INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/43

# NAMIBIA

## 2012 ARTICLE IV CONSULTATION

February 2013

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 2012 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 9, 2012, with the officials of Namibia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 23, 2013. 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.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its February 8, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Namibia.

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 2012 ARTICLE IV CONSULTATION

January 23, 2013

## KEY ISSUES

**Outlook and risks:** Amidst a fragile global economic environment, Namibia's real GDP growth is projected to moderate to 4 percent in 2012 from about 5 percent in 2011. The uncertain external environment poses downside risks to export demand and therefore the underlying fiscal position.

**Reestablishing fiscal policy buffers:** The government launched a major three-year fiscal initiative in FY2011/12 to ease infrastructure bottlenecks and enhance job creation. The authorities should unwind the current fiscal expansion as planned in order to preserve fiscal and external sustainability and create room to smooth shocks.

**Managing inward global spillovers:** Current global spillovers might lead to a decline in mineral exports and thus a significant loss in fiscal revenues. In the event of further adverse global shocks, staff advised the authorities to allow automatic stabilizers to work on the revenue side, as long as the public debt is not above the 35 percent of GDP target.

**Reinforcing financial stability:** Commercial banks, mostly subsidiaries of South African banks, are well capitalized and profitable, with little direct exposure to the financial turmoil in Europe. Increased vigilance is however needed to monitor potential vulnerabilities stemming from a sizeable concentration of banks' lending to mortgages, residential property price buildup and growing household indebtedness.

**Promoting inclusive growth and addressing unemployment:** Namibia's income inequality and persistently high structural unemployment are key policy challenges. Tackling these social challenges requires reforms in the public sector employment and wage policies, and alignment of the curricula for university education, tertiary education, and vocational training to meet the demand for skilled labor in the broader economy. Strengthening public expenditure management, procurement, and financial accountability will enhance institutional capacity that is also crucial to support long-term growth.

Approved By
**Anne-Marie Gulde-Wolf and Christian Mumssen**

Discussions took place in Windhoek from October 29 to November 9, 2012. The team comprised Mr. Leigh (head), Mr. Garcia-Verdu, Ms. Liu, Mr. Stepanyan, and Ms. Gwenhamo (all AFR). Mr. Schuler from the World Bank also participated in some meetings. Mr. Jonelis and Ms. Robertson provided excellent research and editorial assistance, respectively, to the drafting of this report.

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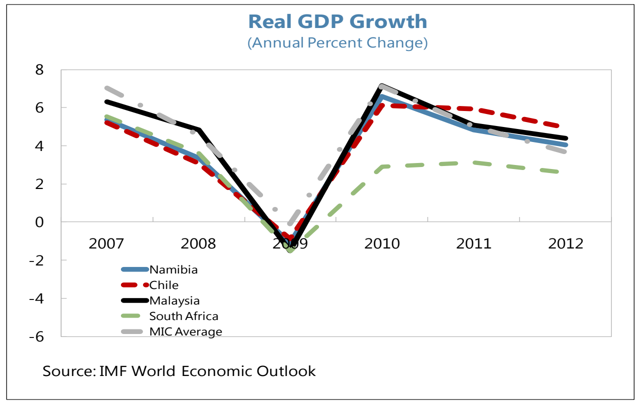
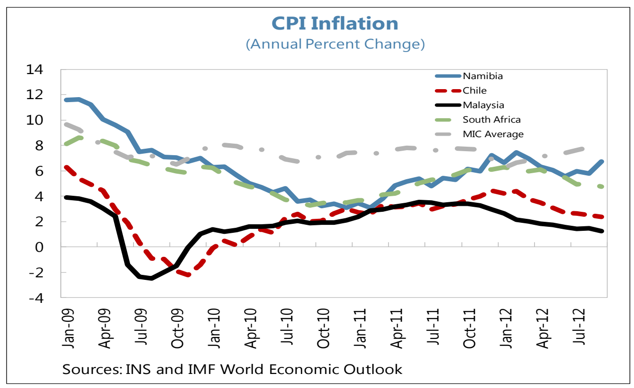
# RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

## A. Recent Developments

**1. The Namibian economy bounced back strongly from the 2008–09 financial crises but growth moderated in 2011.** GDP growth slowed to about 5 percent in 2011 (just below the average for its peer MIC group) compared with 6½ percent in 2010 due to contraction in the mining sector. The strong performance of the primary sector led to a rebound in growth in the second quarter of 2012. Mineral exports are, however, expected to decelerate in the last half of 2012 due to the weak external economic environment. Thus, GDP growth will likely moderate to 4 percent in 2012.




**2. Inflation has resumed an upward trend.** Inflation rose significantly to 7¼ percent (year–on-year) at end-December 2011, but declined to 6 percent at end July 2012 with an uptick in September 2012 to 6¾ percent. The increasing trend initially reflects the impact of high oil prices, while lately it was driven by a substantial depreciation of the South African rand.




**3. Conditions in the banking sector remain favorable.** Private sector credit extension remained robust at 9¾ percent year-on-year at end-December 2011, although slightly below 10¾ percent reached at end-December 2010. Credit was driven by mortgage credit and rapid expansion of installment credit and overdraft facilities to consumers, which could potentially crowd out bank funding for productive economic sectors. Nonperforming loans fell to 1½ percent of total loans at end-December 2011, down from 2 percent at end-December 2010. With overdue loans also declining, the asset quality of the banking sector has remained satisfactory.

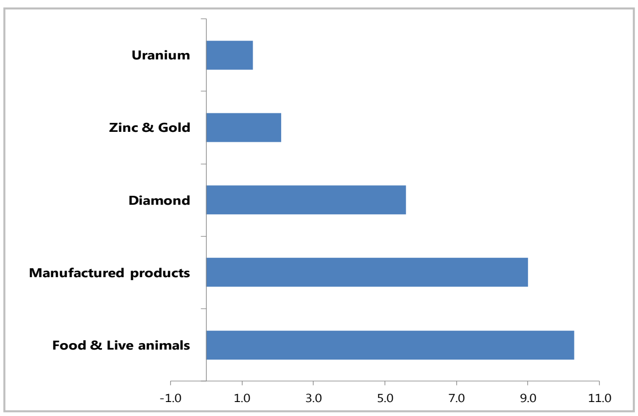
**4. Fiscal policy continues to be fairly expansionary.** The overall fiscal deficit in FY2011/12 increased to about 8½ percent of GDP from about 5¾ percent of GDP in FY2010/11 driven largely by the government's temporary Targeted Intervention Program for Employment and Economic Growth (TIPEEG)[1] and the increase in public sector wages.[2] The fiscal deficit (excluding the cyclical component

[1] The Targeted Intervention Program for Employment and Economic Growth (TIPEEG), launched in FY2011/12, extends to FY2013/14. Through TIPEEG, the government aims to create about 104, 000 direct and indirect jobs in targeted sectors including agriculture, tourism, transport and housing and sanitation.

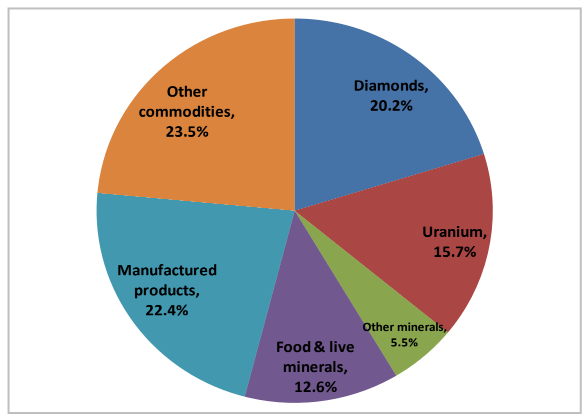
of SACU revenues) deteriorated significantly from about 2½ percent in FY2010/11 to about 6¼ percent in FY2011/12. Overall public debt increased significantly from 16¼ percent in FY2010/11 to 26½ percent in FY2011/12, including through Namibia's debut Eurobond issuance of US$500 million.[3] More recently, the Namibia government issued R850 million (US$95 million) 10-year bond in South Africa with a yield of 8.26 percent.

**5. The external position weakened in 2011.** Annual export (in US dollar terms) grew by about 9 percent in 2011 compared to about 29 percent in 2010. The moderate export growth in 2011 was supported mainly by diamond exports (benefiting from stronger prices). Nonmineral exports, notably manufactured products, and food and live animals also held up. Imports grew faster at 14 percent, driven by expansionary fiscal policy and eased monetary conditions, which increased private consumption. As a result, the current account recorded deficit of about 1¾ percent of GDP in 2011 from a surplus of ¼ percent of GDP in 2010.

Namibia: Growth rates of key exports categories in 2011
(In percentage)




Namibia: Composition of exports in 2011
(Percentage of total merchandise exports)



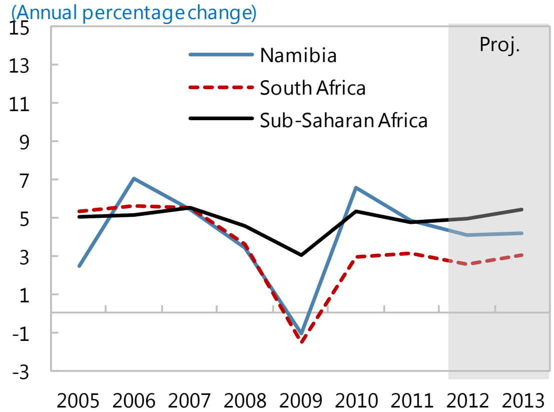

Source: Authorities and staff estimates.

[2] Civil servants were granted a 10 percent salary increase in 2011.
[3] The Namibian government issued a US$500 million 10-year Eurobond in November 2011. The bond carries a 5.5 percent coupon rate with interest payments made twice a year. The proceeds of the Eurobond issue were used to finance TIPEEG.

## Figure 1. Recent Macroeconomic Performance and Outlook

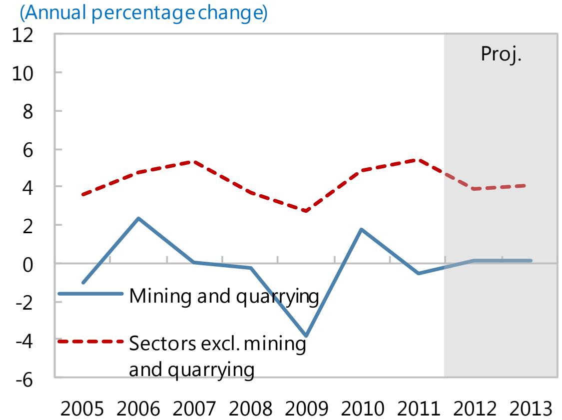
*Economic growth has moderated...*

**Real GDP Growth**
(Annual percentage change)

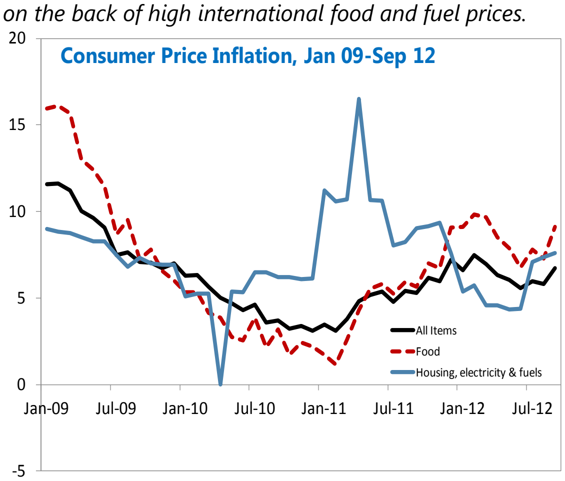



*...due to weaker mining sector performance especially diamond production.*

**Contributions to Real GDP Growth**
(Annual percentage change)

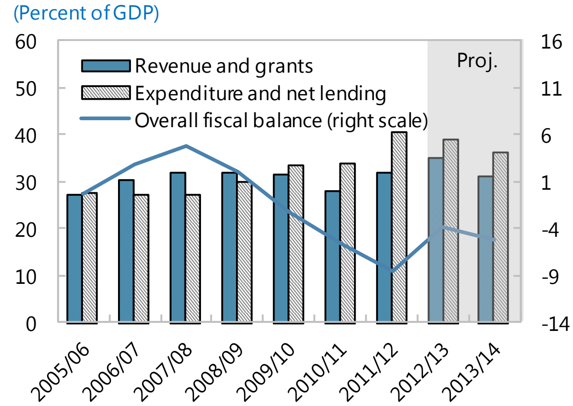



*While still in the single-digit range, inflation has picked up on the back of high international food and fuel prices.*



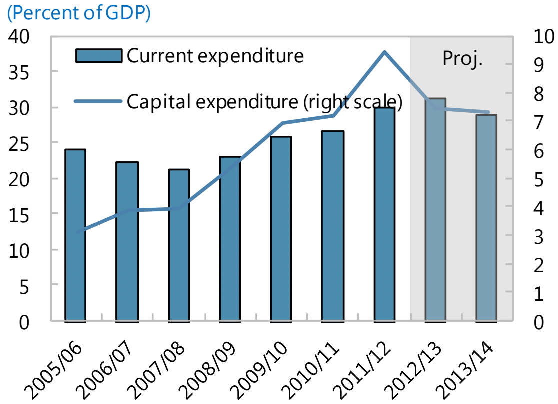

*The fiscal deficit has grown...*

**Fiscal Balance**
(Percent of GDP)



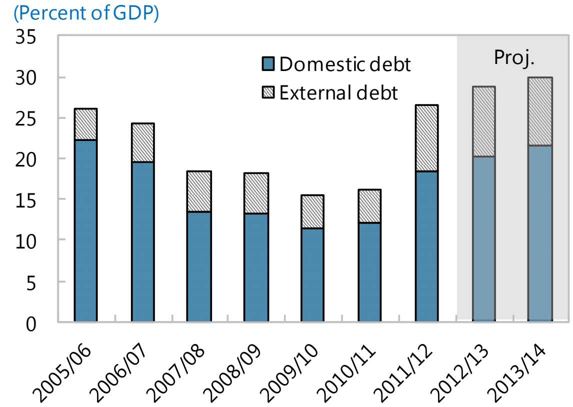

*With both current and capital spending rising significantly.*

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




*And public debt-to-GDP ratio increased significantly.*

**Public Debt**
(Percent of GDP)

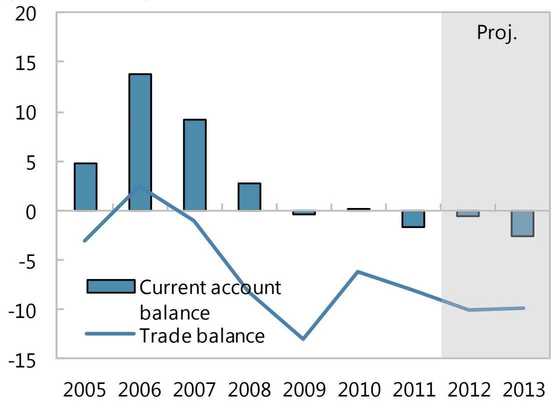



*Sources: Namibian authorities and IMF staff estimates.*

## Figure 1. Recent Macroeconomic Performance and Outlook (concluded)

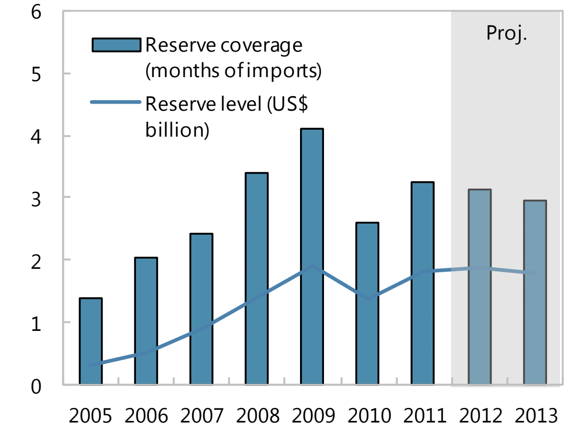
*The current account has moved into deficit.*

**Current Account and Trade Balance**
(Percent of GDP)



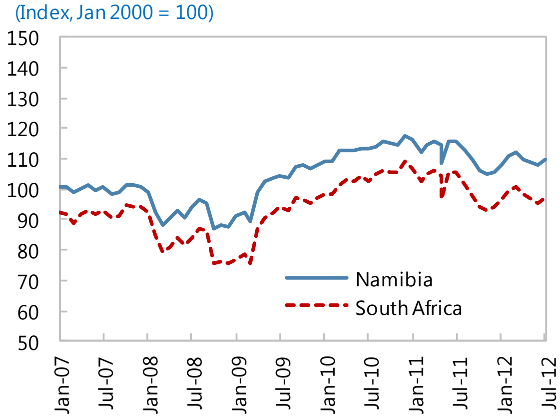

*And international reserves are barely 3 months of import coverage.*

**Official Reserves**



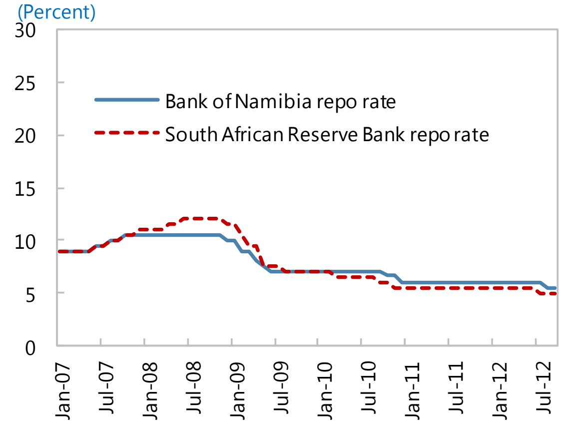

*The REER largely tracks that of South Africa.*

**Real Effective Exchange Rate, Jan 2000-Oct 2011**
(Index, Jan 2000 = 100)



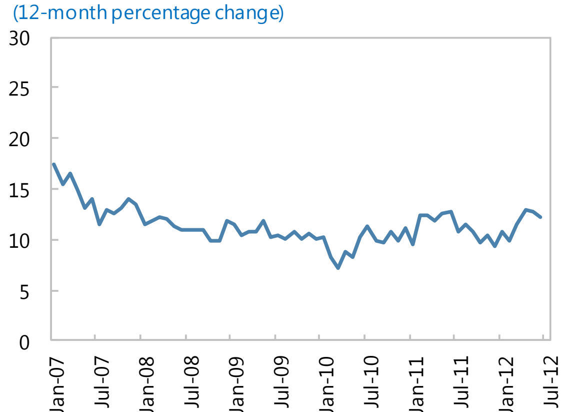

*The BoN reduced its repo rate broadly in line with the South Africa Reserve Bank (SARB).*

**Interest Rates**
(Percent)



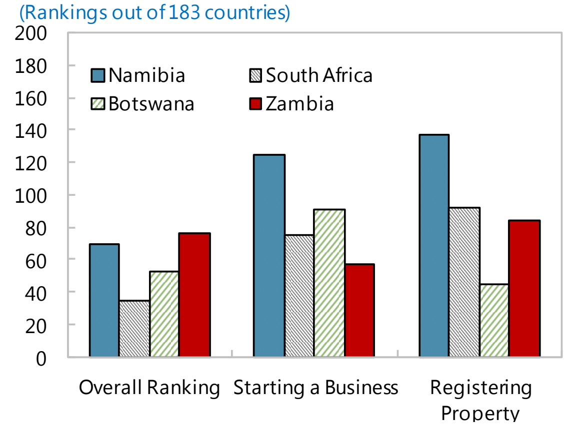

*Credit growth has been fairly flat…*

**Private Credit Growth**
(12-month percentage change)




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

**Business Climate Indicators**
(Rankings out of 183 countries)




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

## B. Outlook and Risks

### 6. Outlook

*Output***:** Overall output growth is likely to moderate to 4 percent in 2012, reflecting subdued mineral exports. Staff projects that the real GDP growth will increase slightly to 4¼ percent in 2013 followed by a moderation to 4 percent in 2014 due to significant fiscal consolidation. Thereafter, GDP growth is forecast to average about 4 percent over the medium term.

*Inflation:* Inflation is projected to remain at about 6 percent for the remainder in 2012 mainly due to exogenous factors coming from higher international fuel and food prices. Inflation is expected to converge to about 4½ percent in the medium term as international food prices stabilize.

*External position:* The current account deficit is projected to worsen to 2½ percent of GDP by 2013 reflecting lower SACU revenue. Over the medium-term, prospects for diamond exports are generally favorable based on supportive prices. Full production of about 3,000 tones/year of uranium is now expected by 2015 at the new Trekkopje uranium mine, which would raise uranium exports by about 50 percent. The planned fiscal consolidation from 2014 onwards should help to bring the current account to balance by 2015 with modest surpluses expected thereafter (Table 3). Staff's analysis, using CGER methods, shows that the Real Effective Exchange Rate (REER) is mildly overvalued, although these estimates have large confidence bands, suggesting a significant degree of uncertainty regarding the long-run equilibrium REER, (Appendix IV).

### 7. Risks

There are downside risks, both from external and domestic developments. As shown in the staff's risk assessment matrix (RAM) (Table 2), the main near term risk relates to the highly uncertain external environment. Further deterioration of the euro-area economies may generate significant negative spillovers to the Namibian economy through trade linkages as a large share of Namibia's total exports—mainly uranium ore, diamonds, beef, unrefined copper and fish—are destined for Europe. Spillovers could also be transmitted through Namibia's linkages with South Africa (Appendix III). Labor unrests in South Africa, if continued, could potentially affect Namibia, even though spillovers have been very limited to date. Namibia's growth prospects are further clouded by socioeconomic challenges of high unemployment, poverty and inequality. These challenges require the need to create stronger engines of more inclusive growth. Another medium-term risk is that, like other countries in SACU, Namibia faces a possible decline in SACU revenue (which represents about 30 percent of total revenues) in the long-run, either owing to low global growth or changes in the SACU revenue-sharing formula currently under negotiation.

