September 2010
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Namibia: 2010 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion

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 2010 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 26, 2010, 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 July 7, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of July 7, 2010 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 23, 2010 discussion of the staff report that concluded the Article IV consultation.

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

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INTERNATIONAL MONETARY FUND

NAMIBIA

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Article IV Consultation with Namibia
(In consultation with other departments)

Approved by Domenico Fanizza and Dhaneshwar Ghura

July 7, 2010

- **Discussions:** May 12–26, 2010, with Prime Minister Nahas Hangula, Minister of Finance Saara Kuugongelwa-Amadhila, Governor of the Bank of Namibia Ipumbu Shiimi, and other senior officials and representatives of the private sector and labor unions.

- **Team:** Mr. Toé (head), Mr. Fontaine, Mr. Kpodar, and Mr. Million (all AFR). Mr. Uanguta (OED) also participated in the meetings.

- **Focus:** Policies to preserve fiscal sustainability in the face of a significant drop in SACU revenue brought about by the global crisis while mitigating fiscal risks, safeguarding external sustainability, and maintaining financial stability.

- **Past Fund Advice:** In recent consultations, the Fund and the authorities agreed on broad policy priorities, implementation of which has been broadly satisfactory. For a description of policy issues discussed in the 2008 Article IV consultation, see: http://www.imf.org/external/np/sec/pn/2009/pn0948.htm.

- **Exchange System:** Namibia has accepted the obligations of Article VIII, Sections 2 (a), 3, and 4. The exchange system is free of restrictions on the making of payments and transfers for current international transactions. The de facto exchange arrangement is a peg of the Namibian dollar at par to South Africa's rand.

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EXECUTIVE SUMMARY

- **The global crisis has negatively impacted Namibia, reversing years of strong economic performance and deteriorating the fiscal and external positions.** Robust economic growth, underpinned by a strong mining sector and sound macroeconomic policies, gave way to a contraction in output as external demand for minerals fell. Government revenue–to–GDP ratio declined, while expenditure levels were increased to address the impact of global crisis, resulting in a fiscal deficit in 2009 after three consecutive years of fiscal surpluses. Despite a deterioration of the external position, the level of international reserves remained high partly thanks to the allocation of SDRs that helped mitigate the impact of the decline in export earnings. Growth is expected to recover gradually over the medium term as the global economy strengthens and private investment in the mining sector firms up, but downside risks remain.

- **Stimulus measures in 2009/10 and the expansionary stance in the 2010/11 budget contributed to a deterioration in the fiscal outlook.** The countercyclical policy stance has helped cushion the impact of the global crisis. However, fiscal deficits over 8 percent of GDP are projected for 2010/11 and 2011/12, leading to a rapid accumulation of public debt.

- **Accordingly, the authorities have committed to undertake fiscal consolidation** with a view to reducing the fiscal deficit to 2.6 percent of GDP by 2014**.** In this connection they are considering measures to strengthen non-SACU revenue and reducing total expenditures to pre-crisis levels while reorienting spending to quality capital projects and critical social programs. The authorities also intend to strengthen public financial management and further improve the budget process.

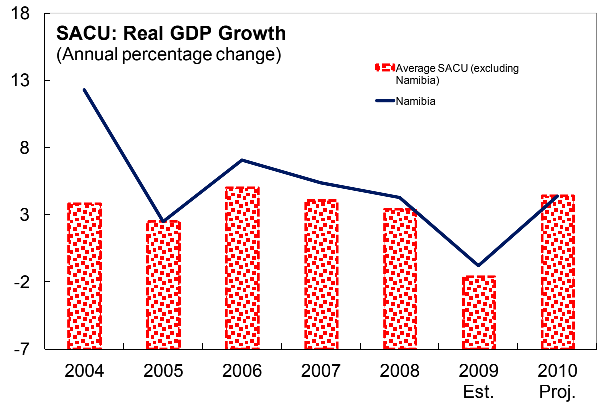
- **Staff underscored the need for an earlier withdrawal of the stimulus measures and a more ambitious fiscal consolidation** than envisaged by the authorities in the baseline scenario to provide room to respond to adverse shocks going forward. Staff also called for streamlining fiscal rules with the debt-to-GDP ratio as a key anchor to be complemented with a target on the non-SACU fiscal balance to help isolate fiscal policy from volatile SACU revenues.

- **The financial sector weathered the global financial crisis relatively well**. Commercial banks are profitable and continue to benefit from effective supervision by the Bank of Namibia. However, there are weaknesses in the supervision of nonbank financial institutions, which the authorities are taking steps to address, notably through strengthening of the Namibia Financial Institutions Supervisory Authority.

- **Growth potential needs to be increased.** Efforts should focus on reducing the continuing high cost of doing business, and improving the environment for private sector-led growth.

I. BACKGROUND: ENTERING THE GLOBAL CRISIS FROM RELATIVE STRENGTH

1. **Until recently, Namibia has recorded strong economic performance.** During 2004–08 growth averaged 6.3 percent supported by sound macroeconomic policies and robust mining sector output. Buoyant activity in the nonmining sector, especially in the services sector, also contributed to the growth performance, which compares favorably with the 3.8 percent average growth for the other Southern African Customs Union (SACU) countries over the same period. The inflation rate rose steadily from 4.1 percent in 2004 to 10 percent in 2008, driven by fuel and food prices in the latter year. Despite the strong growth poverty has remained pervasive (see Box 1).



Sources: National authorities; and IMF staff estimates.

2. **The fiscal and external positions strengthened in 2006–08**. Significant improvement in tax administration, increased mineral export taxes due to high commodity prices, and high SACU transfers contributed to a steady rise in government revenue during 2006–08. At the same time, the authorities contained expenditure growth, resulting in budget surpluses averaging 3.2 percent of GDP annually. The strong fiscal performance allowed the government to reduce public debt to 17.8 percent of GDP by end-2008/09. The external current account balance also recorded surpluses averaging 8.6 percent of GDP annually during 2006–08, reflecting buoyant mineral exports, favorable terms of trade, and increasing SACU transfers. However, significant capital outflows—mostly through pension funds—dampened the accumulation of international reserves, which rose slightly to US$1.4 billion at end-2008 (3.8 months of imports).

Namibia: Main Fiscal Indicators, 2006/07–2008/09
(In percent of GDP)

	2006/07	2007/08	2008/09
Revenue and grants	30.1	31.8	31.1
Of which SACU receipts	12.0	12.4	11.3
Expenditures and net lending	27.3	27.0	29.1
Overall balance	2.8	4.8	2.0
Non-SACU fiscal balance	-9.1	-7.6	-9.3
Gross public debt	24.3	18.3	17.8
Publicly-guaranteed debt	6.7	5.2	4.0

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

II. RECENT ECONOMIC DEVELOPMENTS: ENDURING THE GLOBAL CRISIS

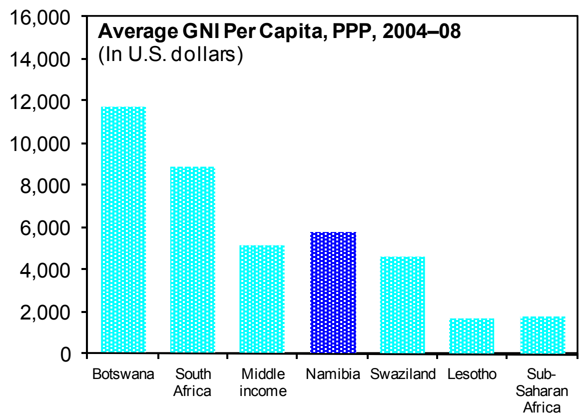
3. **The global crisis adversely affected Namibia's macroeconomic performance:**

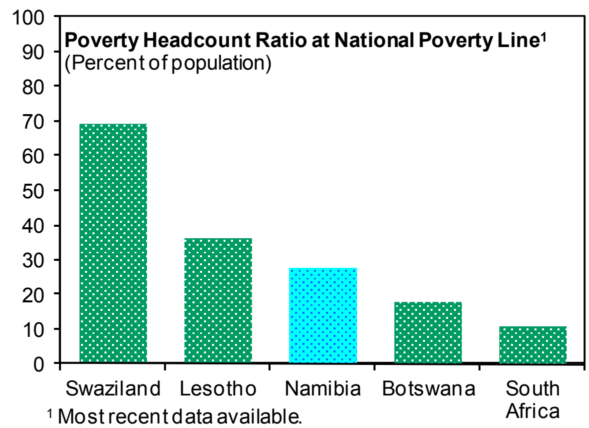
- ***Output contracted in 2009 as external demand for the country's main exports collapsed.*** Real GDP is estimated to have decreased by 0.8 percent in 2009, from a 4.3 percent growth in 2008 driven by a sharp decline in mineral

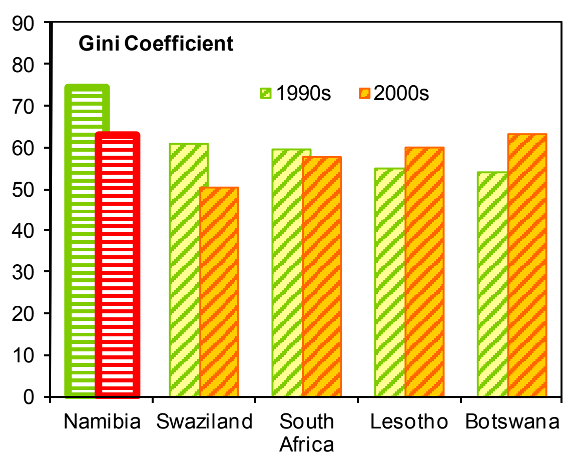
- production. Diamond production halved in 2009, while the copper company suspended operations in late 2008 in response to sharply lower prices. Inflation started to moderate as food and fuel prices eased, and the strengthening in the South African rand, to which the Namibian dollar is pegged at par, is passed through to domestic prices. The twelve-month inflation rate stood at 5 percent in April 2010, compared to 10 percent a year earlier.

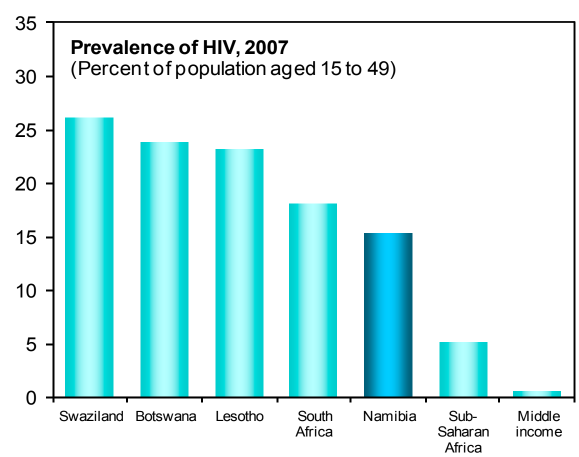
Box 1. Social Indicators

Despite the strong macroeconomic performance, Namibia's key social indicators remain weak. Progress is being made towards achieving the Millennium Development Goals (MDGs) by 2015, but poverty is widespread. Income inequality has eased slightly, but remains among the highest in the world. Lack of job opportunities and a skills mismatch in the nonmining sector have led to high structural unemployment with the rate estimated between 35 to 50 percent. The relatively high prevalence of HIV/AIDS is another key challenge confronting the country as it is undermining the country's productive capacity, and contributing to the weak social indicators.





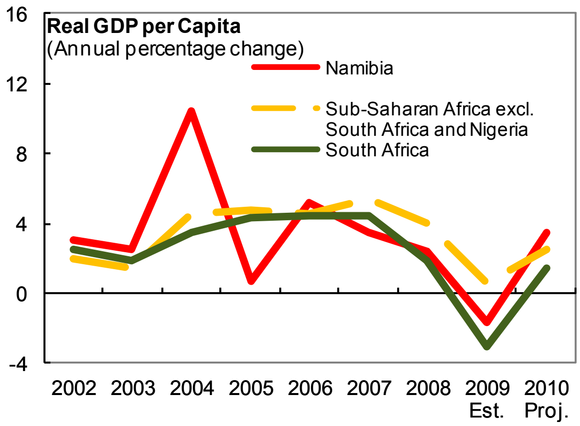




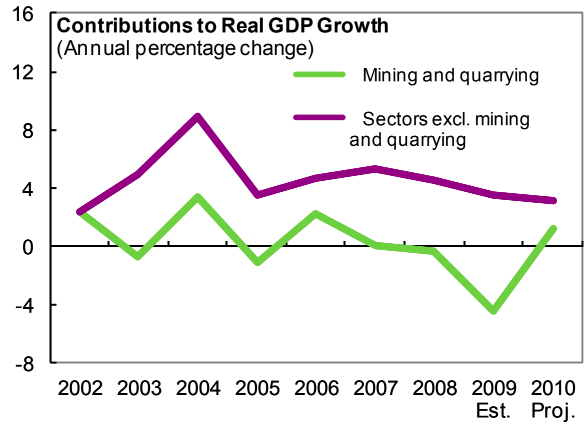
Sources: National authorities, World Bank, and World Income Inequality Database.

Figure 1. Recent Macroeconomic Performance

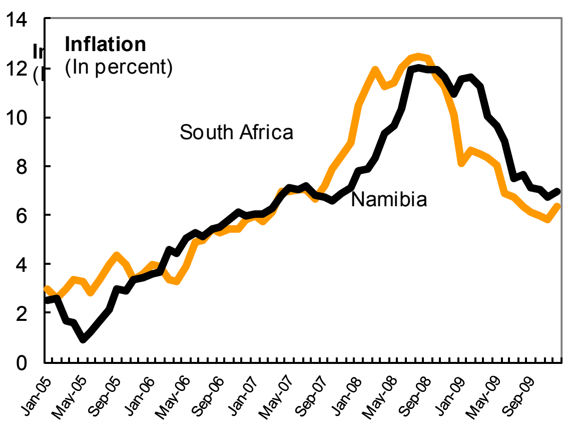
Per capita income growth has weakened...



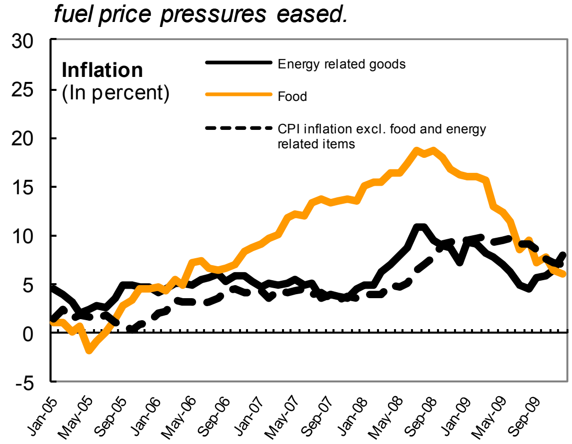
... as growth in the mining and nonmining sector slowed.



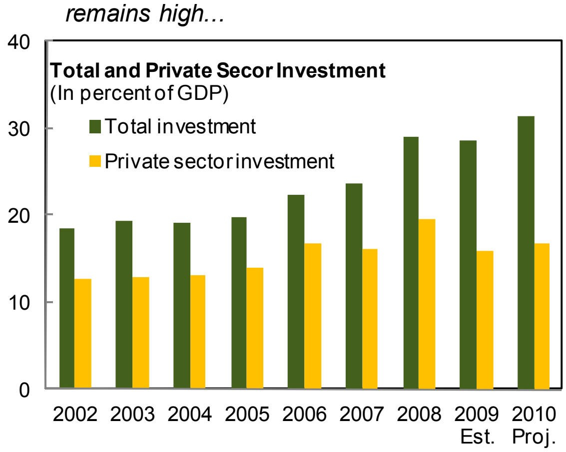
Inflation largely tracks that of South Africa...



