INTERNATIONAL MONETARY FUND

NAMIBIA

March 16, 2021

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic has sharply deteriorated Namibia's short-term macroeconomic outlook, giving rise to urgent balance of payments (BOP) and fiscal financing needs. After an initial outbreak peaked in August, a second wave hit in late 2020. Containment measures have negatively impacted domestic consumption and economic activity, weighing on tax revenues collection. Furthermore, worsening global conditions have hindered mining production and exports, tourism receipts, and investment inflows. The economy is expected to have sharply contracted by 7.2 percent in 2020, and the recovery is set to remain subdued in 2021.

Request for Fund support. The authorities are seeking financial assistance under the Rapid Financing Instrument (RFI). Namibia meets the eligibility criteria for an RFI as it faces an urgent BOP need triggered by the COVID-19 shock, expected to be absorbed within 12 months without major changes to the authorities' policy plans, that are adequate to mitigate risks to fiscal and debt sustainability and are supported by the authorities' track record in implementing fiscal consolidation. Staff supports the authorities' request for a purchase under the RFI in the amount of SDR 191.1 million (100 percent of quota), which is expected to catalyze additional financing from development partners. Public debt is sustainable but risks to the debt outlook are significant. Capacity to repay the Fund is adequate. Staff supports the purchase to be made in the form of budget support to provide space for the needed interventions to mitigate the severe socio-economic impact of the pandemic.

Policy response. The authorities have adopted a comprehensive response plan to address the COVID-19 emergency. Fiscal policy is oriented towards scaling-up health and education spending to contain the outbreak and save lives, protecting the most vulnerable, and supporting the private sector. Staff supports a temporary widening of the fiscal deficit to address the health crisis and mitigate its severe socio-economic impact, including the purchase of vaccines and the deployment of the vaccination campaign. As the crisis subsidies, the authorities will re-orient fiscal policy towards maintaining debt sustainability and implement a growth-supporting medium-term fiscal consolidation, underpinned by wage bill and SOEs reforms. External buffers will be used to absorb the COVID-19 BOP shock. Monetary policy will continue to ensure adequate liquidity to support credit to the economy while sustaining the currency peg. While preserving financial stability, temporary financial sector measures will continue supporting private sector activity.

Approved By
David Robinson (AFR) And Bjoern Rother (SPR)

An IMF team consisting of Ms. Albertin (Head), Mr. Gurara, Mr. Jardak, and Ms. Li (all AFR), and Mr. Abdallah (FAD), held discussions by video conference with the authorities during January 29–February 10, 2021. Ms. Nainda (OED) joined the mission discussions. The team held discussions with the Minister of Finance Mr. I. Shiimi, Central Bank Governor Mr. J. !Gawaxab, and other senior government officials. Ms. Li, Ms. Prado de Guzman, and Ms. Wang provided assistance in the preparation of this report.

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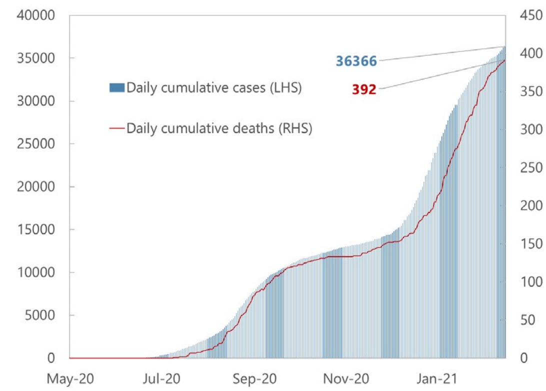
CONTEXT AND BACKGROUND

1. **A second wave of the COVID-19 outbreak severely hit Namibia in late 2020.** Namibia reported its first COVID-19 case on March 13, 2020. The authorities swiftly adopted measures to contain the contagion, which was initially limited. A national state of emergency was declared, land and aerial borders were closed, and a strict country-wide lockdown was implemented. After the initial outbreak peaked in August, restrictions to cross-border and intra-country movements were lifted and the economy started re-opening. However, a more severe second wave hit Namibia in late 2020, with COVID-19 infection rates increasing fivefold. The number of new confirmed cases sharply increased, with the total number reaching about 36,366 (about 1 ½ percent of the population) at mid-February 2021. A national curfew was re-instated in late December 2020.

Figure 1. Namibia: Evolution of the COVID-19 Outbreak



Sources: WHO Coronavirus Disease (COVID-19) Dashboard.

2. **The Namibian economy was already in a weak position when it faced the COVID-19 shock.** During 2017–19, Namibia's real GDP growth was negative (-0.5 percent, on average). This reflected the impact of fiscal consolidation, decelerating private and public investment, and a severe drought. Despite the authorities' efforts to reduce non-interest public expenditures by about 5 percent of GDP during 2017-19, weak SACU tax revenues led to large fiscal imbalances and public debt increased rapidly, reaching 60 percent of GDP at end-2019. International reserves increased to 5.3 months of import cover but remained at 15.2 percent of GDP at end-2019, below the adequacy level for market-access economies.[1] Unemployment was high (about 20 percent), particularly among the youth (39 percent), and inequality continued to be one of the highest in the world (Figure 4).

IMPACT OF THE COVID-19 PANDEMIC AND OUTLOOK

A. The Impact of the Pandemic: Global Spillovers and the Local Outbreak

3. **The economy sharply contracted due to the impact of the COVID-19 pandemic, taking a toll on employment.** Real GDP plummeted by 10 and 10.5 percent (y-o-y) in the second and third quarter of 2020, respectively, owing to negative global spillovers of the pandemic and the impact of local containment measures. As Namibia's external demand weakened, mining and tourism activities contracted. Containment measures negatively impacted non-mining economic activity, with the deepest contraction recorded in hotels and restaurants, manufacturing, retail trade, and transport. Despite an employment protection program (Box 1), close to 9,000 Namibians (1¼ percent of 2018

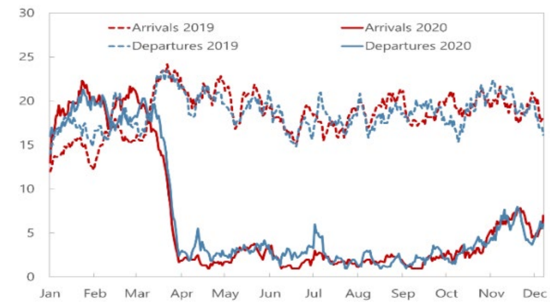
[1] The IMF's reserve adequacy metrics for market access economies is estimated at 18–27 percent of GDP and 5 months of imports (IMF, 2019).

total employed), lost their jobs between April and September 2020. Headline inflation declined to 2.3 percent (average, y-o-y) in 2020, while food prices inflation was sustained.

4. While the pandemic has adversely affected Namibia's external position in 2020, temporary factors have moderated the impact on international reserves. A trade deficit of 8.7 percent of GDP was recorded at end-2020. Due to a weaker external demand, diamonds and non-mineral exports contracted by 34 and 30 percent (y-o-y). Furthermore, tourism receipts sharply declined by 61 percent (y-o-y) at end-September 2020. In parallel, imports fell by 19 percent (y-o-y) at end-2020, reflecting the domestic economic downturn and lower oil prices. Preliminary data point to a current account surplus in 2020, supported by the pick-up in SACU transfers (¶5). Negative FDI net inflows, the redemption of the JSE bond and outward financial institutions' investment led to net financial outflows. Gross international reserves stood at US$2.16 billion at end-2020, equivalent to 4.7 months of imports coverage (5.3 months of imports coverage at end-2019), supported by large valuation gains and the Bank of Namibia's purchase of foreign exchange. The real effective exchange rate depreciated by -4.3 percent (y-o-y) at end-2020, mostly driven by the depreciation of the South African rand against the US dollar.

Figure 2. Namibia: COVID-19 Crisis: Impact on Tourism

(number of flights, 7 days moving average)



Sources: FlightRadar24; and IMF staff estimates.

5. The fiscal position has deteriorated, reflecting a shortfall in tax revenues and spending pressures due to the COVID-19 crisis. The overall fiscal deficit widened to 5.5 percent of GDP in the first half of FY20/21. Tax revenues declined by about 16 percent (y-o-y), with the negative impact of the pandemic partially offset by a 15 percent (y-o-y) increase in SACU tax revenues.[2] Mining tax revenues decreased by 22 percent (y-o-y), as global spillovers weighed on production and exports (¶3 and ¶4). Furthermore, non-mining tax revenues declined by 26 percent (y-o-y), owing to the economic downturn. In parallel, public spending increased by 17 percent (y-o-y), reflecting the implementation of the authorities' COVID-19 emergency response package (¶13). Large financing needs were covered through government deposit withdrawals, a pick-up in government domestic borrowing from the financial sector and the delayed disbursement of the 2019 African Development Bank (AfDB) budget support loan (¶11).

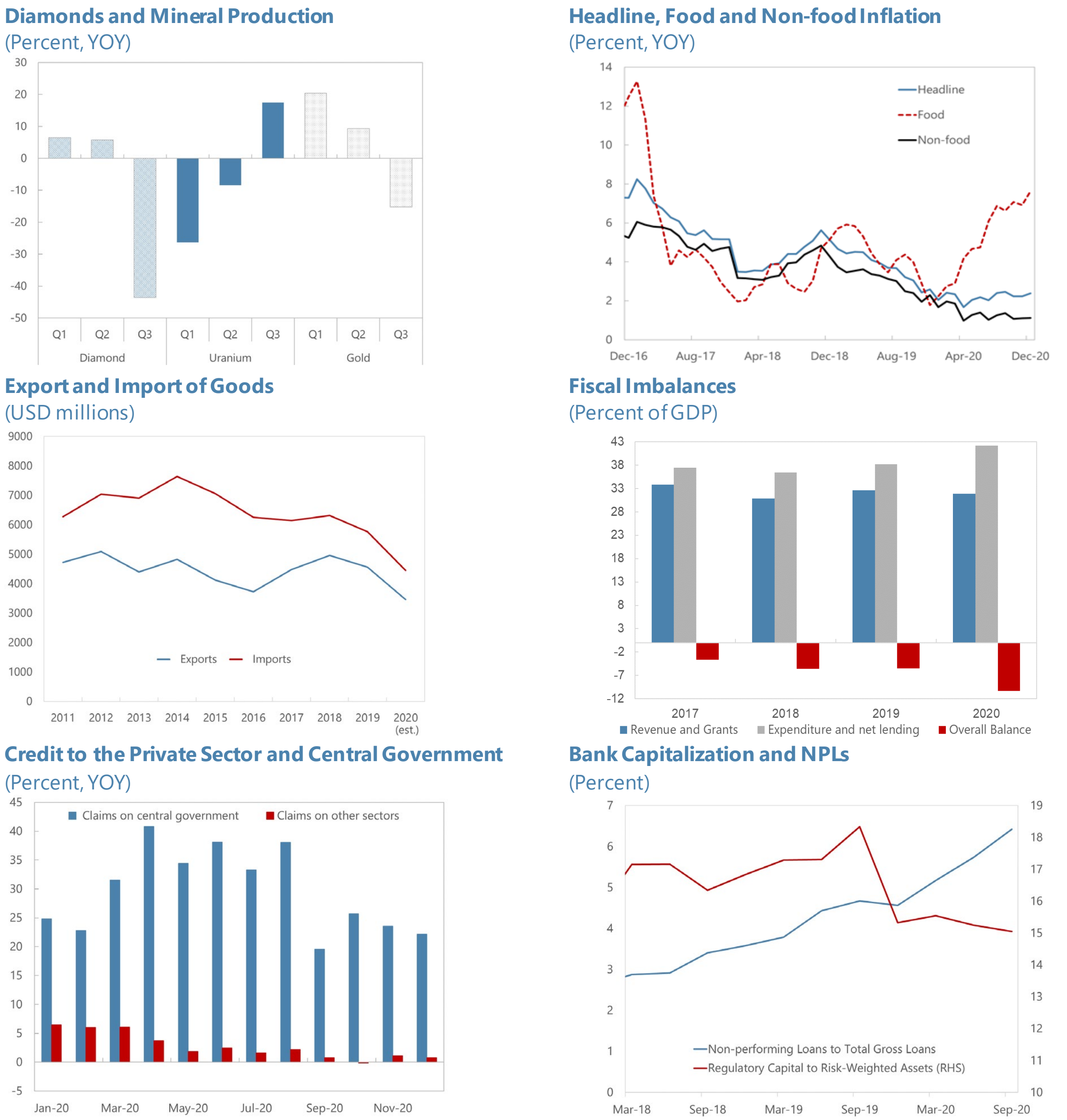
6. Namibia's financial sector has been resilient so far, but risks have increased.[3] The banking system entered the COVID-19 crisis with a liquid and well-capitalized position. However, the

[2] SACU revenues payments in FY20/21 reflect the SACU custom and excises revenues pool as expected at end-2019, before the outbreak of the COVID-19 pandemic.

[3] Some COVID-19 relief measures, notably the payment moratorium ranging from 6 to 24 months, may delay the recognition of asset quality deterioration. Thus, prudential returns' data on banks' NPLs, profitability and capital ratios at end-September 2020 may not fully reflect the impact of the COVID-19 crisis.

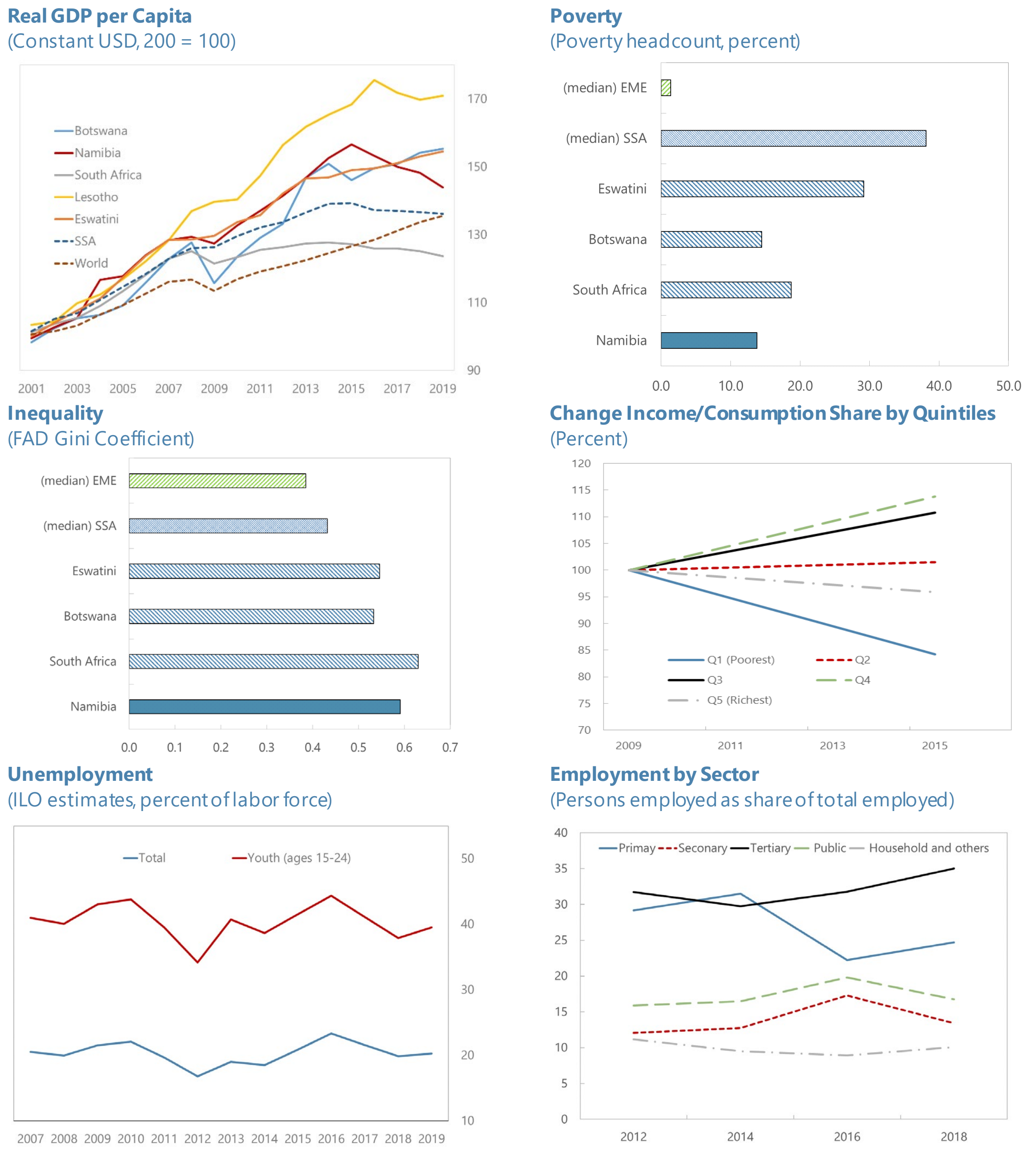
reduction in interest rates (¶16) has started to weigh on banks' profitability (Table 5). Furthermore, the ratio of non-performing loans increased to 6.4 percent at end-December 2020 (from 4.6 percent at end-2019). Depository corporations' lending to the government picked-up by 29 percent (y-o-y), reflecting larger budgetary financing needs, and banks' exposure to sovereign risk increased, with government securities to total assets at 11.5 percent at end-September (11.2 percent at end-2019). Banks' credit to the private sector increased by 0.9 percent at end-November (y-o-y). Non-bank financial institutions have so far weathered the shock as lower contributions and premiums due to the economic downturn and relief measures (Box 1) were offset by sustained investment income.