# POLICY DISCUSSIONS

*The authorities largely agreed with the staff's assessment of recent economic developments, outlook, and prospects but emphasized that Namibia's growth remains above world average despite the global slowdown. Consistent with the initiative of sharpening the Fund's surveillance of small middle-income countries (MICs) in sub-Saharan Africa, this year's consultation with Namibia used an issues-oriented surveillance framework with policy discussions focusing on five main themes: (i) Rebuilding fiscal policy buffers and ensuring external sustainability; (ii) managing inward global spillovers ; (iii) reinforcing financial stability; (iv) promoting inclusive growth and reducing unemployment; and (v) fostering institutional and capacity development in support of stronger growth.*

## A. Policy Theme 1: Rebuilding Fiscal Policy Buffers and Ensuring External Sustainability

**Issues and staff recommendations**

**8. The FY2012/13 budget targets a deficit of about 4 percent of GDP.** This is driven by a marginal decline in the expenditure level as a share of GDP and a surge in revenues due to a windfall from SACU revenues. Excluding the cyclical component of SACU revenues, the overall deficit widens in FY2012/13, (text table) which is a continuation of the expansionary fiscal stance undertaken in FY2011/12.

Central Government Operations 2010/11 - 2015/16
(In percent of total GDP, unless otherwise indicated)

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|---|
| Total revenue & grants | 28.0 | 32.1 | 35.2 | 30.9 | 31.8 | 31.2 |
| SACU revenue | 7.2 | 7.6 | 13.3 | 9.7 | 9.3 | 8.8 |
| Revenue excluding SACU | 20.8 | 24.4 | 21.9 | 21.2 | 22.4 | 22.4 |
| Total expenditure & net lending | 33.7 | 40.7 | 39.1 | 36.3 | 32.5 | 31.3 |
| Overall balance | -5.7 | -8.6 | -3.9 | -5.3 | -0.7 | -0.1 |
| Structural balance | -1.3 | -8.6 | -7.0 | -4.9 | -1.5 | -0.6 |
| Overall balance excluding cyclical component of SACU revenue | -2.5 | -6.2 | -7.3 | -5.4 | -0.7 | 0.2 |

Source: Namibia authorities and Fund staff estimates and projections

**9. Staff stressed the need to minimize the fiscal risks associated with the TIPEEG program**. After an increase in development spending in the last year driven largely by the government's temporary TIPEEG, keeping public debt sustainable would require strict adherence to the government's medium-term fiscal plan aimed at delivering a balanced budget by 2015/16. Spending under TIPPEG would need to be unwound at the end of this initiative as planned by the authorities in order to safeguard medium term debt and external sustainability.[4] Staff's analysis shows that achieving a broadly balanced fiscal position (excluding the cyclical component of SACU revenues) by 2015/16, consistent with the authorities' medium-term fiscal plan, will bring the debt-to-GDP ratio to a broadly stable level. However, given the fixed exchange rate regime and the fact

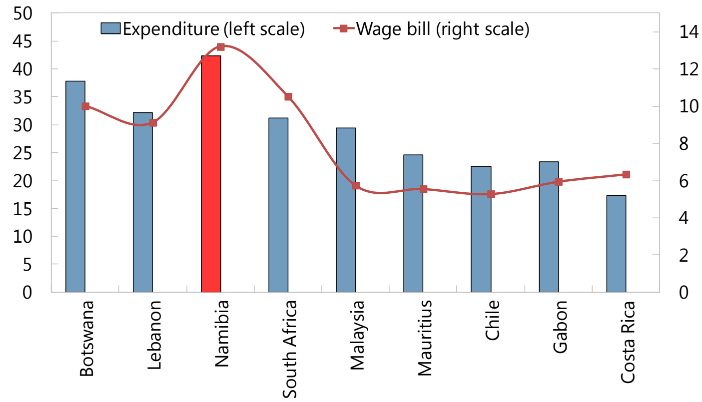
[4] Despite the recent increase in the debt level due to the temporary fiscal expansion under the TIPPEG program, the debt ratio is expected to decline over the medium term under all plausible scenarios as this one-off program unwinds. Namibia has always been a low debt upper middle-income MIC and staff do not envisage the debt path to be explosive given the potential of the economy and its diversified nature compared to other predominantly mineral based MIC economies. Namibia's sovereign credit rating also continues to be investment grade quality.

that, like other small MICs, Namibia remains susceptible to global shocks and outward spillovers amplified by an open capital account and lower buffers, beyond stabilizing the debt level, Namibia needs to rebuild its reserves buffer. In this context, staff analysis, which includes other small MICs, show that the current level of reserves is below what would be considered adequate based on various methods (Appendix I). The gap between Namibia's reserves holdings and its adequate level is expected to widen in the future, with unchanged policies. The exchange rate peg to the rand could come under pressure if fiscal consolidation to rebuild reserve does not take place. Therefore, a more ambitious fiscal effort beyond the authorities' medium-term expenditure framework would be advisable (Appendix I).

**10. There is room for improving the quality of spending.** The government's expenditure envelope (above 40 percent of GDP), including the wage bill, is high by international standards, thus necessitating an assessment of pockets of unproductive spending.[5] In staff's view, the challenges of strengthening the quality of public expenditures have increased with the acceleration of spending and the associated fast tracking of procurement processes under TIPEEG. As emphasized in staff's past recommendations (Table 1), wage restraint is warranted going forward given the size of the public sector wage bill (chart). High-quality civil service reforms are needed to enhance the efficiency of the public sector, support fiscal sustainability and reduce any associated distortions arising from wage settlement practices in the government into the broader labor market *(see Section D)*. In addition, staff stressed the need to rein in nonwage spending most notably subsidies and transfers to state-owned enterprises.

**Central Government Expenditure and Wage Bill, 2007-11**

(Percent of GDP)




Source: IMF World Economic Outlook and Government Finance Statistics.

**11. Staff underscored the need to address the state of finances of state-owned enterprises (SOEs) and propel them to contributing to broader national development objectives.** Low productivity in SOEs remains a concern, and continuously large transfers to them place constraints on the public finances, compromise spending on more productive areas, and pose fiscal risks. In this context, staff urged speedy implementation of individual performance agreements with SOEs, which are aimed at ensuring efficient delivery of results and value for money for the public.

**12. Staff also urged the authorities to expedite the implementation of tax reforms in a manner that ensures predictability and simplicity of the tax system.** These include improving tax compliance, streamlining tax expenditures, and balancing revenue collection with incentives to

[5] For analysis of wage bills within the Southern African Customs Union, see Chapter 4 of the recent regional work in a forthcoming book "Building a Common Future in Southern Africa," Mongardini, J., (ed. 2013), IMF, Washington, D.C.

invest in the context of authorities' intention to tax exports of natural resources. A differentiated tax rate on export of natural resources is under consideration as part of the government's objectives to broaden the revenue base and encourage domestic value-addition to natural resources. This would be a turnover tax of 0-2 percent (differentiated across sectors depending on value additional of each mineral product). Staff supports the government's objective to broaden the tax base and encourage value addition but advised that the selected instrument may not be efficient to achieve these twin objectives simultaneously. Beyond that, in its current form (close to about 20 rates), the differentiated export levy does not bode well for the simplicity of the tax system. Thus, some consideration could be given to using the existing royalty regime or resource rent tax approach.

**13. Caution is warranted in granting preferential tax regimes for businesses, particularly for the export processing zones (EPZs).** Companies with EPZ status enjoy exemptions on corporate income tax, VAT, stamp and transfer duties and are entitled to a 75 percent refund on expenditures incurred for training Namibians. The staff's judgment is that the effective tax rates of the VAT and corporate taxes are significantly lower than the statutory rates due to a number of tax exemptions. Since Namibia's VAT rate of 15 percent is about the average for comparator countries, there is no strong basis for granting VAT exemptions. Staff recommended a review of incentives on VAT, particularly for EPZs and conducting a full-fledged study on tax expenditures (tax revenues forgone due to tax incentives). The ongoing work by AFRITAC South on assessing tax gap for selected countries in the region including Namibia should help.

**14. There is a need to delink the fiscal stance from volatile SACU revenues.** The volatility in diamond and uranium revenues and SACU receipts exposes fiscal revenues to wide swings, especially during global economic cycles. In these circumstances, and consistent with IMF advice in other natural resource-rich countries, staff recommended that the government adopts either a fiscal balance that excludes the cyclical component of SACU receipts and mining revenues or the structural fiscal balance (a la Chile), which will reinforce the past policy of paying down debt when there are SACU windfalls.[6]

**Authorities' views**

**15. The authorities broadly concurred with staff on the need to rein in current expenditures and address unproductive spending, when assessed.** They emphasized that while the government's expenditure envelope (as a share of GDP) remains very large, public investment remained low by international standards. They acknowledged the large government wage bill (at 14 percent of GDP), although they noted that this was a regularity for Southern Africa, thus meriting a thorough assessment of the underlying reasons for the elevated wage bill in these countries. The authorities noted that government transfers to SOEs include funding for infrastructure projects which should be viewed favorably from a broader national development objective. They reiterated

[6] See recent regional work in a forthcoming book "Building a Common Future in Southern Africa," Mongardini, J., (ed. 2013), IMF, Washington, D.C.

their commitment to keep public debt at a sustainable level, while prioritizing expenditures, increasing government savings, and financing needed infrastructure projects. The peg to the rand has served Namibia well and merits continued support through a further buildup of reserve buffers.

**16. They stressed that expenditure restraint will be supported by efforts to broaden the domestic revenue base and strengthen domestic revenue collection and administration.** In that regard, they noted that significant progress has been made towards establishing a large taxpayer unit in the Inland Revenue Department and migrating to the integrated tax administration system (ITAS). They emphasized that they were pragmatic in negotiating the differentiated tax rates on exports of natural resources with the private sector. They also recognized the need to ensure simplicity of the tax system. The authorities see the need to conduct a full-fledged study on tax expenditures so as to streamline tax incentives and minimize revenue losses.

## B. Policy Theme 2: Managing Inward Global Spillovers

**Issues and staff recommendations**

**17. Further deterioration in the global economy may generate significant negative spillovers for the Namibian economy.** Staff analysis shows that the direct immediate impact of financial stress in Europe on Namibia's banking system, will likely be small as banks' funding base is largely domestic. Instead, the "real economy" channel through a collapse of commodity exports will be the main transmission channel (Appendix II).

**18. Near the border, recent labor disputes in South Africa, most notably the transport workers' strike has had some spillover effects on Namibia.** One key channel of the spillover impact is through the exchange rate given Namibia's peg to the rand. Another relates to its close financial linkages with South Africa, including the fact that nonbank financial institutions invest a significant share of their external assets in the South African market. On the real sector side, so far there has not been significant demonstration effect on Namibia's mining sector. However, this warrants close monitoring in an economy already experiencing some wage pressures.

**19. Staff stressed that Namibia's current level of reserves is not sufficiently strong to respond to large global shocks.** If adverse shifts in global economic developments lead to a decline in mineral prices and thus a significant loss of revenues compared to the budget target (see the risk assessment matrix (RAM) in Table 2), staff advised the government to allow the automatic stabilizers to work on the revenue side as long as the public debt is not above the 35 percent of GDP target. This implies that the government should not increase tax rates to compensate for the associated cyclical loss in mineral revenues or reduce expenditures to meet the government's budget deficit target. More generally, staff advised that such spillovers and the associated risk spelt out in the RAM would generally call for policy response to be measured, carefully calibrated, and proportional to risks and pressures coming from the global economic environment.

**Authorities' views**

**20. The authorities agreed that the direct impact of financial stress in Europe on Namibia's banking system is limited and that Namibia is affected through the trade channel given its heavy reliance on mineral exports.** That said, the authorities noted that 2012 was evolving better than expected with resilience in diamond exports (possibly surpassing 1.5 million carats) and a limited unwinding of the diamond price hikes observed in 2011. Going forward, the authorities noted the importance of evaluating the effectiveness of Namibia's efforts to diversify the economy away from the mining sector given the continued dominance of mineral exports and the associated vulnerability to commodity prices shocks. The authorities also concurred that developments in South Africa warrant close monitoring.

## C. Policy Theme 3: Reinforcing Financial Stability

**Issues and staff recommendations**

**21. Aggregate financial indicators are broadly sound but potential sources of vulnerabilities to financial stability are emerging.** The combination of the property price buildup, commercial banks' large exposure to the property market, the growing household indebtedness, and the concentration of large institutional investors in bank funding, pose potential vulnerabilities to financial stability. Mortgage loans represent the largest portion of loans and advances, accounting for 55.1 percent of the total loan book in 2011.[7]

**22. A continued build up in property prices could undermine homeowner affordability for low and middle-income Namibians, as well as, pose potential risk for financial stability.** Since 2000, the Namibia residential property prices have increased significantly, with more moderate increases in 2012. Price buildup is driven by the interplay between supply and demand (Appendix III). At a time when government policies should aim to enhance inclusive growth and spread the benefits of growth among society, rapidly rising property prices will make home ownership beyond the reach of a vast majority of ordinary Namibians. Indicators of housing affordability and the profiles and income streams of the borrowers do not provide much comfort in terms of potential risks. Furthermore, NonBank Financial Institutions' (NBFIs) are also exposed to the property market indirectly mainly through their funding of banks' wholesale deposits (80 percent of bank's funding comes from NBFIs).

**23. Staff recommended a close monitoring of the financial system's exposure to mortgage loans to minimize risks, through a combination of policy options.** In particular, staff recommended that some consideration be given to the possible use of more stringent loan-to-value ratios than the current local industry norm of 100 percent financing for first time buyers that the majority of banks use. This should be done in a manner that does not unduly hamper homeowner

[7] In addition, lending to households and corporations may be backed by real estate assets, thus adding to the exposure of lending portfolios of banks and nonbanks to risks of the real estate market.

affordability for low-income Namibians. Staff also urged the BoN to expedite—with ongoing technical assistance from the Fund—the adoption of bank stress testing techniques that allow adequate analysis of macro-financial sector linkages and associated risks.

**24. NBFIs require close monitoring.** It is critical for the authorities to continue strengthening supervision of NBFIs and monitor their exposure to the property market (both direct and indirect). Thus, staff commended the ongoing efforts by the regulatory authorities, Namibia Financial Institutions Supervisory Authority (NAMFISA), in preparing regulations, guidelines and standards to accompany new NBFIs sector legislation (Financial Institutions and Markets Bill) and to support capacity building for staff in the regulatory agency, all in line with the Fund's advice (Table 2).

**25. Beyond these, the central government also has a role in minimizing risks to the property market.** Clearly households' affordability of property is an important variable and the government is already contemplating taking policies to increase access to housing as part of its agenda to enhance more inclusive growth. At the same time, existing restrictions on land supply are yet to be eased. Such a combination of measures would likely increase price pressures in the property market. The Government's Institutions Pension Fund (GIPF) is considering developing a housing scheme for fund members to use a portion of their pensions to guarantee mortgage loans. This could entail some risk without necessarily improving housing affordability. Nevertheless, if the government proceeds with this plan, staff recommended the tightening of eligibility requirements for the scheme. Policies to increase demand for housing ought to be carefully calibrated in close tandem with plans to gradually ease restrictions on land supply.

**Authorities' views**

**26. The authorities underscored that there are no signs of property price bubble and pointed to the moderation in property prices in recent months.** They stressed that, like staff, they are concerned about the impact of the property price buildup on housing affordability for low-income Namibians. Moreover, while the large concentration of commercial banks assets in mortgage loans, the elevated level of household indebtedness and the concentration of large institutional investors (pension funds and insurance companies) in wholesale bank funding are a concern, the risks to financial stability have been reduced with several policy measures being put in place by the BoN. Further, given the limited development of local financial markets, there was no evidence of volatile wholesale bank deposits. Notable macroprudential policies in place include the requirement by the BoN for commercial banks to apply risks weights on mortgage loans above Basel II norms. They stressed that nonperforming loans continue to be low by international standards. With regards to the NBFIs exposure to the property market, they stressed that this was limited to 5 percent. They also noted that the memorandum of understanding between the BoN and NAMFISA for continuous information sharing will enable pre-emptive policy actions.

## D. Policy Theme 4: Promoting Inclusive Growth and Reducing Unemployment

**Issues and staff recommendations**

**27. There is an urgent need to address the phenomenon of jobless growth, as unemployment and poverty levels remain high.** The country's Gini coefficient, at 0.59 in 2009/10, is one of the highest in the world. The official unemployment rate is now estimated at 34 percent according to the most recent household income and expenditure survey (HIES). High unemployment rate reflects skills mismatch in the labor market and possibly public sector wage policies (Appendix V).

**28. Staff emphasized that public works program through TIPEEG may not necessarily succeed in putting a sustainable dent on long-term or structural unemployment due to their temporary nature.** The authorities' TIPEEG aims to support job creation by easing infrastructure bottlenecks in targeted sectors of the economy. While TIPEEG's goal of easing infrastructure bottlenecks in labor intensive sectors is appropriate, broader industrial policies to protect certain industries may not necessarily deliver the intended outcomes and could in fact create unintended distortions. In addition, implementation difficulties, due to capacity constraints, could however reduce the program's possible impact on domestic job creation. TIPEEG should also have a skill development component in order to maximize its job creation potential on a sustainable basis. Tackling the high level of structural unemployment would also require changing the public sector employment and wage policies, and to align tertiary education and training to meet the demand for skilled labor in the broader economy. Further progress in developing downstream primary sectors and raising the effective cost of capital through rationalization of generous tax incentives to limit the current bias toward capital-intensive sectors, could also help support job creation.

**29. Given the negative impact of income inequalities on the duration of growth, staff recommended policies to target inequality at the sources.** These include fostering targeted investment in health and education as well as supporting financial inclusion. The latter could draw upon measures outlined in the authorities' 2011–2021 Financial Sector Strategy plan on encouraging financial access to a broader part of the population, while limiting the associated regulatory risks, including money laundering. This would complement current redistributive aspects of fiscal policy including targeting a direct redistribution of income. Staff's analysis of household survey data for Namibia and other MIC countries suggest that despite the expansion of social programs and their beneficiaries, they have been relatively less effective in targeting the very poor when compared with other upper MIC countries (Appendix V). Thus, in staff's view, while Namibia is an upper middle income on the basis of per capita GDP, some consideration could be given in treating it as a "special case" for donor funding given the enormous social challenges it faces.

**Authorities' views**

**30. The authorities reiterated that enhancing job creation and more inclusive growth are the key pillars of their tightly focused fourth National Development Plan (NDP4).** The FY2012/13 Budget is unrelenting in its resource allocation to priority economic and infrastructure sectors, with the objective of placing the economy on a high and inclusive growth trajectory.

**31. They concurred that TIPEEG should have a skill development component to help make workers more competitive for private sector jobs.** In this context, they noted the recent creation of a Human Resource Development Council and Productivity Centre, which aim at addressing the skills mismatch in the labor market. The Ministry of Labor is also working on a jobs search program to create a platform for linking the availability of job vacancies to relevant skills to reduce frictional unemployment. Despite these efforts, the authorities maintained that there are no easy fixes to these daunting socio-economic challenges and therefore there is a need to respond with several policy initiatives to enhance faster job creation.

## E. Policy Theme 5: Fostering Institutional and Capacity Development in Support of Stronger Growth and Data Issues

**Issues and staff recommendations**

**32. Despite its upper middle income status, Namibia like other small middle-income countries in sub-Saharan Africa has capacity that is unevenly distributed across the government.** According to the World Bank's government effectiveness indices, for Namibia, the private sector's perception of the quality of public services and civil service bureaucracy are less positive than in Botswana, Mauritius, South Africa and Seychelles.

**33. The Public Expenditure and Financial Accountability (PEFA) report of 2008 provides some practical sequence of reforms to Namibia's public expenditure, procurement, and financial accountability systems.** Staff commended the government for announcing plans to take action across the board, including the public financial management (PFM) framework, given the low-ranking areas identified in the PEFA report, especially when compared with ratings assigned to other middle-income countries.

**34. Data quality is broadly adequate for surveillance, although there is room for improvement.** In this regard, staff urged the authorities to take further steps to improve the quality of its key macroeconomic statistics as recognized in the FY2012/13 Budget. Staff welcomed the authorities' decision to conduct a labor force survey on an annual basis, so that the government can monitor progress toward its employment goals and more generally labor market conditions. The 2009/10 HIES should also provide a good basis for updating the weights in the national consumer price index, which dates back to the early 1990s. In this respect, staff welcomed recent technical assistance visit by IMF experts in the area of consumer price statistics. There is also room for improvement in the compilation of the balance of payments statistics, most notably on the large errors and omissions. These efforts should be accelerated to help propel Namibia towards subscribing to the IMF's Special Data Dissemination Standard (SDDS).

**Authorities' views**

**35. The authorities acknowledged the need for fostering institutional and capacity development and strengthening the quality of statistics.** The government noted that they are pursuing a PFM reform agenda assisted by IMF and the European Union. After a somewhat successful pilot, the government plans to roll-out program budgeting to all ministries and government agencies in the coming years. To enhance government's capacity to collect and compile high quality statistics, Namibia Statistics Agency (NSA) has been transformed to a fully autonomous agency. The publication of the recently completed 2009/10 Household Income and Expenditure Survey in a fully transparent manner on the NSA's website, as well as details of the national accounts and price statistics, are significant milestones.

# STAFF APPRAISAL

**36. The current fragile external environment poses risks to Namibia's export demand.** Against this backdrop and Namibia's limited policy buffers, a delicate balancing act in the implementation of macroeconomic policies is needed in the near term. In a more adverse global scenario than currently anticipated, the authorities should allow the automatic stabilizers to work on the revenue side as long as the public debt is not above the 35 percent of GDP target.

