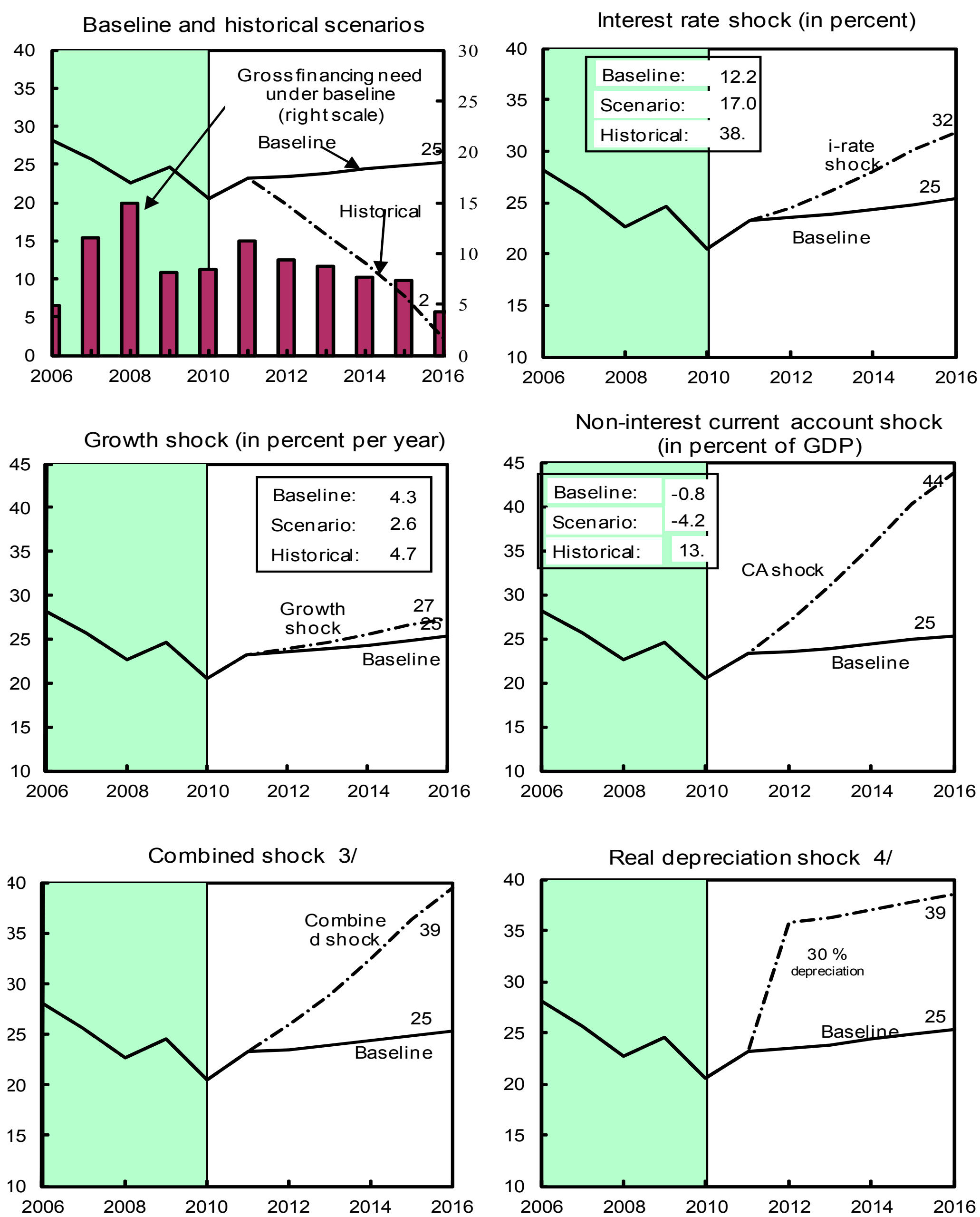
Figure 2. Namibia: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



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.

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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,

[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.

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