Figure 3. Namibia: The Impact of the COVID-19 Pandemic



Sources: Bank of Namibia, Ministry of Finance, INS, Haver Analytics, and IMF staff calculations.

Figure 4. Namibia: Indicators of Poverty, Inequality and Employment

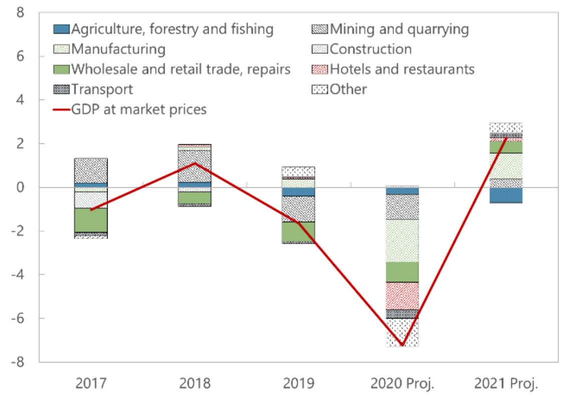


Sources: World Bank, ILO, Namibia Labor Force Surveys, IMF FAD Social Protection & Labor – Assessment Tool (SPL-AT), and IMF staff calculations.

B. The Short-Term Outlook

7. **The Namibian economy is expected to have sharply contracted in 2020 and the recovery is set to remain subdued in 2021.** Real GDP growth is expected to be negative at -7.2 percent in 2020, the deepest recession since the independence. Mining production is expected to have declined by 12 percent, reflecting a weaker external demand.[4] Non-mining activities are expected to also have sharply contracted, with the largest decline in hotels and restaurants, manufacturing and retail trade activities. Staff expects the economic recovery to remain subdued in 2021 as the local outbreak continues, with real GDP growth projected at 2.2 percent. This would be supported by a gradual recovery in mining and non-mining activities, as Namibia' external demand strengthens and under the assumption that no major lockdown measures are adopted to address the second COVID-19 wave. However, the COVID-19 crisis would lead to lasting output losses as real output is expected to remain below its pre-pandemic level through 2023.

Figure 5. Namibia: Contribution to Real GDP Growth



Sources: Namibian authorities, and IMF staff estimates.

8. **Due to the impact of the COVID-19 shock, Namibia's external position is expected to deteriorate in 2021, triggering an urgent balance of payments need.** A current account deficit of 7 percent of GDP is expected in 2021, reflecting the continued impact of the COVID-19 shock. Emergency imports would arise to respond to the second wave of the health crisis and acquire vaccines and needed infrastructure for vaccination deployment. Exports and tourism receipts would remain below pre-crisis levels, as the second wave delays the recovery. Furthermore, SACU transfers are expected to sharply decline in 2021, as the continuation of the pandemic undermines the recovery in the region. This will be only partially offset by an anticipated improvement in net financial inflows. Staff estimates a balance of payment (BOP) financing needs of US$527 million (4.7 percent of GDP) in 2021 (Text Table 1). The purchase under the RFI would contribute to

Text Table 1. Namibia: Balance of Payments: Impact of the COVID-19 Pandemic

(In millions of U.S. dollars)

	2020 Proj.	2021 RFI Baseline
Current Account	103	-795
Exports of goods and services	3456	3967
ow diamonds	425	566
Current Transfer	1319	1032
ow SACU receipts	1301	1015
Imports of goods and services	-4452	-5469
Capital and Financial accounts	220	-268
ow Direct investment	150	-103
ow Portfolio investment	36	-221
ow Other investment	147	164
BOP Financing gap		-527
(in percent of GDP)		4.7
Potential financing		-527
IMF use of Fund resources		276
AfDB (Budget support)		171
International reserves		81
Unidentified support		0

Source: IMF staff calculations.

[4] Mining output had contracted by 11 percent in 2019.

closing about 52 percent of the anticipated BOP gap in 2021. It will also help catalyze financial support from the AfDB.

9. Risks to the outlook are tilted on the downside. A stronger and more prolonged negative impact of the pandemic on Namibia's external demand and domestic consumption and activity, could weaken growth in 2021 and beyond. A resumption of lockdown measures for a sustained period of time to contain the second wave of the outbreak, a delayed vaccine roll-out, or limited effectiveness of the vaccines to the South African variant could undermine the anticipated recovery in 2021 and add to fiscal pressures. Lower-than-anticipated SACU revenues in FY22/23 and over the medium-term would worsen the fiscal and external positions and increase financing needs. On the positive side, a rapid roll-out of vaccines could lead to a faster-than expected rebound in external demand, supporting tourism activity and the recovery of the domestic economy.

POLICY ISSUES AND DISCUSSIONS

A. Fiscal Policy: Responding to the COVID-19 Emergency

10. The authorities are implementing a comprehensive *Economic Stimulus and Relief Package* to respond to the COVID-19 emergency and mitigate its severe socio-economic impact. Staff supports the authorities' package to respond to the COVID-19 crisis, adopted in the FY20/21 budget, as it is well-targeted to contain the outbreak and save lives, protect the most vulnerable from the impact of the crisis, and support the private sector and protect livelihoods (Box 1). The budgetary cost of the authorities' COVID-19 response plan is estimated at 3.6 percent of GDP and its implementation has advanced well (Box 1). Key components of the COVID-19 fiscal response are: i) emergency health and education spending (0.7 percent of GDP) to deliver COVID-19 diagnostics and treatment and improving sanitation in public schools to contain the outbreak; ii) a new targeted cash transfer program (0.4 percent of GDP)—the Emergency Income Grant—to support unemployed and low-income individuals and households; and iii) supporting firms and protecting jobs through a wage subsidy program for employers in the sectors most affected by the pandemic, accelerating the repayment of government

Text Table 2. Namibia: Fiscal Costs of the COVID-19 Response Plan
(N$ million, percent of GDP)

	Millions of $N	Percent of FY GDP
Covid-19 emergency spending		
Health spending	727	0.4
Education spending	600	0.3
Water provisions and facilities	80	0.0
Protecting the most vulnerable groups		
Emergency income grant	772	0.4
Supporting private sector and jobs		
Arrears repayment	3800	2.2
Wage subsidies program	400	0.2
Total	6379	3.6

Sources: Namibian authorities and IMF staff calculations.

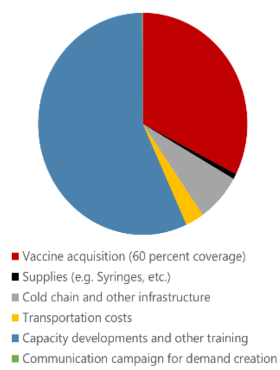
arrears to the private sector, temporarily postponing tax payments, and setting-up public guarantee loan schemes for firms and individuals (¶20).[5]

11. The authorities are taking steps for acquiring COVID-19 vaccines and deploying a vaccination campaign, for a total cost of 1 percent of GDP. The authorities have prepared a plan for the deployment of the COVID-19 vaccination campaign, targeting to cover 60 percent of the population. This is expected to generate an overall fiscal cost of US$115 million (1 percent of GDP), of which 0.4 and 0.5 percent of GDP in FY20/21 and FY21/22, respectively. The overall cost to acquire the COVID-19 vaccines is estimated at US$37 million (0.3 percent of GDP) (Text table 3), of which US$12 million (0.1 percent of GDP) to be incurred by end-FY20/21, as the vaccines under the COVAX scheme are delivered to cover 20 percent of the population.[6] The remainder is expected to be incurred in FY21/22 to immunize additional 40 percent of the population. Furthermore, fiscal costs of US$77 million (0.7 percent of GDP) are expected for the deployment of the vaccination campaign, in particular for the purchase of needed infrastructure and capacity development and training of medical personnel. Out of this envelope, US$51 million (0.4 percent of GDP) are anticipated to be incurred in FY2020.

Text Table 3. Namibia: Fiscal Costs of the COVID-19 Vaccination Campaign
(USD Millions, percent of GDP)

	Cost	% of GDP
Vaccine acquisition (60 percent coverage)	37.4	0.33
of which contingency	5.6	0.05
Supplies (e.g. Syringes, etc.)	0.9	0.01
Cold chain and other infrastructure	8.1	0.07
of which cold chain Capex	4.4	0.04
of which other (e.g. for monitoring evalaution, supervision, etc.)	3.4	0.03
Transportation costs	3.3	0.03
Capacity developments and other training	65.3	0.58
Communication campaign for demand creation	0.1	0.00
Total Cost	115.1	1.0

Source: Namibian authorities and IMF estimates using the WHO framework and Namibia country specific data. The cost in percent of GDP is calculation based on 2021 US$GDP.



12. Staff supports a temporary widening of the fiscal deficit to respond to the crisis and welcomes the authorities' efforts to create fiscal space for emergency spending. A drop in tax revenues (¶5), the implementation of the COVID-19 response package (¶10), the purchase of vaccines and the deployment of the vaccination campaign (¶11) are expected to widen the overall fiscal deficit to 9 percent of GDP in FY20/21. Staff welcomes the authorities' efforts in the October 2020 mid-year budget review to reallocate non-priority spending—0.3 and 0.1 percent of GDP in goods and services and public investment—to create fiscal space for emergency spending. Despite this, a fiscal financing gap of 3.7 percent of GDP is expected in FY20/21. The RFI purchase would cover 2.3 percent of GDP and contribute to contain domestic budgetary borrowing and preserve banks' provision of credit to

[5] Arrears to the private sector were accumulated in the previous year and have recently been verified.

[6] A first installment of US$1.3 million was paid in December 2020 to acquire the vaccines under the Covax scheme.

the economy. It is also expected to catalyze additional financial support from development partners, with the AfDB to provide a budget support loan in the amount of ZAR 2,500 million (1.4 percent of GDP), to be disbursed by end-March 2021 and a similar amount in FY21/22.[7]

Text Table 4. Namibia: Fiscal Financing Gap in FY20/21
(Percent of GDP)

	FY2019	FY2020		
	Prel.	Pre-Covid	RFI Baseline	Difference
Revenues	32.6	32.7	32.4	-0.3
Taxes	30.6	30.5	30.8	0.3
Non-taxes	2.0	2.1	1.5	-0.6
Grants	0.1	0.1	0.2	0.1
Expenditure	38.1	37.6	41.5	3.9
Current primary	31.0	29.8	33.2	3.3
Interest payment	3.8	4.2	4.0	-0.2
Capital expenditure	3.3	3.6	4.3	0.7
Overall balance	-5.5	-4.9	-9.0	-4.1
Fiscal Financing Gap			3.7	
Potential financing				
IMF RFI			2.3	
AfDB Covid Facility			1.4	
Unidentified support			0	

Source: IMF staff calculations.

13. **Public finance governance mechanisms will ensure the appropriate use and monitoring of resources to address the COVID-19 crisis.** All COVID-19 spending was appropriately budgeted and execution progress were presented in the FY20/21 mid-year budget review. A further progress report will be published in the FY21/22 budget and a final one will be published on the website of the Ministry of Finance by September 2021. All awarded COVID-19 related procurement contracts, including the names of the entities and beneficial owners, will be published online by end June 2021 [8] A full audit of COVID-19 spending (including ex-post validation of goods and services procured) will also be conducted and published online by the Auditor General, within 12 months of the end of FY20/21 (LOI ¶5). Finalizing the Public Financial Management Bill by end-2021, to be adopted it by end-2022 will further strengthen Namibia's public financial management system.

[7] The AfDB is finalizing a two-year budget support operation with Namibia- the Governance and Economic Support Recovery Program - for an anticipated total amount of ZAR 5 billion, to be disbursed evenly in FY20/21 and FY21/22. The baseline also incorporates budget support of ZAR 2 billion (US$125 million) from the AfDB disbursed in April 2020, a delayed disbursement related to the 2017–2019 operation, which is not related to the COVID-19 emergency.

[8] Beneficial ownership information is already collected by the Registrar of Companies and Close Corporations in Namibia, as well as banks in the context of their customer due diligence measures.

Box 1. COVID-19 Economic Stimulus and Relief Package

A comprehensive Economic Stimulus and Relief Package was approved in May 2020, in the FY20/21 budget, to respond to the COVID-19 crisis. Key elements of the COVID-19 response plan are: i) stepping-up health and education spending to address the health emergency; ii) protecting the most vulnerable from the impact of the crisis; and iii) supporting the private sector and protecting jobs. The 2020/21 mid-year budget review, approved in October 2020, points to good progress in the implementation of the COVID-19 response plan.

Emergency health and education spending were budgeted to respond to the COVID-19 outbreak. Health spending of N$727 million (0.4 percent of GDP) was budgeted to respond to the health emergency. About 96 percent of planned emergency health spending has been executed, notably to acquire protective equipment and pharmaceuticals, conduct testing and contact tracing, and set-up quarantine facilities and step-up health personnel. Furthermore, education spending in the amount of N$600 million (0.3 percent of GDP) aims at promoting sanitation and improving health facilities in public schools throughout the country. About 87 percent of the planned COVID-19 education spending was executed at end-January 2021. Finally, N$80 million (0.04 percent of GDP) was allocated to improve water provisions and infrastructure and has been fully executed.

Social safety nets were strengthened to protect the most vulnerable from the impact of the crisis. A new social program – the Emergency Income Grant (EIG) –was rolled out in April 2020 to support low-income individuals and preserve their living standards during the COVID-19 crisis. The EIG (N$772 million, equivalent to 0.4 percent of GDP) targets about 800,000 individuals (about 35 percent of the Namibian population). Under the EIG, a one-off cash transfer (N$750 per person) is provided to eligible individuals who are: i) unemployed (as of February 1st, 2020) and are not benefitting from other social grants; or ii) operating in the informal sector and having experienced a loss of income. Access to the program is based on a self-nomination and payment is realized thorough mobile banking modalities. As of end-January 2021, about 770,000 individuals have benefited from the grant and 75 percent of the envelope was executed.

Furthermore, a comprehensive set of measures aim at supporting the private sector and protect jobs. The Employer Wage Subsidy Program aims at supporting firms and preserve jobs in the sectors most affected by the pandemic. Notably, employers in the sectors of tourism, aviation and construction are eligible to receive a subsidy to cover a share of their wage bill for a three months period. In parallel, beneficiary employers commit not to retrench staff for the same period and not to reduce salaries by more than 50 percent. The program was budgeted for N$400 million (0.2 percent of GDP) and covered about 4,000 employers and 15,600 employees at end-January 2021, for an overall cost of N$100 million. Furthermore, the repayment of arrears to the private sector (on VAT refunds and to government suppliers) for a total of N$3.8 billion (2.1 percent of GDP), was accelerated and almost the full amount has been paid. A government guarantee loan scheme for firms, notably SMEs, for a total of N$2.4 billion (1.3 percent of GDP) was introduced. Finally, banks were allowed to grant a loan payment moratorium to firms and individuals (payment holidays) from 6 up to 24 months.

In parallel, temporary financial sector measures were implemented to support liquidity and provision of credit to the economy. In parallel with a more accommodative monetary policy stance, the Bank of Namibia temporarily eased regulatory requirements for banks. Thus, the determination on liquidity risk management was relaxed. The capital conservation buffer rate was reduced to 0 percent for at least 24 months. Furthermore, the effective date of implementation of the 25 percent single borrower limit and concentration risk limit was postponed. Furthermore, NBFIs were required to grant premium and contribution holidays/reductions in most affected sectors, notably the tourism sector.