**37. Return to fiscal prudence is required to rebuild policy buffers.** Staff strongly recommends the unwinding of TIPEEG at the end of the initiative, as envisaged in the authorities' medium-term expenditure framework, to safeguard debt and external sustainability. Fiscal restraint is also needed to help preserve a sound external position and the sustainability of the peg to the South African rand, which has served the country well and merits continued support.

**38. To improve competitiveness and fiscal sustainability, the authorities should articulate bold measures to achieve wage restraint.** In the short term, consideration could also be given to tightening the eligibility requirements for various allowances for the civil servants and imposing a hiring freeze. Medium-term measures could include (i) formalizing a wage rule in which nominal wage adjustments in Namibia should take into account both expected inflation and productivity growth; (ii) rationalizing the size and structure of government; and (iii) tightening the link between pay and performance.

**39. Staff commends the sense of urgency recognized by the government to address the state of finances of the State-owned enterprises (SOEs).** There is a need for a speedy SOE reform most notably the implementation of their individual performance agreements.

**40. Reforms to broaden tax base should be done in a manner that enhances the predictability and simplicity of the tax system.** These include improving tax compliance, streamlining tax expenditures, and balancing revenue collection goals with incentives to invest particularly in the context of the authorities' intention to introduce individual export levy differentiated across mineral exports.

**41. The government should consider adopting either a fiscal rule that excludes the cyclical component of SACU receipts and mining revenues or the structural fiscal balance (a la Chile).** This will reinforce the authorities' past policy of paying down debt when there are SACU windfalls as well as prepare the authorities for possible future decline in SACU revenues.

**42. Financial sector indicators are broadly sound and commercial banks are well capitalized and profitable.** Increased vigilance is, however, needed to monitor potential vulnerabilities stemming from a sizeable concentration of lending to mortgages, property price buildup, growing household indebtedness, and the concentration of large institutional investors in bank funding.

**43. Staff supports the authorities' tightly focused development objectives that are laid out in the recent National Development Plan (NDP4) given high inequality and unemployment.** Current redistributive aspects of fiscal policy should be complemented with policies that tackle inequality through fostering effective investment in education and health and enhancing financial inclusion. Staff supports recent government policy initiatives including the Human Resource Development Council to address the skill mismatch in the labor market.

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

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

| | IMF 2010 & 2011 Article IV Recommendations | Authorities' Response |
|---|---|---|
| **Fiscal Policy** | -Tighten fiscal stance over the medium term<br>-Keep public debt below the announced target<br>-Set a target on non-SACU fiscal balance to isolate fiscal policy from volatile SACU revenues. | **Partially consistent**<br>The FY2012/13 budget is fairly expansionary although the current MTEF envisages fiscal consolidation in the medium term after the TIPEEG initiative. Public debt has been kept below the announced target although it is rising rapidly. The fiscal stance is not formally delinked from SACU revenue but past policy of using SACU windfall revenues to reduce to public debt is consistent with Fund advice. |
| | - Contain the wage bill | **Inconsistent**<br>Authorities have not articulated measures to contain the wage bill which continues to grow. |
| **State owned enterprises (SOEs)** | -Accelerate reforms of SOEs<br>-Bring into effect the SOEs Governance Act, and establish the institutional and legal framework for PPPs | **Partially consistent**<br>Implementation of performance agreements with SOEs is sluggish although the SOEs policy framework was approved by Parliament in 2010. |
| **Monetary policy** | - Continue to support the exchange rate peg to the rand which has anchored macroeconomic and financial stability.<br>-Further alignment of the BoN policy rate with that of SARB. | **Broadly consistent**<br>Exchange rate peg to South Africa has been maintained. The BoN has consistently kept its policy rate 50 basis points above the SARB repo rate. |
| **Reserve Policy** | -Increase reserve build-up | **Partially consistent**<br>Reserves have fluctuated around 3-3.5 months of imports. |
| **Financial Sector Policy** | -Strengthen regulation and supervision of nonbank financial institutions<br>-Enhanced monitoring of commercial banks' exposure to mortgage lending and consider pre-emptive measures to enhance banks' capacity to absorb shocks. | **Broadly consistent**<br>NAMFISA is preparing regulations and guidelines to accompany new NBFIs sector legislation. Risks weights on mortgage loans are above Basel II norms and BoN has plans to require more exposed banks to argument capital buffers. |

[1] Scale — Fully consistent, broadly consistent, partially consistent, marginally consistent, or inconsistent.

## Table 2. Namibia: Risk Assessment Matrix (RAM) [1]

| Sources of Risk | Relative Likelihood | Impact if Realized | Staff advise on policy response |
|---|---|---|---|
| Strong intensification of the Euro area crisis. | **Medium** | **Medium to high**<br>Such intensification would have global effects, including lower world growth, falling commodity prices and higher risk aversion. This would directly affect almost 50 percent of Namibia's exports especially mineral exports. The resultant slower activity in South Africa would have indirect impact on Namibia's fiscal position through the risk of lower SACU transfers. | See paragraph 19 of the main text |
| Growth slowdown in emerging economies | **Low** | **Medium to High**<br>A hard landing in emerging countries would primarily affect commodity prices, which would have a particularly strong impact on Namibia export earnings. Direct and indirect impact (via South Africa) could have more severe effects now, as fiscal buffers have been drawn down. | See paragraph 19 of the main text |
| Hike in oil prices | **Low** | **Medium**<br>Oil prices could increase beyond the cyclical levels for geopolitical considerations. As Namibia imports all fuel requirements, terms of trade shocks from the fuel price hike would adversely affect domestic demand. Oil prices could also affect inflation in Namibia. | **-----** |
| Persistent labor unrests in South Africa's mining sector | **Low** | **Low**<br>Key channels of impact could arise from Namibia's peg to the rand and from the close financial linkages-many banks in Namibia are subsidiaries of parent banks from South Africa. On the real sector side, so far demonstration effects on wage demands in Namibia's mining sector have been limited. | Paragraph 18 |
| Delayed fiscal consolidation | **Low to Medium** | **Medium to High**<br>A delay in the authorities' planned fiscal consolidation could lead to unsustainable fiscal and external positions yielding pressure on the exchange rate peg with the South Africa rand. | See paragraph 9 |
| Residential property price fall | **Low** | **Medium to High**<br>A reversal of the acceleration in Namibia's residential property prices could have a negative impact on financial sector stability given banks high exposure .The problem could be accentuated by cross linkages between banks and inadequately supervised nonbanks and the high household debt burden. | See paragraph 25 |

[1]The RAM shows events that could materially alter the baseline path—the scenario most likely to materialize in staff's view.

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

| | | | Est. | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| | (Annual percentage change, unless otherwise indicated) | | | | | | | | |
| National account and prices | | | | | | | | | |
| GDP at constant prices 1/ | -1.1 | 6.6 | 4.8 | 4.0 | 4.2 | 4.0 | 4.3 | 4.3 | 4.3 |
| GDP deflator | 4.1 | 1.4 | 6.8 | 6.7 | 5.9 | 5.4 | 4.9 | 4.5 | 4.5 |
| GDP at market prices (N$ billions) | 75.1 | 81.1 | 90.8 | 100.9 | 111.3 | 121.9 | 133.4 | 145.4 | 158.6 |
| GDP per capita (US$, constant 2000 exchange rate) | 5147 | 5517 | 6126 | 6745 | 7381 | 8019 | 8701 | 9412 | 10180 |
| Consumer prices (end of period) | 7.0 | 3.1 | 7.2 | 6.2 | 5.7 | 5.2 | 4.5 | 4.5 | 4.5 |
| | | | | | | | | | |
| External sector | | | | | | | | | |
| Exports (US$) | -1.7 | 28.8 | 8.9 | 1.5 | 8.5 | 5.3 | 12.1 | 7.8 | 10.0 |
| Imports (US$) | 12.6 | 12.9 | 14.4 | 3.7 | 7.0 | 0.0 | 3.1 | 3.8 | 3.9 |
| Export volume | 12.1 | 6.9 | -3.6 | 4.8 | 7.5 | 4.5 | 10.0 | 10.3 | 10.0 |
| Import volume | 20.2 | -6.9 | 0.8 | 6.1 | 6.2 | 4.0 | 4.3 | 4.3 | 3.9 |
| Terms of trade (deterioration -) | 11.5 | 8.5 | 7.2 | -0.9 | 0.2 | 4.8 | 3.1 | 3.1 | 3.6 |
| Exchange rate (N$/US$, end of period) | 7.4 | 7.1 | 8.1 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (Jan 2000 = 100) | 108.0 | 117.6 | 105.7 | ... | ... | ... | ... | ... | ... |
| | | | | | | | | | |
| Money and credit | | | | | | | | | |
| Domestic credit to the private sector | 10.0 | 11.2 | 9.3 | 11.0 | 10.3 | 9.5 | 9.4 | 9.1 | 11.1 |
| M2 | 3.6 | 9.8 | 4.3 | 11.0 | 10.3 | 9.5 | 9.4 | 9.1 | 9.1 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Investment and savings | | | | | | | | | |
| Gross investment | 22.3 | 21.2 | 19.8 | 21.1 | 21.1 | 20.6 | 20.1 | 20.0 | 20.1 |
| Public 1/ | 5.5 | 7.4 | 8.6 | 7.7 | 7.1 | 6.4 | 5.8 | 5.8 | 6.0 |
| Private | 16.9 | 13.9 | 11.2 | 13.4 | 14.0 | 14.2 | 14.3 | 14.2 | 14.1 |
| Gross national savings | 22.0 | 21.5 | 18.1 | 20.5 | 18.6 | 19.0 | 20.2 | 20.6 | 22.2 |
| Public | 6.5 | 2.5 | 2.0 | 3.7 | 2.5 | 4.9 | 5.8 | 6.3 | 6.6 |
| Private | 15.5 | 19.0 | 16.1 | 16.8 | 16.1 | 14.1 | 14.4 | 14.3 | 15.6 |
| | 22.3 | 21.2 | 19.8 | 21.1 | 21.1 | 20.6 | 20.1 | 20.0 | 20.1 |
| Central government budget 2/ | | | | | | | | | |
| Revenue and grants | 31.4 | 28.0 | 32.1 | 35.2 | 30.9 | 31.8 | 31.2 | 31.3 | 31.2 |
| *Of which*: SACU receipts | 11.2 | 7.2 | 7.6 | 13.3 | 9.7 | 9.3 | 8.8 | 8.8 | 8.8 |
| Expenditure and net lending | 33.6 | 33.7 | 40.7 | 39.1 | 36.3 | 32.5 | 31.3 | 30.9 | 30.8 |
| Of which: | | | | | | | | | |
| Personnel expenditure | 11.8 | 12.9 | 13.6 | 13.9 | 12.9 | 12.4 | 12.0 | 11.8 | 11.8 |
| Capital expenditure and net lending | 7.8 | 7.2 | 10.8 | 8.0 | 7.3 | 6.4 | 5.9 | 6.0 | 6.2 |
| Primary balance (deficit = –) | -0.6 | -4.5 | -7.4 | -1.7 | -3.2 | 2.2 | 2.6 | 3.0 | 2.7 |
| Overall balance | -2.2 | -5.7 | -8.6 | -3.9 | -5.3 | -0.7 | -0.1 | 0.4 | 0.5 |
| Overall balance: Non-SACU | -13.4 | -12.9 | -16.3 | -17.2 | -15.0 | -10.0 | -8.9 | -8.4 | -8.3 |
| Public debt/GDP 3/ | 15.6 | 16.1 | 26.5 | 28.8 | 29.9 | 28.5 | 26.4 | 23.7 | 21.0 |
| Gross public and publicly guaranteed debt/GDP | 19.0 | 18.5 | 28.4 | 30.7 | 31.8 | 30.4 | 28.3 | 25.6 | 22.9 |
| | | | | | | | | | |
| External sector | | | | | | | | | |
| Current account balance | | | | | | | | | |
| (including official grants) | -0.4 | 0.3 | -1.7 | -0.6 | -2.5 | -1.7 | 0.1 | 0.6 | 2.1 |
| (excluding official grants) | -14.4 | -10.7 | -12.0 | -15.0 | -15.6 | -13.6 | -11.1 | -10.4 | -8.7 |
| Gross official reserves 4/ | | | | | | | | | |
| US$ millions | 1,918.7 | 1,380.1 | 1,811.4 | 1,878.0 | 1,789.8 | 1,831.1 | 1,978.5 | 2,103.7 | 2,168.7 |
| Months of imports of goods and services | 4.1 | 2.6 | 3.3 | 3.1 | 3.0 | 2.9 | 3.0 | 3.0 | 3.1 |
| External debt/GDP 5/ | | | | | | | | | |
| US$ millions | 2,505.8 | 3,473.4 | 4,248.0 | 4,363.5 | 4,423.6 | 4,487.5 | 4,499.4 | 4,481.5 | 4,409.2 |
| Percent of GDP | 28.3 | 31.4 | 33.5 | 35.5 | 34.4 | 33.1 | 31.4 | 29.7 | 27.6 |

Sources: Country authorities and Fund staff estimates and projections.

1/ Figures include public enterprise and central government investment.

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

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

4/ Includes SDR allocations in 2009.

5/ Public and private external debt.

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

| | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| | (Millions of U.S. dollars; unless otherwise indicated) | | | | | | | | |
| Current account | -31.2 | 30.3 | -217.9 | -68.3 | -322.1 | -224.5 | 8.5 | 83.2 | 337.0 |
| Trade balance | -1,225.1 | -889.1 | -1,237.6 | -1,379.3 | -1,411.2 | -1,155.4 | -737.9 | -539.8 | -186.4 |
| Exports, f.o.b. | 3,114.5 | 4,010.2 | 4,367.3 | 4,430.8 | 4,807.1 | 5,063.5 | 5,675.8 | 6,116.2 | 6,730.8 |
| *Of which:* | | | | | | | | | |
| Diamonds | 540.2 | 827.2 | 882.1 | 988.8 | 1,108.4 | 1,242.5 | 1,433.8 | 1,654.4 | 1,909.1 |
| Other minerals | 728.6 | 938.4 | 927.2 | 898.5 | 906.2 | 909.5 | 1,007.4 | 1,068.9 | 1,141.7 |
| Fish | 339.9 | 408.9 | 421.4 | 401.7 | 404.4 | 405.0 | 410.5 | 418.4 | 429.3 |
| Imports, f.o.b | -4,339.6 | -4,899.3 | -5,604.9 | -5,810.0 | -6,218.3 | -6,218.9 | -6,413.8 | -6,656.0 | -6,917.2 |
| Services (net) | 71.4 | 193.9 | 220.3 | 143.5 | 132.9 | 147.2 | 161.9 | 113.6 | 66.9 |
| Transportation | -79.1 | -82.2 | -124.8 | -134.3 | -137.2 | -129.3 | -117.3 | -118.8 | -112.8 |
| Travel | 281.7 | 294.2 | 311.5 | 376.2 | 438.8 | 526.3 | 621.2 | 724.3 | 846.5 |
| Other services | -131.3 | -18.0 | 33.6 | -98.4 | -168.7 | -249.8 | -342.0 | -491.9 | -666.8 |
| Income (net) | -135.7 | -506.8 | -523.4 | -627.3 | -739.3 | -850.3 | -1,030.4 | -1,163.6 | -1,292.2 |
| Compensation of employees | -4.0 | -19.0 | -32.1 | -18.4 | -23.2 | -24.6 | -22.0 | -23.2 | -23.3 |
| Investment income | -131.7 | -487.8 | -491.2 | -608.9 | -716.1 | -825.7 | -1,008.4 | -1,140.3 | -1,268.9 |
| Current transfers | 1,258.2 | 1,232.3 | 1,322.7 | 1,794.7 | 1,695.5 | 1,633.9 | 1,614.9 | 1,673.0 | 1,748.6 |
| Of which: SACU receipts 1/ | 1,015.0 | 937.0 | 915.2 | 1,479.4 | 1,356.1 | 1,279.8 | 1,278.7 | 1,329.7 | 1,404.1 |
| Capital and financial account | -36.3 | -252.9 | 275.2 | 134.9 | 234.0 | 265.8 | 138.9 | 42.0 | -272.0 |
| Capital account | 66.3 | 110.5 | 186.5 | 127.1 | 141.4 | 151.7 | 140.1 | 144.4 | 145.4 |
| Financial account | -102.5 | -363.3 | 88.7 | 7.7 | 92.6 | 114.1 | -1.2 | -102.4 | -417.4 |
| Direct investment | 559.4 | 703.3 | 1,048.0 | 1,236.5 | 1,356.7 | 1,466.6 | 1,586.8 | 1,711.5 | 1,843.7 |
| Portfolio investment | -590.7 | -712.6 | -235.3 | -886.1 | -926.0 | -918.2 | -1,021.8 | -1,217.7 | -1,450.6 |
| Other investment | -71.2 | -354.1 | -724.0 | -342.7 | -338.1 | -434.3 | -566.3 | -596.1 | -810.5 |
| Reserve assets (increase -) 2/ | -525.9 | 535.8 | -238.5 | -66.6 | 88.2 | -41.3 | -147.4 | -125.3 | -65.0 |
| Errors and omissions | 593.3 | -313.2 | 181.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | (Percent of GDP) | | | | | |
| Trade Balance | -13.8 | -8.0 | -9.8 | -11.2 | -11.0 | -8.5 | -5.2 | -3.6 | -1.2 |
| Current account/GDP | | | | | | | | | |
| Including transfers | -0.4 | 0.3 | -1.7 | -0.6 | -2.5 | -1.7 | 0.1 | 0.6 | 2.1 |
| Excluding transfers | -14.4 | -10.7 | -12.0 | -15.0 | -15.6 | -13.6 | -11.1 | -10.4 | -8.7 |
| Nonmineral, non-SACU current account/GDP | -26.1 | -24.1 | -23.2 | -27.9 | -28.7 | -27.0 | -25.9 | -26.3 | -25.8 |
| Exports of goods and nonfactor services (GNFS) | 3,760.1 | 4,902.3 | 5,308.9 | 5,425.0 | 5,907.1 | 6,256.0 | 7,014.7 | 7,578.3 | 8,361.0 |
| Exports/GDP (percent) | 42.4 | 44.3 | 41.9 | 44.1 | 45.9 | 46.1 | 49.0 | 50.2 | 52.4 |
| Imports of GNFS | 4,913.8 | 5,597.5 | 6,326.1 | 6,660.7 | 7,185.5 | 7,264.1 | 7,590.8 | 8,004.5 | 8,480.4 |
| Imports/GDP (percent) | 55.5 | 50.6 | 49.9 | 54.2 | 55.8 | 53.6 | 53.0 | 53.0 | 53.2 |
| Gross International reserves (end of period) 2/ | 1,919 | 1,380 | 1,811 | 1,878 | 1,790 | 1,831 | 1,978 | 2,104 | 2,169 |
| Months of imports of goods and services | 4.1 | 2.6 | 3.3 | 3.1 | 3.0 | 2.9 | 3.0 | 3.0 | 3.1 |
| Ratio of reserves/short-term debt | 4.6 | 2.1 | 4.2 | 4.1 | 3.7 | 3.6 | 4.2 | 4.4 | 4.4 |
| Short-term debt (US$ millions) | 417.5 | 653.5 | 426.9 | 460.9 | 489.7 | 507.8 | 471.3 | 482.4 | 487.8 |
| External debt/GDP (percent) | 28.3 | 31.4 | 33.5 | 35.5 | 34.4 | 33.1 | 31.4 | 29.7 | 27.6 |
| External debt (US$ millions) from IIP 3/ | 2,505.8 | 3,473.4 | 4,248.0 | 4,363.5 | 4,423.6 | 4,487.5 | 4,499.4 | 4,481.5 | 4,409.2 |
| Exchange rate (N$/US$, end of period) | 7.4 | 7.1 | 8.1 | ... | ... | ... | ... | ... | ... |
| Exchange rate (N$/US$, period average) | 8.5 | 7.3 | 7.2 | ... | ... | ... | ... | ... | ... |
| GDP at market prices (US$ Millions) | 8,859.3 | 11,068.9 | 12,679.9 | 12,299.0 | 12,868.2 | 13,559.7 | 14,310.8 | 15,096.5 | 15,948.6 |

Sources: Country authorities and Fund staff estimates and projections.
1/ Southern African Customs Union.
2/ Includes SDR allocations in 2009.
3/ International investment position.

