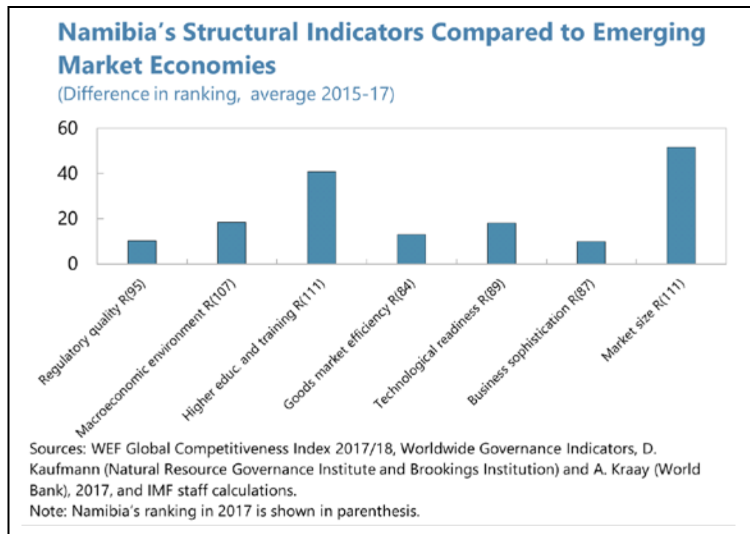
[3] The following analysis relies on third party indicators that should be interpreted with caution due to their perception-based nature, lack of international standards in the methodology for each indicator, and uncertainty around the representativeness of survey samples.

[4] IMF, 2015 "Structural reforms and macroeconomic performance: Initial considerations for the Fund". For a survey of the literature on key structural indicators and growth, see the Global Competitiveness Report (2007) and the annual reports providing information on the evolution of key indicators. For a discussion on the role of institutions in driving economic growth. See D. Acemoglu, S. Johnson, and J. Robinson, 2005, "Institutions as a Fundamental Cause of Long-Run Growth", in Handbook of Economic Growth, Vol. 1A.

a deterioration in the sub-indicators for higher educational attainments, ease of starting a business, the macroeconomic environment, and access to sizable markets. The ranking in the regulatory quality for private sector development deteriorated mostly due to perceived increases in administrative burdens and red tape, and barriers to entry based on unfair competition practices.

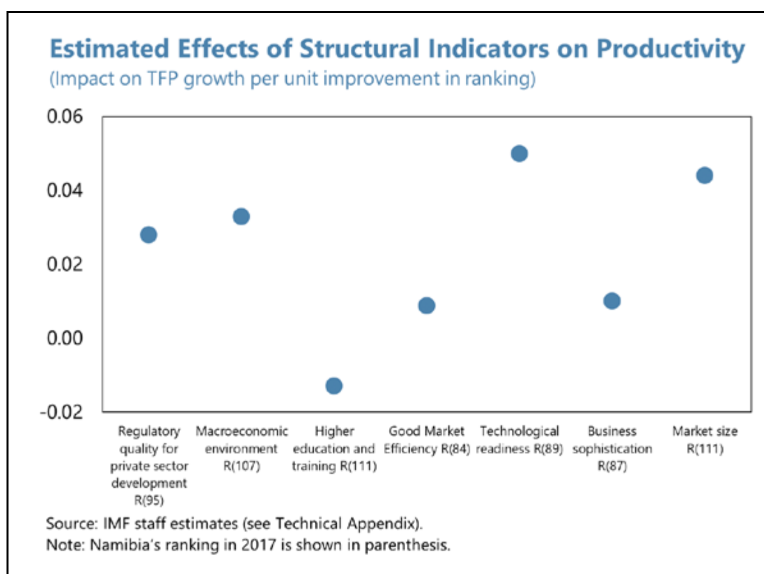


5. Namibia now ranks behind other comparable countries in several areas key to productivity growth. In recent years, Namibia ranked worse than EMs in key pillars of the competitiveness index, including the level of education of the labor force, the macroeconomic and business environment, and the ability to harness technological advances.



6. Econometric analysis suggests that improving Namibia's performance in some key structural indicators could have significant effects on productivity growth. Following the stochastic frontier literature, we estimate the marginal impact of key factors on productivity growth using a panel of 178 countries, including emerging market, developing, and low-income countries, over the period 1970–2018. While magnitude of the effect (see Technical Appendix) varies with the specification of the econometric model, a number of factors appear to have powerful implications

for productivity growth, particularly preserving macroeconomic stability, advancing technological readiness, improving higher education and the functioning of product markets (all GCI-related measures), as well as improving the regulatory quality for private business (from Worldwide Governance Indicators).



Source: IMF staff estimates (see Technical Appendix).
Note: Namibia's ranking in 2017 is shown in parenthesis.

7. **Results also show that access to sizable markets play a special role in boosting productivity.** Market size is to an important extent driven by structural factors that cannot be easily changed (population density, geographic location, etc.). However, markets can be expanded by opening up to trade. The worsening rank of Namibia reflects the relative advancement of other countries in overcoming these limits in the market size. Annex VI provides a thorough analysis on the external competitiveness of the country.

C. Quantifying the Effects of Structural Reforms on Productivity and Growth.

8. **Structural reforms can affect long-term growth through influencing capital accumulation, the use of labor, and the level of productivity.** Following Lusinyan (2018), a production function approach is used to estimate the impact of structural reforms separating their effects on its supply-side components: productivity, capital, and labor.[5] The effects on GDP are then weighted (by income shares) sum of the effects of changes in capital, changes in labor, and changes in efficiency that result from changes on key indicators induced by structural reforms as below.

$$\Delta ln\, Y = (1-\alpha)\Delta ln\, TE\{z\} + \alpha \Delta ln\, K\{z\} + (1-\alpha)\Delta ln\, L\{z\}$$

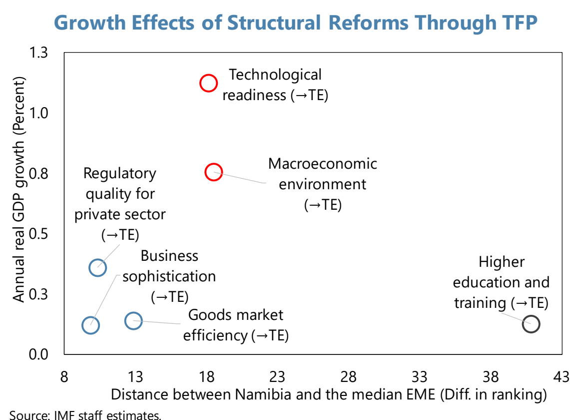
where z denotes key structural indicators, Y is the real GDP, TE denotes total factor productivity measured using a stochastic frontier analysis, K is the capital stock, and L is labor. Results suggest

[5] Lusinyan, L. "Assessing the Impact of Structural Reforms Through a Supply-side Framework: The Case of Argentina," IMF Working Paper, WP/18/183, 2018

that the largest impact on growth from changes in the indicators z occur through productivity with the regulatory quality indicator being the only factor that also affects capital accumulation and use of labor.

9. Structural reforms that bring Namibia's competitiveness indicators closer to the median prevailing in emerging market economies are likely to substantially raise growth. To quantify the effect on the GDP level of structural reforms, we combine the estimated effects on TFP, capital, and labor. The text figure shows the effects on growth of improvements in the areas where Namibia lags behind. The analysis focuses on the indicators that may have the largest potential payoff relative to the distance between Namibia and the median for EM economies, namely: technological readiness, goods market efficiency, and regulatory quality. The long-term effect of halving the distance to the median emerging market economies in these areas could, over time, increase GDP by about 40 percent. Unfortunately, there is not a common view in the literature about the time it takes for reforms to translate into changes in TFP and productive factors. To be conservative, it is assumed that structural reforms would take 20 years to reduce half of the distance to the median emerging economy. The cumulative effect on GDP of improvements in the aforementioned structural indicators mostly occur through TFP and could boost average GDP growth over the period considered (as reforms exert their effects) by about 1¾ percentage points. During this time, Namibia would be in a catching up process as key indicators reach the set level. It is worth noting that while on the margin, improvements in higher education indictors are limited, the distance to the frontier is large, pointing out to wide room for improvement. Hence, policies to increase human capital and effective hours worked should be pursued over time.

Growth Effects of Structural Reforms Through TFP



Source: IMF staff estimates.

D. What Lies Beneath

10. A combination of policy interventions in key areas can help ameliorate existing structural bottlenecks and help revive economy-wide productivity. A multi-pronged approach could be more powerful than a single-policy approach given the complementarity of reforms. Policy interventions should focus on improving Namibia's performance in those areas that seem critical to improve the country's productivity performance. Some interventions could be pursued immediately, while others require more time (Table 1):

- *Improving the business regulatory environment*. In the short-term, immediate productivity gains stem from simplifying procedures for starting a business by launching the planned platform for online business registration and facilitating trading across borders by expediting the implementation of the National Single Window. Also, authorities should aim

at accelerating the review of amendments to the Investment Promotion Act, among other business regulatory changes.

- *Enhancing product market efficiency.* Improving the operational efficiency of public enterprises operating in *key* industries (e.g. electricity, transportation) and facilitating private sector participation (e.g. by accelerating the introduction of the modified single buyer model in the electricity sector) is essential to achieve productivity gains.

- *Technological readiness.* In the short-term, new technologies could be better harnessed by further rolling out government e-services (e.g. online tax filing, online business registration, online provision of certificates, provision of access to public information), and improving ICT literacy in the population and digital skills. Over time, it is important to improve affordability, speed and access to broadband services.

- *Higher education and training, and availability of skills.* Ameliorating the shortage of skills in the labor force is a priority to improve employability and productivity. A first step could be facilitating work permits for high-skilled foreign workers and identifying priority training areas in consultation with industry representatives to accredit new training programs. Strengthening vocational and on-the-job training programs is another priority, which could be achieved by rolling out internship programs to help graduates gain work experience and apprenticeship programs to help lower skilled workers validate their skills.

The combination of the above reforms and policy interventions would help the economy to rely less on demand stimulus and the private sector to be a leading driver of growth and employment.

Table 1. Namibia: Key Structural Reforms to Reignite Strong and Inclusive Growth

Business Regulatory Environment	Products Market Efficiency	Higher Education, Training & Availability of Skills	Technological Readiness
Ensure a stable and predictable business regulatory framework by accelerating the review of the Investment Promotion Act, the revision of tax incentive schemes, clarifying empowerment policies and defining land reform policies.	Improve market operational efficiency of PEs operating in key industries (e.g. electricity, transportation)	Simplify procedures for obtaining and renewing work permits for foreign high-skilled labor (e.g. expedite work visas for applicants from major trading partners)	Foster private sector participation in telecom sector and facilitate access to existing infrastructure for new operators (e.g. finalize infrastructure sharing guidelines)
Simplify procedures for starting a business, including by reducing requisites made in the Companies Act for manual submission of forms	Facilitate private sector participation in some markets (e.g. electricity by accelerating the introduction of the Modified Single Buyer Model, transportation)	Identify priority training areas in consultation with industry, and accredit new training programs accordingly	Improve affordability and speed of broadband services (e.g. expansion of network coverage)
Expedite launch of planned platform for online business registration	Accelerate reforms in public procurement (e.g. enhance transparency, competition, and timeliness in approval of public bids and tenders)	Improve access and quality of higher education (e.g. review tuition costs) and strengthen curricula in basic education	Increase access to broadband services (e.g. establish public access points in rural areas)
Expedite implementation of the National Single Window to facilitate trading across borders		Strengthen vocational and on-the-job training programs (e.g. apprenticeship and intership programs to facilitate gaining work experience)	Improve technological adoption (e.g. further promote delivery of government e-services, improve ICT literacy)

Technical Appendix

Data

To measure reforms, this paper uses broad indicators, available across countries, that capture the set of institutions and market structures supportive of an economy's efficient utilization of resources. A sample of 178 countries – 34 Advanced Markets (AMs), 40 Emerging Markets (EMs), 104 Low-Income and Developing Countries (LIDCs), covering 1970-2018 is used. Real output, total stock of capital, employment, and other macroeconomic data are mainly from the IMF WEO database, The Penn World Tables, and World Bank WDI. A wide range of data sources, mainly the Global Competitiveness Indicators and Worldwide Governance Indicators, are used for structural variables covering the areas of business regulations, labor market, taxation, trade barriers, governance, educational attainment, wealth, energy use, and financial development. The sample periods vary for different variables and countries depending on data availability.