14. Staff supports the authorities' medium-term fiscal consolidation strategy to preserve fiscal and debt sustainability. Namibia's public debt will sharply increase to 64.6 percent of GDP in FY20/21 (from 59.9 percent of GDP in FY19/20), reflecting exceptional budgetary financing needs to respond to the COVID-19 crisis and the real output contraction. Staff underscored that a growth-supporting medium-term fiscal consolidation, which preserves social spending and the provision of essential services to the population, is pivotal to maintain debt sustainability. As the impact of the COVID-19 crisis subsides, the authorities are committed to orient fiscal policy towards supporting debt sustainability, building on their track-record of implementing fiscal consolidation (¶2). To this end, they adopted in October 2020 a medium-term fiscal consolidation framework to stabilize and then lower the public debt-to-GDP-ratio. This builds on gradually phasing-out the exceptional COVID-19 spending and implementing fiscal reforms to increase expenditure efficiency, strengthen tax administration, and mobilize additional tax revenues. Notably, the authorities are committed to:

- Containing the wage bill by: i) freezing nominal wage increases (no inflation adjustment) in FY21/22; ii) allowing for natural attrition, except in priority sectors; and iii) implementing a targeted early retirement scheme during FY22/23-FY23/24. Overall, this is expected to generate cumulative fiscal savings of about 2.1 percentage points of GDP over FY21/22–FY23/24. Staff noted that frontloading the planned public sector early retirement scheme may serve as contingency measure, in case of lower-than-anticipated SACU tax revenues;

- Improving the performance and management of state-owned enterprises (SOEs), with support from the AfDB, and divesting from selected SOEs. Notably, the Cabinet approved the liquidation of the state-owned airline in February. Preliminary estimates suggest that the SOEs reform could lead fiscal savings of about 0.7 percent of GDP over FY21/22-FY22/23 and privatization receipts of 1.7 percent of GDP in FY21/22, which will provide additional non-debt creating budgetary financing;

- Strengthening tax administration to support mobilizing additional revenues, including through the operationalization of the Namibia Revenue Agency. In this context, staff highlighted the importance of improving filing and payment compliance, broadening the tax base, and strengthening profit shifting and base erosion regulation.

15. Namibia's debt dynamics remain sustainable, but vulnerabilities have increased due to the COVID-19 shock and risks are significant. Staff's debt sustainability analysis (Annex I) assumes a modest recovery of the economy in 2021 and the implementation of a medium-term growth-supporting fiscal consolidation, reflecting the broad lines of the authorities' fiscal strategy. Namibia will continue to face significant financing challenges ahead, with the repayment of the 2010 Eurobond in US$ (US$500 million) falling due and SACU tax revenues expected to sharply decline by about 3 percentage points of GDP in FY21/22 and remain subdued in FY22/23.[9] Thus, gross financing

[9] The SACU revenue sharing formula adjusts for forecast errors with a two-year lag. The SACU revenue sharing formula adjusts for forecast errors with a two-year lag. Staff expects a large negative adjustment to SACU revenues in FY22/23 to reflect the much-lower than-anticipated SACU customs and excises revenues collected in FY20/21, due to the impact of the pandemic on SACU members' imports and economic activity, notably South Africa's. Thus, staff's SACU revenue projections for FY22/23 include the anticipated adjustment for forecasting errors for FY20/21.

needs would gradually decline but remain large over the medium-term. Public debt-to-GDP ratio is expected to peak at 70.2 percent in FY22/23 and then gradually decline. Notably, the authorities are planning to repay the 2010 Eurobond through issuance of domestic debt. A stronger and more protracted impact of the COVID-19 crisis, lower-than-anticipated SACU revenues over the medium term, or delays in the planned medium-term fiscal consolidation would worsen debt dynamics. Furthermore, the debt amortization profile carries significant rollover risks. On the other hand, a faster-than-anticipated recovery of the Namibian economy would improve the debt ratio. Active debt management, including pre-financing, could allow the authorities to take advantage of favorable international market conditions.

B. Monetary and Exchange Rate Policy: Maintaining Liquidity and Preserving the Currency Peg

16. Monetary policy will continue to ensure adequate liquidity in the financial sector to support credit to the economy while maintaining the currency peg. The Bank of Namibia (BoN) has gradually lowered the policy rate since mid-March 2020 (from 6.25 to 3.75 percent), following the South Africa Reserve Bank's (SARB) rate cut and remaining broadly aligned with SARB's interest rate. Staff supports the authorities' easing of the monetary policy stance and preserving the currency peg, and the central bank's temporary liquidity relief measures and relaxation of the capital conservation buffer rate to support banks' liquidity and provision of credit (Box 1). Developing a liquidity forecasting framework, with the support of IMF technical assistance, will improve liquidity management by strengthening liquidity forecasting and instituting a comprehensive operational framework.

17. External buffers will be used to respond to the COVID-19 shock. Namibia has gradually strengthened its external buffers against shocks in recent years. In view of this, staff supports using part of these buffers to respond to the COVID-19 shock (Text Table 1). However, in the absence of additional financing, international reserves would fall to 3.7 months of import coverage, well below the IMF ARA metrics for market access countries (¶2). The purchase under the RFI (¶8) and (¶21) would support undertaking COVID-19 related emergency imports while rebuilding external buffers against adverse shocks and supporting the currency peg. The second tranche of the AfDB loan and recovering mining exports and tourism receipts will strengthen external buffers over the medium-term.

C. Financial Sector: Preserving Stability

18. Preserving financial stability while supporting the private sector is key. Due to the sharp economic downturn, banks' earnings and asset quality could further deteriorate as borrowers' capacity to service loans weakens and the loan payment moratorium is lifted (Box 1). In response, the BoN has strengthened reporting requirements by banks and is planning to conduct an assessment of asset classification, suspension of interest and provisioning for two systemic banks. Finalizing the banking act will strengthen banks' regulatory framework and resolution framework. Recent easing of regulatory requirements (Box 1) will support liquidity and supply of credit to the economy. Staff called

for those measures to be temporary and recommended to maintain appropriate loan classification and provisioning, notably in relation to the debt repayment moratorium. Staff supported introducing additional safeguards against the risk of unrecognized losses on banks' balance sheets. Staff also noted that fiscal risks may arise from contingent liabilities entailed by the public guarantees loan schemes (Box 1), which need to be closely monitored. Strengthening supervision of non-bank financial institutions, including by increasing stress-testing capacities, will enhance monitoring of portfolio quality and credit risks. Finally, the promulgation and swift implementation of the pending regulatory bills for the non-bank financial sector (NAMFISA bill, Financial Institutions and Markets bill, and Financial Services Adjudicator) will support moving toward risk-based supervision.

ACCESS AND CAPACITY TO REPAY

A. Access Level and Modalities

19. The authorities are requesting a purchase under the RFI equivalent to 100 percent of quota (SDR 191.1 million or about US$ 273 million). The COVID-19 pandemic has sharply deteriorated Namibia's short-term outlook, giving rise to an urgent BOP need (¶8):

- **Staff considers an RFI an appropriate instrument to support Namibia at the current juncture:** (i) the urgent BOP financing need was triggered by the COVID-19 shock and it is expected to be absorbed within 12 months without major changes to the authorities' policy plans; (ii) the authorities' intended policies as detailed in their homegrown fiscal consolidation framework approved in October 2020 are adequate to mitigate risks to fiscal and debt sustainability; and (iii) the authorities have a track record in implementing fiscal consolidation. Thus, the RFI purchase will provide urgent support to address the short-term BOP need triggered by a sudden exogenous shock. The authorities have implemented fiscal consolidation during 2017–19 to contain the build-up of public debt. Due to the COVID-19 shock, they had to temporarily deviate from their planned fiscal stance to respond to the crisis. The authorities are committed to resume growth-supporting fiscal consolidation to preserve debt sustainability, once the COVID-19 crisis subsidies. If downside risks materialized leading to larger-than-anticipated financing needs, further support could be considered under a UCT arrangement.

- **The proposed access is calibrated to the BOP financing need, anticipated financing from development partners, and the need to rebuild external buffers against shocks.** The purchase under the RFI will fill about 52 percent of the balance of payments need. It will also help catalyze financial support from the AfDB (¶11). Due to the impact of the COVID-19 shock, international reserves would sharply decline to 3.7 months of import coverage at end-2021, well-below the IMF ARA metrics for market access countries (¶8 and ¶17). The proposed purchase under the RFI will contain the decline in reserves to 4.2 months of import coverage and thus strengthen external buffers against further shocks and contribute to supporting the currency peg. Staff supports the RFI purchase to address the BOP need and to

be made in the form of budget support to provide space for the needed interventions to respond to the COVID-19 pandemic and mitigate its severe socio-economic impact (¶11).

- **The timing of the RFI proposal has been tailored to the authorities' adoption of a medium-term fiscal consolidation strategy**. Given Namibia's sizable debt vulnerabilities, the authorities sought to develop and adopt a medium-term fiscal consolidation framework to preserve debt sustainability, a key element of the policy package supported under the RFI.

B. Capacity to Repay and Safeguards Assessment

20. Namibia's capacity to repay its obligations to the Fund is adequate. Namibia has no outstanding credit from the Fund. Its capacity to repay the Fund is adequate, in view of the favorable medium-term growth outlook, and the authorities' commitment to sound macroeconomic policies and a sustainable debt (Table 6). A more protracted impact of the COVID-19 crisis and delays in the implementation of the planned fiscal consolidation would worsen Namibia's debt dynamics. Given that the financing under the RFI will be used in its entirety to provide budget support, the authorities have committed to signing a Memorandum of Understanding between the Ministry of Economy and Finance and the BoN on their respective roles and responsibilities for servicing financial obligations to the Fund.

21. The authorities are committed to undertake a safeguards assessment before Board approval of any subsequent arrangement to which the safeguards policy applies. The authorities will authorize Fund staff to hold discussions with the central bank's external auditors, and to have access to the central bank's external audit reports.

STAFF APPRAISAL

22. The COVID-19 pandemic has sharply deteriorated Namibia's short-term macroeconomic outlook, giving rise to urgent BOP and fiscal financing needs. The economy is expected to have sharply contracted in 2020 due to the impact of the pandemic and the recovery is set to remain subdued in 2021. Measures to contain the outbreak have negatively impacted economic activity, weighing on tax revenues. Furthermore, worsening global conditions have hindered mining production and exports, tourism receipts and investment inflows. The near-term outlook remains uncertain, with risks tilted on the downside.

23. The authorities' policy response to address the COVID-19 emergency and mitigate its severe socio-economic impact has been timely. The authorities are implementing a comprehensive and well-targeted fiscal package to contain the local outbreak, protect the most vulnerable from the impact of the crisis, and support the private sector and protect jobs. They have also adopted a plan for the deployment of the vaccination campaign. Staff supports a temporary widening of the fiscal deficit to respond to the health emergency, including the purchase of vaccines and infrastructure for the vaccination campaign, and mitigate its socio-economic impact of the crisis. In this regard, staff welcomes the authorities' efforts to create fiscal space for emergency spending. External buffers will

be used to partially absorb the COVID-19 BOP shock. Monetary policy will continue maintaining adequate liquidity in the financial sector to support credit to the economy while supporting the currency peg. Preserving financial stability, while supporting private sector activity, will be important.

24. Public finance governance mechanisms will support an appropriate use and monitoring of resources to address the COVID-19 crisis. All COVID-19 spending was appropriately budgeted and execution progress published. An execution report will be published in the FY21/22 budget, and a final report by September 2021. Furthermore, the authorities will publish all awarded procurement contracts for COVID-19 related spending, including the names of the entities and beneficial owners, by end-June 2021. A full audit of COVID-19 spending will also be published online by 12 months of the end of FY20/21. Furthermore, the Public Financial Management bill will be finalized by end-2021.

25. Determined implementation of the authorities' fiscal strategy to preserve medium-term fiscal and debt sustainability will be needed, as the impact of the COVID-19 crisis subsides. Staff supports the authorities' medium-term fiscal consolidation strategy aimed at preserving fiscal and debt sustainability. A carefully designed medium-term fiscal consolidation, supporting growth and preserving social spending and adequate provision of essential services to the population, is pivotal. Exceptional COVID-19 spending will be gradually phased-out, containing the wage bill and improving the performance and management of SOEs would increase expenditures efficiency, and strengthening tax administration would support mobilizing additional revenues. Namibia's debt dynamics remains sustainable but risks to the debt outlook are significant.

26. Against this backdrop, staff supports the authorities' request for a purchase under the RFI in the amount of SDR 191.1 million (100 percent of quota). In view of the urgent balance of payments need triggered by the COVID-19 shock and the authorities' existing and prospective policies to address this external shock, staff supports the purchase under the RFI, that will also catalyze additional financing from development partners. Given the large fiscal financing needs to respond to the COVID-19 emergency, staff supports the authorities' request that the purchase be made in the form of budget support.

Table 1. Namibia: Selected Economic Indicators, 2015–2026

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.	Proj	Proj	Proj	Proj	Proj	Proj
	(percentage change, unless otherwise indicated)											
National account and prices												
GDP at constant prices	4.3	0.0	-1.0	1.1	-1.6	-7.2	2.2	3.6	3.1	2.5	2.5	2.5
GDP deflator	3.9	8.0	9.9	4.4	1.8	3.2	4.4	4.6	4.3	4.4	4.4	4.5
GDP at market prices (N$ billions)	146	158	172	181	181	173	185	201	216	231	247	265
GDP at market prices (Fiscal Year) (N$ billions)	149	161	174	181	179	176	189	204	220	235	252	269
GDP per capita (US$, constant 2000 exchange rate)	9,232	9,783	10,444	10,814	10,628	9,886	10,254	10,802	11,285	11,739	12,211	12,711
Consumer prices (average)	3.4	6.7	6.1	4.3	3.7	2.3	3.6	4.4	4.5	4.5	4.5	4.5
External sector												
Exports (US$)	-15.7	-1.3	17.6	12.1	-7.6	-19.6	12.3	15.3	6.5	5.1	4.3	3.0
Imports (US$)	-5.4	-12.8	-0.4	3.4	-9.8	-22.3	22.3	1.2	3.8	3.9	4.4	4.5
Terms of trade (deterioration = -)	6.0	0.7	-13.8	-0.3	2.2	6.1	-0.8	0.2	0.3	-0.3	-0.2	-0.2
Real effective exchange rate (period average)	-3.9	-3.7	9.6	1.3	-2.1	...	...	...	...	...	...	...
Exchange rate (N$/US$, end of period)	15.6	13.7	12.3	14.4	14.0	...	...	...	...	...	...	...
Money and credit												
Domestic credit to the private sector	13.8	8.6	5.0	7.2	7.1	-0.5	5.7	7.3	7.5	7.0	7.0	7.1
Base money	-5.0	24.7	10.3	5.7	5.0	9.7	5.0	8.4	7.5	7.0	7.0	7.0
M2	10.2	4.9	14.1	6.4	10.5	9.7	6.7	8.4	7.5	7.0	7.0	7.0
Interest rate (percent)	6.5	7.0	6.8	6.8	6.5	...	...	...	...	...	...	...
	(percent of GDP)											
Investment and Savings												
Investment	28.9	22.0	17.7	14.9	14.7	17.1	18.3	19.5	19.4	19.4	19.4	19.3
Public	7.4	6.1	5.4	5.3	5.6	7.2	6.8	6.5	6.5	6.5	6.4	6.4
Private	23.6	15.7	12.6	11.7	12.5	10.0	11.5	13.0	13.0	13.0	13.0	13.0
Change Inventories	-2.1	0.1	-0.2	-2.1	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings	17.1	5.9	13.5	11.6	13.0	18.1	11.8	15.3	17.9	18.9	18.9	18.3
Public	-1.6	-3.7	-1.6	-2.0	-2.2	-4.1	-5.0	-3.8	-0.8	0.5	0.9	1.4
Private	18.7	9.6	15.1	13.7	15.2	22.2	16.8	19.1	18.7	18.4	18.0	17.0
Central government budget 1/												
Revenue and grants	35.1	31.5	33.8	30.8	32.6	32.5	28.9	29.9	32.9	33.1	33.2	33.3
Of which: SACU receipts	11.7	8.7	11.3	9.6	10.6	12.6	7.8	7.6	10.2	10.1	10.2	10.2
Expenditure and net lending	43.8	41.0	37.4	36.4	38.2	41.5	37.7	37.1	36.6	36.1	36.0	35.5
Primary balance (deficit = -)	-7.0	-6.8	-0.5	-2.3	-1.7	-5.0	-5.0	-3.2	0.9	1.6	1.8	1.9
Overall balance	-8.8	-9.4	-3.6	-5.6	-5.5	-9.0	-4.9	-7.2	-3.7	-3.0	-2.8	-2.2
Primary balance: Non-SACU	-18.6	-15.5	-11.8	-11.9	-12.2	-17.6	-12.1	-10.8	-9.3	-8.5	-8.4	-8.2
Public debt/GDP	41.3	44.8	43.2	50.4	59.9	64.6	67.9	70.2	69.4	68.1	66.4	64.3
Of which: domestic	22.8	29.3	28.6	32.6	39.5	40.9	46.7	50.1	50.1	49.5	49.0	47.8
Gross public and publicly guaranteed debt/GDP	46.1	50.3	49.6	56.5	66.8	72.9	77.0	79.9	79.4	78.1	76.4	74.3
External sector												
Current account balance												
(including official grants)	-13.3	-16.0	-4.2	-3.3	-1.7	1.0	-7.0	-3.9	-1.3	-0.2	-0.2	-0.7
External public debt (including IMF)	18.4	15.5	14.6	17.8	20.5	23.7	21.2	20.1	19.3	18.5	17.5	16.5
Gross official reserves												
US$ millions	1,580	1,791	2,216	2,156	1,965	2,160	1,932	2,042	2,173	2,421	2,645	2,810
Percent of GDP	16.9	15.5	15.9	17.1	15.2	18.3	17.3	17.3	17.6	18.7	19.2	19.1
Months of imports of goods and services	3.0	3.5	4.2	4.5	5.3	4.7	4.2	4.3	4.4	4.7	4.9	5.0
External debt/GDP 2/	49.6	60.9	66.4	61.8	66.8	81.7	73.8	72.3	69.1	66.3	63.3	60.4
Memorandum item:												
Population (in million)	2.3	2.3	2.4	2.4	2.5	2.5	2.6	2.7	2.8	2.8	2.9	3.0

Sources: Namibian authorities and Fund staff estimates and projections.

