INTERNATIONAL MONETARY FUND

Staff Country Reports

INTERNATIONAL MONETARY FUND

IMF Country Report No. 12/41

NAMIBIA

2011 ARTICLE IV CONSULTATION

February 2012

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 2011 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 22, 2011, with the officials of Namibia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 23, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the staff of the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its February 6, 2012 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Namibia.

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

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International Monetary Fund
Washington, D.C.

NAMIBIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

January 23, 2012

KEY ISSUES

Growth Prospects: After a mild downturn in 2009, the economy recovered strongly in 2010. This rebound was propelled by a pickup in mineral exports, domestic demand growth supported by the fiscal stance, and easier monetary conditions in the Common Monetary Area (CMA). Growth is projected at 3½ to 4 percent in 2011, improving to around 4½ percent over the medium term. Inflation is expected to remain within single-digit rates. Downside risks to growth stem mainly from the current turmoil in Europe and its potential implications for the global economy and commodity markets.

Reestablishing fiscal policy buffers: The government launched a major three-year fiscal initiative in 2011 aimed at increasing growth and employment. Public debt is now rising rapidly, from a low base. The authorities intend to unwind the fiscal expansion in 2014. Fiscal consolidation would help keep public debt to a manageable level, support the economy's external position, and provide room for maneuver if further shocks arise, including a potential fall in revenues from the Southern African Customs Union (SACU).

Reinforcing monetary and financial stability: The authorities reaffirmed their intention to support the exchange rate peg against the South African rand. The banking sector appears sound and regulation of non-bank financial intermediaries is being strengthened. Namibia's direct exposure to current international financial pressures may be limited, but increased vigilance to address possible indirect exposures and other vulnerabilities, including from the housing market, is warranted.

Buttressing structural reforms to promote employment and diversification: The authorities are taking steps to lower the cost of doing business, while seeking to support private investment growth, job creation, and export diversification.

Approved By
Domenico Fanizza and Dhaneshwar Ghura

Discussions took place in Windhoek from November 9 to 22, 2011. The staff team comprised Mr. MacFarlan (head), Mr. Pastor, Mr. Klein and Ms. Gwenhamo (all AFR) and was accompanied by Mr. Tucker from the ED's office. Mr. Schuler (World Bank) also participated.

CONTENTS

RECENT ECONOMIC AND POLICY DEVELOPMENTS

A. A Resurgent Economy

1. **The Namibian economy bounced back strongly from the global economic crisis.** After declining by 0.4 percent in 2009, GDP grew by an estimated 6.6 percent in 2010, supported by recovery in the diamond and uranium sectors and ongoing growth in non-mining sectors. Activity appears to have weakened in 2011, following severe flooding in the north and the weaker-than-expected state of the global economy, and real GDP may have risen by 3½-4 percent.

2. **Inflation remains subdued, despite an upward trend over the past year.** Imported inflation weighs heavily in the consumer price basket, with about 80 percent of food staples estimated to be imported from South Africa. Some upside risks therefore arise from the recent depreciation of the rand, to which the Namibian dollar is pegged.

3. **The fiscal stance has become much more expansionary.** Drawing on the buffers created by earlier fiscal restraint, the government pursued an expansionary fiscal policy in FY2009/10 to support real activity in the face of the global and regional slowdown. The fiscal stimulus continued in FY2010/11 and then increased significantly in FY2011/12 with the launching of the *Targeted Intervention Program for Employment and Economic Growth* (TIPEEG – see Box 1). Given strong growth, higher than expected revenues, and under-execution of spending, the fiscal outturn in FY2010/11 was much better than initially expected. Significant under-execution of spending again appears likely in FY2011/12, and tax revenues are receiving support from mining sector growth and collection of tax arrears. Nevertheless, the overall deficit for FY2011/12 is projected to rise to 8.9 percent of GDP, with the non-SACU deficit increasing to 18 percent of GDP (from 12.9 percent in FY2010/11). The deficit is being financed from domestic and regional sources, and through the successful issuance of a $US500 million Eurobond in October 2011. Public debt is projected to increase from 16.2 percent of GDP in FY2010/11 to 24.5 percent of GDP by end FY2011/12.

Box 1. The Targeted Intervention Program for Employment and Economic Growth (TIPEEG)

The TIPEEG initiative, announced in the FY2011/12 budget, aims to support job creation and more diversified growth in the economy. This program was motivated by concerns over Namibia's very high rates of inequality and unemployment, especially among youth, and by what was seen as the need to take significant policy actions to address these problems.

Over FY2011/12 to FY2013/14, TIPEEG is projected to add $N14.6 bn. in government spending (about 15 percent of current year GDP), comprising increases in both current and capital spending. Although implementation has been slow to date and is widely expected to fall far short of 100 percent, at least in FY2011/12, the government has recently tried to step up implementation by reforming procurement processes to strengthen decentralization of TIPEEG-related spending.

Through TIPEEG, the government aims to preserve or create about 104,000 direct and indirect jobs—a sizable share of the total 15+ population of just under 1 million. Four sectors are targeted:

- **Agriculture**: funds for improved livestock farming, horticulture development, water supply, and crop production.
- **Tourism:** spending on tourism marketing and infrastructure investment.
- **Transport**: improvements in transport infrastructure, including road and rail networks and port facilities.
- **Housing and sanitation**: funding for servicing of land, construction of low-cost housing, and sanitation facilities.

Although rigorous prioritization and monitoring of TIPEEG projects remains essential, this initiative has the potential to raise growth and employment in some areas. For example, improvements in domestic road, rail, and port infrastructure should complement the strengthening in transport networks in the southern African region and support growth in regional trade. TIPEEG's targeting of the agriculture and tourism sectors stems in part from domestic analyses identifying these sectors as promising sources of long-term output and employment growth.

4. **Despite a rebound in exports, Namibia's external position weakened in 2010 and 2011.** Export earnings improved significantly in 2010–11 because of rapidly rising prices for diamonds and other minerals. Non-mineral export receipts also grew significantly. Nevertheless, the current account shifted from a surplus of 1.8 percent of GDP in 2009 to estimated deficits of 1.8 percent of GDP in 2010 and 6.3 percent in 2011. This

deterioration has mainly reflected rapid growth in commodity imports, appreciation of the real effective exchange rate in 2009–10, and the more expansionary fiscal stance. For end-2011, international reserves are estimated at $US1.4 billion, covering 2.4 months of prospective imports of goods and services; this compares with the recent peak of $US1.9 billion in reserves (4.7 months import cover) at end-2009. With the weakening of the rand, the appreciation of the real effective exchange rate has reversed in recent months. Overvaluation estimates currently vary in a range of 1 to 10 percent (see Box 2), but given the uncertainty and volatility in these estimates, the staff's overall view is that the exchange rate does not deviate significantly from its equilibrium value.

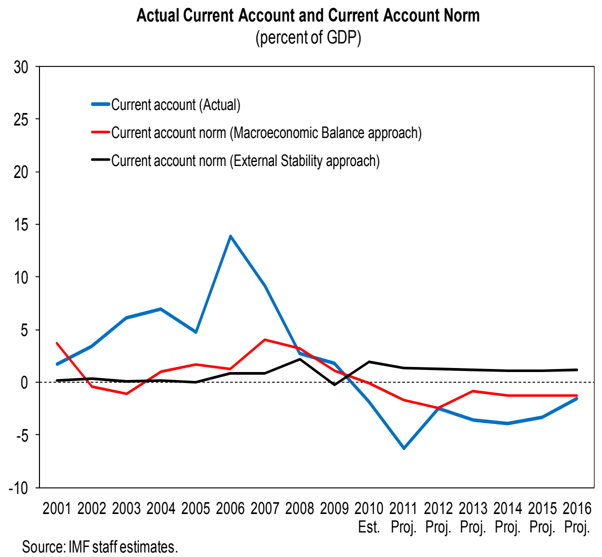
5. **The monetary stance remains supportive of the peg to the rand.** The Bank of Namibia lowered its policy rate to 6 percent in December 2010, representing a cumulative reduction of 450 basis points since December 2008—in line with similar actions by the South African Reserve Bank (SARB). The rate remains at 6 percent.

6. **Conditions in the banking sector have improved as the economy recovers.** Total earnings grew by 12.4 percent in 2010, helping maintain bank profitability. Non-performing loans fell to 1.6 percent of total loans at end-November 2011, down from 2.7 percent at end-2009. With overdue loans also declining, the asset quality of the banking sector has remained satisfactory.

7. **High unemployment and income inequality are significant policy concerns.** The most widely cited official unemployment rate is 51 percent, a rate that includes "discouraged workers" (who have given up looking for employment). But even excluding these, unemployment reaches 38 percent. While some measurement questions surround these official rates, there is no doubt that unemployment is unacceptably high. Unequal income distribution is also very high by international standards (chart).

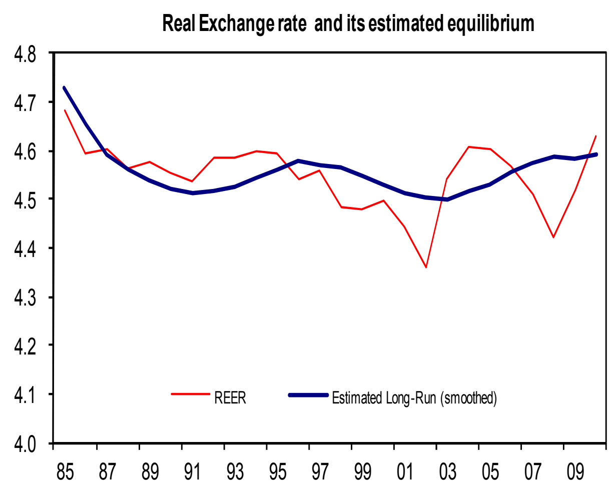
Box 2. Namibia: Exchange Rate Assessment

The level of Namibia's Real Effective Exchange Rate (REER) was assessed by the three CGER approaches. While the assessment is subject to significant statistical uncertainty, the results suggest that the Namibian dollar does not deviate substantially from its equilibrium level.



According to the **macro balance** approach, the Namibian dollar is **1 percent** above its equilibrium level. This assessment hinges on an estimated "underlying" current account deficit of about 2½ percent of GDP, which is expected to prevail in 2016 when the output gap is closed, compared to an estimated current account norm of a deficit of about 1 percent of GDP.

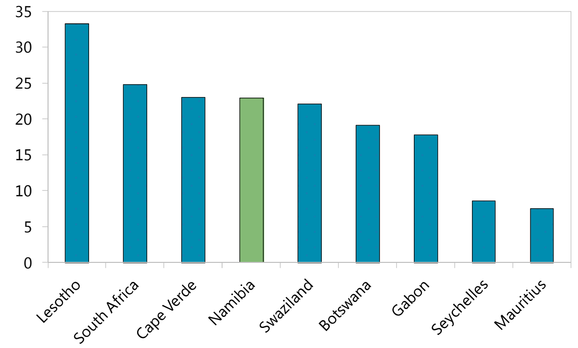
The **external sustainability** approach points to an overvaluation of **9½ percent** as the current account that stabilizes the net foreign assets is estimated at a surplus of 1 percent of GDP in 2016.



Lastly, the **equilibrium exchange rate** approach yields similar results with an estimated overvaluation of **3½ percent**. Reduced form estimates point to productivity, investment rate, trade openness and broad money (as a share of GDP) against the main trading partners as the principal determinants of Namibia's REER.[1] However, the estimates also show relatively poor explanatory power, particularly in the past decade in light of the REER's high volatility (chart).

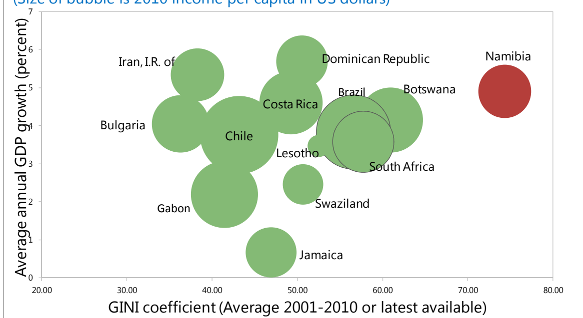
[1] More details on the model are available in "What Do We Know About Namibia's Competitiveness?" WP/07/191.

Unemployment Rate, Average 1990-2010
(Percent)



Sources: World Bank World Development Indicators.

International Comparison: GINI Coefficient and Real Output Growth
(Size of bubble is 2010 income per capita in US dollars)



Sources: World Bank World Development Indicators and IMF World Economic Outlook.

B. Macroeconomic Outlook and Risks

8. **The economic outlook appears favorable.** This outlook is supported by projected growth in the natural resource sector, including investment to support diamond output, the recent licensing of the world's fourth largest uranium mine, and increased optimism surrounding development of natural gas reserves. Exploration is also underway for new mineral resources, including oil, and there is ongoing growth in non-resource intensive area such as construction, manufacturing, and services. Over the medium term, output growth is projected to average around 4½ percent. The staff's baseline scenario envisages current account deficits of about 3 percent of GDP on average over 2012-16. However, their impact on Namibia's external debt trajectory is projected to remain modest, as a large share of the projected imports is related to foreign direct investment in the mineral sector (see Debt Sustainability Analysis in the Informational Annex).

9. **There are a number of risks to the outlook, however**. The current external environment remains fragile and uncertain, especially given the difficulties in the euro area and their potential spillovers. These concerns imply significant downside risks to commodity demand and prices. While significant investment plans and prospects in the resource sector underpin the favorable outlook noted above, these plans could be delayed or put on hold should the global economic climate deteriorate. Furthermore, the expansionary fiscal stance will likely lead to strong growth in domestic demand and imports, and could put upward pressure on prices of non-tradables—weakening the economy's external position and competitiveness. Given these risks and their potential for undermining the objectives of the TIPEEG initiative, particular vigilance is

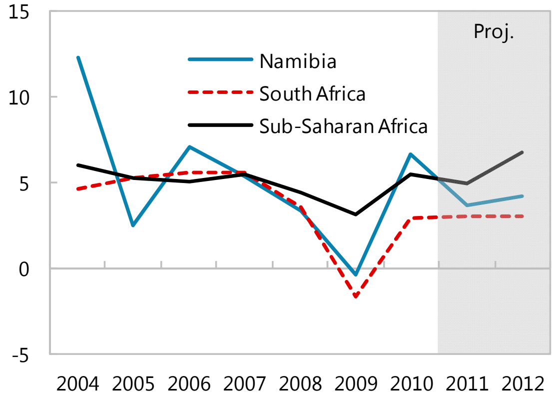
needed in the implementation of this program. Namibia also faces the prospect that future SACU revenues may decline—for example, if the regional economy slows or if the revenue-sharing formula is revised.

10. In addressing these risks, the current report echoes many of the same policy messages as previous Article IV Consultations. Key messages include the need for fiscal restraint, stronger expenditure and revenue management, and improvements in the business climate, As discussed below, the authorities are making progress in implementing many of these recommendations, although the need for fiscal consolidation, as also recommended last year, has become more pressing given the current expansionary policy stance.

Figure 1. Recent Macroeconomic Performance and Outlook

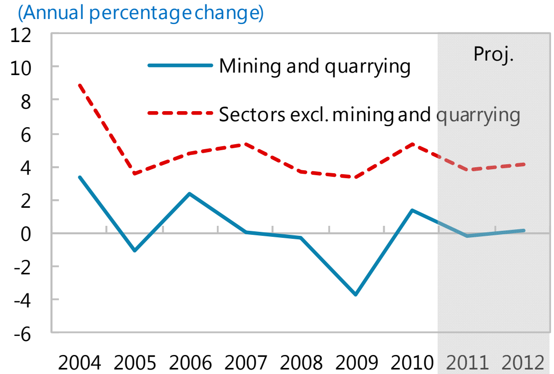
The economy has recovered from the global financial crisis...

Real GDP Growth
(Annual percentage change)



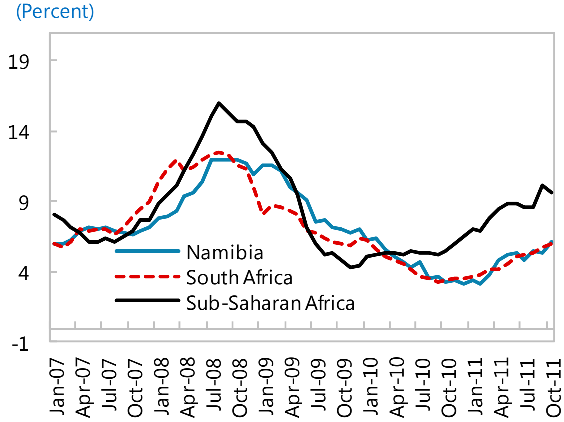
...supported by a solid growth of the non-mineral sectors and recovery in diamond production.