## Table 5a. Namibia: Central Government Operations Under Baseline Scenario, 2009/10–2017/18

| | | | Est. | MTEF 2012/13-2014/15 | | | Projections | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| | (Millions of Namibian dollars) | | | | | | | | |
| Total revenue and grants | 24,017 | 23,378 | 29,917 | 36,454 | 35,237 | 39,655 | 42,606 | 46,494 | 50,683 |
| Revenue | 23,816 | 23,354 | 29,739 | 36,429 | 35,211 | 39,629 | 42,577 | 46,463 | 50,649 |
| Tax revenue | 22,138 | 21,393 | 27,025 | 34,065 | 33,485 | 37,793 | 40,634 | 44,343 | 48,337 |
| Personal income tax | 5,084 | 5,945 | 7,326 | 7,740 | 7,684 | 8,751 | 9,566 | 10,433 | 11,378 |
| Corporate income tax | 2,852 | 3,585 | 3,916 | 4,101 | 4,889 | 6,139 | 6,711 | 7,118 | 7,601 |
| Diamond mining | 511 | 354 | 841 | 685 | 592 | 607 | 664 | 600 | 654 |
| Other mining | 61 | 213 | 10 | 11 | 646 | 760 | 830 | 936 | 1,021 |
| Nonmining | 2,279 | 3,018 | 3,065 | 3,404 | 3,651 | 4,772 | 5,217 | 5,583 | 5,926 |
| VAT and sales taxes | 4,976 | 5,057 | 7,794 | 7,442 | 8,404 | 9,610 | 10,573 | 11,767 | 12,977 |
| Taxes on international trade (includes SACU receipts) | 8,585 | 5,976 | 7,137 | 13,796 | 11,036 | 11,662 | 12,001 | 13,081 | 14,258 |
| Other taxes | 641 | 830 | 852 | 986 | 1,471 | 1,632 | 1,784 | 1,945 | 2,122 |
| Nontax revenue | 1,678 | 1,961 | 2,714 | 2,365 | 1,726 | 1,836 | 1,943 | 2,119 | 2,311 |
| Diamond and other mineral royalties | 492 | 882 | 937 | 890 | 805 | 850 | 793 | 865 | 943 |
| Administrative fees, including license revenues | 433 | 545 | 512 | 621 | 498 | 508 | 556 | 606 | 661 |
| Other | 753 | 534 | 1,265 | 853 | 424 | 478 | 595 | 649 | 708 |
| Grants | 201 | 24 | 179 | 25 | 26 | 26 | 29 | 32 | 34 |
| Expenditures and net lending | 25,712 | 28,142 | 37,961 | 40,439 | 41,310 | 40,505 | 42,724 | 45,890 | 49,934 |
| Current expenditures | 19,708 | 22,153 | 27,922 | 32,146 | 32,967 | 32,497 | 34,651 | 36,914 | 39,820 |
| Personnel | 9,045 | 10,797 | 12,690 | 14,347 | 14,735 | 15,457 | 16,351 | 17,535 | 19,124 |
| Goods and services | 4,271 | 4,105 | 5,467 | 6,143 | 6,091 | 5,992 | 6,414 | 6,697 | 7,304 |
| Interest payments | 1,197 | 966 | 1,131 | 2,196 | 2,483 | 3,586 | 3,730 | 3,786 | 3,689 |
| Domestic | 1,033 | 881 | 1,119 | 1,812 | 2,037 | 3,117 | 3,238 | 3,295 | 3,192 |
| Foreign | 164 | 85 | 163 | 384 | 446 | 469 | 492 | 491 | 498 |
| Subsides and transfers | 4,965 | 6,285 | 8,375 | 9,260 | 9,458 | 7,262 | 7,938 | 8,658 | 9,442 |
| Capital expenditure | 5,334 | 5,989 | 8,795 | 7,720 | 8,363 | 8,025 | 8,091 | 8,996 | 10,136 |
| Acquisition of capital assets | 3,632 | 3,335 | 4,111 | 4,837 | 5,327 | 5,348 | 5,573 | 6,143 | 7,025 |
| Project Financed (extrabudgetary) | 802 | 1,259 | 1,354 | 302 | 302 | 332 | 226 | 409 | 446 |
| Capital transfers | 900 | 1,395 | 3,330 | 2,581 | 2,735 | 2,346 | 2,291 | 2,444 | 2,666 |
| Net lending | 670 | 0 | 1,243 | 574 | -20 | -17 | -19 | -20 | -22 |
| Overall balance 1/ | -1,695 | -4,764 | -8,044 | -3,985 | -6,073 | -850 | -118 | 604 | 749 |
| Overall balance excluding grants | -1,895 | -4,788 | -8,222 | -4,010 | -6,099 | -876 | -146 | 573 | 715 |
| Overall balance excluding cyclical component of SACU revenu | -2,323 | -2,063 | -9,379 | -8,641 | -6,161 | -816 | 169 | 31 | 21 |
| Primary balance | -497 | -3,798 | -6,912 | -1,789 | -3,590 | 2,736 | 3,612 | 4,390 | 4,439 |
| Financing | 1,695 | 4,764 | 8,044 | 3,985 | 6,073 | 850 | 118 | -604 | -749 |
| Domestic financing (net) | 967 | 3,678 | 3,233 | 3,890 | 5,988 | 746 | 141 | -741 | -898 |
| Monetary Sector | 1,439 | 3,479 | 503 | 4,020 | 3,201 | 2,496 | 2,723 | 3,950 | 4,920 |
| Central bank | 2,098 | 2,693 | -2,782 | 2,600 | 621 | -211 | -312 | 76 | 442 |
| Commercial banks | -659 | 786 | 3,285 | 1,420 | 2,580 | 2,707 | 3,035 | 3,874 | 4,478 |
| Non-Monetary Sector | -472 | 200 | 2,730 | -130 | 2,787 | -1,750 | -2,582 | -4,692 | -5,818 |
| External financing (net) | 728 | 1,086 | 4,810 | 95 | 85 | 104 | -23 | 137 | 149 |
| Disbursements | 802 | 1,259 | 5,004 | 302 | 302 | 332 | 226 | 409 | 446 |
| Amortization | -74 | -174 | -194 | -207 | -217 | -228 | -250 | -272 | -297 |
| Memorandum item: | | | | | | | | | |
| Public and publicly guaranteed debt | 14,557 | 15,500 | 26,495 | 31,765 | 36,271 | 37,902 | 38,553 | 38,107 | 37,173 |
| Public debt | 11,922 | 13,487 | 24,722 | 29,800 | 34,106 | 35,532 | 35,962 | 35,281 | 34,090 |
| Domestic 2/ | 8,876 | 10,233 | 17,240 | 20,874 | 24,734 | 25,691 | 26,144 | 25,327 | 23,987 |
| External | 3,046 | 3,254 | 7,482 | 8,926 | 9,372 | 9,841 | 9,818 | 9,954 | 10,103 |
| Publicly guaranteed debt | 2,635 | 2,013 | 1,774 | 1,966 | 2,165 | 2,370 | 2,591 | 2,826 | 3,082 |
| GDP at current market prices (N$ millions) | 76,587 | 83,562 | 93,344 | 103,457 | 113,928 | 124,763 | 136,384 | 148,739 | 162,219 |
| Government deposits | 5,135 | 2,443 | 5,225 | 2,625 | 2,004 | 2,215 | 2,528 | 2,451 | 2,010 |
| Net public and publicly guaranteed debt | 9,422 | 13,057 | 21,271 | 29,141 | 34,267 | 35,687 | 36,026 | 35,656 | 35,163 |

Sources: Country authorities and Fund staff estimates and projections.

1/ "Overall balance" includes externally financed project spending (except for roads) that is not channeled through the state account.
2/ The change in domestic debt includes bonds issued for local capital market development.

## Table 5b. Namibia: Central Government Operations Under Baseline Scenario, 2009/10–2017/18

| | | | | MTEF 2012/13-2014/15 | | | Projections | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| | (Percent of GDP; unless otherwise indicated) | | | | | | | | |
| Total revenue and grants | 31.4 | 28.0 | 32.1 | 35.2 | 30.9 | 31.8 | 31.2 | 31.3 | 31.2 |
| Revenue | 31.1 | 27.9 | 31.9 | 35.2 | 30.9 | 31.8 | 31.2 | 31.2 | 31.2 |
| Tax revenue | 28.9 | 25.6 | 29.0 | 32.9 | 29.4 | 30.3 | 29.8 | 29.8 | 29.8 |
| Personal income tax | 6.6 | 7.1 | 7.8 | 7.5 | 6.7 | 7.0 | 7.0 | 7.0 | 7.0 |
| Corporate income tax | 3.7 | 4.3 | 4.2 | 4.0 | 4.3 | 4.9 | 4.9 | 4.8 | 4.7 |
| Diamond mining | 0.7 | 0.4 | 0.9 | 0.7 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Other mining | 0.1 | 0.3 | 0.0 | 0.0 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Nonmining | 3.0 | 3.6 | 3.3 | 3.3 | 3.2 | 3.8 | 3.8 | 3.8 | 3.7 |
| VAT and sales taxes | 6.5 | 6.1 | 8.3 | 7.2 | 7.4 | 7.7 | 7.8 | 7.9 | 8.0 |
| Taxes on international trade (includes SACU receipts) | 11.2 | 7.2 | 7.6 | 13.3 | 9.7 | 9.3 | 8.8 | 8.8 | 8.8 |
| Other taxes | 0.8 | 1.0 | 0.9 | 1.0 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Nontax revenue | 2.2 | 2.3 | 2.9 | 2.3 | 1.5 | 1.5 | 1.4 | 1.4 | 1.4 |
| Diamond and other mineral royalties | 0.6 | 1.1 | 1.0 | 0.9 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Administrative fees, including license revenues | 0.6 | 0.7 | 0.5 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 0.3 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditures and net lending | 33.6 | 33.7 | 40.7 | 39.1 | 36.3 | 32.5 | 31.3 | 30.9 | 30.8 |
| Current expenditures | 25.7 | 26.5 | 29.9 | 31.1 | 28.9 | 26.0 | 25.4 | 24.8 | 24.5 |
| Personnel | 11.8 | 12.9 | 13.6 | 13.9 | 12.9 | 12.4 | 12.0 | 11.8 | 11.8 |
| Goods and services | 5.6 | 4.9 | 5.9 | 5.9 | 5.3 | 4.8 | 4.7 | 4.5 | 4.5 |
| Interest payments | 1.6 | 1.2 | 1.2 | 2.1 | 2.2 | 2.9 | 2.7 | 2.5 | 2.3 |
| Domestic | 1.3 | 1.1 | 1.2 | 1.8 | 1.8 | 2.5 | 2.4 | 2.2 | 2.0 |
| Foreign | 0.2 | 0.1 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| Subsides and transfers | 6.5 | 7.5 | 9.0 | 9.0 | 8.3 | 5.8 | 5.8 | 5.8 | 5.8 |
| Capital expenditure | 7.0 | 7.2 | 9.4 | 7.5 | 7.3 | 6.4 | 5.9 | 6.0 | 6.2 |
| Acquisition of capital assets | 4.7 | 4.0 | 4.4 | 4.7 | 4.7 | 4.3 | 4.1 | 4.1 | 4.3 |
| Project Financed (extrabudgetary) | 1.0 | 1.5 | 1.5 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 |
| Capital transfers | 1.2 | 1.7 | 3.6 | 2.5 | 2.4 | 1.9 | 1.7 | 1.6 | 1.6 |
| Net lending | 0.9 | 0.0 | 1.3 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance 1/ | -2.2 | -5.7 | -8.6 | -3.9 | -5.3 | -0.7 | -0.1 | 0.4 | 0.5 |
| Overall balance excluding grants | -2.5 | -5.7 | -8.8 | -3.9 | -5.4 | -0.7 | -0.1 | 0.4 | 0.4 |
| Overall balance excluding cyclical component of SACU revenue | -3.0 | -2.5 | -6.2 | -7.3 | -5.4 | -0.7 | 0.2 | 0.4 | 0.5 |
| Primary balance | -0.6 | -4.5 | -7.4 | -1.7 | -3.2 | 2.2 | 2.6 | 3.0 | 2.7 |
| Financing | 2.2 | 5.7 | 8.6 | 3.9 | 5.3 | 0.7 | 0.1 | -0.4 | -0.5 |
| Domestic financing (net) | 1.3 | 4.4 | 3.5 | 3.8 | 5.3 | 0.6 | 0.1 | -0.5 | -0.6 |
| Monetary sector | 1.9 | 4.2 | 0.5 | 3.9 | 2.8 | 2.0 | 2.0 | 2.7 | 3.0 |
| Central Bank | 2.7 | 3.2 | -3.0 | 2.5 | 0.5 | -0.2 | -0.2 | 0.1 | 0.3 |
| Commercial Banks | -0.9 | 0.9 | 3.5 | 1.4 | 2.3 | 2.2 | 2.2 | 2.6 | 2.8 |
| Non-Monetary Sector | -0.6 | 0.2 | 2.9 | -0.1 | 2.4 | -1.4 | -1.9 | -3.2 | -3.6 |
| External financing (net) | 1.0 | 1.3 | 5.2 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| Disbursements | 1.0 | 1.5 | 5.4 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 |
| Amortization | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 |
| Memorandum item: | | | | | | | | | |
| Public and publicly guaranteed debt | 19.0 | 18.5 | 28.4 | 30.7 | 31.8 | 30.4 | 28.3 | 25.6 | 22.9 |
| Public debt | 15.6 | 16.1 | 26.5 | 28.8 | 29.9 | 28.5 | 26.4 | 23.7 | 21.0 |
| Domestic 2/ | 11.6 | 12.2 | 18.5 | 20.2 | 21.7 | 20.6 | 19.2 | 17.0 | 14.8 |
| External | 4.0 | 3.9 | 8.0 | 8.6 | 8.2 | 7.9 | 7.2 | 6.7 | 6.2 |
| Publicly guaranteed debt | 3.4 | 2.4 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| GDP at current market prices (N$ millions) | 76,587.3 | 83,562.3 | 93,343.7 | 103,457.0 | 113,928.1 | 124,763.0 | 136,383.6 | 148,739.0 | 162,218.6 |
| Government deposits | 6.7 | 2.9 | 5.6 | 2.5 | 1.8 | 1.8 | 1.9 | 1.6 | 1.2 |
| Net public and publicly guaranteed debt | 12.3 | 15.6 | 22.8 | 28.2 | 30.1 | 28.6 | 26.4 | 24.0 | 21.7 |
| Nominal GDP (in millions of local currency) | 76,587 | 83,562 | 93,344 | 103,457 | 113,928 | 124,763 | 136,384 | 148,739 | 162,219 |

Sources: Country authorities and Fund staff estimates and projections.

1/ "Overall balance" includes externally financed project spending (except for roads) that is not channeled through the state account.
2/ The change in domestic debt includes bonds issued for local capital market development.

## Table 5c. Namibia: Central Government Operations, 2008/09–2017/18 (GFSM 2001 Classification)

| | | | | Est. | MTEF 2012/13-2014/15 | | | Projections | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008/09 | 2009/10 | 2010/11 | 2011/2012 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
| | (In millions of Namibian dollars) | | | | | | | | | |
| Revenue | 23,446.8 | 24,017.1 | 23,377.9 | 29,917.3 | 36,429.4 | 35,236.9 | 39,655.1 | 42,606.2 | 46,494.2 | 50,683.0 |
| Taxes | 21,086.5 | 22,138.2 | 21,393.5 | 27,024.7 | 34,064.8 | 33,484.7 | 37,792.9 | 40,634.2 | 44,343.5 | 48,337.3 |
| Taxes on income, profits, and capital gains | 8,069.7 | 8,136.6 | 9,912.2 | 11,597.2 | 12,274.1 | 13,282.9 | 15,687.2 | 17,148.3 | 18,501.3 | 20,015.8 |
| Individuals | 4,606.4 | 5,084.1 | 5,945.5 | 7,326.3 | 7,740.5 | 7,684.2 | 8,750.8 | 9,565.9 | 10,432.5 | 11,378.0 |
| Corporations and other enterprises | 3,269.0 | 2,851.7 | 3,585.5 | 3,916.1 | 4,101.0 | 4,889.4 | 6,139.0 | 6,710.8 | 7,118.2 | 7,601.0 |
| Payable in the mineral economy | 1,229.7 | 572.4 | 567.2 | 850.9 | 696.6 | 1,238.5 | 1,366.9 | 1,494.2 | 1,535.5 | 1,674.7 |
| Payable in the non-mineral economy | 2,039.3 | 2,279.3 | 3,018.3 | 3,065.2 | 3,404.4 | 3,650.9 | 4,772.1 | 5,216.6 | 5,582.7 | 5,926.4 |
| Other income/profits taxes | 194.3 | 200.8 | 381.3 | 354.8 | 432.6 | 709.3 | 797.4 | 871.7 | 950.6 | 1,036.8 |
| Taxes on property | 171.1 | 191.9 | 138.5 | 193.5 | 193.0 | 307.2 | 333.9 | 365.0 | 398.0 | 434.1 |
| Taxes on goods and services | 4,343.6 | 5,224.5 | 5,366.8 | 8,097.0 | 7,801.9 | 8,858.2 | 10,110.2 | 11,120.0 | 12,363.2 | 13,629.3 |
| VAT, sales and environmental taxes | 4,095.9 | 4,976.2 | 5,056.8 | 7,793.5 | 7,441.8 | 8,404.2 | 9,609.7 | 10,572.9 | 11,766.5 | 12,977.5 |
| Excises | 105.5 | 81.7 | 101.6 | 92.7 | 114.3 | 136.1 | 150.9 | 164.9 | 179.9 | 197.2 |
| Excise portion of SACU receipts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Fuel levy | 105.5 | 81.7 | 101.6 | 92.7 | 114.3 | 136.1 | 150.9 | 164.9 | 179.9 | 196.2 |
| Stamp duties | 142.2 | 166.7 | 208.4 | 210.8 | 245.8 | 318.0 | 349.6 | 382.2 | 416.8 | 454.6 |
| Taxes on international trade | 8,502.1 | 8,585.2 | 5,975.9 | 7,137.0 | 13,795.8 | 11,036.4 | 11,661.6 | 12,000.8 | 13,080.9 | 14,258.2 |
| Customs (part of SACU receipts) | 8,502.1 | 8,585.2 | 5,975.9 | 7,137.0 | 11,339.3 | 11,036.4 | 11,661.6 | 12,000.8 | 13,080.9 | 14,258.2 |
| Other trade taxes | 0.0 | 0.0 | 0.0 | 0.0 | 2,456.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grants | 82.9 | 200.8 | 23.5 | 178.7 | 0.0 | 25.7 | 26.5 | 28.9 | 31.6 | 34.4 |
| Current | 82.9 | 200.8 | 23.5 | 178.7 | 0.0 | 25.7 | 26.5 | … | … | … |
| Capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | … | … | … | … |
| Other revenue | 2,277.5 | 1,678.1 | 1,960.9 | 2,713.9 | 2,364.6 | 1,726.5 | 1,835.8 | 1,943.2 | 2,119.2 | 2,311.2 |
| Property income | 1,738.5 | 1,209.8 | 1,372.9 | 2,143.0 | 1,684.2 | 1,148.1 | 1,204.6 | 1,253.2 | 1,366.7 | 1,490.6 |
| Diamond and other mineral royalties | 544.6 | 491.8 | 882.0 | 937.1 | 890.4 | 805.0 | 850.0 | 792.8 | 864.6 | 943.0 |
| Fishing quota levies | 137.7 | 92.8 | 133.1 | 123.2 | 150.6 | 90.0 | 99.0 | 181.0 | 197.4 | 215.3 |
| Interest on loans, investments, and deposits at BoN | 882.9 | 200.6 | 61.4 | 32.1 | 55.8 | 79.8 | 73.3 | 80.1 | 87.4 | 95.3 |
| Dividends from parastatals | 173.4 | 424.7 | 296.5 | 1,050.6 | 587.3 | 173.3 | 182.3 | 199.3 | 217.3 | 237.0 |
| Compensation for use of the Rand | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Administrative fees, including license revenues | 502.9 | 433.1 | 545.0 | 512.0 | 621.1 | 497.6 | 508.2 | 555.5 | 605.8 | 660.7 |
| Fines and forfeitures | 36.1 | 35.1 | 43.0 | 58.9 | 59.2 | 80.8 | 123.0 | 134.5 | 146.6 | 159.9 |
| Expense | 17,623.3 | 20,607.7 | 23,548.2 | 31,252.1 | 34,726.5 | 35,701.4 | 34,842.1 | 36,942.8 | 39,357.8 | 42,485.4 |
| Compensation of employees | 7,559.3 | 9,045.0 | 10,796.6 | 12,689.7 | 14,346.6 | 14,735.1 | 15,456.8 | 16,350.9 | 17,534.7 | 19,123.8 |
| Purchases of goods and services | 3,683.4 | 4,271.0 | 4,105.0 | 5,467.3 | 6,142.5 | 6,090.6 | 5,992.2 | 6,413.9 | 6,697.5 | 7,304.5 |
| Interest | 1,110.6 | 1,197.5 | 966.5 | 1,131.4 | 2,196.3 | 2,482.8 | 3,585.5 | 3,729.6 | 3,785.6 | 3,689.4 |
| Other | 0.0 | 229.6 | 0.0 | 259.5 | 200.0 | 200.0 | 200.0 | 218.6 | 238.4 | 260.0 |
| Grants and subsidies | 5,270.0 | 5,864.7 | 7,680.1 | 11,704.2 | 11,841.0 | 12,192.8 | 9,607.6 | 10,229.7 | 11,101.6 | 12,107.7 |
| Gross Operating Balance | 5,823.5 | 3,409.3 | -170.2 | -1,334.8 | 1,702.9 | -464.5 | 4,812.9 | 5,663.5 | 7,136.4 | 8,197.6 |
| Net acquisition of nonfinancial assets 1/ | 3,155.8 | 4,433.9 | 4,594.0 | 5,465.5 | 5,139.2 | 5,628.7 | 5,679.9 | 5,799.7 | 6,552.4 | 7,470.7 |
| Net lending/borrowing | 2,667.7 | -1,024.5 | -4,764.2 | -6,800.3 | -3,436.2 | -6,093.2 | -866.9 | -136.3 | 584.0 | 726.9 |
| Transactions in financial assets and liabilities | 2,667.7 | -1,024.5 | -4,764.2 | -3,150.3 | -4,611.3 | -6,093.2 | -866.9 | -136.3 | 584.0 | 727.9 |
| Net acquisition of financial assets | 3,510.7 | -1,428.1 | -2,692.5 | 4,025.2 | -2,026.3 | -640.8 | 194.0 | 293.8 | -96.6 | -463.1 |
| Domestic | 3,510.7 | -1,428.1 | -2,692.5 | 4,025.2 | -2,026.3 | -640.8 | 194.0 | 293.8 | -96.6 | -464.1 |
| Currency and deposits | 2,391.6 | -2,098.1 | -2,692.5 | 2,781.8 | -2,600.0 | -620.7 | 211.2 | 312.5 | -76.2 | -441.8 |
| Loans (net lending) | 1,119.0 | 670.1 | 0.0 | 1,243.4 | 573.7 | -20.1 | -17.1 | -18.7 | -20.4 | -22.3 |
| Foreign | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Net incurrence of liabilities | 842.9 | -403.5 | 2,071.7 | 7,175.5 | 2,585.0 | 5,452.3 | 1,060.9 | 430.0 | -680.6 | -1,191.0 |
| Domestic | 767.3 | -1,131.2 | 986.0 | 6,015.0 | 1,290.0 | 5,367.7 | 957.4 | 453.2 | -817.3 | -1,340.2 |
| Loans | 767.3 | -1,131.2 | 986.0 | 6,015.0 | 1,290.0 | 5,367.7 | 957.4 | 453.2 | -817.3 | -1,340.2 |
| Commercial Banks | -100.7 | -658.9 | 786.0 | 3,285.3 | 1,419.6 | 2,580.4 | 2,707.3 | 3,035.3 | 3,874.2 | 4,477.8 |
| NonBanks | 868.0 | -472.3 | 199.9 | 2,729.7 | -129.6 | 2,787.3 | -1,749.9 | -2,582.1 | -4,691.6 | -5,818.0 |
| Amortization | | | | | | | | | | |
| Other | | | | | | | | | | |
| Foreign | 75.6 | 727.7 | 1,085.7 | 1,160.5 | 1,295.0 | 84.6 | 103.6 | -23.2 | 136.8 | 149.1 |
| Loans | 225.7 | 802.1 | 1,259.4 | 1,354.3 | 1,502.1 | 302.1 | 331.9 | 226.4 | 409.0 | 446.0 |
| Amortization due (paid) | -150.0 | -74.4 | -173.7 | -193.8 | -207.1 | -217.5 | -228.3 | -249.6 | -272.2 | -296.9 |
| Other | | | | | | | | | | |
| **Memo items:** | | | | | | | | | | |
| Overall balance | 1,548.7 | -1,694.6 | -4,764.2 | -4,393.6 | -5,185.0 | -6,073.0 | -849.8 | -117.5 | 604.4 | 750.2 |
| Overall balance excluding extra budgetary | 1,774.4 | -892.5 | -3,504.8 | -3,039.3 | -4,882.9 | -5,770.9 | -517.9 | 108.9 | 1,013.4 | 1,196.2 |
| Primary Balance | 2,659.3 | -497.1 | -3,797.7 | -3,262.3 | -2,988.7 | -3,590.2 | 2,735.8 | 3,612.1 | 4,390.0 | 4,439.6 |
| Non-SACU balance | -6,727.8 | -9,477.7 | -9,480.7 | -10,176.3 | -16,222.3 | -16,807.3 | -12,179.5 | -11,891.9 | -12,067.5 | -13,063.0 |

1/includes extra budgetary projects financed by foreign loans.