Methods

The stochastic frontier approach is used to estimate the effects of structural indicators on productivity. For a given set of countries, a production or efficiency frontier is the greatest level of output that is possible to produce given the factors of production utilized, and the technology adopted. The further away a country's actual output is from the efficiency frontier, the less technically efficient is the country. Efficiency of production is a "structured" variable—its mean and/or variance reflect factors (including structural determinants) that explain the level and volatility of efficiency across countries. More specifically, denoting by Y the level of output for country i at time t, the framework of analysis assumes

$$(1)\ Y_{i,t} = \{f(X_{i,t}, t; \beta) \cdot exp(v_{i,t})\} \cdot \theta_{i,t}(z_{i,t}; \gamma)$$

where the first term in {…} is the country-specific efficiency frontier, in which $X_{i,t}$ denotes the productive inputs, β is the vector of parameters (determining the production function, assumed common across countries), t is time trend, and $exp(v_{i,t})$ is a random shock which captures measurement errors and exogenous shocks. The second term in equation (1) above, $\theta_{it}(z_{it}; \gamma) \in (0,1]$, captures the distance of actual output from the efficiency frontier, and is referred to as the degree of technical efficiency. Hence, if $\theta_{it} = 1$ then the country is achieving the optimal output with the technology embodied in the production function $f(\cdot)$. Technical efficiency, in turn, is conditional on explanatory variables $z_{i,t}$, such as structural policy variables, with the vector of parameters γ.[6]

[6] For a log-linear Cobb-Douglas production function, with capital (K) and labor (L) as inputs, and $u_{i,t} = -\ln(\theta_{i,t})$ denoting inefficiency, Eq. (1a) can be written as follows:

(2a) Frontier: $\ln Y_{i,t} = \beta_0 + \beta_t t + \beta_L \ln L_{i,t} + \beta_K \ln K_{i,t} + v_{i,t} - u_{i,t}$

(3a) Model of inefficiency: $u_{i,t} = z_0 + \gamma_z z_{i,t} + w_{i,t}$

The point estimates of technical efficiency (TE) can be derived via $E[exp\{-u_{i,t}|\varepsilon\}]$, where $\varepsilon = v_{i,t} - u_{i,t}$ is the model error term comprised of the two independent, unobservable error terms (see Table).

Productivity and Structural Indicators: Stochastic Frontier Approach Estimates

(Alternative model specifications)

VARIABLES	(1) Frontier	(2) Mu	(3) Frontier	(4) Mu	(5) Frontier	(6) Mu
Frontier						
lnempl	0.21***		0.21***		0.21***	
	(20.23)		(20.43)		(20.20)	
lnkstock	0.78***		0.78***		0.78***	
	(89.39)		(88.54)		(89.43)	
Mu						
Regulatory quality		0.02*		0.02*		0.03**
		(1.79)		(1.92)		(2.37)
Macroeconomic environment		0.03***		0.03***		
		(3.01)		(2.94)		
Higher education and training		-0.03*		-0.03*		-0.04**
		(-1.88)		(-1.82)		(-2.26)
Goods market efficiency 1/		0.01		0.01		0.01
		(0.95)		(0.91)		(1.16)
Technological readiness		0.03*		0.04**		0.06***
		(1.72)		(1.98)		(2.83)
Market size 2/		0.05***		0.05***		0.06***
		(3.90)		(3.74)		(3.85)
Business sophistication		0.00				
		(0.39)				
Constant	-1.44***	-14.81***	-1.44***	-14.76***	-1.45***	-15.31***
	(-23.88)	(-6.51)	(-24.23)	(-5.90)	(-23.90)	(-5.44)
Observations	1,242	1,242	1,242	1,242	1,242	1,242
Number of ifscode	145	145	145	145	145	145

z-statistics in parentheses
***** p<0.01, ** p<0.05, * p<0.1**

1/ Measured by number of days to start a business
2/ Measured by domestic market size

Source: IMF staff estimates.

Summary of Results for the Panel Estimation for Productivity.

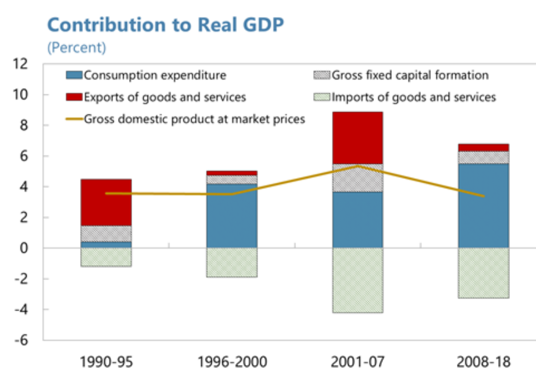
Estimates of the effects of structural indicators on total factor productivity are obtained using Stata's sfpanel command, which is based on a least square method. Specifically, we use the Battese and Coelli (1995) conditional mean model, in which the mean of the truncated normal distribution for the inefficiency term $u_{i,t}$ is expressed as a linear function of the structural indicators. The results from the regression are reported in the table below (in Stata's output the rows and columns under the "Mu" heading illustrate the coefficients, standard errors and significance levels of the different specifications considered.[7]

[7] Battese, G.E. and T.J. Coelli "A Model for Technical Inefficiency Effects in a Stochastic Frontier Production Function for Panel Data," Empirical Economics, Vol. 20: 325-332, 1995

Annex VI. Export Competitiveness and Regional Integration[1]

Export competitiveness has been deteriorating recently, and efforts to diversify exports beyond traditional resource-intensive products have had little impact. Relatively high and fast-growing wages, elevated input and trade costs, as well as bottlenecks in the business environment have been associated with these trends. In addition, limited integration in the regional value chain, mostly due to weak trade complementarity and lack of harmonization of policies and regulations in SADC, have resulted in low backward linkages and productivity gains.

1. Since the global financial crisis, the contribution of exports to GDP in Namibia has been falling sharply, signaling competitiveness issues, despite policy efforts to boost exports. The authorities' "Vision 2030" development strategy highlights exports as an engine of development. The strategy aims at increasing high added-value exports, particularly processed goods, to 70 percent of total exports by 2030, and emphasizes the role of regional integration and the objective of transforming Namibia in a gateway to southern African markets. in this context, Namibia has already ratified the African Continental Free Trade Area (AfCFTA) that may deliver significant benefits to the country.[2] However, since the global financial crisis, while growth has been robust, the contribution of exports to GDP has declined, with growth mostly driven by the performance of the non-tradable sector and an expansionary fiscal policy. As the government consolidates to bring public debt on a sustainable path and domestic demand lowers, the role of exports in supporting growth in Namibia takes a center stage in the country's development strategy. This annex assesses Namibia's recent export performance, identifies factors that may boost the country export competitiveness and put forward policies to improve competitiveness and deepen regional integration.



Sources: NSA and IMF staff calculations.

A. Declining Export Performance

Market Shares

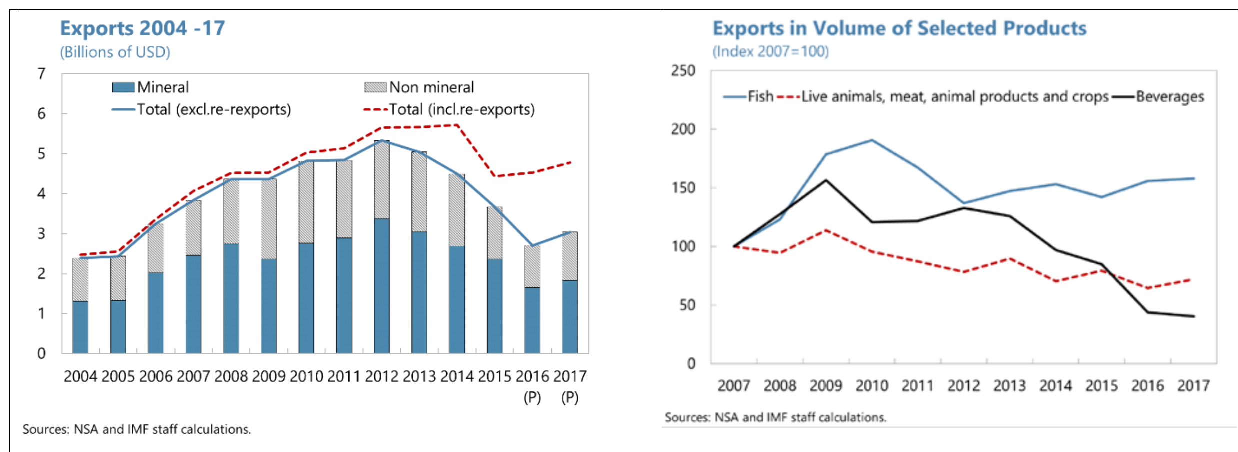
2. Namibia's exports growth has been lackluster since the global financial crisis.[3] Following a period of rapid growth during 2004–08 (+17 percent), exports (excluding re-exports) growth decelerated to 5 percent during 2009–12 and turned negative during 2013–17. While partly

[1] Prepared by T. Jardak, Y. Li and S. Rehman.

[2] See "Recovery Amid Elevated Uncertainty", Regional Economic Outlook: Sub-Saharan Africa, IMF, April 2019.

[3] Exports are considered net of re-exports and line HS49, including repatriation of old rand banknotes to South Africa. Comtrade defines re-exports as "exports of foreign goods in the same state as previously imported".

reflecting the 2014 negative commodity price shock, the most recent decline was also driven by a decline in nonmineral exports, which fell by 40 percent compared to 2012 due to both price and volume effects. At the same time, re-exports share in total exports increased to 25 percent over 2014–17 along with the improvement in regional infrastructure and possibly better accounting at customs.[4]



3. The decline in exports growth has been accompanied by a generalized reduction in market shares across products and partners, suggesting some loss of competitiveness. Despite being based on fast growing products (e.g., fish, beverages), since 2015 Namibia's non-mineral world exports market shares have been falling, partly reflecting weaker demand in Namibia's main partners, in particular African neighbors (South Africa and Angola). However, Namibia lost market shares across partners, signaling that the geographic distribution of exports does not fully explain exports underperformance. A constant market share analysis (see Box 1) suggests that after accounting for market distribution effects and commodity composition, the Namibia's adjusted market share analysis has been declining. While this could be due to several factors (e.g., climate change effects on the supply of agricultural products), the generalized fall of market shares across products and markets suggests a broader loss of competitiveness of Namibian products.

