

Namibia: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Namibia



NAMIBIA

December 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NAMIBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 7, 2022, consideration of the staff report that concluded the Article IV consultation with Namibia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 7, 2022, following discussions that ended on September 20-October 4, with the officials of Namibia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 22, 2022.
- A **Statement by the Executive Director** for Namibia.

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IMF Executive Board Concludes 2022 Article IV Consultation with Namibia

FOR IMMEDIATE RELEASE

Washington, DC – December 8, 2022: On December 7, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Namibia.

The Namibian economy is gradually recovering from the impact of the COVID-19 pandemic. After a sharp contraction in 2020, real GDP growth reached 2.7 percent in 2021 and the recovery strengthened in the first half of 2022. Mining activity has rebounded while manufacturing and tertiary sector activities are gradually recovering. Inflationary pressures have risen as higher international oil and food prices, due to the repercussions of Russia's war in Ukraine, were passed through to the domestic economy.

Real GDP growth is expected at 3 percent in 2022 and 3.2 percent in 2023, supported by robust diamond, gold, and uranium production and a gradual recovery in tourism and manufacturing. Average inflation would reach about 6 ½ percent in 2022 and start to moderate in 2023. The current account deficit is expected to remain large in 2022, reflecting higher international food and fuel prices, a sharp decline in SACU receipts and large FDI-financed imports in oil and gas. The fiscal deficit would narrow in FY22/23, supported by fiscal consolidation measures to mobilize additional revenues and increase spending efficiency. Deteriorating global conditions could adversely impact Namibia's short-term outlook and worsen external and fiscal imbalances.

Executive Board Assessment²

While noting that Namibia is expected to continue its gradual recovery, Directors highlighted the risks from deteriorating global economic conditions. They called for continued orientation of macroeconomic policies toward preserving macroeconomic stability, while fostering inclusive growth to reduce high unemployment and inequality.

Directors welcomed the continued progress on medium-term fiscal consolidation and the adoption of measures to protect the most vulnerable from higher food and fuel prices and food insecurity. They stressed that the planned fiscal adjustment measures are pivotal to preserve debt sustainability and strengthen the external position. Directors underscored the need to advance planned measures to contain the wage bill, enhance tax collection and enforcement, reform state-owned enterprises, and strengthen public financial management. They called for strong governance and management of the new sovereign wealth fund to mitigate related

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

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

risks and generally supported delaying its operationalization until public debt declines and reserves strengthen.

Directors highlighted that maintaining the policy rate broadly aligned with the South African Reserve Bank's rate and preserving adequate reserves is important to anchor inflation and preserve the currency peg. They encouraged further efforts to strengthen financial sector resilience and mitigate macro-financial risks. While welcoming the progress on implementing the 2018 FSSA recommendations, Directors emphasized the need to expand macroprudential tools and operationalize the central bank's emergency lending assistance. They called for swift implementation of the action plan to strengthen the AML/CFT framework.

Directors emphasized the need to enhance inclusive growth by advancing structural reforms to foster diversification and increase productivity. Noting the importance of supporting private sector-led growth and job creation, Directors recommended taking steps to improve the business environment and increase access to finance and continuing to strengthen governance. Directors called for strong efforts to address food insecurity, including through measures to strengthen climate resilience in the agricultural sector.