## Table 5d. Namibia: Central Government Partial Balance Sheet, 2005–11

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| **Net Worth** | **...** | **...** | **...** | **...** | **...** | **...** | **...** |
| | | | | | | | |
| **Nonfinancial assets** | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** |
| | | | | | | | |
| **Net Financial Worth** | 595562.4 | 2079942.3 | 4582787.6 | 6651346.2 | 6954259.0 | 3467906.4 | 5927012.2 |
| **Financial assets** | **608101.9** | **2093304.1** | **4595140.9** | **6664369.2** | **6966547.7** | **3481002.0** | **5948925.2** |
| *Domestic* | | | | | | | |
| Currency and deposits w/BoB | 608101.9 | 2093304.1 | 4595140.9 | 6664369.2 | 6966547.7 | 3481002.0 | 5948925.2 |
| Shares and other equity[1] | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** |
| *Foreign* | | | | | | | |
| Equity and investment fund shares | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** | **n.a.** |
| | | | | | | | |
| **Financial liabilities** | **12539.6** | **13361.8** | **12353.3** | **13023.0** | **12288.8** | **13095.7** | **21913.0** |
| *Domestic* | | | | | | | |
| Securities other than shares[2] | 10653.1 | 10868.3 | 9318.5 | 9511.6 | 9095.7 | 9893.8 | 15488.3 |
| *Foreign* | | | | | | | |
| Debt securities | 1886.5 | 2493.5 | 3034.8 | 3511.4 | 3193.1 | 3201.9 | 6424.792 |

Source: Namibian authorities and Fund staff estimates.

[1] Information is not available on existing government investments.

[2] Using market value of the government debt.

## Table 6. Namibia: Monetary Developments, 2009–17

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| | (In millions of Namibian dollars, end of period; unless otherwise indicated) | | | | | | | | |
| **Bank of Namibia** | | | | | | | | | |
| Reserve money | 2,556 | 3,244 | 5,509 | 7,504 | 8,257 | 9,046 | 9,897 | 10,793 | 11,771 |
| Currency | 1,705 | 1,909 | 2,398 | 4,417 | 4,861 | 5,325 | 5,826 | 6,354 | 5,124 |
| Reserves | 851 | 1,334 | 3,111 | 3,087 | 3,397 | 3,721 | 4,071 | 4,440 | 6,647 |
| Net foreign assets | 14,079 | 9,098 | 13,114 | 12,518 | 12,456 | 12,823 | 14,130 | 15,241 | 15,817 |
| Net domestic assets | -11,523 | -5,854 | -7,605 | -5,015 | -4,199 | -3,777 | -4,233 | -4,447 | -4,046 |
| Domestic credit | -6,970 | -3,483 | -5,949 | -2,844 | -1,965 | -2,119 | -2,501 | -2,607 | -1,985 |
| Government (net) | -6,967 | -3,481 | -5,949 | -2,844 | -1,965 | -2,120 | -2,501 | -2,607 | -1,985 |
| Banks | -1,466 | -1,599 | 42 | -14 | 287 | 315 | 344 | 375 | 0 |
| Other items (net) 1/ | 6,958 | 3,477 | 5,941 | 2,839 | 1,961 | 2,116 | 2,497 | 2,602 | 1,981 |
| **Monetary survey** | | | | | | | | | |
| Broad money (M2) | 49,568 | 54,429 | 56,776 | 63,032 | 69,545 | 76,185 | 83,352 | 90,903 | 99,138 |
| Currency | 1,157 | 1,292 | 1,698 | 4,209 | 4,627 | 5,062 | 5,532 | 6,026 | 4,796 |
| Deposits | 48,432 | 51,903 | 55,078 | 58,824 | 64,918 | 71,123 | 77,820 | 84,878 | 94,342 |
| Net foreign assets | 16,933 | 20,598 | 23,710 | 23,501 | 23,998 | 24,364 | 25,671 | 26,782 | 27,359 |
| Net domestic assets | 14,035 | 33,832 | 36,126 | 39,531 | 45,547 | 51,821 | 57,681 | 64,121 | 71,779 |
| Domestic credit | 23,962 | 32,603 | 34,330 | 41,873 | 49,320 | 55,912 | 62,810 | 70,904 | 82,572 |
| Claims on central government (net) | -5,846 | -1,839 | -649 | 3,040 | 6,474 | 8,975 | 11,458 | 14,900 | 20,375 |
| Claims on private sector | 36,578 | 40,663 | 44,441 | 49,339 | 54,437 | 59,634 | 65,244 | 71,155 | 79,024 |
| Others 2/ | -6,770 | -6,221 | -9,463 | -10,505 | -11,591 | -12,697 | -13,892 | -15,150 | -16,826 |
| Other items (net) | -9,927 | 1,229 | 1,796 | -2,342 | -3,773 | -4,091 | -5,129 | -6,783 | -10,793 |
| Base money | 2,556 | 3,244 | 5,509 | 7,504 | 8,257 | 9,046 | 9,897 | 11,793 | 13,771 |
| Currency outside banks | 1,705 | 1,909 | 2,398 | 4,417 | 4,861 | 5,325 | 5,826 | 6,354 | 5,124 |
| Commercial bank deposits | 851 | 1,334 | 3,111 | 3,087 | 3,397 | 3,721 | 4,071 | 5,440 | 8,647 |
| Memorandum items: | | | | | | | | | |
| Base money (annual % change) | 20.3 | 26.9 | 69.8 | 36.2 | 10.0 | 9.5 | 9.4 | 19.2 | 16.8 |
| Credit to the private sector (annual % change) | 10.0 | 11.2 | 9.3 | 11.0 | 10.3 | 9.5 | 9.4 | 9.1 | 11.1 |
| M2-to-GDP ratio (in percent) | 66.0 | 67.1 | 62.5 | 62.5 | 62.5 | 62.5 | 62.5 | 62.5 | 62.5 |
| Base money multiplier (M2/base money) | 19.4 | 16.8 | 10.3 | 8.4 | 8.4 | 8.4 | 8.4 | 7.7 | 7.2 |
| Credit to the private sector (in percent of GDP) | 48.7 | 50.1 | 48.9 | 48.9 | 48.9 | 48.9 | 48.9 | 48.9 | 49.8 |
| **Contribution to change in broad money** | | | | | | | | | |
| Broad money | 3.6 | 9.8 | 4.3 | 11.0 | 10.3 | 9.5 | 9.4 | 9.1 | 9.1 |
| Currency | 0.0 | 0.3 | 0.7 | 4.4 | 0.7 | 0.6 | 0.6 | 0.6 | -1.4 |
| Deposits | 3.6 | 7.0 | 5.8 | 6.6 | 9.7 | 8.9 | 8.8 | 8.5 | 10.4 |
| Net foreign assets | 7.0 | 7.4 | 5.7 | -0.4 | 0.8 | 0.5 | 1.7 | 1.3 | 0.6 |
| Net domestic assets | -3.4 | 39.9 | 4.2 | 6.0 | 9.5 | 9.0 | 7.7 | 7.7 | 8.4 |
| Domestic credit | -3.9 | 17.4 | 3.2 | 13.3 | 11.8 | 9.5 | 9.1 | 9.7 | 12.8 |
| Government (net) | -2.5 | 8.1 | 2.2 | 6.5 | 5.4 | 3.6 | 3.3 | 4.1 | 6.0 |
| Private sector | 6.9 | 8.2 | 6.9 | 8.6 | 8.1 | 7.5 | 7.4 | 7.1 | 8.7 |
| Others 1/ | -8.3 | 1.1 | -6.0 | -1.8 | -1.7 | -1.6 | -1.6 | -1.5 | -1.8 |
| Other items net | 0.5 | 22.5 | 1.0 | -7.3 | -2.3 | -0.5 | -1.4 | -2.0 | -4.4 |
| **Memorandum items:** | | | | | | | | | |
| Reserve money ( annual % change) | 20.3 | 26.9 | 69.8 | 36.2 | 10.0 | 9.5 | 9.4 | 9.1 | 9.1 |
| Private sector credit ( annual % change) | 10.0 | 11.2 | 9.3 | 11.0 | 10.3 | 9.5 | 9.4 | 9.1 | 11.1 |
| Velocity | 1.5 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Money multiplier | 19.4 | 16.8 | 10.3 | 8.4 | 8.4 | 8.4 | 8.4 | 8.4 | 8.4 |
| Net foreign assets (US$ millions) | 2,294.5 | 2,888.7 | 2,911.7 | 2,784.5 | 2,705.7 | 2,661.5 | 2,701.3 | 2,714.8 | 2,671.4 |
| Bank of Namibia | 1,907.8 | 1,275.9 | 1,610.4 | 1,483.2 | 1,404.4 | 1,400.7 | 1,486.8 | 1,544.9 | 1,544.5 |
| Commercial banks | 386.7 | 1,612.7 | 1,301.3 | 1,301.3 | 1,301.3 | 1,260.8 | 1,214.5 | 1,169.9 | 1,127.0 |
| Domestic interest rates (end of period) | | | | | | | | | |
| Deposit rate | 5.1 | 4.4 | 4.2 | … | … | … | … | … | … |
| Lending rate | 10.8 | 9.1 | 8.8 | … | … | … | … | … | … |
| BoN repo rate | 7.0 | 6.0 | 6.0 | … | … | … | … | … | … |
| Three-month T-bill rate | 7.4 | 5.7 | 5.9 | … | … | … | … | … | … |

Sources: Country authorities and Fund staff estimates and projections.

1/ Including valuation.

2/ Include public enterprises and the local government.

## Table 7. Namibia: Millennium Development Goals, 1990–2010

| | 1990 | 1995 | 2000 | 2009 | 2010 |
|---|---|---|---|---|---|
| Eradicate extreme poverty and hunger 1/ | | | | | |
| Income share held by lowest 20% | … | 1.4 | … | … | … |
| Malnutrition prevalence, weight for age (% of children under 5) | 21.5 | … | 20.3 | 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 | 95.0 |
| Literacy rate, youth male (% of males ages 15–24) | 86.0 | … | 91.0 | 91.0 | 91.0 |
| Persistence to the last grade of primary, total (% of cohort) | 49.0 | 52.0 | 82.0 | … | 83.0 |
| Primary completion rate, total (% of relevant age group) | 74.0 | 69.0 | 91.0 | 81.0 | 84.0 |
| School enrollment, primary (% net) | 79.0 | 86.0 | 90.0 | 91.0 | 86.0 |
| Promote gender equality and empower women 3/ | | | | | |
| Proportion of seats held by women in national parliament (%) | 7.0 | 18.0 | 22.0 | 27.0 | 24.0 |
| Ratio of girls to boys in primary education (%) | 109.0 | 100.0 | 101.0 | 99.0 | 101.0 |
| Ratio of girls to boys in secondary education (%) | 125.0 | 118.0 | 113.0 | 117.0 | … |
| Ratio of young literate females to males (% ages 15–24) | … | … | 84.0 | 132.0 | … |
| Share of women employed in the nonagricultural sector (% of total employment) | … | … | 42.8 | … | … |
| Reduce child mortality 4/ | | | | | |
| Immunization, measles (% of children ages 12–23 months) | 76.0 | 68.0 | 69.0 | 73.0 | 75.0 |
| Mortality rate, infant (per 1,000 live births) | 49.0 | 46.0 | 48.0 | 31.0 | 32.0 |
| Mortality rate, under-5 (per 1,000) | 73.0 | 68.0 | 74.0 | … | 46.0 |
| 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) | 200.0 | 200.0 | 280.0 | 310.0 | 200.0 |
| Combat HIV/AIDS, malaria, and other diseases 6/ | | | | | |
| Incidence of tuberculosis (per 100,000 people) | 696.0 | 862.0 | 1,077.0 | 1,028.0 | 603.0 |
| Prevalence of HIV, female (% ages 15–24) | … | … | … | 10.3 | 5.8 |
| Prevalence of HIV, total (% of population ages 15–49) | 1.6 | 7.1 | 15.3 | 15.2 | 13.1 |
| 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 | 1.0 | 2.0 |
| Forest area (% of land area) | 10.6 | … | 9.8 | 9.3 | 8.9 |
| Improved sanitation facilities (% of population with access) | 24.0 | 26.0 | 28.0 | 30.0 | 32.0 |
| Improved water source (% of population with access) | 64.0 | 73.0 | 81.0 | 88.0 | 93.0 |
| 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 | 67.0 |
| Telephone mainlines (per 100 people) | 3.7 | 4.7 | 5.9 | 7.0 | 7.0 |
| Internet users (per 100 people) | 0.0 | 0.0 | 1.6 | 5.3 | 11.6 |

Source: World Development Indicators database, 2010.

1/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
2/ Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
3/ Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no late than 2015.
4/ Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
5/ Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.
6/ Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.
7/ Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.
8/ Goal 8 targets: Develop further an open, rule-based, predictable, non discriminatory trading and financial system. Address the special seeds of the least developed countries. Address the special needs of landlocked countries and small island developing nations.

## Table 8. Namibia: Financial Sector Indicators, 2005–June 2012

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Jun-12 |
|---|---|---|---|---|---|---|---|---|
| | (In percent; unless otherwise indicated) | | | | | | | |
| **Banking indicators** | | | | | | | | |
| Capital adequacy | | | | | | | | |
| Capital to assets | 7.8 | 7.5 | 7.9 | 8.0 | 7.9 | 8.4 | 7.8 | 7.7 |
| Regulatory capital to risk-weighted assets | 14.6 | 14.2 | 15.7 | 15.5 | 15.0 | 15.3 | 14.0 | 14.5 |
| Regulatory tier I capital to risk-weighted assets | 11.2 | 11.1 | 11.6 | 11.8 | 11.7 | 11.1 | 10.8 | 10.5 |
| Nonperforming loans net of provisions to capital | 3.4 | 2.5 | 7.2 | 10.4 | 8.7 | 3.8 | 0.8 | 0.8 |
| Asset quality | | | | | | | | |
| Large exposure to capital | 182.8 | 189.3 | 166.1 | 170.5 | 176.5 | 178.5 | 190.4 | 180.3 |
| Nonperforming loans to total gross loans | 2.3 | 2.6 | 2.8 | 3.1 | 2.7 | 2.0 | 1.5 | 1.4 |
| Bank provisions to nonperforming loans | 85.3 | 90.3 | 77.2 | 64.7 | 66.2 | 78.6 | 94.0 | 94.3 |
| Earnings and profitability | | | | | | | | |
| Trading income to total income | 3.8 | 3.7 | 5.6 | 6.9 | 5.3 | 6.5 | 9.3 | 8.5 |
| Return on assets | 3.5 | 1.5 | 3.5 | 4.2 | 3.0 | 3.5 | 3.7 | 2.8 |
| Return on equity | 45.6 | 19.9 | 44.9 | 52.1 | 38.4 | 41.9 | 47.1 | 36.3 |
| Interest margin to gross income | 49.8 | 53.7 | 53.4 | 45.3 | 47.8 | 51.3 | 54.2 | 55.7 |
| Noninterest expenses to gross income | 54.9 | 63.7 | 56.9 | 51.9 | 57.9 | 57.3 | 52.3 | 61.4 |
| Spread between reference lending and deposit rates | 4.8 | 5.6 | 5.3 | 5.4 | 4.9 | 4.7 | 5.5 | 4.6 |
| Personnel expenses to noninterest expenses | 47.8 | 39.6 | 49.8 | 50.9 | 48.9 | 49.5 | 51.5 | 54.1 |
| Liquidity | | | | | | | | |
| Spread between highest and lowest interbank rate | 5.3 | 10.3 | 2.3 | 1.2 | 4.1 | 9.7 | 0.3 | 0.4 |
| Liquid assets to total assets | 1.2 | 1.0 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| Liquid assets to short-term liabilities | 9.5 | 9.1 | 9.2 | 10.1 | 10.0 | 10.7 | 12.4 | 11.1 |
| Customer deposits to total (non-interbank) loans | 94.6 | 101.8 | 97.8 | 103.9 | 109.8 | 106.3 | 114.7 | 111.1 |
| Exposure to foreign exchange risk | | | | | | | | |
| Net open position in foreign exchange to capital | 1.4 | 0.3 | 0.3 | 0.9 | 0.4 | 1.3 | 2.7 | 2.3 |
| Foreign currency-denominated loans to total loans | 0.7 | 1.0 | 0.1 | 0.2 | 0.0 | 0.1 | 0.3 | 0.0 |
| Foreign currency-denominated liabilities to total liabilities | 1.1 | 2.5 | 2.7 | 1.6 | 2.0 | 3.7 | 1.9 | 1.9 |
| Financial system structure (in number) | | | | | | | | |
| Banks | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 5 |
| Private commercial | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| State-owned | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign-owned subsidiaries | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 |
| Branches of foreign banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Assets (N$ billions) | | | | | | | | |

Source: Bank of Namibia.

## Appendix I. Reserves Adequacy and Fiscal Policy in Middle Income Countries of SSA: Implications for Namibia[1]

1. **In the last decade, reserves of middle-income countries (MIC) of SSA increased five times in dollar terms.** The desire by countries to hold more reserves is driven by the important role of reserves in both preventing crises and mitigating their impact. However, holding reserves is costly and the utility of reserves have diminishing returns. It is important to strike a balance between the reserves' crises prevention and mitigation feature and their cost.

2. **This appendix has applied a new method, developed by the IMF, to determining the adequacy of reserves for MICs in sub-Saharan Africa (SSA).**[2] The method uses a metric-based approach which focuses on potential balance of payments pressures. In general, this approach suggests that coverage in the region of 100–150 percent of the metric might be adequate. The table below shows that Botswana, Lesotho, and Mauritius have comfortable amount of reserves, while the level of reserves of Cape Verde, Namibia, and Swaziland are well below the 100 percent of the level suggested by the metrics.[3]

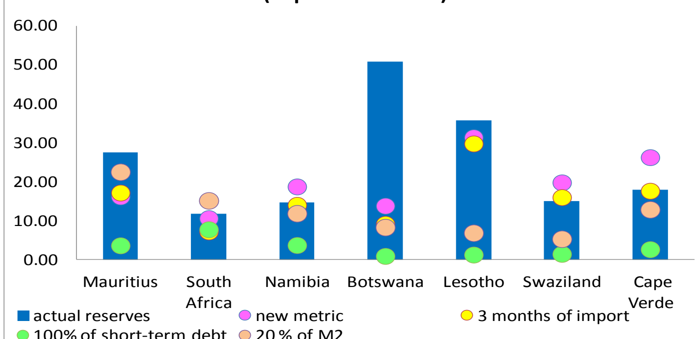
Table 1. Middle-Income Countries in SSA: Adequacy of International Reserves

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| | (Actual recervs versus metrics suggestion, in percent) | | | | | |
| Mauritius | 187.1 | 213.2 | 109.8 | 144.7 | 145.3 | 159.4 |
| South Africa | 71.6 | 70.6 | 88.4 | 84.0 | 86.3 | 115.5 |
| Namibia | 39.9 | 69.7 | 98.0 | 118.8 | 67.7 | 86.5 |
| Botswana | 445.7 | 474.2 | 502.9 | 516.4 | 393.1 | 359.2 |
| Lesotho | 209.2 | 258.1 | 301.5 | 260.6 | 205.1 | 220.3 |
| Swaziland | 72.3 | 124.8 | 149.3 | 143.3 | 97.6 | 73.2 |
| Cape Verde | 77.0 | 92.8 | 99.4 | 93.7 | 87.8 | 75.9 |

Sources: Country authorities, WEO database, and IMF staff estimates.