Namibia's Exports Market Shares

(Namibia's export as a percent of world imports)

	2004-06		2009-11		2015-17
Total	**0.025**	↑	**0.031**	↓	**0.020**
Non-mineral	**0.015**	↑	**0.019**	↓	**0.010**
Food	**0.125**	↑	***0.127***	↓	***0.079***
Live animals	0.743	↓	0.635	▬	0.635
Meat and edible meat	0.207	↑	0.210	↓	0.067
Fish, crustaceans and other	0.650	↑	0.795	↓	0.596
Beverages, spirits and vinegar	0.179	↑	0.249	↓	0.076
Other food	0.020	↑	0.021	↓	0.012
Non food	**0.005**	↑	***0.006***	↓	***0.002***
Chemicals	0.013	↓	0.004	↓	0.001
Textiles and clothing	0.014	↓	0.005	↓	0.001
Machinery and transport equip.	0.002	↑	0.005	↓	0.001
Other non food	0.007	↑	0.010	↓	0.005
Mineral	**0.055**	↑	***0.061***	↓	***0.052***
Ores, slag and ash	0.094	↑	0.347	↓	0.188
Stones and precious metals	0.398	↓	0.233	↓	0.186
Copper and articles	0.125	↑	0.204	↓	0.146
Zinc and articles	2.223	↑	2.575	↓	0.940
Other minerals	0.007	▬	0.007	↓	0.005

Source: Comtrade

[4] In the rest of the appendix, exports refer to exports of local goods (excluding re-exports) to the rest of the world (excluding those to the export-processing zone). We also ignored the repatriation of old notes (HS 49) to South Africa that was included in exports before 2012.

Box 1. Constant Market Share Analysis

Constant Market Share Analysis (CMSA) is applied to decompose overall export growth of Namibia's of non-mineral goods into three componets:

(a) commodity composition effect: captures the export growth due to fast growing sectors. It examines if a country is well positioned in terms of export product line;

(b) market distribution effect: reflects to what extent Namibia's exports are prevalent in export markets where demands are growing rapidly;

(c) competitiveness effect: is the residual of the above-mentioned effects, which includes other factors such as product quality, efficiency etc.

Specifically, this decomposition can be expressed as:

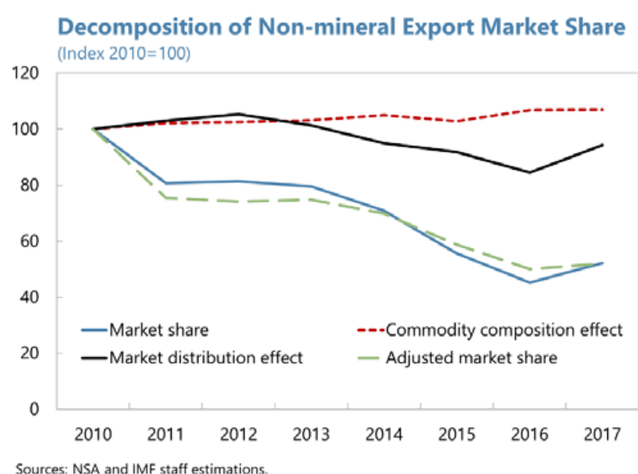
$\Delta x = \sum r\, x_i$

$+ \sum r_i\, x_i - \sum r\, x_i$ commodity composition effect

$+ \sum \sum r_{ij}\, x_{ij} - \sum r_i\, x_i$ market distribution effect

$+ \Delta x - \sum \sum r_{ij}\, x_{ij}$ competitiveness effect (adjusted market share)

Where r measures import percent change of Namibia's trade partners (i.e. demand change), x indicates Namibia's exports, and subsripts i and j represent product[1] and market[2] respectively.

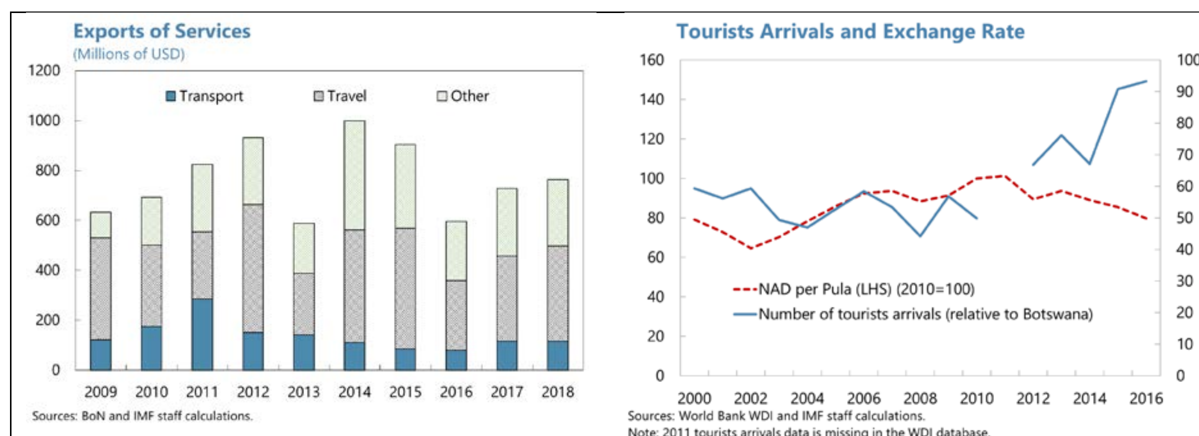


[1] HS2 commodity code at 2-digit level. Given that highly volatile mineral exports may introduce considerable noise irrelevant to competitiveness analysis, this assessment only concentrates on the non-mineral exports of Namibia.

[2] Namibia's global export markets are divided into three segments: South Africa, other African countries, and the rest of the world.

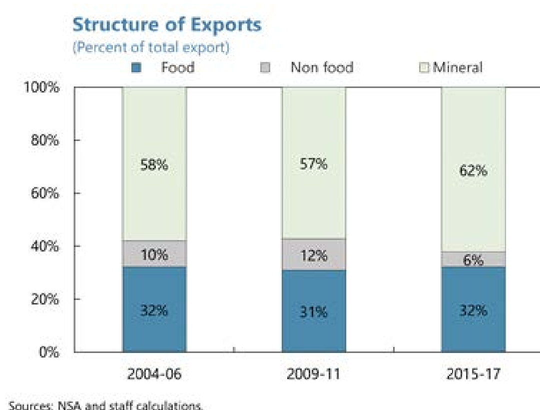
4. The performance of exports of services has been more mixed, with some positive developments. In US dollar terms, since 2014 exports have declined by about 40 percent (2.3 percent of GDP), erasing gains accumulated during 2009–14. The decline has particularly affected travel, transport and other services to firms (partly linked to a lower demand from the oil and gas industry in Angola). Nonetheless, based on the number of tourists, Namibia is gradually imposing itself as a key destination in the region, gaining market shares from countries like Botswana, probably helped by a more competitive exchange rate. In addition, the government

ambition to position the country as a gateway to the southern African market will likely increase the share of services in total exports.



Dependence on Natural Resources, Limited Sophistication and Integration in the Global and Regional Value Chains

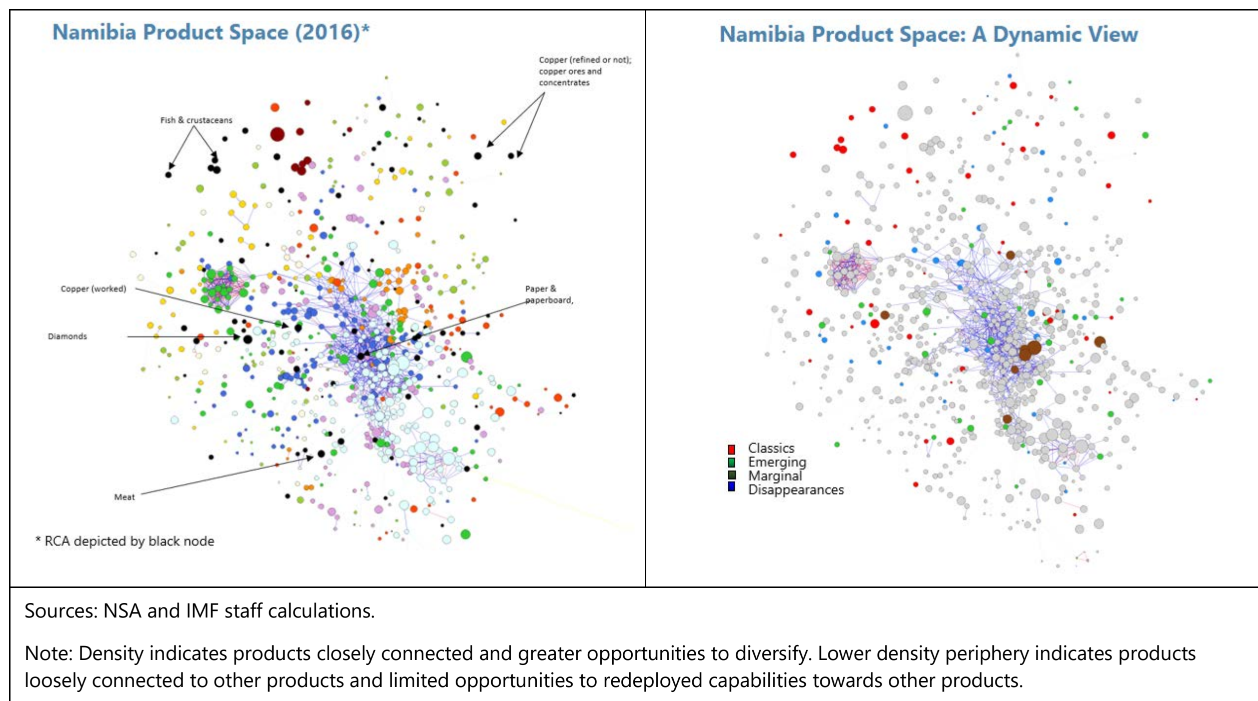
5. **Despite authorities' efforts to diversify exports, the export structure has remained broadly unchanged and concentrated on resource-intensive and low added-value products.**[5] While exports are less concentrated than in other resource-rich countries, Namibian exports remain dominated by mineral products (around 60 percent of total exports) including diamond, uranium, gold, as well as processed metals such as copper blisters and refined zinc. Non-mineral exports include mostly food products (fish, live animals and meat, beverages and grapes). The strategy of the government to add value to the raw materials has so far had limited impact on developing general capabilities and more sophisticated industries.



6. **Namibia's positioning in the product space offers little opportunities for diversification.** A product space analysis (e.g., Hausman and Klinger 2006; Hidalgo 2007) suggests that both "classic" products (i.e. products where the country has a revealed comparative advantage (RCA)), and emerging products (i.e. products where an RCA has recently developed), such as malt, pasta and leather, are situated in the periphery of the product space, with limited connectivity to

[5] Exports-oriented policies include, for example, the creation of export processing zones and incentives for the manufacturing sector, including cross-border industrial cooperation with neighboring countries on a bilateral basis, such as the bilateral agreements with South Africa and Angola.

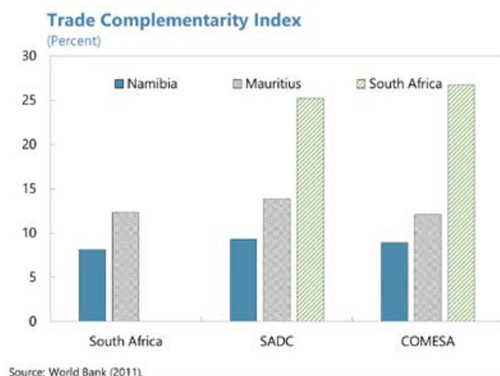
other more sophisticated products.[6] Attempts to develop a comparative advantage in the core of the product space, such as clothing apparel, chemicals or transport equipment seem to have limited success or at least did not reach a scale significant enough to generate product externalities. Indeed, the share of non-mineral non-food products in total exports fell to less than 5 percent in 2017 from a maximum of 15 percent in 2009.[7]



Sources: NSA and IMF staff calculations.

Note: Density indicates products closely connected and greater opportunities to diversify. Lower density periphery indicates products loosely connected to other products and limited opportunities to redeployed capabilities towards other products.

