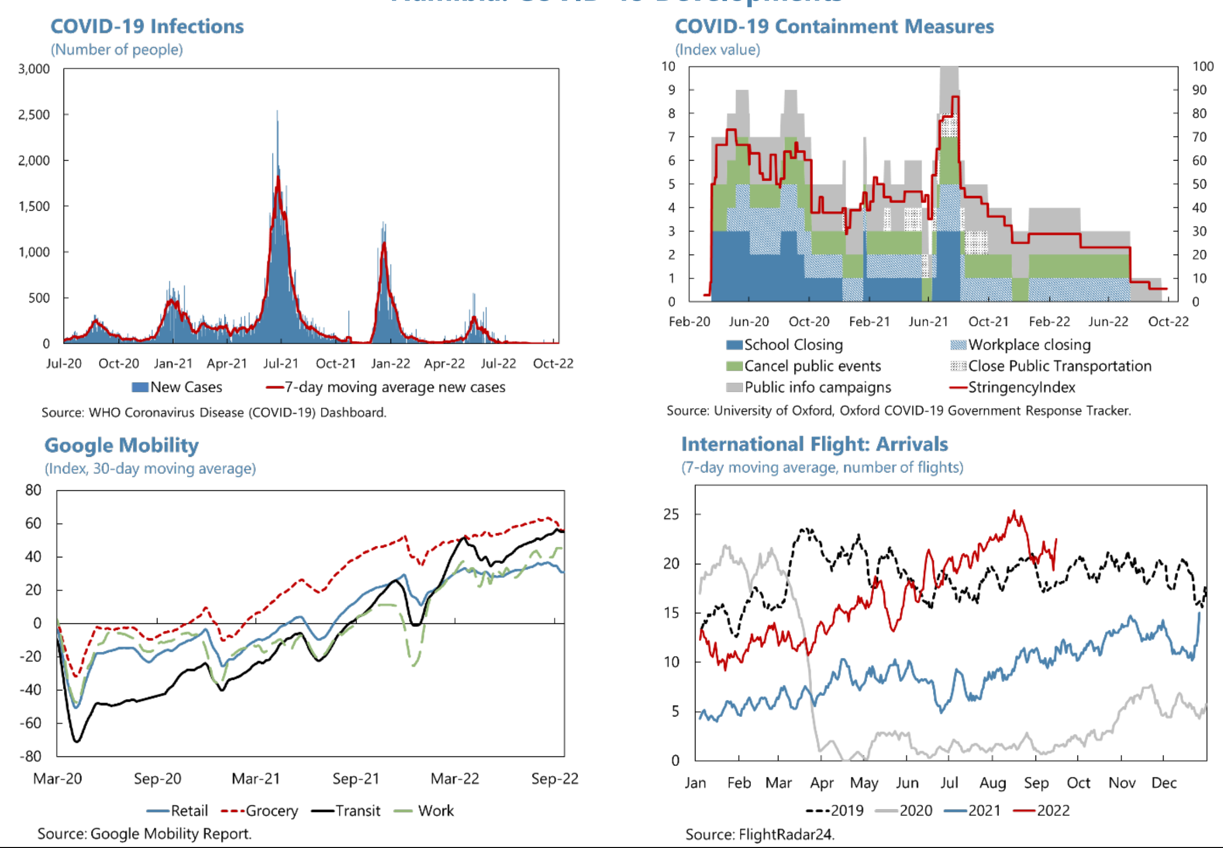
CONTEXT AND BACKGROUND

1. The COVID-19 pandemic severely hit Namibia, but conditions have recently eased. Following the outbreak in early 2020, a national state of emergency was declared, borders were closed, and a country-wide lockdown introduced. Stringent containment measures were adopted, including restrictions to the movement of people, reduced operation of economic activities, and closure of schools. Severe second and third waves hit Namibia in late 2020 and mid-2021. In December 2021, the rapid spread of the omicron variant lead to a surge in new cases, with a travel ban imposed on Namibia by several countries.[1] As the fourth wave eased, most COVID-19 restrictions were lifted in mid-March 2022. In parallel, mobility and international flights arrivals increased. Overall, about 7 percent of the population was infected but the fatality rate was very contained. New reported cases have been limited. About 24 percent of the targeted population is fully vaccinated.[2]

Namibia: COVID-19 Developments



[1] The international travel ban, also imposed on other southern African countries, was lifted in early January 2022.

[2] The vaccination campaign targets people aged 12 and above (about 1.8 million or 68 percent of the population).

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2. Namibia faced the COVID-19 shock from an already weak macroeconomic position and with structural challenges. During 2017–19, real GDP had contracted by 0.3 percent and -3.5 percent per capita (y-o-y, average), owing to decelerating private and public investment, the impact of fiscal consolidation and a severe drought. Despite a significant reduction in primary public spending, weak SACU tax revenues led to large fiscal imbalances and increasing public debt. Unemployment remained high and income inequality pervasive.