3. **The analysis here has also calculated how much reserves would be required to satisfy simple rules of thumb that have been widely used for measuring reserves adequacy.** The comparison of the results from traditional rules of thumbs and the new metrics against the actual holdings of reserves for MICs in SSA are presented in the Figure 1.

**Figure 1. Selected Middle-Income Countries in SSA: Reserves Adequacy, 2012**
**(In percent of GDP)**




Sources: Country authorities and IMF staff estimates.

[1] Prepared by Ara Stepanyan.

[2] For more detail discussion of the new approach see "Assessing Reserve Adequacy," February 2011, International Monetary Fund.

[3] Given the role of current account in most of MICs in SSA, we reduced the weight on short-term debt relative to export by 10 percentage points for all countries except South Africa, Mauritius, and Cape Verde.

**4. There have been considerable developments in the theoretical literature on the determinants of reserves.** The literature states two motives for reserves demand: precautionary and mercantile and uses different type of variables to measure the size of these motives. Below we have grouped the determinants of international reserves into two broad categories: (i) describing country's external position, and (ii) describing country's macroeconomic policy.

**5. A long-run relationship between reserves and its determinants is identified for MICs of SSA.** For this purpose, we have used annual data from 1990 till 2011 and employed panel cointegration techniques. We used seven statistics to identify cointegration relationship between gross reserves and its determinants. The table below presents the results of our cointegration analysis between reserves, exports plus current transfers, and government expenditure adjusted for external budgetary grants.

**Cointegration Analysis**

| | | |
|---|---|---|
| panel v-stat | = | 1.38591 |
| panel rho-stat | = | -1.06914 |
| panel pp-stat | = | -2.22092** |
| panel adf-stat | = | -1.74045* |
| group rho-stat | = | 0.39500 |
| group pp-stat | = | -2.47184** |
| group adf-stat | = | -2.16855** |

* rejection with 90 percent confidence interval
** rejection with 95 percent confidence interval

panel stats are weighted by long run variances

**6. Three statistics out of seven reject the hypothesis of no cointegration with 95 percent confidence interval and one statistics rejects with 90 percent confidence interval.** Importantly, group mean ADF tests, which has the best performance in short panels rejects no cointegration hypothesis with 95 percent confidence interval.

**7. Fully modified ordinary least square method is used to estimate the coefficients of the cointegrating vector.** This method deals with both serial correlation and endogeneity issues.[4]

Dependant variable: Log(reserves)

PANEL GROUP FMOLS RESULTS

| | Coefficient | t-statistic |
|---|---|---|
| Log(export +current transfer) | 1.55 | ( -2.90 )*** |
| Log(expenditure –grants) | -1.22 | ( -2.20 )** |

** rejection with 95 percent confidence interval, *** rejection with 99 percent confidence interval.

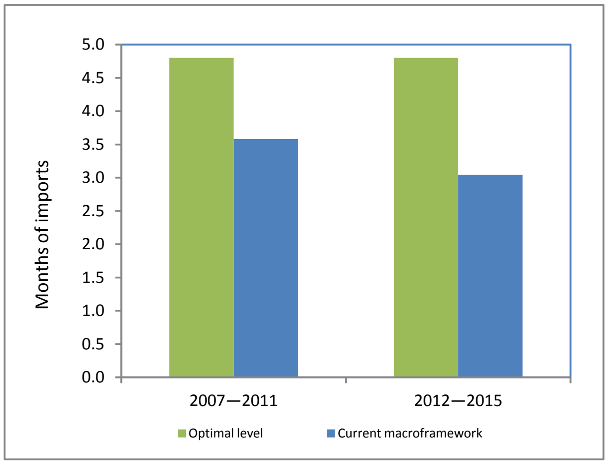
[4] The reason why we added current transfers to the export is that the series for current transfers has negative numbers, which does not allow us to logarithm the series.

**8. The results show that while county's reserves holdings increase with exports and current transfers, it decreases in response to the expansion of government spending.** These results could be used by policymakers in MICs to guide their macroeconomic policies to ensure the adequacy of reserves and the sustainability of these policies.

**9. To take a medium-term prospective on reserves adequacy for Namibia, we extended the calculations through 2015 based on the new metrics of reserves adequacy.** The results suggest that on average during 2012–15 the projected gross reserves will be 70 percent of average level of reserves generated by the metric. Also, we applied the framework developed by Dabla-Norris et al (2011) to measuring the optimal level of reserves for Namibia. The results based on the average data for 2007–11 suggests that optimal level of reserves for Namibia was 4.8 month of imports, while actual for that period was 3.6 months. We also used the current projections until 2015 to see whether in the medium-term the level of reserves is expected to approach to the optimal level.

**Namibia: Optimal Level for Reserves Using Dabla-Norris Approach**

| | Actual 2007—2011 | Proj. 2012—2015 |
|---|---|---|
| **International reserves** (months of imports) | | |
| Optimal level | 4.8 | 4.8 |
| Current macroframework | 3.6 | 3.0 |
| **Assumptions:** | | |
| Government balance (% of GDP) | -2.8 | -2.5 |
| CPIA | 4.0 | 4.0 |
| External demand growth (percent) | 3.5 | 3.5 |
| Terms of trade change (percent) | -2.3 | 1.0 |
| Change in FDI-to-GDP ratio | 0.7 | 0.7 |
| Cost of holding reserves (percent) | 3.6 | 4.0 |
| Fund program (=1) | 0.0 | 0.0 |




Sources: Dabla-Norris (2011) and IMF staff estimates.

**10. The results confirmed the outcome obtained using the new metrics and suggest that the current gap between optimal and actual reserves will widen in the future.** This could become a possible source of vulnerability in the country and could potentially undermine the sustainability of macroeconomic policies.

**11. Macroeconomic policy mix needs to be recalibrated to rebuild policy buffers for preventing and mitigating possible impacts of external shocks.** Given the fixed exchange rate regime in Namibia, the role of monetary policy is constrained. The only active policy tool left therefore is fiscal policy. Our analysis suggests that fiscal policy consolidation could possibly help to accumulate reserves faster.

**12. Our calculations suggest that to ensure the adequacy of reserves in the medium-term, fiscal consolidation should be accelerated through reducing the expenditure to GDP ratio by**

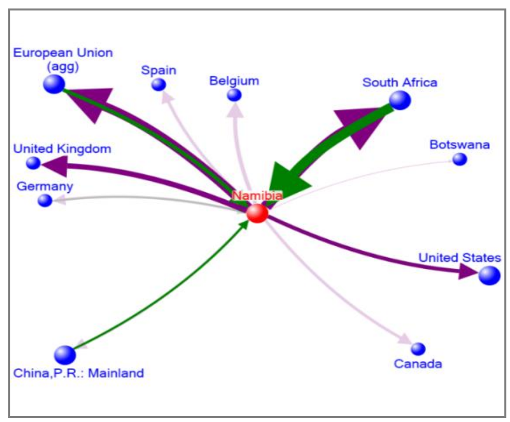
**6 percentage points by 2015 compared with the baseline projections.** In order to achieve the adequate level of reserves the annual growth rate of reserves should increase by six percentage points on average until 2015 compared with current projections. Given the estimated elasticity of -1.22 percent between government expenditure and gross reserves, to achieve accelerated reserves accumulation, the average annual growth rate of government expenditure should be reduced about five percentage points, which implies six percentage points reduction in expenditure to GDP ratio by 2015 compared with current projections.

## Appendix II. Spillovers from the Global Slowdown[1]

1. **This appendix assesses the potential spillovers on Namibia that could come from both South Africa and further deterioration in the global economic outlook.** As a mineral-based and highly open economy, Namibia is potentially vulnerable to the global slowdown through different channels, primarily through trade channels via world commodity price decline. As a result, fiscal revenues from mining sectors will decline, which could undermine the underlying fiscal position.

2. **Both as members of the Southern Africa Customs Union (SACU), outward spillover from South Africa to Namibia could be particularly strong.** First, customs revenue in Namibia, which accounts for a substantial amount of fiscal revenue heavily depends on South Africa's trade. Second, South Africa is Namibia's largest trading partner. About 30 percent of Namibia's exports go to South Africa, while 70 percent of the country's imports are from South Africa. Third, Namibia pegs its currency to the South African rand, in practice, adopting monetary policy decisions from the South African Reserve Bank. Fourth, South African financial groups are the dominant player in the financial markets of the region, spanning banking, pension, insurance, and wealth management services, whose treasury and risk management decisions tend to be centralized in Johannesburg. Fifth, a significant share of Namibian nonbank financial institutions' assets is placed in South Africa.

3. **Namibia's economy is also likely to be affected directly through the trade channel by sluggish world's growth and increasing world food and fuel prices.** Other than South Africa, the largest export destinations with Namibia include the Euro area, United Kingdom, United States, and China (see Figure).[2] Minerals, diamond and fish accounts for about 50 percent of Namibia's export. As Namibia is a small open economy, the export volume for these commodities is unlikely to be affected, but the total export value is subject to the world commodity price fluctuations.




4. **To explore the impact of global economic slowdown on the SACU region via South Africa, staff uses three different econometric methodologies.[3]** First, dynamic panel regressions for the BLNS countries are estimated using the generalized method of moments. The panel results suggest that, once global developments and domestic fiscal policies are taken into account, the evolution of South African GDP growth has not contributed to the systematic growth development of the region as a whole. Second, country-specific vector-autoregressive (VAR) models are used to

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[1] Prepared by Estelle Xue Liu with input from Farayi Gwenhamo.

[2] Green arrows indicate Namibia's Import, while the Purple arrows Namibia's export. The width of the arrow suggests the size of the trade.

[3] See a forthcoming IMF Working Paper "Spillovers into SACU Area Growth," Jorge Canales-Kriljenko, Farayi Gwenhamo and Saji Thomas.

explore relationship between growth in BNLS countries and selected developments in South Africa, after controlling for world growth. The results suggest that events that affect world growth tend to impact negatively on the GDP growth for Namibia, Botswana, and Swaziland but not Lesotho. South Africa's real GDP growth does not seem to contribute much to GDP growth in these countries, after controlling for world growth, except in Lesotho.[4] South Africa's domestic demand, however, does matter in Namibia, Lesotho, and Swaziland even after controlling for world economic growth. Lastly, the IMF's GIMF model calibrated for South Africa shows that shocks that affect credit in the euro area, or global risk aversion, would have global implications that will affect commodity prices and external demand with a non-negligible impact on South Africa. It would also affect countries like Namibia that depend on commodity prices and external demand. The model also shows that policy reactions are crucial in determining the outcome.

**5. Additional results from VAR model using quarterly data indicate that Namibia' economic growth could be affected by the world growth both directly and indirectly through commodity prices (see Table).** Economic growth in South Africa, Euro area, and the United Kingdom has significant and positive impact on Namibia's export growth. The results are not surprising given that these are the three largest export destinations for Namibia. However, only economic growth in South Africa and the United Kingdom also has positive impact on Namibia's real GDP growth. This result might due to the fact that both UK and South Africa have other strong linkages with Namibia other than trade, such as foreign direct investment. Economic growth in the euro area, in addition, has a significant impact on world diamond and base metal prices, which could further justify its impact on Namibia's export.

Real GDP Growth, 2004-2011 quarterly (yoy)

| | South Africa | Euro Area | UK | China | US |
|---|---|---|---|---|---|
| Namibia Real GDP Growth (yoy) | 7.3** (L2) | | 2.4* (L1) | | |
| Namibia Export Growth (yoy) | 12.3** (L2) | 27.0 *** (L1) | 13.7***(L2) | | |
| Diamond Prices Growth (yoy) | | 2.8* (L1) | | | |
| Base Metal Index change (yoy) | | 20.0*** (L1) | | | |

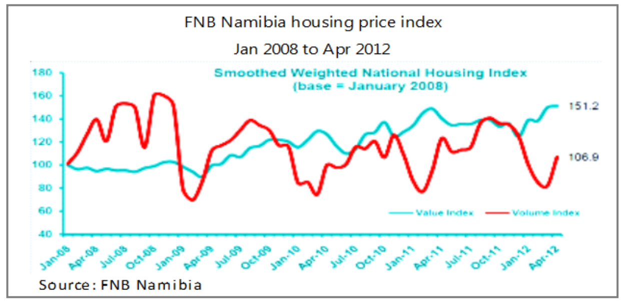
*, **, *** indicate significance at 1%, 5% and 10% level respectively.

**6. In sum, natural-resource based and highly open economies like Namibia are vulnerable to global economic spillovers**. The analysis in this appendix, which explores spillover from South Africa as well as other global economies, shows that potential slowdown in South Africa tends to be correlated with the economic slowdown in Namibia, while the slowdown in other advanced economies could also affect the growth in Namibia, both directly and indirectly. The estimated impact on base metal and diamond prices from world economy is significant, which could lead to a loss in fiscal revenues and weaken the underlying fiscal position.

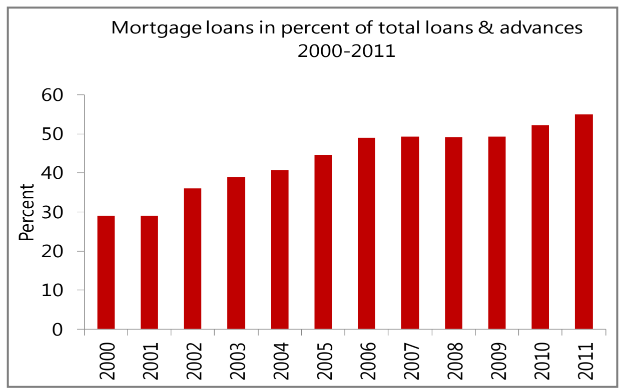
[4] However, when using quarterly data, South Africa's real GDP growth has a significant positive impact on Namibia's growth.

## Appendix III. Determinants of Property Prices in Namibia[1]

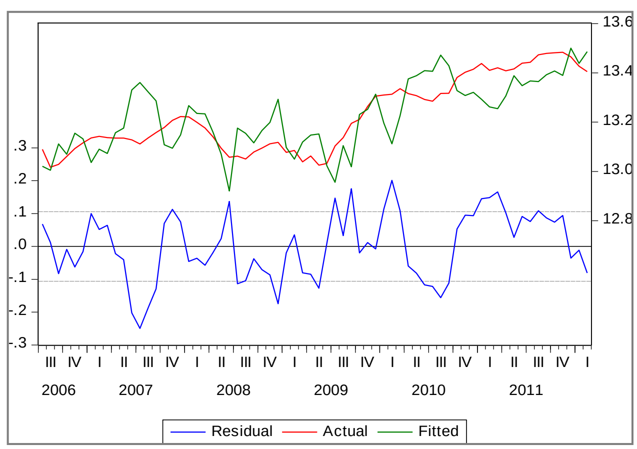
**1. Over the past few years, the Namibian residential property market prices have increased significantly.** The Namibian authorities have questioned whether the price buildup in the property market could pose potential risks to financial sector stability.[2] A correction of the past increase could potentially have negative implications for financial sector stability given the high concentration of banks' credit in mortgage loans and the growing household sector indebtedness.




**2. Banks' exposure to the residential property market increased significantly over the past decade.** In aggregate, the share of banks' mortgage loans in total loans and advances increased from 29 percent in 2000 to 55.1 percent in 2011. Rapidly growing nonbanks financial institutions (NBFIs) could potentially accentuate the property market boom given that cross linkages with banks are increasing. Limited domestic investment opportunities and the low interest rates in South Africa could entice the NBFIs to increase deposits with commercial banks. More so, nonbanks are required by law to invest at least 30 percent of their assets in the domestic market.




**3. Building on existing work,[3] the model for residential properties specified below is estimated using the Johansen estimation technique for multivariate cointegration.[4]** Staff's preliminary econometric analysis on the determinants of property prices in Namibia suggests that since October 2010, residential property prices in Namibia have been somewhat




[1] Prepared by Farayi Gwenhamo.

[2] Mwilima, et.al (2011) & Bank of Namibia financial stability report (March 2012).

[3] Mwilima, Fillipus and Fleermuys (2011), Kalili, Adongo & Larson (2008).

[4] Johansen and Juselius (1990, 1991, 1992).

higher than fundamentals-based prices. In this regard, constraints on land supply, growth in mortgage lending, and historically low interest rates may support further price acceleration creating potential for asset-price bubbles going forward. This warrants the authorities to continue monitoring property market developments closely well as enforcing banks' adherence to prudential lending regulations, while requiring the more exposed banks to argument their capital buffers.

$$Log\ (Property\ price\ ) = f\left[\underset{+}{\log(GDP\ per\ capita)}, \underset{-}{Interest\ rate}, \underset{+}{\log\ (Private\ sector\ mortgage)}, \underset{-}{\log(land\ supply)}\right]$$

**4. The estimated long run relationships between the average property price and several determinants are presented in Table 1 below.**

Table 1: Long Run Parameter Estimates

| | LPRICE | LGDPPC | INTEREST | LMORTGAGE | LLAND | TREND | C | EC term |
|---|---|---|---|---|---|---|---|---|
| Coint. eqn | | 3.3119<br>(0.5706)<br>[5.80] | -0.0344<br>(0.01633)<br>[-2.11] | 0.271387<br>(0.06306)<br>[4.303] | -0.2869<br>0.0880)<br>[ -3.26] | -0.0002<br>(0.0015)<br>[-0.158] | 15.54421 | -0.0047<br>(0.00056)<br>[-8.39] |

**5. All the variables are in natural logs and, thus, are elasticities that can be directly compared except for the real interest rate.** The results imply that (i) a one percent rise in GDP per capita raises the average residential property prices by 3.3 percent, (ii) a one percentage point hike in real interest rates reduces the residential property prices by 0.03 percent, (iii) a one percent increase in real private sector mortgage loans raises the residential property prices by 0.27 percent, and (iv) a one percent increase in land supply will reduce prices by 0.28 percent.

**6. Since Namibia imports South Africa's interest to support the peg to the South African rand, there is limited scope to influence the property market through interest rates.** Thus, the close monitoring of the financial system's exposure to mortgage loans and loan guarantees is essential, given the high level of concentration of bank funding to the real estate market. The financial sector regulator should ensure that banks adhere to prudential lending regulations, while encouraging the more exposed banks to argument their capital buffers. The authorities should also contribute to restraint in price buildup in the property market in the long term by increasing the availability of serviced land including through land reform.

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# Appendix IV. Exchange Rate Assessment[1]

**1. This appendix provides an assessment of Namibia's real effective exchange rate (REER) based on CGER methodologies for calculating the equilibrium REER and country-specific economic information.** The Namibian dollar, issued by the Bank of Namibia, has been pegged at par to the rand since its introduction in 1993, and is legal tender only in Namibia. Thus, monetary policy plays a passive role in Namibia given the peg to the rand, following closely the policy rate in South Africa.

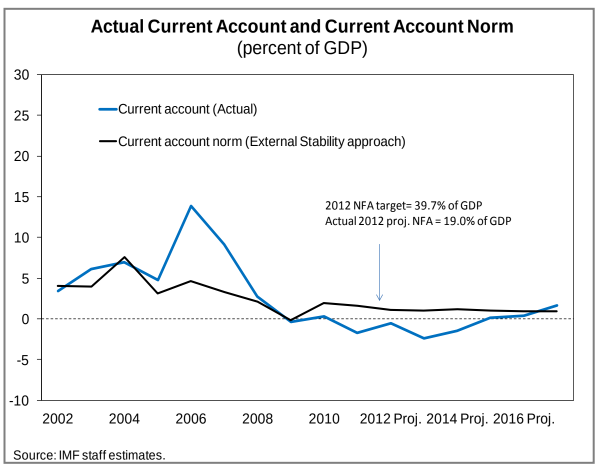
**2. The analysis suggests that the Namibian dollar is slightly overvalued.** Table 1 presents the results of analysis of exchange rate misalignments in Namibia in 2012 based on four different methodologies. The estimates obtained indicate some degree of overvaluation ranging from 0.4-6 percent based on four measures

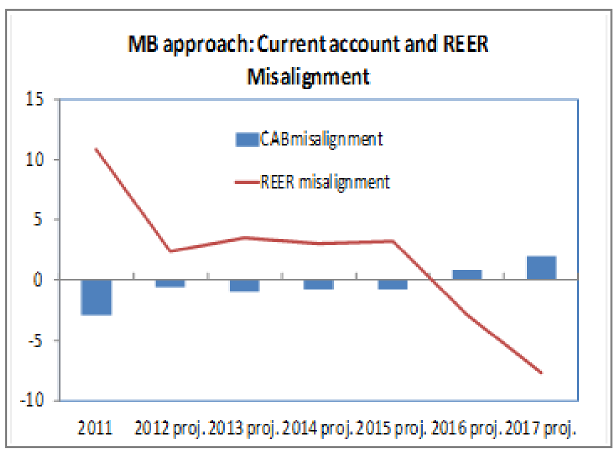
Table 1. Estimated Real Exchange Rate Misalignments in 2012
(negative numbers suggest undervaluation)

| | Lower Bound* | Mean | Upper Bound |
|---|---|---|---|
| Macroeconomic Balance | -32.3 | 2.4 | 37.1 |
| Equilibrium Real Effective Exchange Rate | -8.4 | 0.36 | 9.1 |
| External Sustainability | | 6.13 | |
| Purchasing Power Parity | -15.6 | 1.7 | 28 |

* Lower and upper bound are calculated using the CGER proposed coefficients for underlying macrovariables plus/minus three standard deviation

**3. The macroeconomic balance approach** calculates the difference between the current account balance projected over the medium term at prevailing exchange rates, and an estimated equilibrium current account balance. According to the macro balance approach, the Namibian dollar is 2.4 percent above its equilibrium level in 2012 (see first chart).[2] However, this overvaluation is projected to diminish from 2015 onwards.