7. Namibia's trade integration within the region has increased, but "productive integration" remains limited, partly reflecting the lack of trade complementarity. The implementation of the SADC Free Trade Agreement early in the 2000s in tandem with the gradual improvement in regional infrastructure has given some impetus to Namibia's presence in regional trade. Namibia's share in total intra-African exports increased to 2.9 percent in 2017 from 2.2 percent in 2010. Yet, this has been mostly driven by mineral products (e.g. diamond with Botswana since 2012) and re-exports. Exports to South Africa, the biggest market in the region and the main trading partner, have been limited to primary commodities and end-sales products, with very little intra-industry trade in manufacturing.



[6] Hausmann, R. and B. Klinger, "Structural Transformation and Patterns of Comparative Advantage in the Product Space", CID Working Paper no. 128, 2006; Hidalgo, C. et Al., "The Product Space Conditions the Development of Nations", Science 317 (5837): 482-487, 2007.

[7] Part of this drop could be attributed to a better accounting of re-export data.

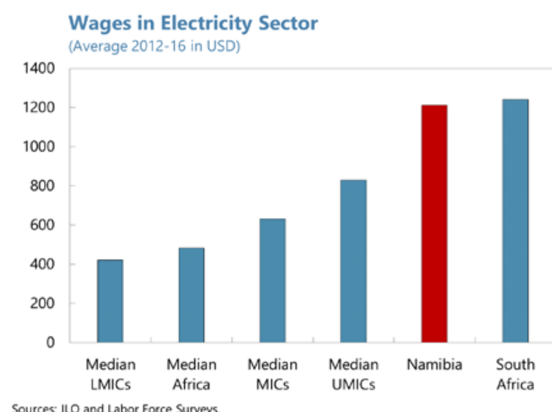
At the same time, exports to Angola (which has not applied SADC's rules yet), the second market for non-mineral products in 2012–13 have, in recent years, sharply declined.

B. Factors Hampering Export Competitiveness

High and Increasing Labor Costs and Skills Shortages

8. The large depreciation of the exchange rate against the US dollar in the last decade has not translated into competitiveness gains, amidst a widening wage-productivity gap. While the standard CPI-based REER has depreciated over recent years, the real effective exchange rate deflated by unit labor costs (ULC) in the manufacturing sector has appreciated since 2010 by 48 percent (33 percent since 2013), contributing to the loss of market share.[8] Two factors could explain the real appreciation; first, more than one third of nonmineral exports are to South Africa with no impact of the exchange rate, and another third is with the Euro zone where the euro has also depreciated against the US dollar. Second, gains in relative wages (due to the exchange rate depreciation) have not sufficed to offset the widening productivity gap, especially since in 2015, possibly reflecting nominal rigidities and spillovers from fast-growing public sector wages.

9. Labor costs have risen quickly and are now high compared to peers, especially for skilled and specialized workers. On average, Namibia wages are relatively high compared to the median of peer countries, both in the economy as a whole and in the manufacturing sector. The difference is particularly marked for high and specialized skills (e.g. plant and machines operators, technicians and associate professionals, professionals). Namibia's median wages for highly educated and specialized workforce appear high even compared to median wages in South Africa, where salaries are particularly high relative to the income per capita. On the other hand, Namibia's wages tend to be competitive for low and abundant skills, although they are still higher than in some lower-income African countries such as Ethiopia, Tanzania or Uganda (Figure 1). The large skills wage premium is associated with a lower unemployment rate for high-skilled workers. It also reflects obvious skills shortages and mismatches in the labor market, that may be exacerbated by the possible competition for skills from the public sector, restrictions on work permits for foreigners, as well as tight access regulations for some professions (e.g. accounting, etc.).[9]

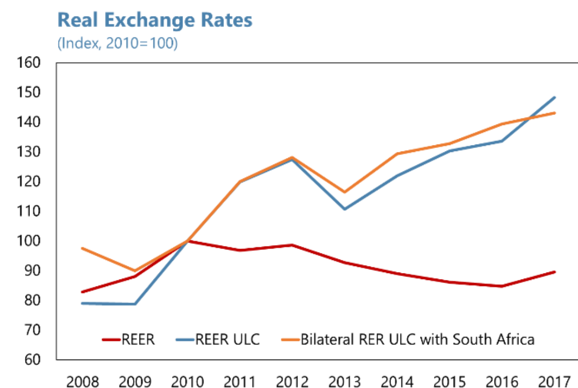


[8] The effective exchange rate weights are based on non-mineral exports by country (unlike the standard measure that uses trade weights) as Namibia is a price taker for mineral exports.

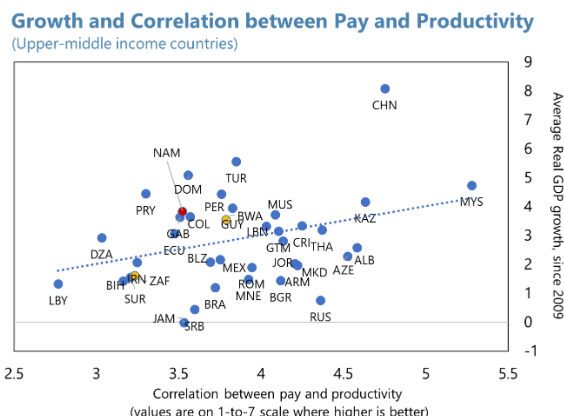
[9] The stock of international migrants excluding refugees diminished from 52,000 in 2000 to 45,000 in 2013.

Figure 1. Namibia: Wage Competitiveness and its Determinants

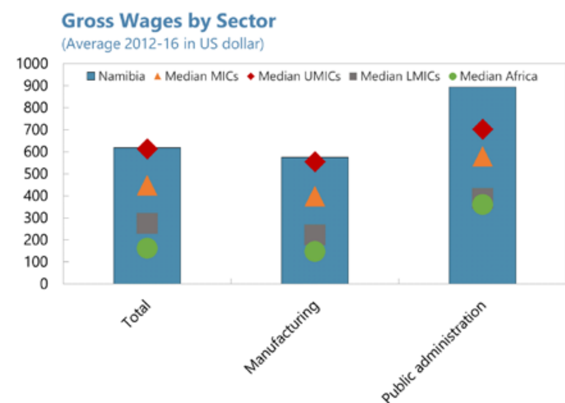
The ULC-based REER has been appreciating …



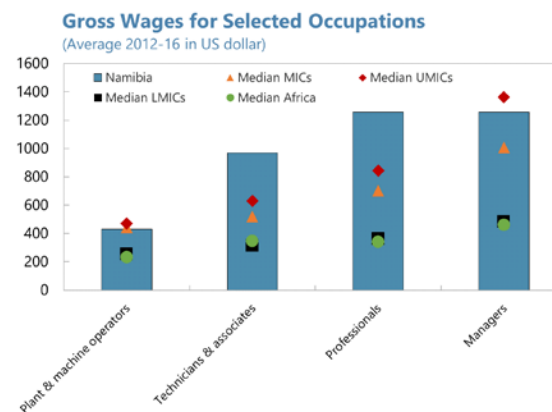
… reflecting a decoupling of trends in productivity and wages.



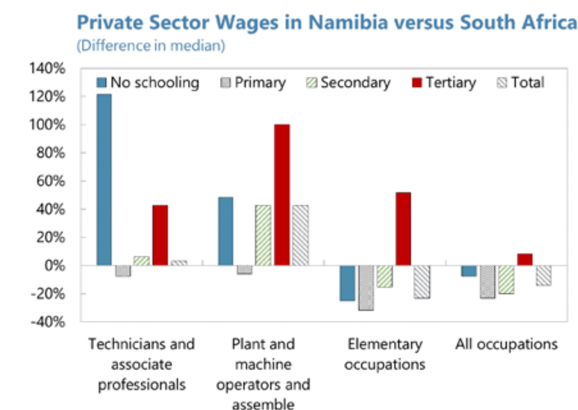
Namibia wages are relatively high compared to PEERs…



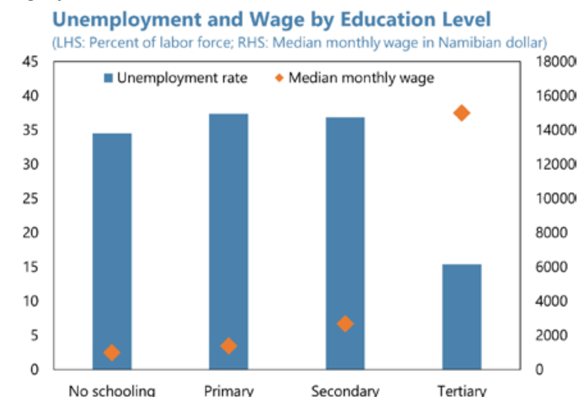
Especially for high skilled and specialized workers …



…including vis-à-vis South Africa…



…due to the unemployment rate being lower for the highly educated workforce.



Sources: ILO, IMF INS, Namibia Labour Force Surveys, OECD, WEF Global Competitiveness Index 2017/18, IMF WEO, and IMF staff calculations.

Costly Production Inputs: Reliable Electricity Service but High Tariffs

10. Relatively high electricity tariffs hinder competitiveness. Namibia electricity tariffs are one of the highest in the SADC region (Table 1). They are on average 20–25 percent higher than in South Africa, although the difference has been reducing since 2007. Unlike most countries in the region, where tariffs are often subsidized, electricity tariffs in Namibia are cost-reflective. The high generation, transmission and distribution costs are mainly due to the low density of the population and low utilization of capacity.[10] Also, ensuring a continuous reliability of the grid in peak demand periods (which is not the case in neighboring countries) increases generation costs. Lastly, it is possible that high wages in the sector compared to other countries (22 percent of NamPower value added), together with possible inefficiencies at the distribution level, may have contributed to the high electricity rates.

11. A greater liberalization of the sector is underway to facilitate private sector participation and reduce costs. Namibia has partially liberalized the sector both at the generation and at the distribution level. Yet, within the current single buyer market, only NamPower could purchase electricity from other producers to be transmitted on the grid and import power from other countries (e.g., South Africa, Zimbabwe). To further liberalize the market, the Electricity Control Board (the regulator) has prepared a national strategy to promote IPPs with a view of reducing dependence on imports and encouraging investment in the electricity sector, including in renewable energy. In this context, it plans to eliminate in the course of the current year the single buyer policy and allow IPPs to sell power directly.

Good Infrastructure Quality but Costly Transport and Logistics

12. While Namibia has one of the best infrastructures in Africa, long distances from trading partners and small-scale businesses weigh on transportation unit costs. Despite persistent capacity constraints in rail and ports, infrastructure in Namibia has improved significantly in recent years, along with the country aspiration to become a gateway for the region.[11] However, these positive developments have not been accompanied by a reduction in transport costs and private sector participation because of aging railway infrastructure, low demand for value-adding infrastructure and sophisticated logistics services, restrictive regulation on trucking and backhauling and the presence of inefficient state monopolies in the sector. Remoteness and dependence on imports also require firms to hold higher inventories for a longer period, therefore incurring larger inventories and financing costs.[12]

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[10] For an analysis of costs, see Electricity Price Comparison, Namibia Manufacturers Association, December 2012.

[11] Namibia ranked 79 in 2016 in the Logistics Performance Index from 152 in 2010. The quality of road infrastructure is very good, but rail infrastructure is obsolete, limiting its share of total transport to only 8–10 percent. TranSamib, the public railway company, launched a 5-year strategic investment plan to upgrade it locomotives and rails (NAD 2.5 billion) that will raise its market share to 30 percent and eventually contribute to reduce transport costs.

[12] See World Bank, "Trade facilitation for Global and Regional Value Chains in SACU, 2015.

