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Namibia: 2005 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Namibia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 15, 2005, 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 March 6, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of March 24, 2006 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its March 24, 2006 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Namibia.

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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NAMIBIA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the
2005 Consultation with Namibia

Approved by Thomas Krueger and Anthony R. Boote

March 6, 2006

- The 2005 Article IV consultation discussions were held in Windhoek during November 2-15, 2005. Staff met with Finance Minister Kuugongelwa-Amadhila and Deputy Finance Minister Tweya; Governor Alweendo and Deputy Governor Hartmann of the Bank of Namibia (BoN); other senior government officials; Members of Parliament; representatives of the private sector; NGOs; labor unions; and members of the diplomatic and academic communities.
- The staff team comprised Mr. Mueller (head, AFR), Mr. Clausen, Mr. Dwight, Ms. Strauss (all AFR), and Mr. Ramcharan (RES). The mission partially overlapped with the FSAP mission. The FSAP recommendations were finalized and discussed with the authorities in February 2006.
- The Executive Board concluded the 2004 Article IV consultation on February 14, 2005. Directors commended Namibia's record of macroeconomic stability and welcomed the recent rise in growth, decline in inflation, and strengthening of external accounts. Directors emphasized the need to reduce the fiscal deficit through expenditure restraint and civil service reform. They observed that the exchange rate peg had served Namibia well but noted the importance of maintaining adequate international reserves. Directors also stressed the importance of addressing HIV/AIDS, high unemployment, and large disparities of income.
- The authorities have recently become more receptive to Fund policy advice, especially on fiscal policy and financial sector issues. This is also reflected in their requests for an FSAP and a fiscal ROSC and several technical assistance missions, which were received following last year's Article IV discussions.
- Namibia fixes its currency at par to the South African rand, which is also legal tender.
- Namibia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system free of restrictions on the making of transfers and payments of current account transactions.
- Appendices I and II summarize Namibia's relations with the Fund and the World Bank group, respectively. Section III and Appendix III discuss statistical issues. Appendices IV and V present the external and fiscal debt sustainability analyses.
- The Selected Issues Papers include studies on: (i) the link between education and unemployment; (ii) the dimensions of poverty and policy options to address them; (iii) the sustainability of the pension system; and (iv) the pros and cons of Namibia joining a monetary union.

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Executive Summary

Namibia has maintained a strong record of macroeconomic stability since independence. This record has been based on a credible peg to the South African rand, generally prudent fiscal policies, a stable political environment, a fairly developed infrastructure, and a strong legal and regulatory environment. It is also reflected in recent economic performance, with robust real GDP growth, falling inflation, a high external current account surplus, and continued low external indebtedness. However, outflows on the capital and financial accounts continued, as financial institutions invested heavily in South Africa. This has kept reserves at relatively low levels. Namibia recently received an investment grade rating on sovereign debt from Fitch.

Despite these accomplishments, major challenges–including widespread poverty, high unemployment, and HIV/AIDS–remain. One-fourth of the population does not get sufficient dietary consumption, the unemployment rate exceeds 20 percent, and the prevalence of HIV/AIDS is about 20 percent.

The authorities recognized they need to tackle these challenges and raise Namibia's long-term growth potential. They have identified education reform as key and are examining ways to boost student enrollment and the quality of teaching and instructional materials. The discussions also focused on ways to boost the flexibility of labor markets, improve the performance of parastatals and limit their impact on the budget, clarify land reform, enhance governance, combat the HIV/AIDS pandemic, and alleviate poverty.

The authorities reiterated their commitment to reduce the fiscal deficit. The 2004/05 fiscal deficit was higher than expected, at 4 percent of GDP, due mainly to shortfalls in VAT collections and an increase in the wage bill. The public debt-to-GDP ratio rose to 33½ percent at fiscal year-end 2004/05. Nonetheless, the authorities intend to bring the budget into balance over the medium-term and maintain their fiscal rule targeting a debt-to-GDP ratio at 25 percent, without, however, specifying how the adjustment is to be achieved. The mission stressed the importance of realistic budgets and a credible fiscal policy rule. It projected a slower medium-term fiscal adjustment path in light of the authorities' difficulties in reining in and reorienting spending and enhancing tax administration. This may require that the authorities consider raising the debt target, at an appropriate time. The mission urged the authorities to limit the fiscal deficit to 3 percent of GDP in 2005/06.

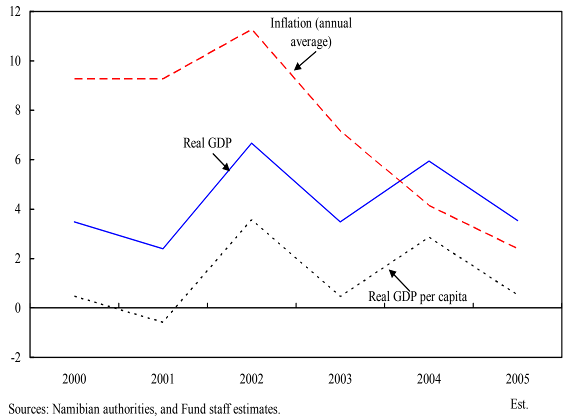
In 2005, the Bank of Namibia (BoN) continued to lower the bank rate, consistent with developments in South Africa and the peg to the rand. In doing so, the BoN eliminated the negative interest rate differential vis-à-vis the anchor currency. Discussions focused on ways to boost international reserves, including through creating greater domestic investment opportunities and sterilizing purchases of foreign exchange. Staff also urged the authorities not to rule out establishing a positive interest rate differential with respect to South Africa.

The authorities welcomed the recommendations of the recently concluded FSAP. These focused on measures to ensure compliance with the Basel Core Principles, strengthen the regulatory framework for non-bank financial institutions, expand domestic investment opportunities, and improve access to financial services.

I. Recent Economic Developments

1. **Namibia's economy recorded growth above its historical average in 2004** (Table 1). Real GDP grew 6 percent, exceeding growth in most neighbors and the average of Sub-Saharan African (SSA) countries. Diamond production increased almost 40 percent, driven by new marine mining technologies. Other mining, mineral processing, transport and communication, and subsistence agriculture also contributed to growth. However, a strengthened currency hit the fishing and commercial agriculture industries.

Figure 1. Namibia: Real Sector Developments, 2000–2005
(Annual percent change)



Sources: Namibian authorities, and Fund staff estimates.

Text Table 1. Growth in Sub-Saharan Africa, SACU, and Namibia, 2000-05

(Annual percent change)

	2000	2001	2002	2003	2004	2005 Est.	2000–04 Average
Real GDP							
SSA average	3.3	3.9	3.4	4.1	5.3	4.6	4.0
SACU average	3.9	3.0	4.4	3.8	3.9	2.9	3.8
Botswana	7.6	5.1	5.0	6.6	4.9	3.8	5.8
Lesotho	1.9	3.3	3.7	3.2	3.0	0.8	3.0
Namibia	**3.5**	**2.4**	**6.7**	**3.5**	**5.9**	**3.5**	**4.4**
South Africa	4.2	2.7	3.6	2.8	3.7	4.3	3.4
Swaziland	2.6	1.6	2.9	2.7	2.1	2.0	2.4
Real GDP per capita							
SSA average	0.6	1.1	0.9	1.5	2.9	2.1	1.4
SACU average	2.6	1.8	3.2	2.7	3.4	2.8	2.7
Botswana	6.6	4.3	4.5	6.5	5.0	4.2	5.4
Lesotho	0.0	1.1	1.9	1.0	1.2	-1.1	1.0
Namibia	**0.9**	**0.2**	**5.4**	**2.4**	**4.9**	**2.7**	**2.8**
South Africa	2.8	1.6	2.4	1.8	3.2	4.3	2.4
Swaziland	0.5	-0.4	1.1	1.6	1.5	1.7	0.9

Source: African Departmental database and United Nations Populations Division.

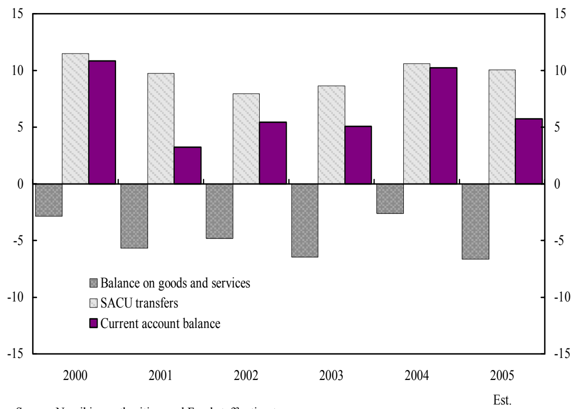
2. **Growth slowed in 2005**. Diamond production fell relative to the high production base of the previous year, while growth rates in other mining moderated somewhat. Higher oil prices affected the transportation sector in particular. However, solid activity occurred in manufacturing, agriculture, and the wholesale and retail trade sectors, aided by a decline in interest rates (see below).

3. **Inflation moderated in 2004 and 2005, due to good rains and an appreciated currency**. Average inflation fell to 4¼ percent in 2004 and only 2¼ percent for January-November 2005.

4. **Namibia's external current account remained solidly in surplus, peaking at more than 10 percent of GDP in 2004** (Table 2). Surging diamond exports and buoyant customs union (SACU) receipts, which increased by one-third in 2004, more than offset a large increase in imports, including oil imports.[1]

[1] Oil imports amounted to 4¾ percent of GDP in 2002-04 but are estimated to have jumped to 6¾ percent of GDP in 2005.

Figure 2. Namibia: Trade and External Current Account, 2000–2005
(In percent of GDP)



Source: Namibian authorities, and Fund staff estimates.

Text Table 2. Namibia: Regional Distribution of Exports, 2000-04

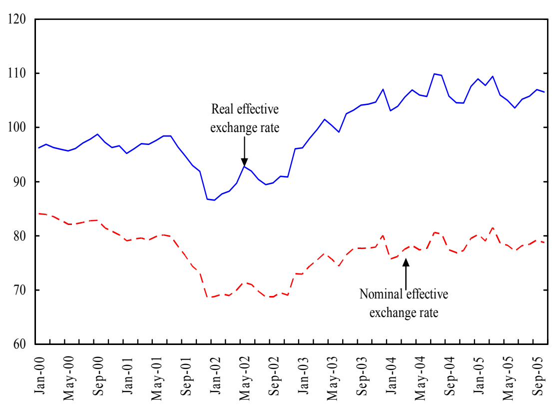
(In percent of total exports excluding re-exports, unless stated otherwise)

	2000	2001	2002	2003	2004
Rand Area	27.3	25.1	29.8	28.6	32.3
United Kingdom	35.2	41.7	28.7	23.6	17.3
Spain	10.8	15.6	14.2	18.2	11.1
Other EU	11.7	7.4	13.1	7.5	6.8
United States	3.2	3.5	3.7	5.9	12.7
Other	11.8	6.7	10.5	16.2	19.8
	(In millions of U.S. dollars)				
Memorandum Items:					
Diamond exports	612.5	523.8	533.3	510.9	824.5
Current account surplus	370.7	103.8	169.9	226.9	585.7

Source: Central Bureau of Statistics

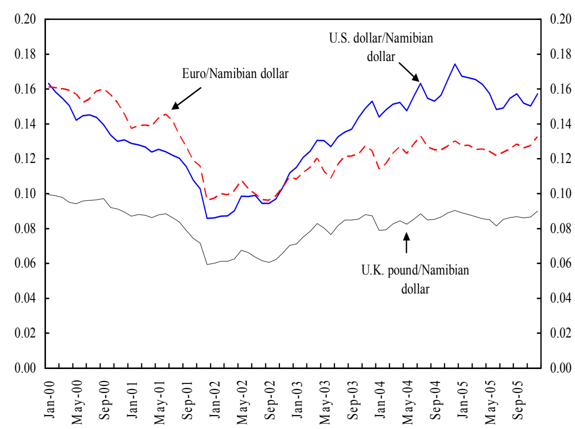
5. **In tandem with the South African rand, the Namibia dollar appreciated in 2004 before depreciating somewhat in 2005**. The impact on effective exchange rates was muted as Namibia trades four-fifths of its imports and one-third of its exports with South Africa.

Figure 3. Namibia: Effective Exchange Rates, Monthly, 2000–2005
(1995=100)



Source: IMF (INS).

Figure 4. Namibia: Bilateral Exchange Rates, Monthly, 2000–2005



Source: Thomson Datastream.

6. **Outflows on the capital and financial accounts remained high as banks, pension funds, and insurance companies invested heavily in South African financial markets.** International reserves fell to 1¾ months of imports in 2004 and 40 percent of short-term debt in 2003, below standard benchmarks.[2] Total external debt is estimated to have fallen to 23 percent of GDP at end-2004, as parastatals in particular reduced their borrowing.

[2] For more details, see the external debt sustainability analysis (Appendix IV).

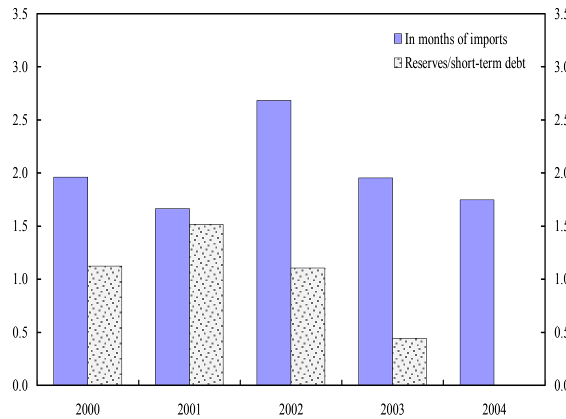
Text Table 3. SACU: International Reserves, 2000–04

(In months of imports of goods and services)

	2000	2001	2002	2003	2004
SACU average	9.3	9.2	8.5	6.9	5.8
Botswana	32.6	33.0	29.1	24.0	18.4
Lesotho	6.6	6.5	5.6	4.8	4.1
Namibia	**2.0**	**1.7**	**2.7**	**2.0**	**1.7**
South Africa	2.3	2.4	2.3	1.9	2.8
Swaziland	3.1	2.4	3.0	1.9	1.8
Sub-Saharan Africa	4.1	4.1	3.9	3.4	4.3

Source: African Departmental databases.

Figure 5. Namibia: International Reserves, 2000–2004



Source: Namibian authorities, and Fund staff estimates.

7. **Although improving significantly over the previous year, the fiscal deficit for 2004/05 was 4 percent of GDP, higher than expected and higher than the deficits of Namibia's southern African neighbors** (Table 3). A one-time windfall in SACU receipts and increased tax revenues from personal income and diamonds contributed to the improvement over 2003/04. By contrast, VAT collections were 2¼ percent of GDP lower than budgeted owing to continued administrative problems. Similarly, the government wage bill was ½ percent of GDP higher than budgeted as the hiring freeze was not implemented consistently across all ministries. These developments pushed the public debt ratio to 33½ percent of GDP, well above the government's target of 25 percent.

Text Table 4. SACU: Overall Fiscal Balances, 2000–05

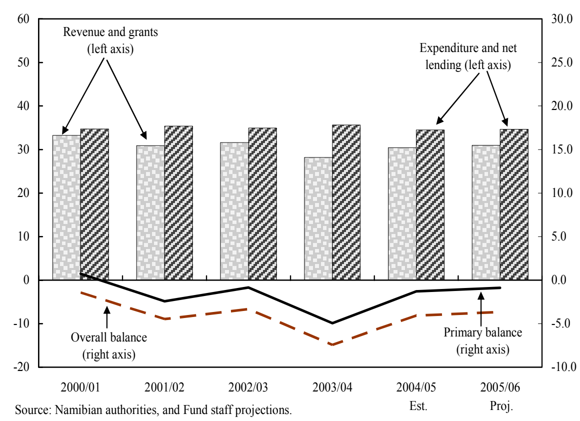
(In percent of GDP, including grants)

	2000	2001	2002	2003	2004	2005 Est.
SACU average	-0.4	-2.0	-3.4	-2.9	-1.3	-2.6
Botswana	4.4	-1.8	-4.0	-2.8	-1.4	-0.7
Lesotho	-1.8	0.6	-4.2	0.7	3.3	-2.5
Namibia 1/	**-1.4**	**-4.5**	**-3.3**	**-7.5**	**-4.1**	**-3.7**
South Africa	-1.9	-1.5	-1.2	-2.0	-1.7	-1.9
Swaziland	-1.4	-2.7	-4.2	-3.1	-2.7	-4.1
Sub-Saharan Africa	-1.5	-2.6	-2.8	-2.2	-0.4	0.5

1/ Figures refer to fiscal years.

Source: African department databases and Fund staff estimates.

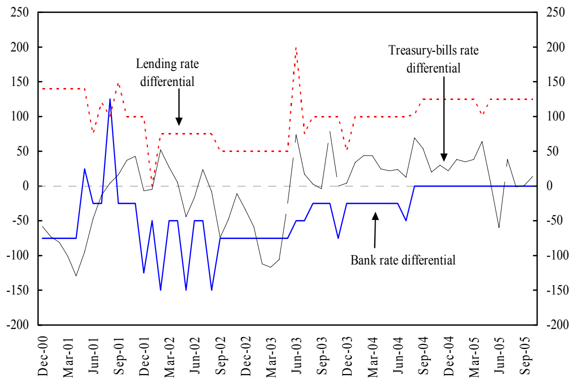
Figure 6. Namibia: Central Government Revenue, Expenditure, and Budget Balance, 2000/01–2005/06
(In percent of GDP)



Source: Namibian authorities, and Fund staff projections.

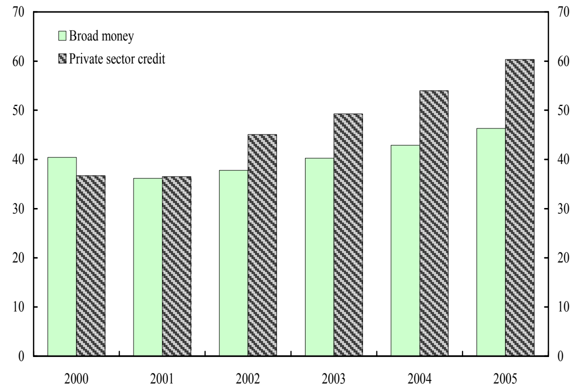
8. **Namibia's monetary policy is determined by the peg to the South African rand** (Box 1). Since early 2003, the BoN has reduced the Bank Rate in steps from 12¾ to 7 percent in tandem with reductions in South Africa's policy rate. In the process, the BoN removed the negative interest rate differential vis-à-vis South Africa. Reflecting lower interest rates, credit to the private sector grew 19½ percent in 2004 and 20¼ percent year-on-year in September 2005 (Table 4).

Figure 7. Namibia: Interest Rate Differentials vis-à-vis South Africa, Monthly, December 2000–September 2005
(In basis points)



Source: Bank of Namibia.

Figure 8. Namibia: Money and Credit, 2000–2005
(In percent of GDP)



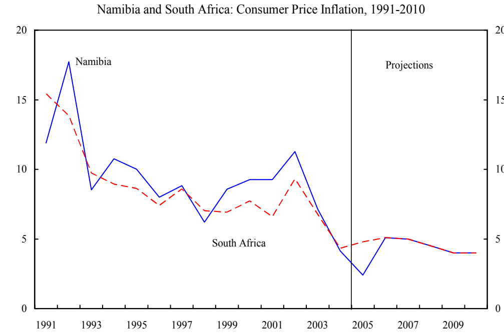
Sources: Namibian authorities, and Fund staff estimates.

Box 1. Namibia's Exchange Rate Peg

Namibia is a member of the Common Monetary Area (CMA), which also comprises South Africa, Lesotho, and Swaziland. Like the other small CMA members, Namibia pegs its currency to the South African rand, which also serves as legal tender. Each CMA member has its own central bank and responsibility for foreign exchange transactions within its territories. A bilateral agreement with South Africa requires Namibia to back its currency 100 percent with foreign exchange. The backing stood at 190 percent at end-September 2005.

The peg has helped maintain macroeconomic stability; integrate Namibia's economy with that of its neighbors; and promoted trade, financial development, and free flows of capital with South Africa. The peg also links Namibia to South Africa's inflation targeting framework, and in the last two years Namibia's and South Africa's inflation rates have converged. The Bank of Namibia has used the limited flexibility under the peg to maintain, over an extended period, a negative interest rate differential relative to South Africa's key policy rate, to promote economic development. Consistent with Fund policy advice, this differential was eliminated in 2004 to safeguard international reserves.

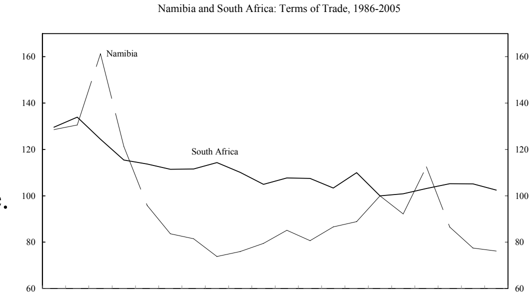
Namibia and South Africa: Consumer Price Inflation, 1991-2010



Source: IMF Data

The peg has subjected Namibia to exchange rate volatility as the rand experienced extensive periods of sharp depreciation (during 2000-02) and appreciation (during 2002-04). In addition, Namibia's terms of trade have been negatively correlated with South Africa's during the last decade. While a large portion of Namibia's non-diamond exports goes to South Africa and four-fifths of its imports originate there, South Africa's trade pattern is much more diversified.