Contributions to Real GDP Growth
(Annual percentage change)



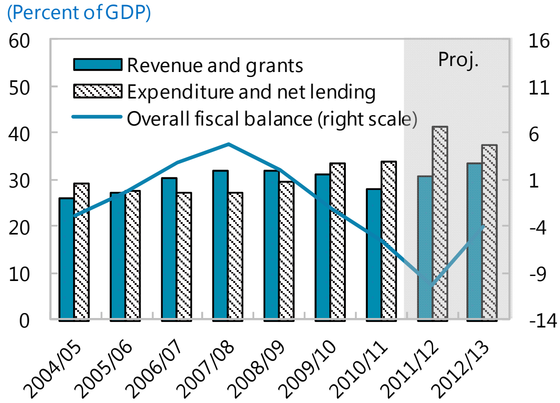
While still in the single-digit range, inflation has picked up on the back of high international commodity prices.

Inflation
(Percent)



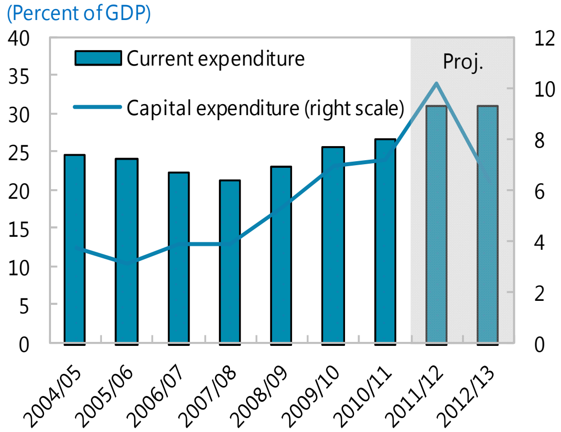
The fiscal surpluses have turned to deficits...

Fiscal Balance
(Percent of GDP)



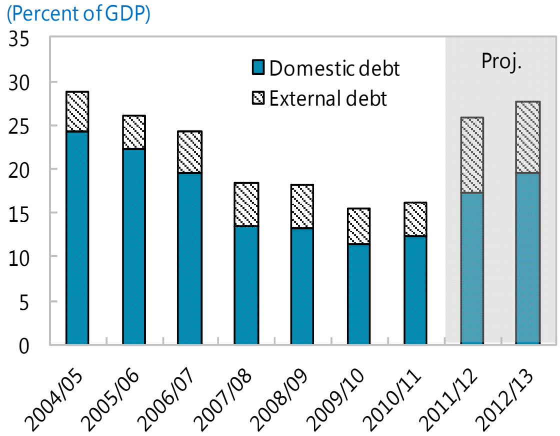
With both current and capital spending rising significantly.

Capital and Current Expenditure
(Percent of GDP)



And public debt-to-GDP ratio is projected to increase significantly

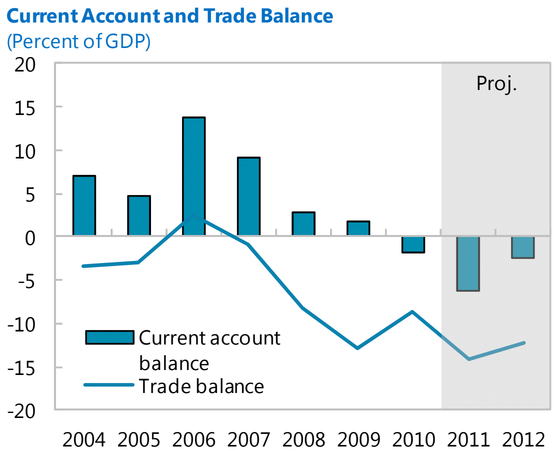
Public Debt
(Percent of GDP)



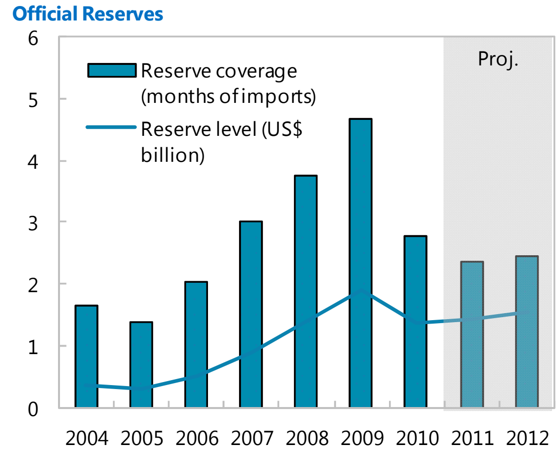
Sources: Namibian authorities and IMF staff estimates.

Figure 1. Recent Macroeconomic Performance and Outlook (concluded)

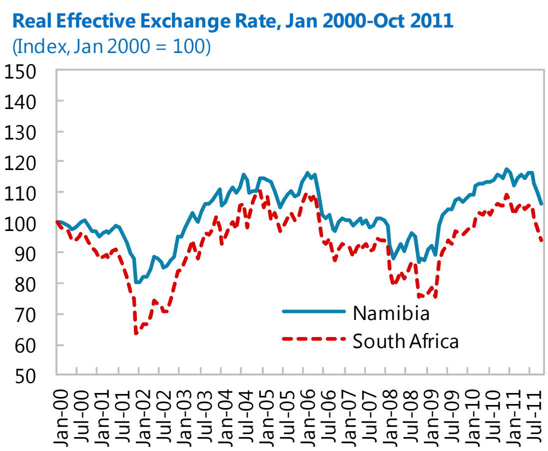
The current account has moved into deficit



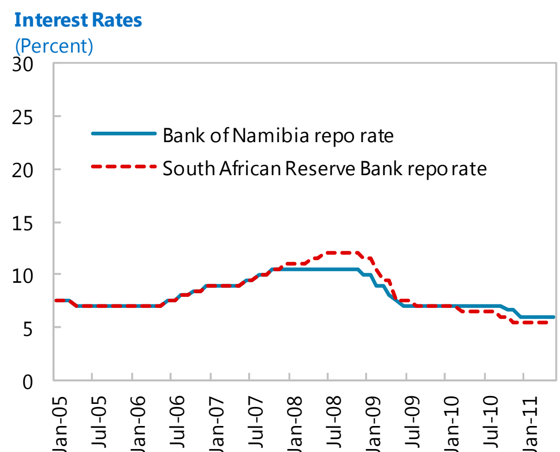
And international reserves are below the 2009 peak.



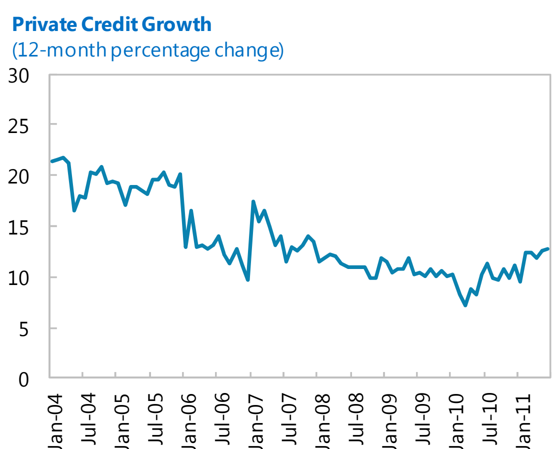
The REER largely tracks that of South Africa



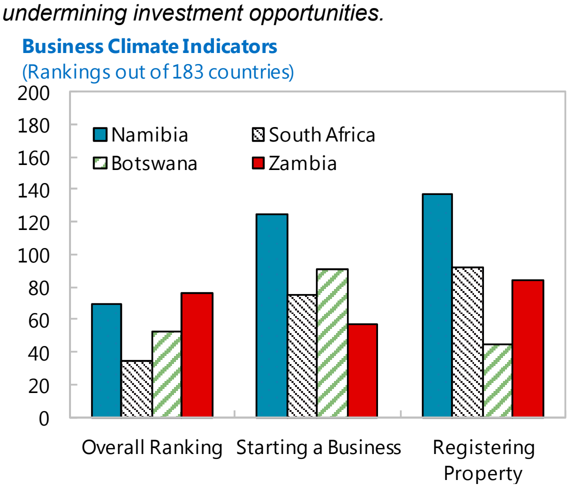
The BoN reduced its repo rate broadly in line with the SARB



Credit growth started to recover…



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



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

POLICY DISCUSSIONS:

Discussions focused on ensuring a stable macroeconomic environment by rebuilding fiscal policy buffers, reinforcing monetary and financial stability, and buttressing structural reforms to foster diversification and employment growth.

A. Rebuilding Fiscal Policy Buffers

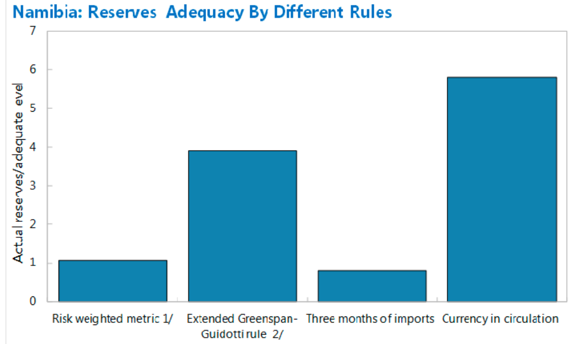
The Issues

11. Discussions on the fiscal stance focused on:

- **Ensuring room for maneuver in the event of shocks**: Public debt is projected to rise rapidly in FY2011/12. If sizeable deficits were to continue, Namibia's room for maneuver in the event of further economic shocks would be impaired. The current global climate and Namibia's susceptibility to commodity market volatility highlight the need for sound fiscal buffers.

- **Safeguarding Namibia's external position**: Fiscal expansion risks putting upward pressure on non-tradable goods prices, imports, and the current account deficit. The potential deterioration in external balance could lead to official reserves falling below desired levels. Reserves are currently comfortable by some indicators (see Figure), but are below the widely-used international benchmark of 3 months cover.

Namibia: Reserves Adequacy By Different Rules



Source: IMF staff estimates.
1/ Weighted average of the short-term external debt, other external liabilities, (excl. FDI), broad money and exports (IMF Board Paper, Feb. 2011).
2/ Short-term debt plus 2012 current account deficit.

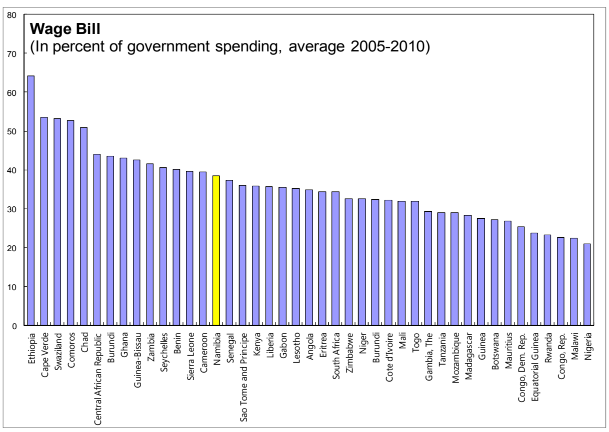
- **Preparing for a potential decline in SACU revenues**: Although the short-term outlook for SACU revenues appears promising, there is considerable uncertainty over their longer-term prospects.[1] The non-SACU fiscal deficit has deteriorated significantly—from 9 percent of GDP in FY2008/9 to a projected 18 percent in FY2011/12.

- **Strengthening revenue performance.** There is scope for significantly improving revenue performance through reforms in tax policy and administration. Reforms would target improved tax compliance, a more streamlined and robust tax system, and a taxation regime for the mineral

[1] SACU revenues currently provide over 25 percent of total budget revenues.

sector that balances revenue collection with incentives to invest. Such reforms would support the objectives in the current fiscal framework and help address future risks to revenues.

- **Ensuring high quality public spending.** The challenges of strengthening the quality of public spending have increased with the acceleration of spending and associated procurement processes planned under TIPEEG. Also notable is that Namibia's public sector wage bill is already relatively high by regional standards (see Figure).



Source: Country authorities and IMF staff estimates.

Authorities' Views

12. The authorities fully recognized the need to ensure internal and external balance in the economy. They stressed that the current fiscal expansion was temporary, aimed at addressing supply bottlenecks and providing a catalyst for economic and employment growth. They signaled their intention to keep public debt below 35 percent of GDP, a goal that is consistent with the fiscal projections in the staff's baseline scenario (Tables 3b). The authorities noted that medium-term fiscal outturns may be more favorable than currently budgeted as a result of under-execution of capital expenditures, stronger economic growth, and improvements in revenue and spending management. They fully agreed that Namibia should have adequate fiscal buffers to safeguard the country from shocks, particularly those that could arise from the deteriorating global outlook. They also pointed to their past record of reining in public spending and debt to ensure macroeconomic stability.

13. The authorities concurred that it was essential to ensure adequate reserves to protect the exchange rate peg and as a further buffer against shocks. They noted that the use of months of import cover as a reserve benchmark may not be fully appropriate for a country like Namibia, especially as large capital imports (e.g., for the resource sector) may be self financed through foreign direct investment (FDI) and other inflows.[2] Nevertheless, they acknowledged that keeping reserves at an adequate level by internationally recognized standards would help to support international confidence in the economy and the exchange rate peg, particularly in view of the increased external

[2] Staff notes for example that the import cover of official reserves is currently close to 3 months if imports stemming from foreign direct investment (which is mainly directed at the resource sector) are excluded.

scrutiny of the economy that will likely follow the recent Eurobond issuance.

14. The authorities stressed the need to increase the economy's potential output growth rate. This is currently estimated by staff at just over 4 percent (Box 3). Key objectives are the development of high value-added, labor-intensive sectors to help reduce unemployment, poverty, and income inequality.

15. The authorities pointed to reforms aimed at improving tax performance. The Minister of Finance recently presented a range of tax amendments to Parliament, and policy reforms more generally are aimed at closing tax loopholes and increasing reliance on relatively stable sources of tax revenue. Tax administration is being strengthened by streamlining tax procedures, especially for small- and medium-size enterprises; improving computerization of tax collection; and moving toward a taxpayer self-assessment system.

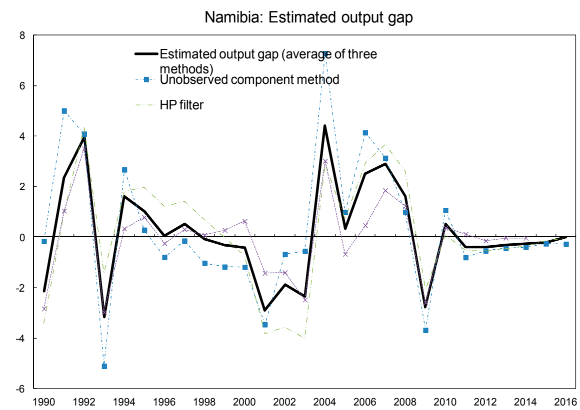
16. The authorities agreed that tax incentives can significantly erode the tax base and need to be regularly reviewed. They noted though that Namibia needs to avoid excessive or regionally uncompetitive tax burdens that may discourage FDI and impair efforts to diversify the economy.

17. The authorities also aim to improve the quality of spending. Measures include use of program-based budgeting, electronic transfers of funds to budgetary units, and real-time reconciliation of government accounts. Improved prioritization and monitoring of development spending is also being emphasized.

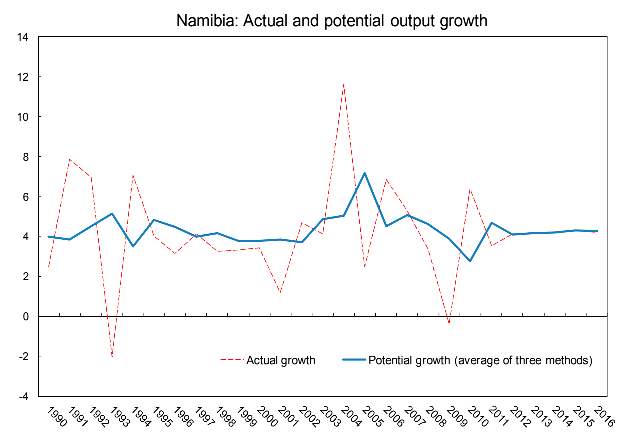
Box 3. The Measurement of Potential Growth in Namibia

Namibia registered impressive GDP growth in the years preceding the financial crisis (2000–08), although growth rates have been volatile due to developments in the mineral sector (chart).[1] Following the GDP contraction in 2009, growth rebounded in 2010 and is now estimated to have surpassed its pre-crisis level.