13. Customs compliance costs impose a double sanction to Namibian exports. At Namibian borders, exports are subject to one of the highest customs' documentary and compliance costs in the SADC region (Table 1). In addition, exporters have to pay customs' documentary and compliance fees for imports in the importer country, which are particularly high in of the neighboring countries like South Africa and Angola. These obstacles, in addition to long waiting time and lack of harmonized and predictable procedures at borders (e.g. Angola), create significant additional costs to export that are particularly cumbersome for SMSs, which are not induced to explore external markets.

14. Connectivity is also hampered by elevated broadband tariffs. Data costs are high both in absolute (US dollar) and relative terms (PPP or in percent of GNI per capita). This is particularly the case for fixed broadband, where Namibia ranks 147 out of 187 and has one of the highest costs in the SADC region. This could be largely attributed to the lack of competition in this segment of market, so far dominated by a public company. Aware of this, the authorities have recently announced that they will partially privatize this company.

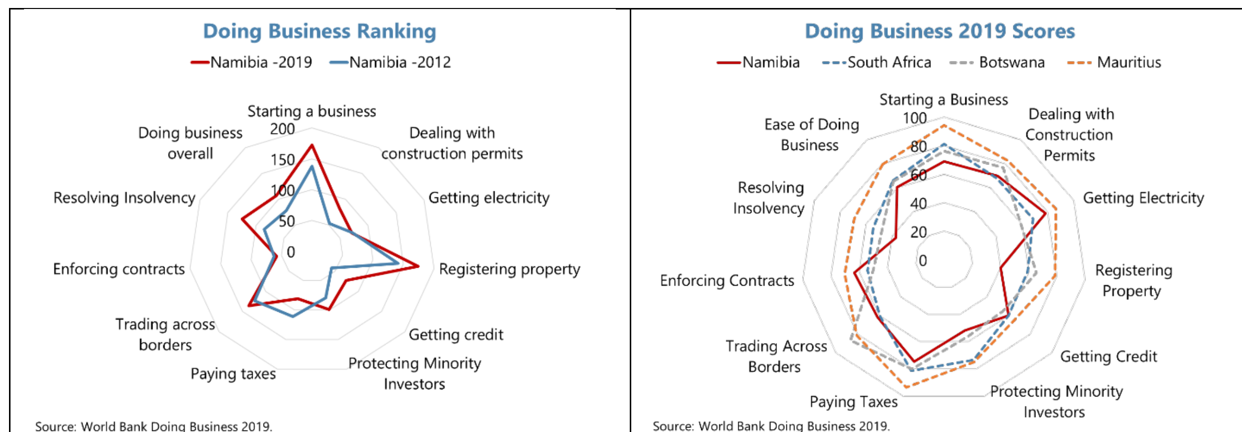
Table 1. Selected Input and Trade Costs in the SADC Region

	Electricity tariff (in cents)	Fixed Broadband (in USD)	Logistics cost to SA (in USD per ton)	Customs compliance (export) in USD	Customs compliance (import) in USD
Namibia	17.3 (2)	33.92 (2)	258 (1)	1093 (3)	208
South Africa	13	18.29		1312 (2)	709 (3)
Botswana	11.8	26.61	130 (2)	200	200
Eswatini	13.6	42.62 (1)	76	200	210
Lesotho	13	10.2	88 (3)	240	240
Angola	8.8	29.92 (3)		1065	1570 (2)
Mauritius	21.6 (1)	2.81		431	538
Zambia	3.8	24.24		560	555
Mozambique	8.5	10.31		732	459
Zimbabwe	12.5	15		455	712
Tanzania	15.1 (3)	27.56		1435 (1)	1725 (1)

Source: Doing Business, Gain 2013, International Communication Union.

A Deteriorating Business Environment

15. The business environment in Namibia appears to have deteriorated in recent years and the country's related ranking has declined. In 2019, Namibia ranked 107 out of 190 in the World Bank's ease of doing business, from number 78 in 2012, now lagging well behind Mauritius, South Africa and Botswana (respectively, 20, 82, 87 in 2019). Starting a business in Namibia is a long, costly and cumbersome process. In addition, the insolvency regime frameworks are relatively weak, discouraging both domestic and foreign investments. The authorities are planning to take steps to address some of these shortcomings, for example, by implementing the national single window and the virtual one stop shop, which should be operational in 2019–20 and contribute to enhancing the country ranking.



A Plethora of Non-Tariff Barriers Hinder Trade Integration

16. **Widespread non-tariff barriers and domestic market protective policies in Namibia stymie deeper regional integration and the development of regional value chains**. Like other countries in the region, Namibia uses several non-tariff measures to protect its "infant" industries and to give preferential treatment to local suppliers (Table 2). In general, these measures tend to support import-substitution, target traditional products rather than modern export sectors, and lack monitorable indicators and sunset clauses. While boosting demand in the short-term, local content requirements distort factors allocation in the economy toward the non-tradable sector, ultimately hindering exports competitiveness on the long-term. On the other hand, efforts to promote exports were dispersed and at times setting limits (e.g., the export-processing zones regime does not allow to export more than 30 percent to SADC countries).

17. **Similarly, South Africa's industrial and domestic market protective policies have a significant impact on Namibia's (and other BLNE's) export opportunities to the largest market in the region.** For example, extensive industrial rebates on intermediate inputs and capital goods are used in South Africa to lower input costs for specific industries in the country. Similarly, high local content requirements and complex rules of origins in the SACU region are in general very difficult to comply with particularly for new industries in Namibia and the rest of SACU countries, limiting export-led development.[13] Overall, the absence of a regional body to set rebates, exceptions and export-import related regulations appears to hinder the opportunities of the smaller countries in the region, including Namibia, to rely on developing regional exports to power their countries' development.

[13] For more details, see South Africa Local Content Requirements: Challenges and Lessons to Consider, Trade and Industrial Policies, Policy brief July 2017.

Table 2. Namibia: Non-Tariff Barriers in the SADC Region

Non tariff barriers	Examples of products affected
Import bans, quotas & levies	Wheat, beer, poultry, flour, meat, maize, UHT milk, cement, sugar, eggs, pasta, sorghum, pork, fruit & vegetables
Preferences denied	Salt, fishmeal, pasta
Import permits & levies	UHT milk, bread, eggs, sugar, fruit & vegetables, livestock, liquor, cooking oils, maize, oysters
Single marketing channels	Wheat, meat, dairy, maize, tea & tobacco, sugar
Rules of origin	Textiles & clothing, semi-trailers; palm oil; soap; cake decorations; rice; curry powder; wheat flour, local content requirement on public procurements
Export taxes	Dried beans, live animals, hides, skins, sugar, tobacco, maize, meat, wood, coffee
Standards, etc.	Milk, meat, canned tuna, beer, honey, maize bran, cotton cake, poultry, batteries, sugar, coffee, ostriches
Customs-related	Wine, electronic equipment, copper concentrate, salt, cosmetics, medicines

Source: World Bank, Gilson and Charalambides, 2011.

18. Lack of harmonized technical regulations and standards in the region hampers trade. According to recent studies,[14] national rather than regional or international standards prevail in the region, and standards regimes in Southern Africa, the largest market in the area, are often characterized by an over-reliance on mandatory inspections and certifications hindering regional integration. Moreover, overlapping responsibilities for regulation and, in general heavy government involvement in all dimensions of the standards system create further unnecessary barriers to trade, especially if technical regulations and standards are applied in a discriminatory fashion against imports.

C. Summary and Policy Recommendations

19. Since 2009–10, external competitiveness and exports contribution to growth in Namibia have been declining. Moreover, market shares have lowered, the exports structure remains dominated by primary commodities with little room for upgrade and vertical integration, and integration in regional value chains has been very limited.

20. Various factors appear to be contributing to the declining trends. These include: lagging cost competitiveness (e.g., rising real exchange rates, costly production inputs), and deteriorating non-price competitiveness, mostly because of a deteriorating business environment, and lagging innovation and technological readiness. In addition, similarity in the productive base with neighboring countries, complex rules of origin and local content requirements in the region, as well other non-tariff barriers and a lack of harmonized standards and coordinated policies and strategies further hinder export potential.

[14] See World Bank, De-fragmenting Africa. Deepening regional Trade integration in goods and services.

21. Boosting export competitiveness and the role of exports for the country development requires both short-term measures and longer-term structural reforms. Measures and reforms cover span various policy dimensions:

- *Fiscal policy.* In the context of the peg the rand, fiscal policy plays a critical role in supporting external competitiveness. Containing salary dynamics in the public sector (both central government and public enterprises) is critical to better align wage dynamics to productivity trends in the economy and reduce pressures on private sector wages, especially for high skills. In addition, reforming and strengthening the market operations of public enterprises, while liberalizing some of the key network services could allow more-cost effective services and reduce transaction costs.

- *Skills and labor market.* In the short-term, easing restrictions on skilled foreign labor force hiring and implementing more active labor market policies (e.g. upgrading the skills of the existing labor force, unemployment registry, etc.) could reduce skill mismatches and pressure on wages. Self/state regulation of some professions should be also reassessed. In the medium and long term, education and vocational training programs should be tailored to current and future needs of the private sector, with a greater focus on digital skills. Quality and inclusiveness of education should be also improved.

- *Trade facilitation.* Efforts to upgrade trade supporting infrastructure (e.g., rails) and reduce the delays and the costs of customs procedures should continue. The gateway strategy, if successful, could alleviate the scale problem and reduce the costs of transport and logistics. Finally, geographic clusters with high skill requirements and close to export gateways and destination markets could help to foster development and exports. At the regional level, harmonization of regulations, standards and more coordinated policies, including through the creation of regional bodies, are needed to promote regional value chain that benefits to the southern Africa region as a whole.

- *Business environment.* Reforms to re-establish previous levels and improve the business environment should be among the government's top policy priorities. Addressing the long and costly processes of starting a business, construction permits, and property registration is critical to capitalize on the country's strengths (good governance, reliable infrastructure, etc.).

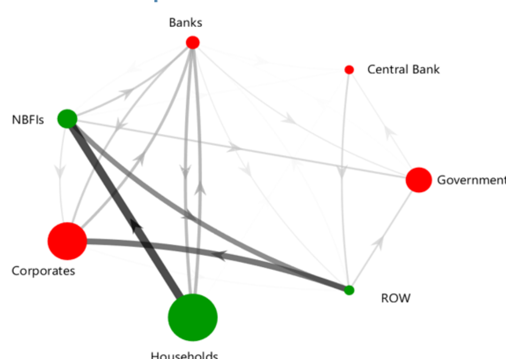
- *Development policies.* Priority should be given to develop a vibrant and independent private sector. Development policies should aim at addressing market failures, focus and address the country natural disadvantages (e.g. remoteness) and account for complementarities within the region. Policies should avoid supporting import substitution, and carrying anti-export bias and, to the extent possible, be coordinated at the regional level. Lastly, improving competitiveness in services should remain a cornerstone in the export diversification strategy.

Annex VII. Macro-Financial Risks in a Highly Interconnected Financial System[1]

Namibia's financial system is among the most complex in the region, with heterogenous types of institutions and large domestic and external interconnectedness. Against this background, the risk of adverse macrofinancial loops is high, stemming from both exposures to external shocks and an increasing sovereign-financial sector nexus.

1. Namibia's financial system is highly diversified and interconnected, facilitating onshore financial intermediation but posing potential macro-financial risks due to large balance sheet exposures[2] (Table 1). The balance sheet analysis (BSA) of the Namibian economy summarizes intersectoral exposures, which rose at end-2018 to an estimated 442 percent of GDP, from 395 percent of GDP in 2016. While Namibia's net international investment position (NIIP) in 2018 was broadly balanced, gross foreign assets stood at approximately 85 percent of GDP. Hence, most of financial interconnectedness is between domestic sectors. The large domestic balance sheet linkages reflect Namibia's very large nonbank financial institutions (NBFI) sector—including the fully funded Government Institutions Pension Fund (GIPF) and increasing domestic government debt mostly held by the financial sector.