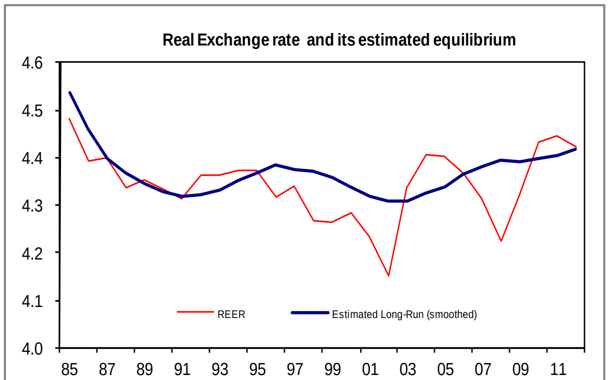



[1] Prepared by Estelle Xue Liu.

[2] More details on the model are available in "What Do We Know about Namibia's Competitiveness?" WP/07/191.

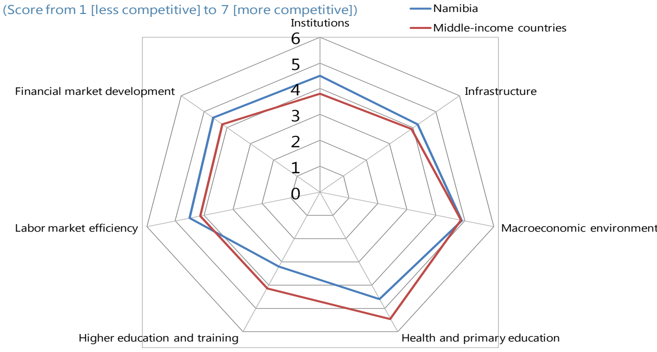
4. **The equilibrium real exchange rate approach** estimates a panel regression of the level of the real exchange rate on macroeconomic fundamentals and then compares the fitted values to the observed real exchange rate to calculate the misalignment. This approach estimated a slight overvaluation of 0.4 percentage point in 2012. Reduced form estimates point to productivity, investment rate, trade openness and broad money (as a share of GDP) against the main trading partners as the principal determinants of Namibia's REER. However, the estimates also show relatively poor explanatory power, particularly in the past decade in light of the REER's high volatility (second chart).




5. **The external sustainability approach** also estimates exchange rate misalignments as the exchange rate adjustment required to close the external gap. The target path of NFA (of 21.1 percent of GDP by 2017) was based on the fiscal sustainability analysis for Namibia undertaken by IMF staff in 2012. Using the same elasticities as in the macroeconomic balance approach would suggest an overvaluation of about 6.1 percent in 2012. However, the REER is expected to mean revert to its equilibrium level by 2017 when the current account is expected to stabilize the net foreign asset position.

6. **The purchasing power parity** approach estimate panel regression of the ratio of the PPP exchange rate to the market exchange rate as a function of GDP per capita at "PPP dollars" and subsequently evaluate the residuals of the regressions to determine the degree of exchange rate misalignment. The PPP approach indicates that exchange rate is overvalued by 1.7 percent in 2012.

**Figure Namibia and Other Middle-Income Countries: Competitiveness Indicators, 2011**
(Score from 1 [less competitive] to 7 [more competitive])

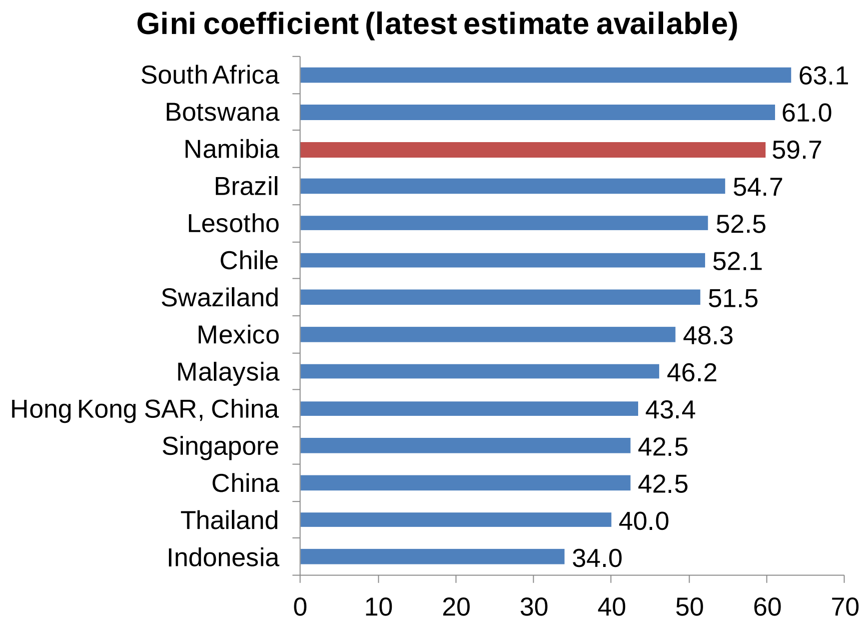



Source: World Economic Forum

7. **Nonprice competitiveness indicators suggest that Namibia performs well relative to its peers, but important challenges persist.** Namibia performs better than other middle-income countries in terms of strength of institutions, financial market development and labor market efficiency. However, the country lags behind peer countries in health and primary education. These indicators suggest that Namibia need to prioritize investment in health and primary education to improve the investment.

## Appendix V. Promoting Inclusive Growth and Employment in Namibia[1]

**1. Since Independence Namibia has managed to significantly reduce poverty and income inequality.** Nevertheless, despite the progress achieved, inequality in Namibia remains among the highest in the world, and the rate at which inequality has declined has slowed down: whereas the Gini coefficient declined from 0.70 in 1993/94 to 0.60 in 2003/04, it declined only to 0.59 in 2009/10.




Source: World Development Indicators.

**2. Given that labor income (which includes wages and salaries and most earnings for the self employed) is the main sources of household income, the issue of income inequality is related to the other main challenge in Namibia, namely, the high and persistent rate of unemployment.** According to the latest National Income and Expenditure Survey (NIES) corresponding to the years 2009/10, the unemployment rate remains high at 34 percent.

**3. Thus, one of the key challenges for the Namibian economy is how to sustain high growth while decreasing inequality and unemployment.** This appendix analyzes the related issues of income inequality, unemployment, and inclusive growth. In particular, it draws upon previous studies to answer the following four questions in the context of Namibia: (i) What has been the incidence in Namibia of growth over the period 1993/94–2009/10 and how inclusive the grown was over the same period? (ii) What would be the impact of reducing inequality in Namibia in terms of lengthening growth spells? (iii) What explains the high level of unemployment in Namibia? and (iv) Has growth in Namibia over the period 1995–2010 been accompanied by structural

[1] Prepared by Rodrigo Garcia-Verdu, Antonio David and Floris Fernanzo Fleermuys.

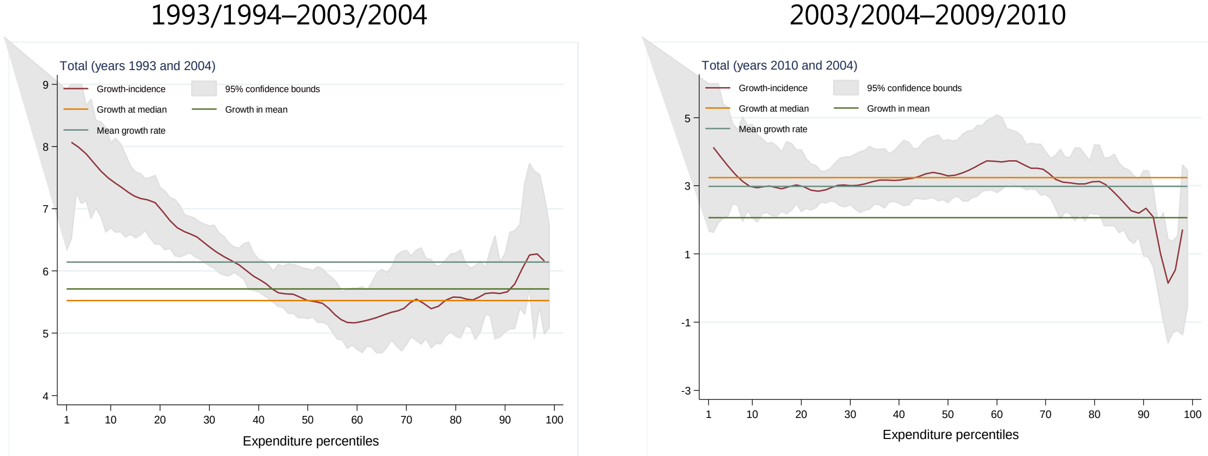
transformation, defined as the shift of workers from low to high average productivity activities and sectors?

**4. In terms of the inclusive growth, we apply the methodology used in Chapter 2 of the African Department's Fall 2011 SSA Regional Economic Outlook (REO) to the cases of Namibia and its close comparator, Mauritius.** In particular, we estimate growth incidence curves for real consumption per capita and compare them with those of the previous survey (i.e., between 1993/94–2009/10 for Namibia and 1996/1997–2006/2007 for Mauritius). Using this analysis, we make an assessment of the incidence of growth and the extent to which growth over the period has been inclusive.

**5. The results suggest that, compared to other sub-Saharan African countries analyzed in IMF (2011), Mauritius and Namibia have performed well.** As shown in Figure 1, Namibia, registered positive growth in real consumption per capita for all segments of the population over the 11 years from 1993 to 2010. Growth was also highly inclusive during the initial period (1993/04–2003/04), since households in the lower per capita income deciles registered higher growth rates than households in the middle and upper deciles. This is consistent with the significant decline in the Gini coefficient experienced over this period. The result probably reflects the impact of post-independence social policies that favored segments of the population that were typically excluded under the previous regime.

**Figure 1. Namibia Growth Incidence Curves for Real Consumption Per Capita**

1993/1994–2003/2004 2003/2004–2009/2010

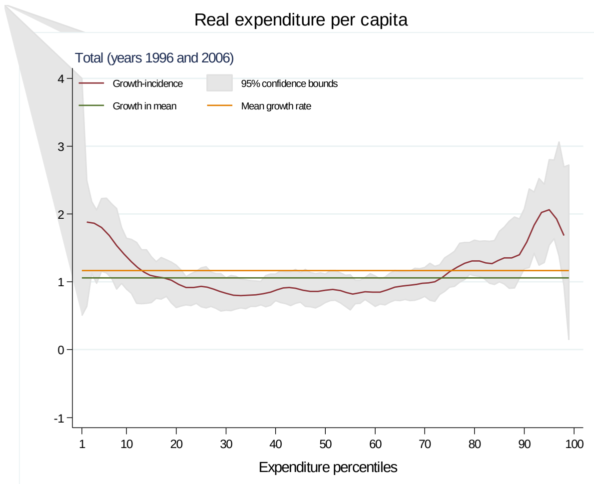


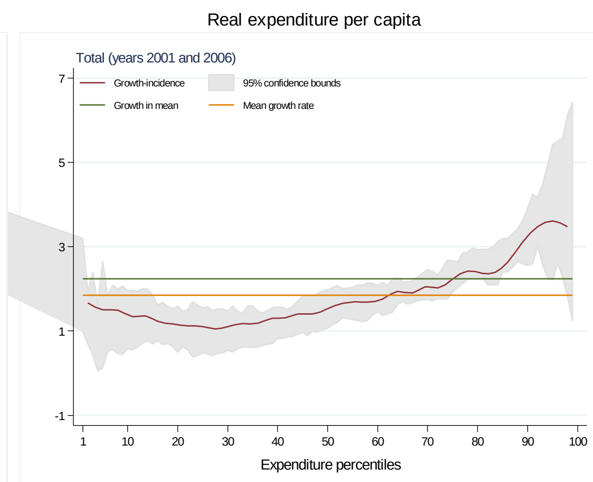

Source: IMF Staff estimates based on Namibia's National Income and Expenditure Surveys, National Statistical Agency.

**6. Despite Namibia's favorable growth pattern earlier, from 2003/04 to 2009/10 growth became much more neutral in terms of its incidence across per capita income deciles.** As can be seen in Figure 1, the growth incidence curve lost much of its slope, so growth became less inclusive. This is consistent with the fact that inequality in Namibia declined only marginally. It should be noticed, though, that the Gini coefficient corresponds to income, while the growth incidence curve corresponds to consumption per capita, Gini coefficient shows a slight decrease in inequality.

**7. For Mauritius, as depicted in Figure 3, all groups have experienced positive growth in real expenditure consumption per capita when comparing the different waves of the survey.** When one considers data from the 1996/1997 survey compared with the 2006/2007 survey, it seems that both the poorest percentiles and the richest percentiles have experienced growth well above the mean (both in terms of the growth rate in mean and mean growth rates). Nevertheless, when comparing the 2001/2002 survey with the latest survey, richer groups have experienced higher growth in expenditures, pointing to a more unequal distribution of the benefits of growth in recent years.

**Figure 2. Mauritius: Growth Incidence Curves for Real Consumption Per Capita**




Source: IMF Staff estimates based on Mauritius Household Budget Surveys. Central Statistical Office.

**8. This change in the incidence of growth has possibly been the result of weaker targeting or leakage of social programs, or the expansion of expenditure not targeted to the poor, which has resulted in government expenditure become less progressive**. While testing this hypothesis requires using disaggregated data on income by source (labor earnings, rental income, pensions, social transfers, etc.), the fact that further reductions in inequality are proving more difficult should be a source of concern as the level of inequality in Namibia is still among the highest in the world.

**9. In order for Namibia to return to the inclusive growth pattern registered over the first decade after Independence, a reallocation of government expenditures (including tax expenditures) should be undertaken to increase its progressiveness**. Namibia's public expenditures as a share of GDP are among the highest in upper-middle income countries. It is possible to reallocate public expenditures in a way that keeps total spending constant while increasing its progressiveness: based on a thorough analysis of the incidence of public expenditures, programs and transfers that do not reach or benefit their intended beneficiaries should be corrected or eliminated. Potential pockets of inefficiencies should also be identified and eliminated.

**10. Reducing income inequality, in addition to being an objective in and of itself, as recognized in the NDP4 by including it as one of the key objectives, may also be instrumental in sustaining economic growth.** In analyzing the impact of reducing inequality in Namibia on lengthening the duration of growth spells, we apply the results of the empirical model of correlates of duration of growth spells developed by Berg and Ostry (2011) and Berg, Ostry, and Zettelmeyer (2012). The results show that income inequality, as measured by the Gini coefficient, is one of the main determinants of the duration of growth spells. This model was recently been applied to the SACU region by Basdevant, Benicio, and Yakhshilikov (2012). Their results show that growth spells could be lengthened significantly if income inequality were to be reduced. In the case of Namibia, the duration of growth spells could triple if income inequality was to be reduced to those levels prevailing in a group of countries with the same level of development.

**Effect of Income Inequality on Growth Spell Duration**

| | Gini coefficents | | | Average duration (years) | Increased duration resulting from a lower Gini | |
|---|---|---|---|---|---|---|
| | Average [1] | Historical [2] | Cross-country [3] | | Historical [4] | Cross-country [5] |
| Botswana [6] | 52.2 | 37.0 | 42.7 | 23 | +26 years | +14 years |
| South Africa | 52.7 | 41.7 | 43.2 | 8 | +5 years | +4 years |
| Namibia | 73.9 | 42.1 | 43.3 | 5 | +16 years | +15 years |
| Swaziland | 61.7 | 43.6 | 47.0 | 4 | +6 years | +4 years |
| Lesotho | 61.0 | 50.3 | 41.2 | 5 | +3 years | +8 years |

Source: IMF Staff estimates and computations.

[1] Average during growth spell periods.

[2] Minimum value observed over the past twenty years.

[3] Average Gini level over the past twenty years among the group of countries of similar GDP per capita, as defined in Figure 2.

[4] Additional growth period resulting from the Gini coefficient being at its lowest historical value.

[5] Additional growth period resulting from the Gini coefficient being at the average of countries.

[6] For Botswana the average length of spell is 22 years on the fitted data. The actual average length of growth spell, as it appears in Figure 2, is 17 years.

**11. On the determinants of unemployment in Namibia, we draw upon the results of the recent work by Leigh and Flores (2012), which shows that the high level of unemployment in the SACU region is attributable to structural rather than cyclical factors**. In particular, their work shows that structural factors, including rapid wage growth above productivity increases, the existing skills mismatch, and the wage policies in the public sector can account for most of the high level of unemployment in the region. Namibia's Targeted Intervention Initiative for Employment and Economic Growth needs to be complemented with policies to address these structural factors.

**12. Finally, the chapter on Structural Transformation in the Fall 2012 issue of the Regional Economic Outlook (REO) has important results for Namibia.** This chapter shows that growth in Namibia has been accompanied by some structural transformation, since over the period workers have continued to migrate from low average productivity sectors (such as agriculture) to higher average productivity ones (such as manufacturing and services). Nevertheless, the analysis also shows that productivity growth in the agricultural sector has remained stagnant at best, and might have even declined, which is detrimental to inclusive growth given the high share of low-income households who derive a significant share of their income from agricultural activities. This contrasts sharply with the case of South Africa, which over the same period has managed to significantly increase labor productivity in the agricultural sector.

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INTERNATIONAL MONETARY FUND

# NAMIBIA

January 23, 2013

## STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | African Department

## CONTENTS



**TABLE**

# FUND RELATIONS

As of November 31 , 2012,

**Membership Status**

Joined September, 1990; Article VIII

| **General resources account** | SDR (million) | Percent of Quota |
|---|---|---|
| Quota | 136.50 | 100.00 |
| Fund holdings of currency | 136.43 | 99.95 |
| Reserve position in Fund | 0.08 | 0.06 |

| **SDR Department** | SDR (million) | Percent of Quota |
|---|---|---|
| Net cumulative allocation | 130.39 | 100.00 |
| Holdings | 5.14 | 3.94 |

**Outstanding Purchases and Loans** None

**Financial Arrangements** None

**Project Obligations to Fund** None

**Implementation of HIPC Initiative** None

**Exchange Rate Arrangements**

The exchange rate of the Namibian dollar is a fixed peg to the South African Rand. Namibia accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement, as of September 20, 1996. Namibia is currently judged by the Fund to maintain an exchange system free of restrictions on the making of payments and transfers for current international transactions. The measure concerning a limit (50 percent of the ex-factory cost) on the provision of foreign exchange for making advance payments for the import of capital goods in excess of N$ 20 million has been removed.

**Article IV consultation**

Namibia is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on February 6, 2012.