Potential output growth was estimated by applying two conventional statistical filters, Hodrick-Prescott and Baxter-King, as well as an unobserved component method. Although the results should be interpreted with caution given both the backward looking bias of the estimation methods and the ability of Namibia's resource sector to rapidly expand capacity to meet new production opportunities, they suggest that Namibia's potential growth is around 4¼ percent. Although somewhat decelerating in 2009-10, as was also observed in Namibia's main trading partners, potential growth is projected to revert back to its pre-crisis rate over the medium term.[2]



The results also suggest that, during the 2009 episode, the output gap moved sharply negative, to about 2½ percent, from a positive level of 2–2½ percent in the previous two years. In light of the strong growth in 2010, the output gap has narrowed significantly (based on the average of the three estimations). But with projected subdued growth in 2011 and a modest recovery thereafter, the output gap is projected to remain in negative territory until it converges to zero in 2015–16.



[1] The average growth in 2000-08 stood at about 4.9 percent per annum, higher than the average in 1990–99 (4.1 percent).

[2] Klein, Nir, 2011 "Measuring the Potential Output in South Africa" African Departmental Paper No. 11/02.

18. The authorities expressed concerns about the financial implications of Namibia's recent reclassification as an upper middle-income country (2009 GNI per capita of $4,130 exceeds the World Bank's threshold of $3,946 between lower and upper middle-income countries). Financial losses include ineligibility for renewed Millennium Challenge Corporation assistance and reduced access to EU concessional financing. In the authorities' view, the classification methodology does not pay due regard to the country's particularly high level of income inequality and still significant development challenges. Staff analysis of national accounts data on a *purchasing power parity* (PPP) basis highlights Namibia's relatively low ranking in terms of living standards and consumption patterns vis-à-vis regional comparators (Box 4).

Box 4. Results of the International Comparison Program (ICP) for Namibia and Comparators, 2005

In view of the concerns expressed about Namibia's recent classification as an upper middle-income country, a methodological question surrounds what exchange rate is best used to compare counties' income levels. While the income classification exercise relies on market exchange rates, during the last 40 years there have been several attempts to develop economic statistics reflecting the purchasing power parities (PPPs) of national currencies. Such measures may be more useful and less misleading than those based on market exchange rates, which could fluctuate significantly. The ICP, launched by the World Bank in 2003, represents the most recent systematic measurement of world PPPs. The ICP adopted 2005 as the year of reference for measuring price and volume levels of GDP (and its components) on a PPP basis for more than 100 countries around the world, grouped in 5 geographic regions.

The ICP results for Namibia and other regional comparators reveal the following:

I. Namibia, together with Swaziland, Cape Verde, and Lesotho, has significantly lower real GDP per capita than other middle-income African economies.

II. In relation to the African average, Namibia was one of the most expensive countries to live and work.

III. The standard of living in Namibia, as measured by real actual consumption per capita, was at the bottom of the country list, except for Cape Verde and Lesotho. The standard of living in Mauritius and South Africa, which profited from relatively low prices, was the highest in the country sample.

IV. Gross fixed capital formation per capita in Namibia is below the regional average.

V. The price level of gross fixed capital formation is some 22 percent above the regional average.

VI. Namibia generally spends less than comparators across standard CPI spending categories.

Table 1. 2005 ICP: Real Expenditure Per capita (RXPC) & Price Level Indices, Namibia & Comparators

	GDP per capita					Actual Household Consumption per-capita				Gross Fixed Capital Formation per-capita			
	US$	RXPC Index; AFR = 100	Country Ranking	Price level Index; AFR = 100	Country Ranking	RXPC Index; AFR = 100	Country Ranking	Price level Index; AFR = 100	Country Ranking	RXPC Index; AFR = 100	Country Ranking	Price level Index; AFR = 100	Country Ranking
Botswana	5,712	542.4	2	102.2	8	202.0	5	126.3	5	206.0	2	82.9	8
Lesotho	777	63.7	8	119.6	4	115.6	8	98.2	8	27.9	8	148.7	1
Namibia	3,049	204.5	5	145.7	2	176.8	6	149.1	2	93.2	6	122.4	3
Swaziland	2,270	197.2	6	113.0	5	204.8	4	107.0	6	65.4	7	123.7	2
South Africa	5,162	381.3	4	132.6	3	380.2	2	135.1	4	116.8	4	114.5	5
Mauritius	5,053	456.8	3	108.7	6	492.2	1	107.0	6	146.7	3	111.8	6
Cape Verde	2,215	127.4	7	169.6	1	167.7	7	159.6	1	95.6	5	117.1	4
Gabon	6,190	573.4	1	106.5	7	215.6	3	143.9	3	215.5	1	100.0	7
Africa region	1,016	100.0		100.0		100.0		100.0		100.0		100.0	

Source: 2005 ICP catabank.

Table 2. Who Spent Most on What in 2005? Selected Categories per capita, PPP basis

Africa region = 100

	Botswana	Lesotho	Namibia	Swaziland	South Africa	Cape Verde	Mauritius	Gabon
Food & non-alcoholic beverages	118.4	102.2	148.6	233.3	238.0	158.6	360.4	170.4
Clothing & footwear	213.6	216.7	168.2	137.9	328.8	80.3	425.8	150.0
Housing and utilities	171.6	91.7	158.1	152.2	321.1	227.0	785.5	244.3
Transportation	305.3	64.0	238.7	149.3	722.7	145.3	494.7	148.0
Communications	466.7	80.0	86.7	133.3	560.0	400.0	1406.7	380.0
Restaurants & hotels	11.5	7.7	226.9	46.2	296.2	207.7	615.4	196.2
Health & education	325.5	217.9	280.6	293.2	397.6	184.9	462.8	366.0
Total	233.5	150.1	212.9	227.6	358.3	183.2	520.2	268.9

Source: 2005 ICP database.

B. Reinforcing Monetary and Financial Stability

The issues

19. Discussions on monetary and financial conditions focused on:

- **Potential adjustment in the policy rate.** While monetary policy is largely passive given the exchange rate peg, the Bank of Namibia (BoN) policy rate is currently 50 points above that of South Africa. The rationale for maintaining this differential was discussed.

- **Ensuring a robust banking sector.** Current financial indicators suggest that the banking sector is well capitalized and profitable. Commercial banks, which are mainly owned in South Africa, have little direct exposure to current financial market concerns in Europe, but there may be indirect exposures—notably through South African parent institutions.

- **Monitoring exposure to housing market developments.** The authorities and commercial banks agreed that banks have significant exposure to the housing sector. Loan-to-value ratios appear to be well below 100 percent, however, providing some buffer against potential prices declines. The First National Bank House Price Index indicates that prices have more than quadrupled since 2000, including an increase of around 18 percent in the year to June 2011. This price growth appears to stem mainly from cross-border capital flows (notably from Angola) combined with limitations on domestic supply.

- **Strengthening regulation and supervision of non-bank financial institutions (NBFIs).** The NBFI sector has been growing rapidly and has increased interconnectedness with other parts of the financial sector. With support from external technical assistance, including from the IMF and World Bank, the Namibia Financial Institutions Supervisory Authority (NAMFISA) is strengthening its capacity to regulate and supervise NBFIs in line with best international practice, including through increased hiring and training of professional staff. These efforts are being backed by a new Financial Institutions and Market (FIM) bill, which is expected to be sent to Parliament in the first half of 2012.

Authorities' Views

20. The authorities reaffirmed that the exchange rate peg has helped anchor macroeconomic and financial stability in Namibia. They noted that the BoN policy rate is regularly re-evaluated based on developments in prices and output, within a small margin for maneuver (about +/- 50 basis points) around the SARB rate. They agreed

with staff that a tighter fiscal stance would provide greater room for bringing the BoN rate into full alignment with the SARB rate.

21. The authorities acknowledged the increased vulnerabilities in the financial sector given heightened global uncertainty. In recognition of these risks, they noted the ongoing measures to strengthen NAMFISA and to improve the capacity of BoN staff to assess financial sector risks. They also pointed to the Financial Sector Strategy 2010–20, which was recently approved by the cabinet. This strategy aims to deepen and strengthen domestic financial markets, including in the areas of regulation, access, and consumer protection. The authorities agreed that close monitoring of banks' exposure to mortgage lending is warranted given the rapid house price growth.

C. Structural Reforms to Foster Diversification and Employment Growth

The Issues

22. Discussions on structural reforms focused on measures needed to reduce high unemployment and inequality and help diversify the economy. Key issues included:

- **Impact of TIPEEG.** As noted in Box 1, this initiative aims to increase employment and growth in four targeted sectors, including by strengthening infrastructure.

- **Lowering the cost of doing business**: Although in the top half of surveyed countries, Namibia's overall ranking in the Doing Business 2011 indicators is well below that of its middle-income neighbors South Africa and Botswana. Namibia has a particularly low ranking in indicators for starting a business (ranking 124 out of 183 countries) and registering property (136).

- **Improving the operation of labor markets:** Staff's discussions with the private sector, along with other assessments (see Figure 2), suggest that the labor market does not function as effectively as it might—for example with inflexible regulations, unduly restrictive immigration policies, and weak links between pay and productivity. Skill shortages are widely cited as a key impediment to growth.

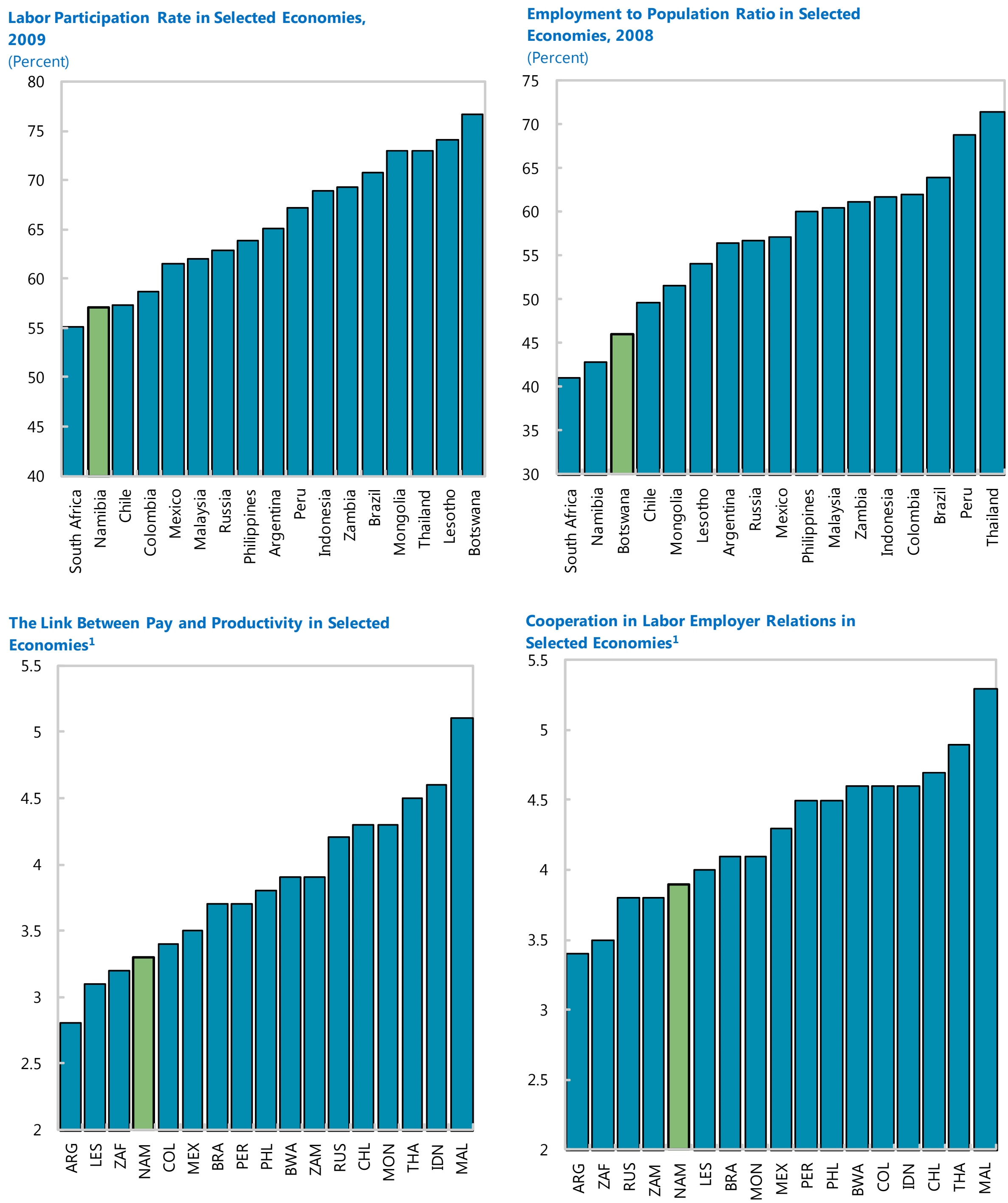
- **Identifying potential sources of output and export growth:** Discussions considered the potential for diversification and growth not just in new sectors of activity but also in areas where Namibia already has some expertise, including mining and services.

Authorities' Views

23. **The authorities drew attention to the catalytic effects expected from the TIPEEG initiative on private investment and employment growth.** They noted for example the scope for expansion of transport and trade throughout the southern African region—drawing in part on developments underway in the Walvis Bay port and associated transport corridors. Discussions on the forthcoming Fourth National Development Plan will also provide a forum for considering a wide array of structural measures that could help diversify and strengthen the economy.

24. **While disputing the accuracy of survey measures showing Namibia to have a relatively poor business climate, the authorities agreed there was scope for improvement in some areas.** To that end, registration processes for starting a business have now been simplified and delays with land registration are being addressed through better land surveys.

Figure 2. Namibia: Labor Market Indicators



Sources: World Bank World Development Indicators and World Economic Forum.
[1] Higher values indicate higher link.

25. The authorities underscored the need to strike a balance between labor market flexibility and job security. They emphasized that labor market reforms would be pursued in line with the ILO agenda for decent job and labor standards. In contrast, measures that could be viewed as leading to a "race to the bottom" in terms of hire-and-fire employment norms would not be acceptable under the Constitution. They also drew attention to Namibia's painful memories of labor relations under the pre-independence apartheid regime.

26. The authorities agreed that the economy could be diversified through growth in areas where Namibia has already demonstrated some comparative advantage. They noted for example the growth in domestic and regional tourism; in health services—where there is already flourishing activity serving a large Angolan population in the border area; in food and beverages processing—including prospects for exporting fish and fresh vegetables to China and MERCOSUR; and in jewel manufacturing. They also signaled the need for industrial and trade policies that encourage creation of local value chains.

STAFF APPRAISAL

27. The outlook for GDP growth appears favorable, although subject to downside risks. The promising outlook, which includes the prospect of further investment in the resource sector as well as growth of non-resource intensive activities, is built in part on the foundations of sound economic management. Staff was encouraged to find widespread recognition among domestic stakeholders of the government's prudent and pragmatic approach to policy making. This outlook is nevertheless subject to substantial downside risks, particularly in view of the current fragility of the global economy and potential spillovers to the local economy – notably through commodity markets. To help ensure that the economy has adequate buffers against such risks, the key requirements are to rein in the current fiscal expansion, preserve an adequate level of official reserves, and push ahead with ambitious structural reforms to support stronger and more diversified growth in output and employment. Moderation in the envisaged implementation of the TIPEEG initiative would also be desirable to limit the risks that this program could increase prices of non-tradables and reduce the economy's external competitiveness—developments that would undermine the program's objectives.

28. Fiscal consolidation is needed to contain the growth of public debt. Staff agrees with the authorities' intention to keep public debt below 35 percent of GDP over the medium-term, and urges them to stay well within this limit. This objective, which is

consistent with the staff's baseline scenario, is particularly appropriate in view of the weak global outlook and the potential decline in SACU revenues. Given the latter risk, strengthening the non-SACU fiscal balance should also be a policy priority. To reach these goals, increases in current and capital spending planned under TIPEEG need to be unwound at the end of this initiative, if not before, and the risk averted that these increases become locked into permanent growth in public spending. To enhance the credibility of the government's macroeconomic strategy, these fiscal goals should be presented as formal commitments, reflected in the fiscal framework beginning in FY2012/13, and then adhered to.

29. Measures proposed to strengthen the tax base and revenue collection need to be rapidly implemented. Revenue losses from tax incentives should also be contained—for example, by full accounting of tax expenditures, updating and streamlining the incentive regime, and sunset provisions on the granting of exemptions.