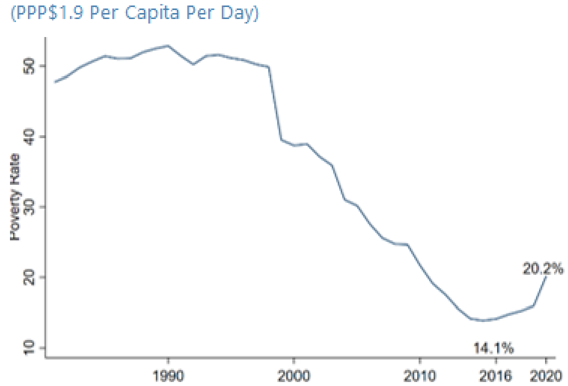
3. The authorities swiftly implemented a comprehensive *Economic Stimulus and Relief Package* to respond to the COVID-19 emergency and mitigate its socio-economic impact (Annex VI). A fiscal response package was implemented in FY20/21 to address the health crisis, protect the most vulnerable, and support the private sector. Key measures focused on: scaling-up health and education spending; introducing a targeted cash transfer program for unemployed and low-income individuals; implementing a wage subsidy program to protect jobs and support the private sector; and accelerating the repayment of government arrears to the private sector. In parallel, banks' regulatory requirements were temporarily eased to support liquidity and credit to the economy.

4. The Namibian economy sharply contracted, fiscal imbalances worsened, and socio-economic disparities were exacerbated due to the pandemic. Real GDP contracted by 8 percent in 2020. Mining and tourism activities plummeted, as external demand weakened. In parallel, lockdown measures severely impacted economic activity. The overall fiscal deficit widened to 8.8 percent of GDP in FY20/21, reflecting the COVID-19 response package, with public debt reaching 66 percent of GDP. Unemployment further rose to 22 percent (40 percent among youth). The poverty rate is estimated to have increased to 20.2 percent in 2020 (15.9 percent in 2019) and income inequality to have worsened.[3]

Namibia: The Impact of the COVID-19: Higher Poverty and Inequality

Poverty Rate

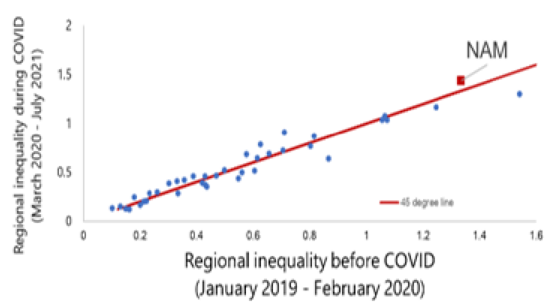
(PPP$1.9 Per Capita Per Day)



Sources: World Bank PovcalNet, and IMF staff calculations.

Regional Inequality in Sub-Saharan Africa, Before and After COVID-19

(Index)



Source: IMF Sub-Saharan Africa Regional Economic Outlook, October 2021.

[3] Namibia's 2020 poverty rate is estimated based on World Bank's PovcalNet database.

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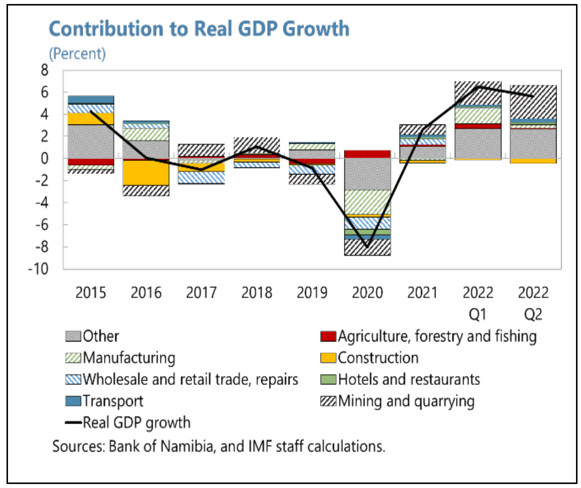
5. **The Fund provided emergency financing under the Rapid Financing Instrument (RFI) to help Namibia address urgent balance of payments and fiscal needs stemming from the pandemic.** On March 31, 2021, the IMF Executive Board approved emergency financial assistance under the RFI for SDR 191.1 million (about US$270.8 million; 100 percent of quota), in the form of budget support. In addition, Namibia received a general SDR allocation of SDR 183.2 million on August 23, 2021.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

6. **The Namibian economy has started to recover from the impact of the COVID-19 pandemic.** After the 2020 contraction, real GDP growth reached 2.7 percent in 2021. Mining activity rebounded, as diamonds and uranium production picked-up and, although manufacturing and construction activities further contracted, tertiary sector activities started to recover. However, real output remained below its pre-pandemic level. The recovery strengthened in the first half of 2022, with real growth at 6 percent, driven by mining and manufacturing activity. The political context has remained stable, with elections scheduled in 2024.



7. **Inflationary pressures have risen, reflecting the global spillovers of Russia's war in Ukraine.** Headline inflation averaged 3.6 percent (y-o-y) in 2021, reflecting rising transport and food prices. As the pick-up in international oil and food prices was passed-through, average headline inflation rose to 5.8 percent at end-September 2022.[4] Core inflation remained contained at 3 percent (y-o-y), while food and transport prices rose to about 7 and 17 percent, respectively.[5] During May-July, fuel levies were reduced by 50 percent to mitigate the impact on households.[6]

8. **Food insecurity has worsened.** More than a quarter of the Namibian population is estimated to have become food insecure at end-2021 (16 percent prior to the pandemic), owing to higher food prices and subdued incomes (Annex XI).[7] The rise in food prices due to the war in Ukraine is expected to have further heightened food insecurity. Notably, Namibia depends on imported food for more than half of calories consumed and imports about 60 percent of its wheat from Russia.[8]

[4] Higher international fuel prices were passed through to domestic pump prices, with a lag.

[5] Transport price inflation mostly reflects fuel price inflation.