Namibia and South Africa: Terms of Trade, 1986-2005



Source: IMF Data

Chapter IV in the accompanying Selected Issues Paper discusses these issues in greater detail.

II. Policy Discussions

A. Overview

9. **Namibia's transition to a new government and new president proceeded smoothly in 2005.** President Pohamba assumed office in March and his party, SWAPO, now holds three-quarters of the seats in parliament. The new administration has expressed a determination to address corruption, reduce poverty, curb public spending, and improve public services. President Pohamba's election has been accompanied by a new openness. Namibians are debating where their country stands after 15 years of independence and the press is willing to criticize the government. The recent uncovering of several corruption scandals seems to reflect this new atmosphere rather than a worsening of government malfeasance.

10. **The new government has reiterated its commitment to macroeconomic stability, which has also been recognized by international financial markets**. In January 2006, Namibia received an investment grade rating of BBB- for long-term foreign currency from Fitch in its first sovereign rating. The authorities see the rating as a useful benchmark but have no current plans to borrow on international markets.

11. **However, the authorities repeatedly raised the issue of Namibia's classification as a middle-income country**. They argued this hinders their ability to obtain concessional financing and address Namibia's development needs. They stressed that per-capita GDP is a misleading indicator as the basis for donor support and does not adequately reflect Namibia's wide-spread poverty, unemployment, and HIV/AIDS—problems similar to those in other SSA countries.

12. **Against this background of a smooth political transition and the new government's commitment to macroeconomic stability and economic development, the discussions focused on**:

- Addressing Namibia's medium-term challenges to growth.
- Achieving the Millennium Development Goals (MDGs) and reducing poverty.
- Pursuing a prudent fiscal policy.
- Maintaining the exchange rate peg and building international reserves.
- Addressing issues identified by the Financial Sector Assessment Program (FSAP).

There was broad agreement between the authorities and staff on the key policy recommendations.

Staff Policy Recommendations		
	Short-Term Challenges	Medium to Long-Term Challenges
Crucial	Pursue Fiscal Consolidation Build International Reserves Implement Strategy to Fight HIV/AIDS	
	Strengthen Revenue Administration Address Regulatory and Supervisory Gaps in Banking and NBFIs	Reform Education Contain Civil Service Wage Bill Reorient Spending To Priority Sectors
Important	Relax Immigration Policies Reconsider Amendments to Labor Act Reduce Red Tape Clarify Rules for Land Reform Reconsider Domestic Investment Requirements	Reform/Privatize Parastatals Adopt More Active Role in Trade Negotiations Improve Access to the Financial System Enhance Governance Diversify Exports
Consider	Provide A Cash Grant to Fight Poverty	
	Revisit the Fiscal Rule	Join A Monetary Union

B. Economic Prospects and Risks

13. **The authorities expect growth to moderate to 3½ to 4 percent over the medium-term** (Table 5). While external demand would remain a key determinant of growth and help safeguard the current account surplus, the authorities expected domestic demand to strengthen as well. In the staff's view, these projections are feasible provided the authorities pursue appropriate macroeconomic and structural policies. In 2006 and 2007, growth should accelerate with the introduction of new technologies to mine diamonds (i.e., dredging), increased zinc production, and development of the Kudu gas field.

14. **Potential downside risks could emanate from policy actions or external shocks**.[3] On the policy side, insufficient attention to reducing fiscal deficits could negatively affect the economy. On the external side, risks include a fall in the price or demand for mineral exports, a rise in the exchange rate or oil prices, or shocks to South Africa that affect trade or financial flows. Other risks could arise from social tensions related to land reform or lack of progress in reducing poverty. The external and fiscal debt sustainability analyses suggest Namibia faces only moderate risks from external and public sector debt, if appropriate policies are pursued. However, a passive fiscal policy scenario combined with a less favorable macroeconomic environment could quickly lead to unsustainable public debt levels (Appendices IV and V).

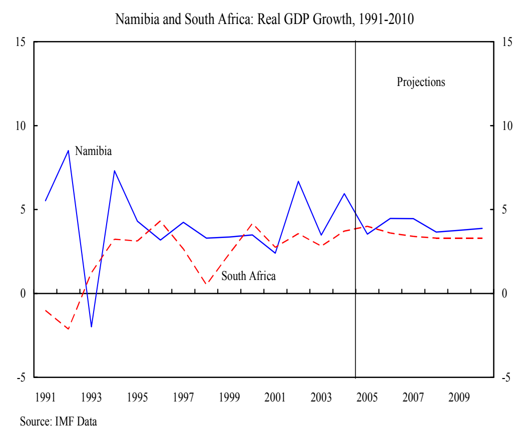
[3] An alternative scenario is presented in the lower panel of Table 5.

C. Medium-Term Challenges to Growth

15. **Given Namibia's dual economy and the constraints imposed by the exchange rate peg, the authorities need to embark upon additional structural reforms to raise Namibia's long-term growth potential, boost investment, and address the problems of poverty, income inequality, and unemployment** (Box 2). The authorities recognize that they need to tackle these challenges. In this regard, a Cabinet retreat in November 2005 provided a forum to discuss various policy options. The authorities reiterated their commitment to prudent macroeconomic policies, with a focus on preserving Namibia's relatively low public debt ratio compared to other SSA countries.

Box 2. Namibia's Macroeconomic Context

Namibia's per-capita income is among the highest in Sub-Saharan Africa, but its income distribution is highly skewed. This reflects the existence of a dual economy with a sophisticated modern sector, based on highly capital-intensive mining activities and commercial farming, alongside a large informal sector, mostly comprising subsistence farming. The modern sector is behind much of Namibia's economic growth and high investment rates. In particular, diamond production and investment in new mining technology have driven the volatility of Namibia's growth rates over the last few years.



Pension contributions from the modern and large public sectors have contributed to Namibia's high savings rate, with assets of pension funds and insurance companies of around 100 percent of GDP. These funds have largely been channeled to South Africa's deeper financial markets due to the lack of investment opportunities in Namibia, leaving international reserves at low levels. The accompanying FSSA analyzes the financial sector and its linkages to South Africa.

With a limited ability to exercise an independent monetary policy under the exchange rate peg, fiscal policy is the main macroeconomic policy tool. Fiscal policy has generally been prudent—notwithstanding important slippages in recent years—and geared toward containing Namibia's relatively low public debt ratio. These policy constraints, together with the recent extended period of appreciation, have prompted a realization among the authorities that bold structural reforms are needed to help the economy adjust and raise Namibia's long-term growth potential. Such reforms could also boost the attractiveness of Namibia for domestic and foreign investment.

16. **In prioritizing reforms, there was agreement that strengthening the quality of education would be crucial**. Other important areas of reform include: addressing the impact of immigration restrictions and the Labor Act on labor market flexibility, reforming/restructuring parastatals, making land reform more transparent, and improving governance. The mission also encouraged the authorities to take steps to improve the environment for private sector activity, promote export diversification, and make their views known in trade negotiations.

17. **The authorities have identified education reform as key to raising skill levels, bolstering growth, and reducing unemployment**.[4] There is a widespread perception that the quality of primary and secondary education is low and tertiary institutions do not produce enough students with the right skills. Incentives for firms to provide on-the-job training are low. The World Bank has been assisting the government in developing an education sector strategy.[5] The reforms would focus on raising school enrollment rates, enhancing the quality of teaching, reducing teachers' absences, providing adequate instructional materials, developing education standards, and introducing measures to evaluate outcomes. The mission welcomed the authorities' commitment to education reform, noting that skills development contributes to total factor productivity growth and, ultimately, economic growth. In addition, the mission saw merit in promoting vocational training, which had been stigmatized by its apartheid legacy, and revising curricula to meet the demands of the labor market.

18. **The mission urged the authorities to enhance the flexibility of labor markets by revisiting immigration restrictions and affirmative action rules.** Private sector representatives consistently complained that tightened immigration procedures and requirements for Namibianization have hindered their ability to find qualified employees. The authorities justified the tightened procedures, stating that firms should be able to find Namibians to fill most positions and that Namibianization is necessary to overcome the legacy of apartheid. They also felt some firms had not expended sufficient efforts to train Namibians. The mission took note of the social goals served by Namibianization but stressed that as a small country, Namibia would likely need to look abroad for individuals with essential skills not found at home.

19. **The government has held up implementation of some recently approved amendments to the Labor Act of 1992 pending review of contentious provisions** (Box 3). Employers welcomed measures to streamline procedures for dismissal but feared that additional leave days would reduce productivity and increase labor costs. Labor unions argued that because the process that produced the Act was consultative, the government

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[4] Chapter I of the Selected Issues Paper discusses the link between education and unemployment.

[5] However, the authorities have been hesitant to consider a loan agreement on IBRD terms as they fear a non-concessional loan would deter other donors from providing concessional aid.

should fully implement the legislation. The mission supported the authorities' decision to review the amendments, pointing to the need to safeguard the competitiveness of Namibian companies. It also suggested the authorities consider exempting firms below a certain size from the leave provisions of the Labor Act.

Box 3: Highlights of the New Labor Law

After five years of consultations between the government, employees, and unions, parliament passed a new Labor Act in September 2005. The legislation revamps the dispute resolution process and workers' benefits. Key features include:

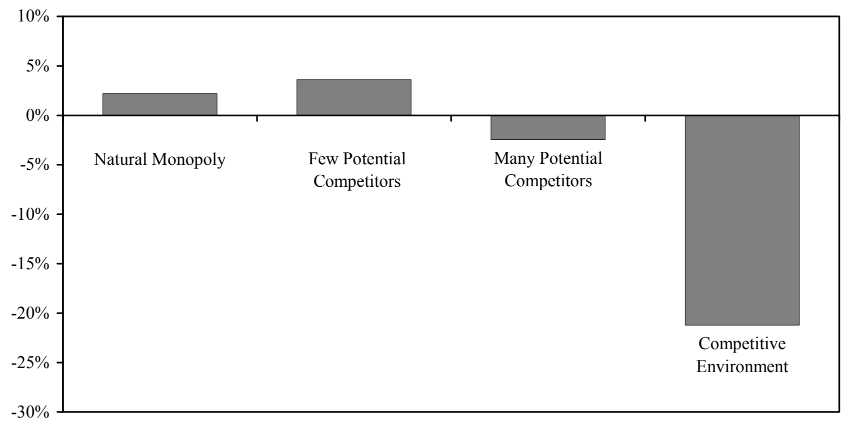
- ***Streamlined procedures to dismiss employees***: Under the current regime, firms can dismiss workers in cases of misconduct or, following consultation with the Labor Commissioner, when the company experiences economic problems. However, dismissal is cumbersome and lengthy in cases of performance problems. Such cases often got caught in the court system for years. The amendments allow the Labor Commissioner to refer disputes regarding alleged unfair dismissals to arbitration rather than the courts (although parties can later appeal to the courts).
- ***Increased leave days***: The law increases minimum vacation days from 18 to 24. Employees are also given 30 days of sick leave, 12 weeks of paid maternity leave, and 5 paid compassionate leave days in case of death or serious illness in the family.

20. **The mission pressed the authorities to develop a clear roadmap for restructuring and/or divesting parastatals** (Box 4). The authorities had made little progress in this area, and subsidies to public enterprises, in particular Air Namibia, averaged 2¼ percent of GDP over the last five years. The mission stressed that subsidies divert resources away from higher return projects and allow parastatals to compete unfairly with private firms. In addition, guarantees to parastatals could expose future budgets to contingent liabilities. The mission suggested that privatization could improve services and help reduce government debt and that allowing foreign investors to participate could facilitate the import of technology and boost international reserves. The mission perceived a heightened sense of urgency among the authorities to reevaluate the role of parastatals and take action. As a first step, the State-Owned Enterprise Act was adopted in January 2006, aimed at harmonizing the operational framework for parastatals and tightening fiscal control over them. Over the medium-term, the authorities did not rule out privatization or some role for foreign investment but emphasized that public enterprises should continue to provide key services, such as water and electricity.

Box 4: Namibian Parastatals - Stylized Facts

Namibia has more than 40 parastatals engaged in commercial activities. However, many receive substantial subsidies. Most of these subsidies have been to enterprises operating in competitive sectors, in particular Air Namibia. There is little rationale for subsidizing enterprises in these sectors. In addition, staff analysis indicates that the profitability of Namibia's parastatals declines as the competitiveness of the operating sector increases. Specifically, in 2001 parastatals operating in competitive industries had negative returns to equity that were four times larger than the positive returns of parastatals operating in industries with natural monopolies (p-value=0.06). In this light, continuing subsidies to parastatals in competitive industries is not expected to make them profitable or self-sufficient. Thus, reducing subsidies and redirecting public expenditures to priority sectors may improve welfare.

Return to Equity and Market Structure, 2001



21. **The authorities clarified their approach to land reform, emphasizing they are proceeding in accordance with the Constitution and the Land Act of 1995 and that land-owners can challenge expropriations in court**. Namibia's "willing buyer, willing seller" policy for purchasing and redistributing commercial land in the south has proceeded slowly.[6] Moreover, due to adverse climate, lack of skills and finance, and small farm size, many of the resettled farms are unprofitable. The authorities have recently initiated expropriations against compensation of 20 farms under a more aggressive approach. However, they are awaiting resolution of these cases through negotiations and the courts before proceeding further. The mission urged the government to base land reform on objective and transparent criteria, such as the underutilization of land, so as not to hinder investment or adversely affect agricultural output. The authorities did not fear such

[6] See Box 5 in IMF Country Report No. 05/97 for details.

consequences, but stated they would monitor the situation. The mission stressed that resettled farmers should be provided with appropriate skills, as well as access to finance, equipment, and other inputs. It also noted that optimizing the use of communal land in the north could improve the livelihood of much larger segments of the population than resettlement.

22. **The authorities pointed to recent efforts to enhance governance.** An Anti-Corruption Commission (ACC) was established in June 2005 and its members appointed in late 2005 to investigate instances of corruption, bribery, use of public resources for private gain, and rigged tenders. The mission stressed the importance of giving the ACC adequate resources and making it fully operational in 2006.

23. **The World Bank's *Doing Business* database suggests that Namibia's business environment lags behind the developed world, but is on a par with many countries in the region**. Namibia ranked a relatively favorable 33 out of 155 economies, but ranked low on starting a business (76th) and the ease of registering property (118th). The mission suggested steps to simplify business regulations and cut red tape, with a particular view to promoting the emergence of SMEs. This would complement the FSAP's recommendations on improving access to finance (see below). The authorities were receptive to these suggestions, as they also saw SMEs as a potential vehicle to diversify the economy and provide jobs in rural areas.

24. **The authorities were eager to promote export diversification**. They saw scope to develop agro-industries, aquaculture, high-end tourism, electricity production, and some niche industries such as cement and small-scale processing of diamonds, other minerals, and leather products. They hoped Namibia's strong economic performance and structural reforms could help attract foreign investors. However, they have become more cautious with respect to providing tax incentives, following disappointing efforts to develop a textile industry.[7] The mission suggested that the private sector take the lead on diversifying Namibia's exports. However, the government could play a role by creating a level playing field and implementing the structural reforms to facilitate the emergence of new production and export opportunities.

25. **The mission urged Namibia to take a more active stance in trade negotiations in order to foster its growth and export objectives, and aim at promoting trade flows through a reduction in the average tariff**. Namibia participates in negotiations between the Southern African Development Community (SADC) and the EU on the Economic Partnership for Africa (EPA) and in negotiations between the SACU and the United States on a free trade agreement.

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[7] The authorities are currently reviewing tax incentives in economic processing zones (EPZs) and have changed the decision process for granting such incentives. Decisions are now taken by an inter-ministerial committee, with the Ministry of Finance formally represented. The authorities expect these changes to ensure a broader and more thorough assessment of costs and benefits.

D. Reaching the MDGs and Tackling Poverty

26. **The mission commended the authorities for incorporating the MDGs into their long-term strategy** (Table 6). Namibia is on track to meet some targets, such as environmental sustainability and gender equality, ahead of schedule. However, Namibia lags in other areas such as poverty reduction, education, and health and, on current trends, is likely to miss key MDGs by 2015.[8]

27. **The mission welcomed the successful implementation of the third medium-term plan (MTP III) strategy to fight Namibia's relatively high HIV/AIDS prevalence rate**.[9] Based on current indications, the number of beneficiaries of anti-retroviral therapy could reach 50,000 by 2009, compared to an initial target of 25,000. This accelerated implementation has been made possible through donor assistance, a drop in prices for drugs, and accelerated government spending. The mission suggested that the authorities allocate additional resources for treatment and stepped-up efforts to reduce HIV infections. The mission commended the authorities for their mass awareness campaigns.

Text Table 5. HIV/AIDS Prevalence in SACU Countries

(In percentage of adult population, ages 15-49)

	2003
Botswana	37.3
Lesotho	28.9
Namibia	**21.3**
South Africa	15.6
Swaziland	38.8
Sub-Saharan Africa	7.2

Source: World Development Indicators database, 2005

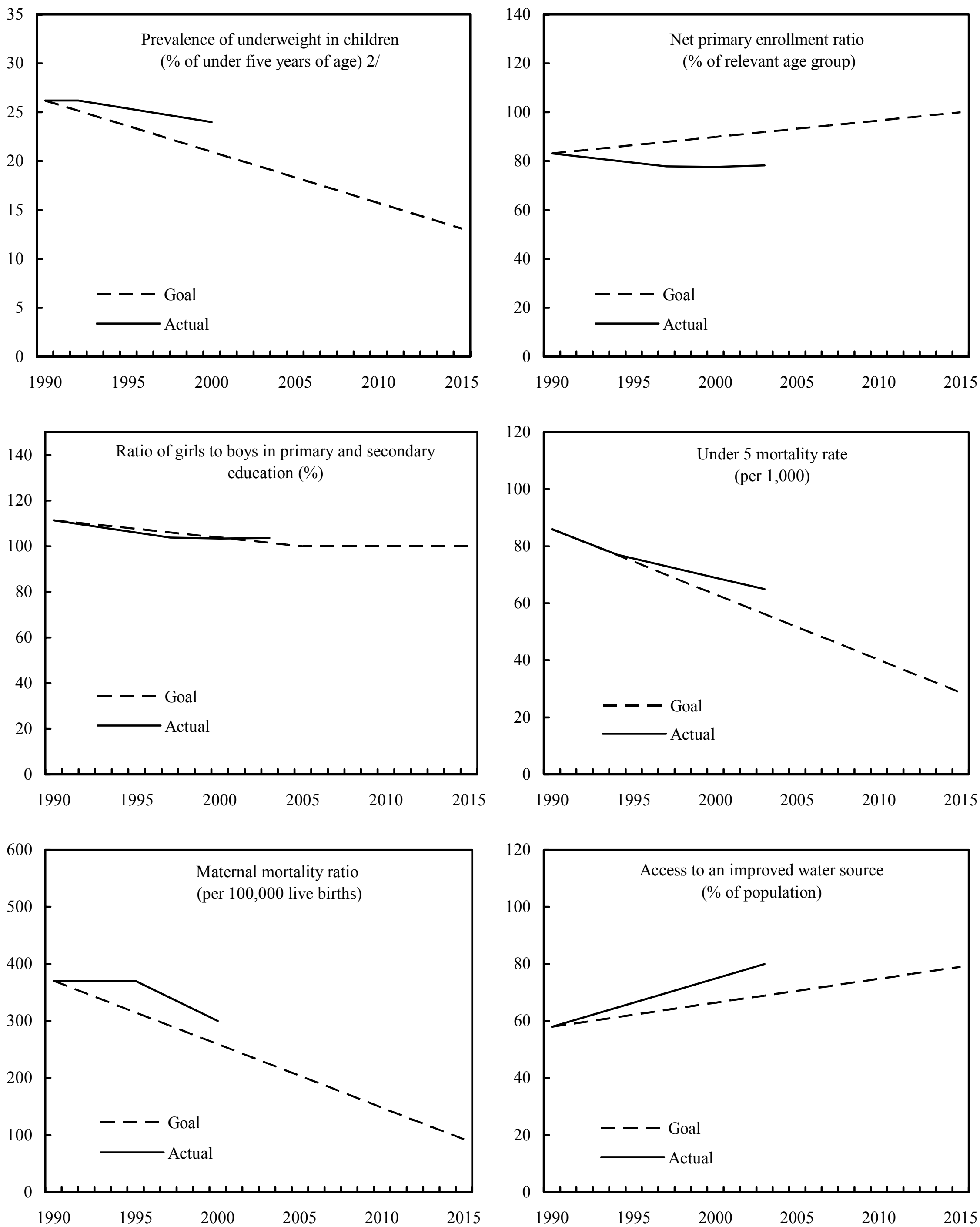
28. **A coalition of churches, NGOs, and unions has proposed the introduction of a Basic Income Grant, BIG** (Box 5).[10] The mission discussed this proposal with the coalition as well as the government. The coalition felt that the BIG could significantly reduce poverty at minimal administrative cost. The government had not yet taken a position on the proposal but expressed concerns about the budgetary cost and the impact on incentives to work.