Namibia: Network of Exposures

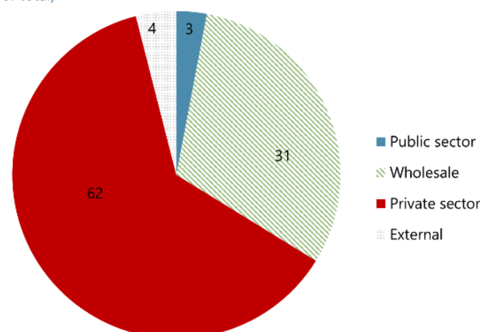


Notes: Red nodes represent net borrowers and green nodes net lenders. The diameter of nodes and thickness of arrows show the relative size of imbalances and exposures, respectively.

A. The Financial Sector as a Source of Vulnerability

2. Namibia's banking system is heavily exposed to NBFIs on the funding side. The aggregate balance sheet of Namibia's banking sector shows that at end-2018 approximately a third of banks' liabilities were through wholesale funding, defined as intra-financial system linkages and mostly reflecting NBFI placements in banks in the form of debt securities and deposits. As opposed to stable funding in the form of private nonfinancial sector deposits, wholesale funding liabilities are often correlated to the financial cycle and, in times of financial stress, may be subject to fast withdrawals that could deplete banks' liquid

Namibia: Sources of Banks' Funding
(Percent of total)



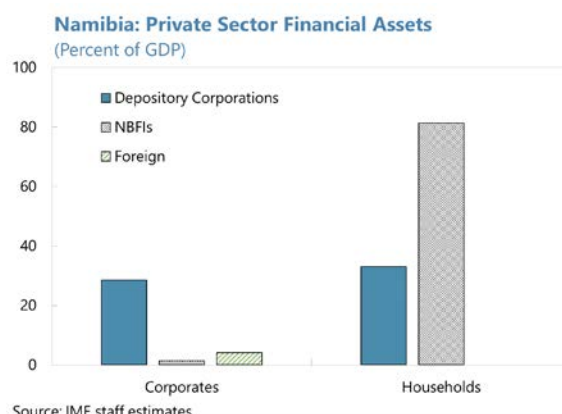
Source: IMF staff estimates.

[1] Prepared by G. Ugazio.

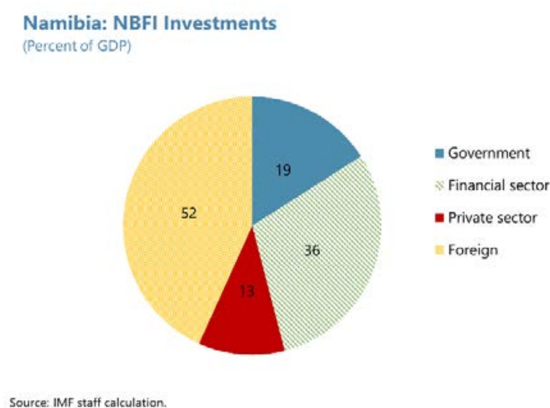
[2] For details on the balance sheet approach see "Balance sheet analysis in Fund surveillance", IMF 2015.

assets. At end-2018, liquid assets (as defined by BoN's regulations) stood at 33 percent of wholesale funding and at 28 percent of total short-term liabilities. In addition, on the credit side, additional risks for banking system stem from a highly concentrated loan books (both in terms of counterparty and asset classes), coupled with highly leveraged households. (See Staff Report main text)

3. **The NBFI sector is large, diversified, and is the largest store of households' financial wealth.** The main components of the NBFI sector are (i) the GIPF; (ii) insurance and other pension funds; (iii) the Development Bank of Namibia (DBN); and (iv) asset managers. The size of the NBFI sector is approximately 150 percent of GDP, excluding the double counting of assets under management.[3] Households have an aggregate claim on NBFIs of approximately 80 percent of GDP, half of which are GIPF liabilities to members and the remaining are other long-term investments in insurance and private pension liabilities.



4. **NBFIs hold half of their assets in external assets, but contribute significantly to corporate funding in Namibia.** During the past couple of years, Namibian NBFIs have repatriated a significant portion of their investments, with the foreign share of invested assets declining from approximately 2/3 at end-2016 to just below half at end-2018. Most of the repatriated funds have been invested in government securities, but NBFIs also hold a sizeable amount of corporate loans and securities. Through the large holdings of foreign securities and their mark-to-market on balance sheets, NBFIs are exposed to external valuation shocks related to asset price fluctuations and normalization of interest rates in advanced economies.



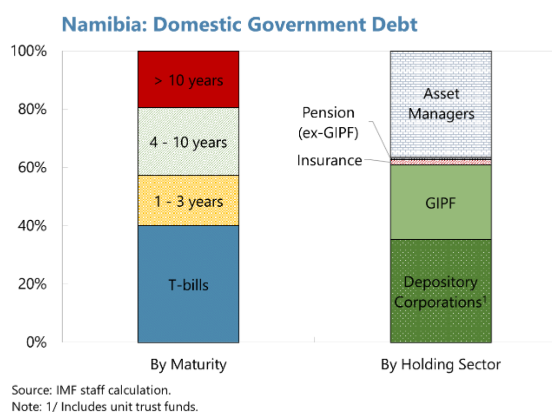
B. Strengthening Sovereign-Financial Sector Nexus

5. **Recent financial sector policies and increase of domestic government debt resulted in a strengthening of the financial sector's balance sheet exposure to the sovereign.** At end-2018 the domestic financial sector held sovereign securities amounting to 30 percent of GDP (11 percent

[3] Asset managers can act both as external managers for other institutional investors (i.e. without owning the underlying financial assets), or as collective investment schemes (i.e. holding financial assets and issuing shares backed by these assets to investors). The overall figure is approximate as precise figures covering asset managers and residual institutions are not available.

of GDP held by banks and 19 percent of GDP held by NBFIs), from 14 percent of GDP at end-2016. The increase was driven by NBFIs, as recent policy action contributed to the shift out of foreign assets into domestic government debt. Particularly, domestic asset requirements for institutional investors (pension funds and insurance companies) have been progressively increased from 35 percent in 2016 to 45 percent. Moreover, the exposure of the NBFIs to the whole public sector has increased further as, to boost international reserves, the BoN enacted an assets swap program with the GIPF (about 3 percent of GDP), whereby a portfolio of BoN's securities was swapped with foreign-denominated assets held by the GIPF.

6. A closer look at components shows domestic holdings of government debt are widespread across types of financial institutions and remaining maturities. Although precise figures of holdings by maturity and sector are not available, holdings by depository corporations are largely concentrated in treasury bills, which form the bulk of banks' liquid assets (approximately N$ 16 billion, or 90 percent of liquid assets at end-2018). Banks' exposure to the sovereign is thus potentially problematic from a crowding out of liquidity perspective, if the government cannot redeem the treasury bills and is forced to rollover. Conversely, NBFIs with a longer investment horizon bought the bulk of longer-term securities and are therefore exposed to potentially large balance sheet valuation changes.



Source: IMF staff calculation.
Note: 1/ Includes unit trust funds.

C. Transmission Channels for Balance Sheet Vulnerabilities

7. The balance sheet exposures in Namibia highlight the risk of two key macro-financial adverse loops. In both cases, a shock may trigger balance sheet losses for NBFIs, which are the key players to propagate shocks first to the banking system, and then to the rest of the economy.

- *Price shock on NBFIs' foreign assets leads to balance sheet losses.* In this scenario, should NBFIs need to cover losses on foreign assets using domestic liquid assets, a sudden withdrawal of wholesale funding could be triggered from banks' liabilities. The Financial Sector Stability Assessment (FSSA 2018) for Namibia discussed in detail the liquidity shortfall such a run would cause. Besides wholesale deposits, NBFIs also hold debt securities issued by domestic banks, which—in such adverse scenario—could lose value forcing further NBFI losses and liquidity withdrawals. Such shock would ultimately result in deleveraging pressures for the banking system and real effects through credit rationing.

- *Large and increasing holdings of government securities by financial institutions could prompt a macro-financial "doom" loop.* A systemic shock could originate from the large and increasing holdings of government debt, which trades on a highly illiquid market. Even if the exposure of NBFIs to domestic government debt is significantly smaller compared to their

external assets, the system-wide exposure reached a similar magnitude to aggregated foreign assets. Should losses on government debt arise, NBFIs have buffers to cover them (including very long-term liabilities on average), but a drawdown of such buffers could result in wholesale funding withdrawal from banks. In such scenario, banks would simultaneously lose funding and suffer balance sheet losses on their holdings of government debt.

Table 1. Namibia: Matrix of Balance Sheet Exposure

(End-2018, percent of GDP)

	Government		Central Bank		Other Depository Corporations		Other Financial Corporations		Nonfinancial Corporations		Households		External	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Government														
Total			0	9	11	2	19	0					17	0
In domestic currency			0	9	11	2	19	0					0	0
In foreign currency			0	0	0	0	0	0					17	0
Central Bank														
Total	9	0			3	1	3	0	1	0	2	0	1	17
In domestic currency	9	0			3	1	3	0	1	0	2	0	0	0
In foreign currency	0	0			0	0	0	0	0	0	0	0	1	17
Oth. Dep. Corporations														
Total	2	11	1	3	15	7	22	3	28	22	32	31	4	9
In domestic currency	2	11	1	3	14	4	22	3	27	22	30	31	2	6
In foreign currency	0	0	0	0	1	4	0	0	1	0	1	0	2	3
Oth. Fin Corporations														
Total	0	19	0	3	3	22	11	20	1	13	81	0	1	52
In domestic currency	0	19	0	3	3	22	9	20	1	12	81	0	0	0
In foreign currency	0	0	0	0	0	0	2	0	0	1	0	0	1	52
Nonfinancial Corporations														
Total			0	1	22	28	13	1					62	4
In domestic currency			0	1	22	27	12	1					0	0
In foreign currency			0	0	0	1	1	0					62	4
Households														
Total			0	2	31	32	0	81					0	0
In domestic currency			0	2	31	30	0	81					0	0
In foreign currency			0	0	0	1	0	0					0	0
External														
Total	0	17	17	1	9	4	52	1	4	62	0	0		
In domestic currency	0	0	0	0	6	2	0	0	0	0	0	0		
In foreign currency	0	17	17	1	3	2	52	1	4	62	0	0		

Source: IMF staff estimates.