Table 1. Namibia: Selected Economic Indicators, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.	Proj	Proj	Proj	Proj	Proj	Proj
(Percentage change, unless otherwise indicated)										
National account and prices										
GDP at constant prices	1.1	-0.8	-8.0	2.7	3.0	3.2	2.7	2.6	2.6	2.6
GDP deflator	4.4	0.9	4.5	1.7	7.3	5.7	4.8	4.5	4.3	4.4
GDP at market prices (N\$ billions)	181	181	174	182	201	219	236	253	271	290
GDP at market prices (Fiscal Year) (N\$ billions)	181	179	176	187	206	223	240	257	275	295
	10,81	10,62	10,03	10,28	11,16	11,95	12,63	13,30	13,98	14,69
GDP per capita (US\$, constant 2000 exchange rate)	7	6	0	7	8	9	9	8	1	7
Consumer prices (average)	4.3	3.7	2.2	3.6	6.4	4.9	4.5	4.5	4.5	4.5
External sector										
Exports (US\$)	12.1	-7.6	-19.0	14.1	16.1	11.9	6.3	3.6	5.1	4.8
Imports (US\$)	3.4	-9.8	-21.0	35.0	9.3	5.7	4.6	2.2	3.1	4.1
Terms of trade (deterioration = -)	-0.5	2.0	6.9	-9.6	13.1	6.3	-0.1	-1.5	11.8	14.1
Real effective exchange rate (period average)	101.2	98.5	91.3	96.4	...	...	...	...	...	...
Exchange rate (N\$/US\$, period average)	13.2	14.5	16.5	14.8	...	...	...	...	...	...
Exchange rate (N\$/US\$, end of period)	14.4	14.0	14.7	15.9	...	...	...	...	...	...
Money and credit										
Domestic credit to the private sector	7.2	7.1	2.4	1.0	5.2	5.6	6.7	6.9	6.9	6.9
Base money	5.7	5.0	16.1	0.2	9.0	8.0	7.4	7.4	7.4	7.4
M2	6.4	10.5	8.1	4.2	9.0	8.0	7.4	7.4	7.4	7.4
BoN repo rate (percent)	6.75	6.50	3.75	3.75	...	...	...	...	...	...
(Percent of GDP)										
Investment and Savings										
Investment	14.9	15.3	13.6	14.0	15.3	15.2	15.1	15.1	15.1	15.1
Public	4.7	3.7	3.0	2.6	2.3	2.2	2.2	2.2	2.2	2.2
Private	12.2	12.1	10.5	11.5	13.0	13.0	13.0	13.0	13.0	13.0
Change Inventories	-2.0	-0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings	11.5	13.6	16.5	4.5	5.8	9.4	9.8	10.2	11.3	11.5
Public	-2.0	-2.2	-4.1	-5.4	-4.3	-2.9	-1.6	-1.3	-1.1	-1.0
Private	13.5	15.8	20.6	9.9	10.1	12.2	11.4	11.5	12.4	12.5
Central government budget 1/										
Revenue and grants	30.8	32.6	33.0	29.6	30.1	31.0	31.9	31.5	31.6	31.7
Of which: SACU receipts	9.6	10.5	12.6	7.9	6.9	8.6	9.4	9.0	9.0	9.0
Expenditure and net lending	36.4	38.2	41.8	38.3	37.2	36.4	36.2	35.6	35.6	35.4
Primary balance (deficit = -)	-2.3	-1.8	-4.6	-4.4	-2.5	-0.2	1.2	1.3	1.7	1.8
Overall balance	-5.6	-5.6	-8.8	-8.7	-7.1	-5.4	-4.2	-4.1	-4.0	-3.8
Primary balance: Non-SACU	-11.9	-12.3	-17.3	-12.3	-9.4	-8.9	-8.2	-7.7	-7.3	-7.1
Public debt/GDP	50.4	59.9	65.9	70.1	69.7	69.5	69.1	68.7	68.1	67.5
Of which: domestic	32.6	39.5	44.7	51.9	52.3	52.4	53.1	54.5	55.3	55.6
Gross public and publicly guaranteed debt/GDP	56.5	66.7	72.3	75.5	75.7	75.5	75.1	74.7	74.1	73.5
External sector										
Current account balance										
(including official grants)	-3.3	-1.7	2.9	-9.6	-9.5	-5.8	-5.4	-4.9	-3.9	-3.6
External public debt (including IMF)	17.8	20.4	21.2	18.2	17.4	17.2	16.0	14.2	12.9	11.9
Gross official reserves										
US\$ millions	2,155	2,071	2,158	2,766	2,603	2,814	2,988	3,200	3,406	3,586
Percent of GDP	17.1	16.0	18.2	24.2	21.1	21.3	21.5	21.9	22.3	22.1
Months of imports of goods and services	4.5	5.4	4.2	5.0	4.4	4.6	4.8	4.9	5.0	5.1
External debt/GDP 2/	61.7	66.4	77.3	66.5	64.6	61.5	58.4	56.2	53.9	50.6
Memorandum item:										
Population (in million)	2.4	2.5	2.5	2.6	2.6	2.6	2.7	2.7	2.8	2.8

Sources: Namibian authorities and Fund staff estimates and projections.

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

2/ Public and private external debt.



NAMIBIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

November 22, 2022

KEY ISSUES

Context. Namibia has been severely hit by the COVID-19 pandemic but has started to gradually recover. After a sharp contraction in 2020, with worsening fiscal imbalances and socio-economic disparities, a modest recovery began in 2021 and strengthened in the first half of 2022. Mining activity rebounded while manufacturing and tertiary sector activities gradually started to recover. Inflationary pressures have increased, as higher international oil and food prices due to Russia's war in Ukraine were passed-through. The political context remains stable, with elections scheduled in 2024.

Outlook and Risks. The gradual economic recovery is expected to continue. Real GDP growth is projected at 3 percent in 2022 and 3.2 percent in 2023, on the back of robust mining growth and a gradual recovery in manufacturing and tourism activities. Fiscal imbalances are expected to narrow, supported by fiscal consolidation measures to mobilize additional tax revenues and increase spending efficiency. However, the current account deficit would remain large in 2022, reflecting higher food and fuel prices associated with the war in Ukraine, weak SACU receipts and large FDI-financed imports in oil and gas. Deteriorating global conditions could adversely impact the short-term outlook. Higher-than-anticipated fuel and food prices, a global economic slowdown, weaker export commodity prices, and further tightening in global financial conditions could exacerbate inflation, worsen imbalances, and undermine the recovery.

Key Policy Recommendations. Implementing the planned medium-term fiscal consolidation strategy is needed to preserve debt sustainability. Moving ahead with the early retirement scheme is important for sustainably containing the wage bill, advancing SOE reforms will help reduce budgetary transfers, and strengthening tax collection and enforcement will mobilize additional revenues. Given inflationary pressures, fiscal consolidation and maintaining the policy rate broadly in line with the South African Reserve Bank's (SARB) rate will be needed to anchor inflation, maintain an adequate level of reserves, and support the peg. Strengthening resilience and managing macro-financial risks, including by expanding macroprudential tools, will support financial stability. Strengthening the AML/CFT framework is crucial to address weaknesses identified in Namibia's recent AML/CTF assessment. Advancing structural reforms will be key to foster sustainable and inclusive private sector-led growth. Addressing high food insecurity will contribute to protecting the most vulnerable and supporting growth.

Approved By
Abebe Aemro Selassie
(AFR)
Maria Gonzalez (SPR)

An IMF team consisting of Ms. Albertin (head), Messrs. Cangul and Gurara (all AFR) held virtual discussions for the 2022 Article IV Consultations during September 20–October 5, 2022. Mr. Badel (SPR) joined the mission to provide training to the authorities. Ms. Nainda (OED) participated in the discussions. The team held discussions with the Minister of Finance Mr. I. Shiimi, Central Bank Governor Mr. J. !Gawaxab, and other senior government officials. The mission met with representatives of the civil society, development partners, and the private sector. Ms. Wang and Ms. Prado (both AFR) provided assistance in the preparation of this report.

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