30. Rigorous prioritization and monitoring of development spending is essential. To ensure high-quality public spending, including sound execution of public investment, current plans for spending growth may need to be reined in to ensure such growth is consistent with capacities to assess and implement development projects, including the application of transparent procurement processes. Staff is encouraged to see that the government is commitment to streamline and decentralize procurement while not compromising transparency.

31. Fiscal restraint is needed to help preserve a sound external position and the sustainability of the peg. While the benchmark of 3 months import cover for official reserves may not be entirely suitable for a resource intensive economy such as Namibia, staff agrees with the authorities' goal of ensuring reserve adequacy by this along with other metrics. This goal is particularly appropriate given the increased scrutiny of the economy by ratings agencies and international investors.

32. The exchange rate peg to the rand has anchored macroeconomic and financial stability. At its current level, the exchange rate appears broadly in line with its equilibrium value. Further alignment of the BoN policy rate with that of SARB should be considered, particularly if fiscal consolidation takes place and if the weakening external environment spills over to the Namibian economy.

33. Namibian banks have weathered the global financial crisis well. Remaining vulnerabilities need to be contained, however, in light of the heightened global uncertainty. In this regard, staff welcomes the authorities' progress in strengthening regulation and supervision of non-bank financial institutions and the broader reforms envisaged under the new Financial Sector Strategy. The authorities'

enhanced monitoring of commercial banks' exposure to mortgage lending is also appropriate. This requires that banks' risk management practices be carefully assessed, with pre-emptive measures deployed as needed to ensure that banks have sufficient capacity to absorb shocks.

34. Implementation of wide-ranging structural reforms is crucial to raise potential output growth and reduce high unemployment. Staff acknowledges that the accuracy of some survey-based measures of the business climate may be open to question. Nevertheless, there does appear scope for strengthening business and trade conditions and hence raising potential growth. As noted in Box 1, TIPEEG includes some potentially useful measures in this regard, including improvements in transport infrastructure and in the tourism and agriculture sectors. Staff also welcomes current efforts to streamline business registration procedures. There is scope for further efforts to support the creation of entry-level jobs (and hence on-the-job training), to ensure that migration rules allow businesses to readily overcome local skill shortages, and to strengthen formal education and training systems. These measures, together with reforms to improve the operation of labor markets, would support private investment and business formation.

35. The widespread concerns expressed by the authorities and development partners about Namibia's upper middle-income classification are striking. Ongoing domestic efforts, backed by external support, will be needed to tackle the challenges posed by Namibia's high level of income inequality and significant development needs.

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

Table 1. Namibia: Selected Economic and Financial Indicators, 2007–16

					Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(Annual percentage change, unless otherwise indicated)									
National account and prices										
GDP at constant prices	5.4	3.4	-0.4	6.6	3.6	4.2	4.4	4.4	4.4	4.4
GDP deflator	9.0	13.7	4.2	1.0	5.0	5.7	5.5	5.4	5.0	4.7
GDP at market prices (N$ billions)	62.1	72.9	75.7	81.5	88.6	97.6	107.5	118.3	129.7	141.7
GDP per capita (US$, constant 2000 exchange rate	4414	5094	5189	5543	5978	6530	7133	7781	8461	9170
Consumer prices (end of period)	7.1	10.9	7.0	3.1	5.7	5.5	5.2	5.2	4.5	4.5
External sector										
Exports (US$)	9.9	8.7	-1.7	32.0	12.0	5.8	6.0	5.9	6.8	7.2
Imports (US$)	20.7	24.8	12.6	20.4	23.4	3.5	5.2	5.0	5.0	5.8
Export volume	-0.7	6.4	16.0	8.1	-2.7	6.3	6.8	6.8	6.8	6.8
Import volume	11.8	13.1	21.0	0.5	13.0	3.0	4.8	4.5	4.4	5.0
Terms of trade (deterioration -)	2.0	-6.9	-5.3	0.3	3.0	-1.0	-1.2	-1.3	-0.6	-0.4
Real effective exchange rate (period average)	-3.6	-3.9	4.2	4.3	...	...	...	...	...	...
Money and credit										
Domestic credit to the private sector	12.9	7.3	10.0	11.2	8.7	10.1	10.1	...	...	...
M2	92.8	10.2	3.6	9.8	1.8	10.1	10.1	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Investment and savings										
Gross investment	23.7	28.2	29.4	28.1	32.5	30.6	29.6	29.3	28.3	28.5
Public 1/	7.5	9.4	12.6	13.7	16.0	14.1	13.1	12.8	11.8	12.0
Private	16.2	18.9	16.8	14.4	16.5	16.5	16.5	16.5	16.5	16.5
Gross national savings	32.9	31.0	31.3	26.3	26.3	28.1	26.0	25.3	25.0	26.9
Public	10.1	9.1	6.4	2.4	0.4	1.9	2.5	2.6	3.3	4.0
Private	22.8	21.9	24.8	23.9	26.0	26.1	23.5	22.7	21.7	22.9
Central government budget 2/										
Revenue and grants	31.9	31.8	31.1	28.1	30.8	33.4	33.8	32.8	32.8	32.8
Of which: SACU receipts	12.5	11.5	11.1	7.2	10.5	11.1	10.1	9.0	9.1	9.1
Expenditure and net lending	27.1	29.7	33.3	33.8	39.8	38.1	38.4	37.0	35.7	35.2
Of which: Personnel expenditure	10.5	10.3	11.7	13.0	14.7	14.8	14.7	14.1	13.6	12.7
Of which: Capital expenditure and net lending	5.8	6.9	7.8	7.2	8.9	7.2	7.1	6.9	6.3	6.6
Primary balance (deficit = –)	6.7	3.6	-0.6	-4.6	-6.9	-1.9	-1.6	-1.1	0.4	1.0
Overall balance	4.8	2.1	-2.2	-5.7	-8.9	-4.7	-4.6	-4.2	-2.9	-2.4
Overall balance: Non-SACU	-7.1	-9.1	-12.3	-12.9	-18.0	-15.5	-14.4	-13.0	-11.7	-11.2
Public debt/GDP 3/	18.4	18.2	15.5	16.2	24.5	27.0	27.7	29.0	30.3	31.4
Gross public and publicly guaranteed debt/GDP	23.7	22.3	18.9	18.6	27.0	29.7	30.6	31.9	33.4	34.6
External sector										
Current account balance										
(including official grants)	9.1	2.8	1.8	-1.8	-6.3	-2.5	-3.6	-3.9	-3.3	-1.6
(excluding official grants)	-2.0	-9.8	-12.1	-12.7	-18.1	-15.3	-15.6	-14.8	-13.9	-12.1
Gross official reserves 4/										
US$ millions	906.6	1,394.7	1,918.7	1,380.1	1,438.7	1,541.9	1,459.0	1,385.7	1,537.4	2,092.2
Months of imports of goods and services	2.4	3.4	3.9	2.3	2.3	2.3	2.1	1.9	2.0	2.8
External debt/GDP 5/										
US$ millions	2,260.8	2,001.9	2,193.6	2,277.8	2,874.0	3,131.5	3,354.9	3,626.9	3,910.7	4,206.5
Percent of GDP	25.7	22.7	24.6	20.5	23.2	23.5	23.8	24.3	24.8	25.3
Exchange rate (N$/US$, end of period)	6.8	9.3	7.4	7.1	...	...	...	...	...	...

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

1/ Figures include public enterprise and central government investment.
2/ Figures are for the fiscal year, which begins April 1.
3/ Additional debt was issued in 2008 to build up the redemption account for the maturing bonds.
4/ Includes SDR allocations in 2009.
5/ Public and private external debt.

Table 2. Namibia: Balance of Payments, 2007–16

					Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	(In millions of U.S. dollars; unless otherwise indicated)									
Current account	804.9	244.0	164.5	-201.4	-777.3	-337.3	-500.6	-585.8	-522.2	-261.3
Trade balance	-172.0	-682.7	-1,225.1	-1,114.9	-1,845.6	-1,807.1	-1,864.7	-1,909.4	-1,910.1	-1,936.0
Exports, f.o.b.	2,915.5	3,169.7	3,114.5	4,111.0	4,605.5	4,870.7	5,163.5	5,468.4	5,838.5	6,261.0
Of which:										
Diamonds	909.9	770.7	540.2	827.2	884.4	893.1	911.0	929.2	947.8	966.7
Other minerals	804.7	939.6	728.6	938.4	1,207.3	1,301.8	1,440.4	1,577.9	1,746.2	1,941.4
Fish	445.1	367.0	339.9	408.9	478.3	494.4	509.4	524.3	545.1	569.4
Imports, f.o.b	-3,087.5	-3,852.4	-4,339.6	-5,226.0	-6,451.1	-6,677.7	-7,028.2	-7,377.7	-7,748.6	-8,197.1
Services (net)	85.9	-41.9	71.2	147.6	94.2	178.2	188.2	308.2	449.5	577.6
Transportation	-120.9	-117.9	-79.1	-86.6	-120.7	-114.4	-114.6	-113.4	-110.6	-111.7
Travel	301.5	265.2	281.7	294.2	323.0	374.0	411.1	466.9	547.1	624.2
Other services	-94.8	-189.1	-131.3	-60.2	-108.2	-81.4	-108.3	-45.4	13.1	65.1
Income (net)	-109.0	-156.3	60.1	-466.4	-498.9	-432.2	-537.7	-615.8	-743.9	-662.9
Compensation of employees	-2.3	-29.2	-4.0	-19.0	-17.4	-13.5	-16.6	-15.8	-15.3	-15.9
Investment income	-106.8	-127.1	64.2	-447.4	-481.5	-418.7	-521.1	-600.0	-728.6	-647.0
Current transfers	1,000.1	1,124.9	1,258.2	1,232.3	1,473.0	1,723.8	1,713.6	1,631.2	1,682.2	1,760.1
Of which: SACU receipts 1/	957.1	959.8	1,015.0	937.0	1,238.5	1,466.1	1,451.1	1,379.6	1,425.0	1,503.0
Capital and financial account	-694.9	-1,392.6	23.4	458.9	835.9	440.5	417.7	512.4	674.0	816.0
Capital account	83.2	76.3	66.3	110.5	79.4	80.4	80.0	79.9	80.1	80.0
Financial account	-778.1	-1,468.9	-42.8	348.5	756.5	360.1	337.7	432.5	593.9	736.0
Direct investment	729.2	716.1	521.3	851.4	987.6	1,028.2	1,130.4	1,164.5	1,304.6	1,369.7
Portfolio investment	-1,470.3	-1,021.5	-590.7	-715.2	-865.5	-951.8	-1,044.2	-1,034.9	-1,022.9	-1,008.7
Other investment	-37.0	-1,163.5	26.6	212.2	634.4	283.7	251.6	302.9	312.2	375.0
Reserve assets (increase -) 2/	-444.2	-483.7	-525.9	535.8	-58.6	-103.2	82.9	73.3	-151.7	-554.7
Errors and omissions	334.2	1,632.3	337.9	-793.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(Percent of GDP)									
Trade Balance	-2.0	-7.7	-13.7	-10.0	-14.9	-13.5	-13.2	-12.8	-12.1	-11.6
Current account/GDP										
Including transfers	9.1	2.8	1.8	-1.8	-6.3	-2.5	-3.6	-3.9	-3.3	-1.6
Excluding transfers	-2.0	-9.8	-12.1	-12.7	-18.1	-15.3	-15.6	-14.8	-13.9	-12.1
Nonmineral, non-SACU current account/GDP	-21.2	-27.5	-23.7	-26.1	-33.2	-30.0	-30.6	-30.0	-29.5	-28.1
Exports of goods and nonfactor services (GNFS)	3,513.2	3,723.8	3,760.0	4,961.2	5,524.6	5,869.4	6,241.5	6,639.6	7,122.7	7,672.1
Exports/GDP (percent)	39.9	42.2	42.1	44.6	44.7	44.0	44.3	44.6	45.2	46.1
Imports of GNFS	3,599.4	4,448.4	4,913.8	5,928.5	7,276.0	7,498.3	7,918.0	8,240.8	8,583.2	9,030.6
Imports/GDP (percent)	40.8	50.4	55.0	53.3	58.8	56.2	56.3	55.3	54.5	54.3
Gross International reserves (end of period) 2/	907	1,395	1,919	1,380	1,439	1,542	1,459	1,386	1,537	2,092
Months of imports of goods and services	3.0	3.8	4.7	2.8	2.4	2.5	2.2	2.0	2.1	2.8
Ratio of reserves/short-term debt	1.3	4.0	9.1	6.0	6.2	6.7	6.3	6.0	6.7	9.1
Short-term debt (US$ millions)	718.8	345.8	211.3	230.5	230.5	230.5	230.5	230.5	230.5	230.5
External debt/GDP (percent)	25.7	22.7	24.6	20.5	23.2	23.5	23.8	24.3	24.8	25.3
External debt (US$ millions) from IIP 3/	2,260.8	2,001.9	2,193.6	2,277.8	2,874.0	3,131.5	3,354.9	3,626.9	3,910.7	4,206.5
Exchange rate (N$/US$, end of period)	6.8	9.3	7.4	...	...	...	...	...	...	...
Exchange rate (N$/US$, period average)	7.0	8.3	8.5	...	...	...	...	...	...	...
GDP at market prices (US$ Millions)	8,811.7	8,829.9	8,931.0	11,119.8	12,372.5	13,339.1	14,074.7	14,899.9	15,756.9	16,626.3

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

Table 3a. Namibia: Central Government Operations, 2007/08–2016/17

					MTEF 2011/12-2013/14			Projections		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	(In millions of Namibian dollars)									
Total revenue and grants	20,672	23,447	24,017	23,378	28,012	33,375	37,154	39,556	43,370	47,354
Revenue	20,594	23,364	23,816	23,354	27,782	33,145	37,053	39,445	43,248	47,221
Tax revenue	19,027	21,086	22,138	21,393	26,185	31,383	35,166	37,372	40,978	44,741
Personal income tax	3,714	4,606	5,084	5,945	6,832	7,413	8,462	9,296	10,179	11,122
Corporate income tax	2,834	3,269	2,852	3,585	4,944	5,029	6,631	7,284	7,976	8,714
Diamond mining	221	499	511	354	746	659	683	750	822	898
Other mining	780	731	61	213	704	744	1,564	1,718	1,881	2,055
Nonmining	1,834	2,039	2,279	3,018	3,493	3,626	4,384	4,816	5,273	5,762
VAT and sales taxes	3,854	4,096	4,733	5,036	5,658	6,289	6,952	7,669	8,436	9,038
Taxes on international trade (includes SACU receipts)	8,085	8,502	8,585	5,976	7,137	11,118	11,076	10,910	12,001	13,081
Other taxes	539	613	641	830	1,033	1,127	1,248	1,371	1,501	1,640
Nontax revenue	1,568	2,277	1,678	1,961	1,597	1,761	1,887	2,073	2,270	2,480
Diamond and other mineral royalties	643	545	492	882	720	850	900	989	1,083	1,183
Administrative fees, including license revenues	478	503	433	545	423	430	461	507	555	606
Other	446	1,230	753	534	454	482	525	577	632	691
Grants	78	83	201	24	230	230	102	112	122	134
Expenditures and net lending	17,541	21,898	25,712	28,142	36,124	38,053	42,209	44,662	47,140	50,808
Current expenditures	13,812	16,854	19,708	22,153	28,004	30,848	34,438	36,315	38,759	41,255
Personnel	6,805	7,559	9,045	10,797	13,375	14,744	16,187	17,022	17,979	18,344
Goods and services	2,864	3,683	4,271	4,105	6,792	7,369	8,385	8,208	8,592	9,387
Interest payments	1,179	1,111	1,197	966	1,838	2,754	3,264	3,721	4,257	4,858
Domestic	1,067	952	1,197	881	1,687	2,395	2,875	3,300	3,762	4,284
Foreign	112	158	0	85	151	360	389	422	494	574
Subsides and transfers	2,964	4,501	4,965	6,285	5,999	5,981	6,602	7,363	7,931	8,665
Capital expenditure	2,530	3,925	5,334	5,989	7,852	6,949	7,467	8,014	8,015	9,154
Acquisition of capital assets	1,791	2,930	3,632	3,335	6,056	6,084	6,486	7,001	6,907	7,943
Project Financed (extrabudgetary)	355	226	802	1,259	1,354	302	302	332	363	397
Capital transfers	383	769	900	1,395	442	563	679	680	745	814
Net lending	1,200	1,119	670	0	267	256	304	334	366	399
Overall balance 1/	3,131	1,549	-1,695	-4,764	-8,112	-4,678	-5,055	-5,106	-3,769	-3,454
Overall balance excluding extrabudgetary spending 2/	3,486	1,774	-893	-4,764	-6,757	-4,376	-4,752	-4,774	-3,406	-3,057
Primary balance	4,310	2,659	-497	-3,798	-6,274	-1,924	-1,791	-1,385	487	1,404
Financing	-3,131	-1,549	1,695	4,764	8,112	4,678	5,055	5,106	3,769	3,454
Domestic financing (net)	-3,415	-1,624	967	3,678	3,301	4,583	3,660	3,575	2,092	1,622
Monetary Sector		-4,023	1,439	3,479	2,698	2,382	3,883	3,747	2,263	2,111
Central bank		-3,446	2,098	2,693	-787	93	879	548	-1,319	-1,802
Commercial banks		-577	-659	786	3,484	2,290	3,004	3,199	3,582	3,913
Non-Monetary Sector		2,398	-472	200	604	2,201	-222	-172	-170	-489
External financing (net)	284	76	728	1,086	4,810	95	1,394	1,531	1,677	1,832
Disbursements	355	226	802	1,259	5,004	302	1,622	1,782	1,951	2,132
Amortization	-71	-150	-74	-174	-194	-207	-228	-250	-274	-299
Memorandum item:										
Public and publicly guaranteed debt	15,338	16,418	14,557	15,482	24,543	29,645	33,669	38,545	44,165	50,021
Public debt	11,925	13,389	11,922	13,470	22,238	26,983	30,441	34,999	40,088	45,344
Domestic 3/	8,782	9,755	8,876	10,233	14,321	18,811	21,593	24,620	28,032	31,455
External	3,143	3,634	3,046	3,237	7,918	8,172	8,848	10,379	12,056	13,889
Publicly guaranteed debt	3,413	3,029	2,635	2,013	2,305	2,662	3,228	3,546	4,077	4,677
GDP at current market prices (N$ millions)	64,798	73,629	77,136	83,291	90,846	99,909	109,890	120,711	132,185	144,423
Government deposits	4,842	7,234	2,443	121	908	815	-63	-70	-76	-83
Net public and publicly guaranteed debt	10,496	9,184	12,114	15,361	23,636	28,829	33,732	38,615	44,241	50,104