[6] The associated loss in tax revenues is estimated at 0.2 percent of GDP.

[7] Integrated Food Security Phase Classification (IPC, FAO and World Food Program, 2021).

[8] FAO and UN Comtrade Databases.

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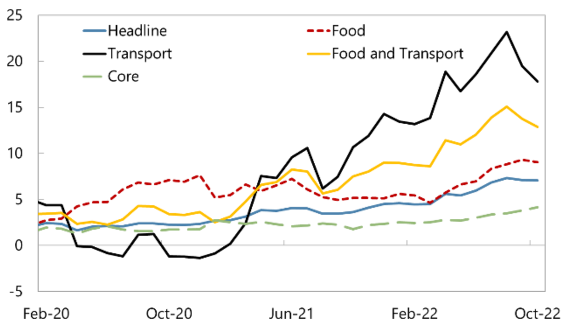
9. Global spillovers from the war in Ukraine and a sharp decline in SACU receipts worsened Namibia's external position. Despite strengthening mining exports, a current account deficit of 9.6 percent of GDP was recorded in 2021, as imports rebounded and SACU receipts sharply declined.[9] Gross international reserves increased to 5 months of import coverage (Annex V), supported by strong financial inflows, IMF emergency assistance and general SDRs allocation (¶5), and AfDB budget support.[10] In the first half of 2022, the current account deficit was large, owing to the pick-up in international oil and food prices and lower SACU receipts. Large FDI inflows in oil and gas exploration were recorded. Reserves were at 4.8 months of import coverage at end-September. After appreciating by 5.5 percent in 2021, the real effective exchange rate depreciated by 2.5 percent during January-August 2022 and the NEER depreciated by 2.3 percent.

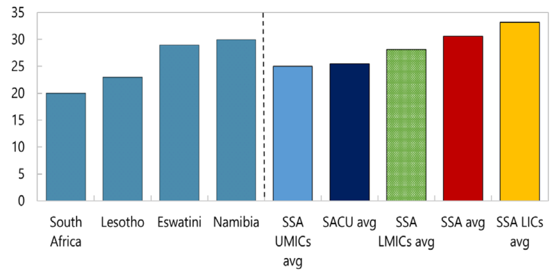
Namibia: Inflation and Food Insecurity

Inflation: Core, Food and Transport
(Percent, y-o-y)



Sources: Bank of Namibia, and IMF staff calculation.
Note: Transport inflation mainly reflects movement in fuel prices.

Food Insecurity in the SACU Region
(Percent of analyzed population)



Sources: The latest IPC Acute Food Insecurity Classification report for each of the 20 Sub-Saharan African countries actively engaging in the implementation of IPC, and IMF staff calculations.
Notes: Food insecurity situation refers to IPC Phase 3 or above, including Crisis, Emergency, and Catastrophe/Famine. UMICs = upper middle income countries, LMICs = lower middle income countries, and LICs = low income countries. Botswana has not conducted any IPC analysis.

10. Despite fiscal consolidation measures, fiscal imbalances remained large in FY21/22 owing to the severe decline in SACU tax revenues. The overall fiscal deficit reached 8.7 percent of GDP in FY21/22, as SACU tax revenues contracted by 4.7 percent of GDP.[11]Non-SACU tax revenues strengthened, supported by the economic recovery and tax arrears collection (1.4 percent of GDP).[12] Public spending was reduced by 3.5 percent of GDP as the 2020 COVID-19 fiscal package was unwound; the wage bill was contained through a no-inflation adjustment of public wages and allowing for natural attrition (except in priority sectors); and public investments were reprioritized. Large financing needs—deepened by the repayment of the US$500 million 2010 Eurobond—were covered by external financing (¶5, ¶9), and sizable domestic borrowing.

[9] Imports plummeted by about 21 percent in 2020, reflecting the economic downturn.

[10] The SDR allocation was used to bolster reserves, consistent with staff advice.

[11] SACU tax revenues distributed to member countries are based on projected revenues for the overall custom union. To account for differences between distributed and actual revenues, a sharing formula adjusts for forecast errors with a two-year lag. In FY20/21, distributed SACU receipts (based on projected revenues before the pandemic) were significantly higher than actual revenues, as trade and economic activities plummeted due to the pandemic. A large negative adjustment in FY22/23 led to a decline in distributed SACU revenue despite the recovery in the region.

[12] The collection of tax arrears in FY21/22 was supported by a tax relief program, including a partial write-off of interest on tax arrears and cancellation of all penalties, launched in November 2020.

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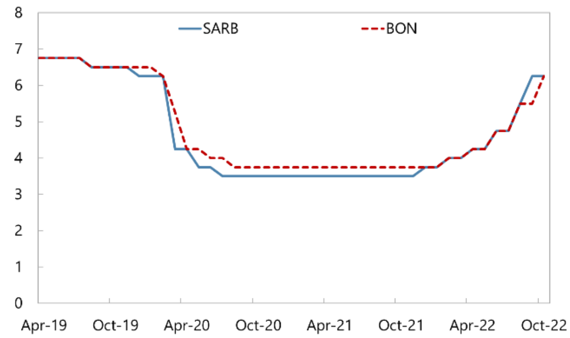
11. The Bank of Namibia (BoN) has tightened its monetary policy stance. Following the South African Reserve Bank (SARB) rate reduction, the BoN had lowered its policy rate (from 6 to 3.75 percent) in 2020 and had kept it unchanged during 2021. Given the currency peg to the rand, the BoN gradually raised its policy rate by a cumulative 250 basis points (to 6.25 percent) during January-October 2022, in broad alignment with the South African Reserve Bank (SARB)'s policy tightening.