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

2/ Public and private external debt.

Table 2. Namibia: Balance of Payments, 2015–2026[1/]

(US$ millions, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.	Proj	Proj	Proj	Proj	Proj	Proj
Current account	-1,523	-1,719	-543	-450	-210	103	-795	-468	-161	-28	-29	-99
Trade balance	-3,172	-2,396	-1,811	-1,544	-1,302	-907	-1,420	-946	-875	-854	-893	-1,002
Exports, f.o.b.	3,227	3,183	3,744	4,198	3,879	3,121	3,504	4,039	4,299	4,520	4,715	4,857
Of which:												
Diamonds	878	704	732	832	648	425	566	680	789	813	838	864
Other minerals	672	730	842	1,117	1,136	1,235	1,304	1,524	1,586	1,682	1,753	1,766
Other	1,677	1,749	2,171	2,249	2,095	1,461	1,634	1,835	1,925	2,024	2,123	2,227
Imports, f.o.b.	-6,399	-5,580	-5,555	-5,742	-5,182	-4,027	-4,925	-4,985	-5,174	-5,374	-5,608	-5,859
of which:												
Non oil imports	-5,291	-4,767	-4,887	-4,839	-4,300	-3,485	-4,326	-4,351	-4,507	-4,679	-4,885	-5,108
Oil imports	-1,108	-813	-668	-903	-882	-542	-599	-634	-667	-696	-723	-751
Covid-related medical equipment						-40	-101					
Services (net)	241	-132	146	184	91	-90	-82	-5	1	6	8	9
Transportation	-76	-64	-20	-35	-27	-64	-47	-36	-36	-36	-37	-38
Travel	441	172	274	340	272	125	155	197	207	217	226	237
Other services	-124	-241	-108	-121	-155	-151	-190	-166	-171	-175	-181	-189
Income (net)	1	-254	-315	-496	-300	-219	-324	-454	-503	-528	-552	-577
Compensation of employees	-11	-2	-9	-1	0	-3	-1	-2	-2	-2	-2	-2
Investment income	12	-252	-306	-496	-299	-216	-323	-452	-501	-526	-550	-575
Current transfers	1,407	1,064	1,436	1,408	1,302	1,319	1,032	936	1,217	1,348	1,408	1,471
Official transfers	1,394	1,025	1,378	1,357	1,288	1,307	1,019	923	1,203	1,334	1,393	1,455
Of which: SACU receipts	1,362	1,008	1,368	1,354	1,283	1,301	1,015	918	1,198	1,329	1,388	1,450
Other transfers	13	39	59	51	14	11	12	13	14	14	15	16
Capital and financial account	-2,252	-1,566	-747	-438	65	220	-268	-601	-318	-301	-259	-271
Capital account	-108	-132	-182	-131	-105	-113	-108	-114	-125	-127	-133	-140
Financial Account	-2,144	-1,433	-565	-307	170	333	-160	-487	-193	-174	-126	-131
Direct Investment	-794	-360	-345	-110	188	150	-103	-167	-174	-184	-192	-201
Portfolio Investment	-1,159	-81	463	230	125	36	-221	84	86	118	139	136
Other Investment	-191	-992	-683	-427	-143	147	164	-404	-106	-108	-73	-67
Errors and Omissions	-328	371	228	-40	92	…	…	…	…	…	…	…
Overall Balance	402	218	433	-51	-182	-117	-527	133	157	273	230	172
Financing Gap							527					
Anticipated exceptional financing							447					
IMF RFI							276					
AfDB budget support							171					
Change in reserves							81					
						(Percent of GDP)						
Current account	-13.3	-16.0	-4.2	-3.3	-1.7	1.0	-7.0	-3.9	-1.3	-0.2	-0.2	-0.7
Trade balance	-27.7	-22.4	-14.1	-11.3	-10.4	-8.6	-12.6	-7.9	-7.0	-6.5	-6.5	-7.0
Exports	28.2	29.7	29.1	30.7	30.9	29.6	31.0	33.8	34.3	34.6	34.5	34.0
Imports	-55.9	-52.1	-43.1	-42.0	-41.3	-38.2	-43.6	-41.7	-41.3	-41.1	-41.1	-41.1
of which:												
Oil imports	-9.7	-7.6	-5.2	-6.6	-7.0	-5.1	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3
Services (net)	2.1	-1.2	1.1	1.3	0.7	-0.9	-0.7	0.0	0.0	0.0	0.1	0.1
Income (net)	0.0	-2.4	-2.4	-3.6	-2.4	-2.1	-2.9	-3.8	-4.0	-4.0	-4.0	-4.0
Current transfers	12.3	9.9	11.2	10.3	10.4	12.5	9.1	7.8	9.7	10.3	10.3	10.3
Of which: SACU receipts	11.9	9.4	10.6	9.9	10.2	12.3	9.0	7.7	9.6	10.2	10.2	10.2
Capital and financial account	-19.7	-14.6	-5.8	-3.2	0.5	2.1	-2.4	-5.0	-2.5	-2.3	-1.9	-1.9
Capital account	-0.9	-1.2	-1.4	-1.0	-0.8	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Financial account	-18.7	-13.4	-4.4	-2.2	1.4	3.2	-1.4	-4.1	-1.5	-1.3	-0.9	-0.9
Direct Investment	-6.9	-3.4	-2.7	-0.8	1.5	1.4	-0.9	-1.4	-1.4	-1.4	-1.4	-1.4
Portfolio Investment	-10.1	-0.8	3.6	1.7	1.0	0.3	-2.0	0.7	0.7	0.9	1.0	1.0
Other Investment	-1.7	-9.3	-5.3	-3.1	-1.1	1.4	1.5	-3.4	-0.8	-0.8	-0.5	-0.5
Overall Balance	3.5	2.0	3.4	-0.4	-1.5	-1.1	-4.7	1.1	1.0	2.1	1.7	1.2
Financing Gap							4.7					
Anticipated exceptional financing							4.0					
IMF RFI							2.4					
AfDB budget support							1.5					
Change in reserves							0.7					
Gross International Reserves (end of period)	1,580	1,791	2,216	2,156	1,965	2,160	1,932	2,042	2,173	2,421	2,645	2,810
Months of imports of goods and services	3.0	3.5	4.2	4.5	5.3	4.7	4.2	4.3	4.4	4.7	4.9	5.0
External debt (US$ millions) from IIP	5,681	6,533	8,557	8,446	8,380	8,605	8,343	8,649	8,659	8,669	8,644	8,614
Short-term debt (US$ millions)	601	690	1,009	1,021	1,003	931	991	986	978	971	982	979
Exchange rate (N$/US$, period average)	12.8	14.7	13.3	13.2	14.5	…	…	…	…	…	…	…
GDP at market prices (US$ millions)	11,450	10,719	12,883	13,672	12,541	10,537	11,298	11,965	12,535	13,082	13,659	14,271

Sources: Namibian authorities and Fund staff estimates and projections.

1/ Namibia adopted BPM6 in 2016 and revised BOP statistics back to 2009.

Table 3a. Namibia: Fiscal Operations of the Central Government, 2015/16–2026/27

(N$ millions)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
							Mid-year							
						Proj	Budget	Budget	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	52,216	50,849	58,768	55,820	58,525	57,395	55,179	51,397	54,549	61,038	72,180	77,777	83,561	89,833
Domestic revenue	52,064	50,849	58,768	55,748	58,427	57,129	55,179	51,397	54,264	60,730	71,849	77,423	83,182	89,426
Tax revenue	48,919	47,575	54,590	52,189	54,816	54,405	51,650	48,409	50,333	55,679	66,382	71,444	76,712	82,417
Personal income tax	10,794	12,002	13,267	13,588	14,147	12,319	12,261	9,585	13,599	15,007	16,374	17,539	18,787	20,138
Corporate income tax	7,723	7,708	7,860	7,325	7,257	7,149	5,710	4,802	7,762	8,921	9,724	10,794	11,761	12,833
o/w Diamond mining	2,199	1,611	1,654	1,496	1,143	1,193	979	712	1,541	1,878	2,167	2,500	2,885	3,329
VAT and sales taxes	12,014	12,430	12,604	12,542	12,999	11,486	10,238	10,505	12,907	14,574	16,308	17,456	18,688	20,017
Taxes on international trade (includes SACU receipts)	17,355	14,071	19,597	17,375	18,922	22,252	22,252	22,251	14,750	15,605	22,289	23,849	25,541	27,358
Other taxes	1,033	1,363	1,261	1,360	1,490	1,198	1,189	1,266	1,314	1,571	1,687	1,806	1,934	2,071
Nontax revenue	3,146	3,274	4,178	3,559	3,611	2,724	3,263	2,988	3,932	5,051	5,468	5,979	6,470	7,009
Diamond and other mineral royalties	1,369	1,368	1,546	1,652	1,253	992	937	911	1,564	2,051	2,246	2,531	2,779	3,055
Adminstrative fees, including license revenues	628	902	1,267	1,228	1,027	920	922	971	1,175	1,271	1,365	1,461	1,564	1,675
Other	1,149	1,004	1,365	679	1,332	813	1,404	1,106	1,192	1,729	1,856	1,987	2,127	2,279
Grants	152	0	0	72	98	266	266	0	285	308	331	354	379	406
Expenditure and net lending 1/	65,259	66,076	65,080	65,939	68,412	73,203	74,299	74,296	71,283	75,794	80,356	84,927	90,507	95,669
Current expenditure	55,202	57,670	60,255	60,190	62,491	65,553	66,572	66,808	64,073	68,042	72,106	76,139	81,162	85,735
Personnel	23,961	26,738	29,141	29,317	29,584	29,451	28,710	28,736	29,763	30,994	31,398	33,608	35,980	38,539
Goods and services	10,794	10,281	6,886	6,952	8,510	9,125	9,941	9,729	9,180	9,929	10,662	11,412	12,218	13,087
Interest payments and borrowing charges	2,630	4,312	5,430	6,014	6,887	7,025	7,737	7,737	7,308	8,251	10,104	10,978	11,402	11,014
Domestic	2,031	2,831	3,638	4,066	4,674	4,617	4,801	4,800	4,583	5,590	7,335	8,133	8,786	9,254
Foreign	593	1,479	1,785	1,944	2,203	2,397	2,937	2,936	2,714	2,651	2,759	2,835	2,605	1,750
Borrowing related charges	7	2	8	4	11	11			11	11	11	11	11	11
Subsidies, transfers and guarantees	17,817	16,339	18,798	17,906	17,510	19,952	20,184	20,606	17,822	18,868	19,942	20,140	21,562	23,095
of which COVID-19 related						1,172								
Capital expenditures 2/	10,050	8,396	4,865	5,812	5,909	7,638	7,727	7,488	7,198	7,738	8,236	8,773	9,329	9,917
Acquisition of capital assets	7,441	7,537	3,839	5,032	4,736	4,727	4,727	4,727	5,293	5,726	6,148	6,581	7,045	7,546
Project Finance (extrabudgetary)	684	0	0	0	257	1,526	1,526	1,526	990	990	990	1,030	1,030	1,030
Capital transfers	1,925	860	1,025	779	916	1,385	1,473	1,235	915	1,022	1,098	1,163	1,254	1,341
Net lending	7	10	-40	-62	11	11			12	13	14	15	16	17
Overall balance 2/	-13,043	-15,227	-6,312	-10,119	-9,887	-15,808	-19,120	-22,899	-16,734	-14,755	-8,176	-7,150	-6,946	-5,837
Primary balance	-10,412	-10,915	-881	-4,105	-3,000	-8,782	-11,382	-15,162	-9,426	-6,504	1,928	3,828	4,456	5,177
Measures (to be specified)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
After measures														
Overall balance 2/	-13,043	-15,227	-6,312	-10,119	-9,887	-15,808	-19,120	-22,899	-16,734	-14,755	-8,176	-7,150	-6,946	-5,837
Primary balance	-10,412	-10,915	-881	-4,105	-3,000	-8,782	-11,382	-15,162	-9,426	-6,504	1,928	3,828	4,456	5,177
Financing	13,614	16,301	7,564	8,813	11,255	9,276			24,910	14,759	8,179	7,153	6,949	5,839
Domestic financing (net)	1,902	16,169	4,846	6,123	11,339	6,946			21,730	14,338	7,445	6,392	6,797	5,632
of which: Accounts Payable	0	3,864	-3,864	0	3,800	-3,800			0	0	0	0	0	0
External financing (net)	13,398	132	2,718	2,690	-84	2,331			-4,991	421	734	762	152	51
Disbursements	13,484	492	3,000	3,000	257	3,526			3,490	2,540	1,490	1,530	14,570	1,374
Project loans	684	0	0	0	257	1,526			990	990	990	1,030	1,030	1,030
External bond	12,800	492	0	0	0	0			0	1,550	500	500	13,540	344
Budget support loan						2,000			2,500					
Amortization	-86	-360	-282	-310	-341	-1,195			-8,481	-2,119	-756	-768	-14,418	-1,323
Financing Gap						**6,532**			**-4**	**-4**	**-3**	**-3**	**-3**	**-2**
Anticipated Financing						**6,533**								
IMF RFI						**4,033**								
AfDB COVID Facility						**2,500**								
Residual financing gap						-1								
Discrepancy	572	1,074	1,252	-1,306	1,369	0			0	0	0	0	0	0
Memorandum items:														
Primary Balance (excluding SACU receipts)	-27,767	-24,986	-20,478	-21,480	-21,922	-31,034	-33,634	-37,413	-24,176	-22,109	-20,360	-20,021	-21,085	-22,180
Primary Balance (excluding SACU and mineral revenues)	-31,336	-27,966	-23,679	-24,628	-24,318	-33,219	-35,550	-39,036	-27,282	-26,038	-24,773	-25,052	-26,749	-28,565
Public and publicly guaranteed debt	68,604	81,030	86,244	102,242	119,775	128,632	132,456		145,598	163,401	174,247	183,448	192,294	200,306
Public debt	61,459	72,282	75,198	91,260	107,465	113,902	119,756		128,398	143,555	152,290	159,945	167,132	173,355
Domestic 3/	34,010	47,237	49,775	59,037	70,780	72,089	75,832		88,337	102,550	109,995	116,386	123,183	128,815
External	27,450	25,045	25,423	32,224	36,685	41,814	43,924		40,062	41,005	42,295	43,559	43,949	44,540
GDP at market prices (Fiscal Year)	148,941	161,173	173,930	181,065	179,293	176,394	174,063	171,133	189,052	204,487	219,573	235,030	251,619	269,511

Sources: Namibian authorities; and Fund staff estimates and projections. Fiscal year: April-March.