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

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

Table 3b. Namibia: Central Government Operations, 2007/08–2016/17

					MTEF 2011/12-2013/14			Projections		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	(In percent of GDP; unless otherwise indicated)									
Total revenue and grants	31.9	31.8	31.1	28.1	30.8	33.4	33.8	32.8	32.8	32.8
Revenue	31.8	31.7	30.9	28.0	30.6	33.2	33.7	32.7	32.7	32.7
Tax revenue	29.4	28.6	28.7	25.7	28.8	31.4	32.0	31.0	31.0	31.0
Personal income tax	5.7	6.3	6.6	7.1	7.5	7.4	7.7	7.7	7.7	7.7
Corporate income tax	4.4	4.4	3.7	4.3	5.4	5.0	6.0	6.0	6.0	6.0
Diamond mining	0.3	0.7	0.7	0.4	0.8	0.7	0.6	0.6	0.6	0.6
Other mining	1.2	1.0	0.1	0.3	0.8	0.7	1.4	1.4	1.4	1.4
Nonmining	2.8	2.8	3.0	3.6	3.8	3.6	4.0	4.0	4.0	4.0
VAT and sales taxes	5.9	5.6	6.1	6.0	6.2	6.3	6.3	6.4	6.4	6.3
Taxes on international trade (includes SACU re	12.5	11.5	11.1	7.2	7.9	11.1	10.1	9.0	9.1	9.1
Other taxes	0.8	0.8	0.8	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Nontax revenue	2.4	3.1	2.2	2.4	1.8	1.8	1.7	1.7	1.7	1.7
Diamond and other mineral royalties	1.0	0.7	0.6	1.1	0.8	0.9	0.8	0.8	0.8	0.8
Administrative fees, including license revenues	0.7	0.7	0.6	0.7	0.5	0.4	0.4	0.4	0.4	0.4
Other	0.7	1.7	1.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.1	0.1	0.3	0.0	0.3	0.2	0.1	0.1	0.1	0.1
Expenditures and net lending	27.1	29.7	33.3	33.8	39.8	38.1	38.4	37.0	35.7	35.2
Current expenditures	21.3	22.9	25.5	26.6	30.8	30.9	31.3	30.1	29.3	28.6
Personnel	10.5	10.3	11.7	13.0	14.7	14.8	14.7	14.1	13.6	12.7
Goods and services	4.4	5.0	5.5	4.9	7.5	7.4	7.6	6.8	6.5	6.5
Interest payments	1.8	1.5	1.6	1.2	2.0	2.8	3.0	3.1	3.2	3.4
Domestic	1.6	1.3	1.6	1.1	1.9	2.4	2.6	2.7	2.8	3.0
Foreign	0.2	0.2	0.0	0.1	0.2	0.4	0.4	0.3	0.4	0.4
Subsides and transfers	4.6	6.1	6.4	7.5	6.6	6.0	6.0	6.1	6.0	6.0
Capital expenditure	3.9	5.3	6.9	7.2	8.6	7.0	6.8	6.6	6.1	6.3
Acquisition of capital assets	2.8	4.0	4.7	4.0	6.7	6.1	5.9	5.8	5.2	5.5
Project Financed (extrabudgetary)	0.5	0.3	1.0	1.5	1.5	0.3	0.3	0.3	0.3	0.3
Capital transfers	0.6	1.0	1.2	1.7	0.5	0.6	0.6	0.6	0.6	0.6
Net lending	1.9	1.5	0.9	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Overall balance 1/	4.8	2.1	-2.2	-5.7	-8.9	-4.7	-4.6	-4.2	-2.9	-2.4
Overall balance excluding extrabudgetary spendi	5.4	2.4	-1.2	-5.7	-7.4	-4.4	-4.3	-4.0	-2.6	-2.1
Primary balance	6.7	3.6	-0.6	-4.6	-6.9	-1.9	-1.6	-1.1	0.4	1.0
Financing	-4.8	-2.1	2.2	5.7	8.9	4.7	4.6	4.2	2.9	2.4
Domestic financing (net)	-5.3	-2.2	1.3	4.4	3.6	4.6	3.3	3.0	1.6	1.1
Monetary sector	-0.6	-5.5	1.9	4.2	3.0	2.4	3.5	3.1	1.7	1.5
Central Bank	0.5	-4.7	2.7	3.2	-0.9	0.1	0.8	0.5	-1.0	-1.2
Commercial Banks	-1.1	-0.8	-0.9	0.9	3.8	2.3	2.7	2.6	2.7	2.7
Non-Monetary Sector	-4.7	3.3	-0.6	0.2	0.7	2.2	-0.2	-0.1	-0.1	-0.3
External financing (net)	0.4	0.1	0.9	1.3	5.3	0.1	1.3	1.3	1.3	1.3
Disbursements	0.5	0.3	1.0	1.5	5.5	0.3	1.5	1.5	1.5	1.5
Amortization	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Errors and omissions/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:										
Public and publicly guaranteed debt	23.7	22.3	18.9	18.6	27.0	29.7	30.6	31.9	33.4	34.6
Public debt	18.4	18.2	15.5	16.2	24.5	27.0	27.7	29.0	30.3	31.4
Domestic 2/	13.6	13.2	11.5	12.3	15.8	18.8	19.6	20.4	21.2	21.8
External	4.9	4.9	3.9	3.9	8.7	8.2	8.1	8.6	9.1	9.6
Publicly guaranteed debt	5.3	4.1	3.4	2.4	2.5	2.7	2.9	2.9	3.1	3.2
Government deposits	7.5	9.8	3.2	0.1	1.0	0.8	-0.1	-0.1	-0.1	-0.1
Net public and publicly guaranteed debt	16.2	12.5	15.7	18.4	26.0	28.9	30.7	32.0	33.5	34.7
Nominal GDP (in millions of local currency)	64,798	73,629	77,136	83,291	90,846	99,909	109,890	120,711	132,185	144,423

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

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

Table 3c. Namibia: Central Government Operations, 2007/08–2016/17
(GFSM 2001 Classification)

					MTEF 2011/12-2013/14			Projections		
	2007/08	2008/09	2009/10	2010/11	2011/2012	2012/13	2013/14	2014/15	2015/16	2016/17
	(In millions of Namibian dollars)									
Revenue	20,672.5	23,446.8	24,017.1	23,377.9	28,012.0	33,374.7	37,154.4	39,556.4	43,370.1	47,354.5
Taxes	19,026.8	21,086.5	22,138.2	21,393.5	26,185.4	31,383.3	35,165.9	37,372.1	40,978.2	44,741.1
Taxes on income, profits, and capital gains	6,729.7	8,069.7	8,136.6	9,912.2	12,218.8	12,933.8	15,642.7	17,183.1	18,816.3	20,558.4
Individuals	3,714.1	4,606.4	5,084.1	5,945.5	6,831.6	7,412.7	8,462.4	9,295.7	10,179.3	11,121.7
Corporations and other enterprises	2,834.1	3,269.0	2,851.7	3,585.5	4,943.9	5,028.5	6,630.7	7,283.7	7,976.0	8,714.4
Payable in the mineral economy	1,000.5	1,229.7	572.4	567.2	1,450.7	1,403.0	2,246.7	2,468.0	2,702.6	2,952.8
Payable in the non-mineral economy	1,833.6	2,039.3	2,279.3	3,018.3	3,493.2	3,625.5	4,384.0	4,815.7	5,273.4	5,761.6
Other income/profits taxes	181.4	194.3	200.8	381.3	443.3	492.6	549.6	603.7	661.1	722.3
Taxes on property	148.9	171.1	191.9	138.5	255.5	274.7	297.5	326.8	357.8	391.0
Taxes on goods and services	4,063.0	4,343.6	5,224.5	5,366.8	6,574.1	7,056.7	8,149.7	8,952.3	9,803.2	10,710.8
VAT, sales and environmental taxes	3,854.1	4,095.9	4,976.2	5,056.8	6,239.7	6,697.4	7,748.6	8,511.7	9,320.7	10,183.6
Excises	71.1	105.5	81.7	101.6	118.2	123.8	142.8	156.9	171.8	187.7
Excise portion of SACU receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fuel levy	71.1	105.5	81.7	101.6	118.2	123.8	142.8	156.9	171.8	187.7
Stamp duties	137.9	142.2	166.7	208.4	216.2	235.5	258.3	283.8	310.7	339.5
Taxes on international trade	8,085.1	8,502.1	8,585.2	5,975.9	7,137.0	11,118.0	11,076.0	10,909.9	12,000.8	13,080.9
Customs (part of SACU receipts)	8,085.1	8,502.1	8,585.2	5,975.9	9,567.2	11,118.0	11,076.0	10,909.9	12,000.8	13,080.9
Other trade taxes	0.0	0.0	0.0	0.0	-2,430.2	0.0	0.0	0.0	0.0	0.0
Grants	78.0	82.9	200.8	23.5	229.9	230.1	101.6	111.6	122.2	133.5
Current	78.0	82.9	200.8	23.5	229.9	230.1	101.6	...	...	...
Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...
Other revenue	1,567.7	2,277.5	1,678.1	1,960.9	1,596.7	1,761.3	1,886.9	2,072.7	2,269.7	2,479.8
Property income	1,064.4	1,738.5	1,209.8	1,372.9	1,112.5	1,261.5	1,344.6	1,477.0	1,617.4	1,767.2
Diamond and other mineral royalties	643.3	544.6	491.8	882.0	720.2	850.2	900.0	988.6	1,082.6	1,182.8
Fishing quota levies	147.0	137.7	92.8	133.1	150.7	146.7	151.2	166.1	181.9	198.7
Interest on loans, investments, and deposits at BoN	160.7	882.9	200.6	61.4	88.6	102.9	117.2	128.7	141.0	154.0
Dividends from parastatals	113.4	173.4	424.7	296.5	153.0	161.7	176.2	193.6	212.0	231.6
Compensation for use of the Rand	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative fees, including license revenues	478.1	502.9	433.1	545.0	422.7	429.6	461.5	506.9	555.1	606.5
Fines and forfeitures	25.2	36.1	35.1	43.0	61.5	70.3	80.8	88.7	97.2	106.2
Expense	14,195.4	17,623.3	20,607.7	23,548.2	28,446.2	31,411.6	35,117.2	36,995.4	39,503.9	42,068.7
Compensation of employees	6,805.1	7,559.3	9,045.0	10,796.6	13,375.4	14,744.5	16,187.0	17,021.9	17,978.8	18,343.6
Purchases of goods and services	2,864.3	3,683.4	4,271.0	4,105.0	6,792.4	7,368.5	8,385.1	8,208.4	8,592.0	9,387.5
Interest	1,178.8	1,110.6	1,197.5	966.5	1,837.9	2,754.3	3,264.0	3,721.3	4,256.8	4,858.1
Other	0.0	0.0	229.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants and subsidies	3,347.2	5,270.0	5,864.7	7,680.1	6,440.4	6,544.4	7,281.1	8,043.9	8,676.2	9,479.5
Gross Operating Balance	6,477.1	5,823.5	3,409.3	-170.2	-434.3	1,963.1	2,037.1	2,560.9	3,866.2	5,285.8
Net acquisition of nonfinancial assets 1/	2,146.4	3,155.8	4,433.9	4,594.0	7,410.4	6,385.7	6,787.8	7,333.1	7,270.0	8,340.3
Net lending/borrowing	4,330.7	2,667.7	-1,024.5	-4,764.2	-7,844.6	-4,422.6	-4,750.6	-4,772.2	-3,403.8	-3,054.5
Transactions in financial assets and liabilities	4,330.7	2,667.7	-1,024.5	-4,764.2	-4,194.6	-4,422.6	-4,750.6	-4,772.2	-3,403.8	-3,054.5
Net acquisition of financial assets	886.4	4,564.9	-1,428.1	-2,692.5	1,053.8	163.2	-574.6	-213.9	1,685.0	2,201.4
Domestic	886.4	4,564.9	-1,428.1	-2,692.5	1,053.8	163.2	-574.6	-213.9	1,685.0	2,201.4
Currency and deposits	-313.2	3,445.9	-2,098.1	-2,692.5	786.9	-92.6	-878.5	-547.8	1,319.3	1,802.0
Loans (net lending)	1,199.6	1,119.0	670.1	0.0	267.0	255.8	304.0	333.9	365.6	399.5
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-3,444.2	1,897.2	-403.5	2,071.7	5,248.5	4,585.9	4,176.1	4,558.3	5,088.8	5,255.9
Domestic	-3,728.5	1,821.6	-1,131.2	986.0	4,088.0	4,490.9	2,781.9	3,026.8	3,411.7	3,423.6
Loans	-3,728.5	1,821.6	-1,131.2	986.0	4,088.0	4,490.9	2,781.9	3,026.8	3,411.7	3,423.6
Commercial Banks	-692.0	-576.7	-658.9	786.0	3,484.4	2,289.9	3,004.3	3,198.7	3,582.2	3,913.0
NonBanks	-3,036.5	2,398.2	-472.3	199.9	603.6	2,201.0	-222.4	-171.9	-170.5	-489.4
Amortization										
Other										
Foreign	284.3	75.6	727.7	1,085.7	1,160.5	95.0	1,394.2	1,531.5	1,677.0	1,832.3
Loans	355.0	225.7	802.1	1,259.4	1,354.3	302.1	1,622.0	1,781.7	1,951.1	2,131.7
Amortization due (paid)	-70.7	-150.0	-74.4	-173.7	-193.8	-207.1	-227.8	-250.2	-274.0	-299.4
Other										
Memo items:										
Overall balance	3,131.0	1,548.7	-1,694.6	-4,764.2	-4,461.6	-4,678.4	-5,054.6	-5,106.1	-3,769.4	-3,453.9
Overall balance excluding extra budgetary	3,486.0	1,774.4	-892.5	-3,504.8	-3,107.3	-4,376.3	-4,752.5	-4,774.2	-3,406.0	-3,056.9
Primary Balance	4,309.9	2,659.3	-497.1	-3,797.7	-2,623.7	-1,924.2	-1,790.6	-1,384.7	487.4	1,404.2
Non-SACU balance	-4,599.1	-6,727.8	-9,477.7	-9,480.7	-12,674.5	-15,494.4	-15,828.5	-15,684.1	-15,406.9	-16,137.8

Sources: Namibian authorities; and IMF staff estimates.