Bank of Namibia and SARB Policy Rates
(Percent)



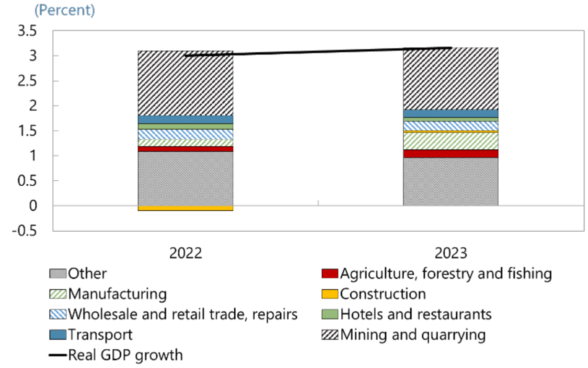
Sources: Bank of Namibia, and South Africa Reserve Bank (SARB).

12. The financial system has remained stable, but risks have increased. The banking sector has remained liquid, well-capitalized, and profitable at end-June 2022 (Table 5). The ratio of non-performing loans slightly increased to 6.0 percent.[13] Reflecting large fiscal financing needs, banks' net claims to the government picked-up by 51 percent in 2021 and by further 30 percent (year-on-year) at end-September, heightening banks' exposure to sovereign risk. After slowing to 1 percent (y-o-y) in 2021, private sector credit growth strengthened to 4.6 percent at end-August 2022, reflecting higher corporate sector's demand. Banks' exposure to the non-bank financial sector increased, raising interconnectedness and concentration risks.[14] Household mortgages reached about half of banks' total private sector loans at end-August 2022, heightening credit risk from highly-leveraged households (Figure 2).

OUTLOOK AND RISKS

13. Namibia's gradual economic recovery is expected to continue. Real GDP growth is projected at 3 percent in 2022 and 3.2 percent in 2023, driven by robust diamond, gold, and uranium production on the back of strong external demand, favorable export commodity prices, and a new vessel for diamonds mining.[15] Manufacturing and tourism would gradually recover.[16] Growth in the agricultural sector is expected to be constrained by higher fertilizer

Real GDP Growth Outlook, 2022-2023
(Percent)



Sources: Bank of Namibia, and IMF staff calculations.

[13] Financial sector indicators up to at end-June 2022 reflect the implementation of the 2020 COVID-19 relief measures, which were extended until April 2023. As this may delay the recognition of asset quality deterioration, data on banks' NPLs, profitability and capital ratios may not fully reflect the impact of the COVID-19 crisis.

[14] Banks' wholesale funding exceeds a third of banks' deposits.

[15] Sanctions on the Russian diamond producer, ALROSA (with a global market share of about 30 percent), have reduced global diamond supply, supporting diamond prices and external demand for Namibia's diamonds.

[16] Tourism has started to recover but arrivals have not yet reached pre-pandemic levels. A deterioration in the global outlook could hamper the recovery of the sector.

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and animal feed prices, due to the war in Ukraine. Real GDP would reach its pre-pandemic level in 2023. Headline inflation is expected to rise to 6.4 percent in 2022, reflecting the pass-through of international oil and food prices. Over the medium term, real GDP growth is expected to stabilize at 2.6 percent, as mining output stabilizes, and construction activity picks-up supported by large investments in oil and gas and green hydrogen.[17]

14. Namibia's external position is moderately weaker than fundamentals and desirable policies (Annex V).[18] Despite robust mining exports and recovering tourism receipts, the current account deficit is expected to be large at 9.5 percent in 2022. International reserves would decline to 4.4 months of imports, slightly below the IMF reserve adequacy metrics.[19] The current account analysis points to a moderate overvaluation of the REER. Over the medium-term, the current account would gradually narrow, supported by sustained mining exports, strengthening SACU receipts, lower international oil and food prices, and the planned fiscal consolidation. Large investments in green hydrogen and oil and gas exploration are expected to enhance capital inflows. Gradual accumulation of international reserves will support reaching the ARA metrics reserve adequacy level by 2023. The anticipated reduction in external debt will improve the NIIP.

15. Fiscal imbalances are expected to narrow in FY2022/23, reflecting fiscal consolidation measures. The overall fiscal deficit is expected to fall to 7.1 percent of GDP in FY2022/23 (below the initial budget estimate of 7.7 percent of GDP), broadly in line with the mid-year budget review. Against a further decline in SACU tax revenues, strengthening non-SACU tax revenues and mobilizing one-off dividends from SOEs and tax arrears collection will support revenues (Text Table 1). Furthermore, public expenditures would be reduced by about 1.1 percent of GDP, owing measures to contain the wage bill and reduce transfers to SOEs. Financing needs will be covered from the privatization proceeds of the mobile telecommunications company (1.2 percent of GDP), budget support from development partners, and domestic borrowing.

16. Deteriorating global conditions could adversely impact Namibia's short-term outlook (Annex I). Stronger spillovers from the war in Ukraine, with higher-than-anticipated fuel and food prices, could exacerbate inflation, worsen the external position, and undermine the recovery. A slowdown in the global economy and main trading partners, weakening commodity export prices, and a resumption of lock-down measures could weigh on the recovery and the external position. Further tightening in global financial conditions could lead to capital outflows. Furthermore, delays in the planned fiscal consolidation would increase financing needs and worsen Namibia's debt dynamics. On the positive side, an acceleration of investments in oil and gas and green hydrogen (¶34) could boost growth. Higher-than-anticipated SACU revenues would reduce financing needs.