1/ FY16/17 expenditures include domestic arrears incurred in the year and paid in FY17/18; similarly, expenditures in FY19/20 include domestic arrears incurred in the year and paid in FY20/21.

2/ Includes externally financed project spending not channeled through the state account. For 2017/18 and 2018/19, it also includes capital expenditures originally classified outside the budget (about and 0.7 percent of GDP in FY17/18 and 0.5 percent of GDP in 2018/19.

3/ Includes short-term loans from the central bank

Table 3b. Namibia: Fiscal Operations of the Central Government, 2015/16–2026/27

(Percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
						Proj	Mid-year Budget	Budget	Proj	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	35.1	31.5	33.8	30.8	32.6	32.5	31.7	30.0	28.9	29.8	32.9	33.1	33.2	33.3
Revenue	35.0	31.5	33.8	30.8	32.6	32.4	31.7	30.0	28.7	29.7	32.7	32.9	33.1	33.2
Tax revenue	32.8	29.5	31.4	28.8	30.6	30.8	29.7	28.3	26.6	27.2	30.2	30.4	30.5	30.6
Personal income tax	7.2	7.4	7.6	7.5	7.9	7.0	7.0	5.6	7.2	7.3	7.5	7.5	7.5	7.5
Corporate income tax	5.2	4.8	4.5	4.0	4.0	4.1	3.3	2.8	4.1	4.4	4.4	4.6	4.7	4.8
o/w Diamond mining	1.5	1.0	1.0	0.8	0.6	0.7	0.6	0.4	0.8	0.9	1.0	1.1	1.1	1.2
VAT and sales taxes	8.1	7.7	7.2	6.9	7.3	6.5	5.9	6.1	6.8	7.1	7.4	7.4	7.4	7.4
Taxes on international trade (includes SACU receipts)	11.7	8.7	11.3	9.6	10.6	12.6	12.8	13.0	7.8	7.6	10.2	10.1	10.2	10.2
Other taxes	0.7	0.8	0.7	0.8	0.8	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Nontax revenue	2.1	2.0	2.4	2.0	2.0	1.5	1.9	1.7	2.1	2.5	2.5	2.5	2.6	2.6
Diamond and other mineral royalties	0.9	0.8	0.9	0.9	0.7	0.6	0.5	0.5	0.8	1.0	1.0	1.1	1.1	1.1
Administrative fees, including license revenues	0.4	0.6	0.7	0.7	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other	0.8	0.6	0.8	0.4	0.7	0.5	0.8	0.6	0.6	0.8	0.8	0.8	0.8	0.8
Grants	0.1	0.0	0.0	0.0	0.1	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Expenditure and net lending 1/	43.8	41.0	37.4	36.4	38.2	41.5	42.7	43.4	37.7	37.1	36.6	36.1	36.0	35.5
Current expenditure	37.1	35.8	34.6	33.2	34.9	37.2	38.2	39.0	33.9	33.3	32.8	32.4	32.3	31.8
Personnel	16.1	16.6	16.8	16.2	16.5	16.7	16.5	16.8	15.7	15.2	14.3	14.3	14.3	14.3
Goods and services	7.2	6.4	4.0	3.8	4.7	5.2	5.7	5.7	4.9	4.9	4.9	4.9	4.9	4.9
Interest payments	1.8	2.7	3.1	3.3	3.8	4.0	4.4	4.5	3.9	4.0	4.6	4.7	4.5	4.1
Domestic	1.4	1.8	2.1	2.2	2.6	2.6	2.8	2.8	2.4	2.7	3.3	3.5	3.5	3.4
Foreign	0.4	0.9	1.0	1.1	1.2	1.4	1.7	1.7	1.4	1.3	1.3	1.2	1.0	0.6
Subsidies, transfers and guarantees	12.0	10.1	10.8	9.9	9.8	11.3	11.6	12.0	9.4	9.2	9.1	8.6	8.6	8.6
of which COVID-19 related						0.7								
Capital expenditure	6.7	5.2	2.8	3.2	3.3	4.3	4.4	4.4	3.8	3.8	3.8	3.7	3.7	3.7
Acquisition of capital assets	5.0	4.7	2.2	2.8	2.6	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Project Financed (extrabudgetary)	0.5	0.0	0.0	0.0	0.1	0.9	0.9	0.9	0.5	0.5	0.5	0.4	0.4	0.4
Capital transfers	1.3	0.5	0.6	0.4	0.5	0.8	0.8	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 2/	-8.8	-9.4	-3.6	-5.6	-5.5	-9.0	-11.0	-13.4	-8.9	-7.2	-3.7	-3.0	-2.8	-2.2
Primary balance	-7.0	-6.8	-0.5	-2.3	-1.7	-5.0	-6.5	-8.9	-5.0	-3.2	0.9	1.6	1.8	1.9
Overall balance 2/	-8.8	-9.4	-3.6	-5.6	-5.5	-9.0	-11.0	-13.4	-8.9	-7.2	-3.7	-3.0	-2.8	-2.2
Primary balance	-7.0	-6.8	-0.5	-2.3	-1.7	-5.0	-6.5	-8.9	-5.0	-3.2	0.9	1.6	1.8	1.9
Financing	9.1	10.1	4.3	4.9	6.3	5.3			13.2	7.2	3.7	3.0	2.8	2.2
Domestic financing (net)	1.3	10.0	2.8	3.4	6.3	3.9			11.5	7.0	3.4	2.7	2.7	2.1
of which: Accounts Payable	0.0	2.4	-2.2	0.0	2.1	-2.2			0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	9.0	0.1	1.6	1.5	0.0	1.3			-2.6	0.2	0.3	0.3	0.1	0.0
Disbursements	9.1	0.3	1.7	1.7	0.1	2.0			1.8	1.2	0.7	0.7	5.8	0.5
Project loans	0.5	0.0	0.0	0.0	0.1	0.9			0.5	0.5	0.5	0.4	0.4	0.4
External bond	8.6	0.3	0.0	0.0	0.0	0.0			0.0	0.8	0.2	0.2	5.4	0.1
Budget support loan						1.1			1.2	0.0	0.0	0.0	0.0	1.0
Amortization	-0.1	-0.2	-0.2	-0.2	-0.2	-0.7			-4.5	-1.0	-0.3	-0.3	-5.7	-0.5
Financing Gap						**3.7**			**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Anticipated Financing						**3.7**								
IMF RFI						**2.3**								
AfDB COVID Facility						**1.4**								
Residual financing gap						**0.0**								
Discrepancy	0.4	0.7	0.7	-0.7	0.8	0.0			0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Primary Balance (excluding SACU receipts)	-18.6	-15.5	-11.8	-11.9	-12.2	-17.6			-12.8	-10.8	-9.3	-8.5	-8.4	-8.2
Primary Balance (excluding SACU and mineral revenues)	-21.0	-17.4	-13.6	-13.6	-13.6	-18.8			-14.4	-12.7	-11.3	-10.7	-10.6	-10.6
Public and publicly guaranteed debt	46.1	50.3	49.6	56.5	66.8	72.9			77.0	79.9	79.4	78.1	76.4	74.3
Public debt	41.3	44.8	43.2	50.4	59.9	64.6			67.9	70.2	69.4	68.1	66.4	64.3
Domestic 3/	22.8	29.3	28.6	32.6	39.5	40.9			46.7	50.1	50.1	49.5	49.0	47.8
External	18.4	15.5	14.6	17.8	20.5	23.7			21.2	20.1	19.3	18.5	17.5	16.5

Sources: Namibian authorities and Fund staff estimates and projections. Fiscal year: April-March

1/ FY16/17 expenditures include domestic arrears incurred in the year and paid in FY17/18; similarly, expenditures in FY19/20 include domestic arrears incurred in the year and paid in FY20/21.

2/ Includes externally financed project spending not channeled through the state account. For 2017/18 and 2018/19, it also includes capital expenditures originally classified outside the budget (about and 0.7 percent of GDP in FY17/18 and 0.5 percent of GDP in 2018/19.

3/ Includes short-term loans from the central bank

Table 4. Namibia: Monetary Accounts, 2015–2026[1/]

(N$ millions, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.	Proj	Proj	Proj	Proj	Proj	Proj
Central Bank												
Reserve money	6,372	7,945	8,761	9,256	7,081	7,766	8,154	8,840	9,502	10,171	10,887	11,653
Currency	4,495	4,394	4,658	4,521	4,518	4,955	5,203	5,640	6,063	6,490	6,946	7,435
Reserves	1,877	3,551	4,103	3,735	2,563	2,811	2,952	3,200	3,440	3,682	3,941	4,218
Net foreign assets	24,275	24,329	26,255	28,374	25,015	28,435	26,527	28,714	31,376	36,165	40,265	43,338
Net domestic assets	-17,903	-16,384	-17,495	-20,118	-17,934	-20,668	-18,372	-19,874	-21,874	-25,993	-29,378	-31,685
Monetary survey												
Currency	3,042	2,884	3,096	2,936	2,873	3,414	3,589	3,923	4,251	4,586	4,947	5,334
Deposits	78,892	83,065	94,981	101,409	112,463	123,083	131,427	142,439	153,084	163,822	175,315	187,606
Net foreign assets	29,792	26,502	31,197	38,234	36,710	40,660	40,355	42,886	45,914	51,037	55,213	58,361
Net domestic assets	52,142	59,447	66,881	66,111	76,512	85,837	94,661	103,476	111,421	117,372	125,049	134,578
Domestic credit	83,316	95,879	105,557	113,509	127,622	129,759	141,590	152,416	163,688	174,909	186,841	199,717
Claims on central government (net)	-1,608	3,905	9,020	9,929	17,344	19,922	25,301	27,433	29,237	30,907	32,635	34,497
Claims on private sector	78,863	85,606	89,902	96,386	103,211	102,739	108,562	116,509	125,244	134,059	143,495	153,698
Others	6,061	6,368	6,634	7,194	7,067	7,098	7,727	8,475	9,206	9,943	10,712	11,521
Other items (net) 2/	-31,174	-36,432	-38,676	-47,398	-51,109	-43,923	-46,929	-48,940	-52,267	-57,537	-61,792	-65,138
Monetary base	6,372	7,945	8,761	9,256	7,081	7,766	8,154	8,840	9,502	10,171	10,887	11,653
Currency outside banks	4,495	4,394	4,658	4,521	4,518	4,955	5,203	5,640	6,063	6,490	6,946	7,435
Commercial bank deposits	1,877	3,551	4,103	4,735	2,563	2,811	2,952	3,200	3,440	3,682	3,941	4,218
	percent of GDP											
Credit to the private sector	54.0	54.3	52.4	53.2	56.9	59.2	58.6	58.0	58.0	58.0	58.0	58.0
Monetary base	4.4	5.0	5.1	5.1	3.9	4.5	4.4	4.4	4.4	4.4	4.4	4.4
Broad money (M2)	56.1	54.5	57.2	57.6	63.6	72.9	72.9	72.9	72.9	72.9	72.9	72.9
	percentage change											
Credit to the private sector	13.8	8.6	5.0	7.2	7.1	-0.5	5.7	7.3	7.5	7.0	7.0	7.1
Monetary base	-5.0	24.7	10.3	5.7	5.0	9.7	5.0	8.4	7.5	7.0	7.0	7.0
Broad money (M2)	10.2	4.9	14.1	6.4	10.5	9.7	6.7	8.4	7.5	7.0	7.0	7.0
Memorandum items:												
Velocity	1.8	1.8	1.7	1.7	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Money multiplier	12.9	10.8	11.2	11.3	16.3	16.3	16.6	16.6	16.6	16.6	16.6	16.6
Exchange rate (N$/US$)	15.6	13.7	12.3	14.4	14.0	14.7	...	...	...	...	...	...
Domestic interest rates (end of period)												
Deposit rate	4.9	5.7	6.1	5.6	5.5	3.3	...	...	...	...	...	...
Lending rate	9.3	9.9	10.0	10.1	10.1	6.9	...	...	...	...	...	...
BoN repo rate	6.5	7.0	6.8	6.8	6.5	3.8	...	...	...	...	...	...
Three-month T-bill rate	7.3	8.6	7.7	7.7	7.4	4.1	...	...	...	...	...	...

Sources: Namibian authorities and Fund staff estimates and projections.

1/ End of period.

2/ Including valuation.

Table 5. Namibia: Financial Sector Indicators, 2010–20

(Percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Mar-20	Jun-20	Sep-20
Banking indicators													
Capital adequacy													
Capital to assets	10.7	10.9	10.6	11.1	11.3	11.4	11.5	11.7	11.4	9.3	9.4	9.2	9.4
Regulatory capital to risk-weighted assets	15.3	14.0	14.2	14.4	14.7	14.3	15.1	15.5	16.8	15.3	15.5	15.2	15.1
Regulatory tier I capital to risk-weighted assets	11.1	10.8	10.9	11.5	11.9	11.8	12.4	12.6	13.9	13.0	13.1	12.9	13.1
Asset quality													
Large exposure to capital	142	155	146	120	148	138	125	141.0	135.5	211.9	180.5	180.5	171.5
Nonperforming loans to total gross loans	2.0	1.5	1.3	1.3	1.2	1.6	1.5	2.5	3.6	4.6	5.2	5.7	6.4
Earnings and profitability													
Trading income to total income	3.5	9.3	7.0	6.5	5.7	6.5	4.6	4.8	5.1	7.5	7.7	11.1	7.0
Return on assets 1/	3.2	3.2	3.1	3.1	3.4	3.7	3.5	3.0	2.9	2.8	2.8	2.3	2.0
Return on equity 1/	32.0	31.9	32.3	31.9	33.8	36.0	32.6	28.0	25.0	17.4	17.4	14.2	12.4
Interest margin to gross income	51.3	54.2	55.5	54.7	56.8	57.4	56.7	55.1	56.7	56.4	56.5	54.5	53.2
Noninterest expenses to gross income	57.3	52.3	56.6	54.8	52.7	51.6	51.0	54.3	55.7	56.9	55.9	65.5	61.7
Personnel expenses to noninterest expenses	49.5	51.5	52.3	50.3	49.7	50.4	49.5	53.7	51.0	52.3	53.4	52.3	52.9
Liquidity													
Liquid assets to total assets	10.9	14.0	11.8	11.8	12.7	12.1	11.9	13.9	13.6	13.3	13.0	15.0	13.5
Liquid assets to short-term liabilities	19.1	22.2	20.7	19.7	20.9	21.9	23.5	26.5	27.9	27.5	27.2	30.3	26.0
Customer deposits to total (non-interbank) loans	106.3	114.7	106.4	102.5	98.6	95.2	95.4	97.0	97.3	98.8	97.7	103.1	102.7
Exposure to foreign exchange risk													
Net open position in foreign exchange to capital	1.1	2.7	2.4	2.6	2.7	5.1	2.7	2.6	7.6	5.3	4.2	2.0	2.0
Foreign currency-denominated loans to total loans	0.1	0.3	1.3	2.0	1.4	1.5	0.9	0.5	0.2	0.2	0.2	0.1	0.1
Foreign currency-denominated liabilities to total liabilities	3.7	1.9	2.5	3.7	3.3	3.7	2.8	4.7	3.7	3.8	4.6	5.6	5.9
Memorandum item:													
Holdings government debt to risk-weighted assets	7.8	16.0	13.7	12.8	10.9	13.0	13.9	16.9	18.8	23.3	23.0	-	-

Sources: Bank of Namibia and IMF staff estimates. 2020 Q3 data is preliminary.

1/ Before taxes.

Table 6. Namibia: External Financing Requirements and Sources
(Millions of U.S. Dollars)

	2020	2021	2022	2023	2024	2025	2026
	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
1. Gross financing requirements	-143	1205	613	237	218	923	203
Current account balance	-103	795	469	161	28	29	100
Capital account balance	-113	-108	-114	-125	-127	-133	-140
Debt amortization	73	518	126	44	44	797	71
Gross reserve accumulation	0	0	132	157	272	229	171
2. Available financing	-143	758	613	237	218	923	203
Foreign direct investment, net	-150	103	167	174	184	192	201
Portfolio investment	-36	221	-84	-86	-118	-139	-136
Other investment*	-74	353	530	150	151	870	138
Use of reserves	117	81.0	0	0	0	0	0
3. Exceptional financing	0	447	0	0	0	0	0
IMF RFI	0	276	0	0	0	0	0
AfDB	0	171	0	0	0	0	0

*Includes loans, net acquisition of financial assets, currency and deposits, trade credits and advances.
Sources: Namibian authorities and Fund staff estimates and projections.