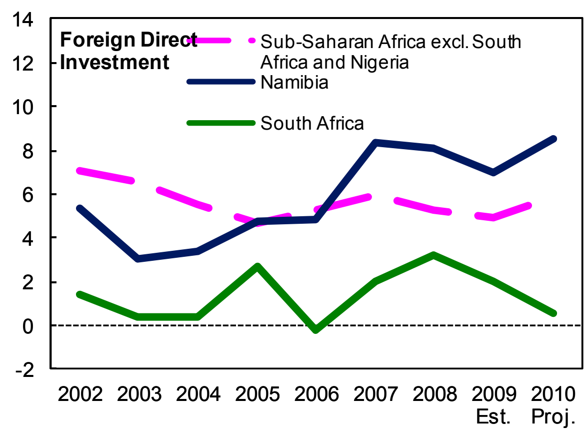
... and has started to decline as food and fuel price pressures eased.



Private sector investment has decreased, but remains high...



...largely reflecting substantial FDI flows.



Sources: Namibian authorities, IMF staff estimates and World Economic Outlook..

- ***The fiscal position shifted into a deficit in 2009/10.*** Government revenue fell by 2.3 percentage points of GDP reflecting a drop in mineral revenue and lower SACU transfers as South Africa's economy contracted. This, combined with a ramp up in expenditures, led to a shift of the fiscal balance into a deficit of 2.8 percent of GDP in 2009/10 from a surplus of 2 percent in 2008/09.

- ***The external current account position also deteriorated.*** In 2009, the current account balance is estimated to have shifted into a deficit of 1.8 percent of GDP from a 2.7 percent surplus in 2008 because mining exports fell, and imports increased on the back of an appreciation of the South African rand and a pickup in construction activities related to mining projects. In addition, foreign direct investment (FDI) slowed down owing to the downturn in the mining sector, while compliance with domestic investment requirements curtailed capital outflows. Gross international reserves remained relatively unchanged at US$1.4 billion (3.4 months of imports) thanks to the allocation of SDRs[1] that helped mitigate the impact of the decline in export earnings.

III. Short-Term Macroeconomic Policies: Responding to the Crisis

4. **The authorities used the available fiscal space for countercyclical policies**. The 2009/10 budget combined tax relief for non mining companies and households (1 percentage point of GDP) and expenditure increases, including spending on infrastructures and social programs (0.9 percentage points of GDP) to offset the decline in external demand. The authorities also granted wage increases to the civil service (0.9 percentage points of GDP). These measures helped sustain activities in construction, manufacturing and services sectors, which partially offset contraction in the mining sector. Given uncertainties about the strength of the global recovery and a time when the output is still below its potential (Box 2), the authorities have decided to maintain an expansionary fiscal stance in the 2010/11 budget, which implies a non-SACU fiscal deficit of 14.8 percent of GDP, up from 13.3 percent of GDP in 2009/10, and an increase in the public debt-to-GDP ratio to 19.6 percent, up from 14.9 percent (¶ 9).

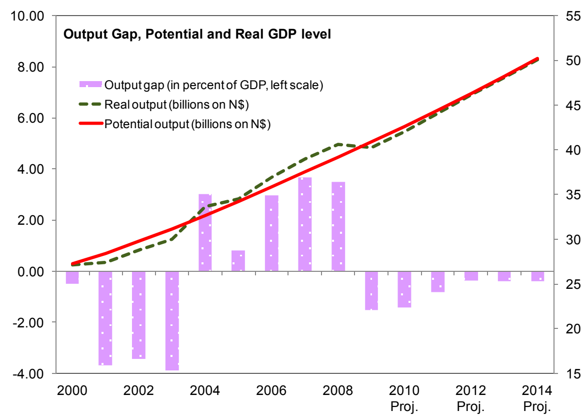
5. **Monetary easing in the anchor country enabled the Bank of Namibia (BoN) to pursue an accommodative policy stance.** Since the end of 2008, the BoN cut its policy rate by 300 basis points to 7 percent in June 2009 in line with the monetary policy stance of the South African Reserve Bank (SARB). Growth of credit to the private sector remained

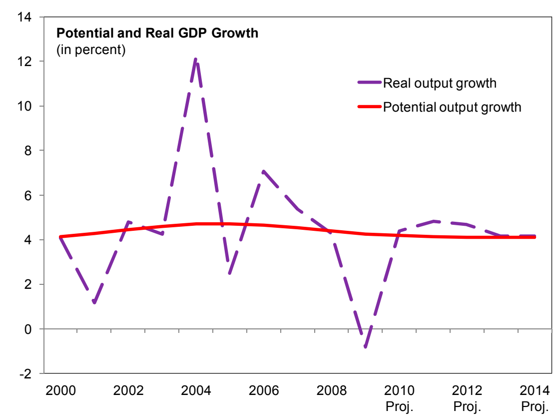
[1] In the wake of the global crisis, the IMF approved a general allocation of Special Drawing Rights (SDRs) equivalent to US$250 billion (SDR 161 billion) and a special one-time allocation of SDR 21.5 billion. Namibia received a total amount of SDR 130.4 million (US$203.4 million at end-August 2009 exchange rate), which was saved.

subdued at 10 percent in 2009, well below its pre-crisis level, as banks tightened their lending conditions.

Box 2. Estimating Potential Output for Namibia

Estimates of the potential output using the Hodrick-Prescott (HP) filter indicate an output gap in 2010. The results suggest that between 2004 and 2008, buoyant growth in the mining and service sectors pushed the real output above its potential. However, growth contraction in 2009 following the global economic downturn has led to a negative output gap,[1] estimated at 2.5 percent of GDP. While the economy is projected to grow close to its potential rate in 2010, this will still leave barely unchanged the output gap resulting from the slack in economic activity in 2009. Eliminating this gap would require a growth rate of 5.9 percent in 2010. It is worth noting that estimations of the output gap for Namibia is complicated by a number of factors, particularly short time series and some weaknesses in national account data.





[1] The output gap is defined as the difference between actual output and potential output, as a percent of actual output.

IV. Policy Discussions

6. **Against the backdrop of a challenging global environment**, the discussions focused on how and when to exit from the current expansionary stance of fiscal policy to preserve fiscal sustainability over the medium term in the face of the significant drop in SACU revenue, while managing risks, and maintaining external and financial stability.

A. Outlook and Risks

7. **The near-term and medium-term growth outlooks are positive.** In the near term, growth would benefit from the stimulus measures and a gradual recovery in the external demand for Namibia's exports, particularly diamond. Over the medium term, real GDP

growth is predicated on a strong recovery in private investment in the mining sector. Mining of uranium is expected to be the key driver with the commissioning of at least three new mines in the medium term. The improved outlook for world demand for uranium is sustaining inflows of FDI, with a positive impact on the balance of payments over the medium term. Diamond exports, which for a long time helped to sustain economic growth, are also expected to rebound although not to their pre-2008 levels.

8. **However, downside risks remain**. The authorities recognized that a weakening of the global economic recovery or worse, another dip, could dampen activity within the mineral sector by impacting negatively on commodity prices, with implications for the overall economy.[2] In addition, delays in the thawing of financial markets may adversely affect FDI inflows and hinder the recovery in private investment. On the fiscal front, customs and mineral-related taxes, accounting for just under half of total revenue, will continue to be affected by growth prospects in South Africa and external demand for mineral exports. Further downside risks to SACU revenue stem from the possibility of a revision to the revenue sharing formula and the possible expansion of SACU to include additional countries, even though the authorities noted that new members with larger economies may also bring more resources to the revenue pool. Finally, failure to carry through the fiscal consolidation plan could put at risk internal and external sustainability.

B. Unwinding Fiscal Stimulus and Managing Fiscal Risks

9. **The authorities recognized that the countercyclical stance contributed to deteriorate the fiscal outlook.** With SACU revenue anticipated to drop from 10.5 percent of GDP in 2009/10 to only 2.8 percent in 2011/12,[3] the fiscal deficit will widen from 2.8 percent of GDP in 2009/10 to 8.4 percent on average in 2010/11–2011/12, despite an expected significant reduction in government expenditure in 2011/12. The authorities believe that the ample liquidity in the domestic banking system and high demand for government securities would help in the financing of the emerging deficits. While trending down over the medium term, public deficits will stay high, leading to a rapid accumulation of

Namibia: Main Fiscal Indicators, 2009/10–2013/14

(In percent of GDP)

	Est.	MTEF			Proj.
	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue and grants	28.8	24.6	20.6	23.1	25.2
Of which SACU receipts	10.5	6.5	2.8	5.2	7.3
Expenditures and net lending	31.6	32.9	29.1	28.0	28.6
Overall balance	-2.8	-8.3	-8.5	-4.9	-3.4
NonSACU fiscal balance	-13.3	-14.8	-11.3	-10.1	-10.8
Public debt	14.9	19.6	26.1	28.2	29.1
Publicly-guaranteed debt	3.3	3.5	3.6	3.8	4.0

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

[2] Recent events in Europe have heightened the risks of a double-dip recession.

[3] In addition to the reduction in the size of the SACU revenue pool, Namibia is to repay excess SACU transfers on account of FY 2008/09 and 2009/10, representing 5.6 percent of GDP (N$ 5.2 billion).

public debt, which would nearly double by 2013/14 (29.1 percent of GDP). Inclusion of publicly-guaranteed debt will push the debt-to-GDP ratio to over 30 percent by 2012/13.

10. **The authorities are aware of the need for a timely unwinding of the fiscal stimulus and to undertake fiscal consolidation to preserve fiscal sustainability over the medium term.** They indicated that the 2010/11–2012/13 Medium-Term Expenditure Framework (MTEF) envisages a sharp reduction in expenditure in 2011/12–2012/13 (4.9 percentage points of GDP) with a view to bringing government expenditure to 28 percent of GDP by 2012/13. Moreover, the authorities are considering measures to strengthen non-SACU revenue, including improving value added tax (VAT) compliance and tax audits, expanding the mineral tax to all minerals and introducing an environmental levy. To this end, they have requested technical assistance (TA) from the Fund to conduct a broad review of tax policy.

11. **The authorities are committed to keep the public debt level within the target of 30 percent of GDP.** With the onset of the global financial and economic crisis, the authorities decided to raise the public debt-to-GDP ratio from 25 percent to a range of 25–30 percent. On current policies, the debt sustainability analysis (DSA) shows that the level of public debt is sustainable,[4] but could escalate if a negative growth shock occurs or contingent liabilities materialize, including losses by some state-owned enterprises (SOEs), borrowing by local government, and possible liabilities from envisaged Public-Private Partnerships (PPPs).

12. **The authorities are convinced that strengthening public financial management and the budget process are also needed to improve fiscal outcomes.** In line with the recommendations of Fund technical assistance, they have taken steps to move to program budgeting. A new chart of account is being finalized, and four pilot line ministries have been identified to roll out program budgeting with all ministries expected to complete the process by 2011/12. While aware of the need to address the fragmentation of the responsibilities for compilation of current and capital budgets to further strengthen the budget process, the authorities pointed to legislative hurdles that may take time to overcome.

13. **Staff underscored the need for deficit reduction starting from 2011/12, and for a more ambitious fiscal consolidation over the medium term.** Staff also emphasized the importance of reorienting stimulus spending in favor of capital projects and improving the quality of public expenditures in general. Given the public debt outlook, staff proposed an alternative scenario (Box 3) that would bring the fiscal deficit to near balance, and the public and publicly-guaranteed debt to 27.2 percent of GDP by 2014/15, thereby providing room to respond to adverse shocks going forward. There is also a need to streamline overlapping

[4] See Public Debt Sustainability Analysis in Informational Annex.

fiscal rules to provide clearer guidance for fiscal policy.[5] In this regard, the debt-to-GDP ratio should be the key anchor for fiscal policy since it captures better on and off-balance sheet items. Setting a target on non-SACU fiscal balance would also help isolate fiscal policy from volatile SACU revenues.

Box 3. Alternative Fiscal Scenario

Staff is of the view that a more ambitious fiscal consolidation centered on expenditure reforms and revenue enhancement should continue through 2014/15. Compared to the baseline scenario, fiscal consolidation under the alternative scenario would start with an overall budget deficit reduction a year earlier in 2011/12. Expenditure measures should aim at gradually reducing spending to 27.4 percent of GDP by 2014/15. This involves a reduction in non-wage, non-interest current expenditure to their average level of the past five years (9.8 percent of GDP) by trimming non priority spending and accelerating the reforms of SOEs. The authorities also need to contain the wage bill within budgeted levels.[1] Increased non-SACU revenue mobilization is also critical to fiscal consolidation efforts. Already, revenue administration has been strengthened through the introduction of comprehensive auditing of VAT refunds and the plan to expand mineral tax to all minerals is a welcome step, but additional measures are required including streamlining tax exemptions, and implementing an integrated tax system to further raise revenue. Creation of a large taxpayer unit would help focus limited resources on large taxpayers.

Namibia: Main Fiscal Indicators Under Baseline and Alternative Scenarios, 2009/10–2014/15

(In percent of GDP)

	Est.	Projections				
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Baseline Scenario						
Revenue and grants	28.8	24.6	20.6	23.1	25.2	26.1
Expenditures and net lending	31.6	32.9	29.1	28.0	28.6	28.7
Overall fiscal balance	-2.8	-8.3	-8.5	-4.9	-3.4	-2.6
NonSACU fiscal balance	-13.3	-14.8	-11.3	-10.1	-10.8	-10.9
Public debt	14.9	19.6	26.1	28.2	29.1	29.3
Publicly-guaranteed debt	3.3	3.5	3.6	3.8	4.0	4.2
Alternative Scenario						
Revenue and grants	28.8	24.8	21.1	23.8	25.9	26.8
Expenditures and net lending	31.6	32.9	28.9	27.6	27.6	27.4
Overall fiscal balance	-2.8	-8.1	-7.8	-3.8	-1.7	-0.6
NonSACU fiscal balance	-13.3	-14.6	-10.6	-9.0	-9.1	-8.8
Public debt	14.9	19.4	25.2	26.3	25.7	24.2
Publicly-guaranteed debt	3.3	3.5	3.4	3.2	3.0	3.0

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

[1] The fiscal consolidation plan envisaged in the current MTEF could only be achieved if the projected increases in the wage bill (3 and 7 percent in 2011/12 and 2012/13, respectively) are not exceeded; these are below the 16.3 percent average increase in 2008–11.

[5] To guide fiscal policy over the period of the medium-term expenditure framework —MTEF (2010/11–2012/13), the authorities adopted the following fiscal rules: (i) a public debt-to-GDP ratio of 25–30 percent annually; (ii) an average budget deficit of 5 percent of GDP; (iii) public expenditure levels below 30 percent of GDP; (iv) interest payments capped at 10 percent of government revenue; and (v) contingent liabilities below 10 percent of GDP annually.

14. **Fiscal risks need to be addressed.** The authorities acknowledged the importance of fiscal risks and the need to take appropriate measures to mitigate their impact (Box 4). They pointed out the budget documents submitted to parliament already clearly identify fiscal risks, though more could be done. They indicated that steps have been taken to address those risks stemming from contingent liabilities by subjecting SOEs to performance agreement, and moving away from blanket subsidies with a view to strengthening their performance. The authorities are prepared to work with the IMF and other development partners to refine the budget process and adopt best practices with regard to disclosure and management of fiscal risks. In this regard, they have requested technical assistance, notably from the Commonwealth.

Box 4. Fiscal Risks in Namibia[1]

Fiscal risk is defined as the possibility of deviations of fiscal outcomes, including government expenditures, revenues, assets, and liabilities, compared to the expectations at the time of the budget preparation. Deviations can be on the upside, when government fiscal balance and public debt are better than envisaged in the budget or on the downside when fiscal outcomes worsen.