1/Includes extra budgetary projects financed by foreign loans.

Table 3d. Namibia: Central Government Partial Balance Sheet, 2005–11

	2005	2006	2007	2008	2009	2010	2011
Net Worth	**...**	**...**	**...**	**...**	**...**	**...**	**...**
Nonfinancial assets	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Net Financial Worth	-11931.5	-11268.5	-7758.1	-6358.6	-5322.2	-9601.7	-16934.4
Financial assets	**608.1**	**2093.3**	**4595.1**	**6664.4**	**6966.5**	**3481.0**	**3075.2**
Domestic							
Currency and deposits w/BoB	608.1	2093.3	4595.1	6664.4	6966.5	3481.0	3075.2
Securities other than shares							
Loans							
Shares and other equity[1]	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Insurance technical reserves							
Financial derivatives							
Other accounts receivable							
Foreign							
Monetary gold and SDRs							
Currency and deposits							
Debt securities							
Loans							
Equity and investment fund shares	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Insurance, pensions, and standardized guarantee schemes							
Financial derivatives and employee stock options							
Other accounts receivable							
Financial liabilities	**12539.6**	**13361.8**	**12353.3**	**13023.0**	**12288.8**	**13082.7**	**20009.6**
Domestic							
Currency and deposits							
Securities other than shares[2]	10653.1	10868.3	9318.5	9511.6	9095.7	9893.4	13261.9
Loans							
Shares and other equity							
Insurance technical reserves							
Financial derivatives							
Other accounts payable							
Foreign							
SDRs							
Currency and deposits							
Debt securities	1886.5	2493.5	3034.8	3511.4	3193.1	3189.3	6747.7
Loans[3]							
Equity and investment fund shares							
Insurance, pensions, and standardized guarantee schemes							
Financial derivatives and employee stock options							
Other accounts payable							

Sources: Namibian authorities and Fund staff estimates.

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

[2] Using market value of the government debt.

[3] Using nominal value of existing foreign loans.

Table 4. Namibia: Monetary Developments, 2008–12

				Projections	
	2008	2009	2010	2011	2012
(In millions of Namibian dollars, end of period; unless otherwise indicated)					
Bank of Namibia					
Reserve money	2,124.9	2,556	3,244	3,456	3,807
Currency	1,657	1,705	1,909	2,035	2,241
Reserves	468	851	1,334	1,422	1,566
Net foreign assets	12,859	14,079	9,098	9,500	10,699
Net domestic assets	-10,734	-11,523	-5,854	-6,044	-6,893
Domestic credit	-7,455	-9,919	-5,058	-4,902	-5,244
Government (net)	-6,664	-6,967	-3,481	-3,188	-3,356
Banks	-814	-1,466	-1,599	-1,739	-1,915
Other items (net) 3/	-3,279	-1,603	-796	-1,142	-1,648
Monetary survey					
Broad money (M2)	47,841	49,568	54,429	55,399	61,017
Currency	1,140	1,157	1,292	1,807	1,984
Deposits	46,720	48,432	51,903	53,592	59,034
Net foreign assets	13,575	16,933	20,598	21,046	22,762
Net domestic assets	15,666	14,035	33,832	34,353	38,256
Domestic credit	25,840	23,962	32,603	39,053	44,749
Claims on central government (net)	-4,643	-5,846	-1,839	1,598	3,497
Claims on private sector	33,260	36,578	40,663	44,219	48,704
Others	-2,777	-6,770	-6,221	-6,765	-7,451
Other items (net) 3/	-10,173	-9,927	1,229	-4,700	-6,494
Base money	2,125	2,556	3,244	3,456	3,807
Currency outside banks	1,657	1,705	1,909	2,035	2,241
Commercial bank deposits	468	851	1,334	1,422	1,566
Memorandum items:					
Base money	29.0	20.3	26.9	6.6	10.1
Credit to the private sector	7.3	10.0	11.2	8.7	10.1
M2-to-GDP ratio (in percent)	65.6	65.5	66.8	62.5	62.5
Base money multiplier (M2/base money)	22.5	19.4	16.8	16.0	16.0
Credit to the private sector (in percent of GDP)	45.6	48.3	49.9	49.9	49.9
Contribution to change in broad money					
Broad money	10.2	3.6	9.8	1.8	10.1
Currency	0.7	0.0	0.3	0.9	0.3
Deposits	52.4	3.6	7.0	3.1	9.8
Net foreign assets	15.5	7.0	7.4	0.8	3.1
Net domestic assets	-5.3	-3.4	39.9	1.0	7.0
Domestic credit	0.9	-3.9	17.4	11.8	10.3
Government (net)	-5.8	-2.5	8.1	6.3	3.4
Private sector	5.2	6.9	8.2	6.5	8.1
Others 1/	1.4	-8.3	1.1	-1.0	-1.2
Other items net	-6.2	0.5	22.5	-10.9	-3.2
Memorandum items:					
Annual percent change					
Reserve money	29.0	20.3	26.9	6.6	10.1
Private sector credit	7.3	10.0	11.2	8.7	10.1
Velocity	1.5	1.5	1.5	1.6	1.6
Money multiplier	22.5	19.4	16.8	16.0	16.0
Net foreign assets (US$ millions)	1,458.8	2,294.5	...	...	...
Bank of Namibia	1,381.9	1,907.8	...	...	...
Commercial banks	76.9	386.7	...	...	...
Domestic interest rates (end of period)					
Deposit rate	8.6	5.1	...	...	...
Lending rate	13.7	10.8	...	...	...
BoN repo rate	10.6	7.0	...	...	...
Three-month T-bill rate	10.6	7.1	...	...	...

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

1/ End of period
2/ Include public enterprises and the local government.
3/ Including valuation.

Table 5. Namibia: Millennium Development Goals, 1990–09

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

Source: World Development Indicators database, 2010.

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

Table 6. Namibia: Financial Sector Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
	(In percent; unless otherwise indicated)					
Banking indicators						
Capital adequacy						
Capital to assets	7.8	7.5	7.9	8.0	7.9	8.4
Regulatory capital to risk-weighted assets	14.6	14.2	15.7	15.5	15.0	15.3
Regulatory tier I capital to risk-weighted assets	11.2	11.1	11.6	11.8	11.7	11.1
Nonperforming loans net of provisions to capital	3.4	2.5	7.2	10.4	8.7	3.8
Asset quality						
Large exposure to capital	182.8	189.3	166.1	170.5	176.5	178.5
Nonperforming loans to total gross loans	2.3	2.6	2.8	3.1	2.7	2.0
Bank provisions to nonperforming loans	85.3	90.3	77.2	64.7	66.2	...
Earnings and profitability						
Trading income to total income	3.8	3.7	5.6	6.9	5.3	...
Return on assets	3.5	1.5	3.5	4.2	3.0	3.5
Return on equity	45.6	19.9	44.9	52.1	38.4	41.9
Interest margin to gross income	49.8	53.7	53.4	45.3	47.8	51.3
Noninterest expenses to gross income	54.9	63.7	56.9	51.9	57.9	6.5
Spread between reference lending and deposit rates	4.8	5.6	5.3	5.4	4.9	...
Personnel expenses to noninterest expenses	47.8	39.6	49.8	50.9	48.9	49.5
Liquidity						
Spread between highest and lowest interbank rate	5.3	10.3	2.3	1.2	4.1	...
Liquid assets to total assets	1.2	1.0	1.1	1.1	1.0	1.0
Liquid assets to short-term liabilities	9.5	9.1	9.2	10.1	10.0	...
Customer deposits to total (non-interbank) loans	94.6	101.8	97.8	103.9	109.8	106.2
Exposure to foreign exchange risk						
Net open position in foreign exchange to capital	1.4	0.3	0.3	0.9	0.4	1.3
Foreign currency-denominated loans to total loans	0.7	1.0	0.1	0.2	0.0	0.1
Foreign currency-denominated liabilities to total liabilities	1.1	2.5	2.7	1.6	2.0	3.7
Financial system structure (in number)						
Banks	4	4	4	4	4	4
Private commercial	1	1	1	1	1	1
Branches of foreign banks	0	0	0	0	0	0
Foreign-owned subsidiaries	3	3	3	3	3	3

Source: Bank of Namibia.

INTERNATIONAL MONETARY FUND

NAMIBIA

January 23, 2012

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | African Department

CONTENTS

TABLES

FUND RELATIONS

As of November 30, 2011,

Membership Status

Joined September, 1990; Article VIII

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

SDR Department	SDR (million)	Percent of Quota
Net cumulative allocation	130.39	100.00
Holdings	5.27	4.04

Outstanding Purchases and Loans None

Financial Arrangements None

Project Obligations to Fund None

Implementation of HIPC Initiative None

Exchange Rate Arrangements

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

Article IV consultation

Namibia is on a standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on July 23, 2010.

Technical Assistance, 2006–11

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

JOINT WORLD BANK AND IMF WORK PROGRAM

As of December 1, 2011

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	A. Mutual Information on Relevant Work Programs		
World Bank indicative work program in the next 12 months			
	1. Policy notes on growth and employment	ongoing	Dissemination workshop: Feb 2012
	2. Integrated Resource Plan TA (20-year energy investment strategy)	2011-12	July 2012
	3. Statistical capacity building TA	Several throughout 2012	Launch in Feb 2012, to be completed in 2013
	4. Industrial competitiveness and technological capability study	Feb/Mar 2012	Completed by Dec 2012
	5. Money laundering risk assessment of financial inclusion products (tentative)	Feb, mid-2012	Completed by Dec 2012
	6. Debt management TA (DeMPA and assistance with MTDS) (tentative)	Feb/Mar and Jul/Aug 2012	Completed by Dec 2012
IMF indicative work program in the next 12 months			
	1. 2011 Article IV consultation	Nov 2011	Board meeting Feb 2012
	2. Technical assistance (TA): stress testing	Dec 2011	
	3. TA: strengthening NAMFISA	2011-12	
	4. TA: tax administration	2011-12	
	5. TA: tax policy	2012	
	6. TA: national accounts and CPI (tentative)	2012	
	7. 2012 Article IV consultation	Nov 2012	

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	B. Requests for work program inputs		
Fund request to Bank	Periodic updates on progress with domestic structural reform agenda, including in context of NDP4, the Industrial Policy Strategy, and the Financial Sector Strategy.		
Bank request to Fund	Periodic updates on macroeconomic developments, prospects, and policies, including assessment of impact of global economic situation on Namibia. Consultation on economic implications of Namibia's ranking as upper middle income country.		
	C. Agreement on joint products		
Joint products in next 12 months	• Debt sustainability analysis		December 2011

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The authorities provide core monthly data to the Fund with a lag of one to two months, except for the national accounts and international trade data, which are reported quarterly and annually with longer lags. The authorities have recently completed a Household Income and Expediture Survey that will allow them to update the CPI basket and re-estimate Gini coefficients in the near term.
National Accounts: National accounts estimation has not kept pace with changes to the structure of the economy and needs to be rebased (the current base year is 2004). An update of the national accounts base year is tentatively scheduled for FY2012/13. Seasonally adjusted quarterly national accounts (QNA) estimates, at 2004 prices are disseminated on Namibia's National Planning Commission's website, though there is a need to improve existing source data.
Price Statistics: In February 2005, the government introduced a nation-wide consumer price index to replace the previous index that only covered the capital city of Windhoek; the new index is available from January 2002. However, the weights for the index are estimated from the 1993–94 *National Household Income and Expenditure Survey* and seasonal items and new products are excluded. Data on the **labor market**, including labor force, employment, and wages are not regularly collected, which impedes the analysis of labor market developments.
Government Finance Statistics: Annual budgetary central government data by fiscal year, which are reported on a cash basis in the *GFSM 2001* format, are reasonably complete, despite some gaps in terms of details. No fiscal statistics are compiled for extra budgetary institutions, consolidated central government, or consolidated general government.
Monetary and Financial Statistics: Monthly monetary statistics for the Bank of Namibia (BoN) and the other depository corporations (ODCs) are reported on a regular basis, although there is room to improve the timeliness of reporting, particularly with regard to BoN data. Beginning in April 2002, data are based on standardized report forms, which accord with the concepts and definitions of the *Monetary and Financial Statistics Manual*.
Balance of Payments and International Investment Position Statistics: External Debt: Since 2001, the BoN has been reporting the balance of payments data on a quarterly basis with a lag of one quarter. Those data are subject to substantial revisions. The methodology underlying the balance of payments is consistent with the fifth edition of the IMF's *Balance of Payments Manual*. The international investment position (IIP) data are compiled quarterly with a lag of one quarter. The Bank of Namibia has focused its work to improve the compilation of capital and financial transactions and IIP statistics. They have expanded their data collection capabilities through survey data collection. However, further work is needed to expand the coverage of the IIP and restate the IIP in a format that will allow for comparison with the balance of payments statistics.
II. Data Standards and Quality
Namibia has participated in the GDDS since late 2002. A ROSC (Data Module) was published in 2002 and updated in 2005.

III. Reporting to STA
The MOF reports, on a regular basis, annual data for publication in the *Government Finance Statistics Yearbook*. Work on establishing monthly reporting of high frequency data is still in progress. The BoN reports monetary and financial statistics to STA regularly. Balance of payments and international investment position data are published in *International Financial Statistics (IFS)* and in the *Balance of Payments Yearbook*.

Table 1. Namibia: Common Indicators Required for Surveillance (As of December 21, 2011)

	Date of Latest Observation	Date Received	Frequency of Data [1]	Frequency of Reporting [1]	Frequency of Publication [1]	Memo Items: Data Quality—Methodological Soundness [2]	Memo Items: Data Quality—Accuracy and Reliability [2]
Exchange rates	12/09/2011	12/09/2011	D	D	D		
International reserve assets and reserve liabilities of the monetary authorities [3]	Nov. 2011	Nov. 2011	M	M	M		
International investment position	Jun. 2011	Oct 2011	Q	Q	Q		
Reserve/base money	Jun. 2011	Oct. 2011	M	M	M	O, O, LO, LO	O, LO, O, O, O
Broad money	Jun. 2011	Oct. 2011	M	M	M		
Central bank balance sheet	Jun. 2011	Oct. 2011	M	M	M		
Consolidated balance sheet of the banking system	Jun. 2011	Oct. 2011	M		M		
Interest rates [4]	12/09/2011	12/09/2011	D	D	D		
Consumer price index	Oct. 2011	Nov. 2011	M	M	M		
Revenue, expenditure, balance, and composition of financing [5]—general government [6]	NA	NA					
Revenue, expenditure, balance, and composition of financing [4]—central government	Mar. 2011	Nov. 2011	A/Q/M	Q	Q		
Stocks of central government and central government-guaranteed debt [7]	Jun. 2011	Oct. 2011	A	A	A		
External current account balance	2011 Q3	Oct. 2011	A/Q	A	A		
Exports and imports of goods	2011 Q3	Oct. 2011	M	M	M		
GDP/GNP	2010	Oct. 2011	A	A	A	O, O, O, LO	LNO, LO, LO, LO, O
Gross external debt	Jun. 2011	Oct. 2011	A/Q	A/Q	A/Q		

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

INTERNATIONAL MONETARY FUND

NAMIBIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

January 23, 2012

Approved By
Domenico Fanizza and Dhaneshwar Ghura

Prepared by the Staff Representatives for the 2011 Consultation with Namibia

DEBT SUSTAINABILITY ANALYSIS

1. **Namibia's public debt for FY2010/11 is estimated at about N$13.5 billion (16.2 percent of GDP).** About 24 percent of the debt is owed to bilateral, multilateral and private foreign creditors while the rest is domestic debt. Before its recent rise, public debt had fallen from 26 percent of GDP in 2005/6 to 15.5 percent in 2009/10, with domestic debt declining from 22.2 percent of GDP to 11.5 percent over the same period. However, the current expansionary stance of fiscal policy is projected to increase debt sharply, bringing overall public debt to 35.3 percent of GDP in FY2016/17. Further upside risks stem from a potential future decline in SACU revenues.

2. **Table 2 shows two scenarios:**

- The first scenario shows the fiscal outcome if real GDP growth, real interest rates, and the primary balance remain at their historical 10-year averages. In this case, the public debt to GDP would only reach 19.8 percent of GDP by 2016, reflecting the relatively more benign historical levels of the key variables, including the prudent fiscal stance over the last decade.

- The second scenario shows the fiscal outcome if government's policies in 2010 remain unchanged, with the primary deficit standing at 3.6 percent of GDP throughout the medium term. In this case, public debt rises sharply to 59 percent of GDP, thereby breaching the authorities' indicative limit of 35 percent of GDP.