Table 7. Namibia: Indicators of Capacity to Repay the IMF, 2021–26
(As of January 07, 2021; SDR millions, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026
Fund obligations based on existing credits						
(in millions of SDRs)						
Principal	0	0	0	0	0	0
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit						
(in millions of SDRs)						
Principal	0.0	0.0	0.0	71.7	95.6	23.9
Charges and interest	2.5	2.2	2.2	2.1	1.1	0.2
Outstanding credit based on existing and prospective drawings						
In millions of SDRs	191.1	191.1	191.1	119.4	23.9	0.0
In percent of exports of goods and services	7.0	6.0	5.7	3.4	0.6	0.0
In percent of debt service	9.0	9.9	10.1	6.4	1.0	0.0
In percent of GDP	2.5	2.3	2.2	1.3	0.3	0.0
In percent of Gross International Reserves	14.3	13.6	12.8	7.2	1.3	0.0
In percent of quota	100.0	100.0	100.0	62.5	12.5	0.0
Outstanding credit based on existing drawings						
In millions of SDRs	0	0	0	0	0	0
In percent of exports of goods and services	0	0	0	0	0	0
In percent of debt service	0	0	0	0	0	0
In percent of GDP	0	0	0	0	0	0
In percent of Gross International Reserves	0	0	0	0	0	0
In percent of quota	0	0	0	0	0	0
Net use of Fund credit (in millions of SDRs)	191.1	0.0	0.0	-71.7	-95.6	-23.9
Disbursements	191.1	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	71.7	95.6	23.9
Memorandum items:						
Exports of goods and services (millions of US$)	3967	4585	4872	5120	5343	5514
External debt service (millions of US$)	3082	2807	2749	2721	3451	3606
Nominal GDP (millions of US$)	11299	11965	12536	13083	13660	14273
Gross international reserves (millions of US$)	1932	2041	2173	2420	2644	2808
Quota (millions of SDR)	191	191	191	191	191	191

Source: IMF staff estimates and projections

Annex I. Debt Sustainability Analysis

The COVID-19 crisis has severely deteriorated Namibia's short-term macroeconomic outlook, with real output expected to sharply contract in 2020 and the external and fiscal positions to worsen. The authorities had to halt the fiscal consolidation achieved in recent years to accommodate their COVID-19 policy response. As a result, public debt and financing needs are expected to sharply increase in the near term, beyond the MAC DSA benchmarks for emerging markets. In view of this, the authorities have adopted in the October 2020 mid-year budget review a medium-term fiscal consolidation framework to preserve debt sustainability. Namibia' debt dynamics are sustainable, though vulnerabilities have increased due to the COVID-19 shock and risks to the debt outlook are significant. Gross financing needs will remain large in the short-term and then gradually decline. This assumes a gradual recovery of the Namibian economy in 2021 and the implementation of the planned medium-term growth-supporting fiscal consolidation, underpinned by containing the wage bill and a reform of SOEs. A stronger and more protracted impact of the COVID-19 crisis, delays in the implementation of the planned medium-term fiscal consolidation, or shortfalls in the planned debt swap to repay the 2010 Eurobond due in FY21/22 would increase financing needs and deteriorate debt dynamics. However, a faster-than-anticipated recovery of the Namibian economy would improve it.

A. Public Debt[1]

Background

1. **While the public debt ratio has been rising since 2010, the pace of the increase had slowed down in the last years, reflecting the authorities' fiscal consolidation efforts.** During FY10/11–FY19/20, Namibia's public debt-to-GDP ratio increased from 16 percent of GDP to 59.9 percent of GDP, as the primary deficit averaged about 4.1 percent of GDP. Sharp increases in current spending, particularly the wage bill and transfers to SOEs, contributed to large fiscal deficits and to increasing debt. By FY15/16, public debt exceeded the authorities' own debt management ceiling (35 percent of GDP). In response, the authorities started to implement in FY16/17 a medium-term fiscal consolidation plan, which reduced primary spending by about 8 percent of GDP by FY19/20. Despite the authorities' efforts to contain public spending, large primary deficits were recorded due to subdued growth and volatile SACU tax revenues. Moody's downgraded Namibia to Ba3 in December 2020, to account for the impact of the COVID-19 crisis.

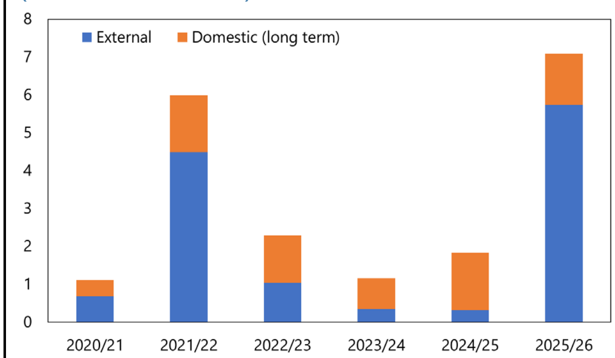
2. **In response to rising gross financing needs, the authorities have been diversifying their funding sources and borrowing instruments, increasing external borrowing and extending maturities of domestic debt.** During FY16/17–FY19/20, gross financing needs averaged 19.2 percent of GDP, above the 15 percent of GDP MAC DSA benchmarks for emerging markets. In 2015, they issued a US$750 million ten-year Eurobond; during 2015–2016, they issued rand-denominated bonds for about R2 million; and in 2017–20 used an AfDB's budget support facility. At the same time, they expanded their domestic debt maturity structure with 30-year

[1] The analysis of public debt is based on fiscal year (April 1–March 31).

instruments. The domestic market remains the government's main source of financing. Banks tend to buy short-term debt, while non-bank financial institutions focus on the long-term fixed rate and, to a lesser extent, inflation-indexed debt instruments. Moreover, the authorities enforced in 2018 a regulatory change increasing the minimum required investment in domestic assets for pension funds and other institutional investors from 35 to 45 percent of assets. This resulted in increased domestic market absorption and a tighter financial-sovereign nexus that are expected to continue in the near to medium term along with large projected financing needs.

3. **Namibia's public debt amortization schedule carries significant rollover risks.** In FY19/20, domestic short-term debt was about 44 percent of domestic debt and 29 percent of total debt. While the recent recourse to external borrowing has reduced reliance on short-term debt and extended the average debt maturity, it has created spikes in the amortization needs, notably in FY21/22 and FY25/26 when the 2010 Eurobond (US$500 million) and 2015 Eurobond (US$750 million), respectively, will mature. This change in composition has also increased foreign exchange risks, although non-rand foreign currency debt remains low at about 17 percent of total debt in FY19/20. The authorities are planning to repay the 2010 Eurobond, while reducing exchange rate risk, through the issuance of domestic debt.

Namibia: Long-term Debt Amortization Profile
(Percent of FY GDP)



Source: IMF staff estimates.

Outlook and Risks

4. **Namibia's debt dynamics are sustainable but risks to the debt outlook are significant.** Public debt will sharply increase to 64.6 percent of GDP in FY20/21, reflecting the widening of the fiscal deficit to accommodate the COVID-19 crisis response and an anticipated contraction of real output by 7.2 percent.[2] Moving forward, Namibia will continue facing significant financing pressures, with the repayment of the 2010 Eurobond (US$500 million) due in FY21/22 and SACU revenues expected to sharply decline. In view of this, the authorities have adopted in the October 2020 mid-year budget review a medium-term fiscal consolidation framework to preserve debt sustainability. A gradual recovery of the Namibian economy and the implementation of the planned medium-term growth-supporting fiscal consolidation will help stabilize debt over the medium term. This will be underpinned by containing the wage bill, improving the performance and management of SOEs and selected divesting. As such, the public debt-to-GDP ratio is expected to peak at 70.2 percent in FY22/23 and then gradually decline to 64.3 percent in FY26. The authorities have a track record of implementing fiscal consolidation during FY16/17–FY19/20. Gross financing needs will gradually decline but remain large over the medium-term. A stronger and more protracted impact of the

[2] About half of the residual in FY20/21 is explained by the exchange rate appreciation at end-March 2020 and the rest on the withdrawals on government deposits to finance budgetary needs.

COVID-19 crisis could further worsen macroeconomic outlook, increase financing needs and worsen debt dynamics.

5. Alternative scenarios and stress analysis point to additional vulnerabilities to macro and contingent liability shocks (Figures A4–A5). An extreme scenario of a combined macro-fiscal shock—entailing shocks to growth and interest rates, and a temporary lower primary balance (which could be triggered by lower SACU revenue)—would result in the debt-to-GDP ratio exceeding 94 percent of GDP in FY23/24 and gross financing needs reaching 33.2 percent of GDP in FY21/22. Similarly, a contingent liability shock (with default of 80 percent on all guaranteed debt, equivalent to 5.4 percent of GDP), combined with contracting real GDP, would lead to a debt level and gross financing needs peaking at 81.6 and 34.7 percent of GDP, respectively, in FY21/22 and FY22/23.

6. The heat map, which summarizes the risk assessment of Namibia's debt and gross financing needs (Figure A1), points to significant risks. All shock scenarios for the debt level and gross financing needs flash red, notably reflecting the already high debt level and financing needs under the baseline. Mitigating factors are the large domestic institutional investor base and market appetite for long maturities, the low share of foreign currency debt, and relatively favorable market conditions.

B. External Debt[3]

7. Namibia's external debt has been increasing during 2013–2019. The stock of public external debt-to-GDP ratio more than doubled, reaching 20.2 percent of GDP at end-2019, due to both new external borrowing and exchange rate depreciation. Private sector external debt, mostly constituted by loans to fellow enterprises in the mining sector, also increased. Most external debt has long and medium-term maturities. Namibia's public external debt is mostly owed to commercial creditors (international investors) and multilateral official creditors (Table A1).

Namibia's External Debt
(Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019
Total	38.8	44.2	49.6	60.9	66.4	61.8	66.8
Public (without guarantees)	8.3	8.2	13.2	17.5	16.0	15.5	20.2
Private	30.5	36.0	36.4	43.5	50.5	46.2	46.6
By maturity							
Short-term	8.5	8.2	5.2	6.4	7.8	7.5	8.0
Long and medium-term	30.3	36.0	44.4	54.5	58.6	54.3	58.8

Sources: BoN, and IMF staff estimates

[3] The analysis of external debt is based on the calendar year.

Namibia: Structure of External Public Debt

	FY2018			FY2019		
	USD (million)	% of total	% of GDP	USD (million)	% of total	% of GDP
Bilateral official creditors	209	5.1	1.7	186	4.9	1.9
Multilateral official creditors	557	13.6	4.5	448	11.7	4.5
Of which AfDB	414	10.1	3.3	350	9.2	3.5
Commercial creditors	1459	35.6	11.7	1417	37.1	14.1
Eurobonds	1259	30.7	10.1	1255	32.9	12.5
JSE listed bond	200	4.9	1.6	162	4.2	1.6
Total	4098		32.8	3818		38.1

Sources: Namibian authorities; and IMF Staff calculations.

8. **Namibia's external debt is expected to increase in 2020, to then decline over time gradually.** External debt would pick-up and reach 81.7 percent of GDP in 2020, with public external debt increasing sharply to 26.2 percent of GDP and private external debt increasing to 55.4 percent of GDP. This would reflect large public external borrowing to fill exceptional budgetary needs to respond to the COVID-19 crisis, the sizable financial outflows and the sharp real output contraction. Starting in 2021, external debt is expected to gradually decline, reaching the pre-COVID-19 crisis level by 2025, along with growth recovery and improvement in the current account position (Table A1). Gross external financing needs are expected to remain large but gradually decline over the medium-term, averaging 25 percent of GDP.

9. **Sensitivity tests suggest that the external debt is vulnerable to current account shocks**. If the non-interest current account deficit widened by 2.5 percent of GDP (1/2 standard deviation shock) during the projection period (e.g. due to a persistent shock to the terms of trade or SACU revenues), external debt would increase to about 89 percent of GDP by 2025. The impact of real interest rate shocks is small due to the sizeable share of fixed-rate debt. The sensitivity of external debt to exchange rate depreciation is limited. A 30 percent exchange rate depreciation in 2021 would increase external debt by about 9 percent of GDP compared to the baseline.

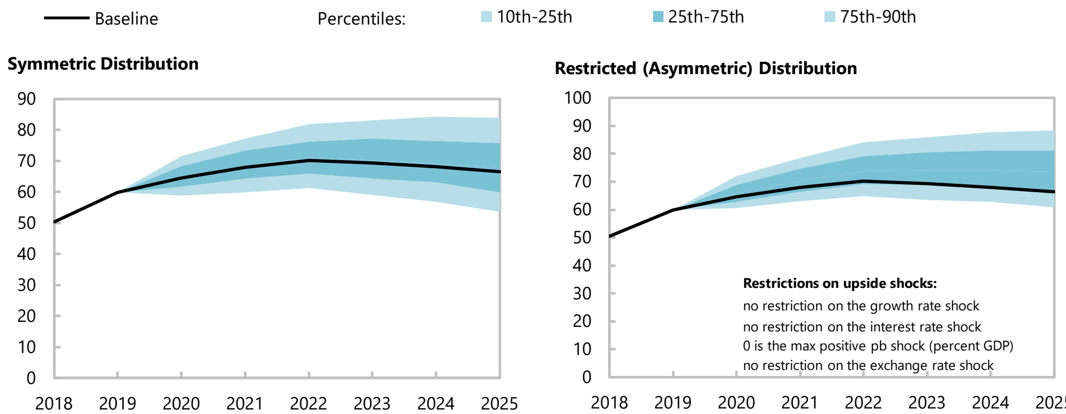
Figure A1. Namibia: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

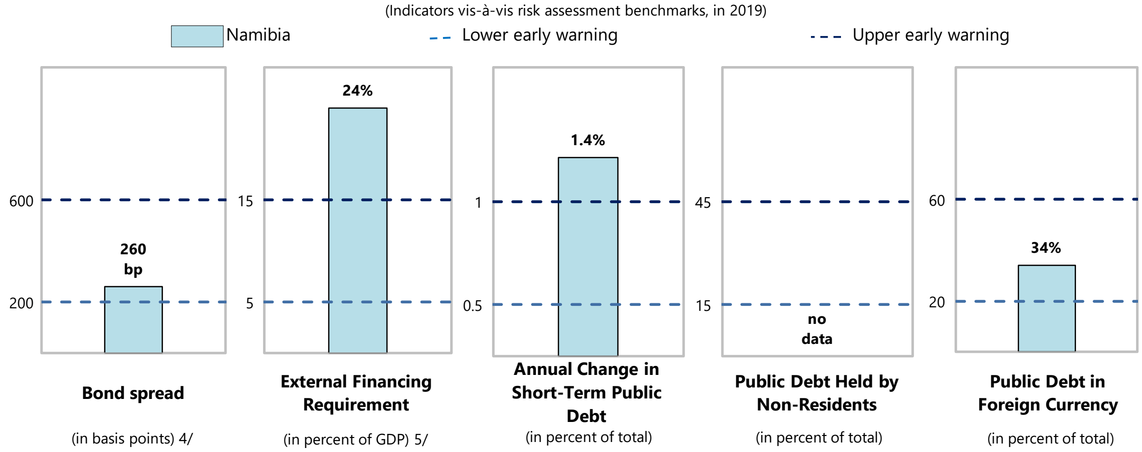
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