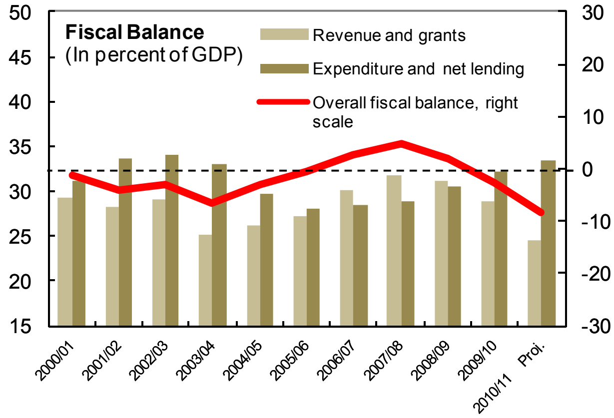
Assessment of various sources of fiscal risks suggests that shortfalls in SACU revenue and economic growth are the main sources of fiscal risks in Namibia. After stripping out the impact of anticipated changes in SACU revenue, economic growth, interest rates, terms of trade, and inflation from the deviations of fiscal balance and public debt, there remains a large unexplained residual, which may reflect the importance of contingent liabilities and forecasting errors.

Adopting fiscal rules based on a sustainable non-SACU fiscal balance, and strengthening the budget framework and processes could contribute to mitigate fiscal risks. Moreover, budgets should be based on reasonable growth assumptions and alternative scenarios on key assumptions should be considered. Further, improving disclosure of fiscal risks, especially contingent liabilities, could help promote appropriate contingency responses should they materialize.

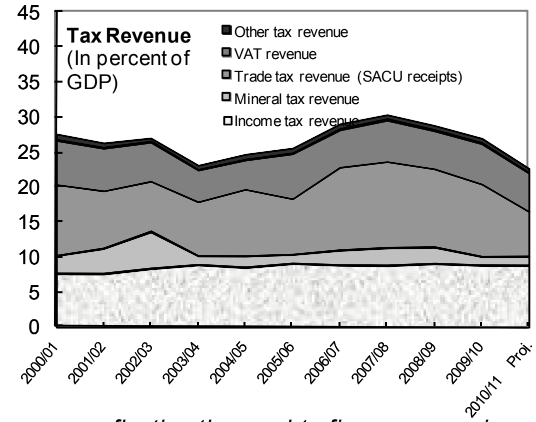
[1] This box summarizes the findings of an upcoming staff paper on fiscal risks in Botswana, Lesotho, Namibia and Swaziland co-authored by T. Fontaine, K. Kpodar, and N. Toé.

Figure 2. Fiscal Developments

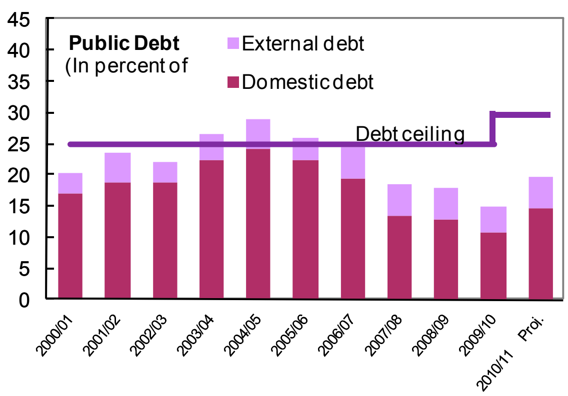
Fiscal surpluses have turned to deficits…



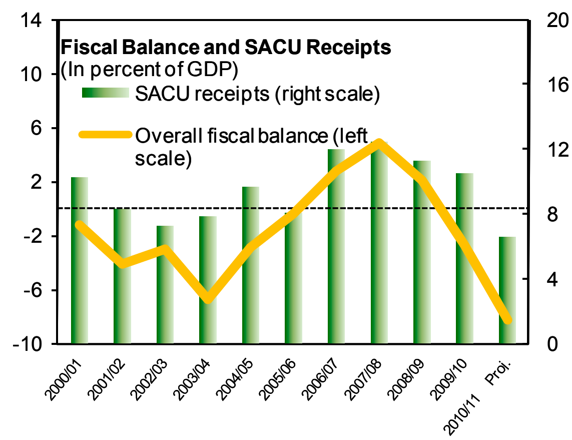
…as SACU and mining revenues fell.



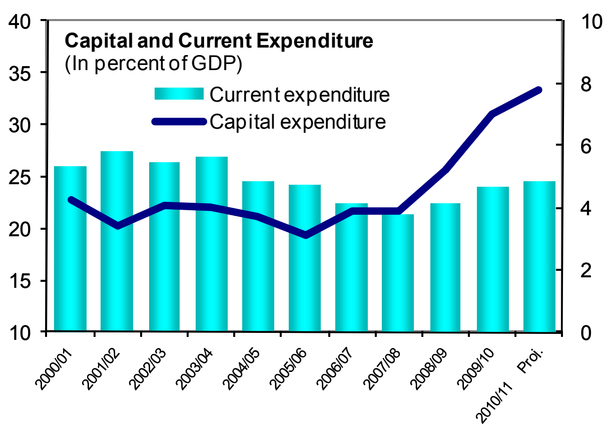
Public debt is set to rise…



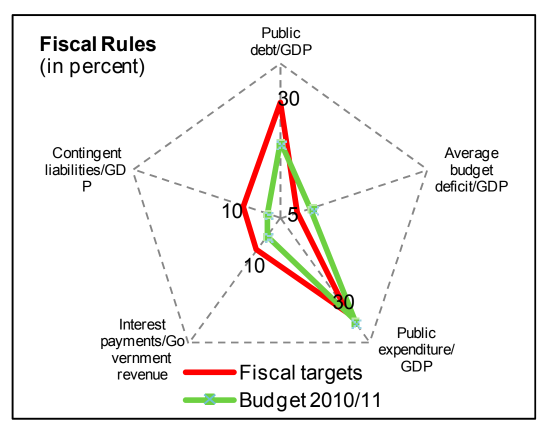
… reflecting the need to finance emerging deficits.



Capital expenditure rose significantly.



Multiple fiscal rules complicate fiscal management.



Sources: Namibian authorities; and IMF staff estimates.

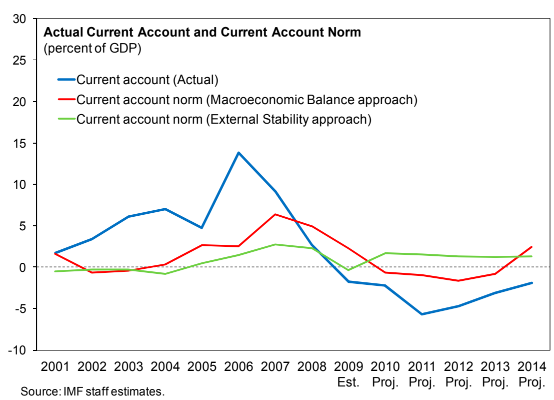
C. Preserving External Stability and Competitiveness

15. **The authorities consider the peg to the South African rand as the best option for Namibia given the historic and economic linkages.** They indicated that the peg does not only enhance trade between the two countries, but has also resulted in Namibia having relatively low rates of inflation.

16. **Staff estimates under the baseline scenario indicate that Namibia's real effective exchange rate (REER) is broadly in line with fundamentals (Box 5).** Despite a 10 percent real appreciation in 2009 owing to the strengthening of the rand, the REER assessment suggests a negligible overvaluation of the Namibian dollar provided that the authorities' fiscal consolidation under the baseline scenario takes place. The authorities believe that effective fiscal consolidation and implementation of structural reforms are critical to foster external stability, improve competitiveness, and increase confidence in the viability of the monetary arrangement. Indeed, the envisaged fiscal consolidation by the authorities would contribute to bring down the external current account deficit to 1.9 percent by 2014, which will peak at 5.7 percent in 2011.

Box 5. Assessment of the Equilibrium Real Effective Exchange Rate

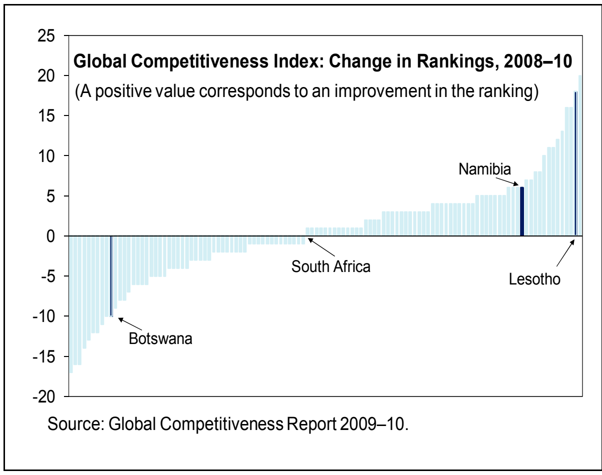
The assessment of Namibia's REER using the three CGER methodologies suggests a negligible overvaluation of the Namibian dollar under the baseline scenario. With the macroeconomic balance approach, the current account norm stands at a surplus of 2.3 percent of GDP compared to a projected current account deficit of 1.9 percent in 2014 when real output will be close to its potential (see Box 2), which leads to an overvaluation of 5.9 percent.[1] Also, the findings of the external stability approach suggest an overvaluation of 4.7 percent, with the current account norm that would stabilize net foreign assets being estimated at a surplus of 1.3 percent of GDP in 2014. Finally, the equilibrium REER approach yields similar results, with the overvaluation estimated a 1.6 percent based on a model that explains changes in the REER by trade openness, investment rate, broad money and relative productivity against main trading partners.[2]

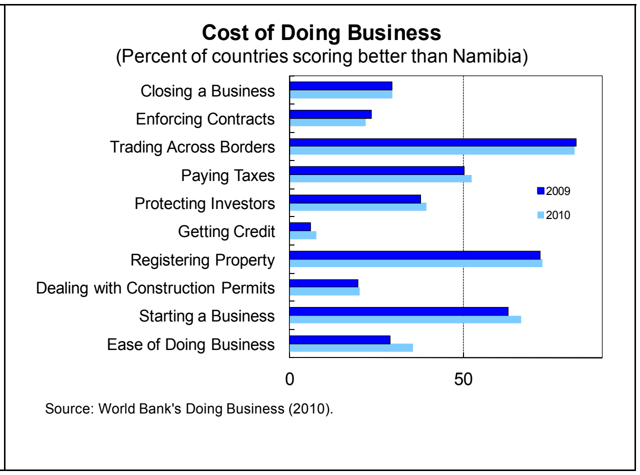


[1] The elasticity of the current account with respect to the REER is 0.7.
[2] More details on the model are available in "What Do We Know About Namibia's Competitiveness?" WP/07/191.

17. **Improving the business environment is essential to stimulate growth and foster higher employment opportunities**. Namibia's main challenge is creating the conditions to attract and sustain FDI, particularly in the non mining sector. While recognizing that the country's main strengths lie in its strong institutions, staff noted that labor skill shortages combined with delays in processing work permits, high cost of transport and energy shortages, complicated business registration and licensing procedures, continue to undermine firms' productivity and weaken FDI inflows. Reducing the continuing high cost of doing business, and creating an enabling environment for private sector-led growth are all critical for improving Namibia's competitiveness.

Figure 3. Indicators of Business Environment





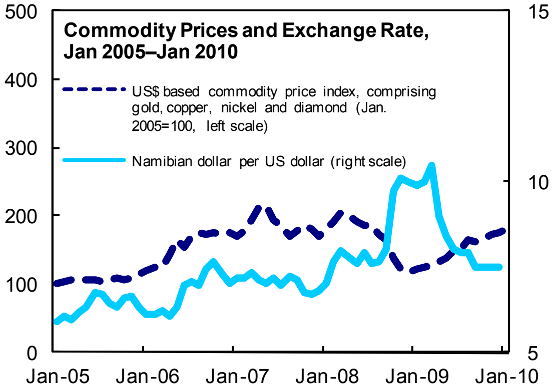
D. Monetary and Financial Stability Issues

18. **As a member of the Common Monetary Area, monetary policy of the BoN tracks closely that of SARB.** Nevertheless, the BoN decided to maintain its repo rate at 7 percent in April and June 2010, despite the fact that SARB cut its rate by 50 basis points to 6.5 percent in March 2010. The BoN felt that a further reduction in the policy rate was not necessary at present as the effects of the previous interest cuts are yet to be fully passed through given the lag in monetary policy transmission.

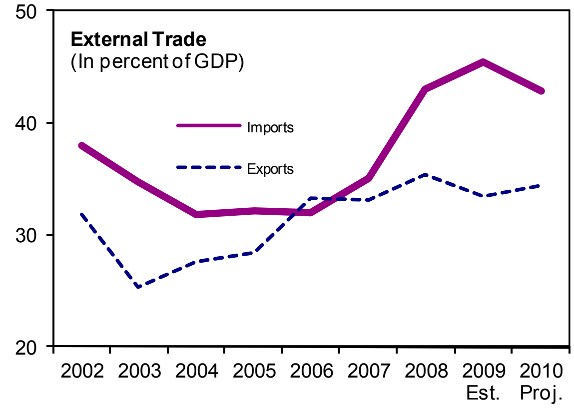
19. **The financial sector weathered relatively well the global financial crisis.** The commercial banks, most of which are South African subsidiaries, have been conservative in their lending practices and have had little direct overseas exposure. They tend to be well provisioned and profitable and continue to benefit from prudent supervision by the BoN. However, there has been a sizeable contraction in lending to the private sector from the banking system, which could further limit private sector development.

Figure 4. External Sector Developments

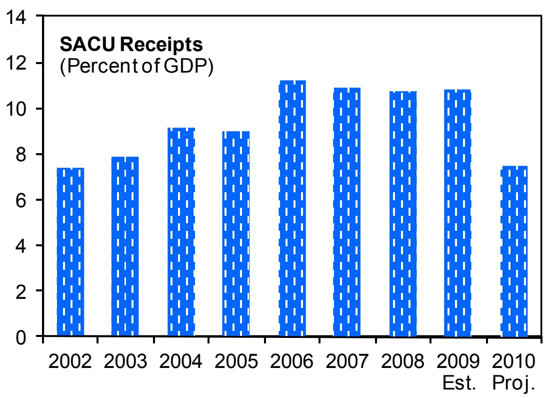
Commodity prices recovered, but the strengthening of the Namibian dollar...



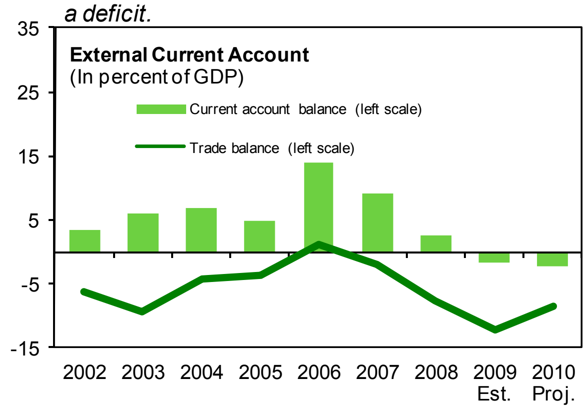
... led to slowdown in exports, while imports rose.



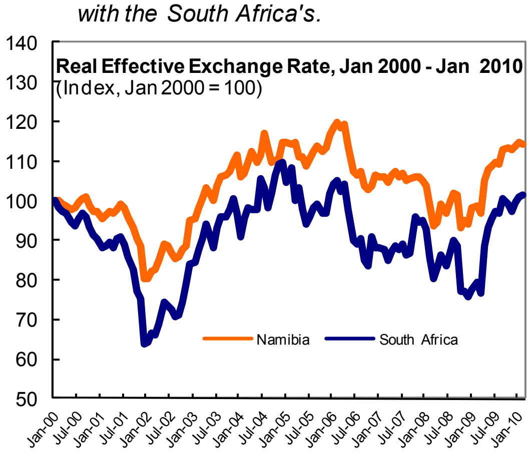
This, combined with falling SACU transfers...