3. **The bounds tests reveal the vulnerability of the fiscal position to exogenous shocks (Figure 1).** The most benign shock is that stemming from a negative growth shock (decline from 4.3 percent to 2.6 percent) which could result in a 12 percentage point increase in the debt to GDP ratio. Public debt is also highly sensitive to shocks to the primary balance and contingent liabilities.

4. **Namibia's external debt is projected to increase somewhat by 2016, yet remain at a moderate level.** In 2011, external debt is estimated to have increased by 3 percentage points to 23 percent of GDP, largely reflecting the substantial deterioration in the external position as well as the recent issuance of the Eurobond by the government (US$500 million). The debt ratio is set to remain on an upward trajectory over the medium-term and reach 25 percent of GDP in 2016 as the current account deficits—although moderating—are projected to persist. In this regard, the impact of the current account deficits on the external debt's trajectory is projected to remain modest, as a large share of the projected imports are related to foreign direct investment in the mineral sector.

5. **The rising external debt ratio increases the vulnerability of the economy to external shocks, although risks remain manageable.** Stress tests suggest that Namibia's external debt is mostly sensitive to a persistent non-interest current account shock, which would increase the external debt ratio to 44 percent of GDP. This scenario, which could be interpreted as a sharp drop in external demand for Namibia's mineral exports in the event of a protracted global slowdown, should be seen as the upper bound estimates, particularly given that a standard DSA scenario does not capture the likely impact of

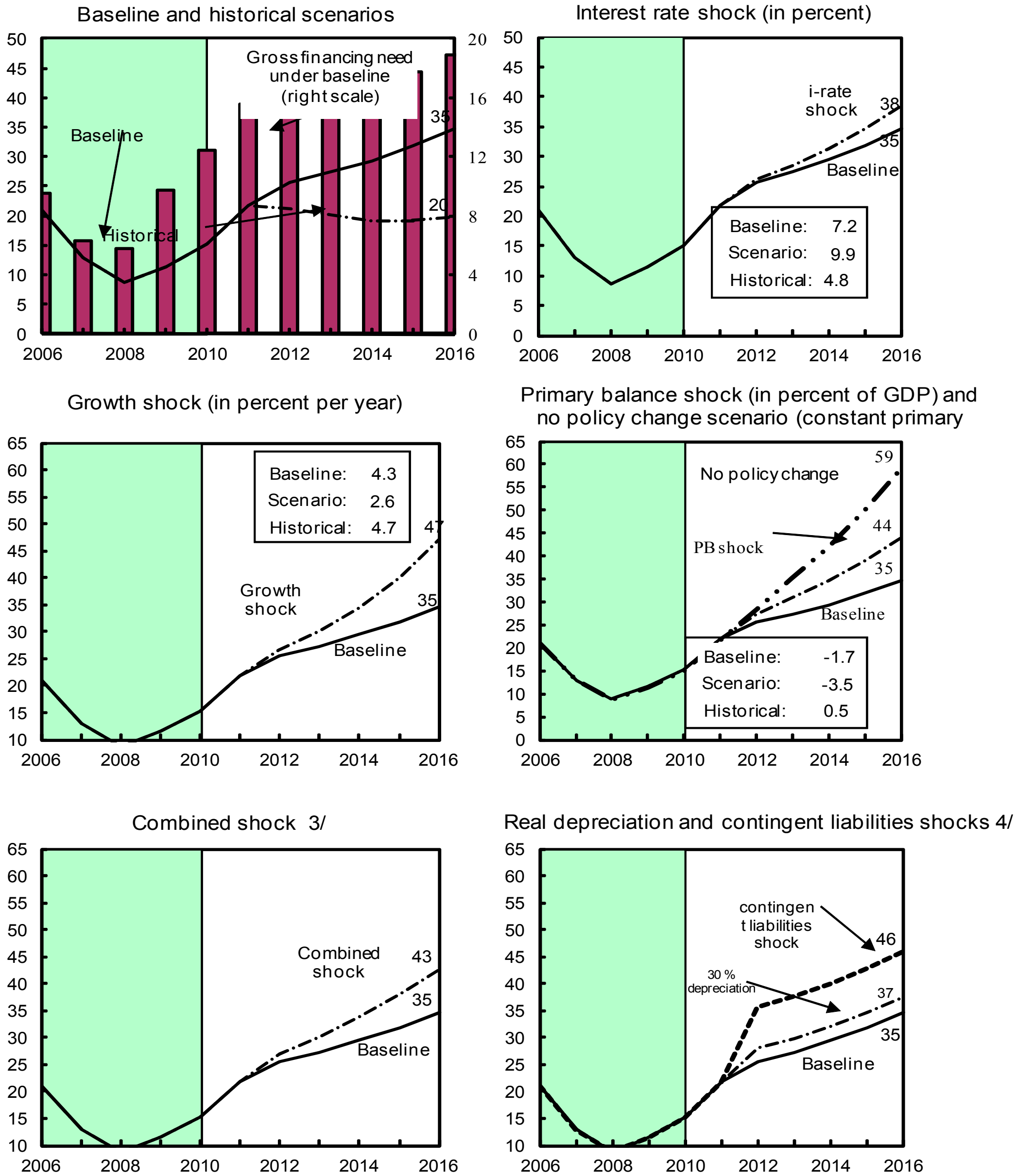
such a shock on relative prices. A one-off depreciation of 30 percent, as well as a scenario that combines a relatively moderate shock to both current account balance and GDP growth, are also estimated to sharply increase the debt ratio to around 40 percent of GDP by 2016. In contrast, a separate shock to GDP growth and interest rates is projected to have a relatively moderate impact on the external debt's trajectory.

Table 2. Namibia: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing primary balance 9/
1 **Baseline: Public sector debt 1/**	21.0	13.0	8.8	11.4	15.2	**21.8**	**25.6**	**27.4**	**29.4**	**31.9**	**34.7**	**1.2**
o/w foreign-currency denominated	4.6	4.9	4.8	4.2	5.2	4.9	4.6	4.7	5.4	6.2	6.9	
2 Change in public sector debt	-6.1	-8.0	-4.2	2.7	3.8	6.6	3.8	1.8	2.0	2.5	2.8	
3 Identified debt-creating flows (4+7+12)	-5.7	-7.2	-3.0	-0.1	4.0	7.0	3.7	2.3	2.5	1.8	1.6	
4 Primary deficit	-4.4	-6.4	-4.2	-0.4	3.6	6.4	3.1	1.7	2.0	1.1	0.8	
5 Revenue and grants	29.5	31.8	31.2	31.5	28.9	30.3	32.8	33.7	32.9	32.7	32.7	
6 Primary (noninterest) expenditure	25.1	25.4	27.0	31.2	32.5	36.7	35.9	35.4	34.9	33.8	33.5	
7 Automatic debt dynamics 2/	-1.3	-0.9	1.2	0.3	0.3	0.6	0.6	0.6	0.6	0.7	0.9	
8 Contribution from interest rate/growth differential 3/	-1.7	-0.8	-0.4	1.2	0.4	0.6	0.6	0.6	0.6	0.7	0.9	
9 Of which contribution from real interest rate	0.0	0.2	0.0	1.2	1.1	1.1	1.4	1.6	1.7	1.9	2.2	
10 Of which contribution from real GDP growth	-1.6	-1.0	-0.4	0.0	-0.7	-0.5	-0.8	-1.0	-1.1	-1.2	-1.3	
11 Contribution from exchange rate depreciation 4/	0.4	-0.1	1.6	-1.0	-0.1	...	...	...	...	...	...	
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/	-0.5	-0.8	-1.2	2.8	-0.2	-0.4	0.1	-0.5	-0.5	0.7	1.2	
Public sector debt-to-revenue ratio 1/	71.2	40.8	28.1	36.2	52.6	72.0	77.9	81.2	89.2	97.3	106.0	
Gross financing need 6/	9.5	6.3	5.8	9.8	12.4	15.6	15.9	16.6	17.5	17.8	18.9	
in billions of U.S. dollars	0.8	0.6	0.5	0.9	1.4	1.9	2.1	2.3	2.6	2.8	3.1	
Scenario with key variables at their historical averages 7/						**21.8**	**21.3**	**20.3**	**19.2**	**19.2**	**19.8**	**0.1**
Scenario with no policy change (constant primary balance) in 2011-2016						**21.8**	**28.6**	**35.2**	**41.8**	**50.0**	**59.0**	**2.0**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	7.1	5.4	3.4	-0.4	6.6	3.6	4.2	4.4	4.4	4.4	4.4	
Average nominal interest rate on public debt (in percent) 8/	9.9	10.6	14.0	18.4	11.8	13.1	13.1	12.6	12.3	12.2	12.3	
Average real interest rate (nominal rate minus change in GDP deflator, in p	0.6	1.5	0.3	14.2	10.8	8.1	7.4	7.0	6.9	7.2	7.6	
Nominal appreciation (increase in US dollar value of local currency, in perc	-9.3	2.3	-26.8	26.1	3.5	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	9.3	9.0	13.7	4.2	1.0	5.0	5.7	5.5	5.4	5.0	4.7	
Growth of real primary spending (deflated by GDP deflator, in percent)	3.5	6.7	9.7	15.0	11.3	16.8	2.0	2.8	3.0	1.2	3.3	
Primary deficit	-4.4	-6.4	-4.2	-0.4	3.6	6.4	3.1	1.7	2.0	1.1	0.8	

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 - π (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/ 2/
(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 3. Namibia: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					10-Year	10-Year	Projections						
	2006	2007	2008	2009	2010	Historical Average	Standard Deviation	2011	2012	2013	2014	2015	2016	Debt-stabilizing non-interest current account 6/
Baseline: External debt	28.1	25.7	22.7	24.6	20.5			**23.2**	**23.5**	**23.8**	**24.3**	**24.8**	**25.3**	**-2.9**
Change in external debt	2.7	-2.5	-3.0	1.9	-4.1			2.7	0.2	0.4	0.5	0.5	0.5	
Identified external debt-creating flows (4+8+9)	-7.2	-3.4	0.6	-1.3	-2.8			3.9	1.9	1.1	-0.1	-0.3	-0.4	
Current account deficit, excluding interest payments	-25.0	-21.4	-13.2	-8.3	-0.1			2.9	1.4	0.9	-0.2	-0.5	2.1	
Deficit in balance of goods and services	-2.4	1.0	8.2	12.9	10.1			14.1	11.8	11.5	10.4	8.9	7.4	
Exports	39.9	39.9	42.2	42.1	44.6			44.7	42.8	43.1	43.3	44.0	44.9	
Imports	37.5	40.8	50.4	55.0	54.8			58.8	54.6	54.6	53.7	52.9	52.2	
Net non-debt creating capital inflows (negative)	8.9	8.4	3.5	0.8	-1.2			-1.6	-1.8	-2.0	-2.2	-2.2	-2.2	
Automatic debt dynamics 1/	8.9	9.7	10.4	6.2	-1.5			2.6	2.2	2.2	2.3	2.5	-0.4	
Contribution from nominal interest rate	11.2	12.3	10.4	6.4	3.4			3.3	3.1	3.1	3.3	3.5	0.7	
Contribution from real GDP growth	-1.6	-1.4	-0.9	0.1	-1.3			-0.7	-0.9	-1.0	-1.0	-1.0	-1.0	
Contribution from price and exchange rate changes 2/	-0.7	-1.3	0.8	-0.4	-3.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	9.9	0.9	-3.6	3.2	-1.3			-1.2	-1.6	-0.7	0.6	0.8	0.9	
External debt-to-exports ratio (in percent)	70.6	64.4	53.8	58.3	45.9			52.0	54.9	55.3	56.2	56.5	56.4	
Gross external financing need (in billions of US dollars) 4/	0.4	1.0	1.3	0.7	0.9			1.4	1.2	1.2	1.1	1.2	0.7	
in percent of GDP	4.8	11.6	15.0	8.1	8.4			11.1	9.3	8.7	7.6	7.4	4.2	
Scenario with key variables at their historical averages 5/								**23.2**	**19.7**	**15.8**	**12.1**	**7.7**	**2.2**	**6.2**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	7.1	5.4	3.4	-0.4	6.6	4.7	3.5	3.6	4.2	4.4	4.4	4.4	4.4	
GDP deflator in US dollars (change in percent)	2.7	4.8	-3.1	1.6	16.8	7.0	15.2	7.4	3.5	1.1	1.4	1.3	1.1	
Nominal external interest rate (in percent)	48.2	48.3	40.7	28.7	17.1	38.5	9.7	17.8	14.5	14.1	14.4	15.1	2.9	
Growth of exports (US dollar terms, in percent)	28.4	10.4	6.0	1.0	31.9	13.4	16.2	11.4	3.3	6.4	6.4	7.3	7.7	
Growth of imports (US dollar terms, in percent)	10.7	20.4	23.6	10.5	23.9	14.6	12.6	19.5	0.1	5.6	4.1	4.2	4.2	
Current account balance, excluding interest payments	25.0	21.4	13.2	8.3	0.1	13.8	6.8	-2.9	-1.4	-0.9	0.2	0.5	-2.1	
Net non-debt creating capital inflows	-8.9	-8.4	-3.5	-0.8	1.2	-5.7	4.2	1.6	1.8	2.0	2.2	2.2	2.2	

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).

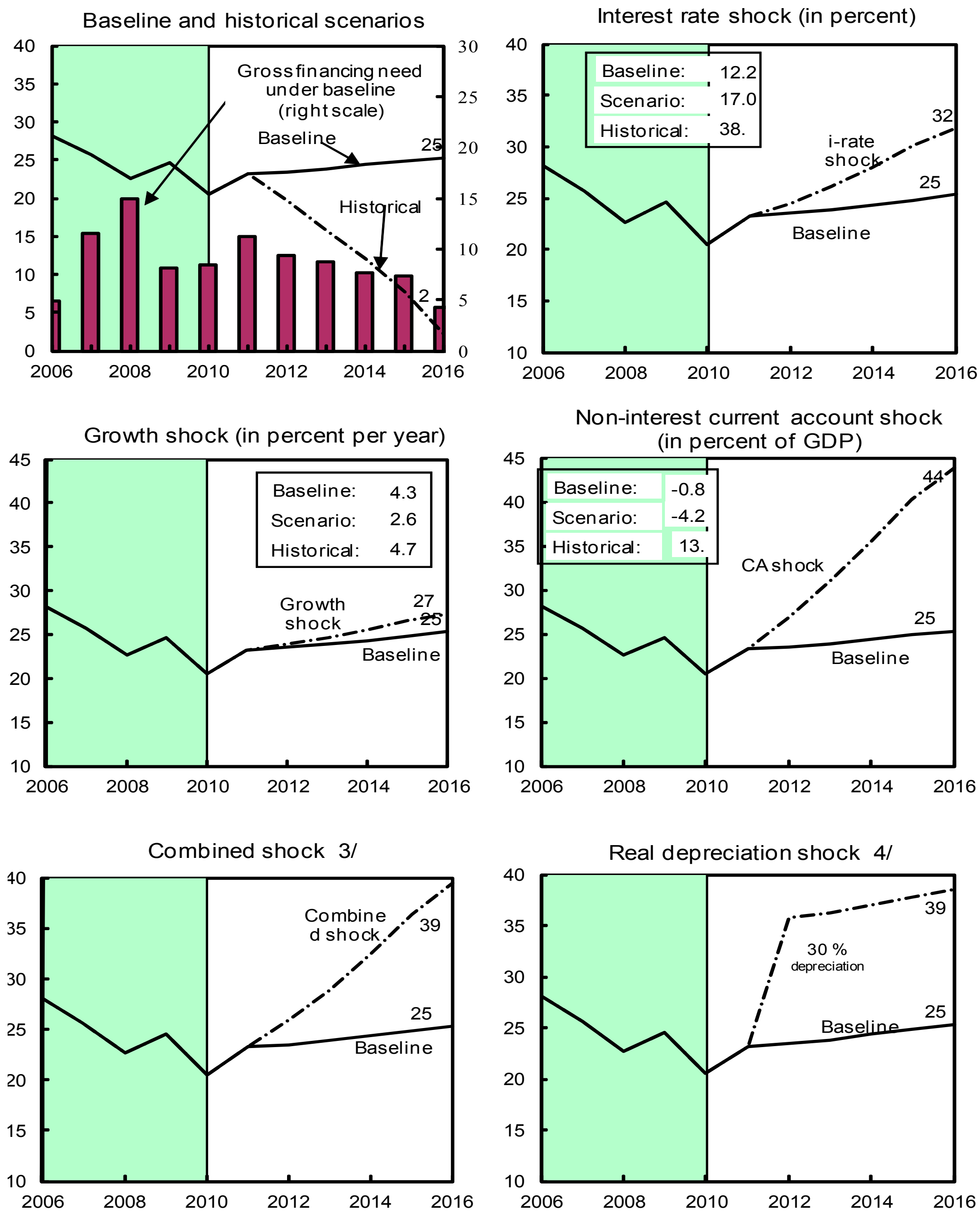
3/ For projection, line includes the impact of price and exchange rate changes.