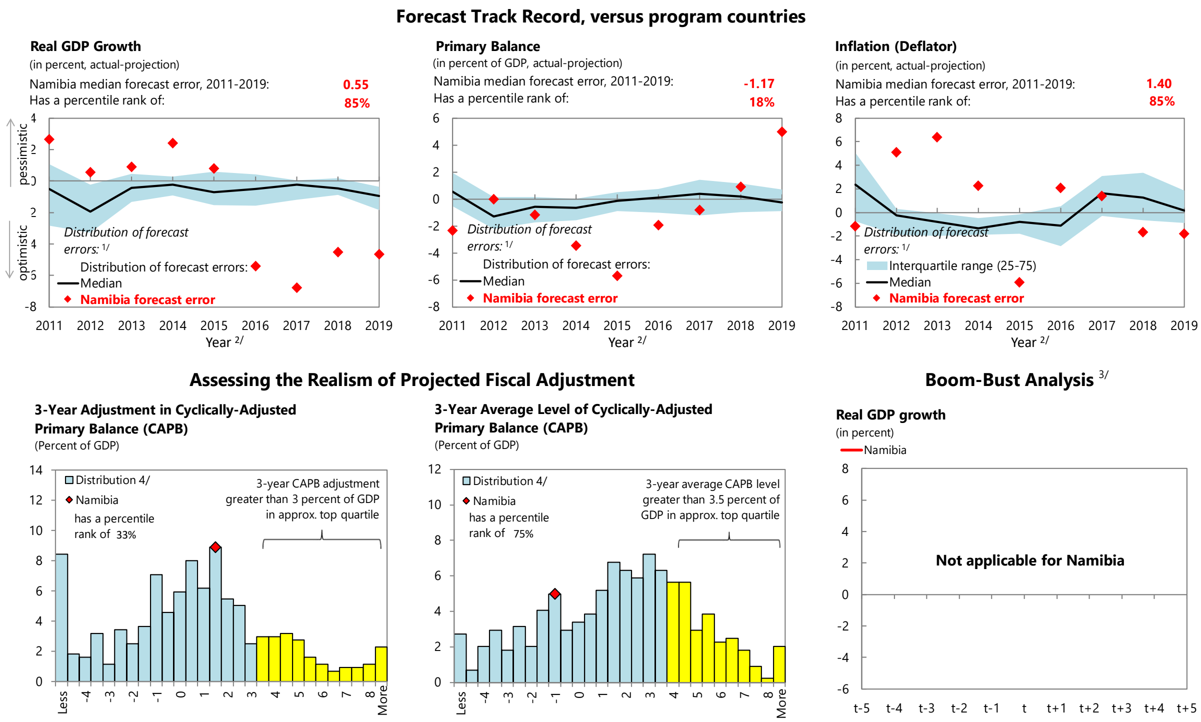
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 13-Oct-20 through 11-Jan-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure A2. Namibia: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Namibia, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A3. Namibia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

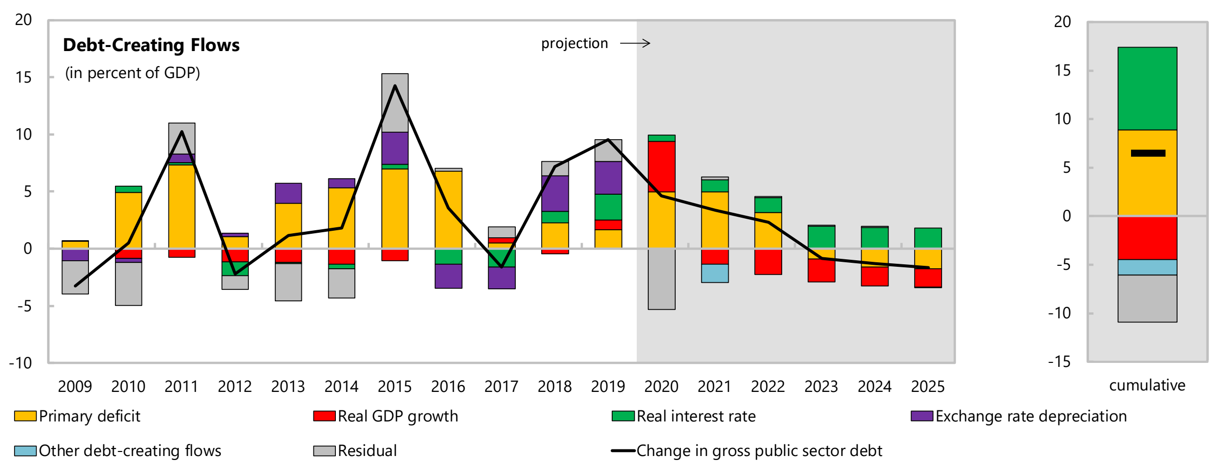
	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	29.2	50.4	59.9	64.6	67.9	70.2	69.4	68.1	66.4
Public gross financing needs	8.4	17.7	18.5	25.6	28.2	23.6	19.1	19.1	24.1
Real GDP growth (in percent)	3.5	1.1	-1.6	-7.2	2.2	3.6	3.1	2.5	2.5
Inflation (GDP deflator, in percent)	6.7	3.0	0.7	6.1	4.8	4.4	4.2	4.4	4.4
Nominal GDP growth (in percent)	10.4	4.1	-1.0	-1.6	7.2	8.2	7.4	7.0	7.0
Effective interest rate (in percent) [4/]	7.5	8.0	7.5	6.5	6.7	6.6	7.3	7.4	7.4

As of January 11, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		281
5Y CDS (bp)		409
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	n.a.	n.a.
Fitch	BB	BB

Contribution to Changes in Public Debt

	Actual			Projections						
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative
Change in gross public sector debt	2.7	7.2	9.5	4.6	3.3	2.3	-0.8	-1.3	-1.6	6.5
Identified debt-creating flows	3.2	5.9	7.6	9.9	3.1	2.2	-0.9	-1.4	-1.6	11.4
Primary deficit	4.2	2.3	1.7	5.0	5.0	3.2	-0.9	-1.6	-1.8	8.9
Primary (noninterest) revenue and grants	32.6	30.8	32.6	32.5	28.9	29.9	32.9	33.1	33.2	190.4
Primary (noninterest) expenditure	36.7	33.1	34.3	37.5	33.8	33.0	32.0	31.5	31.5	199.3
Automatic debt dynamics [5/]	-0.9	3.6	6.0	5.0	-0.3	-1.0	-0.1	0.3	0.2	4.1
Interest rate/growth differential [6/]	-1.1	0.5	3.1	5.0	-0.3	-1.0	-0.1	0.3	0.2	4.1
Of which: real interest rate	-0.4	1.0	2.3	0.6	1.0	1.3	1.9	1.9	1.8	8.5
Of which: real GDP growth	-0.7	-0.5	0.8	4.4	-1.4	-2.3	-2.0	-1.6	-1.6	-4.4
Exchange rate depreciation [7/]	0.1	3.1	2.9	…	…	…	…	…	…	…
Other identified debt-creating flows	0.0	0.0	0.0	0.0	-1.6	0.0	0.0	0.0	0.0	-1.6
Privatization Proceeds (negative)	0.0	0.0	0.0	0.0	-1.6	0.0	0.0	0.0	0.0	-1.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes [8/]	-0.5	1.3	1.9	-5.3	0.3	0.1	0.1	0.1	-0.1	-4.9

debt-stabilizing primary balance [9/]
0.2



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

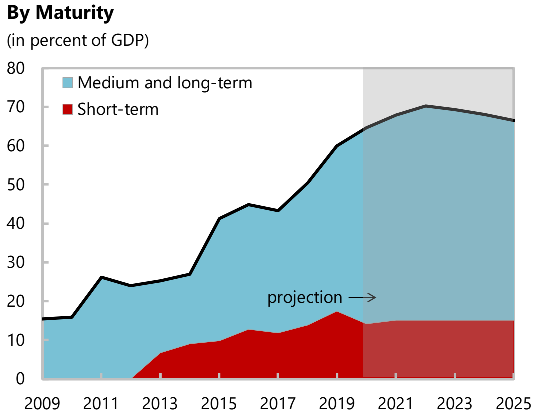
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

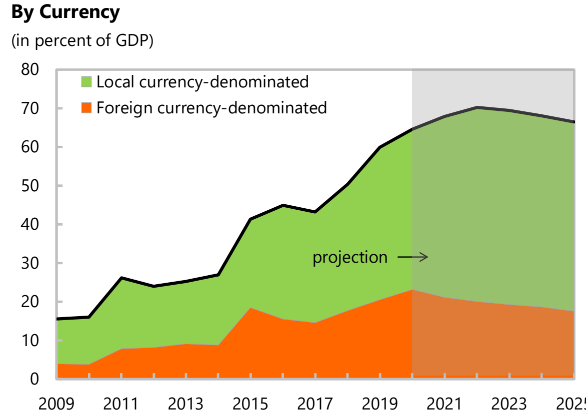
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

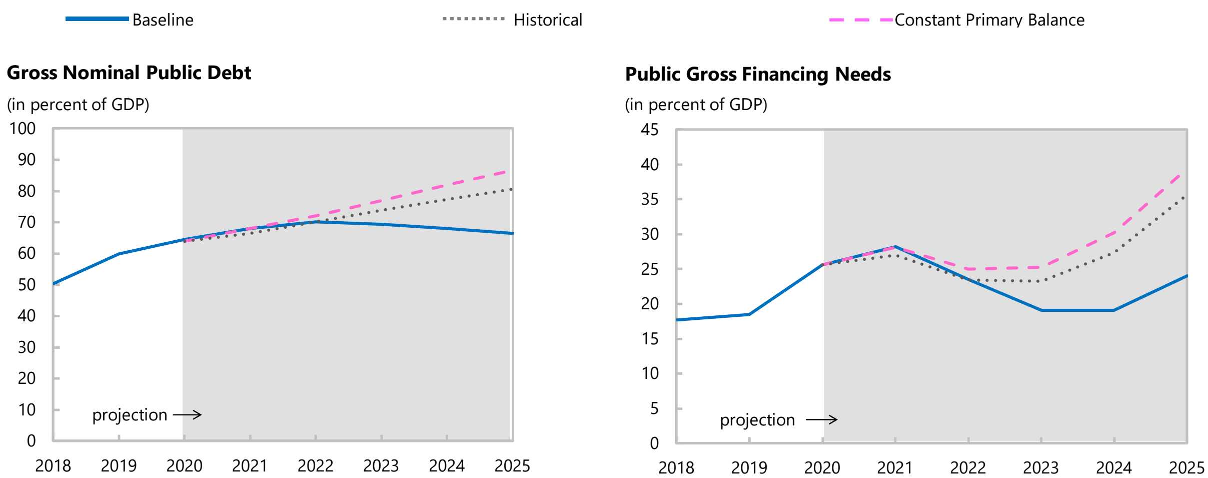
Figure A4. Namibia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt





Alternative Scenarios



Underlying Assumptions

(in percent)

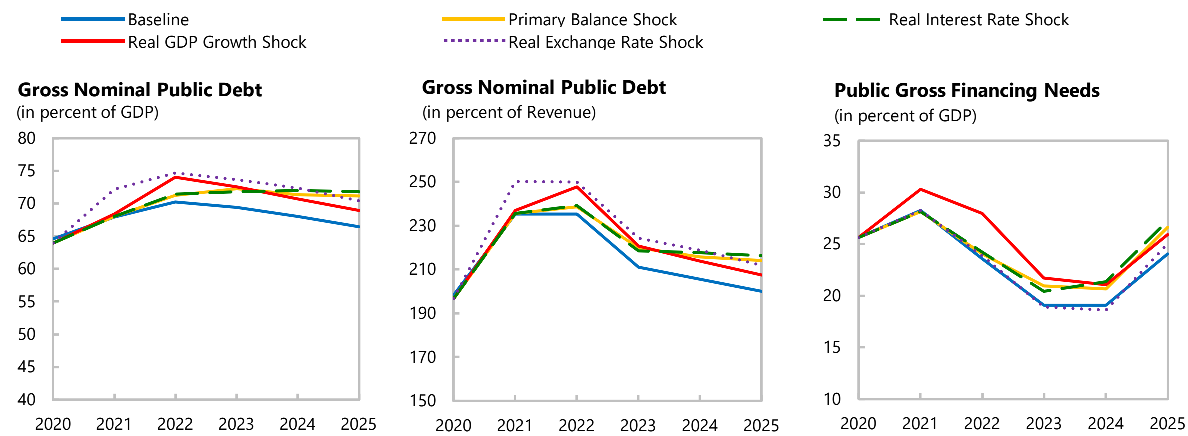
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.2	2.2	3.6	3.1	2.5	2.5
Inflation	6.1	4.8	4.4	4.2	4.4	4.4
Primary Balance	-5.0	-5.0	-3.2	0.9	1.6	1.8
Effective interest rate	6.5	6.7	6.6	7.3	7.4	7.4
Constant Primary Balance Scenario						
Real GDP growth	-7.2	2.2	3.6	3.1	2.5	2.5
Inflation	6.1	4.8	4.4	4.2	4.4	4.4
Primary Balance	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Effective interest rate	6.5	6.5	6.3	6.5	6.6	6.4

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.2	3.1	3.1	3.1	3.1	3.1
Inflation	6.1	4.8	4.4	4.2	4.4	4.4
Primary Balance	-5.0	-4.1	-4.1	-4.1	-4.1	-4.1
Effective interest rate	6.5	6.5	6.2	6.3	6.3	6.1

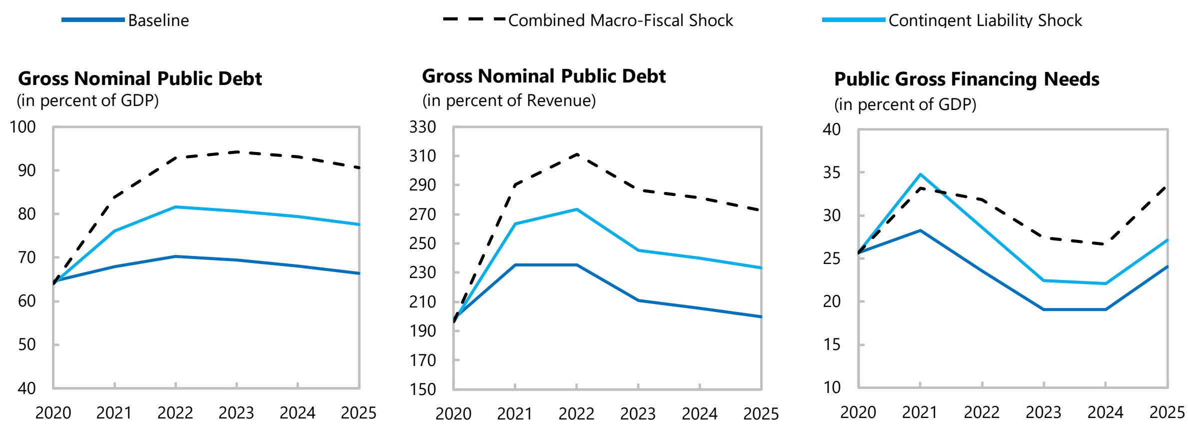
Source: IMF staff.

Figure A5. Namibia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.2	2.2	3.6	3.1	2.5	2.5
Inflation	6.1	4.8	4.4	4.2	4.4	4.4
Primary balance	-5.0	-5.0	-4.1	-1.2	1.3	1.7
Effective interest rate	6.5	6.5	6.3	6.6	6.8	6.5
Real Interest Rate Shock						
Real GDP growth	-7.2	2.2	3.6	3.1	2.5	2.5
Inflation	6.1	4.8	4.4	4.2	4.4	4.4
Primary balance	-5.0	-5.0	-3.2	0.9	1.6	1.8
Effective interest rate	6.5	6.5	8.1	8.7	9.0	9.1
Combined Shock						
Real GDP growth	-7.2	-0.8	0.5	3.1	2.5	2.5
Inflation	6.1	4.0	3.6	4.2	4.4	4.4
Primary balance	-5.0	-6.3	-5.8	-1.2	1.3	1.7
Effective interest rate	6.5	7.6	7.5	7.0	6.3	5.8

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-7.2	-0.8	0.5	3.1	2.5	2.5
Inflation	6.1	4.0	3.6	4.2	4.4	4.4
Primary balance	-5.0	-6.3	-5.8	0.9	1.6	1.8
Effective interest rate	6.5	6.5	6.5	6.9	6.9	6.7
Real Exchange Rate Shock						
Real GDP growth	-7.2	2.2	3.6	3.1	2.5	2.5
Inflation	6.1	16.4	4.4	4.2	4.4	4.4
Primary balance	-5.0	-5.0	-3.2	0.9	1.6	1.8
Effective interest rate	6.5	7.6	6.3	6.5	6.6	6.4
Contingent Liability Shock						
Real GDP growth	-7.2	-0.8	0.5	3.1	2.5	2.5
Inflation	6.1	4.0	3.6	4.2	4.4	4.4
Primary balance	-5.0	-10.4	-3.2	0.9	1.6	1.8
Effective interest rate	6.5	7.0	6.8	6.7	6.8	6.7

Source: IMF staff.