[17] The impact of oil and gas as well as green hydrogen production on growth is expected to materialize beyond the projection period.

[18] This assessment is based on the 2021 current account deficit.

[19] The 2022 IMF reserve adequacy metrics for Namibia are estimated to be equivalent to 4.5–6.7 months of imports and 20.2–30.3 percent of GDP.

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POLICY DISCUSSIONS

Discussions focused on: i) implementing the authorities' medium-term fiscal consolidation to preserve debt sustainability and support the external position and the currency peg; ii) maintaining the currency peg to continue to anchor inflation; iii) strengthening the resilience of the financial sector and managing macro-financial risks; and iv) advancing structural reforms and addressing food security to foster sustainable and inclusive private sector-led growth.

17. Staff underscored that continuing to orient macroeconomic policies towards preserving stability while protecting the most vulnerable is needed. Implementing the planned medium-term fiscal consolidation will be crucial to preserve debt sustainability while supporting the external position. In parallel, protecting the most vulnerable from the impact of higher food and fuel prices and addressing increased food insecurity and poverty will be key. In view of inflationary pressures, keeping the policy rate broadly in line with the SARB's rate will be required to anchor inflation, maintain an adequate level of reserves, and support the peg. Strengthening resilience and managing macro-financial risks will be important to support financial stability.

A. Preserving Fiscal and Debt Sustainability

18. Implementing the authorities' planned medium-term fiscal consolidation strategy is key to preserve debt sustainability while supporting the external position and the currency peg.[20] The authorities have started implementing a package of fiscal adjustment measures over FY2021/22-25/26 (6.7 percent of GDP, cumulative) to preserve debt sustainability (Text Table 1). The planned fiscal consolidation builds on mobilizing additional fiscal revenues and increasing spending efficiency, while preserving social spending and growth-supporting capital spending. Key fiscal consolidation measures include: i) containing the wage bill; ii) improving SOEs performance and management and divesting from selected entities to reduce budgetary transfers; iii) reducing the costs of the Public Service Employee Medical Aid Scheme (PSEMAS); and iv) mobilizing tax arrears and one-off exceptional revenues.

Text Table 1. Namibia: Fiscal Consolidation Measures
(Percent of GDP)

	2021/22 Preliminary Actual	2022/23	2023/24	2024/25	2025/26	Cumulative
SOE Reform	0.0	1.8	0.2	0.1	0.0	2.1
Public Service Medical Aid Scheme Reform	0.0	0.0	0.2	0.2	0.0	0.4
Wage Reform*	0.7	0.3	0.6	0.1	*0.1*	1.9
Revenue Mobilization	1.3	0.9	0.0	0.0	0.0	2.2
TOTAL	**2.1**	**3.0**	**1.1**	**0.5**	**0.1**	**6.7**

**Note: Net of severance pay.*
Source: IMF Staff Computations; Ministry of Finance

[20] The authorities adopted a medium-term fiscal consolidation strategy in October 2020.

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19. Under the baseline scenario, public debt-to-GDP is expected to gradually decline over the medium-term but risks are significant (Annex IV). Public debt and gross financing needs increased sharply during FY20/21–21/22 due to the impact of the COVID-19 pandemic.[21] The implementation of the planned medium-term fiscal consolidation and the recovery of the Namibian economy are expected to help put public debt-to-GDP on a downward trajectory. Stronger-than-anticipated spillovers from the war in Ukraine, weaker commodity export prices, and delays in the planned medium-term fiscal consolidation could worsen Namibia's debt dynamics.

20. Staff noted the authorities' progress in implementing their fiscal consolidation strategy and called for continuing to implement planned measures. Staff underscored that:

- **Implementing the early retirement scheme is key to sustainably contain the wage bill.** Namibia's wage bill is one the highest among the SACU region, representing about 45 percent of total public expenditures (Figure 3). The authorities have taken important measures during FY21/22–FY22/23 to reduce it by containing nominal wage dynamics and allowing for natural attrition (excluding in priority sectors).[22] They are considering an early retirement scheme and assessing its potential fiscal costs.[23] Staff welcomed the ongoing functional review of central government employees to ensure preserving appropriate service delivery.

- **Finalizing the Public Asset Ownership Policy is pivotal to advance the SOE reform**. Budgetary transfers to SOEs reached about 2.8 percent of GDP in FY21/22—one of the highest among the SACU region (Figure 3). The authorities have taken key measures to reduce these transfers: i) the loss-making national airline was liquidated in March 2021 and ii) the mobile telecommunications company was partially privatized in November 2021.[24] Staff called for finalizing the Public Asset Ownership Policy, setting the principles of government assets ownership, and swiftly advance its implementation. Rationalizing SOEs could improve spending efficiency without worsening income inequality (Annex VIII).

- **Strengthening tax collection and enforcement will mobilize additional revenues**. Tax collection efficiency in Namibia has been declining (Figure 3), with tax arrears reaching 32 percent of GDP at end-August 2022. The Namibia Revenue Agency (NamRA) was operationalized in April 2021 to improve tax collection. Strengthening tax compliance and enforcement, a key element of NamRA's strategy, would mobilize additional revenues without worsening income inequality (Annex VIII). Staff welcomed NamRA's progress

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[21] Gross financing needs are expected to gradually decline but remain large, with a spike in 2025 due to the redemption of the US$750 million 2015 Eurobond. The authorities plan to cover the repayment of the 2015 Eurobond through borrowing in the international markets.