Annex VIII. Implementation of the 2018 FSSA Recommendations

Recommendations	Responsible Authorities	Timing	Progress
Financial Sector Oversight Framework			
Ensure prompt enactment of Banking Institutions, BoN, FIM, NAMFISA, Financial Services Adjudicator, Deposit Insurance, and Microlending Bills, in line with international norms.	Ministry of Finance (MoF)/BoN/ NAMFISA	I	• The Banking Institutions Bill has been approved by Cabinet and is awaiting for presentation to parliament. • The Deposit Guarantee Act has been promulgated. Parts 1–3, 9–10 (which deal with governance of the authority, enforcement of ancillary matters, and general provisions) were operationalized in May 2019. A working group team is working to ensure that all mechanisms are in place to operationalize the Act. • The FIM, NAMFISA, Financial Services Adjudicator bills were tabled in parliament in June 2019. • The Microlending Act has been promulgated.
Finalize the Joint Prudential Supervisory Engagement Framework between the BoN and NAMFISA.	BoN/ NAMFISA	I	• The Joint Prudential Supervisory Engagement Framework has been signed by the BON Governor and the CEO of NAMFISA and implemented in June 2019 with the application on the first banking group consolidated supervision approach.
Assign an explicit macroprudential mandate, including the power to issue macroprudential directives to regulators, to the BoN Board until the Financial Stability Council is set up, and address data gaps.	MoF/BoN/ NAMFISA	I	• Amendments to the Bank of Namibia Act have been presented to Parliament and are with the Parliament Committee for inputs. Amendments include assigning the macroprudential mandate to the BoN. • The BoN will consider possible extensions of the macroprudential toolkit when the macroeconomic situation improves. • BoN has started collecting mortgage data from the domestic systemically Important banks. This is a continuous exercise.
Banking Sector Oversight			
Strengthen the existing liquidity regime ahead of implementation of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).	BoN	I	• A revised BID-6 to include behavioral adjustments at point of industry consultation was issued in September 2018 and is expected to be implemented in September 2019. The issuance was delayed because of challenges with system adjustments, and to allow banks to adjust their policy and IT reporting systems.
Enforce the proper classification of loans to ensure that the banks identify, monitor and manage their credit risks effectively. Undertake independent Asset Quality Review to determine the scale of under-provisioning across the sector.	BoN	I	• A circular on interpretation on existing regulations was issued in July 2018. This replaces the initial proposal of having external audits, which was considered to carry unintended costs. The new circular was expected to be implemented by June 2019. However, due to further consultations with the industry, the implementation has been delayed. A replacement circular will be issues over the next months.

Align concentration limits to best practice.	BoN	I	• The concentration limits have been reduced from 30 percent to 25 percent of capital.
Nonbank Financial Institutions and Capital Markets			
Strengthen the accountability and transparency framework of NAMFISA.	MoF/ NAMFISA	NT	• NAMFISA publishes its annual report and a two-year business plan on regular basis. It also runs satisfactory surveys since 2016. No new action to strengthen the framework has been taken.
Introduce electronic central securities depository (CSD), repo operations, and reporting of government bond OTC trades.	NAMFISA	I	• Provisions for regulation of the CSD is in the FIM Bill, which is drafted and waiting for presentation to parliament.
Crisis Preparedness and Management			
Introduce a special resolution regime for banks and nonbanks to ensure effectiveness and consistency with international best practice.	BoN/ NAMFISA	I	• The Banking Institutions Bill (already submitted to the Cabinet Committee and waiting for presentation to parliament) envisages the creation of a special resolution regime. • NAMFISA is conducting a gap analysis study on crisis regimes best practices to be completed in March 2020.
Initiate recovery and resolution planning for the four largest banks and their holding companies, in collaboration with South African Reserve Bank (SARB).	BoN	I	• This requirement is addressed as part of the Banking Institutions Bill (waiting for presentation to parliament).
Establish the Deposit Guarantee Scheme in line with international best practice.	MoF/BoN	NT	• The Deposit Guarantee Act has been approved. According to the Act, the deposit guarantee scheme should compensate small depositors in the event of bank failure. A working team has been set to support the implementation of this legislation, particularly to ensure that all necessary mechanisms are in place.
Take steps to operationalize ELA on short notice.	BoN	I	• No action.
Financial Market Infrastructure			
Focus the scope of FMI oversight on systemic risk management and implement the oversight framework with special attention to operational risk and cyber resilience.	BoN	I	• The Cyber Security Resilience is progressing. The BoN has introduced the Determination on Information Security and is in the process of issuing a circular clarifying the expectations of the Determination to the industry, together with the industry-wide incident reporting aspects. As part of the process, an internal memo highlighting the actionable items as per the FSAP recommendations was developed and approved. The Risk-Based Oversight Policy Framework is being revised to reflect the memo's recommendations.

Development Issues			
Re-assess Stated-Owned Financial Institutions' (SOFI) mandate and business rationale and restructure Agribank.	MoF	I	• No action taken apart from a sensibilization campaign. As part of the campaign, the Banking Supervision Department of BoN has given a presentation to the board of Agribank on the principles of the "Determination on Asset Classification, Interest in Suspense and Provisioning" to solicit the inclusion of such expectations in the Agribank's newly revised Policy approved by the Board.

Note: I (Immediate), within one year; NT (near term), one-three years; BoN, Bank of Namibia; MoF, Ministry of Finance.

Appendix I. Capacity Development Summary

Background

Namibia is a small and commodity-dependent economy that stands out, among Southern Africa countries, for its considerable economic and social progress, notwithstanding persistent structural challenges. Over the last two decades, annual per capita GDP growth averaged 2.6 percent, resulting in better living standards and lower poverty, and in one of most gender-equal countries in the world. After a period of exceptional growth and rising macroeconomic imbalances, in 2016 the economy began rebalancing, and growth came to a halt. Public debt remains on a rising path, and international reserves are below adequate levels. Moreover, years of strong growth masked slowing productivity growth and declining competitiveness, hindering growth prospects, while income inequality and unemployment remained persistently high. The main challenges ahead are to: i) identify strategies to credibly deliver the authorities' fiscal consolidation plans; ii) purse structural reforms to boost productivity growth, external competitiveness and long-term growth; iii) advance financial sector reforms to better manage macro-financial risks from a large and highly interconnected financial sectors

Capacity Development Assessment

Implementation of past macroeconomic advice has been overall positive. Broadly following staff's past advice, the authorities issued external debt in 2015, and in 2016 embarked on medium-term fiscal adjustment plans. In 2017, they adopted LTV ratios to manage risks from fast-rising real estate market prices. Following recent FAD TA, they have developed plans to close tax loopholes and review some tax incentive schemes. More recently, following the 2017 Article IV consultation, the authorities contained the wage bill rising by temporarily suspending inflation adjustments and adopting a cabinet decision to limit new hires; they have also advanced on reforming the governance of extra-budgetary entities and public enterprises and intend to privatize a telecom entity. Moreover, they continue making progress towards the creation of a semi-autonomous revenue authority, scheduled for 2019. Finally, the authorities have advanced the development of a fiscal risk management framework but have not yet published a fiscal risks statement. Implementation of past advice on updating the legal PFM framework has been limited (Appendix II).

The level of TA support in FY19 has been broadly adequate although of low intensity, and has focused on PFM and macro-fiscal capacity, fiscal risks, financial and monetary sector, revenue administration and statistical issues. Going forward, TA is expected to focus on three objectives: addressing macro-financial issues, to follow up to the 2018 FSAP; supporting fiscal consolidation, including the setting up of the revenue authority; and improving the quality of national and fiscal accounts.

Capacity Development Priorities

Consistently with the Fund's surveillance advice, and in consultation with the authorities, the TA priorities going forward cover the four areas listed below. The Fund has begun delivering assistance

in some of the areas, and further assistance is planned over the next years, including both standard technical assistance and more hand-on capacity development activities.

Priorities	Objectives
Fiscal and PFM	1. Strengthen the macro-fiscal forecasting capacity underlying the budget and medium-term fiscal projections. 2. Improve the budget formulation process. 3. Improve the monitoring and management of fiscal risks and produce a fiscal risks statement. 4. Rationalize transfers to extra-budgetary entities and public enterprises, and strengthen their management.
Tax policy and revenue administration	1. Implement already identified tax policy reforms. 2. Improve revenue administration processes, ahead of introducing a revenue authority, particularly audit functions. 3. Support the creation of a revenue authority. 4. Strengthen core customs and tax functions.
Financial Stability	1. Update the liquidity regulatory framework. 2. Revamp the conduct of monetary policy and liquidity management operations. 3. Develop stress testing capacity for pension funds and insurance companies and strengthen the existing framework for banks. 4. Update the capital requirement regulation for pension funds. 5. Follow up on other key issues identified by the 2018 FSAP, including NBFI supervision, crisis management preparedness.
Data availability and statistical capacity	1. Improve availability, reliability, and coverage of fiscal data. 2. Refine national accounts, including quarterly data, and price indexes. 3. Improve the reliability of FSIs, expand the coverage of NBFIs in the monetary statistics.

Authorities' Views

The authorities continue to value Fund's TA and regularly seek the Fund's advice in areas such as PFM, revenue administration, expenditure management, financial sector supervision and regulation, and statistics. They highly appreciate the concluded FSAP and continued support by the staff to get insights on the policy issues. Furthermore, the authorities have also suggested that the CD activities could achieve greater results by relying more on hands-on support, resident advisors, peer-to-peer exchange and engagement, as well as comparisons with international best practices to complement written recommendations from TA reports.

Goals	Objectives	Actions/Measures	Developments
Bring public debt to a sustainable path and preserve macroeconomic stability, including low inflation	Anchor fiscal adjustment in a credible medium-term plan that minimizes the impact on growth	Contain the public wage bill, rationalize transfers to public entities and enterprises, and strengthen their governance and oversight, while preserving priority capital and social spending.	Medium-term fiscal adjustment targets have been defined. Large spending reductions have been introduced, through lowering non-wage recurrent expenses and capital outlays. In 2018/19, the wage bill declined for the first time in a last decade thanks to a zero-inflation adjustment and a net reduction in staff. Social spending was largely preserved, and key cash transfers increased.
		Expand tax bases (e.g., VAT, CIT) by eliminating special tax regimes and exceptions. Close tax loopholes.	SACU revenue have been on a declining path and domestic revenue have recently declined too. Limited revenue-increasing measures have been introduced. Some measures are being considered for FY20/21.
	Strengthen the PFM framework and the management of extra-budgetary entities and public enterprises. Create a fiscal risk management framework	Develop macro-fiscal forecasting capacity of the MoF, improve budget formulation and execution processes, approve new PFM legal framework), accelerate the implementation of new procurement rules, publish a fiscal risks statement.	Efforts to strengthen the PFM framework are ongoing, in part supported by Fund's technical assistance. A PPP legal framework has been approved by Parliament and regulations were issued in December 2018. Initiatives to finance investment spending off budget remain of concern.
	Advance reforms in revenue administration	Enhance effectiveness of revenue operations, internal business processes, and IT systems, including by creating a semi-autonomous revenue authority.	A new IT system (ITAS) has been implemented. Progress is being made towards the establishment of the Namibia Revenue Authority Agency scheduled for 2019, with support by the GIZ and the IMF.
	Preserve the peg with the rand	Maintain the BoN rate broadly in line with the SARB's policy rate.	The BoN has been able to tailor, to some extent, the policy rate to better fit the cyclical position of the economy.
Address high unemployment and income inequality	Reduce skills mismatch	Design and implement targeted education and training programs, improve the quality of education.	The authorities introduced universal secondary education. They are trying to improve the image of TVET through national skills competitions and other campaigns and introduced an apprenticeship program for currently employed unskilled labor.

Goals	Objectives	Actions/Measures	Developments
	Improve business climate	Simplify business regulations (e.g., starting businesses, registering property, buying industrial land) and review the functioning of the labor market (e.g., reducing restrictions on work permits for skilled workers).	In 2016–17, the presidential Harambee Prosperity Plan was introduced to accelerate reforms in key areas. Some progress has been made in implementing the plan, particularly on governance goals, by strengthening the accountability of public officials, while progress in social-economic and infrastructure development goals is lagging. Amendments to the Investment Promotion Act are planned to be tabled in Parliament this year. Authorities have begun rolling out e-services and are launching an online business registration platform.
	Better targeting of social programs	Introduce means testing for some cash transfers (e.g., old age pensions, child support grants) and housing subsidies.	Key cash transfers have been increased. Preparatory work in underway with support from the World Bank to improve the targeting of some transfers.
Strengthen financial sector resilience (See Annex VIII)	Strengthen banking supervision	Update the liquidity risk framework; strengthen enforcement of loan classification; improve forward-looking risk assessments; align concentration limits to best international practices.	The concentration limits have been reduced from 30 percent to 25 percent of capital. The BoN issued a circular to banks and their auditors to clarify classification rules. A technical assistance provided the BoN with a dynamic stress testing tool. However, progress in upgrading the liquidity framework faced implementation challenges.
	Enhance oversight of NBFIs	Expedite the upgrade of the regulatory framework. Introduce electronic CSD, repo operations, and reporting of government bond OTC trades.	With the exception of the micro-lending bill, several bills have yet to be presented to parliament.
	Strengthen the macroprudential policy framework	Develop the institutional framework and expand the authorities' toolkit.	Amendments to the Bank of Namibia Act, that have been presented to Parliament, assigned the macroprudential mandate to the BoN. The joint Prudential Supervisory Engagement Framework has been signed off by the Governor and the CEO of NAMFISA and recently implemented. The BoN will consider possible extensions of the macroprudential toolkit when macroeconomic situation improves.