[8] Lack of recent data on household income and unemployment hampered the analysis. Current data are based on a household survey from 1994 and labor survey from 2002. The authorities expect new surveys to be released in 2006.

[9] See Chapter I in IMF Country Report No. 05/96 on the impact of HIV/AIDS on growth. The analysis concluded that slippages in the implementation of structural reforms and of the MTP III strategy would lower economic growth by one percent of GDP per year over the next five years as a result of lower contributions of human capital and total factor productivity.

[10] See Selected Issues Paper, Chapter II for the feasibility of a cash grant to address poverty.

Figure 9. Namibia: Progress Toward Selected Millennium Development Goals, 1990-2015 1/
(In percent, unless otherwise indicated)



Sources: World Bank, http://www.developmentgoals.org; and United Nations, http://unstats.un.org.
1/ Progress is measured compared to a linear projection between the 1990 level and the end year goal.
2/ Actual data for 1990 is assumed to be equal to 1992 level, due to lack of data.

Box 5: The Basic Income Grant (BIG)

The BIG coalition proposes a monthly cash grant of N$100 (US$15) for all Namibians below 60 years of age, regardless of income. This would move the majority of the population above the poverty line. The grant would also help improve basic nutrition levels which in turn could increase the productivity of the work force and the effectiveness of HIV/AIDS treatment. The BIG coalition maintained that a universal grant would not discourage people from working, but enable them to overcome a vicious circle of poverty and unemployment. As the needs of Namibia's poor are urgent, the coalition favored a quick rollout of the program. In their view, the BIG would also avoid the usual problems of targeting cash grants and limit possibilities for abuse. The administrative cost of the distribution system (smart cards, bank accounts, and fixed payout points in rural areas) would be less than 10 percent. The economy would benefit through increased consumption, which would serve as an engine for rural economic development.

The BIG coalition estimates the cost of their proposal at 2¼ to 3¾ percent of GDP. It contends that this could be recouped through a 7 percentage point increase in the VAT and an increase in the income tax. The financing would redistribute income as the rich consume more than the poor and pay more in increased VAT and income tax than they would receive as a cash grant.

29. **The mission recognized the need to provide an adequate social safety net, but considered that the BIG could compromise fiscal sustainability.** According to staff calculations, financing the BIG through the VAT would be more costly than the BIG coalition contends and would require increasing the tax rate by at least 15 percentage points, to 30 percent, at a cost of 5½ percent of GDP. In addition, a large VAT increase could have high distortionary costs, given the narrow tax base. The mission brought up the example of other countries which have succeeded with cash grants that link payments to promotion of the MDGs, thereby fighting both current and future poverty.[11] Such grants could be more affordable as well. The mission recommended that any grant scheme be implemented gradually to contain costs, gain experience, and tackle administrative obstacles. The authorities agreed that any new program should be linked to a review of existing social safety net programs to achieve synergies and free up resources. In this context, staff analysis indicates that the cost of the non-contributory pension grant paid to all Namibians aged 60 or older is limited and the system is sustainable.[12]

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[11] For example, in Mexico and Brazil, cash grants are conditional on school enrollment and regular visits to health clinics to boost education and health.

[12] See Selected Issues Paper, Chapter III for details.

E. Fiscal Policy

30. **The authorities reiterated their commitment to a prudent fiscal policy**. Following the higher-than-expected deficit and problems with budget monitoring in 2004/05, they stated their intention to take corrective actions, by increasing revenues, particularly from the VAT, and restraining expenditures, particularly personnel spending.[13] The authorities remained optimistic about achieving their deficit target of 2¼ percent of GDP for 2005/06 and moving toward a balanced budget over the medium term (Box 6).

Box 6: The Medium-Term Expenditure Framework (MTEF)

The authorities project balanced budgets for 2006/07 and 2007/08 in their MTEF. This would reduce the public debt-to-GDP ratio from 33½ to 27 percent, on track to achieve the authorities' target of 25 percent by the end of the decade. This adjustment would be based on a significant reduction in expenditure, which would decline by one-sixth in terms of GDP over three years. The authorities explained that the MTEF is designed to reduce the public debt ratio to the targeted level but does not specify what steps the government would take to achieve this target. The authorities agreed that the MTEF targets are ambitious and that the envisioned drop in expenditure would be difficult to achieve. Staff project that the fiscal deficit will decline only gradually, from 3¾ percent of GDP in 2005/06 to 2½ percent of GDP by 2007/08, taking into account the impact of efforts to strengthen tax administration and rein in wages and subsidies.

Namibia: Central Government Operations 1/
(in percent of GDP)

	2004/05	2005/06		2006/07		2007/08	
	Est.	Staff Proj.	Budget	Staff Proj.	MTEF	Staff Proj.	MTEF
Revenue and grants	30.4	31.0	30.9	30.8	30.7	31.2	27.9
Expenditures	34.5	34.6	33.0	34.2	30.6	33.8	27.7
Overall balance	-4.1	-3.7	-2.2	-3.4	0.1	-2.6	0.3
Primary balance	-1.3	-0.9	0.6	-0.7	…	0.1	…
Public debt	33.6	35.1	32.0	35.5	29.4	35.1	27.1
Memorandum item:							
Extrabudgetary spending	0.5	0.4	1.1	0.6	1.0	0.3	0.5

1/ Presented in staff's definition, which incorporates extra-budgetary spending financed by external loans under expenditure and the overall balance. The authorities exclude this figure in their budget presentation.

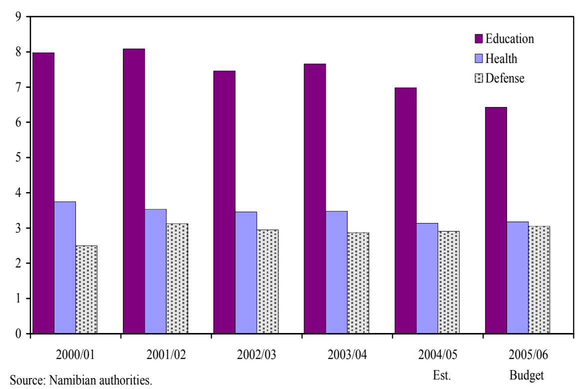
[13] Budget monitoring suffered from double-counting of some revenues, lack of information on collection of non-tax revenues, and delayed reporting of expenditures. To address these concerns, the Ministry of Finance has introduced a pilot real-time monitoring system.

31. **The mission expressed concern that deficit reduction had fallen short of objectives**. It noted that fiscal adjustment was necessary to support the exchange rate peg and that the decline in interest rates created an opportunity to address the fiscal deficit at minimum risk to economic growth. The mission also underscored the importance of realistic budgets. It projected the 2005/06 budget deficit at 3¾ percent of GDP, reflecting possible expenditure overruns on subsidies and the wage bill. It urged the authorities to aim at a lower deficit of around 3 percent of GDP, by restraining spending and enhancing budget monitoring and control systems. If these measures proved sufficient to limit the deficit to 3 percent of GDP, the mission supported the government's intention not to table a supplementary budget in 2005/06, as supplementary budgets had tended to erode fiscal discipline. The authorities stressed they would take the steps necessary to secure a deficit close to the original target.

32. **While tax revenue fell short of expectations in 2004/05, the authorities pointed to strong tax collections from corporations and individuals for the first half of 2005/06**. They attributed the increase to forensic audits of corporations carried out by private auditors, which have enhanced tax compliance, and stepped-up collection of personal income taxes. The mission welcomed the increased collections but urged a more systematic strengthening of tax administration to help counter the projected medium-term decline in SACU receipts. In this regard, the Fund will provide technical assistance (TA).[14]

33. **The authorities noted that controlling spending, particularly personnel expenditures and subsidies to parastatals, had presented a challenge, which had prevented them from reorienting spending toward priority sectors.** The mission noted that a redoubling of efforts to reorient expenditure toward health, education, poverty alleviation, and infrastructure would be conducive to growth and the achievement of the MDGs while helping preserve public debt sustainability. In particular, education reform could help reverse the declining trend of education spending, although there also is significant potential to enhance the efficiency of such spending.

Figure 10. Namibia: Functional Distribution of Central Government Expenditure, 2000/01–2005/06
(In percent of GDP)



Source: Namibian authorities.

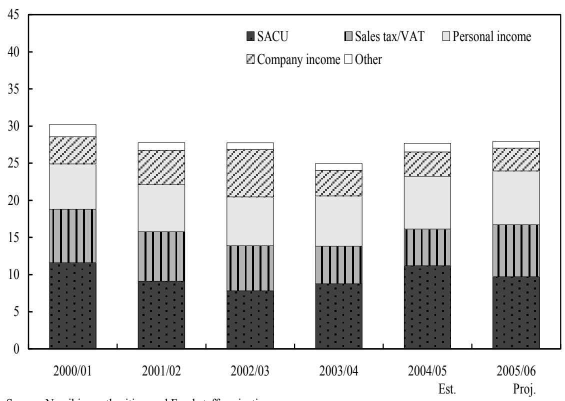
34. **The mission urged the authorities to reduce the wage bill, which accounted for 43 percent of spending and 14¾ percent of GDP, well above the average for SSA countries**.[15] Efforts to contain personnel expenditure included a hiring freeze, and limiting

[14] FAD missions will visit Namibia in 2006 to provide TA on revenue forecasting, revenue administration, and diamond taxation. In addition, a fiscal ROSC has been approved.

[15] See Chapter III in IMF Country Report 05/96 for a discussion of Namibia's wage bill.

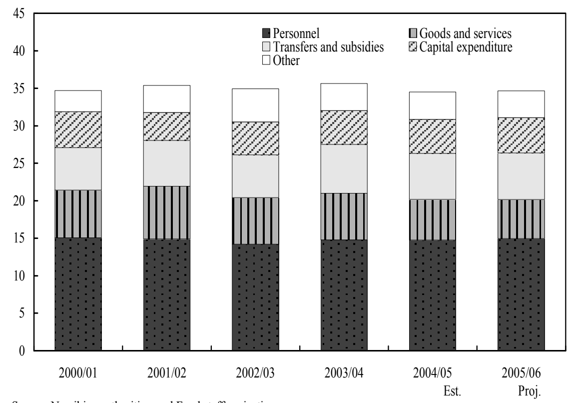
increases in civil service wages and benefits. The mission recommended that wage increases be limited to the inflation rate. Recognizing civil servant wages are a key source of income for extended families, the mission did not advocate layoffs. Instead, it recommended developing a strategy to determine the appropriate structure and remuneration of the civil service. The strategy should consider reallocating staff across ministries, eliminating redundant government functions, and reducing staff through attrition.

Figure 11. Namibia: Composition of Central Government Tax Revenue, 2000/01–2005/06
(In percent of GDP)



Source: Namibian authorities, and Fund staff projections.

Figure 12. Namibia: Composition of Central Government Expenditure, 2000/01–2005/06
(In percent of GDP)



Source: Namibian authorities, and Fund staff projections.

35. **The authorities are considering ways to modify the administration of oil prices through the National Energy Fund (NEF)**. They currently adjust retail oil prices quarterly, but a limited pass-through of price increases in 2005 reduced the NEF's reserves. The authorities are considering switching to monthly price adjustments. The mission suggested revisiting the rationale for the NEF and urged its eventual termination, with a view to allocating resources more efficiently and avoiding the need for budgetary subsidies.

36. **The mission noted the authorities would have difficulty achieving the medium-term debt target of 25 percent of GDP in light of a current debt level of 33½ percent of GDP.** The fiscal DSA suggests that even with moderate efforts to enhance revenue performance and curtail spending, the ratio would stabilize at that level over the medium term (Appendix V). Moreover, slower fiscal adjustment than contemplated by the baseline scenario or the need to increase priority expenditures could make achieving the target difficult. The mission supported a public benchmark to guide fiscal policy, but suggested that the target ratio should be realistic, credible, and sufficiently ambitious. In that light, the government could consider raising the target debt ratio, at an appropriate time, to an achievable level. The mission suggested an appropriate ratio could be in the range of 30-35 percent of GDP.

37. **The authorities shared the mission's concern about the credibility of the public debt target, but remained committed to a ratio of 25 percent of GDP**. They felt an ambitious target would better help maintain fiscal discipline. While recognizing they would have difficulty meeting the target in the near future, the authorities feared raising it now would undermine their ability to impose fiscal discipline.

F. Monetary and Exchange Rate Policies

38. **The authorities reiterated their commitment to maintaining the peg to the rand**. They acknowledged that the extended period of appreciation had put pressure on the economy to adjust. However, available indicators, such as export market shares and export performance, including of the non-mining sector, suggest the appreciation of 2002-04 has not yet had a major negative impact on exports, growth, or employment, with a few exceptions. Nonetheless, the mission stressed the importance of monitoring competitiveness and recommended the authorities develop additional measures, such as unit labor costs.

39. **The mission urged the authorities to take steps toward increasing international reserves so as to bring the reserves/short-term debt ratio and the import coverage of reserves to more comfortable levels**. The authorities noted, however, that on the basis of other measures, foreign exchange reserves appeared sufficient. For example, reserves stood at two times currency in circulation at end-2005.

40. **Creating greater domestic investment opportunities was seen as the best way to raise international reserves**. In this regard, the authorities appreciated the FSAP recommendations (Box 7). However, they expressed reservations on the recommendation to curtail domestic investment requirements, which they considered useful in channeling funds to local investment and not harmful from a prudential point of view.

41. **The authorities expressed skepticism they could increase reserves through policy actions, such as raising interest rates or purchasing foreign exchange**. They argued that entities that hold foreign assets, such as NBFIs, are not sensitive to short-term interest rates set by the central bank. They also stressed that purchases of foreign exchange had not been effective, as the additional liquidity in the local currency was ultimately returned to the BoN for conversion into rand and invested in South Africa.

42. **While acknowledging these concerns, the mission emphasized that confidence in the peg requires maintaining adequate reserves to guard against balance of payments shocks**. It urged the authorities not to rule out establishing a positive interest rate differential vis-à-vis South Africa, particularly if pressure on the currency occurs. It argued that foreign exchange intervention may not have been effective at accumulating reserves because the BoN had not sterilized excess liquidity. The mission advised the BoN to systematically enhance its capacity to manage short-term liquidity through open market operations, which could facilitate such sterilization and help develop domestic money and foreign exchange markets. More active liquidity management would also be desirable in light of the increasing settlement of payments under the new national payments system.

Box 7: Namibia's Financial Sector Assessment Program (FSAP)

The FSAP recommendations, detailed in the accompanying FSSA, focus on:

- ***Upgrading the Supervisory and Regulatory Framework***: With regard to banks, Namibia meets most of the requirements of the Basel Core Principles, but gaps include the lack of supervision of bank holding companies and financial groups, and the absence of regulatory requirements on market and country risks. With regard to nonbank financial institutions (NBFIs), the authorities should improve the capacity of the sector's regulatory body, NAMFISA. They should also subject specialized financial institutions to supervision by the BoN. NAMFISA should compile and analyze reliable data on NBFIs and be given a mandate to regulate market conduct.
- ***Developing Domestic Investment Opportunities***: The FSAP recommended the authorities reconsider or drop proposals to: (i) compel additional investment in domestic assets; and (ii) require NBFIs to invest 5 percent of their assets in unlisted Namibian companies. Such measures could lower investment returns, direct funds to unprofitable projects, and raise NBFIs' risk exposures. To make domestic investments more attractive, the FSAP proposed steps to develop domestic money and foreign exchange markets and to promote securitization, leasing and factoring, and private equity investment.
- ***Improving Access to Financial Services***: The FSAP recommended that the authorities: (i) require banks to improve the transparency of their fees and charges; (ii) foster greater competition by encouraging the development of PostBank and new financial institutions such as credit unions; (iii) revisit the role and rationale of the specialized financial institutions; and (iv) replace the Usury Act with a Consumer Credit Act.

43. **The mission welcomed the authorities' studying ways to strengthen integration within the region, including the possibility of a monetary union**. It noted that establishing a common central bank and common currency within the CMA could have benefits by giving Namibia a greater voice in the setting of monetary policy, lowering transaction costs on trade and capital flows, and eliminating the need to manage a separate pool of foreign exchange reserves.[16] However, as the Namibian authorities would no longer have the option to adjust monetary policy or the exchange rate to respond to economic shocks, the government would need to pursue appropriate fiscal policy and ensure flexibility of the labor and capital markets. The authorities indicated that they would continue to study the issue, in conjunction with other members of the CMA.

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[16] Chapter IV of the Selected Issues Paper contains a discussion of the pros and cons of joining a monetary union.

G. Financial Sector Policies

44. **The FSAP concluded that Namibia has a stable and profitable financial sector, although there are signs of vulnerabilities** (Table 7). Financial intermediation is relatively high. Banks are profitable and well capitalized, with capital adequacy ratios averaging 15 percent and nonperforming loans at only 3 percent. Stress tests confirmed the system's resilience to plausible macroeconomic shocks. However, vulnerabilities could arise from large exposures to the real estate sector, the rapid growth of consumer and mortgage lending, and spillovers from adverse financial sector developments in South Africa. While the regulatory and supervisory frameworks for the financial sector were judged broadly satisfactory, the FSAP identified weaknesses in their implementation, especially for NBFIs.

45. **The authorities expressed appreciation for, and broadly agreed with, the FSAP conclusions**. In particular, they have: (i) begun to implement measures to ensure compliance with the Basel Core Principles; (ii) given priority to strengthening the regulatory framework for NBFIs; (iii) agreed to consider bringing the specialized financial institutions under the supervision of the BoN; (iv) supported expanding domestic investment opportunities, by developing leasing, factoring and asset securitization; and (v) may consider abolishing or raising the usury rate provided that the Usury Act's role in protecting consumers is safeguarded. The authorities indicated they may request TA to help address these recommendations.

III. Statistical Issues

46. **The authorities have improved coverage of the national accounts, introduced a nationwide consumer price index, and enhanced monitoring of short-term private sector debt**. Data are generally adequate for surveillance purposes, but shortcomings have affected analysis of cross-border capital flows. In this context, the mission welcomed the authorities' intention to reconcile their international investment position with that of South Africa and with balance of payments data. It also recommended improvements in fiscal data and the collection of statistics on the labor market, employment, and wages.

IV. Staff Appraisal

47. **With generally prudent macroeconomic policies, Namibia has enjoyed relatively robust growth, falling inflation, and strong external surpluses in recent years**. Nonetheless, Namibia faces a number of significant macroeconomic challenges. These include high unemployment, widespread poverty, and high prevalence of HIV/AIDS.

48. **The authorities should be commended for engaging in a public debate on how to tackle these challenges while reiterating their commitment to macroeconomic stability**. While the exact shape of future reforms is still emerging, the need to enhance the quality of education will be key. Strengthening skill levels and ensuring that students' skills meet the needs of the labor market are the most promising avenues to induce a noticeable dent in unemployment. In the short run, relaxing immigration restrictions would allow for an increased supply of skilled labor. In addition, the government should carefully evaluate key

provisions in the new Labor Act and their Namibianization efforts, as both may impose costs on enterprises and make labor markets less efficient.

49. **The authorities should make additional efforts to promote domestic investment, reform public enterprises, and clarify land reform**. With regard to domestic investment, further steps are needed to develop financial markets and instruments and reduce impediments to entrepreneurship, including access to finance. With regard to public enterprises, the government should not subsidize insolvent or unprofitable parastatals, especially those operating in competitive environments, but consider restructuring or privatizing them. With regard to land reform, the current structure of land ownership in not sustainable. However, expropriations of commercial land should be based on objective and transparent criteria and continue to be in full accordance with the Constitution. Another option to address the plight of the rural poor is to improve the use of communal land.

50. **Namibia has made progress toward meeting the MDGs but stronger action is needed**. The authorities are providing HIV/AIDS treatment ahead of schedule and are encouraged to persevere in this area. The government may also want to consider new approaches to poverty reduction, including cash grants. However, the BIG proposal could put macroeconomic stability at risk and compromise prudent fiscal policy. Any cash grant program should be targeted and rolled out gradually to contain costs, gain experience, and tackle administrative obstacles.

51. **The authorities have made progress on fiscal consolidation but should do more**. Although the fiscal deficit declined in 2004/05, the scope of adjustment was disappointing as revenue fell short of expectations and expenditures exceeded budgetary appropriations at some ministries. Without a stronger commitment to rein in spending, the envisaged reduction in the public debt ratio and reprioritization of spending will not be possible. The decline in interest rates has created an opportunity to address the fiscal deficit at minimum risk to economic growth. In addressing the deficit, the authorities should continue their efforts to shore up revenues, particularly through improved tax administration. On the expenditure side, restraining personnel expenditures will be key, and a comprehensive strategy to this effect is urgently needed. This could provide the necessary room to reorient spending toward priority sectors while also helping bring the public debt ratio on a downward path. The targeted public debt ratio of 25 percent of GDP earlier helped to provide fiscal discipline but now has lost some credibility. Having a target helps impose fiscal discipline but the government should consider moving to a higher, more credible target. Overall, the authorities are encouraged to base their medium-term expenditure framework on realistic assumptions.