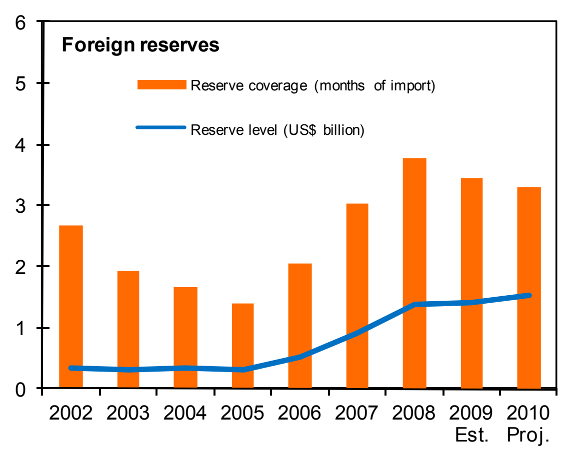
...has shifted the current account balance into a deficit.



The REER has appreciated in line with the South Africa's.



Reserves remain broadly adequate.



Sources: Namibian authorities, IMF, and and IMF staff estimates.

20. **The authorities have taken measures to address vulnerability stemming from weaknesses in the supervision of the rapidly growing nonbank financial institutions (NBFIs).**[6] These include efforts to improve supervision through the strengthening of the Namibia Financial Institutions Supervisory Authority (NAMFISA), but capacity constraints remain. In this regard, the authorities are looking to enhance human capacity within the organization and have formally requested IMF TA in the area of supervision. Further, the Financial Institutions and Markets Bill has been approved by Cabinet and is set to be tabled in Parliament by the end of 2010. Passage of this bill will help to further strengthen NAMFISA in carrying out its obligations.

21. **The authorities are aware that careful consideration should be given to the modifications to the domestic investment requirements for insurance companies and pension funds.** The amendment, which was put in place in 2009 and is envisaged to be phased-in over a five-year period, limits dual-listed companies to a maximum of 10 percent of local assets and requires a minimum of 1.75 percent of total assets to be invested in unlisted Namibian companies. Given the limited size of the domestic market, the repatriation requirement could encourage risk taking by these institutions and may force them to forgo higher yield investments abroad, thus lowering their profitability. The authorities stressed their commitment to safeguarding the long-term financial viability of the pension funds and insurance companies, but indicated that the domestic investment requirement has stemmed capital outflows, and contributed to the development of local capital markets.

E. Promoting Broad-Based Growth and Poverty Reduction

22. **The recent global downturn has highlighted the need for a comprehensive strategy to spur broad based growth in Namibia**. The country's heavy reliance on the mining sector makes it highly vulnerable to commodity price shocks. The economic contraction last year, following more than a decade of uninterrupted growth, has heightened the need for a more broad-based growth strategy. While tapping the potential of the mining sector, it is critical to unlock growth potential in agriculture, manufacturing and services, particularly tourism, through reducing the cost of doing business, improving access to credit, and attracting FDI. Structural reforms to improve the business climate and policies to address infrastructure bottlenecks would contribute to the development of the nonmining sector, and help make a dent in widespread unemployment. The authorities reiterated their commitment to reducing the cost of doing business by investing heavily in infrastructure, roads, port facilities, and power grid extension.

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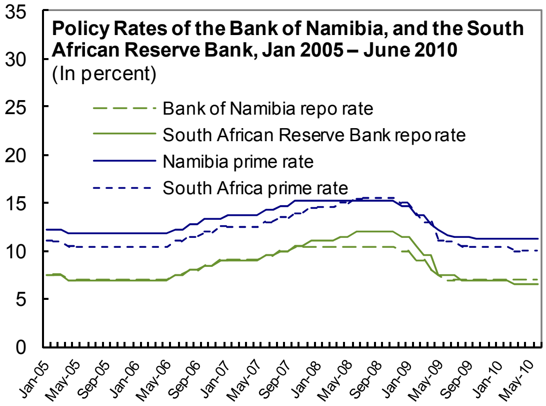
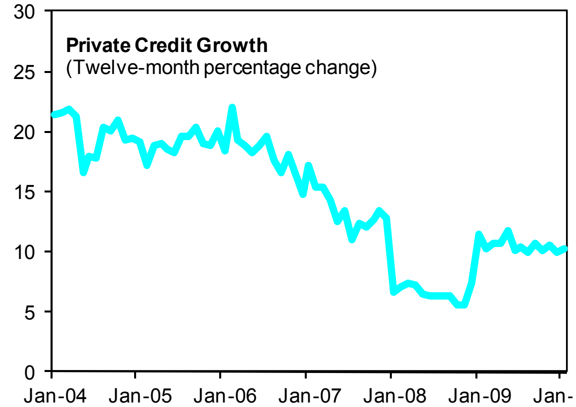
[6] The NBFIs comprise mainly pension funds, insurance companies, unit trusts, stock brokers, asset managers, and micro-lenders.

Figure 5. Monetary and Financial Sector Developments

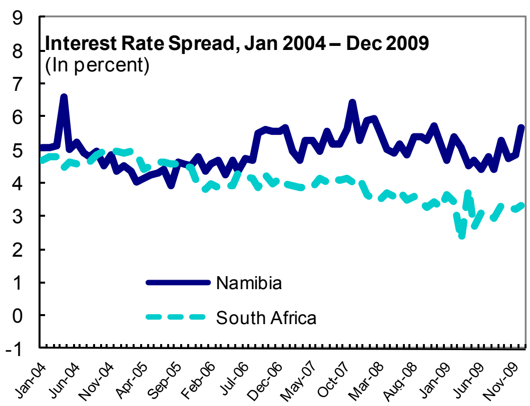
The BoN reduced its repo rate broadly in line with the SARB.



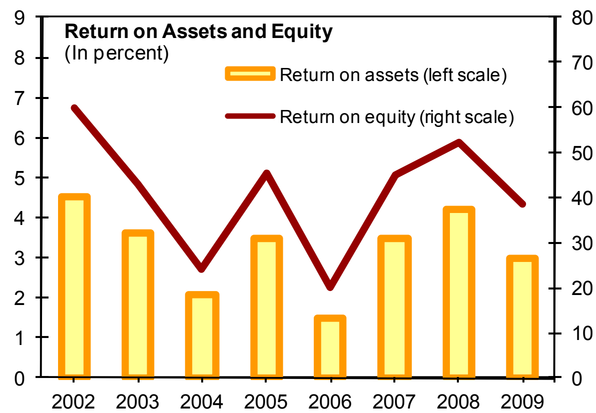
Credit growth recovered in 2009, but has remained subdued.



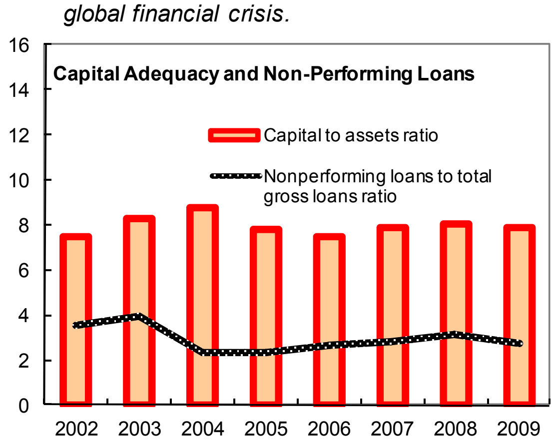
However, lending margins remain relatively high,



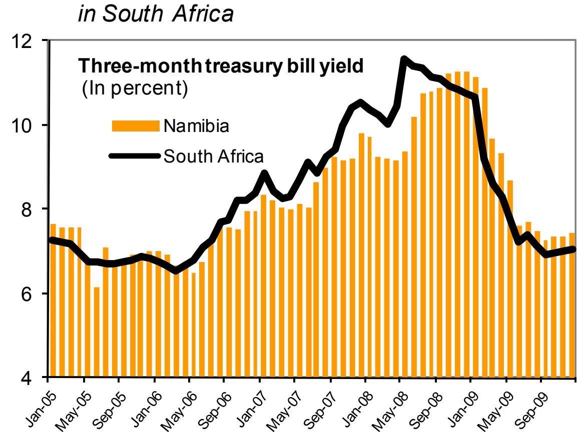
...so is bank profitability, albeit on the decline.



Prudential ratios are sound despite the global financial crisis.



Treasury bill yields continue to track rates in South Africa



Sources: Namibian authorities, IMF and IMF staff estimates.

23. **Prioritization in the execution of the National Development Plan 3 (NDP3) (2007/08–2011/12) is needed.** The recent global downturn has negatively impacted the Namibian economy and set back the government's efforts at achieving the NDP3 goals. Renewed efforts and prioritization in the execution of that plan are therefore needed. In this regard, the authorities noted that the MTEF (2010/11–2012/13) will devote about 45 percent of government expenditures per annum over the next three years to priority sectors such as education, health and agriculture, while improving the social safety net to alleviate poverty and inequality. However, low productivity and limited implementation of structural reforms will need to be overcome to foster steady growth.

V. Staff Appraisal

24. **The economic recovery is well underway, supported by timely macroeconomic stimulus.** However, the outlook is subject to downside risks stemming from uncertain global economic recovery calling for coordination in the policy mix going forward. In particular, if external demand for commodities weakens, and the thawing of financial markets is delayed, the recovery could lose steam.

25. **The countercyclical measures have been instrumental in cushioning the impact of the global downturn, but have deteriorated the fiscal outlook.** The authorities appropriately took advantage of the fiscal space available entering the crisis to stimulate the economy. However, although an expansionary fiscal stance in 2010/11 appears appropriate given the slack in economic activity and uncertainties about the global recovery, careful attention should be paid to the quality of spending and efforts need to be made to reorient spending in favor of quality capital projects while protecting critical social programs.

26. **A more ambitious fiscal consolidation than envisaged in the current MTEF is key to ensuring internal and external sustainability.** Fiscal consolidation should start from 2011/12 by targeting a reduction in the overall budget deficit so as to preserve macroeconomic stability. Given the projected sharp drop in SACU revenue and rapid debt accumulation in the medium term, the authorities need to step up efforts at reducing public spending and mobilizing non-SACU revenue to reduce the projected fiscal deficits and public debt to sustainable levels. In this context, containing the wage bill, accelerating the reforms of SOEs, and improving non-SACU revenue mobilization should be accorded high priority.

27. **Fiscal risks need to be closely monitored.** The measures being undertaken by the authorities need to be complemented by reforms, including strengthening the budget process, bringing into effect the SOEs Governance Act, and establishing the institutional and legal framework for PPPs.

28. **The exchange rate peg to the rand continues to be the main anchor of monetary policy.** Despite the peg to the South African rand, the BoN monetary policy stance has started since April 2010 to deviate from the interest rate policy of SARB. Staff believes that

there is a scope for reducing domestic interest rates by bringing the policy rate in line with South Africa's.

29. **Upgrading the supervision of NBFIs and addressing concerns about the tightening of the regulation on domestic investment requirements for pension funds and insurance companies are critical to ensure financial stability**. Speeding up the approval of the Financial Institutions and Markets Bill, and strengthening NAMFISA as an independent body would go a long way in addressing weaknesses in prudential regulations and supervision of the NBFIs. Regarding domestic investment requirement, short of reversing it or reducing its rate, it is of paramount importance to monitor closely the impact on pension funds with a view to mitigating risk taking by institutional investors and safeguard their long-term financial viability.

30. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Table 1. Namibia: Selected Economic and Financial Indicators, 2007–14

			Est.	Projections				
	2007	2008	2009	2010	2011	2012	2013	2014
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant 2004 prices	5.4	4.3	-0.8	4.4	4.8	4.7	4.2	4.2
GDP deflator	9.0	14.3	8.0	7.5	5.8	7.3	5.1	4.9
GDP at current market prices (N$ millions)	62,081	74,017	79,262	88,975	98,726	110,870	121,418	132,675
GDP per capita (US$)	4,339	4,344	4,512	5,454	5,559	5,850	6,021	6,213
Consumer price index (period average)	6.7	10.0	9.1	6.5	5.9	5.6	5.4	5.2
Consumer price index (end of period)	7.1	10.9	7.0	6.1	5.7	5.5	5.2	5.2
External sector								
Exports (US$)	9.9	8.7	-1.0	25.9	6.8	2.7	2.7	2.6
Imports (US$)	20.7	24.8	10.8	15.0	5.9	3.4	3.4	3.4
Export volume	-2.8	8.1	21.3	6.5	5.8	4.7	3.8	3.7
Import volume	9.9	11.9	27.7	7.4	5.3	2.8	2.6	2.6
Terms of trade	2.9	-9.8	-5.9	10.4	0.4	-2.5	-1.8	-1.9
Real effective exchange rate (period average)	-4.3	-7.9	9.9	…	…	…	…	…
Money and credit								
Credit to the private sector	12.9	7.3	10.0	13.1	13.5	13.6	13.0	12.6
Broad money	10.2	17.9	5.9	14.2	11.7	12.3	9.5	9.3
	(Percent of GDP, unless otherwise indicated)							
Investment and savings								
Gross investment	23.7	28.9	28.6	31.3	29.1	26.8	26.3	26.0
Public 1/	7.5	9.3	12.7	14.6	12.1	9.8	9.5	9.5
Private	16.2	19.7	15.9	16.7	17.0	17.0	16.8	16.5
Gross domestic savings	22.7	20.8	16.7	23.6	21.9	19.8	19.2	19.3
Gross national savings	32.9	31.6	26.8	29.0	23.4	22.1	23.2	24.1
Public	10.1	9.0	5.7	1.1	-1.9	-0.4	1.4	2.3
Private	22.8	22.6	21.1	27.9	25.3	22.5	21.8	21.7
Central government finance 2/								
Revenue and grants	31.8	31.1	28.8	24.6	20.6	23.1	25.2	26.1
Of which: SACU receipts	12.4	11.3	10.5	6.5	2.8	5.2	7.3	8.2
Expenditure and net lending	27.0	29.1	31.6	32.9	29.1	28.0	28.6	28.7
Of which:								
Personnel expenditure	10.5	10.0	10.9	11.7	10.8	10.4	10.4	10.4
Capital expenditure and net lending	5.7	6.7	7.5	8.4	6.1	5.2	5.2	5.2
Primary balance (deficit = –)	6.6	3.5	-1.2	-6.9	-6.7	-2.6	-0.9	0.0
Overall government deficit including grants	4.8	2.0	-2.8	-8.3	-8.5	-4.9	-3.4	-2.6
Public debt/GDP	18.3	17.8	14.9	19.6	26.1	28.2	29.1	29.3
Gross public and publicly-guaranteed debt/GDP	23.6	21.8	18.2	23.1	29.7	32.0	33.2	33.6
Net public and publicly-guaranteed debt/GDP 3/	15.2	11.3	12.5	…	…	…	31.2	31.6
External sector								
Current account balance								
Including official transfers	9.1	2.7	-1.8	-2.2	-5.7	-4.7	-3.1	-1.9
Excluding official transfers	-2.0	-9.7	-14.9	-10.8	-10.7	-10.8	-11.2	-11.2
Gross official reserves 4/								
US$ millions	906.6	1394.7	1405.3	1527.7	1323.7	1236.2	1393.8	1677.9
Months of imports of goods and services	3.0	3.8	3.4	3.3	2.7	2.5	2.7	3.1
External debt/GDP 5/								
US$ millions	2260.8	2001.9	2261.9	2395.6	2562.4	2642.5	2710.6	2788.1
Percent of GDP	25.7	22.3	24.1	20.9	21.8	21.2	20.9	20.7
Exchange rate (N$/US$, end of period)	6.8	9.3	7.4	…	…	…	…	…
Exchange rate (N$/US$, period average)	7.1	8.3	8.4	…	…	…	…	…

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

1/ Figures include public enterprise and central government investment.
2/ Figures are for the fiscal year, which begins April 1.
3/ Figures include government deposits.
4/ Includes SDR allocations in 2009.
5/ Public and private external debt.