[22] No inflation adjustment to wages was provided in FY21/22. Furthermore, in a context of sustained inflationary pressures, a below-inflation adjustment was provided in FY22/23. While not foreseen in the FY22/23 budget, the additional cost (0.6 percent of GDP) is expected to be more than compensated by higher-than-budgeted revenues.

[23] Preliminary staff estimate of the cumulative early retirement cost is about 0.8 percent of GDP.

[24] Fiscal risks were concentrated in ten SOEs. With Air Namibia having been liquidated and the telecommunication company privatized, efforts will have to focus on the remaining eight vulnerable SOEs.

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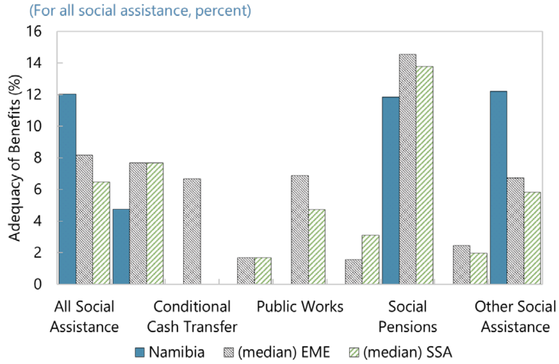
towards setting-up operational targets, establishing a centralized Strategic Enforcement Unit, building audit capacity, and setting-up a dedicated unit for transfer mispricing. Moving ahead, developing a tax arrears management strategy, a compliance plan for tax and customs and further strengthening capacity, with the support of IMF technical assistance, will be important.

21. Staff called for protecting the most vulnerable from the impact of higher food and fuel prices and addressing increased food insecurity and poverty. Namibia has a robust and comprehensive social safety nets (SSNs) system, which has contributed to reducing poverty.[25] Several social assistance programs are in place, including old age and disability grants, child grants, veterans' support program, and food programs. The adequacy of SSNs in Namibia is higher than its comparators and the operationalization of the unified social registry is expected to further enhance targeting. [26] A Conditional Basic Income Grant (CBIG) was introduced in March, replacing in-kind food assistance with targeted monetary transfers to the poorest.[27] Staff welcomed that the CBIG was set 25 percent higher than the in-kind support to mitigate the impact of higher food prices on the most vulnerable. In view of rising food prices and deteriorating food security, staff called for further increasing the CBIG and swiftly expanding its coverage to include eligible individuals currently excluded from the program. Staff welcomed the CBIG increase by 20 percent from October 2022, adopted in the mid-year budget review, and commitments to increase the disability, old age and vulnerable children grants in FY23/24.

Namibia: Social Safety Nets

Adequacy of Benefits

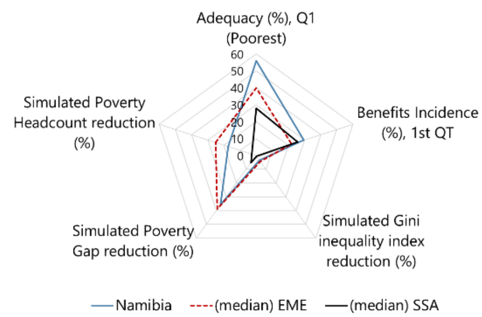
(For all social assistance, percent)



Source: IMF FAD Social Protection & Labor - Assessment Tool (SPL-AT).

Simulated Impact

(For all social protection)



Source: IMF FAD Social Protection & Labor - Assessment Tool (SPL-AT).

Authorities' Views

22. The authorities stressed their commitment to implement the medium-term fiscal consolidation strategy to preserve debt sustainability while protecting the most vulnerable.

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[25] See IMF Country Report No. 19/295.

[26] This is based on the IMF Social Protection and Labor Assessment Tool.

[27] The Conditional Basic Income Grant provided N$500 per month to the previous beneficiaries of in-kind support from the Food Bank. It was increased to N$600 in October 2022.

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The authorities emphasized that the mid-year budget review targets a lower overall fiscal deficit than the initial FY22/23 budget (7.1 percent of GDP compared to 7.7 percent of GDP), mainly driven by stronger-than-anticipated tax revenues, despite a higher-than-budgeted wage increase. They underscored that strengthening tax collection and enforcement will mobilize additional revenues, with sizable tax arrears recovery expected in FY22/23. They also stressed their commitment to increase spending efficiency by implementing the wage bill and SOEs' reforms and reducing the costs of the PSEMAS. The authorities noted that they are assessing avenues for an early retirement scheme, reforming the PSEMAS, and the Asset Ownership Policy is being finalized. They underscored that this will be followed by a consultation process with key stakeholders. In light of this, they noted that related budgetary savings are likely to materialize in the medium-term. The authorities stressed their commitment to protect the most vulnerable from the impact of the fiscal consolidation and higher food and fuel prices. They noted the CBIG increase to mitigate the impact of higher food and fuel prices and plans to increase other social grants and further strengthen SSNs' targeting.