52. **The appreciation of the currency since 2002 has so far had limited economic impact, and competitiveness remains broadly adequate.** Nevertheless, the authorities are encouraged to carefully monitor competitiveness and develop more refined measures to this end, such as unit labor costs.

53. **With a view to strengthening the peg to the rand, the authorities should consider market-oriented steps to increase international reserves**. While strengthening domestic investment opportunities is most promising in this regard, the BoN should make additional efforts to purchase foreign exchange and, if necessary, sterilize these purchases to limit offsetting flows into the South African rand. The authorities should not rule out the possibility of establishing a positive interest rate differential vis-à-vis South Africa, particularly if a crisis should occur. Finally, the authorities are urged to implement the FSAP recommendations as soon as practicable.

54. Staff recommend that Namibia remain on the standard 12-month consultation cycle.

Table 1. Namibia: Selected Financial and Economic Indicators, 2000-10

	2002	2003	2004	2005	2006	2007	2008	2009	2010
				Est.			Projections		
	(Annual percent change, unless otherwise noted)								
National income and prices									
GDP at constant 1995 prices	6.7	3.5	5.9	3.5	4.5	4.5	3.7	3.8	3.9
GDP deflator	11.4	-0.6	2.9	2.0	5.0	5.0	4.3	3.8	4.5
GDP at current market prices (N$ million)	32,908	33,840	36,901	38,986	42,744	46,882	50,670	54,590	59,257
GDP per capita (U.S. dollars)	1,591	2,250	2,849	3,022	3,168	3,355	3,537	3,689	3,875
Consumer price index (period average)	11.3	7.2	4.1	2.4	5.1	5.0	4.5	4.0	4.0
Consumer price index (end-of-period)	12.5	2.6	4.3	4.0	5.0	4.8	4.3	4.0	4.0
External sector									
Exports (U.S. dollars)	-6.1	16.6	45.8	-9.3	9.1	4.0	0.4	2.9	5.7
Imports (U.S. dollars)	-4.6	33.7	23.1	8.3	3.0	5.6	5.6	5.6	5.6
Export volume	2.1	20.9	8.7	-12.8	5.3	6.4	2.0	3.0	4.5
Import volume	20.3	5.2	5.9	3.9	6.3	6.0	5.1	5.3	5.4
Terms of trade	16.0	-24.0	15.4	-0.2	3.6	-2.7	-3.0	2.0	3.3
Real effective exchange rate	-5.1	12.6	4.3	…	…	…	…	…	…
Central government finance 1/									
Revenue and grants	16.8	-6.8	16.7	8.6	9.1	10.7	7.8	9.4	8.8
Expenditure and net lending	12.8	6.6	4.7	7.1	8.3	7.9	6.8	6.5	7.2
Money and credit 2/									
Credit to the private sector	20.2	12.4	19.4	18.1	16.5	15.3	15.0	14.6	14.0
Broad money	6.9	9.6	16.2	14.0	14.4	15.0	15.7	16.6	17.5
	(In percent of GDP, unless otherwise noted)								
Investment and savings									
Gross investment	19.7	29.8	25.5	25.6	26.0	26.3	26.9	27.4	28.2
Public	6.2	7.0	7.2	7.6	7.6	7.6	7.7	7.9	8.0
Private	13.5	22.8	18.3	18.0	18.4	18.7	19.2	19.5	20.2
Gross domestic savings	14.9	23.3	22.9	18.9	20.4	20.5	20.1	20.2	21.3
Gross national savings	25.2	34.9	35.7	31.3	32.6	31.6	31.0	30.9	31.5
Public	2.4	-0.7	0.6	1.7	2.0	2.6	3.0	3.7	4.3
Private	22.7	35.6	35.1	29.6	30.7	29.1	28.0	27.1	27.2
Central government finance 1/									
Revenue and grants	31.6	28.2	30.4	31.0	30.8	31.2	31.2	31.6	31.7
Of which: SACU receipts	7.8	8.8	11.2	9.8	9.5	8.4	8.3	8.0	7.6
Expenditure and net lending	34.9	35.6	34.5	34.6	34.2	33.8	33.4	33.0	32.6
Of which: personnel expenditure	14.2	14.8	14.8	15.0	14.9	14.8	14.7	14.6	14.5
capital expenditure and net lending	6.3	5.6	5.4	5.5	5.4	5.3	5.3	5.3	5.3
Primary balance (- deficit)	-0.8	-5.0	-1.3	-0.9	-0.7	0.1	0.4	1.1	1.4
Overall government deficit including grants	-3.3	-7.5	-4.1	-3.7	-3.4	-2.6	-2.2	-1.4	-0.9
Public and publicly guaranteed debt outstanding/GDP	33.7	39.4	40.1	43.4	43.3	42.4	42.4	41.6	40.2
Public debt outstanding/GDP	23.9	29.5	33.6	35.1	35.5	35.1	35.6	35.2	34.2
External sector									
Current account balance									
Including official transfers	5.4	5.1	10.2	5.7	6.6	5.4	4.1	3.5	3.3
Excluding official transfers	-3.0	-4.7	-1.0	-5.5	-4.3	-4.4	-5.5	-5.9	-5.7
Gross official reserves									
In millions of U.S. dollars	336.2	318.9	352.7	377.5	405.3	454.5	481.5	513.3	562.3
In months of imports of goods and services	2.7	2.0	1.7	1.8	1.8	1.9	1.9	2.0	2.0
External debt/GDP (in percent)	28.1	24.7	22.6	21.7	…	…	…	…	…
Exchange rate (Namibia dollar/U.S. dollar, end-of-period)	8.6	6.6	5.6	6.3	…	…	…	…	…
Exchange rate (Namibia dollar/U.S. dollar, period average)	10.5	7.6	6.4	6.4	…	…	…	…	…

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

1/ Figures are for fiscal year, which begins April 1.
2/ Data for 2003 onwards reflect new monetary data.

Table 2. Namibia: Balance of Payments, 2002-10

(In millions of U.S. dollars)

	2002 Rev.	2003 Rev.	2004 Rev.	2005 Est.	2006	2007	2008 Projections	2009	2010
Current account	169.9	226.9	585.7	350.4	429.6	371.7	304.2	268.6	271.8
Goods	-207.6	-460.2	-283.6	-571.9	-546.8	-606.0	-738.1	-830.6	-874.7
Exports, f.o.b.	1,072.4	1,250.9	1,823.4	1,653.1	1,802.8	1,875.1	1,882.0	1,936.2	2,047.1
Of which : diamonds	533.3	510.9	824.5	686.7	754.7	854.8	852.0	858.1	847.3
other minerals	200.3	182.6	227.5	302.8	339.6	301.7	274.5	267.5	262.0
fish	149.8	229.5	178.7	213.0	241.3	236.5	243.8	250.0	256.6
Imports, f.o.b. (excluding duty)	-1,280.0	-1,711.1	-2,107.0	-2,225.0	-2,349.6	-2,481.2	-2,620.1	-2,766.8	-2,921.8
Services	57.2	170.9	134.9	165.2	188.0	211.5	241.4	273.2	307.2
Transportation	-27.6	-1.1	-64.0	-69.1	-71.2	-77.0	-83.1	-87.6	-92.4
Travel	162.0	256.7	316.3	358.7	384.9	416.7	456.6	496.0	537.8
Other services	-77.2	-84.7	-117.4	-124.4	-125.7	-128.2	-132.1	-135.1	-138.2
Income	45.2	57.9	67.0	71.8	80.0	90.5	95.6	100.9	100.2
Compensation of employees	10.0	-3.7	-4.3	-4.9	-5.2	-5.5	-5.8	-6.2	-6.6
Investment income	35.2	61.6	71.3	76.7	85.2	96.0	101.5	107.1	106.7
Current transfers	275.1	458.3	667.5	685.2	708.4	675.7	705.3	725.1	739.1
Of which: SACU receipts 1/	248.0	386.8	606.8	614.6	630.8	590.0	612.2	624.1	629.7
Capital and financial account	-228.0	-412.0	-614.0	-350.4	-429.6	-371.7	-304.2	-268.6	-271.8
Capital account	40.8	67.4	77.1	61.7	68.7	69.2	66.5	68.2	68.0
Financial account	-268.8	-479.4	-691.1	-412.1	-498.3	-440.9	-370.7	-336.7	-339.7
(Excluding reserve assets)	-156.6	-496.7	-657.2	-387.4	-470.5	-391.7	-343.7	-304.9	-290.7
Direct investment	186.9	158.4	245.7	252.3	268.3	287.0	302.3	317.8	335.9
Portfolio investment	-187.8	-293.4	-336.6	-326.1	-340.0	-343.2	-345.2	-351.8	-355.9
Other investment	-155.7	-361.7	-566.4	-313.6	-398.7	-335.5	-300.8	-271.0	-270.8
Reserve assets	-112.2	17.3	-33.8	-24.8	-27.9	-49.2	-27.0	-31.8	-49.0
Net errors and omissions	58.1	185.0	28.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Trade balance/GDP	-6.6	-10.3	-5.0	-9.3	-8.5	-8.8	-10.1	-10.8	-10.7
Current account/GDP									
Including transfers	5.4	5.1	10.2	5.7	6.6	5.4	4.1	3.5	3.3
Excluding transfers	-3.0	-4.7	-1.0	-5.5	-4.3	-4.4	-5.5	-5.9	-5.7
Exports of GNFS	1,353.9	1,668.0	2,273.3	2,150.3	2,329.5	2,434.7	2,483.2	2,579.3	2,734.9
Exports/GDP (in percent)	43.3	37.3	39.7	35.1	36.0	35.3	33.8	33.4	33.4
Imports of GNFS	1,504.2	1,957.2	2,422.0	2,557.0	2,688.3	2,829.2	2,979.9	3,136.7	3,302.4
Imports/GDP (in percent)	48.1	43.8	42.3	41.8	41.6	41.0	40.6	40.6	40.4
International reserves (end-of-period) 2/	336.2	318.9	352.7	377.5	405.3	454.5	481.5	513.3	562.3
In months of imports of goods and services	2.7	2.0	1.7	1.8	1.8	1.9	1.9	2.0	2.0
Ratio of reserves/short-term debt	1.1	0.4	0.5	0.6	0.7	0.8	0.9	0.9	1.0
Short-term debt (in millions of U.S. dollars)	304.4	719.2	757.2	662.0	621.6	577.1	554.2	551.5	542.9
External debt/GDP (in percent)	28.1	24.7	22.6	21.7	21.7	20.9	19.6	18.3	16.9
External debt (in millions of U.S. dollars) from IIP	879.5	1,103.5	1,291.3	1,328.3	1,404.3	1,446.5	1,439.1	1,413.0	1,384.6
Exchange rate (Namibia dollar/U.S. dollar, end-of-period)	8.6	6.6	5.6	6.3	...	...	...	...	...
Exchange rate (Namibia dollar/U.S. dollar, period average)	10.5	7.6	6.4	6.4	...	...	...	...	...
GDP at market prices (in millions of U.S. dollars)	3,129.2	4,473.4	5,721.2	6,120.6	6,469.5	6,906.8	7,342.3	7,721.1	8,178.4

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

1/ Southern African Customs Union.
2/ Gross foreign assets of the Bank of Namibia, converted to U.S. dollars.

Table 3. Namibia: Central Government Operations 2003/04-2010/11

(In millions of Namibia dollars)

	2003/04	2004/05		2005/06		2006/07	2007/08	2008/09	2009/10	2010/11
		Budget	Est.	Budget	Proj.			Projections		
Revenue and grants	9,754.1	12,067.6	11,387.6	12,324.5	12,372.4	13,495.5	14,941.8	16,109.8	17,624.0	19,169.2
Revenue	9,719.9	11,986.9	11,317.2	12,171.3	12,219.2	13,345.0	14,777.4	15,932.3	17,432.3	18,961.1
Tax revenue	8,632.7	10,732.1	10,358.0	11,196.5	11,156.7	12,068.6	13,350.0	14,391.5	15,753.8	17,105.7
Personal income tax	2,333.6	2,556.1	2,661.9	3,165.7	2,879.8	3,201.6	3,569.5	3,906.3	4,300.5	4,789.7
Corporate income tax	1,198.4	960.7	1,222.2	1,117.3	1,230.6	1,227.7	1,883.4	1,899.5	2,293.1	2,511.8
Diamond mining	175.4	52.0	301.4	48.3	159.5	54.0	598.4	501.8	778.2	856.0
Other mining	3.2	14.9	7.9	6.5	8.6	9.5	10.4	11.3	12.2	13.3
Non-mining	1,019.8	893.8	912.9	1,062.5	1,062.5	1,164.3	1,274.6	1,386.4	1,502.7	1,642.4
VAT and sales taxes	1,756.4	2,680.5	1,827.8	2,820.0	2,788.5	3,101.4	3,460.1	3,814.0	4,200.9	4,651.3
International taxes (includes SACU receipts)	3,035.6	4,206.8	4,206.8	3,728.8	3,893.0	4,138.0	4,000.0	4,300.0	4,450.0	4,600.0
Other	308.7	328.0	439.4	364.7	364.7	399.9	436.9	471.8	509.3	552.9
Nontax revenue	1,087.2	1,254.8	959.2	974.8	1,062.5	1,276.4	1,427.4	1,540.7	1,678.5	1,855.4
Diamond royalties	301.9	500.0	385.4	242.1	412.3	507.2	569.7	594.0	634.4	697.8
Administrative fees, including license revenues	461.1	376.2	348.6	402.1	402.1	484.7	529.6	571.9	617.4	670.2
Other	324.2	378.6	225.1	330.6	248.1	284.4	328.1	374.9	426.7	487.4
Grants (tied)	34.2	80.8	70.4	153.2	153.2	150.5	164.4	177.6	191.7	208.1
Expenditures	12,334.8	12,786.8	12,914.4	13,194.4	13,833.7	14,984.8	16,161.7	17,255.4	18,384.7	19,714.7
Current expenditure	10,387.0	10,609.2	10,888.7	11,082.5	11,638.2	12,621.2	13,627.2	14,518.5	15,430.1	16,477.0
Personnel	5,117.0	5,303.6	5,527.1	5,534.1	5,970.0	6,502.5	7,056.3	7,568.3	8,114.3	8,748.4
Goods and services	2,149.9	1,910.2	2,024.6	1,959.2	2,079.0	2,227.1	2,394.3	2,571.0	2,735.4	2,913.5
Interest payments	864.8	1,125.5	1,040.2	1,109.9	1,109.9	1,173.0	1,263.9	1,337.1	1,394.0	1,416.5
Domestic	813.8	1,050.4	936.1	1,037.2	1,037.2	1,129.4	1,211.3	1,270.3	1,311.0	1,314.2
Foreign	51.1	75.2	104.0	72.7	72.7	43.6	52.6	66.8	83.0	102.3
Subsidies and current transfers	2,255.3	2,269.8	2,296.9	2,479.3	2,479.3	2,718.6	2,912.8	3,042.1	3,186.4	3,398.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	1,561.2	1,848.1	1,696.5	1,934.3	1,884.3	2,066.1	2,257.3	2,489.2	2,742.9	3,038.3
Acquisition of capital assets	1,470.3	1,639.8	1,479.1	1,801.1	1,751.1	1,963.9	2,193.4	2,420.3	2,668.5	2,957.4
Capital transfers	91.0	208.3	217.4	133.2	133.2	102.2	63.9	69.0	74.5	80.8
Net lending	386.5	329.6	329.1	177.6	311.2	297.5	277.2	247.6	211.6	199.4
Overall balance 1/	-2,580.7	-719.2	-1,526.7	-869.9	-1,461.3	-1,489.3	-1,219.9	-1,145.5	-760.7	-545.5
Overall balance excluding extrabudgetary spending 1/	-2,345.6	-538.6	-1,346.1	-411.6	-1,318.0	-1,243.6	-1,058.1	-970.8	-572.1	-340.7
Primary balance	-1,715.8	406.3	-486.6	240.0	-351.4	-316.3	44.0	191.6	633.4	871.0
Statistical discrepancy	22.2	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	2,602.9	719.2	1,527.3	869.9	1,461.3	1,489.3	1,219.9	1,145.5	760.7	545.5
Domestic	2,387.2	558.5	1,374.1	445.6	1,331.8	1,257.5	1,071.9	985.8	588.2	358.3
Bank	…	…	41.8	…	-471.7	-350.0	-250.0	-200.0	-100.0	-50.0
Nonbank	…	…	1,332.3	…	1,803.5	1,607.5	1,321.9	1,185.8	688.2	408.3
External	215.7	160.7	153.2	424.3	129.4	231.8	147.9	159.8	172.5	187.2
Disbursements	235.1	180.6	180.6	458.3	143.3	245.7	161.8	174.7	188.6	204.8
Amortization	-19.4	-20.0	-27.4	-34.0	-13.9	-13.9	-13.9	-15.0	-16.2	-17.5
Memorandum items:										
Public and publicly guaranteed debt	13,635.5	…	14,996.6	…	17,332.6	18,965.6	20,289.7	21,899.5	23,198.7	24,340.1
Public debt	10,213.4	…	12,559.0	…	14,010.8	15,525.5	16,803.4	18,368.8	19,613.9	20,727.8
Domestic	8,606.1	…	10,543.0	…	11,874.8	13,132.3	14,204.2	15,190.0	15,778.2	16,136.5
External	1,607.2	…	2,016.0	…	2,136.0	2,393.2	2,599.2	3,178.8	3,835.7	4,591.3
Publicly guaranteed debt	3,422.1	…	2,437.6	…	3,321.8	3,440.1	3,486.3	3,530.6	3,584.7	3,612.3
GDP at current market prices	34,605.3	37,422.1	37,422.1	39,925.2	39,925.2	43,778.8	47,829.2	51,649.7	55,756.6	60,529.4

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

1/ The "overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account.
By contrast, the "overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the GRN concept.

Table 3. Namibia: Central Government Operations (continued)

(In percent of GDP)

	2003/04	2004/05		2005/06		2006/07	2007/08	2008/09	2009/10	2010/11
		Budget	Est.	Budget	Proj.			Projections		
Revenue and grants	28.2	32.2	30.4	30.9	31.0	30.8	31.2	31.2	31.6	31.7
Revenue	28.1	32.0	30.2	30.5	30.6	30.5	30.9	30.8	31.3	31.3
Tax revenue	24.9	28.7	27.7	28.0	27.9	27.6	27.9	27.9	28.3	28.3
Personal income tax	6.7	6.8	7.1	7.9	7.2	7.3	7.5	7.6	7.7	7.9
Corporate income tax	3.5	2.6	3.3	2.8	3.1	2.8	3.9	3.7	4.1	4.1
Diamond mining	0.5	0.1	0.8	0.1	0.4	0.1	1.3	1.0	1.4	1.4
Other mining	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-mining	2.9	2.4	2.4	2.7	2.7	2.7	2.7	2.7	2.7	2.7
VAT and sales taxes	5.1	7.2	4.9	7.1	7.0	7.1	7.2	7.4	7.5	7.7
International taxes (includes SACU receipts)	8.8	11.2	11.2	9.3	9.8	9.5	8.4	8.3	8.0	7.6
Other	0.9	0.9	1.2	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenue	3.1	3.4	2.6	2.4	2.7	2.9	3.0	3.0	3.0	3.1
Diamond royalties	0.9	1.3	1.0	0.6	1.0	1.2	1.2	1.2	1.1	1.2
Administrative fees, including license revenues	1.3	1.0	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Other	0.9	1.0	0.6	0.8	0.6	0.6	0.7	0.7	0.8	0.8
Grants (tied)	0.1	0.2	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Expenditures	35.6	34.2	34.5	33.0	34.6	34.2	33.8	33.4	33.0	32.6
Current expenditure	30.0	28.3	29.1	27.8	29.2	28.8	28.5	28.1	27.7	27.2
Personnel	14.8	14.2	14.8	13.9	15.0	14.9	14.8	14.7	14.6	14.5
Goods and services	6.2	5.1	5.4	4.9	5.2	5.1	5.0	5.0	4.9	4.8
Interest payments	2.5	3.0	2.8	2.8	2.8	2.7	2.6	2.6	2.5	2.3
Domestic	2.4	2.8	2.5	2.6	2.6	2.6	2.5	2.5	2.4	2.2
Foreign	0.1	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Subsidies and current transfers	6.5	6.1	6.1	6.2	6.2	6.2	6.1	5.9	5.7	5.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	4.5	4.9	4.5	4.8	4.7	4.7	4.7	4.8	4.9	5.0
Acquisition of capital assets	4.2	4.4	4.0	4.5	4.4	4.5	4.6	4.7	4.8	4.9
Capital transfers	0.3	0.6	0.6	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Net lending	1.1	0.9	0.9	0.4	0.8	0.7	0.6	0.5	0.4	0.3
Overall balance 1/	-7.5	-1.9	-4.1	-2.2	-3.7	-3.4	-2.6	-2.2	-1.4	-0.9
Overall balance excluding extrabudgetary spending 1/	-6.8	-1.4	-3.6	-1.0	-3.3	-2.8	-2.2	-1.9	-1.0	-0.6
Primary balance	-5.0	1.1	-1.3	0.6	-0.9	-0.7	0.1	0.4	1.1	1.4
Statistical discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	7.5	1.9	4.1	2.2	3.7	3.4	2.6	2.2	1.4	0.9
Domestic	6.9	1.5	3.7	1.1	3.3	2.9	2.2	1.9	1.1	0.6
Bank	…	…	0.1	…	-1.2	-0.8	-0.5	-0.4	-0.2	-0.1
Nonbank	…	…	3.6	…	4.5	3.7	2.8	2.3	1.2	0.7
External	0.6	0.4	0.4	1.1	0.3	0.5	0.3	0.3	0.3	0.3
Disbursements	0.7	0.5	0.5	1.1	0.4	0.6	0.3	0.3	0.3	0.3
Amortization	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Public and publicly guaranteed debt	39.4	…	40.1	…	43.4	43.3	42.4	42.4	41.6	40.2
Public debt	29.5	…	33.6	…	35.1	35.5	35.1	35.6	35.2	34.2
Domestic	24.9	…	28.2	…	29.7	30.0	29.7	29.4	28.3	26.7
External	4.6	…	5.4	…	5.4	5.5	5.4	6.2	6.9	7.6
Publicly guaranteed debt	9.9	…	6.5	…	8.3	7.9	7.3	6.8	6.4	6.0
GDP at current market prices (N$ millions)	34,605.3	37,422.1	37,422.1	39,925.2	39,925.2	43,778.8	47,829.2	51,649.7	55,756.6	60,529.4

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

1/ The "overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account.
By contrast, the "overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the GRN concept.