Table 2a. Namibia: Central Government Operations Under Baseline Scenario, 2007/08–2014/15

(In millions of Namibian dollars)

			Est.	MTEF 2010/11-2012/13			Projections	
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Revenue and grants	20,672	23,429	23,541	22,509	20,914	26,193	31,289	35,381
Revenue	20,594	23,346	23,265	22,244	20,685	25,964	31,038	35,107
Tax revenue	19,027	21,087	21,594	20,232	18,999	24,191	29,098	32,989
Personal income tax	3,714	4,606	4,818	5,334	5,902	6,580	7,201	7,862
Corporate income tax	2,834	3,269	2,763	3,062	3,701	4,389	4,804	5,245
Diamond mining	221	499	511	184	232	215	235	257
Other mining	780	731	61	462	790	1,218	1,334	1,456
Nonmining	1,834	2,039	2,191	2,415	2,679	2,956	3,235	3,532
VAT and sales taxes	3,854	4,096	4,733	5,036	5,658	6,289	6,883	7,515
International taxes (includes SACU receipts)	8,085	8,502	8,585	5,975	2,828	5,939	9,121	11,179
Other	539	613	696	824	910	995	1,089	1,189
Nontax revenue	1,568	2,260	1,671	2,012	1,686	1,772	1,940	2,118
Diamond and other mineral royalties	643	545	401	502	552	650	711	777
Administrative fees, including license revenues	478	523	580	730	765	785	860	939
Other	446	1,193	690	780	369	337	368	402
Grants	78	83	276	265	230	230	252	275
Expenditures	17,541	21,898	25,823	30,100	29,609	31,742	35,528	38,972
Current expenditure	13,812	16,854	19,679	22,451	23,419	25,887	29,119	31,976
Personnel	6,805	7,559	8,920	10,694	11,004	11,761	12,873	14,054
Goods and services	2,864	3,683	4,579	4,558	4,587	5,057	5,535	6,043
Interest payments	1,179	1,111	1,285	1,292	1,829	2,546	3,134	3,605
Domestic	1,067	952	1,109	1,149	1,678	2,394	2,973	3,441
Foreign	112	158	176	143	151	152	161	164
Subsidies and current transfers	2,964	4,501	4,895	5,907	5,999	6,523	7,578	8,274
Capital expenditure	2,530	3,925	5,702	7,138	5,933	5,609	6,139	6,702
Acquisition of capital assets	...	2,930	4,137	5,317	4,745	4,743	5,192	5,668
Project Financed (extrabudgetary)	...	226	632	1,259	746	302	331	361
Capital transfers	...	769	933	561	442	563	616	673
Net lending	1,200	1,119	443	511	257	246	270	295
Overall balance 1/	3,131	1,531	-2,283	-7,590	-8,694	-5,549	-4,239	-3,591
Overall balance excluding extrabudgetary spending 2/	3,486	1,757	-1,651	-6,331	-7,948	-5,247	-3,908	-3,230
Primary balance	4,310	2,642	-997	-6,298	-6,866	-3,003	-1,105	15
Financing	-3,131	-1,531	2,283	7,590	8,694	5,549	4,239	3,591
Domestic	-3,415	-1,607	2,315	6,505	8,142	5,454	4,135	3,477
External	284	76	-32	1,086	552	95	104	114
Disbursements	355	226	632	1,259	746	302	331	361
Amortization	-71	-150	-664	-174	-194	-207	-227	-247
Memorandum items:								
Public and publicly-guaranteed debt	15,338	16,417	14,873	21,109	30,229	36,317	41,204	45,525
Public debt	11,925	13,389	12,173	17,937	26,521	31,974	36,213	39,803
Domestic 3/	8,782	9,755	8,786	13,315	21,124	26,230	30,365	33,842
External	3,143	3,634	3,387	4,622	5,397	5,744	5,848	5,961
Publicly-guaranteed debt	3,413	3,028	2,700	3,172	3,708	4,343	4,991	5,721
GDP at current market prices (N$ millions)	65,065	75,328	81,691	91,413	101,762	113,507	124,232	135,634
Government deposits	5,476	7,917	4,633	2,657	2,324	1,976	1,976	1,976
Net public and publicly-guaranteed debt	9,863	8,500	10,240	18,452	27,905	34,341	39,227	43,548

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

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

2/ "Overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly w ith the authorities' concept.

3/ The change in domestic debt includes bonds issued for local capital market development.

Table 2b. Namibia: Central Government Operations Under Baseline Scenario, 2007/08–2014/15

(In percent of GDP; unless otherwise indicated)

			Est.	MTEF 2010/11-2012/13			Projections	
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Revenue and grants	31.8	31.1	28.8	24.6	20.6	23.1	25.2	26.1
Tax revenue	29.2	28.0	26.4	22.1	18.7	21.3	23.4	24.3
Personal income tax	5.7	6.1	5.9	5.8	5.8	5.8	5.8	5.8
Corporate income tax	4.4	4.3	3.4	3.3	3.6	3.9	3.9	3.9
Diamond mining	0.3	0.7	0.6	0.2	0.2	0.2	0.2	0.2
Other mining	1.2	1.0	0.1	0.5	0.8	1.1	1.1	1.1
Nonmining	2.8	2.7	2.7	2.6	2.6	2.6	2.6	2.6
VAT and sales taxes	5.9	5.4	5.8	5.5	5.6	5.5	5.5	5.5
International taxes (includes SACU receipts)	12.4	11.3	10.5	6.5	2.8	5.2	7.3	8.2
Other	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenue	2.4	3.0	2.0	2.2	1.7	1.6	1.6	1.6
Diamond and other mineral royalties	1.0	0.7	0.5	0.5	0.5	0.6	0.6	0.6
Administrative fees, including license revenues	0.7	0.7	0.7	0.8	0.8	0.7	0.7	0.7
Other	0.7	1.6	0.8	0.9	0.4	0.3	0.3	0.3
Grants	0.1	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Expenditures	27.0	29.1	31.6	32.9	29.1	28.0	28.6	28.7
Current expenditure	21.2	22.4	24.1	24.6	23.0	22.8	23.4	23.6
Personnel	10.5	10.0	10.9	11.7	10.8	10.4	10.4	10.4
Goods and services	4.4	4.9	5.6	5.0	4.5	4.5	4.5	4.5
Interest payments	1.8	1.5	1.6	1.4	1.8	2.2	2.5	2.7
Domestic	1.6	1.3	1.4	1.3	1.6	2.1	2.4	2.5
Foreign	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Subsidies and current transfers	4.6	6.0	6.0	6.5	5.9	5.7	6.1	6.1
Capital expenditure	3.9	5.2	7.0	7.8	5.8	4.9	4.9	4.9
Acquisition of capital assets	2.8	3.9	5.1	5.8	4.7	4.2	4.2	4.2
Project Financed (extrabudgetary)	0.5	0.3	0.8	1.4	0.7	0.3	0.3	0.3
Capital transfers	0.6	1.0	1.1	0.6	0.4	0.5	0.5	0.5
Net lending	1.8	1.6	0.5	0.6	0.3	0.2	0.2	0.2
Overall balance 1/	4.8	2.0	-2.8	-8.3	-8.5	-4.9	-3.4	-2.6
Overall balance excluding extrabudgetary spending 2/	5.4	3.0	-2.0	-6.9	-7.8	-4.6	-3.1	-2.4
Primary balance	6.6	3.5	-1.2	-6.9	-6.7	-2.6	-0.9	0.0
Financing	-4.8	-2.0	2.8	8.3	8.5	4.9	3.4	2.6
Domestic	-5.2	-2.1	2.8	7.1	8.0	4.8	3.3	2.6
External	0.4	0.1	0.0	1.2	0.5	0.1	0.1	0.1
Disbursements	0.5	0.3	0.8	1.4	0.7	0.3	0.3	0.3
Amortization	-0.1	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.2
Memorandum items:								
Public and publicly-guaranteed debt	23.6	21.8	18.2	23.1	29.7	32.0	33.2	33.6
Public debt	18.3	17.8	14.9	19.6	26.1	28.2	29.1	29.3
Domestic 3/	13.5	12.9	10.8	14.6	20.8	23.1	24.4	25.0
External	4.8	4.8	4.1	5.1	5.3	5.1	4.7	4.4
Publicly-guaranteed debt	5.2	4.0	3.3	3.5	3.6	3.8	4.0	4.2
GDP at current market prices (N$ millions)	65,065	75,328	81,691	91,413	101,762	113,507	124,232	135,634
Government deposits	8.4	10.5	5.7	2.9	2.3	1.7	1.6	1.5
Net public and publicly-guaranteed debt	15.2	11.3	12.5	20.2	27.4	30.3	31.6	32.1

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

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

2/ "Overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the authorities' concept.

3/ The change in domestic debt includes bonds issued for local capital market development.

Table 2c. Namibia: Central Government Operations Under Alternative Scenario, 2007/08–2014/15

(In percent of GDP; unless otherwise indicated)

			Est.	MTEF 2010/11-2012/13			Projections	
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Revenue and grants	31.8	31.1	28.8	24.8	21.1	23.8	25.9	26.8
Tax revenue	29.2	28.0	26.4	22.3	19.2	22.0	24.1	25.0
Personal income tax	5.7	6.1	5.9	5.8	5.8	5.8	5.8	5.8
Corporate income tax	4.4	4.3	3.4	3.4	3.9	4.4	4.4	4.4
Diamond mining	0.3	0.7	0.6	0.2	0.2	0.2	0.2	0.2
Other mining	1.2	1.0	0.1	0.5	0.9	1.3	1.3	1.3
Nonmining	2.8	2.7	2.7	2.7	2.8	2.9	2.9	2.9
VAT and sales taxes	5.9	5.4	5.8	5.6	5.8	5.7	5.7	5.7
International taxes (includes SACU receipts)	12.4	11.3	10.5	6.5	2.8	5.2	7.3	8.2
Other	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenue	2.4	3.0	2.0	2.2	1.7	1.6	1.6	1.6
Diamond and other mineral royalties	1.0	0.7	0.5	0.5	0.5	0.6	0.6	0.6
Administrative fees, including license revenues	0.7	0.7	0.7	0.8	0.8	0.7	0.7	0.7
Other	0.7	1.6	0.8	0.9	0.4	0.3	0.3	0.3
Grants	0.1	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Expenditures	27.0	29.1	31.6	32.9	28.9	27.6	27.6	27.4
Current expenditure	21.2	22.4	24.1	24.6	22.8	22.4	22.4	22.2
Personnel	10.5	10.0	10.9	11.7	10.8	10.4	10.4	10.4
Goods and services	4.4	4.9	5.6	5.0	4.4	4.3	4.3	4.3
Interest payments	1.8	1.5	1.6	1.4	1.8	2.2	2.3	2.3
Domestic	1.6	1.3	1.4	1.3	1.6	2.1	2.2	2.2
Foreign	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Subsidies and current transfers	4.6	6.0	6.0	6.5	5.8	5.5	5.5	5.3
Capital expenditure	3.9	5.2	7.0	7.8	5.8	4.9	4.9	4.9
Acquisition of capital assets	2.8	3.9	5.1	5.8	4.7	4.2	4.2	4.2
Project Financed (extrabudgetary)	0.5	0.3	0.8	1.4	0.7	0.3	0.3	0.3
Capital transfers	0.6	1.0	1.1	0.6	0.4	0.5	0.5	0.5
Net lending	1.8	1.6	0.5	0.6	0.3	0.2	0.2	0.2
Overall balance 1/	4.8	2.0	-2.8	-8.1	-7.8	-3.8	-1.7	-0.6
Overall balance excluding extrabudgetary spending 2/	5.4	3.0	-2.0	-6.7	-7.1	-3.5	-1.5	-0.3
Primary balance	6.6	3.5	-1.2	-6.7	-6.0	-1.5	0.6	1.7
Financing	-4.8	-2.0	2.8	8.1	7.8	3.8	1.7	0.6
Domestic	-5.2	-2.1	2.8	6.9	7.3	3.7	1.6	0.5
External	0.4	0.1	0.0	1.2	0.5	0.1	0.1	0.1
Disbursements	0.5	0.3	0.8	1.4	0.7	0.3	0.3	0.3
Amortization	-0.1	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.2
Memorandum items:								
Public and publicly-guaranteed debt	23.6	21.8	18.2	22.9	28.6	29.5	28.7	27.2
Public debt	18.3	17.8	14.9	19.4	25.2	26.3	25.7	24.2
Domestic 3/	13.5	12.9	10.8	14.4	19.9	21.2	21.0	19.8
External	4.8	4.8	4.1	5.1	5.3	5.1	4.7	4.4
Publicly guaranteed	5.2	4.0	3.3	3.5	3.4	3.2	3.0	3.0
GDP at current market prices (N$ millions)	65,065	75,328	81,691	91,413	101,762	113,507	124,232	135,634
Government deposits	8.4	10.5	5.7	2.9	2.3	1.7	1.6	1.5
Net public and publicly-guaranteed debt	15.2	11.3	12.5	20.0	26.3	27.7	27.1	25.7

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

1/ "Overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account.
2/ "Overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the authorities' concept.
3/ The change in domestic debt includes bonds issued for local capital market development.

Table 3. Namibia: Balance of Payments, 2007–14

(In millions of U.S. dollars; unless otherwise indicated)

			Est.	Projections				
	2007	2008	2009	2010	2011	2012	2013	2014
Current account	**804.0**	**240.9**	**-166.7**	**-257.4**	**-665.1**	**-590.8**	**-401.0**	**-256.9**
Goods	-172.0	-682.7	-1,129.0	-956.2	-975.0	-1,039.2	-1,101.8	-1,176.6
Exports, f.o.b.	2,915.3	3,169.7	3,139.0	3,950.7	4,221.3	4,334.3	4,451.8	4,568.1
Of which:								
Diamonds	909.8	770.6	265.7	409.5	509.6	499.9	494.6	489.1
Other minerals	804.6	939.6	714.8	1,002.2	1,052.4	1,316.2	1,328.2	1,326.7
Fish	445.1	367.0	257.4	313.3	328.9	337.2	348.6	360.3
Imports, f.o.b. (excluding duty)	-3,087.3	-3,852.4	-4,268.0	-4,906.9	-5,196.3	-5,373.4	-5,553.7	-5,744.7
Services	84.9	-44.9	6.0	74.1	130.9	162.9	182.3	273.8
Transportation	-120.9	-116.9	-39.6	-53.3	-44.8	-50.2	-49.1	-41.4
Travel	301.5	265.2	204.2	236.9	281.6	323.4	357.7	406.5
Other services	-95.8	-193.1	-158.6	-109.5	-105.9	-110.3	-126.3	-91.3
Income	-109.0	-156.4	-297.0	-377.1	-435.8	-486.1	-544.3	-620.8
Compensation of employees	-2.3	-29.2	-12.5	-14.7	-18.8	-15.3	-16.3	-16.8
Investment income	-106.7	-127.2	-284.5	-362.4	-417.0	-470.8	-528.1	-604.0
Current transfers	1,000.2	1,124.9	1,253.3	1,001.8	614.8	771.6	1,062.9	1,266.7
Of which : SACU receipts 1/	957.1	959.8	1,015.1	853.0	430.8	581.2	888.5	1,083.8
Capital and financial account	**-1,103.6**	**-613.0**	**166.7**	**257.4**	**665.1**	**590.8**	**401.0**	**256.9**
Capital account	83.1	76.3	81.3	80.2	79.3	80.3	79.9	79.8
Financial account	-1,186.6	-689.3	95.9	177.1	585.8	510.5	321.0	177.0
(Excluding reserve assets)	-742.5	-205.7	95.9	299.5	381.8	423.0	478.6	461.1
Direct investment	729.2	716.0	540.1	627.7	664.2	745.9	758.5	774.2
Portfolio investment	-1,470.2	-1,017.5	-464.9	-397.6	-321.0	-258.9	-235.7	-262.5
Other investment	-1.5	95.8	20.7	69.4	38.6	-63.9	-44.1	-50.6
Reserve assets (net) 2/	-444.2	-483.7	-10.6	-122.3	204.0	87.5	-157.6	-284.1
Net errors and omissions	**299.5**	**372.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:								
Trade balance/GDP	-2.0	-7.6	-12.0	-8.3	-8.3	-8.3	-8.5	-8.7
Current account/GDP								
Including transfers	9.1	2.7	-1.8	-2.2	-5.7	-4.7	-3.1	-1.9
Excluding transfers	-2.0	-9.7	-14.9	-10.8	-10.7	-10.8	-11.2	-11.2
Nonmineral, non-SACU current account/GDP	-21.2	-27.1	-23.0	-22.0	-22.6	-23.9	-24.0	-23.4
Exports of goods and nonfactor services (GNFS)	3,513.0	3,723.8	3,766.6	4,669.2	4,996.2	5,125.1	5,302.6	5,490.0
Exports/GDP (percent)	39.9	41.5	40.1	40.8	42.5	41.0	40.9	40.7
Imports of GNFS	3,600.2	4,451.4	4,889.6	5,551.3	5,840.3	6,001.3	6,222.2	6,392.8
Imports/GDP (percent)	40.9	49.6	52.0	48.5	49.6	48.1	48.0	47.4
Gross International reserves (end of period) 2/	906.6	1,394.7	1,405.3	1,527.7	1,323.7	1,236.2	1,393.8	1,677.9
Months of imports of goods and services	3.0	3.8	3.4	3.3	2.7	2.5	2.7	3.1
Ratio of reserves/short-term debt	1.3	4.0	4.4	5.3	5.4	5.9	8.1	12.6
Short-term debt (US$ millions)	718.8	345.8	316.7	290.6	243.0	208.7	172.8	133.5
External debt/GDP (percent)	25.7	22.3	24.1	20.9	21.8	21.2	20.9	20.7
External debt (US$ millions) from IIP 3/	2,260.8	2,001.9	2,261.9	2,395.6	2,562.4	2,642.5	2,710.6	2,788.1
Exchange rate (N$/US$, end of period)	6.8	9.3	...	...	...	...	...	...
Exchange rate (N$/US$, period average)	7.1	8.3	...	...	...	...	...	...
GDP at market prices (US$ millions)	8,799.8	8,969.9	9,394.4	11,451.1	11,767.2	12,485.4	12,958.2	13,483.2

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

1/ Southern African Customs Union.