**Technical Assistance, 2006-12**

| Department | Dates | Purpose |
|---|---|---|
| FAD | February 2006 | Modernizing Tax Administration |
| | February 2006 | Fiscal Regime for Mining and Processing |
| | June 2006 | ROSC |
| | April 2007 | Revenue Modeling and Forecasting |
| | September 2008 | Public Financial Management |
| | April 2009 | Incorporating Budget Programs in the Government Accounting System |
| | June 2009 | PPPs: Building a Framework for managing fiscal Risks |
| | November 2009 | Follow up to Program Budgeting |
| | January 2011 | Initiating Tax Administration Reform |
| | January 2011 | Developing the Agenda for Tax Reform |
| | February-March 2011 | Managing the Budget on a Program Basis (MBPB) |
| | March 2012 | Revenue Administration (Tax) |
| | December 2012 | Program Budgeting; Cash and Debt Management |
| MCM (MFD) | June 2005 | Payment Oversights |
| | April 2006 | Payment Systems |
| | May 2006 | Nonbank Financial Institutions Supervision |
| | October 2006 | Lending policy, Monetary Operations, and Bank Supervision |
| | March 2007 | Risk-based Supervision |
| | August 2007 | Payments Systems |
| | April 2008 | Risk-based Supervision |
| | November 2008 | Risk-based Supervision |
| | July 2009 | Risk-based Supervision |
| | March 2010 | Payments Systems |
| | January 2011 | Supervision of NBFIs |
| | December 2011 | Stress testing training |
| | April 2012 | Implementation of Basel II |
| | April 2012 | Nonbank Financial Institutions Supervision |
| STA | May 2006 | National Accounts (GDDS Project) |
| | June 2006 | Government Finance Statistics (GDDS Project) |
| | November 2006 | SDDS Project |
| | October 2007 | Monetary and Financial Statistics |
| | April 2008 | Government Financial Statistics |
| | May 2008 | National Accounts |
| | July 2008 | Monetary and Financial Statistics |
| | July 2008 | National Accounts (SDDS project) |
| | July 2008 | Balance of Payments Statistics |
| | November 2008 | National Accounts |
| | April 2009 | Government Finance Statistics (GFSM 2001) |
| | Jan.-Feb. 2010 | National Accounts |

| | |
|---|---|
| April 2010 | Balance of Payments Statistics |
| April 2010 | National Accounts (SDDS Project) |
| Nov-Dec 2010 | Quarterly National Accounts |
| May 2011 | Monetary and Financial Statistics (EDDI Project) |
| May 2012 | Quarterly and annual national accounts (DFID) |
| November 2012 | Consumer Price Inflation |

# JOINT WORLD BANK AND IMF WORK PROGRAM

As of end-November 2012

| Title | Products | Provisional Timing of Missions | Expected Delivery Date |
|---|---|---|---|
| **A. Mutual Information on Relevant Work Programs** | | | |
| World Bank indicative work program in the next 12 months | 1. Integrated Resource Plan TA (20-year energy investment strategy) | Feb, 2013 | Launched September 2011, to be completed by June 2013 |
| | 2. Statistical capacity building TA | Periodic visits by experts through July 2013 | Launch in Feb 2012, to be completed in July 2013 |
| | 3. Money laundering risk assessment of financial inclusion products (tentative) | All missions completed | Launched March 2012; assessment to be completed by June 2013 |
| | 4. Economic Management TA (debt management, public expenditure management, PPP framework | DSA training expected mid-2013; timing of missions on other topics TBD | Debt management: DeMPA to be finalized in December 2012; MTDS draft report expected February 2013; DSA training expected in mid-2013 Deliveries on other topics through mid 2015 at dates to be determined. |
| | 5. Financial System Crisis Management | January 2013; additional mission by June 2013 | Work to be completed by June 2013 |
| IMF indicative work program in the next 12 months | 1. 2012 Article IV consultation | Nov 2012 | Board meeting Feb 2012 |
| | 2. TA: BOP Statistics | Jan 2013 | Jan 2013 |
| | 3. TA: Non Bank Financial Institutions supervision | Early 2013 | Early 2013 |

| Title | Products | Provisional Timing of Missions | Expected Delivery Date |
| --- | --- | --- | --- |
| | 4. TA: Bank Stress Testing | Early 2013 | Early 2013 |
| | 5. TA (AFS): PFM | 2013 | 2013 |
| | 6. TA: Tax Policy | 2013 | 2013 |
| | 7. 2013 Article IV consultation | Nov 2013 | Nov 2013 |
| | **B. Requests for work program inputs** | | |
| Fund request to Bank | Periodic updates on progress with domestic structural reform agenda, including in context of NDP4, the Industrial Policy Strategy, and the Financial Sector Strategy. | | |
| Bank request to Fund | Periodic updates on macroeconomic developments, prospects, and policies, including assessment of impact of global economic situation on Namibia. Consultation on economic implications of Namibia's ranking as upper middle income country. | | |

# STATISTICAL ISSUES

| I. Assessment of Data Adequacy for Surveillance |
| --- |
| **General:** Data provision has some shortcomings, but is broadly adequate for surveillance. The authorities provide core monthly data to the Fund with a lag of one to two months, except for the national accounts and international trade data, which are reported quarterly and annually with longer lags. The authorities completed the 2009/10 National Household Income and Expenditure Survey (HIES) which allowed the re-estimated of the Gini coefficients. The Namibia Statistics Agency (NSA) was recently transformed into a fully autonomous agency in order to enhance the government's capacity to collect and compile high quality statistics. |
| **National Accounts:** National accounts estimation has not kept pace with changes to the structure of the economy. The authorities are, however, rebasing the outdated national accounts base year, (currently 2004) and are expecting to complete the process by August 2013. Seasonally adjusted quarterly national accounts (QNA) estimates, at 2004 constant prices are disseminated on the NSA's website, though there is a need to improve existing source data. Plans by the NSA to produce current price QNA are progressing well. |
| **Price 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 HIES and seasonal items and new products are excluded. The authorities are now updating the CPI consumer basket and weights using the 2009/10 HIES. Data on the labor market, including labor force, employment, and wages are not regularly collected, which impedes the analysis of labor market developments. Going forward, the authorities will now carry out regular annual labor force surveys. |
| **Government Finance Statistics:** Annual budgetary central government data by fiscal year, which are reported on a cash basis in the *GFSM 2001* format, are reasonably complete, despite some gaps in terms of details. No fiscal statistics are compiled for extra budgetary institutions, consolidated central government, or consolidated general government. |
| **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*. |
| **Balance of Payments and International Investment Position Statistics: External Debt:** Since 2001, the BoN has been reporting the balance of payments data on a quarterly basis with a lag of one quarter. Those data are subject to substantial revisions. The methodology underlying the balance of payments is consistent with the fifth edition of the IMF's *Balance of Payments Manual*. There is room to improve the compilation of the BOP statistics most notably on the large errors and omissions. The international investment position (IIP) data are compiled quarterly with a lag of one quarter. The 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 has participated in the GDDS since late 2002. A ROSC (Data Module) was published in 2002 and updated in 2005. |
| **III. Reporting to STA** |
| The MOF reports, on a regular basis, annual data for publication in the *Government Finance Statistics Yearbook*. Work on establishing monthly reporting of high frequency data is still in progress.<br><br>The BoN reports monetary and financial statistics to STA regularly. Balance of payments and international investment position data are published in *International Financial Statistics (IFS)* and in the *Balance of Payments Yearbook*. |

## Table 1. Namibia: Common Indicators Required for Surveillance

(As of November 2012)

| | Date of Latest Observation | Date Received | Frequency of Data [1] | Frequency of Reporting [1] | Frequency of Publication [1] | Memo Items: Data Quality—Methodological Soundness [2] | Memo Items: Data Quality—Accuracy and Reliability [2] |
|---|---|---|---|---|---|---|---|
| Exchange rates | 12/12/2012 | 12/12/2012 | D | D | D | | |
| International reserve assets and reserve liabilities of the monetary authorities [3] | Oct. 2012 | Sep. 2012 | M | M | M | | |
| International investment position | June 2012 | Sep 2012 | Q | Q | Q | | |
| Reserve/base money | Oct. 2012 | Dec. 2012 | M | M | M | O, O, LO, LO | O, LO, O, O, O |
| Broad money | Oct. 2012 | Dec. 2012 | M | M | M | | |
| Central bank balance sheet | Oct. 2012 | Dec. 2012 | M | M | M | | |
| Consolidated balance sheet of the banking system | Oct. 2012 | Dec. 2012 | M | | M | | |
| Interest rates [4] | 12/12/2012 | 12/12/2012 | D | D | D | | |
| Consumer price index | Sep. 2012 | Oct. 2012 | M | M | M | | |
| Revenue, expenditure, balance, and composition of financing [5]—general government [6] | NA | NA | | | | | |
| Revenue, expenditure, balance, and composition of financing [4]—central government | Mar. 2012 | Nov. 2012 | A/Q/ | Q | Q | | |
| Stocks of central government and central government-guaranteed debt [7] | Jun. 2012 | Sep. 2012 | A | A | A | | |
| External current account balance | 2012 Q2 | Oct. 2012 | A/Q | A | A | | |
| Exports and imports of goods | 2012 Q2 | Oct. 2012 | M | M | M | | |
| GDP/GNP | 2011 | Oct. 2012 | A | A | A | O, O, O, LO | LNO, LO, LO, LO, O |
| Gross external debt | Jun. 2012 | Oct. 2012 | A/Q | A/Q | A/Q | | |

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

INTERNATIONAL MONETARY FUND
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February 20, 2013

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

# IMF Executive Board Concludes 2012 Article IV Consultation with Namibia

On February 8, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Namibia.[1]

**Background**

The Namibian economy bounced back strongly from the 2008–09 financial crises but growth slowed to about 5 percent in 2011 (just below the average for its peer Middle Income Countries group) compared with 6½ percent in 2010 due to contraction in the mining sector. The strong performance of the primary sector led to a rebound in growth in the second quarter of 2012. Mineral exports are, however, expected to decelerate in the last half of 2012 due to the weak external economic environment and Gross Domestic Product (GDP) growth will likely moderate to 4 percent in 2012. Inflation rose significantly to 7¼ percent (year–on-year) at end-December 2011, but declined to 6 percent at end July 2012 with an uptick in September 2012 to 6¾ percent. The increasing trend reflects the impact of high oil prices and a substantial depreciation of the South African rand caused by the on-going industrial strikes in South Africa.

Conditions in the banking sector remain favorable. Private sector credit extension remained robust at 9¾ percent (year on year) at end-December 2011, although slightly below 10¾ percent reached at end-December 2010. Credit was driven by mortgage credit and rapid expansion of installment credit and overdraft facilities to consumers,

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

which could potentially crowd out bank funding for productive economic sectors. Nonperforming loans fell to 1½ percent of total loans at end-December 2011, down from 2 percent at end-December 2010. With overdue loans also declining, the asset quality of the banking sector has remained satisfactory. While the aggregate financial indicators are broadly sound, potential sources of vulnerabilities to financial stability are emerging from the combination of property price buildup, commercial banks' large exposure to the property market, the growing household indebtedness and the concentration of large institutional investors in bank funding.

Fiscal policy continues to be fairly expansionary. The overall fiscal deficit in FY2011/12 increased to about 8½ percent of GDP from about 5¾ percent of GDP in FY2010/11 driven largely by the government's temporary Targeted Intervention Program for Employment and Economic Growth (TIPEEG) and the public sector wage increase. The fiscal deficit (excluding the cyclical component of Southern Africa Customs Union revenues) deteriorated significantly from about 2½ percent in FY2010/11 to about 6¼ percent in FY2011/12. Overall public debt increased significantly from 16¼ percent in FY2010/11 to 26½ percent in FY2011/12, including through Namibia's debut Eurobond issuance of US$500 million in November 2011. More recently, the Namibia government issued an R850 million (US$95 million) 10-year bond in South Africa with a yield of 8.26 percent.

The external position weakened in 2011. Annual exports (in US dollar terms) grew by about 9 percent in 2011 compared to about 29 percent in 2010. The moderate export growth in 2011 was supported mainly by diamond exports (benefiting from stronger prices). Nonmineral exports, notably manufactured products, and food and live animals also held up. Imports grew faster at 14 percent, driven by expansionary fiscal policy which supported growth in both public consumption and public capital expenditure and eased monetary conditions in the domestic economy which boosted private consumption. As a result, the current account recorded deficit of about 1¾ percent of GDP in 2011 from a surplus of ¼ percent of GDP in 2010.

**Executive Board Assessment**

Executive Directors commended Namibia's strong macroeconomic performance following the crisis. Medium-term prospects remain favorable although subject to downside risks from external and internal developments. Directors called for continued commitment to sound policies and structural reforms to build adequate policy buffers, preserve financial stability, foster stronger and inclusive growth, and reduce unemployment.

Directors agreed on the need for a tighter fiscal stance in order to rebuild policy buffers, including reserves, and support the peg to the South African rand. They encouraged the authorities to strengthen their fiscal framework by delinking the fiscal stance from volatile

Southern African Customs Union (SACU) and mining revenues. This would reinforce the past policy of paying down debt when there are SACU windfalls.

Directors emphasized that improving the quality of spending will be key to maintaining fiscal sustainability and more broadly support economy-wide competitiveness. This will require implementing a prudent public sector wage policy, strengthening the financial viability of the state-owned enterprises, and minimizing the fiscal risks associated with the TIPEEG. Directors took positive note of the authorities' plans to unwind the program and to focus on skills development going forward. To enhance revenues, they highlighted the need for broadening the tax base, improving tax administration, and streamlining tax expenditures. These reforms should be implemented in a manner that improves the predictability and simplicity of the tax system.

Directors welcomed that Namibia's financial system is generally sound. Nevertheless, they underscored the need for increased vigilance to monitor potential vulnerabilities stemming from a sizeable concentration of lending to mortgages, property price buildup, growing household indebtedness, and the concentration of large institutional investors in bank funding. In this respect, Directors commended the Bank of Namibia for the recent macro-prudential measures that have been put in place to strengthen financial stability and called for expeditious adoption of stress testing techniques.

Directors welcomed the authorities' development objectives, laid out in the recent National Development Plan. Given high income inequality and unemployment, they strongly supported the focus on fostering effective investment in education and health and enhancing financial inclusion. Directors also commended the recent launch of the Human Resource Development Council to address the skills mismatch in the labor market.

***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, 2008-2013**

(Annual percentage change, unless otherwise indicated)

| | 2008 | 2009 | 2010 | 2011 | 2012 Est. | 2013 Proj. |
|---|---|---|---|---|---|---|
| Real GDP | 3.4 | -1.1 | 6.6 | 4.8 | 4.0 | 4.2 |
| CPI (end of period) | 10.9 | 7.0 | 3.1 | 7.2 | 6.2 | 5.7 |
| Overall fiscal deficit/surplus (percent of GDP)1/, 2/ | 2.1 | -2.2 | -5.7 | -8.6 | -3.9 | -5.3 |
| Public debt (percent of GDP) 1/ | 18.2 | 15.6 | 16.1 | 26.5 | 28.8 | 29.8 |
| Broad money (end period) | 10.2 | 3.6 | 9.8 | 4.3 | 11.0 | 10.3 |
| Credit to the private sector (end period) | 7.3 | 10.0 | 11.2 | 9.3 | 11.0 | 10.3 |
| Current account balance (percent of GDP) | 2.8 | -0.4 | 0.3 | -1.7 | -0..6 | -2.5 |
| International reserves | | | | | | |
| US$ millions | 1394.7 | 1918.7 | 1380.1 | 1811.4 | 1878.0 | 1789.8 |
| Months of imports of goods and services | 3.4 | 4.1 | 2.6 | 3.3 | 3.1 | 3.0 |
| Exchange rate (Namibia dollar/U.S. dollar, end of period) | 9.3 | 7.4 | 7.1 | 8.1 | … | … |

Sources: Namibian authorities; and IMF staff estimates.

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

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

**Statement by Mr. Saho on Namibia**
**February 8, 2013**

Despite the Namibian authorities' demonstrated track record of sound macroeconomic policy implementation, which generated a strong rebound from the 2008-09 economic crises, the fragile global environment continues to pose downside risks to economic growth. The authorities agree with staff that the economy is expected to moderate this year, although the rate of growth will still be above the global average. The Namibian authorities recognize the challenges ahead, including those posed by income inequality and persistently high structural unemployment. In this regard they will continue with inclusive-growth enhancing policy interventions, including a major three-year fiscal initiative to ease infrastructure bottlenecks and enhance job creation.

Additionally the authorities are looking at introducing reforms in public sector employment and wage policies, and pressing ahead with the alignment of education and training curricula to meet the demand for skilled labor in the broader economy, strengthening public expenditure management, procurement, and financial accountability. At the same time, the authorities will continue with efforts to rebuild fiscal policy buffers and reinforce financial stability.

**Recent economic developments and outlook**

Namibia has been resilient despite the sizeable external shocks confronted by the economy. The economic rebound has been strong following the 2008 financial crisis. The authorities' estimated growth rate of about 4.5 percent for 2012 is in line with Namibia's long-term growth rate. The main policy challenge is how to increase potential output. The fourth National Development Plan (NDP4) is the government's blue print for action to transform the Namibian economy into one that is more robust, and is able to generate essential employment opportunities. The Plan has been crafted in the context of fiscal prudence, including innovative ways to raise funds for infrastructure programs. With respect to inflation, pressures have been rising as is the case in many countries, mainly due to the deterioration in international terms of trade and elevated energy and food prices.

Both fiscal and monetary policies remained expansionary. The overall fiscal deficit for 2011/12 is estimated at 7 percent of GDP. Although the authorities anticipate an acceleration of public spending going forward, the resulting fiscal deficit is expected to be below the budget target of 4.5 percent of GDP for 2012/13. Fiscal deficit developments together with Namibia's debut Eurobond issuance of US$500 million generated a public debt to GDP ratio of about 25 percent with the stock of debt remaining unchanged in nominal terms during the last 12 months.

The current account deficit as a percent of GDP recorded 1.7 percent in 2011 on the back of moderating exports and faster growing imports, driven by expansionary fiscal policy and eased monetary conditions. The current account deficit is expected to register 0.7 percent in 2012, before slightly edging up to 1.0 percent in 2013. Import reserve coverage is projected to decline to 3.0 months of imports of goods and services in 2012, with an improvement to

3.4 months in 2013 envisaged, provided the downside risks do not materialize.

**Rebuilding Fiscal Policy Buffers and Ensuring External Sustainability**

The Namibian authorities remain committed to implementing policies that promote fiscal sustainability. The government's MTEF targets a small overall surplus by 2014/15. Also, the government intends to respect its total debt ceiling of 35 percent of GDP.

The authorities agree that financially-strong SOEs should be a key fiscal objective, while noting that important policies are already underway to address the situation. In this regard, the authorities have compiled a draft directive aimed at establishing generally accepted common principles of corporate governance and good practice governing SOEs, developing common policy frameworks for their operations, determining criteria for the performance measurement and evaluation, developing appropriate means for monitoring their performance, and laying down directives in relation to amongst other things the remuneration levels of board members, chief executive officers and other senior management staff of SOEs. That said it is also important to note that the stock of government guarantees (domestic and external) on SOEs has been about 2 percent of GDP during the last five years.

The authorities will continue with efforts to broaden the domestic revenue base and strengthen domestic revenue collection and administration. In this regard, discussions of new mineral taxes are still ongoing. Several countries in the region and around the world have introduced mining taxes, including windfall revenue taxes, in recent years, with the support/endorsement of the international community and thus it is imperative for the Namibian authorities to explore and implement new revenue sources in anticipation of reduced SACU revenue when the current revenue sharing arrangement is renegotiated.

The authorities concur with the staff on the need to revisit public expenditure levels, which are high by international levels. Regarding the wage bill, the analysis should go beyond simple ratios and attempt to capture the social and political dynamics of countries. Further, it is the authorities' view that wage increases for civil servants have not been exorbitant by any means during the last five years. Rather, the number of civil servants—including teachers, nurses, and doctors, as well as office personnel—has been the main force pressing the wage bill. One also has to take into account the geographical vastness of the country and the dispersed settlement of people to explain the size of Namibia's civil service.

**Reinforcing Financial Stability and Reforms**

Aggregate financial indicators in Namibia remain generally sound, although staff sees potential sources of vulnerabilities to financial stability starting to emerge. The authorities, like staff are concerned about the financial stability risks posed by large concentration of commercial banks assets in mortgage loans and the elevated level of household indebtedness. However, they see these risks to financial stability as being mitigated by several policy measures being put in place by the BoN. Notable macro-prudential policies in place include, the requirement by the BoN for commercial banks to apply risks weights on mortgage loans above Basel II norms. No plans are currently being considered to augment banks' capital buffers, which are currently above international thresholds.

The authorities are also concerned about the impact of the property price buildup on housing affordability for low-income Namibians, but are not convinced of the existence of signs of a property price bubble, citing the moderation in property prices in recent months. Further, the average annual price increase for properties during the last ten years has been about 10 percent, significantly below any international experience on property price bubbles.

The Namibian financial sector compares well with the best in the world with the Global Competitiveness Report rank of 36 out of 142 countries assessed for 2011. The legislative and regulatory environment for both the bank and non-bank financial industries have been modernized to allow regulatory authorities to exercise risk-based supervision and macro-prudential surveillance to strengthen financial stability and guard against possible emergence of financial crises. The authorities welcome the staff's acknowledgement of the ongoing efforts by NAMFISA to align regulations with best international practices, but would underscore that the situation on the ground remains carefully monitored by the authorities.

**Fostering Institutional and Capacity Development**

The authorities are of the view that the quality and capacity of institutions as well as quality of data are important ingredients of prudent macroeconomic policy. In this regard, they are pursuing a public finance management (PFM) reform agenda assisted by the IMF and the European Union, to strengthen PFM and improve the quality of expenditure. Full deployment of program-budgeting, a complete reformulation of Namibia's PFM legislation, as well as public expenditure review and tracking will be rolled out to all budget votes during the MTEF to enhance targeting of resources and public accountability. To enhance government‘s capacity to collect and compile high quality statistics, Namibia Statistics Agency has been transformed to a fully autonomous agency and has recently published the 2009/10 Household Income and Expenditure Survey in a fully transparent manner.

**Promoting Inclusive Growth and Regional Integration**

The authorities are committed to promote inclusive growth. It is not surprising therefore that faster and sustainable and inclusive economic growth, the creation of employment opportunities, and enhanced income equality are the key pillars of NDP4. The authorities will continue with the prudent implementation of TIPEEG program whose resource prioritization approach will be carried out through the MTEF and will be integrated into the NDP4.

The authorities further agree with staff that TIPEEG can be enhanced by including a skills development component to help make workers more competitive. However, since TIPEEG will come to an end in 2013/14, the authorities have in their NDP4 identified education as a distinct basic enabler to improve quality and address the mismatch between the demand for and supply of skills. In this context, they have created a Human Resource Development Council and Productivity Centre which along with the proposed jobs search program would help address the skills mismatch in the labor market.

Exports promotion remains an important avenue for promoting growth in Namibia. In this regard, the authorities continued with the outward-trade policy to facilitate diversification of export commodities' destinations, while enhancing value addition. This includes finding ways to promote Namibia's increased trade in SADC and SACU markets as well as establishing new markets in emerging economies. Against this background, the Namibian authorities are participating pro-actively in the process of formulating a regional Industrial Development Policy for SACU.

In addition, the implementation of the SADC Finance and Investment Protocol should lead to a more conducive investment environment and transparent processes that can help in promoting intra-SADC trade and investment. The authorities are also taking part in the Tripartite Free Trade Area negotiations that were launched in December 2011 for the envisaged Free Trade Area among SADC, East African Community and COMESA.

**Conclusion**

The Namibian authorities appreciate the constructive engagement and policy dialogue with the Fund. As noted in the government's MTEF, fiscal consolidation and prudent debt management are key intermediate policy goals for the coming years. In this regard, the following four ultimate policy objectives: Increase government savings to cover public investment needs that could accelerate economic growth and private investment; rebalance the composition of fiscal spending in favor of capital outlays; take stock of possible bottlenecks that reduce the quality of public goods delivery; and adopt a pro-active stance to promote foreign direct investment—will anchor policy intervention in the long term. Against this backdrop, my Namibian authorities look forward to the Fund's continued engagement and policy advice to achieve sustainable, broad based and inclusive growth.