Table 4. Namibia: Monetary Developments, 2002-10

(In millions of Namibia dollars, end-of-period)

	2002 Dec.	2003 Dec.	2004 Dec.	2005 March	2005 June	2005 Sept	2005 Dec. Est.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.
								Projections				
Bank of Namibia												
Reserve money	980.8	1,172.9	1,238.6	1,213.4	1,231.6	1,339.5	1,399.1	1,579.3	1,788.2	2,030.6	2,307.6	2,635.6
Currency	819.2	918.9	945.8	918.8	906.4	954.5	1,063.3	1,184.5	1,323.2	1,482.3	1,661.4	1,871.3
Reserves	161.6	254.0	292.9	294.7	325.2	385.1	335.8	394.8	464.9	548.2	646.1	764.3
Net foreign assets	2,886.1	2,110.3	1,977.3	1,912.7	1,874.1	1,818.2	2,377.3	2,706.3	3,102.3	3,355.2	3,665.6	4,065.6
Net domestic assets	-1,905.2	-937.4	-738.7	-699.3	-642.5	-478.7	-978.2	-1,127.0	-1,314.1	-1,324.6	-1,358.0	-1,430.0
Domestic credit	-980.7	-315.7	-637.4	-628.5	-84.9	63.9	-546.8	-546.8	-546.8	-546.8	-546.8	-546.8
Banks	117.5	95.3	238.7	265.4	235.1	244.7	238.7	238.7	238.7	238.7	238.7	238.7
Government (net)	-1,114.8	-430.1	-889.7	-908.4	-334.5	-194.4	-800.0	-800.0	-800.0	-800.0	-800.0	-800.0
Other sectors	16.6	19.0	13.6	14.5	14.5	13.6	14.5	14.5	14.5	14.5	14.5	14.5
Other items net	-924.5	-621.7	-101.3	-70.8	-557.6	-542.6	-431.4	-580.2	-767.3	-777.8	-811.2	-883.2
Monetary Survey												
Broad money	12433.7	13626.7	15828.9	16487.7	17190.4	17097.7	18,048.9	20,649.4	23,737.9	27,463.2	32,017.4	37,623.7
Currency	543.7	584.6	632.7	628.8	656.3	697.8	743.6	832.2	949.5	1,082.1	1,248.7	1,316.8
Deposits	11,890.0	13,042.1	15,196.2	15,858.9	16,534.2	16,399.9	17,305.2	19,817.2	22,788.4	26,381.2	30,768.7	36,306.9
Net foreign assets	2,083.8	1,259.6	970.3	1,576.5	94.8	-60.5	390.0	415.0	415.0	480.0	500.0	500.0
Net domestic assets	10,349.8	12,367.0	14,858.6	14,911.2	17,095.6	17,158.2	17,658.9	20,234.4	23,322.9	26,983.2	31,517.4	37,123.7
Domestic credit	14,932.7	17,346.6	21,169.4	22,035.5	23,509.3	24,632.3	24,084.0	27,602.1	31,527.9	36,045.7	41,223.9	46,970.6
Private sector	14,834.3	16,676.3	19,918.7	20,799.9	21,679.1	22,987.1	23,514.0	27,382.1	31,557.9	36,275.7	41,553.9	47,350.6
Government (net)	-150.9	506.7	871.7	814.4	1,395.5	1,334.2	400.0	50.0	-200.0	-400.0	-500.0	-550.0
Others 1/	249.3	163.6	379.0	421.3	434.7	311.0	170.0	170.0	170.0	170.0	170.0	170.0
Other items net	-4,582.9	-4,979.5	-6,310.8	-7,124.3	-6,413.7	-7,474.1	-6,425.2	-7,367.7	-8,204.9	-9,062.5	-9,706.5	-9,846.9
Memorandum items:												
Annual percent change												
Reserve money	…	19.6	5.6	4.6	14.8	15.5	13.0	12.9	13.2	13.6	13.6	14.2
Broad money	…	9.6	16.2	11.3	19.3	8.1	14.0	14.4	15.0	15.7	16.6	17.5
Private sector credit	…	12.4	19.4	18.9	18.2	20.3	18.1	16.5	15.3	15.0	14.6	14.0
Velocity	2.6	2.5	2.5	2.5	2.4	2.5	2.2	2.1	2.0	1.8	1.7	1.6
Money multiplier	12.7	11.6	12.8	13.6	14.0	12.8	12.9	13.1	13.3	13.5	13.9	14.3
Exchange rate (N$/US$)	8.6	6.6	5.6	6.2	6.7	6.7	…	…	…	…	…	…
Net foreign assets (US$ Mil)	241.2	189.7	172.3	252.8	14.3	-9.0	61.7	62.0	60.6	68.7	69.9	69.0
Bank of Namibia	334.0	317.8	351.2	306.8	281.8	271.4	376.1	404.1	453.3	480.3	512.1	561.1
Commercial banks	-92.9	-128.1	-178.9	-53.9	-267.6	-280.4	-314.4	-342.1	-392.6	-411.6	-442.3	-492.1
Domestic interest rates (end-period)												
Deposit rate	9.0	6.9	6.4	6.5	6.2	6.1	…	…	…	…	…	…
Lending rate	15.2	12.9	10.7	10.6	10.5	10.8	…	…	…	…	…	…
Bank rate 2/	12.8	7.8	7.5	7.5	7.0	7.0	…	…	…	…	…	…

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

1/ Others includes local and regional government and non-financial public enterprises.
2/ BON overdraft rate.

Table 5. Namibia: Medium-Term Macroeconomic Framework, 2005–10

(In percent of GDP)

	Est. 2005	Projections 2006	2007	2008	2009	2010
Baseline scenario						
Foreign savings 1/	5.7	6.6	5.4	4.1	3.5	3.3
Gross national savings	31.3	32.6	31.6	31.0	30.9	31.5
Private sector	29.6	30.7	29.1	28.0	27.1	27.2
Public sector	1.7	2.0	2.6	3.0	3.7	4.3
Gross investment	25.6	26.0	26.3	26.9	27.4	28.2
Private sector	18.0	18.4	18.7	19.2	19.5	20.2
Public sector	7.6	7.6	7.6	7.7	7.9	8.0
Memorandum items:						
Private savings-investment balance	11.6	12.3	10.4	8.8	7.6	7.0
Public savings-investment balance	-5.8	-5.6	-5.0	-4.7	-4.1	-3.7
Central government deficit including grants 3/	-3.7	-3.4	-2.6	-2.2	-1.4	-0.9
Revenues and grants	31.0	30.8	31.2	31.2	31.6	31.7
Expenditure and net lending	34.6	34.2	33.8	33.4	33.0	32.6
Public and publicly guaranteed debt/GDP	43.4	43.3	42.4	42.4	41.6	40.2
Public debt/GDP	35.1	35.5	35.1	35.6	35.2	34.2
Real GDP growth rate	3.5	4.5	4.5	3.7	3.8	3.9
Inflation (annual average rate)	2.4	5.1	5.0	4.5	4.0	4.0
Alternative scenario 2/						
Foreign savings 1/	5.7	6.3	4.6	3.2	2.5	2.4
Gross national savings	31.3	31.8	30.2	29.1	28.6	28.9
Private sector	29.6	31.1	29.7	28.9	28.4	28.8
Public sector	1.7	0.7	0.5	0.2	0.2	0.1
Gross investment	25.6	25.5	25.6	25.9	26.2	26.5
Private sector	18.0	17.9	18.0	18.2	18.3	18.5
Public sector	7.6	7.6	7.6	7.7	7.9	8.0
Memorandum items:						
Private savings-investment balance	11.6	13.2	11.7	10.7	10.1	10.3
Public savings-investment balance	-5.8	-6.9	-7.1	-7.5	-7.6	-7.9
Central government deficit including grants 3/	-3.7	-5.5	-5.5	-6.2	-6.4	-6.8
Revenues and grants	31.0	29.3	29.6	29.4	29.6	29.5
Expenditure and net lending	34.7	34.8	35.1	35.5	36.0	36.3
Public and publicly guaranteed debt/GDP	43.5	45.6	47.6	51.1	54.5	58.0
Public debt/GDP	35.1	37.7	40.3	44.2	48.1	52.0
Real GDP growth rate	3.5	4.2	4.0	3.2	3.3	3.4
Inflation (annual average rate)	2.4	5.1	5.0	5.0	5.0	5.0

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

1/ External current account surplus.

2/ The alternative scenario assumes that diamond production drops by 10 percent and the authorities are not able to improve tax administration and fail to rein in personnel expenditure, subsidies, and net lending to parastatals, which substantially raises the public debt ratio. While the increased deficit would stimulate growth in the short-term and thus counter the impact of the external shock, in the medium-term private sector activity would be negatively affected by crowding out of private sector investment and an increased risk premium on interest rates.

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

Table 6. Namibia: Millennium Development Goals, 1990-2003

	1990	1994	1997	2000	2003
Eradicate extreme poverty and hunger 1/					
Population below U.S. dollar 1 a day (in percent)	...	34.9	...	...	...
Poverty gap at USD 1 a day (in percent)	...	14.0	...	...	...
Percentage share of income or consumption held by poorest 20 percent	...	1.4	...	...	...
Prevalence of child malnutrition (in percent of children under 5)	...	...	...	24.0	...
Population below minimum level of dietary energy consumption (in percent)	...	...	36.0	...	22.0
Achieve universal primary education 2/					
Net primary enrollment ratio (in percent of relevant age group)	83.2	...	77.9	77.7	78.3
Percentage of cohort reaching grade 5 (in percent)	63.9	...	83.4	94.2	...
Youth literacy rate (in percent ages 15-24)	87.4	89.3	90.5	91.6	92.3
Promote gender equality 3/					
Ratio of girls to boys in primary and secondary education (in percent)	111.4	...	103.8	103.4	103.6
Ratio of young literate females to males (in percent ages 15-24)	103.7	103.9	103.9	103.8	103.7
Share of women employed in the nonagricultural sector (in percent)	39.1	42.7	44.7	48.8	50.0
Proportion of seats held by women in national parliament (in percent)	7.0	...	18.0	22.0	26.0
Reduce child mortality 4/					
Under 5 mortality rate (per 1,000)	86.0	77.0	...	69.0	65.0
Infant mortality rate (per 1,000 live births)	60.0	55.0	...	50.0	48.0
Immunization, measles (in percent of children under 12 months)	76.0	70.0	59.0	69.0	70.0
Improve maternal health 5/					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	300.0	...
Births attended by skilled health staff (in percent of total)	...	...	...	77.7	...
Combat HIV/AIDS, malaria and other diseases 6/					
Prevalence of HIV, female (in percent ages 15-24)	...	...	...	21.3	21.3
Contraceptive prevalence rate (in percent of women ages 15-49)	...	...	...	44.0	...
Number of children orphaned by HIV/AIDS	...	...	...	33,000.0	57,000.0
Incidence of tuberculosis (per 100,000 people)	250.6	412.5	527.2	626.0	722.0
Tuberculosis cases detected under DOTS (in percent)	...	23.0	86.0	81.2	85.8
Ensure environmental sustainability 7/					
Forest area (in percent of total land area)	10.7	...	...	9.8	...
Nationally protected areas (in percent of total land area)	...	...	...	...	13.6
GDP per unit of energy use (PPP USD per kg oil equivalent)	12.3	11.0	10.3	11.2	10.2
CO2 emissions (metric tons per capita)	...	0.0	1.1	1.0	...
Access to an improved water source (in percent of population)	58.0	..	..	..	80.0
Access to improved sanitation (in percent of population)	24.0	...	...	...	30.0
Access to secure tenure (in percent of population)	...	...		...	...
Develop a global partnership for development 8/					
Youth unemployment rate (in percent of total labor force ages 15-24)	...	31.7	37.0	...	10.9
Fixed line and mobile telephones (per 1,000 people)	39.3	45.8	68.2	108.0	182.5
Personal computers (per 1,000 people)	...	...	18.2	42.1	99.3

Source: World Development Indicators database, April 2005

1/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
2/ Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
3/ Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.
4/ Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
5/ Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.
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 7. Namibia: Financial Sector Indicators, 1999–2004

(In percent, unless otherwise indicated)

	2000	2001	2002	2003	2004
Banking indicators					
Capital adequacy					
Capital to assets	...	8.7	7.5	8.3	8.8
Regulatory capital to risk-weighted assets	14.8	15.5	14.1	14.8	15.4
Regulatory tier I capital to risk-weighted assets	13.2	12.4	11.0	12.2	12.7
Nonperforming loans net of provisions to capital	14.3	8.3	11.1	11.8	20.2
Asset quality					
Large exposure to capital	...	146.0	179.0	186.0	183.9
Nonperforming loans to total gross loans	4.7	4.0	3.9	3.9	2.2
Sectoral distribution of loans to total loans					
Agriculture	8.7	9.0	8.6	5.5	3.1
Mining	0.7	0.7	1.5	2.6	2.0
Manufacturing	5.3	5.4	5.4	3.8	2.3
Construction	3.8	3.9	4.5	4.1	5.5
Electricity and water	0.3	0.3	4.4	3.4	0.7
Trade and accommodation	4.9	4.8	5.2	2.6	3.7
Transport and communications	3.9	3.7	3.6	4.6	2.3
Finance, real estate, and business services	15.1	15.5	11.1	9.6	11.4
Other services (including government)	11.4	11.6	7.0	8.6	8.2
Individuals	44.1	44.1	47.1	47.1	51.2
Other	2.0	1.1	1.8	8.3	9.4
Earnings and profitability					
Trading income to total income	...	10.6	11.5	10.9	6.7
Return on assets	2.6	2.5	2.8	2.5	1.7
Return on equity	28.1	26.4	34.3	21.9	15.7
Interest income to gross income	119.8	116.4	123.9	137.0	118.2
Noninterest expenses to gross income	47.9	50.6	49.1	53.9	61.8
Spread between reference lending and deposit rates	...	7.3	6.2	6.0	4.4
Personnel expenses to noninterest expenses	...	51.2	48.9	46.0	48.2
Liquidity					
Spread between highest and lowest interbank rate	...	...	9.3	9.0	0.2
Liquid assets to total assets	9.7	9.6	9.2	11.0	10.4
Liquid assets to short-term liabilities	15.8	15.6	15.7	19.3	17.6
Customer deposits to total (non-interbank) loans	...	88.0	84.0	87.0	87.1
Exposure to foreign exchange risk					
Net open position in foreign exchange to capital	0.5	0.2	0.1	0.0	0.5
Foreign currency-denominated loans to total loans	...	6.0	5.0	3.0	1.9
Foreign currency-denominated liabilities to total liabilities	...	5.1	5.2	4.5	2.0
Financial system structure					
Number					
Banks	...	5	5	4	4
Private commercial	...	2	2	1	1
State-owned	...	0	0	0	0
Foreign-owned subsidiaries	...	3	3	3	3
Branches of foreign banks	...	0	0	0	0
Assets (in billions of Namibia dollars)					
Banks	...	1.3	17.8	20.0	23.4
Private commercial	...	3.7	5.7	4.3	5.2
State-owned	...	...	...	...	0
Foreign-owned subsidiaries	...	10.0	12.1	15.8	18.2
Branches of foreign banks	...	...	...	...	0
Deposits (in billions of Namibia dollars)					
Banks	...	9.9	12.7	14.3	17.2
Private commercial	...	3.0	4.7	3.5	2.5
State-owned	...	...	...	...	0.0
Foreign-owned subsidiaries	...	6.9	7.9	10.7	14.7
Branches of foreign banks	...	...	...	...	0.0

Sources: Bank of Namibia; and Fund staff estimates.

Table 8. Namibia: Indicators of External and Financial Vulnerability, 1999–2005

(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003	2004	Latest	Date of Latest Observation
Financial indicators							
Public sector debt of the central government 1/	23.1	25.9	23.9	29.5	33.6	...	Mar. 2005
Broad money (percent change, 12-month basis)	13.0	4.5	6.9	9.6	16.2	5.2	Oct. 2005
Private sector credit (percent change, 12-month basis)	17.0	16.3	20.2	12.4	19.4	19.1	Oct. 2005
Bank of Namibia overdraft interest rate (Bank Rate) 2/	11.3	9.3	12.8	7.8	7.5	7.0	Oct. 2005
Bank of Namibia overdraft interest rate (real) 2/ 3/	0.5	1.0	0.3	5.2	3.2	4.1	Oct. 2005
External indicators							
Exports (percent change, 12-month basis in U.S. dollars)	10.4	-13.5	-6.1	16.6	45.8	...	Dec. 2004
Imports (percent change, 12-month basis in U.S. dollars)	-6.3	2.3	-4.6	33.7	23.1	...	Dec. 2004
Terms of trade (percent change, 12-month basis)	12.8	-8.0	16.0	-24.0	15.4	...	Dec. 2004
Current account balance	10.9	3.2	5.4	5.1	10.2	...	Dec. 2004
Capital and financial account balance	-6.0	0.9	-7.3	-9.2	-10.7	...	Dec. 2004
Gross official reserves (in millions of U.S. dollars) 2/	268.5	224.0	336.2	318.9	352.7	341.4	Oct. 2005
Official reserves in months of imports of goods and services 2/	2.0	1.7	2.7	2.0	1.7	...	Dec. 2004
Broad money to reserves	5.1	5.2	4.3	6.5	8.0	7.7	Oct. 2005
Reserves/total short-term external debt 2/	1.1	1.5	1.1	0.4	0.5	...	Dec. 2004
Total external debt (in millions of U.S. dollars) 2/	797.4	596.3	879.5	1,103.5	1,291.3	...	Dec. 2004
Of which : public sector debt (in millions of U.S. dollars)	128.2	128.7	140.3	242.1	300.6	...	Dec. 2004
Total external debt to exports of goods and services 2/	51.6	41.6	65.0	66.2	56.8	...	Dec. 2004
Exchange-rate (N$/USD, period average)	6.9	8.6	10.5	7.6	6.4	6.1	Jan. 2006
Real effective exchange rate (depreciation = '-')	2.9	-1.6	-5.1	12.6	4.3	0.5	Nov. 2005
Financial market indicators							
Stock market index (end-of-period)	292.0	392.0	305.0	347.0	425.9	581.7	Dec. 2005

1/ Fiscal years, which begin on April 1.
2/ End-of-period.
3/ Deflated by the percentage change in end-of-period CPI.

Table 9. Namibia: Social and Demographic Indicators, 2005

	Namibia	South Africa	Sub-Saharan Africa
Area (in thousands of square kilometers)	823	1,214	23,596
Population (2003)			
Total (in millions)	2.0	45.8	704.5
Annual rate of growth (percent) 1/	0.8	0.0	2.2
Population characteristics			
Population density (per square kilometer)	2.4	37.7	29.9
Urban population (percent of total)	32	59	36
Population age structure (percent of total)			
0–14 years	41.9	32.0	43.7
15–64 years	54.3	63.6	53.3
65 years and above	3.8	4.4	2.9
Income distribution 2/			
Income share held by highest 20 percent	78.7	62.2	...
Income share held by lowest 20 percent	1.4	3.5	...
Access to improved water source (percent of population, 2002)			
Total	80	87	58
Rural	72	73	46
Urban	98	98	82
Health (2002)			
Life expectancy at birth	40	46	46
Infant mortality (per 1,000 live births)	48	53	101
People living with HIV/AIDS 3/	21.3	15.6	6.7
PPP Gross national income per capita (2003)	6,660	10,130	1,750
Labor force (2003)			
Total (in millions)	0.8	19.1	312.3
Female (percent of total population)	41.7	38.4	42.6
Education (2002)			
School enrollment (percent, gross)			
Primary	105	106	95
Secondary	62	88	...
Tertiary	7	15	...
Adult literacy rate	83.5	86.0	65.5

Source: World Bank, *World Development Indicators, 2005.*

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

Namibia: Relations with the Fund
(As of January 31, 2006)

Membership Status	Joined 9/25/90; Article VIII	
General Resources Account	SDR (million)	% of Quota
Quota	136.50	100.0
Fund holdings of currency	136.44	99.95
Reserve position in Fund	0.07	0.04
SDR Department	SDR (million)	% of Allocation
Holdings	0.02	N/A
Outstanding Purchases and Loans	None.	
Financial Arrangements	None.	
Projected Obligations to Fund	None.	