2/ Includes SDR allocations in 2009.

3/ International investment position.

Table 4. Namibia: Monetary Developments, 2005–11

(In millions of Namibian dollars, end of period; unless otherwise indicated)

	2005	2006	2007	2008	2009	2010 Proj.	2011 Proj.
Bank of Namibia							
Reserve money	1,372.6	1,532.4	1,647.7	2,124.9	2,556.4	2,637.5	2,979.6
Currency	1,026.8	1,151.4	1,323.7	1,656.9	1,705.4	1,986.8	2,304.4
Reserves	345.7	381.0	323.9	467.9	851.0	650.7	675.2
Net foreign assets	1,983.6	3,165.1	6,117.1	12,858.6	12,570.7	12,199.6	11,203.2
Net domestic assets	-611.0	-1,632.7	-4,469.4	-10,733.8	-10,014.4	-9,562.1	-8,223.5
Domestic credit	-79.5	-744.4	-3,361.9	-6,852.4	-8,134.4	-7,838.6	-7,268.8
Government (net)	-608.1	-2,093.3	-4,595.1	-6,062.0	-6,690.1	-6,217.3	-5,469.8
Banks	515.2	1,333.0	1,215.9	-813.8	-1,465.7	-1,645.3	-1,825.6
Other sectors	13.4	15.8	17.4	23.4	21.4	24.0	26.6
Other items net	-531.5	-888.2	-1,107.5	-3,881.4	-1,880.0	-1,723.5	-954.7
Monetary survey							
Broad money	17,370.2	22,518.1	24,808.2	29,240.8	30,968.2	35,364.5	39,490.6
Currency	680.0	763.4	820.3	1,140.4	1,156.7	1,370.9	1,621.0
Deposits	16,690.2	21,754.8	23,987.9	28,100.4	29,811.5	33,993.6	37,869.6
Net foreign assets	-156.7	4,853.3	6,843.9	13,574.5	15,424.9	15,313.3	14,518.4
Net domestic assets	17,526.9	17,664.8	17,964.3	15,666.3	15,543.3	20,051.2	24,972.1
Domestic credit	22,831.0	24,948.5	25,454.7	25,839.7	23,961.7	28,793.1	34,410.9
Government (net)	1,405.7	121.3	-2,134.9	-4,643.0	-5,846.1	-4,959.6	-4,074.3
Private sector	23,922.4	27,452.6	30,990.2	33,259.7	36,577.6	41,352.0	46,917.4
Others 1/	-2,497.1	-2,625.5	-3,400.6	-2,777.0	-6,769.8	-7,599.3	-8,432.2
Other items net	-5,304.1	-7,283.6	-7,490.4	-10,173.4	-8,418.4	-8,741.9	-9,438.8
Contribution to change in broad money							
Broad money	9.8	29.6	10.2	17.9	5.9	14.2	11.7
Currency	0.3	0.5	0.3	1.3	0.1	0.7	0.7
Deposits	9.5	29.2	9.9	16.6	5.9	13.5	11.0
Net foreign assets	-4.1	28.8	8.8	27.1	6.3	-0.4	-2.2
Net domestic assets	13.9	0.8	1.3	-9.3	-0.4	14.6	13.9
Domestic credit	20.6	12.2	2.2	1.6	-6.4	15.6	15.9
Government (net)	3.4	-7.4	-10.0	-10.1	-4.1	2.9	2.5
Private sector	25.3	20.3	15.7	9.1	11.3	15.4	15.7
Others 1/	-8.1	-0.7	-3.4	2.5	-13.7	-2.7	-2.4
Other items net	-6.7	-11.4	-0.9	-10.8	6.0	-1.0	-2.0
Memorandum items:							
Annual percent change							
Reserve money	10.8	11.6	7.5	29.0	20.3	3.2	13.0
Private sector credit	20.1	14.8	12.9	7.3	10.0	13.1	13.5
Velocity	2.8	2.7	2.6	2.5	2.6	2.5	2.5
Money multiplier	12.7	14.7	15.1	13.8	12.1	13.4	13.3
Exchange rate (N$/US$)	6.3	7.0	6.8	9.3	7.4	…	…
Net foreign assets (US$ millions)	-24.8	696.3	1,005.0	1,458.8	2,090.1	1,895.2	1,681.3
Bank of Namibia	313.6	454.1	898.3	1,381.9	1,703.3	1,509.9	1,297.4
Commercial banks	-338.4	242.2	106.7	76.9	386.7	385.4	383.9
Domestic interest rates (end of period)							
Deposit rate	6.0	6.9	8.3	8.6	5.1	…	…
Lending rate	10.8	12.4	13.6	13.7	10.8	…	…
BoN repo rate	7.0	9.0	10.5	10.0	7.0	…	…
Three-month T-bill rate	7.0	8.7	9.2	10.6	7.1	…	…

Sources: Bank of Namibia; and IMF staff estimates and projections.

1/ "Others" includes local and regional government and nonfinancial public enterprises.

Table 5. Namibia: Millennium Development Goals, 1990–2009

	1990	1995	2000	2009
Eradicate extreme poverty and hunger 1/				
Income share held by low est 20%	...	1.4	...	…
Malnutrition prevalence, w eight for age (% of children under 5)	21.5	...	20.3	17.5
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	...	49.0	...	…
Prevalence of undernourishment (% of population)	29.0	29.0	21.0	…
Achieve universal primary education 2/				
Literacy rate, youth female (% of females ages 15–24)	90.0	...	93.0	95.0
Literacy rate, youth male (% of males ages 15–24)	86.0	...	91.0	91.0
Persistence to grade 5, total (% of cohort)	...	...	84.0	..
Primary completion rate, total (% of relevant age group)	...	71.0	92.0	81.0
School enrollment, primary (% net)	...	...	90.0	91.0
Promote gender equality and empow er w omen 3/				
Proportion of seats held by w omen in national parliament (%)	7.0	18.0	22.0	27.0
Ratio of girls to boys in primary education (%)	108.0	100.0	101.0	99.0
Ratio of girls to boys in secondary education (%)	122.0	...	112.0	117.0
Ratio of young literate females to males (% ages 15–24)	...	...	84.0	132.0
Share of w omen employed in the nonagricultural sector (% of total employment)	...	...	42.8	...
Reduce child mortality 4/				
Immunization, measles (% of children ages 12–23 months)	76.0	68.0	69.0	73.0
Mortality rate, infant (per 1,000 live births)	49.0	48.0	51.0	31.0
Mortality rate, under-5 (per 1,000)	72.0	71.0	77.0	42.0
Improve maternal health 5/				
Births attended by skilled health staff (% of total)	68.0	...	76.0	81.0
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	…
Combat HIV/AIDS, malaria, and other diseases 6/				
Incidence of tuberculosis (per 100,000 people)	322.0	465.0	671.0	747.0
Prevalence of HIV, female (% ages 15–24)	...	...	...	10.3
Prevalence of HIV, total (% of population ages 15–49)	...	...	...	15.3
Tuberculosis cases detected under DOTS (%)	...	22.0	77.0	71.0
Ensure environmental sustainability 7/				
CO2 emissions (metric tons per capita)	0.0	1.1	1.0	...
Forest area (% of land area)	11.0	10.0	10.0	9.0
Improved sanitation facilities (% of population w ith access)	26.0	29.0	32.0	…
Improved w ater source (% of population w ith access)	57.0	70.0	81.0	…
Nationally protected areas (% of total land area)	...	...	...	...
Develop a global partnership for development 8/				
Mobile phone subscribers (per 100 people)	0.0	0.0	4.0	49.0
Telephone mainlines (per 100 people)	3.7	4.7	5.9	7.0
Internet users (per 100 people)	0.0	0.0	1.6	5.3

Source: World Development Indicators database, 2010.

1/ Goal 1 targets: Halve, betw een 1990 and 2015, the proportion of people w hose income is less than US$1 a day. Halve, betw een 1990 and 2015, the proportion of people w ho suffer from hunger.

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

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

4/ Goal 4 target: Reduce by tw o-thirds, betw een 1990 and 2015, the under-five mortality rate.

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

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

7/ Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people w ithout sustainable access to safe drinking w ater.

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

Table 6. Namibia: Financial Sector Indicators, 2003–09

(In percent; unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009
Banking indicators							
Capital adequacy							
Capital to assets	8.3	8.8	7.8	7.5	7.9	8.0	7.9
Regulatory capital to risk-weighted assets	14.8	15.4	14.6	14.2	15.7	15.5	15.0
Regulatory tier I capital to risk-weighted assets	12.2	12.7	11.2	11.1	11.6	11.8	11.7
Nonperforming loans net of provisions to capital	14.3	1.1	3.4	2.5	7.2	10.4	8.7
Asset quality							
Large exposure to capital	190.2	181.2	182.8	189.3	166.1	170.5	176.5
Nonperforming loans to total gross loans	3.9	2.4	2.3	2.6	2.8	3.1	2.7
Bank provisions to nonperforming loans	…	95.2	85.3	90.3	77.2	64.7	66.2
Sectoral distribution of loans to total loans							
Agriculture	5.5	3.1	3.9	3.0	2.8	3.3	3.4
Mining	2.6	2.0	2.8	0.7	2.0	1.8	2.7
Manufacturing	3.8	2.3	1.8	2.4	2.2	3.0	2.0
Construction	4.1	5.5	1.5	1.6	1.7	1.7	1.5
Electricity and water	3.4	0.7	0.8	0.3	0.3	0.5	0.6
Trade and accommodation	2.6	3.7	4.1	5.1	6.3	6.2	4.5
Transport and communications	4.6	2.3	3.1	3.1	1.4	1.2	1.8
Finance, real estate, and business services	9.6	11.4	13.2	15.8	18.9	21.8	24.6
Other services (including government)	8.6	8.2	6.8	4.1	4.6	4.2	4.0
Individuals	47.1	51.2	54.9	56.4	58.0	54.5	51.8
Other	8.3	9.4	7.1	7.6	1.7	1.7	3.1
Earnings and profitability							
Trading income to total income	4.2	7.5	3.8	3.7	5.6	6.9	5.3
Return on assets	3.6	2.1	3.5	1.5	3.5	4.2	3.0
Return on equity	43.2	24.2	45.6	19.9	44.9	52.1	38.4
Interest margin to gross income	51.3	57.0	49.8	53.7	53.4	45.3	47.8
Noninterest expenses to gross income	58.1	69.2	54.9	63.7	56.9	51.9	57.9
Spread between reference lending and deposit rates	6.0	4.4	4.8	5.6	5.3	5.4	4.9
Personnel expenses to noninterest expenses	43.8	47.1	47.8	39.6	49.8	50.9	48.9
Liquidity							
Spread between highest and lowest interbank rate	9.0	0.2	5.3	10.3	2.3	1.2	4.1
Liquid assets to total assets	2.4	1.3	1.2	1.0	1.1	1.1	1.0
Liquid assets to short-term liabilities	11.0	10.4	9.5	9.1	9.2	10.1	10.0
Customer deposits to total (non-interbank) loans	87.4	87.1	94.6	101.8	97.8	103.9	109.8
Exposure to foreign exchange risk							
Net open position in foreign exchange to capital	0.0	0.5	1.4	0.3	0.3	0.9	0.4
Foreign currency-denominated loans to total loans	3.0	1.9	0.7	1.0	0.1	0.2	0.0
Foreign currency-denominated liabilities to total liabilities	4.5	2.0	1.1	2.5	2.7	1.6	2.0
Financial system structure (in number)							
Banks	4	4	4	4	4	4	4
Private commercial	1	1	1	1	1	1	1
State-owned	0	0	0	0	0	0	0
Foreign-owned subsidiaries	3	3	3	3	3	3	3
Branches of foreign banks	0	0	0	0	0	0	0
Assets (N$ billions)							
Banks	20.0	23.4	28.2	33.4	36.5	41.6	47.7
Private commercial	4.3	5.2	6.8	8	9.6	11.6	13.8
State-owned	...	0	0	0	0	0	0
Foreign-owned subsidiaries	15.8	18.2	21.4	25.4	26.9	30	33.9
Branches of foreign banks	...	0	0	0	0	0	0
Deposits (N$ billions)							
Banks	14.3	17.2	21.5	26.4	28.9	32.7	39.8
Private commercial	3.5	2.5	5.5	6.9	8.1	9.2	12.1
State-owned	...	0.0	0	0	0	0	0
Foreign-owned subsidiaries	10.7	14.7	16	19.5	20.8	23.5	27.7
Branches of foreign banks	...	0	0	0	0	0	0

Source: Bank of Namibia.