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 2. Namibia: External Debt Sustainability: Bound Tests 1/ 2/
(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
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Public Information Notice (PIN) No. 12/12
FOR IMMEDIATE RELEASE
February 8, 2012

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

IMF Executive Board Concludes 2011 Article IV Consultation with Namibia

On February 6, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Namibia.[1]

Background

The Namibian economy rebounded strongly in 2010 following the mild contraction in 2009, which was driven largely by a drop in diamond output. GDP is now estimated to have increased by 6.6 percent in 2010, supported by rising diamond and uranium production and ongoing growth in non-mining sectors. There appears to have been some slowing in growth in 2011, following severe flooding in the north and the weaker-than-expected state of the global economy, and GDP may have risen by 3½–4 percent. For 2012, growth is projected to be around 4 percent. Inflation remains moderate and is expected to remain within single digits. The official unemployment rate is very high by international and even regional comparison, whether using the broad measure (51.2 percent) or strict measure (37.6 percent) from the 2008 Labor Force Survey. Income inequality is also high by international standards.

The fiscal stance expanded significantly in FY2011/12, with the Government introducing a new program aimed at increasing long-term growth and employment. Under this program, infrastructure spending is to be increased and temporary jobs created within the public sector,

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

with measures targeted on the sectors of agriculture, tourism, transport, and housing and sanitation. Although substantial under-execution of spending appears likely in FY2011/12, the fiscal deficit is expected to be around 9 percent of GDP and public debt is projected to rise to nearly 25 percent in FY2011/12 (compared with 16 percent of GDP in FY2010/11).

The Bank of Namibia has maintained its policy rate at 6 percent since December 2010, 50 basis points above the rate of the South African Reserve Bank. Conditions in the banking sector have improved as the economy recovers, and supervision of the rapidly growing sector of non-bank financial institutions is being strengthened.

Despite a rebound in exports, driven by improved revenues from diamonds and other minerals, Namibia's external position weakened over 2010-11. This deterioration was attributable in part to strong import growth, supported by the expansionary fiscal stance, and lower SACU revenues in 2010. Official foreign exchange reserves at end-2011 were US$1.9 billion, including the proceeds of Namibia's debut $US500 million Eurobond issuance in October 2011, and provide around 3.0 months of import cover.

The economic outlook appears promising, but faces some important downside risks. There are good prospects for further investment and growth in the natural resource sector, and ongoing growth is expected in such areas as construction, manufacturing, and services. The fragile external climate, however, poses risks for commodity demand and prices. Furthermore, the expansionary fiscal stance will likely lead to strong growth in domestic demand and imports and could put upward pressures on prices of non-tradables–hence weakening efforts to strengthen Namibia's external competitiveness and economic diversification.

Executive Board Assessment

Executive Directors welcomed the recent strong economic recovery and the favorable medium term outlook. Directors cautioned, however, that the economy faces substantial downside risks, including spillovers from the deteriorating global environment and the sustained high level of unemployment and income inequality. Against this backdrop, they encouraged the authorities to rebuild policy buffers by pursuing prudent fiscal policies, prioritizing public spending, safeguarding reserves, and pressing ahead with structural reforms to boost the economy's growth potential.

Directors stressed the importance of maintaining debt sustainability and rebuilding adequate buffers against external shocks, which will require the timely unwinding of the current fiscal stimulus, particularly if external conditions deteriorate further. They emphasized the importance of strengthening the domestic revenue base and of rigorously prioritizing and monitoring public spending, which will help address the risk of further volatility in revenues from the mineral sector and from the Southern African Customs Union.

Directors welcomed the resilience of the financial sector, and encouraged the authorities to remain vigilant. In particular, it will be important to closely monitor banks' exposure to the

domestic housing sector and take preemptive measures to contain risks from a reversal of the surge in house prices.

Directors concurred that the peg to the South African rand has served the Namibian economy well, and noted the staff's assessment that the exchange rate appears to be broadly in line with fundamentals. Directors agreed that closer alignment of the Bank of Namibia's policy rate to that of the South African Reserve Bank could be considered, especially if the current fiscal stimulus is unwound or if the domestic economy slows. Rebuilding reserves would help safeguard the country's external position.

Directors concurred that wide ranging reforms were needed to address Namibia's very high levels of unemployment and income inequality. They encouraged the authorities to tackle these problems mainly through structural reforms and stronger private investment, rather than through unsustainable increases in public spending. Directors noted the scope to improve the climate for business formation and job growth by strengthening education and training, improving the functioning of labor and product markets, and easing business registration procedures.

Directors welcomed the recent reclassification of Namibia as an upper middle income country as an indication of the country's successful macroeconomic performance. A few Directors supported the authorities' request for donors to postpone the phasing out of concessional support given the ongoing serious development challenges.

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

Namibia: Selected Economic Indicators, 2007-12

	2007	2008	2009	2010	2011	2012
					Est.	Proj.
	(Percent)					
Change in real GDP	5.4	3.4	-0.4	6.6	3.6	4.2
Change in CPI (end of period)	7.1	10.9	7.0	3.1	5.7	5.5
	(Percent of GDP)					
Overall fiscal deficit/surplus 1/	4.8	2.1	-2.2	-5.7	-8.9	-4.7
Public debt 1/	18.4	18.2	15.5	16.2	24.5	27.0
	(End of period; percent change)					
Broad money	92.8	10.2	3.6	9.8	1.8	10.1
Credit to the private sector	12.9	7.3	10.0	11.2	8.7	10.1
	(Percent of GDP, unless stated otherwise)					
Current account balance	9.1	2.8	1.8	-1.8	-6.3	-2.5
International reserves						
US$ millions	906.6	1,394.7	1,918.7	1,380.1	1,438.7	1,541.9
Months of imports of goods and services	2.4	3.4	3.9	2.3	2.3	2.3
Exchange rate (Namibia dollar/U.S. dollar, end of period)	6.8	9.3	7.4	7.1	…	…

Sources: Namibian authorities; and IMF staff estimates.

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

Statement by Mr. Majoro on Namibia
Executive Board Meeting
February 6, 2012

Introduction

1. My Namibian authorities appreciate the constructive engagement and policy dialogue with staff in their effort to address pervasive unemployment, sustain the growth momentum and preserve macroeconomic stability. They value highly the support from staff, Management, and Executive Directors, and find the staff report informative, well balanced, and a source of meaningful advice on the country's economic program and policy challenges.

2. The authorities have demonstrated a track record of sound macroeconomic policy implementation, reflected in solid economic performance over the last decade or so. However this impressive performance was interrupted by the global financial and economic crises as the slump in external demand resulted in a contraction in domestic output and a shift in the fiscal position into a deficit. In spite of recent gradual rebound, income inequality has remained wide, the level of unemployment unacceptably high and poverty pervasive. Some official estimates place the unemployment rate as high as 51 percent comprising mostly the youths and unskilled. The authorities have responded astutely to these policy challenges as reflected in the five-year National Development Plans (NDPs) and Vision 2030 under which the country aims to be an industrial, knowledge-based society with high per capital income and near full employment by the year 2030. Notwithstanding these bold attempts to redress the situation, high unemployment and income inequality have persisted.

3. It is against this background that the authorities in 2011 launched the *Targeted Intervention Program for Employment and Economic Growth* (TIPEEG). TIPEEG is a specialized short-term program aimed at addressing the acute high unemployment rate, thereby laying the foundations for sustained economic development. Focusing on four strategic, high growth-enhancing sectors—agriculture, tourism, transport, and housing and sanitation— this three-year program entails fiscal expansion, estimated at about 15% of GDP in FY2011/12, its first year of implementation. It is envisaged that its successful implementation will result in the preservation and creation of over 100,000 direct and indirect job opportunities. While the authorities' medium-term expenditure framework (MTEF) is predicated on this policy intervention, they are mindful of the macroeconomic implications of the scaling up of resources under the program and reaffirm their commitment to unwind their spending intervention at the end of the current MTEF.

Recent economic developments and prospects

4. The Namibian economy registered robust performance prior to the global financial and economic crises, with growth averaging 6.3 percent between 2004 and 2008 and inflation at single digits.. The fiscal and external positions strengthened as a result of significant improvement in tax administration, increased mineral exports, and substantial Southern African Customs Union (SACU) transfers. The strong fiscal performance allowed for considerable reduction in the public debt from 28 percent in 2004 to 16 percent in 2009.

5. This substantial macroeconomic buffer helped the authorities weather the impact of the global financial and economic crises. Growth rebounded strongly in 2010 recording a real increase of 6.6 percent supported by rising mineral production and the continued expansion in non-mining sectors. A decline in mining activities and a slowing in the secondary industries resulted in a slowdown in growth in 2011 estimated at 3.8 percent. Though gradually increasing, inflation has remained moderate with the average annual inflation rate for 2011 at 5.0 percent compared to 4.5 percent in 2010. While the current account weakened on account of lower global commodity demand, official foreign exchange reserves were boosted by the successful issuance of $US500 million Eurobonds. As at end-December 2011, the reserves position stood at around US$1.86 billion, representing over 3 months of forward-looking import cover. The economy is projected to grow by 4.2 percent during 2012.

6. The medium-term growth outlook is promising supported by potential increase in mineral production, mainly diamond and uranium, and infrastructural development owing partly to TIPEEG. The growth of the non-mining sector—manufacturing, construction, and services—and the prospects for future oil production also underpin this favorable outlook. However, downside risks remain. The sovereign debt crisis in the Euro Area and a weaker-than-anticipated global economic recovery could pull commodity prices down resulting in lower mining output and decreased export earnings.

Fiscal policy developments and outlook

7. My authorities have continued to pursue prudent fiscal policy aimed at promoting economic growth, efficient service delivery and socio-economic welfare within the ambit of macroeconomic stability and fiscal sustainability. To support real sector activity as the global economic slowdown intensified, an expansionary fiscal stance was adopted in FY2009/10 on the back of the fiscal buffers accumulated in the pre-crises period. The fiscal stimulus increased significantly in FY2011/12 in support of the TIPEEG, with the widening of the overall deficit. While the adoption of countercyclical fiscal measures has provided much-needed boost to the economy, the authorities remain mindful of the potential impacts on fiscal outcomes. The public debt is, however, expected to remain relatively low, at below 25 percent of GDP for FY2011/12, in spite of the projected increase in the fiscal deficit. The authorities, nonetheless, take particular note of staff's debt sustainability analysis highlighting the longer-term unsustainability of the current fiscal stance and the vulnerability of the fiscal position to negative growth shock. Given their demonstrable capacity to rein in the public debt, the authorities are confident of preserving its sustainability over the medium to long term.

8. The authorities remain committed to widening the fiscal space by enhancing revenue collection and strengthening tax administration. To this end, amendments to the income tax act and the value added tax act aimed at broadening and deepening the tax base have been submitted for legislative approval. Efforts are underway to streamline tax procedures, improve computerization of tax collection and adopt a taxpayer self-assessment system. To further strengthen revenue flows, the introduction of an export levy on raw material exports and specific environmental taxes is being explored. While the near-term outlook for SACU revenues seems favorable, the authorities are aware of the downside risks. Thus, going

forward, they are committed to implementing fiscal rules based on sustainable non-SACU fiscal balance and strengthening the budget framework and processes to help mitigate the risks to the fiscal framework.

9. The authorities will seek to strengthen public financial management, including through an integrated tax management system that will help simplify tax administration processes and improve services to taxpayers. To ensure transparency, accountability, and the efficient use of public resources, expenditure reviews and tracking will be carried out during this MTEF period and a roll-out of program-budgeting to all votes undertaken.

Monetary and exchange rate policy

10. In spite of the limited scope for independent monetary policy arising from the country's membership of the Common Monetary Area (CMA), the Bank of Namibia (BoN) responded strongly to the global financial and economic crises by adopting an expansionary monetary policy stance. The repo rate was reduced by 300 basis points in 2009 and a further 100 basis points to 6 percent in 2010 to provide additional stimulus to the economy. Given the largely benign inflation environment and the weak recovery of the domestic economy, the BoN has maintained its policy stance and kept the rate at 6 percent.

11. The authorities continue to view the exchange rate peg to the South African rand as an appropriate monetary policy anchor. They are therefore committed to maintaining international reserves at sufficiently high levels to safeguard the peg and, at the same time, reinforce the economy's defenses against potential external shocks. As a result, deliberate policy action is being taken to maintain the gross international reserves position well-above the threshold of 3 months of import cover. Additionally, staff's assessment indicating that real effective exchange rate remains broadly in line with economic fundamentals provides much comfort.

Financial sector developments and reforms

12. Namibia's financial system exhibited immense resilience in the face of the global financial and economic crises and has remained sound and well-functioning. The commercial banking sector is well capitalized, provisioned and profitable, with minimal direct exposure to foreign financial institutions. The authorities are, however, mindful of the risks from exposures of banks' loan portfolios to the real estate sector and stand ready to institute appropriate macroprudential measures to mitigate the risk of any potential house price bubble stemming from cross-border real estate purchases.

13. Notwithstanding the smooth functioning of the financial system, the authorities recognize the need to address its inherent weaknesses, ranging from limited access to financial services to less effective regulation, if the sector is to meaningfully contribute to economic development. To this end, plans have been put in place to strengthen the Namibia Financial Institutions Supervisory Authority (NAMFISA), including its capacity to effectively supervise the growing number of nonbank financial institutions (NBFIs). The

Financial Institutions and Markets Bill which has already been approved by Cabinet is expected to receive parliamentary approval in the coming months.

14. In addition to the several national initiatives in recent years, such as the NDPs and Vision 2030, a ten-year Financial Sector Strategy (FSS) was launched in December 2011 aimed at addressing the underlying shortcomings of the system with a view to building a more resilient, competitive and dynamic financial system. A key focus of the strategy is the achievement of financial inclusion by creating a favorable environment in which the financial sector would flourish and create equal access to financial services, thereby helping to narrow income inequalities, reduce poverty and foster economic growth. Other areas of intervention include consumer literacy and protection, localization of the financial sector, and financial system deepening and development. An Action Plan with clearly defined expected outcomes has been developed to aid in monitoring and evaluation of the strategy.

Structural reforms

15. My authorities are committed to implementing far-reaching structural reforms to complement their sound macroeconomic policies in order to achieve a more broad-based growth and address the endemic problem of income inequality and high unemployment. TIPEEG, discussed earlier, represents one such initiative to spur activity in strategic, high growth-enhancing sectors and create job opportunities. The authorities have also been unrelenting in improving the business climate and promoting private sector development. In this regard, a series of legislative amendments are currently underway aimed at modernizing the Foreign Investment Act, manufacturers' incentives, Export Processing Zones (EPZ), and Exploration and Prospecting Licenses (EPLs), to name but a few. Furthermore, there is firm commitment to reducing the cost of doing business through significant investment in infrastructure and energy. Policies to foster competitiveness and enhance productivity are expected to form centerpiece of the next five-year national development plan, NDP4.

16. Finally, as staff highlighted, my authorities are concerned over the financial implications of the country's recent reclassification as an upper middle-income country as it essentially precludes it from access to much-needed concessional financing. The authorities are of the view that the country's significantly high income inequality and enormous development challenges are not properly reflected in the classification methodology. The results of staff's analysis which employs the World Bank's International Comparison Program (ICP) based on a purchasing power parity approach (staff report Box 4) clearly highlight the country's low ranking in terms of living standards and consumption patterns relative to regional comparators. The country's reclassification has already rendered it ineligible for renewal of assistance under the Millennium Challenge Corporation and access to EU concessional financing is now limited. Given the emerging downside impact of the global economic downturn, my authorities intend to argue for a postponement of donor actions in phasing out concessional support.

Conclusion

17. My Namibian authorities remain committed to pursuing sound macroeconomic policies and implementing far-reaching structural reforms to address the high level of

unemployment, promote external competitiveness and enhance economic productivity. They are confident that judicious implementation of TIPEEG will create much-needed job opportunities and help unleash the economy's growth potential. They undertake to unwind the fiscal expansion at the end of the initiative in order to preserve medium to long-term fiscal sustainability.