Fiscal Structural Reforms

23. Strengthening public financial management would support the authorities' fiscal consolidation strategy. Staff called for the swift adoption of the long-standing Public Financial Management (PFM) Bill. This would allow strengthening budget planning and execution, establishing SOEs' financial oversight by the Ministry of Finance through regular reporting and audits, and improving fiscal risks management. As the authorities seek to finance public investment through public-private partnerships (PPPs), staff underscored the importance of developing a comprehensive fiscal risk management framework, including any necessary legislation, and encouraged the authorities to publish a fiscal risk statement alongside the annual budget statement.

24. Ensuring strong governance, management, and oversight of the newly established Welwitschia Fund (WF) will mitigate risks. In anticipation of windfalls from oil and gas discovery, the authorities have established a sovereign wealth fund to foster macroeconomic stability and inter-generational equity (Annex VII).[28] Staff supported the authorities' objectives while stressing the risks of re-directing budgetary resources to the WF given sizable fiscal financing needs and the importance of maintaining an adequate level of reserves. In this vein, staff called for delaying the operationalization of the WF until public debt and borrowing costs decline and reserves strengthen. Staff underscored that establishing a strong governance and management framework for the WF will be key to mitigate risks, including having a separate decision-making body, independent oversight, and clear deposit and withdrawal rules.

25. Most governance commitments on COVID-19 spending under the RFI were met and remaining ones are being finalized. All COVID-19 spending was budgeted and a preliminary execution report was published in the FY21/22 budget. COVID-19 related procurement contracts were published but the beneficial ownership information has not yet been published. A full audit of COVID-19 spending was conducted by the General Auditor and published online. The final

[28] The WF will be rule-based and aimed at fiscal stabilization and financing national projects with a positive intergenerational impact (Annex VIII).

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COVID-19 spending execution report and beneficial ownership information are expected to be published by end-2022.

Authorities' Views

26. The authorities stressed progress in strengthening the PFM framework and managing fiscal risks, and the importance of setting-up the WF. They underscored that the drafting of the PFM Bill is close to completion and will be followed by a consultative process with stakeholders, with the aim of presenting it to Parliament in 2024. They emphasized that the adoption of the PFM bill will support managing fiscal risks from SOEs, and that there is a well-developed PPP framework in place. They also noted that fiscal risks are so far limited as no PPP has been approved. The authorities emphasized that the WF is a pillar of their strategy to enhance natural resources management as outlined in the *Harambee Prosperity Plan II*. They underscored that the WF will be rule-based and have a strong governance framework. While they agreed on avoiding additional fiscal pressures, they underscored that the WF implementation will be over the medium-term once fiscal revenues have reverted to their long-term average. In parallel, they emphasized the importance of setting-up the WF framework swiftly, ahead of the natural resources revenues windfall, to ensure appropriate management. The authorities noted significant progress towards the publication of the final COVID-19 spending report and beneficial ownership—the only remaining commitments under the RFI yet to be finalized.

B. Preserving the Currency Peg to Anchor Inflation

27. Maintaining the policy rate broadly aligned with the SARB's interest rate and an adequate level of reserves will anchor inflation and preserve the currency peg to the South Africa rand. The peg has so far served Namibia well, providing an anchor to monetary policy, and inflation expectations as well as supporting the credibility of policies and financial sector stability. Implementing the planned fiscal consolidation (¶18, ¶20) will further bolster the credibility of the peg. Staff stressed that, if downside risks materialized (¶16) with further pressures on reserves, raising the policy rate above SARB's rate, accelerating the fiscal adjustment, and mobilizing additional external financing would help support reserves and the currency peg.[29]

Authorities' Views

28. The authorities re-iterated their commitment to the currency peg to anchor monetary policy and inflation. They agreed on the importance of keeping the policy rate broadly aligned with the SARB's interest rate and preserving an adequate level of reserves. While noting inflationary pressures and risks to the outlook from deteriorating global conditions, they stressed that international reserves remained at a comfortable level. They agreed on the importance of contingency planning in case downside risks materialized.

[29] Higher-than-anticipated food and fuel import prices and lower commodity export prices could widen the current account deficit and put additional pressures on reserves.

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C. Strengthening Resilience and Managing Macro-Financial Risks

29. The authorities have made good progress in the implementation of the 2018 FSSA recommendations (Text Table 2). Key steps were taken to establish a macroprudential policy framework, improve banking sector oversight, enhance the supervision of non-bank financial institutions (NBFIs), and develop a crisis management and resolution framework. An explicit macroprudential mandate was attributed to the BoN, and a Financial Stability Macroprudential Oversight (FSMO) Department and a Financial Stability Committee were established. The adoption of the Banking Act strengthened banks' regulatory framework, reporting requirements for banks were tightened, and an assessment of two systemic banks was conducted. A risk-based supervision framework for NBFIs was developed and bills addressing regulatory gaps for NBFIs' oversight (NAMFISA and Financial Institutions and Markets Bills) were adopted, to be operationalized by end-2022. The BoN was granted full resolution powers and a deposit insurance scheme was operationalized.

Text Table 2. Namibia: Progress in the Implementation of the 2018 FSSA Recommendations

Recommendation	Actions Taken	Remaining Actions
Establish macroprudential policy framework	Explicit macroprudential mandate attributed to BoN; Financial Stability and Macroprudential Oversight Department and a Financial Stability Committee established.	Operationalizaiton of the Financial Stability and Macroprudential Oversight Department with concrete tools and frameworks to manage financial risks.
Improve banking sector oversight	Adoption of Banking Act; strenghtened bank reporting requirements; and risk assessment of two systemic banks.	Making risk assessments more forward looking; better coordination between off-sight Analysis Division of BoN (OAD) and on-sight Examination Division of BoN (OED) toward an eventual phasing out of parallel frameworks for banking supervision.
Enhance the supervision of NBFIs	Development of risk-based supervision for NBFIs; and adoption of NAMFISA and Financial Instituitions Markets bills.	Operatinalizaiton of NAMFISA and FIM bills.
Develop crisis management and resolution framework	BoN granted full resolution powers; and deposit insurance scheme operationalized	Establish Emergency Liquidity Assistance (ELA) framework.