Table 7. Namibia: Indicators of External and Financial Vulnerability, 2003–08

(In percent of GDP; unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	Latest	Date of Latest Observation
Financial indicators								
Public sector debt of the central government 1/	26.4	28.8	26.0	24.3	18.3	17.8	14.9	Mar. 2010
Broad money (percent change, 12-month basis)	9.6	16.2	9.7	29.6	10.2	17.9	5.9	Dec. 2009
Private sector credit (percent change, 12-month basis)	12.4	19.4	20.1	14.8	12.9	7.3	10.0	Dec. 2010
Bank of Namibia overdraft interest rate (bank rate) 2/	7.8	7.5	7.0	9.0	10.5	10.0	7.0	Jun. 2010
Bank of Namibia overdraft real interest rate 2/, 3/	5.2	3.2	3.5	3.0	3.4	-0.9	0.0	Dec. 2009
External indicators								
Exports (percent change, 12-month basis in US$)	16.6	45.8	13.3	28.3	9.9	8.7	--	Dec. 2008
Imports (percent change, 12-month basis in US$)	33.7	23.1	10.7	9.7	20.7	24.8	--	Dec. 2008
Terms of trade (percent change, 12-month basis)	-1.9	5.7	2.1	17.2	2.9	-9.8	--	Dec. 2008
Current account balance	6.1	7.0	4.7	13.8	9.1	2.7	--	Dec. 2008
Capital and financial account balance	-5.7	-9.1	-6.2	-14.8	-12.5	-6.8	--	Dec. 2008
Gross official reserves (US$ millions) 2/	318.9	352.7	316.0	512.8	906.6	1,394.7	1,405.3	Dec. 2009
Official reserves in months of imports of goods and services 2/	1.9	1.7	1.4	2.1	3.0	3.8	--	Dec. 2008
Broad money to reserves	5.6	7.0	8.6	6.5	3.9	2.5	2.6	Dec. 2009
Reserves/total short-term external debt 2/	0.5	0.5	0.5	0.6	1.3	4.0	--	Dec. 2008
Total external debt (US$ millions) 2/	1618.1	2060.1	1848.4	2245.5	2260.8	2001.9	--	Dec. 2008
Of which : public sector debt (US$ millions)	227.2	339.9	298.3	357.7	445.6	377.4	467.3	
Total external debt to exports of goods and services (percent) 2/	97.3	89.7	74.6	70.6	64.4	53.8	--	Dec. 2008
Nominal exchange rate (N$/US$, period average)	7.6	6.4	6.4	6.8	7.1	8.3	8.4	Dec. 2009
Real effective exchange rate (percent change, depreciation = –)	20.1	7.0	1.6	-1.9	-4.3	-7.9	9.9	Dec. 2009
Financial market indicators								
End-of-period stock market index	347.0	425.9	581.7	852.8	929.4	556.3	773.9	Jun. 2010

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal years, which begin on April 1.

2/ End of period.

3/ Deflated by the percentage change in end-of-period CPI.

Table 8. Namibia: Social and Demographic Indicators, 2007

	Namibia	South Africa	Sub-Saharan Africa
Area (thousands of square kilometers)	824	1,219	24,265
Population (2005)			
Total (millions)	2.0	46.9	743.0
Annual rate of growth (percent) 1/	1.0	0.1	2.2
Population characteristics			
Population density (per square kilometer)	2.4	38.5	30.6
Urban population (percent of total)	32	59	36
Population age structure (percent of total)			
0–14 years	41.5	32.6	43.5
15–64 years	55.0	63.1	53.4
65 years and above	3.5	4.3	3.1
Income distribution 2/			
Income share held by highest 20 percent	78.7	62.2	...
Income share held by lowest 20 percent	1.4	3.5	...
Access to improved water source (percent of population, 2004)			
Total	87	88	56
Rural	79	73	44
Urban	98	98	82
Health (2005)			
Life expectancy at birth	47	48	47
Infant mortality (per 1,000 live births)	46	55	96
People living with HIV/AIDS 3/	19.6	18.8	5.8
PPP gross national income per capita (2005)	7,690	10,880	1,913
Labor force (2005)			
Total (millions)	0.6	19.2	306.0
Female (percent of total population)	43.6	38.2	42.1
Education (2005)			
School enrollment (percent, gross)			
Primary	99	104	92
Secondary	61	93	30
Tertiary	6	16	5
Adult literacy rate	85.0	82.5	61.5

Source: World Bank, *World Development Indicators,* 2007.

1/ Based on 2005 data from the United Nations Populations Division.
2/ Based on latest household income and expenditure survey.
3/ Reflects prevalence rate in sentinel survey.

INTERNATIONAL MONETARY FUND

NAMIBIA

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the African Department

July 7, 2010

- **Relations with the Fund**. Describes Namibia's membership status, exchange arrangement, and financial and technical assistance from the Fund. Namibia has no outstanding purchases and loans from the Fund.

- **The JMAP Bank-Fund Matrix.** Describes the priorities and main activities of the World Bank Group and the IMF and areas of cooperation in their work with the Namibian authorities.

- **Statistical Issues.** Assesses the quality of the statistical data. Namibia's statistical coverage is generally good although some data are not timely.

- **Public Debt Sustainability Analysis.** Examines the long-run sustainability of Namibia's public debt. It finds that Namibia has a sustainable public debt level, which however remains vulnerable to exogenous shocks and contingent liabilities.

Contents Page

I. RELATIONS WITH THE FUND

(As of May 31, 2010)

I.	**Membership Status**	Joined 9/25/90; Article VIII	
II.	**General Resources Account**	SDR (million)	% of Quota
	Quota	136.50	100.0
	Fund holdings of currency	136.43	99.95
	Reserve position in Fund	0.08	0.06
III.	**SDR Department**	SDR (million)	% of Allocation
	Net cumulative allocation	130.39	100.00
	Holdings	130.41	100.01
IV.	**Outstanding purchases and loans**	None.	
V.	**Financial arrangements**	None.	

VI. Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

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

VII. Exchange rate arrangement

The Namibia dollar is pegged at par to the South African rand, and both currencies are legal tender in Namibia. Namibia formally accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement, as of September 20, 1996. While Namibia is currently judged by the Fund to maintain an exchange system free of restrictions on the making of payments and transfers for current international transactions, staff is in the process of gathering information to make an assessment of whether measures introduced by authorities concerning a limit (50 percent of the ex-factory cost) on the provision of foreign exchange for advance payment for the import of capital goods may give rise to exchange restrictions subject to Fund jurisdiction.

VIII. Article IV consultation

Namibia is on the standard 12-month Article IV consultation cycle; the last Article IV consultation was concluded by the Executive Board on February 27, 2009 (IMF Country Report No. 09/136).

During the Executive Board meeting, Directors commended the authorities' sound macroeconomic management, which, together with a favorable external environment, has led to robust economic growth and strong fiscal and external positions. Directors underscored the need to scale down the expansionary fiscal stance to allow a more gradual increase in capital expenditure while safeguarding fiscal sustainability. Directors considered that the exchange rate peg to the South African rand remains appropriate, but stressed the limited scope for effective independent monetary policy over the longer term. Directors also stressed the importance of further progress in addressing the HIV/AIDS pandemic, high unemployment, and large disparities of income.

XI. Technical Assistance, 2006–10

Department	Purpose	Date of delivery	Recipient
FAD	Modernizing Tax Administration	February 2006	MoF
	Fiscal Regime for Mining and Processing	February 2006	MoF
	ROSC	June 2006	MoF
	Revenue Modeling and Forecasting	April 2007	MoF
	Public Financial Management	September 2008	MoF
	Incorporating Budget Programs in the Government Accounting System	April 2009	MoF
	PPPs: Building a Framework for managing fiscal Risks	June 2009	MoF
	Follow up to Program Budgeting	November 2009	MoF
MCM (MFD)	Payment Systems	April 2006	BoN
	Nonbank Financial Institutions Supervision	May 2006	BoN
	Lending policy, Monetary Operations, and Bank Supervision	October 2006	BoN
	Risk-based Supervision	March 2007	BoN
	Payments Systems	August 2007	BoN
	Risk-based Supervision	April 2008	BoN
	Risk-based Supervision	November 2008	BoN
	Risk-based Supervision	July 2009	BoN
	Payments Systems	March 2010	BoN
STA	National Accounts (GDDS Project)	May 2006	CBS
	Government Finance Statistics (GDDS Project)	June 2006	MoF
	SDDS Project	November 2006	BoN
	Monetary and Financial Statistics	October 2007	BoN
	Government Financial Statistics	April 2008	MoF
	National Accounts	May 2008	CBS

Department	Purpose	Date of delivery	Recipient
	Monetary and Financial Statistics	July 2008	BoN
	National Accounts (SDDS project)	July 2008	CBS
	Balance of Payments Statistics	July 2008	BoN
	National Accounts	November 2008	CBS
	Government Finance Statistics (GFSM 2001)	April 2009	MoF
	National Accounts	Jan.-Feb. 2010	CBS
	Balance of Payments Statistics	April 2010	BoN

II. The JMAP Bank-Fund Matrix

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	• Nonlending Technical Assistance for multi-sector economic modeling. • Analytical work on tackling youth unemployment • Support to ETSIP1 (DPL2 & Reimbursable TA) • Namibia Energy Sector (TA), (TF in support of development of Integrated Resource Plan) • Statistics TA (TFSCB in support of statistics development) • Climate Risk Mitigation TA/PDNA follow up • Poverty Monitoring TA • M&E IDF		June 2010 June 2011 Q1, FY11 (appr) Q4, FY11 Q4, FY11 Q4, FY11 Q4, FY11 FY13 (appr.)
The Fund work program in the next 12 months	1. 2010 Article IV consultation 2. Public Debt Sustainability Analysis 3. 2011 Article IV consultation 4. Technical assistance missions • Program budgeting • Financial stability • Implementing risk-based supervision • Mining taxation and rationalization of tax preferences payments statistics • Government finance statistics • National accounts statistics • Supervision of other NBFIs (Microfinance schemes)	May 2010 July 2010 May 2011 2010–11	Board meeting in July 2010
B. Requests for work program inputs			
Fund request to Bank	Periodic update on progress on analytical work (Sectoral strategy on education, and follow-up on assessment of the investment climate).		
Bank request to Fund	Periodic updates on macroeconomic developments and analytical work; Assessment of the impact of global financial crisis on Namibia.		
C. Agreement on joint products and missions			
Joint products in next 12 months	• Debt Sustainability Analysis		July 2011

III. Statistical Issues

(As of June 28, 2010)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The authorities provide core monthly data to the Fund with a lag of one to two months, except for the national accounts and international trade data, which are reported quarterly and annually with longer lags. Frequent revisions affected real sector statistics and the balance of payments, and the coverage of the international investment position (IIP) needs strengthening.
Real sector statistics: **National accounts**. In 2008, the Central Bureau of Statistics (CBS) released updated national accounts data for 2000–07 that significantly revised the previous series for both constant and current prices. The revisions reflect the introduction of an expanded data survey that has resulted in a substantial upward adjustment to estimates of output, particularly in the mining, services and manufacturing sectors. In addition, the constant price series was rebased from 1995 to 2004 prices, with adjustments to the deflators used for a number of sectors. As a result, gross domestic product measured in current prices has increased by an average of 14 percent for the period 2000–07 over previous estimates, while growth in real GDP increased by an average of 0.7 percentage points over previous estimates. A regional IMF real sector advisor covering Botswana, Mauritius and, Namibia assisted the CBS with these improvements. Seasonally adjusted quarterly national accounts (QNA) estimates, at 2004 prices are disseminated on Namibia's National Planning Commission's website, though there is a need to improve existing source data. **Price and labor market statistics**: In February 2005, the government introduced a nation-wide consumer price index to replace the previous index that only covered the capital city of Windhoek; the new index is available from January 2002. However, the weights for the index are estimated from the 1993–94 *National Household Income and Expenditure Survey* and seasonal items and new products are excluded. Data on the **labor market**, including labor force, employment, and wages are not systematically collected, which impedes the analysis of labor market developments. The last labor market survey was conducted in 2008, but the report is yet to be published.
Government finance statistics: Annual budgetary central government data by fiscal year, which are reported on a cash basis in the *GFSM 2001* format, are reasonably complete, despite some gaps in terms of details. The authorities have compiled monthly data for the 2008 calendar year. Establishing regular reporting of these high frequency data is work in progress. Currently, the African Department receives actual fiscal data (including

government debt) several months after the end of the fiscal year. No data are provided on budget implementation during the fiscal year.	
Monetary and financial statistics: Monthly monetary statistics for the Bank of Namibia (BoN) and the other depository corporations (ODCs) are reported on a regular basis, although there is room to improve the timeliness of reporting, particularly with regard to BoN data. Beginning in April 2002, data are based on standardized report forms, which accord with the concepts and definitions of the *Monetary and Financial Statistics Manual.*	
External sector statistics: Since 2001, the BoN has been reporting the balance of payments data on a quarterly basis with a lag of one quarter. Those data are subject to substantial revisions. The methodology underlying the balance of payments is consistent with the fifth edition of the IMF's *Balance of Payments Manual*. The international investment position (IIP) data are compiled quarterly with a lag of one quarter. The Bank of Namibia has focused its work to improve the compilation of capital and financial transactions and IIP statistics. They have expanded their data collection capabilities through survey data collection. However, further work is needed to expand the coverage of the IIP and restate the IIP in a format that will allow for comparison with the balance of payments statistics.	
II. Data Standards and Quality	
Namibia is a participant in the General Data Dissemination System (GDDS) since December 19, 2002.	A ROSC (Data Module) was published in 2002 and updated in 2005.
III. Reporting to STA	
The MOF have initiated regular reporting of annual data for publication in the *Government Finance Statistics Yearbook*, while work on establishing monthly reporting of high frequency data is in progress. Annual fiscal year data on budgetary central government through 2007/08 have been disseminated in the 2009 *GFS Yearbook*. The BoN reports monetary and financial statistics to STA regularly. Balance of payments and international investment position data are published in *International Financial Statistics (IFS)* and in the *Balance of Payments Yearbook.* Namibia has recently reported revised data for BoP covering the period 1999Q1-2009Q4, as well as revised data for IIP for the period 2004Q4-2009Q4.	

Table 1. Common Indicators Required for Surveillance

(As of June 2010)

	Date of Latest Observation	Date Received	Frequency of Data 7/	Frequency of Reporting 7/	Frequency of Publication 7/	Memo Items: Data Quality—Methodological Soundness 8/	Memo Items: Data Quality—Accuracy and Reliability 9/
Exchange rates	May. 2010	Jun. 2010	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities 1/	Dec. 2009	Mar. 2010	M	M	M		
Reserve/Base money	Apr. 2010	Jun. 2010	M	M	M	O, O, LO, LO	O, LO, O, O, O
Broad money	Apr. 2010	Jun. 2010	M	M	M		
Central bank balance sheet	Apr. 2010	Jun. 2010	M	M	M		
Consolidated balance sheet of the banking system	Apr. 2010	Jun. 2010	M	M	M		
Interest rates 2/	Jun. 2010	Jun. 2010	M	M	M		
Consumer price index	Apr. 2010	Apr. 2010	M	M	M	O, LNO, LO, O	LO, LNO, O, O, NA
Revenue, expenditure, balance and composition of financing 3/—general government 4/	…	…	I or NA	I or NA	I or NA	LNO, LNO, LO, O	O, O, O, LO, NA
Revenue, expenditure, balance and composition of financing 3/—central government	Mar. 2010	May. 2010	I, NA (Comp. of Financing)	I, NA (Comp. of Financing)	I, NA (Comp. of Financing)		
Stocks of central government and central government—guaranteed debt 5/	Mar. 2010	May. 2010	M, I (Gov.-Guar. Debt)	M, I (Gov.-Guar. Debt)	M, I (Gov.-Guar. Debt)		
External current account balance	Q4 2009	Jun. 2010	Q	Q	Q	O, O, O, LO	LO, LO, LO, LNO, NO
Exports and imports of goods and services	Q4 2009	Jun. 2010	Q	Q	Q		
GDP/GNP	2008	Dec. 2009	A	A	A	O, O, O, LO	LNO, LO, LO, LO, O
Gross external debt	2008	Dec. 2009	A	A	A		
International investment position 6/	Q4 2009	Jun. 2010	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability position vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); irregular (I) and Not Available (NA).
[8] Reflect the assessments provided in the data ROSC Substantive Update and the data ROSC module published, respectively, in September 2005 and September 2002, and based on the findings of the missions that took place during April 2005 and January 2001) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

IV. PUBLIC DEBT SUSTAINABILITY ANALYSIS

1. At end-2009, Namibia's public debt is estimated at about N$12.9 billion, (15.7 percent of GDP). About a third of the debt is owed to bilateral and multilateral foreign creditors, while the rest is domestic debt. Since 2005, domestic debt has declined gradually from around 23.1 percent of GDP to 11.3 percent at end-2009 due to strong fiscal consolidation and prudent fiscal policies. Privatization receipts of 1.3 percent of GDP in 2006, from the sale of a telecommunications firm, contributed to the decline. Moreover, the authorities decided to pay off some external debts and redeem maturing domestic debts in FY 2009/10, which further reduced the public debt ratio. Given the expansionary stance of fiscal policy in 2009/10-2010/11 and the projected drop in SACU revenue, current projections suggest that the debt-to-GDP ratio will rise steadily in the medium term, reaching 29.1 percent in 2015, driven largely by rising domestic debt.