Exchange Rate Arrangement

The Namibia dollar is pegged at par to the South African rand, and both currencies are legal tender in Namibia. Namibia formally accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement, as of September 20, 1996, and maintains an exchange rate system free of restrictions in the making of transfers and payments of current account transactions.

Article IV Consultations

Namibia is on the standard 12-month Article IV consultation cycle; the Executive Board concluded the last Article IV consultation on February 14, 2005.

During the Executive Board meeting, Directors commended Namibia's record of macroeconomic stability and welcomed the recent rise in growth, decline in inflation, and strengthening of external accounts. Directors emphasized the need to reduce the fiscal deficit through expenditure restraint and civil service reform. They observed that the exchange rate peg had served Namibia well but noted the importance of maintaining adequate international reserves. Directors also stressed the importance of addressing HIV/AIDS, high unemployment, and large disparities of income.

Technical Assistance:

Date	Duration	Dept.	Recipient	Purpose	Form
01/02	2 weeks	STA	Bank of Namibia	ROSC	Mission
07/02	2 weeks	STA	Centr. Bur. of Stat.	National Accounts (GDDS project)	Advisor

Technical Assistance (continued):

Date	Duration	Dept.	Recipient	Purpose	Form
10/02	2 weeks	STA	Centr. Bur. of Stat.	National Accounts (GDDS project)	Advisor
10/02	2 weeks	STA	Ministry of Finance	GFS (GDDS project)	Advisor
11/02	2 days	STA	Country visits	GDDS Project	Advisor
11/02	2 weeks	STA	Bank of Namibia	Money and Banking Statistics	Advisor
01/03	5 weeks	STA	Bank of Namibia	First of a three part Peripatetic BOP mission (GDDS Project)	Advisor
03/03	2 weeks	STA	Ministry of Finance	GFS (GDDS project)	Advisor
06/03	2 weeks	STA	Bank of Namibia	Second of a three Part BOP mission (GDDS Project)	Advisor
06/03	2 weeks	STA	Ministry of Finance	GFS (GDDS project)	Advisor
11/03	2 weeks	MFD	Bank of Namibia	Issues in Monetary Policy and Reserve Adequacy	Mission
01/04	2 weeks	STA	Bank of Namibia	Third of a three part BOP mission (GDDS project)	Advisor
01/04	1 week	LEG	NAMFISA	AML/CFT	Advisor
02/04	3 weeks	STA	Centr. Bur. of Stat.	National Accounts (GDDS project)	Advisor
07/04	2 weeks	MFD	Bank of Namibia	Issues in Reserves Management at the Bank of Namibia	Mission
11/04	1 week	FAD	Ministry of Finance	Revenue Forecast	Advisor
2/06	2 weeks	FAD	Ministry of Finance	Revenue Admin.	Mission
2/06	2 weeks	FAD	Ministry of Finance	Tax Policy	Mission

Namibia: Relations with the World Bank Group
(As of end-January, 2006)

1. Namibia joined the World Bank, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) in 1990. Currently, the Bank has no IBRD loans to Namibia. With a GDP per capita of about US$2,000, Namibia is not eligible for IDA assistance. The dialogue and knowledge sharing interventions in Namibia are focused on: (i) growth and poverty reduction; (ii) HIV/AIDS; (iii) capacity building for both public and private sectors; (iv) education; (v) support for implementing decentralization; and (vi) support in environmental management and bio-conservation.

2. In response to Government's interest in Bank support, a Policy and Human Resource Development (PHRD) grant was used to prepare programs for sub-national governments and service delivery through fiscal decentralization. A grant from the Institutional Development Fund (IDF) supported a public expenditure tracking survey (PETS) for the Ministries of Basic Education and Health, and assessed their capacity to manage public spending. A senior policy seminar in June 2005 presented recommendations and proposed an action plan.

3. The Integrated Community-Based Ecosystem Management Project (ICEMA) is the first Bank operation in Namibia (a grant from the Global Environment Facility (GEF)). It aims to promote community based integrated ecosystem management through targeted activities that improve rural livelihoods. A second GEF project - Namibian Coast Conservation and Management (NACOMA) for US$4.9 million was approved September 1, 2005 and will promote conservation, sustainable use and biodiversity in coastal ecosystems.

4. While there is no country assistance strategy (CAS) for Namibia, the Bank is working with the Government to prepare a Country Economic Memorandum to address the issues identified in the Government's key policy documents and the challenges of achieving sustainable growth and reducing poverty and inequality. Support aims to strengthen poverty diagnosis and build macro-micro simulation models that could analyze the macroeconomic, structural and distributional implications of alternative policies.

5. In March 2005, an IDF grant of US$499,000 to support the Public Private Partnership against HIV/AIDS became effective.

6. In response to a request from the Government, the Bank carried out a detailed study of the education sector.[1] Preliminary findings suggest the need for substantial reform and will provide the basis for a possible IBRD operation to support implementation of the education

[1] Namibia Human Capital and Knowledge Development for Economic Growth with Equity, Africa Region Human Development Working Paper Series, #84, February 2005

sector strategic plan. Donors held a round table in March 2005 to discuss the recommendations. A second partners' round-table is scheduled for April 2006.

7. The IFC portfolio in Namibia is US$16.2 million in 6 projects. The IFC approved long-term financing of US$7.9 million for a fishery project (Pescanova) to enhance the company's ability to catch its full quota. IFC also has an equity investment of US$1.6 million in Namibia's first indigenous life insurance company (Namibia Life) and is currently negotiating the sale of its stake to a local Namibian group. Aside from the IFC portfolio, Foreign Investment Advisory Services (FIAS) is helping Namibia to improve its investment climate.

8. No new MIGA projects have been executed or are planned.

Namibia: Statistical Issues

1. Notwithstanding significant efforts by the authorities to improve statistics, surveillance is hampered by significant lags and revisions of key macroeconomic data. Some core data for surveillance—exchange rate, international reserves, reserve money, and interest rates—are available on a monthly basis with reasonable timeliness. Although the reliability and coverage of these data are generally satisfactory, data on the inter-bank positions of the monetary and financial statistics need to be improved. The core real sector data are reported on an annual frequency only, and fiscal and labor market data suffer from long reporting lags. As one of fifteen countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, Namibia has undertaken to use the GDDS as a framework for the development of national statistical systems. GDDS metadata for Namibia were posted on the Fund's Dissemination Standards Bulletin Board on December 19, 2002. The Anglophone Africa project (funded by the U.K. Department for International Development (DFID)) aims to assist participating countries to implement plans for improvement identified in the metadata, to meet GDDS recommended statistical practices. Metadata on central government debt were updated in November 2003 and the financial and external sectors metadata in May 2005.

Real sector

2. The authorities revised the coverage of national accounts over the last three years, by incorporating new mining activity and the value-added of companies operating in Export Processing Zones (EPZs). They have also improved surveys of the textile and agricultural industries. As a result, the authorities revised real GDP growth in 2002 upward by 4 percentage points, to 6¾ percent, while growth in 2003 remained broadly unchanged.

3. 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.

4. The authorities report only consumer prices to STA; other data published in the *International Financial Statistics (IFS)* are taken from publications of the Central Statistical Bureau.

5. Data on the labor market, including labor force, employment, and wages are not systematically collected, complicating the analysis of labor market developments. The government conducted the last labor market survey in 2000.

Government finance

6. Annual fiscal data on budgetary central government through 2003 have been reported to STA for publication in the 2005 *GFS Yearbook* and in *IFS*. The data, reported on a cash basis in the *GFSM 2001* format, are reasonably complete, despite some gaps in details. No data on outstanding debt are reported. AFR receives actual fiscal data several months after

the end of the fiscal year. No data on budget implementation during the fiscal year are provided.

7. Expenditure data of line ministries are not available in a timely manner after the end of the fiscal year and are subject to frequent revisions; however, AFR received preliminary general ledger data related to the 2004/05 fiscal year relatively quickly following the end of the fiscal year, which were substantially revised later on. Overall, the system for providing expenditure information needs to be strengthened, and preliminary information on cash expenditures of ministries should be made available on a regular and timely basis. In addition, the reconciliation of above-the-line fiscal data with financing data should be conducted on a regular basis and more frequently.

Monetary accounts

8. As a result of technical assistance received from STA, the Bank of Namibia implemented a new and improved framework for compiling monetary data, consistent with the *Monetary and Financial Statistics Manual*. However, the Bank of Namibia is working to reduce the inconsistencies in the inter-bank positions of the other depository corporations. Since June 2003, Namibia has been reporting monthly monetary statistics to STA using the standardized forms for reporting monetary statistics (SRF) on a regular and timely basis. Publication of these data is expected in the coming months, in a supplement to the *IFS* that will include monetary data reported by member countries using the SRF.

Balance of payments

9. Since 2001, the Bank of Namibia has reported the balance of payments data on a quarterly basis with a lag of one quarter. These 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* and is well documented. The international investment position (IIP) data are compiled annually but dissemination is subject to significant lags. The IIP data are not entirely consistent with the balance of payments data, particularly for portfolio investment assets and other investment assets and liabilities. Through a series of three missions, the Bank of Namibia has received Fund TA to improve the compilation of the capital and financial transactions and IIP statistics. While awaiting the enhanced statistics, AFR has relied on a partial reconciliation between the Namibia and South Africa IIP estimates to approximate Namibia's IIP.

NAMIBIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF FEBRUARY 15, 2006)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	Jan. 2006	Jan. 2006	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct. 2005	Dec. 2005	M	M	M		
Reserve/Base Money	Oct. 2005	Dec. 2005	M	M	M	O, O, LO, LO	O, O, LO, O, O
Broad Money	Oct. 2005	Dec. 2005	M	M	M		
Central Bank Balance Sheet	Oct. 2005	Dec. 2005	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct. 2005	Dec. 2005	M	M	M		
Interest Rates[2]	Oct. 2005	Dec. 2005	M	M	M		
Consumer Price Index	Nov. 2005	Jan. 2006	M	M	M	O, LNO, LO, O	LO, LNO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	…	…	I or NA	I or NA	I or NA	LNO, LNO, LO, O	O, O, O, LO, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Mar. 2005	Nov. 2005	I, NA (Comp. of Financing)	I, NA (Comp. of Financing)	I, NA (Comp. of Financing)		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Nov. 2005	Dec. 2005	M, I (Gov.-Guar. Debt)	M, I (Gov.-Guar. Debt)	M, I (Gov.-Guar. Debt)		
External Current Account Balance	Sept. 2005	Dec. 2005	Q	Q	Q	O, O, O, LO	LO, LO, LO, LNO, NO
Exports and Imports of Goods and Services	Sept. 2005	Dec. 2005	Q	Q	Q		
GDP/GNP	2004	Sept. 2005	A	A	A	O, O, O, LO	LNO, LO, LO, LO, O
Gross External Debt	2003	Aug. 2005	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[7] Reflect the assessments provided in the data ROSC Substantive Update and the data ROSC module published, respectively, in September 2005 and September 2002, and based on the findings of the missions that took place during April 2005 and January 2001) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

Namibia: External Debt Sustainability

Table 1. External Debt Indicators, 2003	
	2003
Gross external debt (in millions of U.S. dollars)	1103.5
(in percent of GDP)	24.7
Of which:	
Public and publicly guaranteed debt 1/	556.1
(in percent of GDP)	12.4
Short-term debt (in millions of U.S.dollars)	719.2
(in percent of GDP)	16.1
Net external debt (in millions of U.S. dollars)	-1908.5
Gross official reserves (in millions of U.S. dollars)	318.9
(ratio to short-term debt)	0.4
(ratio to reserve money)	1.8
Memorandum items:	
GDP at current market prices (in million U.S.dollars)	4473.4
Reserve money (in million U.S. dollars)	176.6

Sources: Namibian and South African authorities; and Fund staff estimates.

1/ Public and publicly guaranteed debt is only available on a fiscal year basis (FY 03/04).

1. Namibia's total gross external debt stood at an estimated US$1.1 billion, or about 25 percent of GDP, at end-2003.[1] Public and publicly-guaranteed external debt accounted for slightly more than 12 percent of GDP and was mostly on concessional terms. Net external debt was negative, reflecting the persistent outflows of savings, mainly in the form of portfolio investment by Namibian pension funds, banks, and insurance companies to South African financial markets. Short-term debt accounts for about two-thirds of Namibia's gross external debt of all maturities. About 90 percent of Namibia's short-term debt is with South Africa and virtually the entire increase in 2003 stems from increased credit from South African parent banks to their Namibian subsidiaries.

2. Based on the DSA template, external debt is tentatively estimated at 22.6 percent of GDP at end-2004. The slight decline in the external debt/GDP ratio relative to the previous year mainly reflects the improvement of the current account balance in light of higher diamond and other mineral exports and increased SACU receipts. The baseline scenario—consistent with the medium-term macroeconomic framework (Table 5 following the main text)—envisages a further slight decline in gross external debt to 17 percent of GDP by the end of the decade. This decrease reflects (i) the stabilization of the external current account surplus at above 3 percent of GDP over the medium term; and (ii) sustained foreign direct investment inflows to fund various investment projects, in particular related to the coming on line of new mines and the offshore Kudu gas fields. On the other hand, it is envisaged that the net financial account outflows—which have characterized Namibia's external transactions over the years—will continue, but decline over time, as domestic financial markets and investment opportunities are being developed.

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[1] External debt data are based on the *International Investment Position (IIP)*. Staff have undertaken a partial reconciliation of Namibian and South African IIP data for 2001, 2002, and 2003. Large differences were observed in several categories, and staff encourage the authorities to discuss these with their South African counterparts.

3. The simulations under the external sustainability framework indicate that Namibia's external debt is sustainable over the medium term and does not give rise to any immediate concerns (Figure 1). Although the stress tests indicate a significantly higher debt accumulation compared to the baseline, the levels appear manageable. The debt/GDP ratio rises to 38 percent of GDP in the most extreme bound test that includes a one-time 30 percent real depreciation in 2006. However, as a large share of Namibia's external debt is rand-denominated at present, the bound test overstates the possible impact of a depreciation under the current exchange rate arrangement. Another stress test simulating a 15 percent drop in the price of Namibia's key export products in 2006 also shows sharply rising debt levels, approaching 36 percent of GDP, illustrating Namibia's vulnerability to developments in world market prices.

Table 1. Namibia: External Debt Sustainability Framework, 2000-2010
(In percent of GDP, unless otherwise indicated)

	Actual				Est.	Projections						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Debt-stabilizing non-interest current account 6/
Baseline: External debt	23.3	18.5	28.1	24.7	22.6	**21.7**	**21.7**	**20.9**	**19.6**	**18.3**	**16.9**	**-4.0**
Change in external debt	4.7	-4.8	9.6	-3.4	-2.1	-0.9	0.0	-0.8	-1.3	-1.3	-1.4	
Identified external debt-creating flows (4+8+9)	-17.5	-13.9	-10.9	-16.9	-19.6	-10.4	-11.5	-10.2	-8.8	-8.1	-7.9	
Current account deficit, excluding interest payments	-12.1	-4.1	-5.8	-5.3	-10.6	-6.5	-7.7	-6.4	-5.1	-4.4	-4.2	
Deficit in balance of goods and services	2.9	5.7	4.8	6.5	2.6	6.6	5.5	5.7	6.8	7.2	6.9	
Exports	45.2	44.5	43.3	37.3	39.7	35.1	36.0	35.3	33.8	33.4	33.4	
Imports	48.1	50.2	48.1	43.8	42.3	41.8	41.6	41.0	40.6	40.6	40.4	
Net non-debt creating capital inflows (negative)	-6.5	-12.1	-6.0	-3.3	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	
Automatic debt dynamics 1/	1.1	2.4	0.9	-8.2	-5.0	0.0	0.1	0.1	0.3	0.2	0.2	
Contribution from nominal interest rate	1.2	0.9	0.4	0.2	0.3	0.8	1.0	1.0	1.0	0.9	0.9	
Contribution from real GDP growth	-0.6	-0.6	-1.3	-0.7	-1.1	-0.7	-0.9	-0.9	-0.7	-0.7	-0.7	
Contribution from price and exchange rate changes 2/	0.5	2.0	1.8	-7.8	-4.2	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	22.2	9.1	20.5	13.4	17.5	9.5	11.5	9.4	7.4	6.8	6.5	
External debt-to-exports ratio (in percent)	51.6	41.6	65.0	66.2	56.8	61.8	60.3	59.4	58.0	54.8	50.6	
Gross external financing need (in billions of US dollars) 4/	-0.2	0.1	0.0	0.1	0.1	0.4	0.2	0.3	0.3	0.3	0.3	
in percent of GDP	-5.7	4.3	-0.6	1.9	2.4	6.7	3.7	3.7	3.8	3.8	3.5	
Scenario with key variables at their historical averages 5/						**21.7**	**20.9**	**18.2**	**13.7**	**8.3**	**2.9**	**-5.2**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	3.5	2.4	6.7	3.5	5.9	3.5	4.5	4.5	3.7	3.8	3.9	
GDP deflator in US dollars (change in percent)	-2.4	-8.0	-8.9	38.2	20.7	3.3	1.2	2.2	2.6	1.3	2.0	
Nominal external interest rate (in percent)	6.6	3.7	1.9	1.2	1.8	3.7	4.9	5.0	5.0	5.0	5.0	
Growth of exports (US dollar terms, in percent)	1.7	-7.3	-5.5	23.2	36.3	-5.4	8.3	4.5	2.0	3.9	6.0	
Growth of imports (US dollar terms, in percent)	-11.0	-1.7	-6.8	30.1	23.7	5.6	5.1	5.2	5.3	5.3	5.3	
Current account balance, excluding interest payments	12.1	4.1	5.8	5.3	10.6	6.5	7.7	6.4	5.1	4.4	4.2	
Net non-debt creating capital inflows	6.5	12.1	6.0	3.3	3.9	3.9	3.9	3.9	3.9	3.9	3.9	

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

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

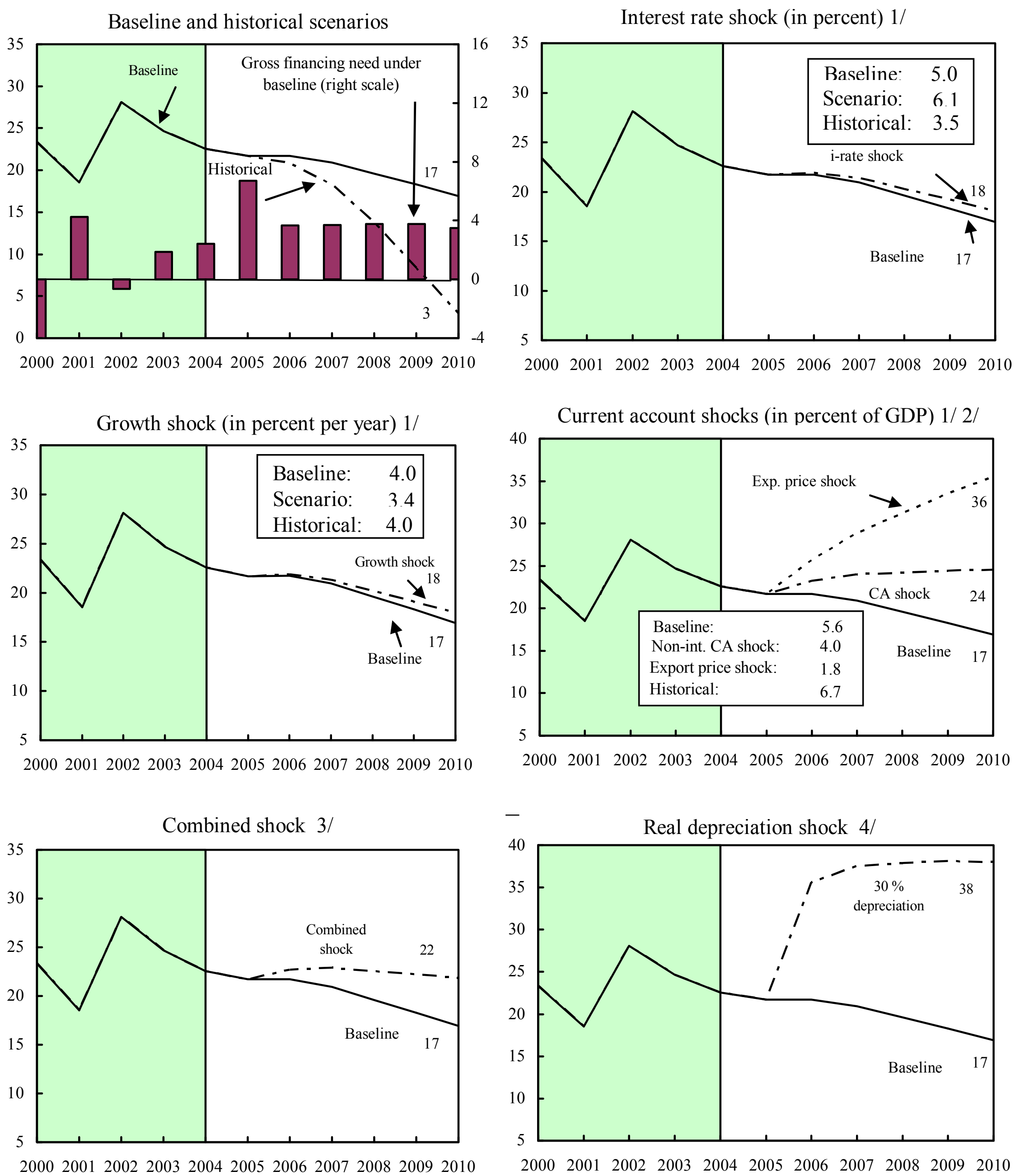
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

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



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ A 15 percent drop in export prices for diamonds and other minerals beginning in 2006.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2006.