Table A1. Namibia: External Debt Sustainability Framework, 2015–2025

(In percent of GDP, unless otherwise indicated)

		Actual							Projections						
		2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: External debt**	49.6	60.9	66.4	61.8	66.8			**81.7**	**73.8**	**72.3**	**69.1**	**66.3**	**63.3**	**0.2**
2	Change in external debt	5.4	11.3	5.5	-4.7	5.0			14.8	-7.8	-1.6	-3.2	-2.8	-3.0	
3	Identified external debt-creating flows (4+8+9)	10.2	16.0	-8.7	-1.3	4.3			6.2	4.5	0.1	-2.2	-2.8	-2.7	
4	Current account deficit, excluding interest payments	12.9	15.3	3.3	1.6	-0.1			-1.7	6.6	3.4	0.8	-0.3	-0.2	
5	Deficit in balance of goods and services	-97.7	-93.0	-82.5	-82.5	-82.3			-75.1	-83.5	-84.6	-84.7	-84.8	-84.7	
6	Exports	36.0	34.7	34.8	36.3	36.3			32.8	35.1	38.3	38.9	39.1	39.1	
7	Imports	-61.6	-58.3	-47.7	-46.2	-46.0			-42.3	-48.4	-46.3	-45.8	-45.6	-45.6	
8	Net non-debt creating capital inflows (negative)	-6.9	-3.4	-2.7	-0.8	1.6			1.5	-0.9	-1.3	-1.3	-1.4	-1.4	
9	Automatic debt dynamics 1/	4.1	4.1	-9.4	-2.1	2.8			6.5	-1.3	-2.0	-1.6	-1.2	-1.1	
10	Contribution from nominal interest rate	0.4	0.7	0.9	1.7	1.7			0.7	0.4	0.5	0.5	0.5	0.5	
11	Contribution from real GDP growth	-2.0	0.0	0.5	-0.7	1.1			5.8	-1.7	-2.5	-2.1	-1.7	-1.6	
12	Contribution from price and exchange rate changes 2/	5.8	3.4	-10.8	-3.1	-0.1			...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	-4.8	-4.7	14.2	-3.3	0.7			8.6	-12.3	-1.6	-1.0	0.0	-0.2	
	External debt-to-exports ratio (in percent)	137.6	175.6	191.0	170.3	183.9			249.0	210.3	188.6	177.7	169.3	161.8	
	Gross external financing need (in billions of US dollars) 4/	3.7	3.6	3.1	3.2	2.8			2.6	3.9	3.3	2.9	2.8	3.5	
	in percent of GDP	32.4	34.0	23.8	23.6	22.7	10-Year	10-Year	24.8	34.3	27.9	23.5	21.5	25.9	
	Scenario with key variables at their historical averages 5/								**69.0**	**62.8**	**63.8**	**64.8**	**66.7**	**68.2**	**-7.0**
	Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							For debt stabilization
	Nominal GDP (US dollars)	11.5	10.7	12.9	13.7	12.5			10.5	11.3	12.0	12.5	13.1	13.7	14.3
	Real GDP growth (in percent)	4.3	0.0	-1.0	1.1	-1.6	3.1	3.1	-7.2	2.2	3.6	3.1	2.5	2.5	2.5
	GDP deflator in US dollars (change in percent)	-11.7	-6.4	21.4	5.0	-6.7	1.0	11.7	-9.4	4.9	2.2	1.6	1.8	1.8	1.8
	Nominal external interest rate (in percent)	0.7	1.3	1.7	2.7	2.6	1.3	0.8	0.9	0.6	0.7	0.7	0.7	0.7	0.7
	Growth of exports (US dollar terms, in percent)	-14.5	-9.9	20.4	10.7	-8.1	3.2	14.5	-24.2	14.8	15.6	6.3	5.1	4.3	
	Growth of imports (US dollar terms, in percent)	-7.7	-11.5	-1.7	2.8	-8.7	1.9	9.9	-22.8	22.8	1.2	3.8	3.9	4.4	
	Current account balance, excluding interest payments	-12.9	-15.3	-3.3	-1.6	0.1	-6.6	4.9	1.7	-6.6	-3.4	-0.8	0.3	0.2	
	Net non-debt creating capital inflows	6.9	3.4	2.7	0.8	-1.6	3.8	3.0	-1.5	0.9	1.3	1.3	1.4	1.4	
	B. Bound Tests														
	B1. Nominal interest rate is at historical average plus one standard deviation								**82.2**	**75.0**	**73.9**	**71.2**	**68.8**	**66.2**	**-4.4**
	B2. Real GDP growth is at historical average minus one standard deviations								**84.5**	**78.4**	**78.8**	**77.5**	**76.7**	**75.6**	**-3.5**
	B3. Non-interest current account is at historical average minus one standard deviations								**86.6**	**83.4**	**86.1**	**87.0**	**88.2**	**88.9**	**-6.1**
	B4. Combination of B1-B3 using one standard deviation shocks								**87.2**	**84.1**	**87.1**	**88.5**	**90.2**	**91.5**	**-4.2**
	B5. One time 30 percent real depreciation in 2018								**81.7**	**81.2**	**80.9**	**77.7**	**74.9**	**71.8**	**-5.9**

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollars, g = real GDP growth rate.

e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

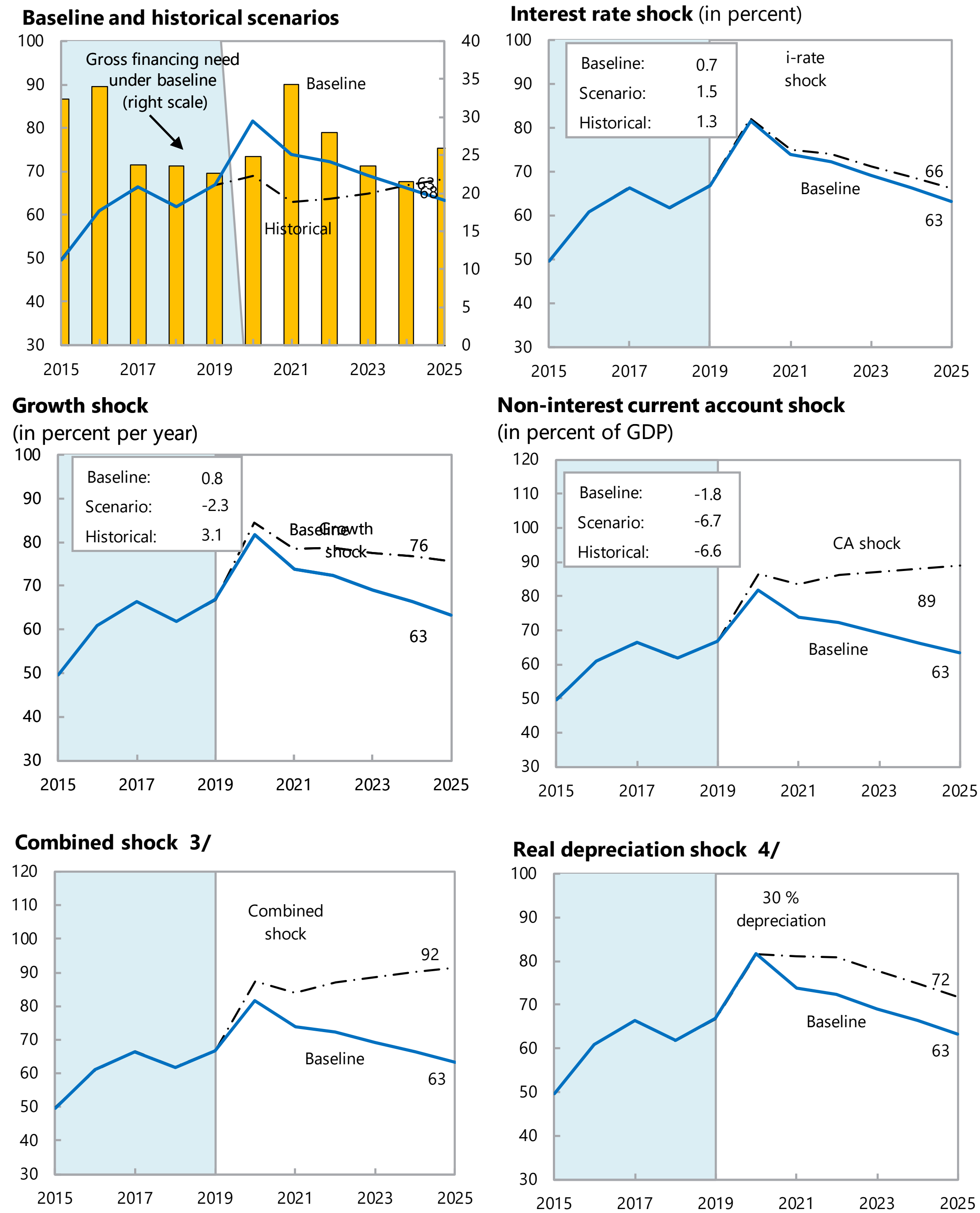
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 A6. Namibia: External Debt Sustainability – Bound Tests 1/, 2/

(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 2/3 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

Appendix I. Letter of Intent

Windhoek, Namibia

February 12, 2021

Ms. Kristalina Georgieva

Managing Director

International Monetary Fund

Washington, D.C. 20431

Dear Managing Director,

1. **Our country has been severely hit by the COVID-19 pandemic, with a severe second wave of the local outbreak starting in late 2020.** After the first COVID-19 case was reported in Namibia in March 2020, we swiftly adopted measures to contain the outbreak. We declared a national state of emergency, closed land and aerial borders, and implemented a country-wide lockdown. After the initial outbreak peaked in August, a more severe second wave has hit our country in late 2020. The infection rate sharply increased, with the number of cases reaching 33,500 at end-January 2021.

2. **The COVID-19 pandemic has sharply weakened Namibia's short-term macroeconomic outlook and led to urgent balance of payments needs.** The deterioration in global conditions due to the pandemic and the local outbreak have undermined our short-term growth prospects and put additional pressure on the external and fiscal position. Thus, the weakening in external demand has hindered our mining production and exports, tourism receipts, and investment inflows. Furthermore, needed measures to contain the spread of the COVID-19 contagion have severely impacted domestic consumption and economic activity, weighing on our tax revenues. We estimate our real GDP to have sharply contracted by 7.2 percent in 2020 and we expect the economic recovery to be subdued in 2021, as the local outbreak continues. After deteriorating in 2020, we expect our external position to worsen in 2021, reflecting the continued impact of the COVID-19 shock and emergency imports to acquire the COVID-19 vaccines and needed infrastructure for the deployment of our vaccination campaign. Furthermore, as the pandemic continues to undermine the recovery in our region, a sharp decline in revenues, particularly in SACU revenues, is expected to put additional pressure on our external and fiscal position, along with the repayment of an Eurobond issued by Namibia falling due this year. This is expected to trigger an urgent balance of payments financing need of US$527 million (4.7 percent of GDP) in 2021. The shortfall in tax revenues due to the impact of the pandemic, the implementation of our COVID-19 response plan to respond to the health emergency and mitigate its socio-economic impact on our population, and the deployment of our

vaccination campaign are expected to widen the overall fiscal deficit to 9.0 percent of GDP in FY20/21, leading to a fiscal financing gap of 3.8 percent of GDP.

3. Against this backdrop, we request emergency financial support from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR 191.1 million (100 percent of our quota), in the form of budget support. We consider that a purchase under the RFI will be key to address our urgent balance of payments needs triggered by the COVID-19 shock. We are also confident that IMF financial support to Namibia will help catalyze additional support from development partners to respond to the crisis. We request the RFI purchase to be made in the form of budget support to address our urgent financing needs in the health sector and provide the needed fiscal space to implement our targeted measures to respond to the health crisis and mitigate the severe socio-economic impact of the pandemic, especially on the most vulnerable, and implement our COVID-19 vaccination campaign.

4. We are re-orienting our economic policies to respond to the COVID-19 emergency and mitigate its severe socio-economic impact. We are executing our comprehensive response plan – the Economic Stimulus and Relief Package – to address the COVID-19 emergency and mitigate its severe impact on our people and our economy. Thus, we have geared our fiscal policy towards responding to the COVID-19 emergency by scaling-up health and education spending, strengthening social safety nets to protect vulnerable households, implementing a set of measures to support the private sector and protect jobs, and starting the acquisition of vaccines and the deployment of our vaccination campaign. To this end, we have re-allocated non-priority spending in goods and services and public investment to create needed fiscal space for emergency spending. Furthermore, we are using our external buffers to absorb the COVID-19 shock on the balance of payments while preserving the currency peg. In parallel, our monetary policy aims at maintaining liquidity in the financial sector and preserving the currency peg. Thus, the Bank of Namibia (BoN) has gradually lowered the policy rate from 6.25 to 3.75 percent, following the South Africa Reserve Bank's rate cut. In parallel with a more accommodative monetary policy stance, the BoN has temporarily eased regulatory requirements for banks to support liquidity and credit provision to the economy. We are committed to preserving financial stability while supporting the private sector.

5. In line with our public finance governance mechanisms, we will ensure the appropriate use, monitoring and reporting of COVID-19 related spending. All COVID-19 spending was appropriately budgeted, and we have presented a progress report on the execution of COVID-19 spending as of end-October 2020 in the FY20/21 mid-year budget review. Furthermore, we will publish a further progress report on the execution of COVID-19 spending in the FY21/22 budget and a final execution report of COVID-19-related spending on the website of the Ministry of Finance by the beginning of September 2021. We will also publish online, on the website of the Ministry of Finance, all awarded COVID-19 related procurement contracts, including the names of awarded entities and their beneficial owners, in accordance with Namibia's Financial Intelligence Act of 2012. Furthermore, the Auditor General will conduct an independent audit of COVID-19 spending, including ex-post validation of goods and services procured, as a part of our annual auditing of budgetary spending, within 12 months of the end of FY20/21. We will further strengthen our public financial management system by finalizing the draft Public Financial Management bill by end-2021 and adopting it by end-2022.

6. As the impact of the COVID-19 crisis subsides, we are committed to implement a growth-supporting medium-term fiscal consolidation to preserve debt sustainability. We implemented a sustained fiscal consolidation during FY2017-19, from which we had to temporarily deviate to respond to the COVID-19 crisis. Due to the exceptional budgetary needs to respond and mitigate the impact of the crisis and the severe contraction in our economy, our public debt is expected to sharply increase in FY20/21. In view of this, as the impact of the COVID-19 crisis subsides, we will re-orient our fiscal policy towards preserving debt sustainability. To this end, we adopted a medium-term fiscal consolidation framework in the FY20/21 mid-year budget review. We are committed to implementing a growth-supporting fiscal consolidation, which preserves social spending and the provision of essential services to the population, to stabilize and then lower public debt-to-GDP-ratio. Thus, we are planning to implement fiscal reforms to increase expenditures efficiency in FY21/22 and gradually phase out exceptional COVID-19 spending. Notably, we will contain the wage bill through a wage freeze in FY21/22, allowing for natural attrition, except in priority social sectors, and implementing a targeted and phased early retirement scheme. Furthermore, we aim at improving the performance and management of state-owned enterprises and conduct selected divestments. Finally, we will strengthen tax administration to mobilize additional revenues, including through the operationalization of the Namibia Revenue Agency and broadening the tax base.

7. In line with IMF Safeguards Policy, we commit to undertake a safeguards assessment conducted by the Fund. We will authorize Fund staff to hold discussions with the central bank's external auditors and have access to the BoN external audit reports. Furthermore, as we request the RFI's purchases to be made available as budget support, we will sign a Memorandum of Understanding between the Ministry of Finance and the BoN on their respective responsibilities for servicing financial obligations under the RFI. Moreover, we do not intend to introduce or intensify exchange and trade restrictions, multiple currency practices, and other measures or policies that would exacerbate balance of payments difficulties.

8. Moving ahead, we will continue to closely engage with the IMF. We will remain engaged with the IMF, to benefit from its policy advice, its technical assistance and, if needed, further financial support. Notably, we will engage with IMF staff to calibrate our post-pandemic policies to preserve macroeconomic stability and promote growth.

9. In line with our commitment to transparency and accountability, we authorize the IMF to publish this letter and the staff report for the request for a purchase under the RFI.

Sincerely yours,

/s/	/s/
Ipumbu Shiimi	Johannes !Gawaxab
Minister of Finance	Governor of the Central Bank of Namibia