2. Under the baseline scenario underlying the macroeconomic framework, the central government primary budget balance shifted into a deficit in 2009 as government revenue declined and the authorities increased expenditures to cushion the negative impact of the global economic and financial crisis. With SACU revenue anticipated to decline from 10.5 percent of GDP in 2009/10 to a mere 2.8 percent in 2011/12, the fiscal deficit will pick up to 8.3 percent of GDP in 2010/11 and 8.5 percent of GDP in 2011/12, up from 2.8 percent of GDP in 2009/10, before trending down over the medium-term as fiscal consolidation takes place. Consequently, the public debt to GDP ratio will increase rapidly, reaching 29.1 percent of GDP by 2015, nearly doubling the level in 2009.

3. Table 1 shows two scenarios. In the first scenario, with real GDP growth, real interest rates, and the primary balance remaining at their historical 10 year averages, the public debt to GDP ratio would fall to 9.9 percent of GDP by 2015, reflecting the relatively more benign historical levels of the key variables, as well as a prudent fiscal stance that delivered primary surpluses in the recent past. The second scenario shows the fiscal outcome if government's policies in 2009 remain unchanged, with the primary balance standing at 5.6 percent of GDP. Indeed, if the fiscal consolidation under the baseline scenario does not take place, the debt ratio could escalate to 45.3 percent of GDP by the end of the forecast period, thereby breaching the authorities' target range of 25 to 30 percent of GDP.

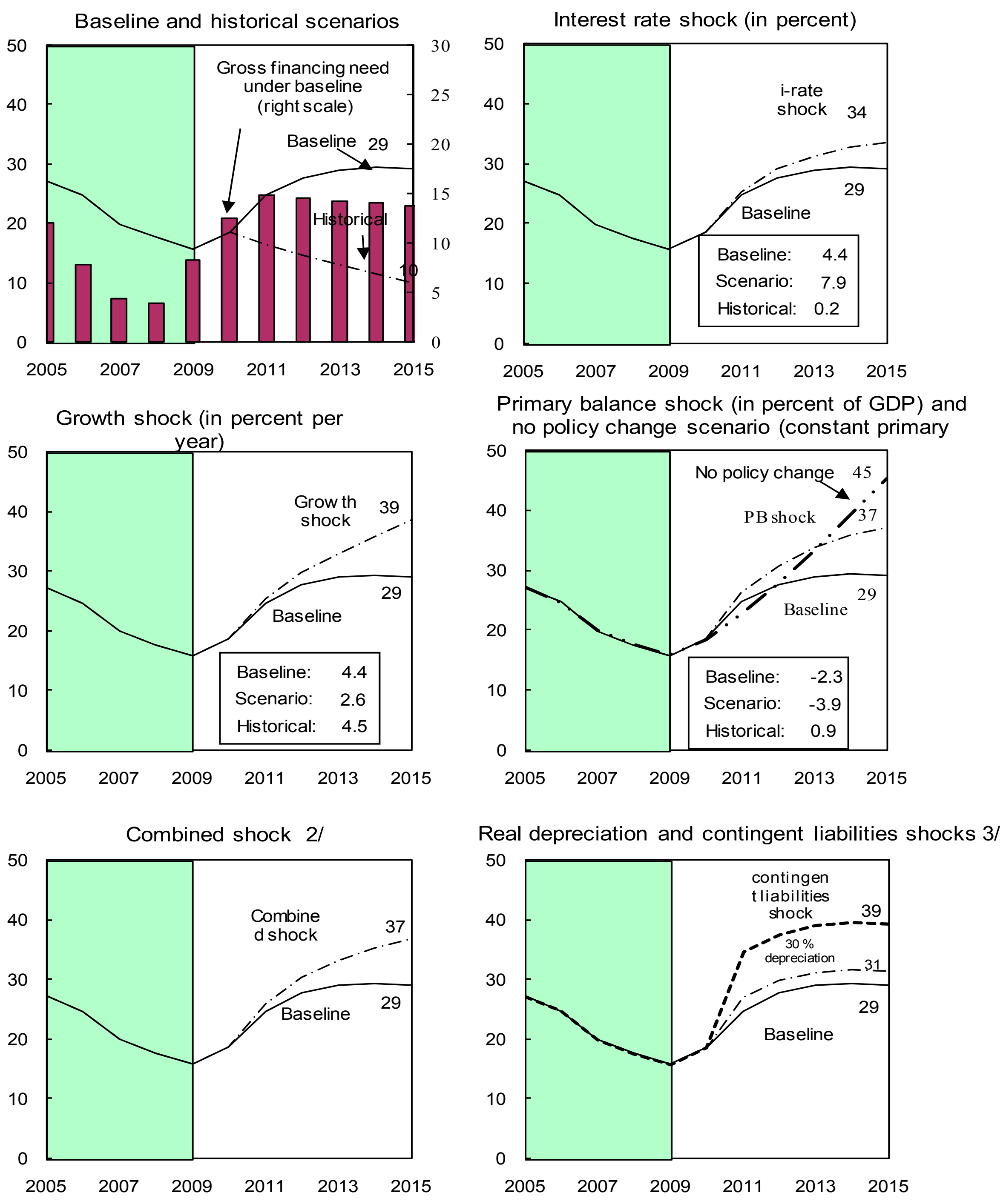
4. The bounds tests reveal the vulnerability of the fiscal position to exogenous shocks (Figure 1). The results show that with different levels of standard deviation shock to key indicators, the debt-to-GDP ratio is projected to increase by between 5 to 10 percentage points of GDP depending on the shock. The most benign shock is that from the unlikely event of a 30 percent real depreciation in the South African rand, which could result in a 2 percentage point increase in the debt to GDP ratio, reflecting the relatively low level of external debt in Namibia. However, the debt outlook remains sensitive to a negative growth shock and an increase in contingent liabilities, which could lead to an increase in the debt to GDP ratio by 9 and 10 percent of GDP respectively compared to the baseline scenario.

Table 1. Namibia: Public Sector Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	27.2	24.7	19.9	17.6	15.7	**18.5**	**24.7**	**27.6**	**29.0**	**29.3**	**29.1**	**0.5**
o/w foreign-currency denominated	4.1	4.6	4.9	4.7	4.4	4.8	5.3	5.1	4.8	4.5	4.2	
Change in public sector debt	-0.9	-2.4	-4.8	-2.3	-1.9	2.8	6.1	2.9	1.3	0.4	-0.2	
Identified debt-creating flows (4+7+12)	-0.6	-5.7	-7.7	-4.2	-0.4	5.3	6.7	3.0	1.4	0.4	-0.2	
Primary deficit	-1.4	-4.4	-6.4	-4.1	0.1	5.6	6.8	3.6	1.3	0.2	-0.5	
Revenue and grants	27.4	29.5	31.8	30.7	29.7	25.6	21.6	22.4	24.7	25.9	26.6	
Primary (noninterest) expenditure	26.0	25.1	25.4	26.6	29.8	31.2	28.4	26.0	26.0	26.1	26.0	
Automatic debt dynamics 2/	0.8	-1.3	-1.4	-0.1	-0.6	-0.3	-0.1	-0.6	0.1	0.2	0.3	
Contribution from interest rate/growth differential 3/	0.3	-1.7	-1.3	-1.7	0.4	-0.3	-0.1	-0.6	0.1	0.2	0.3	
Of which contribution from real interest rate	1.0	0.0	-0.1	-1.0	0.3	0.3	0.7	0.5	1.1	1.3	1.4	
Of which contribution from real GDP growth	-0.6	-1.6	-1.2	-0.7	0.1	-0.6	-0.8	-1.0	-1.1	-1.1	-1.1	
Contribution from exchange rate depreciation 4/	0.5	0.4	-0.1	1.6	-1.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-0.3	3.2	2.9	1.9	-1.4	-2.5	-0.5	-0.1	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	99.1	83.8	62.6	57.3	53.1	72.5	114.4	123.1	117.1	113.2	109.5	
Gross financing need 6/	12.0	7.8	4.4	3.9	8.4	12.4	14.9	14.5	14.2	14.1	13.7	
in billions of U.S. dollars	0.9	0.6	0.4	0.3	0.8	1.4	1.8	1.8	1.8	1.9	1.9	
Scenario with key variables at their historical averages 7/						**18.5**	**16.3**	**14.6**	**13.0**	**11.4**	**9.9**	**-0.3**
Scenario with no policy change (constant primary balance) in 2010-2015						**18.5**	**22.8**	**27.7**	**33.4**	**39.2**	**45.3**	**0.7**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.5	7.1	5.4	4.3	-0.8	4.4	4.8	4.7	4.2	4.2	4.2	
Average nominal interest rate on public debt (in percent) 8/	9.4	9.9	9.0	9.1	9.5	10.3	10.3	9.7	9.8	9.9	10.0	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.8	0.6	-0.1	-5.2	1.6	2.8	4.4	2.4	4.6	5.0	5.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-11.0	-9.3	2.3	-26.8	26.1	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	5.6	9.3	9.0	14.3	8.0	7.5	5.8	7.3	5.1	4.9	4.6	
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.0	3.5	6.7	9.1	11.1	9.3	-4.5	-4.1	4.2	4.5	3.9	
Primary deficit	-1.4	-4.4	-6.4	-4.1	0.1	5.6	6.8	3.6	1.3	0.2	-0.5	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Namibia: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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IMF Executive Board Concludes 2010 Article IV Consultation with Namibia

On July 23, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Namibia on a lapse of time basis. Under the IMF's lapse of time procedures, the Executive Board completes the Article IV consultations without convening formal discussions.[1]

Background

The global crisis led to a contraction of Namibia's economy in 2009, following a period of relatively strong growth. Growth averaged 5.5 percent during 2006-08, supported by sound macroeconomic policies and robust mining sector output. In 2009, however, growth is estimated to have contracted by 0.8 percent, down from 4.3 percent a year earlier as mineral production, especially diamond, dropped sharply in the wake of the global economic downturn. The 12-month inflation rate, which dropped to 5 percent in April 2010, is trending down further thanks to a decline in food and fuel prices and the strengthening in the South African rand, to which the Namibian dollar is pegged at par.

The countercyclical measures implemented to support growth led to a deterioration of the fiscal position. A drop in mineral revenue and lower Southern Africa Customs Union (SACU) revenue

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

combined with the stimulus measures shifted the fiscal position into a deficit of 2.8 percent of GDP in 2009/10, after three years of fiscal surpluses.

In light of slowing economic activity and moderating inflation, and in line with the monetary policy stance of the South African Reserve Bank (SARB), the Bank of Namibia (BoN) cut its policy rate to 7 percent in June 2009, down from 10 percent at the end of 2008. However, since April 2010, the BoN has maintained a 50 basis point positive differential with the SARB's policy rate. The financial sector weathered the global financial crisis relatively well; commercial banks remain profitable and continue to benefit from effective supervision by the BoN.

The external position also deteriorated. The current account position is estimated to have shifted into a deficit in 2009 on account of the drop in mineral exports and higher imports associated with new mining projects. Gross international reserves remained relatively unchanged at US$1.4 billion (3.4 months of imports) in 2009, supported by the allocation of Special Drawing Rights (SDRs) that helped mitigate the impact of the decline in export earnings.

The short-term growth outlook is positive but subject to downside risks. A recovery is in the offing with growth projected at 4.4 percent in 2010, predicated on a strong rebound in the mining and continued fiscal stimulus supporting construction and the services sectors. However, a possible weakening of the recovery in the global economy and in South Africa could impact negatively commodity prices and growth in the mining sector. The fiscal deficit is projected to widen in 2010/11 as stimulus-related spending is maintained and SACU revenue drops further.

Executive Board Assessment

In concluding the 2010 Article IV Consultation with Namibia, Executive Directors endorsed staff's appraisal, as follows:

The economic recovery is well underway, supported by timely macroeconomic stimulus. However, the outlook is subject to downside risks stemming from uncertain global economic recovery, calling for coordination in the policy mix going forward. In particular, if external demand for commodities weakens, and the thawing of financial markets is delayed, the recovery could lose steam.

The countercyclical measures have been instrumental in cushioning the impact of the global downturn, but have deteriorated the fiscal outlook. The authorities appropriately took advantage of the fiscal space available entering the crisis to stimulate the economy. However, although an expansionary fiscal stance in 2010/11 appears appropriate given the slack in economic activity and uncertainties about the global recovery, careful attention should be paid to the quality of spending and efforts need to be made to reorient spending in favor of quality capital projects while protecting critical social programs.

A more ambitious fiscal consolidation than envisaged in the current Medium-Term Expenditure Framework (2010/11–2012/13) is key to ensuring internal and external sustainability. Fiscal consolidation should start from 2011/12 by targeting a reduction in the overall budget deficit so as to preserve macroeconomic stability. Given the projected sharp drop in SACU revenue and rapid debt accumulation in the medium term, the authorities need to step up efforts at reducing public spending and mobilizing non-SACU revenue to reduce the projected fiscal deficits and public debt to sustainable levels. In this context, containing the wage bill, accelerating the reforms of state-owned enterprises (SOEs), and improving non-SACU revenue mobilization should be accorded high priority.

Fiscal risks need to be closely monitored. The measures being undertaken by the authorities need to be complemented by reforms, including strengthening the budget process, bringing into effect the SOEs Governance Act, and establishing the institutional and legal framework for Public Private Partnerships.

The exchange rate peg to the rand continues to be the main anchor of monetary policy. Despite the peg to the South African rand, the Bank of Namibia's monetary policy stance has started since April 2010 to deviate from the interest rate policy of SARB. Staff believes that there is a scope for reducing domestic interest rates by bringing the policy rate in line with South Africa's.

Upgrading the supervision of nonbank financial institutions (NBFIs) and addressing concerns about the tightening of the regulation on domestic investment requirements for pension funds and insurance companies are critical to ensure financial stability. Speeding up the approval of the Financial Institutions and Markets Bill, and strengthening Namibia Financial Institutions Supervisory Authority as an independent body would go a long way in addressing weaknesses in prudential regulations and supervision of the NBFIs. Regarding domestic investment requirement, short of reversing it or reducing its rate, it is of paramount importance to monitor closely the impact on pension funds with a view to mitigating risk taking by institutional investors and safeguard their long-term financial viability.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Namibia: Selected Economic Indicators, 2005–10

	2005	2006	2007	2008	2009 Est.	2010 Proj.
			(Percent)			
Change in real GDP	2.5	7.1	5.4	4.3	-0.8	4.4
Change in CPI (end of period)	3.5	6.0	7.1	10.9	7.0	6.1
			(Percent of GDP)			
Overall fiscal deficit/surplus[1]	-0.4	2.8	4.8	2.0	-2.8	-8.3
Public debt [1]	26.0	24.3	18.3	17.8	14.9	19.6
			(End of period; percent change)			
Broad money	9.7	29.6	10.2	17.9	5.9	14.2
Credit to the private sector	20.1	14.8	12.9	7.3	10.0	13.1
			(Percent of GDP, unless stated otherwise)			
Current account balance	4.7	13.8	9.1	2.7	-1.8	-2.2
International reserves						
US$ millions	316.0	512.8	906.6	1394.7	1405.3	1527.7
Months of imports of goods and services	1.4	2.1	3.0	3.8	3.4	3.3
Exchange rate (Namibia dollar/U.S. dollar, end of period)	6.3	7.0	6.8	9.3	7.4	…

Sources: Namibian authorities; and IMF staff estimates.
[1] Figures are for fiscal year, which begins April 1.