Goals	Objectives	Actions/Measures	Developments
	Developing a full crisis management and resolution framework	Introduce a special resolution regime for banks and nonbanks to ensure effectiveness and consistency with international best practice. Establish the Deposit Guarantee Scheme in line with international best practice.	The Deposit Guarantee Act has been approved. The resolution framework will be addressed as part of the Banking Institutions Bill.
	Address information and data gaps	Develop household and corporate surveys (BoN). Improve the collection of granular data critical for risk-based supervision.	BoN has started collecting mortgage data from the Domestic Systemically Important banks.

INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 2, 2019

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

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FUND RELATIONS

As of May 31, 2019

Membership Status

Joined: September 1990; Article VIII

General resources account	SDR (million)	Percent of Quota
Quota	191.10	100.00
Fund holdings of currency	191.00	99.95
Reserve position in Fund	0.15	0.08

SDR Department	SDR (million)	Percent of Quota
Net cumulative allocation	130.39	100.00
Holdings	2.39	1.83

Outstanding Purchases and Loans None

Financial Arrangements None

Projected Obligations to Fund

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

	Forthcoming			
	2019	2020	2021	2022
Principal				
Charges/Interest	0.72	1.42	1.42	1.42
Total	0.72	1.42	1.42	1.42

Implementation of HIPC Initiative None

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

Article IV Consultation. Namibia is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on February 26, 2018.

Technical Assistance, 2014–19

Department	Dates	Purpose
Fiscal Affairs Department (FAD)	May-14	Customs Administration
	December-14	Tax Administration
	January-15	Diagnostic on Revenue Administration
	February-15	Legal framework/Program budgeting
	February-15	PFM Act
	April-15	Customs Administration
	April-15	Legal Framework PFM
	June-15	Tax Administration/Large Taxpayer Unit
	September-15	PFM
	October-15	Cash Management
	January-16	Customs Administration
	April-16	PFM
	July-16	IFMIS
	October-16	Budgeting
	February-17	Revenue Mobilization
	May-17	Budgeting
	August-17	Budgeting
	August-17	Fiscal Reporting (Chart of Accounts and IFMIS)
	October-17	Budgeting
	November-17	Macro-Fiscal forecasting
	January-18	Analysis and management of fiscal risks
	July-18	COA operation in IFMIS,
	July-October-18	Strengthening the budget
	September-18	Risk selectivity criteria
	November-18	Development of a Fiscal Risk Statement
	November-18	Strengthen the MTEF
	December-18	Medium-term strategy for new RA and DRM
	January-19	SOEs fiscal risks
	April-19	Customs Post Clearance Audit
Monetary and Capital Markets Department (MCM)	January-14	Stress Testing
	September-14	Basel II
	February-15	Financial Stability Framework
	April-15	Basel III
	June-15	Macroprudential Framework
	April-17	Non-bank Regulation and Supervision
	July-18	National PFMI
	October-18	Strengthening Insurance Stress
	November-18	Cyber risk and cyber security

	December-18	Strengthening Bank Stress Testing
Statistical Department (STA)	February-14	National Accounts
	April-14	Monetary Statistics
	April-14	Open Data Initiative
	July-14	National Accounts
	April-15	Producer Price Index
	April-15	BOP Statistics
	January-16	GFS Statistics
	April-16	e-GDDS
	September-16	Monetary Statistics
	April-17	Price Statistics
	September-17	Price Statistics
	November-17	National Accounts
	February-18	National Accounts
	October-18	Balance of Payments Statistics
	November-18	National Accounts
	February-19	Government Finance Statistics
	March-19	Consumer Prices/Producer Price
	April-19	National Accounts

JOINT WORLD BANK AND IMF WORK PROGRAM

Table 1. Namibia: World Bank and IMF Planned Activities
(as of June 2019)

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank Work Program	• Regular macroeconomic monitoring	First and third quarters of 2019	Periodic notes and forecasts through 2019
	• Systematic Country Diagnostic	TBD	First semester of 2020
	• TA on eProcurement	July 2019	February 2020
	• TA on Poverty analysis / household survey data collection and analysis	TBD	TBD
	• TA on Financial inclusion / sector development	TBD	TBD
IMF Work Program	• 2019 Article IV consultation	June 2019	August 2019
	• Revenue administration	2019	
	• PFM, budget preparation	2019	
	• Macroprudential policy	2020	
	• Monetary policy implementation and operations	2020	
	• Basel III implementation	2020	
	• Financial soundness indicators	2019	
	• National accounts	2020	
	• Producer price index	2019	
	• Government finance statistics	2020	
B. Requests for Work Program Inputs			
Fund's requests to Bank	Periodic updates on progress with domestic structural reform agenda, including in context of NDP5, the Industrial Policy Strategy, social protection reviews, the Financial Sector Strategy, and inequality and social programs.		
Bank's request to the Fund	Periodic updates on macroeconomic/fiscal developments and policies and Fund's analytical and technical assistance reports provided to the authorities.		

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has shortcomings but is broadly adequate for surveillance. The most important shortcomings concern the coverage of fiscal accounts, producer price statistics, and some consistency of external sector statistics.
National Accounts: The base year for national accounts (NA) is 2010 and a rebasing is planned for 2019. Quarterly national accounts (QNA) estimates are disseminated on the Namibia Statistics Agency's (NSA) website, though there is a need to improve its source data and coverage. Plans by the NSA to produce QNA estimates in current prices are ongoing. The NA are produced bi-annually and revised for the past three years. Major revisions for back years such as correction of errors and changes to the economic structure to reflect current economic situations occur at longer intervals. TA in NA resumed in 2017, continued in 2018 and is expected to continue in 2019.
Price Statistics: The consumer price index is based on expenditures derived from the 2009/10 Household Income and Expenditure Survey (HIES) and may not be representative of current expenditure patterns. The NSA should update the CPI weights and item basket using the results of the 2015/16 HIES. Assisted by AFRITAC South, the NSA has compiled a producer price index (PPI) on a pilot basis. Labor market data, including labor force, employment, and wages are only collected on a bi-annual basis (the latest annual labor force survey is for 2018).
Government Finance Statistics: Annual and monthly budgetary central government data by fiscal year are reported on a cash basis in GFSM 2014 format on the eGDDS NSDP. High discrepancies are common in the fiscal data of the Budgetary Central Government, thus further improvements are needed: data reconciliation of assets and liabilities; consolidation of the general government fiscal data. Monthly or quarterly data should be made available in a timely manner and the authorities are recommended to report debt data to the World Bank's Public Sector Debt Statistics database. The Fund has been providing assistance to broaden the coverage of fiscal operations accounts.
Monetary and Financial Statistics (MFs): The Bank of Namibia (BoN) reports monthly monetary statistics based on standardized report forms (SRFs) for the BoN and Other Depository Corporations (banks and money market funds). Concepts and definitions are broadly in line with the Monetary and Financial Statistics Manual. The BoN has started to report Other Financial Corporations (OFCs) data covering pension funds, insurance companies and the Development Bank since December 2017, and data have been published in the International Financial Statistics. However, timeliness needs improvement. Future work for OFCs should focus on covering asset managers and other remaining OFCs.
Financial Soundness Indicators: The BoN reports Financial Soundness Indicators (FSIs) for banks on a quarterly basis for publication on the IMF website. However, FSIs have wide-ranging data quality issues, including aggregation and large unexplained swings. There is no diagnostics of whether the issues are rooted in the quality of the source data and/or compilation methods. FSIs do not cover nonbank financial institutions or other nonfinancial sectors.

Balance of Payment and International Investment Position Statistics: The BoN reports balance of payments (BOP) and international investment position (IIP) data on a quarterly basis with a lag of one quarter following the Balance of Payments and International Investment Position Manual, sixth edition (BPM6). The BoN has enhanced the data collection process and incorporated new data sources such as the financial statements of the FDI companies. However, further work is needed to expand the coverage of ESS (e.g., mineral and oil exploration sector and insurance companies) and ensure the consistency across datasets: between the financial statements and FDI data included in the IIP; and between IIP and MFS. Namibia participated for the first time in the Coordinated Direct Investment Survey (CDIS) in 2018. Authorities plan to conduct a detailed reconciliation exercise to identify the reasons for the discrepancies in imports and exports of goods between balance of payments and NA.
II. Data Standards and Quality
A ROSC (Data Module) for Namibia was published in 2002 and updated in 2005. In June 2016 Namibia implemented the recommendations of the Enhanced General Data Dissemination System (e-GDDS) by launching a National Summary Data Page (NSDP), which serves as a one-stop publication vehicle for essential macroeconomic and financial data in both human and machine-readable formats. The Namibian authorities have committed to follow the data dissemination schedule as provided in their metadata on the IMF's Data Dissemination Bulletin Board (http://dsbb.imf.org/Pages/GDDS/CtyCtgList.aspx?ctycode=NAM). The authorities are encouraged to make progress through the e-GDDS to higher data standards.
III. Reporting to STA
The MOF regularly reports annual data for publication in the Government Finance Statistics Yearbook. Work for reporting higher frequency data is ongoing. The BoN also regularly reports MFS, BOP and IIP data for publication in the International Financial Statistics (IFS) and the Balance of Payments Yearbook.

Table 1. Namibia: Common Indicators Required for Surveillance
(As of January 23, 2018)

	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	May. 2018	Jun 2019	D	D	D		
International reserve assets and liabilities of monetary authorities [3]	April 2019	April 2019	M	M	M		
International investment position	Q4/ 2018	Mar. 2019	Q	Q	Q		
Reserve/base money	April 2019	Jun 2019	M	M	M	O, O, LO, LO	O, LO, O, O, O
Broad money	April 2019	Jun 2019	M	M	M		
Central bank balance sheet	April 2019	Jun 2019	M	M	M		
Consolidated balance sheet of the banking system	Nov. 2017	Jan. 2018	M	M	M		
Interest rates [4]	1/15/2018	1/15/2018	D	D	D		
Consumer price index	May. 2019	Jun. 2019	M	M	M		
Revenue, expenditure, balance, and composition of financing [5]—general government [6]	NA	NA					
Revenue, expenditure and balance—central government	Q2/2019	May. 2019	B	B	B		
Composition of financing[4]—central government	Q2/2019	May. 2019	Q	Q	Q		
Stocks of central government and central government-guaranteed debt [7]	Mar. 2019	Jun. 2019	Q	Q	Q		
External current account balance	Q4/ 2018	Mar. 2019	Q	Q	Q		
Exports and imports of goods	Q4/ 2018	Mar. 2019	Q	Q	Q		
GDP/GNP	Q4/ 2018	Mar. 2019	Q	Q	Q	O, O, O, LO	LNO, LO, LO, LO, O
Gross external debt	Q4/ 2018	Mar. 2019	Q	Q	Q		

[1] Daily (D), weekly (W), monthly (M), quarterly (Q), biannual (B), 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 banks, 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.