Namibia: Fiscal Debt Sustainability

1. Namibia's public debt is still moderate in comparison to other sub-Saharan African countries. Public debt rose by 4 percentage points, to 33½ percent of GDP, during the 2004/05 fiscal year. This increase was smaller than the increase of 5½ percentage points in 2003/04. Nevertheless, the public debt-to-GDP ratio is still trending upwards, and away from 25 percent of GDP, which is the target debt level under the fiscal rule chosen by the authorities.[1]

2. The first panel of Table 1 corresponds to the baseline scenario underlying the macroeconomic framework. It assumes the central government deficit declines gradually while the economy maintains moderate growth and inflation (see Table 5 following the main text). Under the baseline scenario, the public debt ratio rises modestly until 2008/09 then declines slightly to 34 percent of GDP by 2010/11. This outcome reflects the generation of primary surpluses and real GDP growth that surpasses real interest rates in many years. As shown in Table 1, it would be possible to run a small primary deficit while stabilizing the public debt ratio at its 2010/11 level.

3. Table 1 also presents two additional scenarios. The first shows the fiscal outcome if real GDP growth, real interest rates, and the primary balance are maintained at their historical averages. In this case, public debt would increase steadily to 42 percent of GDP by the end of the forecasting period. The second scenario shows the outcome if the government does not reduce the primary deficit balance below its 2005/06 level. In this case, the public debt ratio would reach 40 percent of GDP by 2010/11.

4. The bound tests illustrate the vulnerability of the fiscal position to exogenous shocks (Figure 1). Even if the Namibian authorities were successful in implementing the fiscal adjustment underlying the baseline scenario, shocks to interest rates, growth, or the exchange rate could still occur, resulting in a higher public debt, approaching 40 percent of GDP.

5. Table 2 presents the fiscal sustainability analysis based on the alternative macroeconomic scenario (see Table 5 following the main text). In this scenario, the authorities are not able to systematically improve tax administration and fail to rein in personnel expenditure, subsidies, and net lending to parastatals. This scenario also assumes real GDP growth is consistently lower than in the baseline case and inflation rises to 5 percent. With these assumptions, Namibia's public debt stock could spiral out of control, increasing to 52 percent of GDP in 2010/11. Primary deficits would increase over time and average 3 percent of GDP during 2006/07 to 2010/11. As a result, Namibia's vulnerability to shocks would be magnified. As illustrated in Figure 2, public debt levels could exceed 60 percent of GDP.

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[1] These figures exclude publicly guaranteed debt, which accounted for another 6½ percent of GDP in 2004/05.

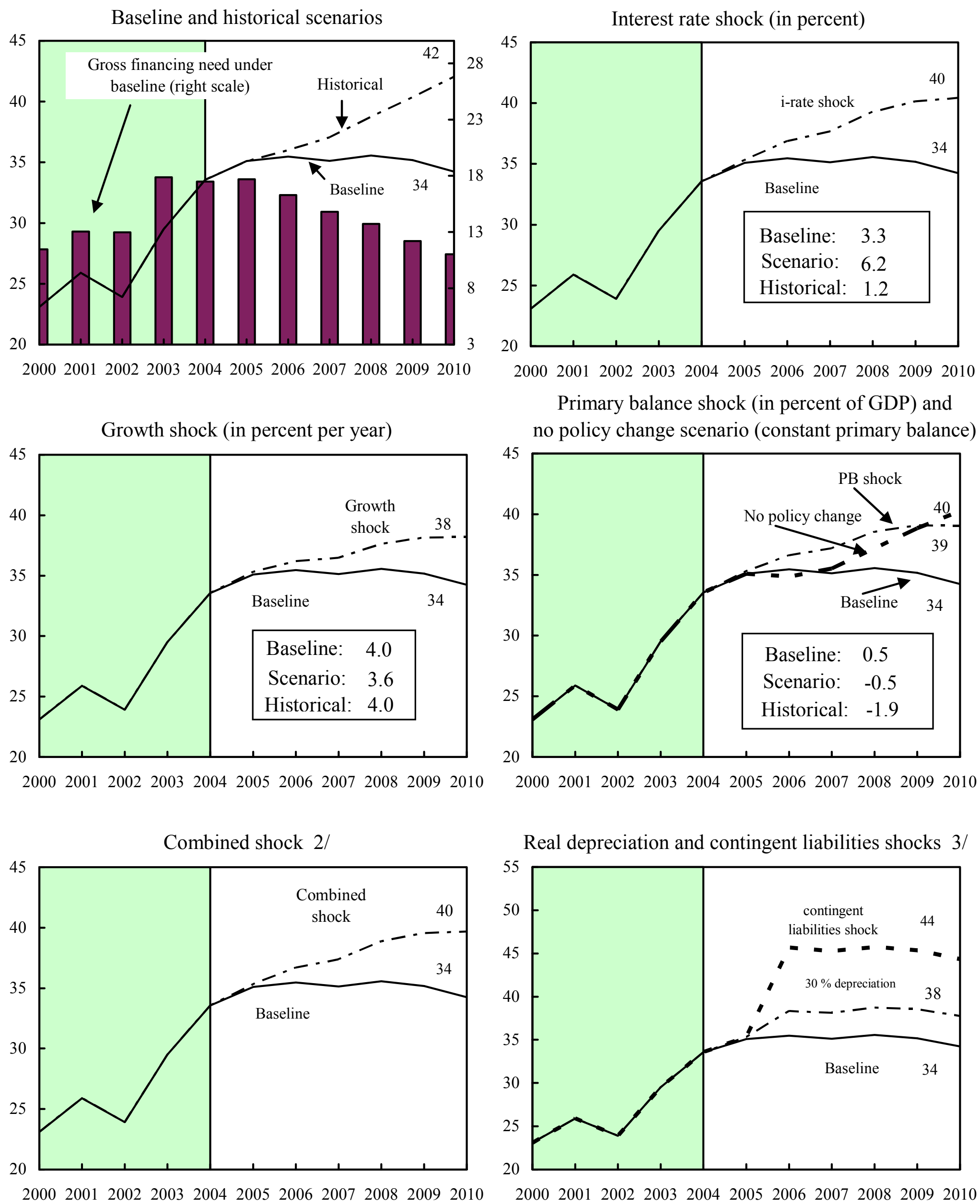
6. The Namibian authorities are aware of the importance of keeping their public debt in check. On the one hand, placing the public debt ratio on a more ambitious downward trajectory–i.e., moving forcefully to the public debt target of 25 percent of GDP–might require an unnecessarily restrictive fiscal policy in light of the relative inflexibility of the wage bill, in the presence of pressing other expenditure needs in priority sectors and of collection constraints on the revenue side. This may make it advisable to instead aim at a stabilization of public debt ratios. On the other hand, a failure to contain the debt-to-GDP ratio at current levels could quickly result in unsustainable public debt levels.

Table 1. Namibia: Public Sector Debt Sustainability Framework, 2000-2010
(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	**Debt-stabilizing primary balance 9/**
1	**Baseline: Public sector debt 1/**	23.1	25.9	23.9	29.5	33.6	**35.1**	**35.5**	**35.1**	**35.6**	**35.2**	**34.2**	**-0.3**
	o/w foreign-currency denominated	3.9	5.4	3.7	4.6	5.4	5.3	6.1	6.0	6.8	7.6	8.4	
2	Change in public sector debt	-1.2	2.8	-2.0	5.6	4.0	1.5	0.4	-0.3	0.4	-0.4	-0.9	
3	Identified debt-creating flows (4+7+12)	-0.8	3.0	-2.0	5.8	1.1	1.8	0.3	-0.5	-0.4	-1.2	-1.9	
4	Primary deficit	-0.7	2.4	0.8	5.0	1.3	0.9	0.7	-0.1	-0.4	-1.1	-1.4	
5	Revenue and grants	33.3	30.9	31.6	28.2	30.4	31.0	30.8	31.2	31.2	31.6	31.7	
6	Primary (noninterest) expenditure	32.5	33.4	32.4	33.1	31.7	31.9	31.5	31.1	30.8	30.5	30.2	
7	Automatic debt dynamics 2/	-0.1	0.5	-2.9	0.9	-0.2	0.9	-0.4	-0.4	0.0	-0.1	-0.4	
8	Contribution from interest rate/growth differential 3/	-0.8	-1.5	-1.5	1.7	0.5	0.9	-0.4	-0.4	0.0	-0.1	-0.4	
9	Of which contribution from real interest rate	-0.2	-0.8	-0.2	2.7	1.9	2.1	1.0	1.0	1.1	1.2	0.8	
10	Of which contribution from real GDP growth	-0.7	-0.7	-1.3	-1.0	-1.4	-1.2	-1.4	-1.4	-1.2	-1.3	-1.3	
11	Contribution from exchange rate depreciation 4/	0.7	2.1	-1.4	-0.9	-0.7	...	...	...	...	...	...	
12	Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13	Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14	Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16	Residual, including asset changes (2-3) 5/	-0.4	-0.2	0.1	-0.2	3.0	-0.3	0.1	0.2	0.9	0.8	0.9	
	Public sector debt-to-revenue ratio 1/	69.5	83.8	75.7	104.7	110.3	113.2	115.0	112.5	114.0	111.3	108.1	
	Gross financing need 6/	11.5	13.1	13.0	17.9	17.5	17.7	16.3	14.8	13.7	12.2	11.0	
	in billions of U.S. dollars	0.4	0.4	0.4	0.8	1.0	1.1	1.1	1.0	1.0	1.0	0.9	
	Scenario with key variables at their historical averages 7/						**35.1**	**36.0**	**37.1**	**38.7**	**40.3**	**42.0**	**-1.0**
	Scenario with no policy change (constant primary balance) in 2005-2010						**35.1**	**34.9**	**35.5**	**37.2**	**38.8**	**40.3**	**-0.3**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
	Real GDP growth (in percent, fiscal year basis)	3.2	3.5	5.8	4.1	5.3	3.8	4.5	4.3	3.7	3.8	3.9	
	Average nominal interest rate on public debt (in percent) 8/	10.2	10.3	11.0	10.9	10.2	8.8	8.4	8.1	8.0	7.6	7.2	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.4	-3.8	-0.5	11.5	7.3	6.8	3.4	3.1	3.7	3.8	2.7	
	Nominal appreciation (increase in US dollar value of local currency, in percent)	-18.7	-37.6	40.4	30.1	17.9	...	...	...	...	...	...	
	Inflation rate (GDP deflator, in percent)	10.7	14.1	11.4	-0.6	2.9	2.0	5.0	5.0	4.3	3.8	4.5	
	Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	5.5	-0.2	7.4	0.6	5.0	3.4	2.7	2.5	2.8	3.1	
	Primary deficit	-0.7	2.4	0.8	5.0	1.3	0.9	0.7	-0.1	-0.4	-1.1	-1.4	

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

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



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data.Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 2. Namibia: Public Sector Debt Sustainability Framework, 2000-2010 (Alternative Scenario)
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	**Debt-stabilizing primary balance 9/**
1 **Alternative Baseline: Public sector debt 1/**	23.1	25.9	23.9	29.5	33.6	**35.1**	**37.7**	**40.3**	**44.2**	**48.1**	**52.0**	**-0.2**
o/w foreign-currency denominated	3.9	5.4	3.7	4.6	5.4	5.3	6.1	6.1	6.9	7.7	8.5	
2 Change in public sector debt	-1.2	2.8	-2.0	5.6	4.0	1.6	2.6	2.5	4.0	3.8	4.0	
3 Identified debt-creating flows (4+7+12)	-0.8	3.0	-2.0	5.8	1.1	1.8	2.5	2.4	3.2	3.0	3.1	
4 Primary deficit	-0.7	2.4	0.8	5.0	1.3	0.9	2.8	2.6	3.1	3.1	3.4	
5 Revenue and grants	33.3	30.9	31.6	28.2	30.4	31.0	29.3	29.6	29.4	29.6	29.5	
6 Primary (noninterest) expenditure	32.5	33.4	32.4	33.1	31.7	31.9	32.1	32.2	32.5	32.7	32.9	
7 Automatic debt dynamics 2/	-0.1	0.5	-2.9	0.9	-0.2	1.0	-0.3	-0.2	0.1	-0.1	-0.3	
8 Contribution from interest rate/growth differential 3/	-0.8	-1.5	-1.5	1.7	0.5	1.0	-0.3	-0.2	0.1	-0.1	-0.3	
9 Of which contribution from real interest rate	-0.2	-0.8	-0.2	2.7	1.9	2.1	1.1	1.1	1.3	1.2	1.2	
10 Of which contribution from real GDP growth	-0.7	-0.7	-1.3	-1.0	-1.4	-1.2	-1.3	-1.3	-1.2	-1.4	-1.5	
11 Contribution from exchange rate depreciation 4/	0.7	2.1	-1.4	-0.9	-0.7	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	-0.4	-0.2	0.1	-0.2	3.0	-0.3	0.1	0.1	0.8	0.9	0.9	
Public sector debt-to-revenue ratio 1/	69.5	83.8	75.7	104.7	110.3	113.3	128.8	136.1	150.6	162.3	176.4	
Gross financing need 6/	11.5	13.1	13.0	17.9	17.5	17.7	18.5	17.8	17.8	17.2	17.0	
in billions of U.S. dollars	0.4	0.4	0.4	0.8	1.0	1.1	1.2	1.2	1.3	1.3	1.4	
Scenario with key variables at their historical averages 7/						**35.1**	**36.1**	**37.0**	**38.7**	**40.3**	**41.9**	**-1.1**
Scenario with no policy change (constant primary balance) in 2005-2010						**35.1**	**35.1**	**35.9**	**37.7**	**39.3**	**40.9**	**-0.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent, fiscal year basis)	3.2	3.5	5.8	4.1	5.3	3.7	4.2	3.8	3.2	3.4	3.4	
Average nominal interest rate on public debt (in percent) 8/	10.2	10.3	11.0	10.9	10.2	8.8	8.5	8.3	8.3	8.0	7.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.4	-3.8	-0.5	11.5	7.3	6.8	3.6	3.4	3.5	3.2	2.9	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-18.7	-37.6	40.4	30.1	17.9	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	10.7	14.1	11.4	-0.6	2.9	2.0	4.9	4.9	4.7	4.8	4.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	5.5	-0.2	7.4	0.6	5.0	4.7	4.1	4.1	4.1	4.2	
Primary deficit	-0.7	2.4	0.8	5.0	1.3	0.9	2.8	2.6	3.1	3.1	3.4	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

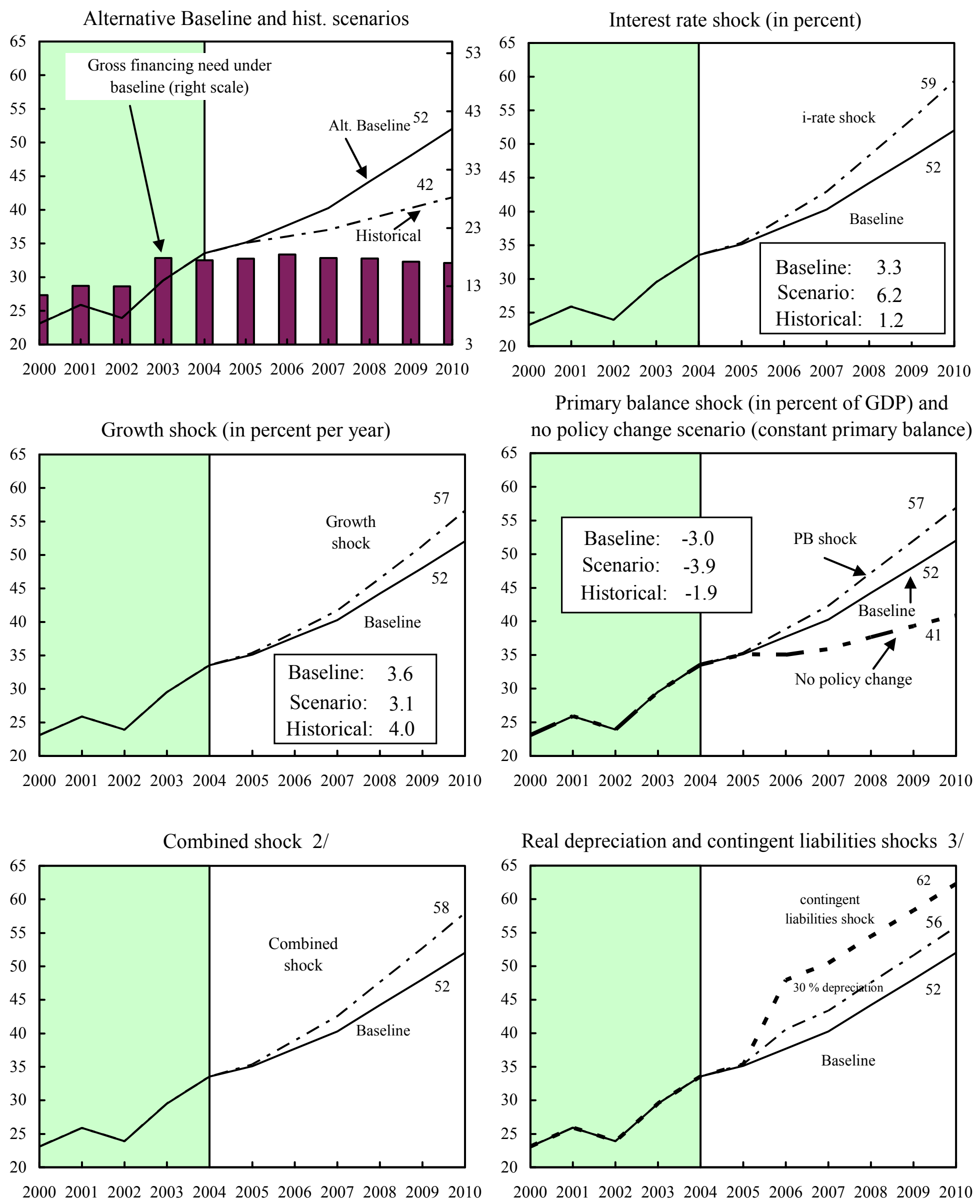
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

Figure 2. Namibia: Public Debt Sustainability: Bound Tests (Alternative Scenario) 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data.Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Statement by the IMF Staff Representative
March 24, 2006

1. Since issuance of the staff report, additional information has become available on the budget for 2006/07 and the authorities' medium-term fiscal plans. The information does not alter the thrust of the staff appraisal.

2. On March 16, 2006, the Minister of Finance submitted the budget for 2006/07 and the medium-term expenditure framework (MTEF) to parliament.

3. For 2005/06, the authorities project revenue at 31 percent of GDP, consistent with the staff report. Higher tax revenues (by ½ percent of GDP) are projected to offset lower-than-expected non-tax collections. No revised estimates for expenditure are available. However, assuming that budgetary appropriations are not exceeded as they were in 2004/05, the fiscal deficit could amount to 1½ percent of GDP (including externally financed capital spending).

4. The authorities expect a broadly balanced budget for 2006/07. This largely reflects a previously unanticipated surge of customs union (SACU) receipts to 14 percent of GDP, in light of strong imports to South Africa from outside the union and significant residual distributions related to the transition to the new SACU revenue-sharing formula. Staff has not yet been able to verify the plausibility of these projections. The authorities decided to devote this windfall to deficit reduction and a substantial expansion of spending relative to the previous MTEF. In particular, capital spending, including for infrastructure related to the Kudu gas field, and outlays for education and health are expected to rise. However, the budget also provides for subsidies to the National Energy Fund and support to parastatals. In addition, old-age pensions are to be raised from N$300 to N$370 in an effort to alleviate poverty. Some of the envisaged spending will have a permanent effect.

Namibia: Central Government Operations 1/ 2/
(in percent of GDP)

	2005/06		2006/07		
	Staff Proj.	Auth. Est.	Staff Proj.	MTEF from 2005	Draft budget
Revenue and grants	31.0	30.9	30.8	30.7	34.9
Expenditures	34.6	32.3	34.2	30.6	35.2
Overall balance	-3.7	-1.4	-3.4	0.1	-0.3
Primary balance	-0.9	1.4	-0.7	…	2.7
Public debt	35.1	32.0	35.5	29.4	32.6
Memorandum items:					
SACU receipts	9.8	9.3	9.5	9.8	14.0
Extrabudgetary spending	0.4	0.4	0.6	1.0	0.6

Source: Namibian authorities and staff projections.
1/ Presented in staff's definition, which incorporates extra-budgetary spending financed by external loans under expenditure and the overall balance. The authorities exclude this figure in their budget presentation.
2/ Figures are based on GDP numbers consistent with the staff report's macroframework.

5. The authorities' medium-term fiscal adjustment path has become less ambitious than presented in Box 6 of the staff report and is now closer to the outlook prepared by staff. The budget documents project the fiscal deficit for 2007/08 and 2008/09 to average 2¼ percent of GDP and public debt to decline only gradually to 31 percent of GDP. As such, the MTEF has become more realistic, although it still lacks specificity on policy actions that could lead to a sustained reduction in non-priority spending, as outlined below. Subsequent to the budget speech, the authorities indicated to staff that they remain committed to achieving the public

debt target of 25 percent of GDP in the long run but in the short run intend to place less emphasis on this objective.

6. The medium-term fiscal outlook is built on continued improvements in tax administration and a limited reorientation of spending toward priority sectors. The emphasis on improving tax administration is driven by the need to shore up revenue, as SACU receipts are projected to normalize from 2007/08 onwards. The authorities intend to broaden their forensic tax audits of corporations carried out by private auditors, which boosted tax collections in 2005/06. However, a recent FAD technical assistance mission urged more substantial reform to sustain tax collections. Among other things, this could include rebuilding the authorities' audit capacity and creating a large taxpayers unit. On the expenditure side, outlays for education and health are programmed to increase noticeably. While recognizing the need for civil service reform and the restructuring and privatization of public enterprises, the budget documents contain little concrete measures in this direction. As stressed in the staff appraisal, the authorities need to address both issues to make room for a sustained reorientation of spending.

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

IMF Executive Board Concludes 2005 Article IV Consultation with Namibia

On March 24, 2006 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Namibia.[1]

Background

Namibia recorded robust real GDP growth, falling inflation, a strong external current account surplus, and continued low external indebtedness over the last two years. Real GDP grew by 6 percent in 2004, as new marine technologies prompted a surge in diamond production and most other sectors of the economy showed solid economic activity, aided by a decline in interest rates. Growth slowed in 2005, as diamond production fell relative to the high production base of the previous year and growth rates in other sectors moderated somewhat.
The appreciation of the currency throughout much of 2004-05 hurt the fishing and commercial agriculture industries in particular, while higher oil prices affected the transportation sector. Inflation moderated in 2004-5, due to good rains and the strengthening Namibia dollar, which appreciated in tandem with the South African rand to which it is pegged. Average inflation fell to 4¼ percent in 2004 and only 2¼ percent for January-November 2005.

Namibia's external current account remained solidly in surplus, peaking at more than 10 percent of GDP in 2004. Surging diamond exports and buoyant customs union (SACU) receipts, which increased by one-third in 2004, more than offset a large increase in imports, including oil

[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.

imports. Outflows on the capital and financial accounts remained high as banks, pension funds, and insurance companies invested heavily in South African financial markets. As a result, international reserves fell to below 2 months of imports. Total external debt is estimated to have fallen to 23 percent of GDP at end-2004.

Although improving significantly over the previous year, the fiscal deficit for 2004/05 was 4 percent of GDP, higher than expected and higher than the deficits of Namibia's southern African neighbors. A one-time windfall in SACU receipts and increased tax revenues from personal income and diamonds contributed to the improvement over 2003/04. By contrast, VAT collections were 2¼ percent of GDP lower than budgeted owing to continued administrative problems. Similarly, the government wage bill was ½ percent of GDP higher than budgeted as the hiring freeze was not implemented consistently across all ministries. These developments pushed the public debt ratio to 33½ percent of GDP, well above the government's target of 25 percent.

Despite the overall positive macroeconomic performance, major challenges–including widespread poverty, high unemployment, and HIV/AIDS–remain. One-fourth of the population does not get sufficient dietary consumption, the unemployment rate exceeds 20 percent, and the prevalence of HIV/AIDS is about 20 percent.

Executive Board Assessment

Directors commended the authorities for overall prudent macroeconomic policies, which had contributed to the recent strong economic performance, with robust growth, declining inflation, a large current account surplus, and continued low external and public indebtedness.

Directors considered that Namibia's medium-term economic prospects remained promising, provided that the authorities maintain a stable macroeconomic environment and implement, on a timely basis, structural reforms to address key challenges. These challenges include pervasive poverty, high unemployment, and a high prevalence of HIV/AIDS. In this context, they welcomed the debate within Namibia aimed at deriving a structural reform agenda to deal with these problems, raise the country's long-term growth potential, and make progress toward meeting the Millennium Development Goals (MDGs).

Directors welcomed the reduction in the fiscal deficit since 2003/04. They commended the authorities for their commitment to further fiscal consolidation under the 2006/07 budget and the medium-term expenditure framework, which should help avoid a further rise in government debt. Directors reiterated the importance of realistic budgets and the need for more sustained efforts to shore up revenue and reprioritize spending.

On the revenue side, Directors emphasized the need to strengthen tax administration. This was important in view of the volatility of customs union (SACU) receipts. In this light, Directors urged the authorities to take steps to enhance their own auditing functions, with a particular focus on large taxpayers. Making good use of technical assistance in such areas will be important.

Directors urged the authorities to develop a concrete strategy to allow a reorientation of expenditure toward priority areas, such as health, education, poverty reduction, and infrastructure. In particular, Directors stressed the need for specific measures to contain the civil service wage bill, which is well above the levels in terms of total spending and share of GDP in other countries in sub-Saharan Africa. They also called for progress in developing a roadmap for restructuring and/or divesting public enterprises, as subsidies had contributed to past fiscal deficits and diverted resources from higher return projects. Moreover, Directors encouraged the authorities to consider new approaches to alleviate poverty, including well-targeted cash grants, to the extent these are deemed appropriate.

Directors agreed that the peg of the Namibia dollar to the South African rand had served the country well in light of the large trade and capital flows between the two countries. The peg has successfully anchored macroeconomic policymaking and helped reduce inflation, with Namibia benefiting from South Africa's inflation-targeting framework. Although available indicators do not suggest that the recent appreciation of the rand had negatively impacted overall exports, economic growth, or employment, Directors urged the authorities to monitor competitiveness closely.

Directors reiterated the importance of ensuring adequate levels of international reserves. They considered that the creation of domestic investment opportunities would be the most promising avenue to keep a large share of Namibia's sizable savings at home. Directors welcomed the elimination of the negative interest rate differential with respect to South Africa, and most Directors urged the authorities not to rule out establishing a positive differential, if necessary. Directors also recommended that the authorities increase international reserves through sterilized foreign exchange purchases.

Directors welcomed Namibia's conclusion of a review under the Financial Sector Assessment Program (FSAP). They also welcomed the authorities' intention to take action on the recommendations, including upgrading the supervisory and regulatory framework and improving access to financial services. In this regard, Directors noted the importance of addressing regulatory gaps, especially with respect to nonbank financial institutions. They advised caution with respect to any domestic investment requirements that could lower returns and raise risks for pension funds and insurance companies. The authorities were encouraged to put in place an appropriate AML/CFT framework as soon as possible.

On the structural front, Directors agreed that strengthening the quality of education would be key to maintaining social cohesion and achieving a noticeable dent in poverty and unemployment. They also urged the authorities to continue efforts to enhance the flexibility of labor markets. However, Directors expressed concern regarding regulations that could increase labor costs, such as the envisaged increase in leave days under the new Labor Act. It was noted that unduly restricting immigration of skilled labor would be detrimental to efforts to raise the economy's growth potential and make Namibia a more attractive destination for investment.

Directors emphasized the importance of improving the business climate to promote private sector led growth. Steps to simplify business regulations and remove other impediments to entrepreneurship could help diversify the economy and provide jobs. Directors commended the authorities for efforts to enhance governance through the establishment of an Anti-Corruption Commission, which should be provided with sufficient resources to do its job. Directors also underlined the benefits from further trade liberalization and the conclusion of the free trade agreements with key trade partners.

Directors considered that any changes in the current structure of land ownership should be based on objective and transparent criteria and continue to be in accordance with the Constitution, so as to encourage investment and increase output in agriculture.

Directors observed that Namibia’s core statistics are generally adequate for surveillance purposes, but noted that weaknesses remain in some areas. They recommended increased efforts to collect data on the labor market, employment, and wages and to reconcile international investment position data with the balance of payments and those of South Africa.

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. The staff report for the 2005 Article IV Consultation with Namibia is also available.

Namibia: Selected Economic Indicators

	2002	2003	2004	2005 Est.
	(in percent)			
Change in real GDP	6.7	3.5	5.9	3.5
Change in CPI (end-of-period)	12.5	2.6	4.3	4.0
	(in percent of GDP)			
Overall fiscal deficit 1/	-3.3	-7.5	-4.1	-3.7
Public debt 1/	23.9	29.5	33.6	35.1
	(End-of-period; changes in percent)			
Broad money	6.9	9.6	16.2	14.0
Credit to the private sector	20.2	12.4	19.4	18.1
	(in percent of GDP, unless stated otherwise)			
Current account balance	5.4	5.1	10.2	5.7
International reserves (in months of imports)	2.7	2.0	1.7	1.8
Exchange rate (Namibia dollar/U.S. dollar, end-of-period)	8.6	6.6	5.6	6.3

Sources:

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

Statement by Peter Ngumbullu, Executive Director for Namibia
and John Steytler, Senior Advisor to Executive Director
March 24, 2006

1. The Namibian authorities appreciate the candid exchange of views during the 2005 Article IV Consultation discussions and the FSAP mission, and have taken note of staff's comments and recommendations. They also find the topics for the selected papers to be well chosen, as they supplement ongoing work by the authorities in these areas. There is a broad measure of agreement between staff and the authorities on most aspects of economic policy.

Recent Economic Developments and Prospects

2. Growth is expected to have slowed to 3.2 percent in 2005, following a higher growth trend of 5.9 percent in 2004. Responsible for the moderation in growth has been diamond production, which fell relative to the high production base of the previous year. On the positive side, however, it should be noted that growth in 2005 had been broad-based as reflected by robust performance of key economic sectors such as manufacturing, agriculture, and the wholesale and retail sectors, which have been supported by a low-interest rate environment. On average, the economy grew by 4.3 percent during 2001-2005, which is in line with the authorities' target set in their second National Development Plan (NDP2). Overall the economic fundamentals of the country remain sound. Average consumer price inflation fell to 2.3 percent in 2005, the fiscal deficit declined substantially from an all time high of over 7 percent of GDP in 2003/04 to about 4 percent of GDP in 2004/05, allowing the public debt to remain relatively low, the external current account remained in a healthy surplus, and short-term interest rates have been the lowest since independence in 1990. As a result of this excellent performance, Fitch at the end of 2005 gave Namibia an investment grade rating of BBB- for long-term foreign currency. Going forward, the economy is expected to grow at above 3.5 percent over the medium term, and inflation to remain at a low single digit level.

3. As staff note, a number of challenges and risks remain. The authorities are vigilant to these and agree with staff on the need for cautious economic policies, to which they are fully committed. In this connection, despite these good accomplishments, the authorities are aware of the enormous developmental challenges facing the country going forward. In particular, the authorities are aware that the base of the Namibian economy remains narrow with the dependence on export of raw products continuing to persist with high rates of rural poverty and income disparity. Efforts to diversify the economy will, therefore, be pursued with renewed vigor in order to achieve their target of transforming Namibia into a diversified and industrialized economy, with a high standard of living for all its citizens by 2030. In this regard, the classification of Namibia as a middle-income country creates serious challenges in accessing concessional funding. The authorities would like to point out that this classification relies exclusively on income per capita, while ignoring one of the most important yardsticks for development, namely income disparity. It cannot be right,

therefore, to give low middle income countries such as Namibia the same terms for borrowing as are available to developed countries. The authorities hope that a compromised set of terms and conditions for this group of countries could be reached to help them in their endeavor to achieve the Millennium Development Goals by 2015.

Fiscal Policy

4. The overarching objective of fiscal policy remains fiscal sustainability aimed at keeping inflation low and to sustain the exchange rate peg. The authorities have set themselves a number of fiscal targets that serve as a guidance for conducting fiscal policy in a sustainable and transparent manner[21]. One key fiscal target is that total public debt shall be kept below 25 percent of GDP.

5. The authorities are aware that achieving these targets remains a difficult challenge as expenditure pressures have been increasing amid limited resources. As a result, the authorities were not able to meet these targets in past MTEF periods, hence staff's concern about the credibility of these targets, especially the one on public debt is legitimate and shared by the authorities. Nevertheless, even though the targets remain ambitious goals, they are good indication of the direction of fiscal policy. The authorities, therefore, remain committed to a public debt ratio of 25 percent of GDP but realize that this will take time and in the short run will place less emphasis on this rule. They believe that debt stock can be contained through further alignment of revenue and expenditure over the medium term. In this connection, the Ministry of Finance will make use of its Revenue, Expenditure and Debt Management policies to pursue these targets and free up as much resources as possible within the given fiscal stance.

6. As a result of strict limits on expenditure growth, as well as a set of measures to improve revenue collection, the last two financial years have seen a remarkable consolidation of public finances. For instance, the budget deficit declined from a high of 7.2 percent of GDP in fiscal year 2003/04 to 3.6 percent of GDP in 2004/05 and the debt stock stabilized[22]. The financial year 2005/06 will, according to the authorities current projections, mark a further step on the path of fiscal consolidation. Pending closure of the financial year, the budget deficit could be as low was 1.1 percent of GDP, while a modest surplus of 0.3 percent of GDP is envisaged for financial year 2006/07. Over the medium term the average budget deficit is set to be within the authorities target ceiling of 3 percent of GDP.

[21] To further enhance transparency of the budget, the authorities in 2004/05 adopted a programme budget, which shows how public resources are allocated to priorities and how much expenditure impact on outcomes.
[22] The authorities budget deficit figures are slightly different from those reported in the staff report. This is because the authorities do not include financing of selected infrastructure projects through foreign loans in their definition of the budget deficit. For transparency purposes the authorities have started to publish a full list of projects benefiting from foreign financing together with disbursement amounts in the latest MTEF.

7. With regard to revenue performance, total revenue increased significantly by 17 percent in 2004/05 over the out-turn of 2003/04 and is estimated to increase by 8.1 percent in 2005/06. The improvement in revenue collection was achieved without major adjustment to tax rates, but mainly through improved revenue collection and broadening of the tax base. Among the most effective measures in increasing domestic tax collection was the clamping down on tax evaders through targeted forensic audits with the help of private auditing companies. Going forward, efforts aimed at strengthening tax administration and improving collections will continue in 2006/07. The authorities have started, with the support of Fund technical assistance, to investigate how to improve Namibia's tax system in 2006 and beyond.

8. The authorities are aware that most fiscal adjustment over the medium term would need to come from the expenditure side, including containing the growth of the wage bill, reduction of subsidies to parastatals and spending on goods and services. To strengthen fiscal discipline, government has discontinued the tradition of tabling supplementary budgets. This is a substantial improvement in the credibility and transparency of Namibia's fiscal policy and has improved the budget as the main fiscal policy tool. Efforts are ongoing to improve expenditure monitoring capacity in the Ministry of Finance. In addition, the Integrated Financial Management System (IFMS) is set to become fully operational in 2006/07 for all transactions between the Ministry of Finance and line Ministries. The pilot phase from November 2005 to March 2006 was, in general, a success. It is expected that the IFMS will greatly improve the Ministry's control over funds' release. The Government is also tightening the rules under which subsidies are disbursed to State Owned Enterprises and other recipients. In future, funds will be released based on immediate need for expenditure, rather than being disbursed purely because there was provision made in the vote of expenditure allocation.

Monetary, Exchange Rate and Financial Sector Issues

9. The Namibian authorities remain committed to the exchange rate peg to the South African Rand and membership in the Common Monetary Area (CMA). The recent appreciation of the exchange rate had put pressure on the economy to adjust, but overall the economy remained competitive. The authorities believe that for long-term prosperity, focus should be on improvements of total factor productivity for enhancing external competitiveness. They recognize the need to develop additional competitiveness indicators that will provide adequate guide to policy. The authorities believe that the current level of reserves does not pose a risk for the exchange rate peg, as it is more than sufficient to cover currency in circulation. This notwithstanding, they welcome the exchange of views with staff on measures to strengthen reserves and will give careful consideration to these suggestions.

10. The authorities are appreciative of Namibia's Financial Sector Assessment Program and broadly agree with its main findings and recommendations. The Financial Stability Assessment shows Namibia's financial system is sophisticated, diverse and highly developed. The performance of the financial system has, however, been shaped by the

structural characteristics of the economy. In this connection, the key concern of the government has been how to translate the high level of domestic savings into productive investment and how to enhance access to finance. The authorities have already started to implement some of the FSAP recommendations. For instance, they have begun to implement measures to ensure compliance with the Basel Core Principles and a new CEO was appointed to head NAMFISA, the body responsible for regulating non-bank financial institutions. There is also agreement to bring specialized financial institutions under the supervision of Bank of Namibia and to support expanding domestic investment opportunities, by developing leasing, factoring and asset securitization. Other recommendations made by the FSAP to further strengthen the financial system will receive the authorities attention in the coming year. Namibia is in a very fortunate situation for a developing country to have significant domestic savings. It is, however, uncharacteristic for a country with large developmental needs to export some 65 percent of such savings. By and large these domestic savings constitute contractual savings from pension funds and insurance corporations. The authorities are committed to a reduction of capital outflow, through increased investment in the domestic economy with the purpose of diversifying and expanding economic activities in Namibia. In this context, the authorities will pursue a balanced approach to capital outflow reduction that will safeguard the interest of pensioners, but will stimulate economic growth at the same time. Their approach would also consider measures to deepen domestic financial markets.

Structural and other Issues

11. The authorities appreciate this year's Article IV discussions which focused on medium term challenges to growth. They agree with staff that additional structural reforms would be necessary to raise Namibia's long-term growth potential, boost investment and address the problems of poverty, income inequality and unemployment. Key to Namibia's future growth strategy would be to safeguard the current macroeconomic stability, underpinned by prudent fiscal policy and the exchange rate peg that Namibia currently enjoys. It is for this reason that the authorities share staffs' views about the proposed basic income grant to alleviate poverty in Namibia. Apart from the potential macro-imbalances that such a scheme could cause the Ministry of Finance prefers a more targeted approach to cash grants aimed at addressing poverty. In this regard, the government already runs a number of cash-grant schemes, including for the elderly and orphans.

12. Also key to Namibia's future growth path will be to further enhance and strengthen governance and institutions necessary to support growth. In this regard, the Anti-Corruption Commission was officially inaugurated during 2005. It is noteworthy that the Minister of Finance in her budget tabled on March 16, 2006 made provision for the adequate resources of the Anti-Corruption Commission to ensure that it becomes fully operational. In addition, the State-Owned Enterprises Act was adopted in January 2006, aimed at harmonizing the operational framework for parastatals and tightening fiscal control over them.

13. Another key pillar of the authorities' future growth strategy would be education reform, which is needed to raise skill levels while reducing unemployment. In this regard the World Bank has been assisting the Ministry of Education in developing an education sector strategy. With regard to labor reform, the authorities would like to stress that the aim of the recent amendments to the Labor Act was to develop measures to streamline the procedures for dismissal, making the labor market more flexible. They note that some of the issues raised by staff, which could make the labor market less flexible, could be reviewed. As far as land-reform is concerned, the Namibian government reaffirms its commitment to an orderly process in implementing its land distribution program. There is a healthy dialogue between the authorities and all stakeholders, and government will continue to make efforts to clarify to the public its policy on this issue.

Conclusion

14. In conclusion, the authorities would like to affirm their strong commitment to prudent and market oriented policies aimed at growth, employment creation and poverty reduction. Having achieved macroeconomic stability, the authorities are aware that the challenges going forward are immense, including the need to implement reforms at a micro level to accelerate the country's growth potential and reduce the high levels of unemployment and poverty. The authorities' task is further complicated with the high incidence of HIV/AIDS, which in addition to the authorities' own efforts, will require the continued assistance from the international community to be addressed effectively. The authorities trust that the Fund will continue to be fully responsive in providing technical assistance requested to build their ability to strengthen the macroeconomic framework and ability to implement the reform agenda going forward.