30. In view of increased risks, further strengthening the resilience of the financial sector, managing macro-financial risks and sound regulation and supervision will support financial stability. Staff supported allocating appropriate resources to FSMO (¶28) and expanding macroprudential tools—notably adopting a framework for a countercyclical capital buffer, conducting a data-driven analysis for the adoption of debt service-to income limits, and updating early warning indicators and stress testing. In parallel, strengthening collaboration within the BoN

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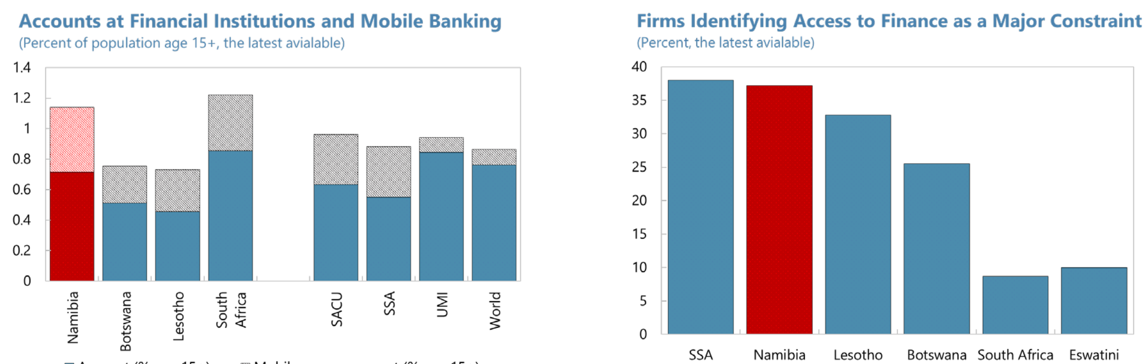
and between the BoN and NAMFISA would enhance macro-financial analysis, including monitoring of systemically important banks and NBFIs. Operationalizing BoN's emergency lending assistance would strengthen crisis management and resolution. The authorities are considering measures to encourage banks to increase credit provision, including a loan moratorium and delayed loans re-classification. Staff cautioned against encouraging banks to take excessive credit risk and introducing a moratorium for NPLs as it could pose risks to financial stability. Staff also underscored heightened financial-sovereign nexus and that rising interest rates could exacerbate banks' credit risks, given their sizable exposure to mortgages. Staff supported lifting the 2020 COVID-19 relief measures at the expiration date.

31. **Staff welcomes the authorities' commitment to strengthen the AML/CFT framework to address weaknesses.** The recent assessment of Namibia's AML/CFT framework by the Eastern and Southern Africa Anti-Money Laundering Group identified a number of weaknesses in laws, regulations, and effectiveness. Staff underscored that strengthening the AML/CFT framework is pivotal to avoid reputational risks and possible grey listing by the Financial Action Task Force (FATF) and its potential negative repercussions to the Namibian economy. To this end, the authorities have developed an action plan to implement main recommendations and are revising key pieces of legislation to be presented to Parliament by end-2022. Moving ahead, strengthening implementation capacity, including with the support of the IMF and other development partners, will enhance the effectiveness of Namibia's AML/CFT framework.

32. **Improving access to credit, notably for SMEs and the most vulnerable, would support inclusive growth (Annex X).** While bank account ownership in Namibia is relatively high (70 percent of adults), access to credit remains limited for firms, notably SMEs, and low-income and rural populations (text chart). The authorities are updating their financial sector inclusion strategy. Staff noted that buttressing micro-credit institutions, easing collateral constraints through collective schemes, and increasing the bankability of projects would enhance access to credit. Ensuring banks' access to reliable credit history and collateral information through credit bureaus and digital databases would reduce information asymmetries and help manage risks.

Namibia: Financial Inclusion



Source: The World Bank, Global Findex Database.

Source: World Bank Enterprise Survey.

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Authorities' Views

33. The authorities underscored their commitment to maintaining financial stability and strengthening the AML/CFT framework. They stressed significant progress in establishing a macroprudential policy framework, strengthening financial supervision, and setting-up a crisis management and resolution framework. They noted the importance of managing macro-financial risks and expanding the macroprudential toolbox, with the support of IMF technical assistance. While the authorities emphasized that fostering higher private sector credit is pivotal to support the recovery, they stressed that measures are still under discussion and will aim at maintaining financial stability. The authorities stressed their determination to swiftly implement the action plan to strengthen the AML/CFT framework and noted ongoing legislative reforms.

34. The authorities agreed with the importance of broadening financial access to foster an inclusive recovery. They noted ongoing initiatives to fund riskier projects with high value potential (Catalytic First Loss Venture Capital Fund) and increase financial literacy and bankability of projects by young entrepreneurs (Mentoring and Coaching Program).

D. Fostering Sustainable and Inclusive Private Sector-Led Growth

35. As Namibia recovers from the COVID-19 crisis, fostering sustainable and inclusive private-sector led growth is pivotal to reduce unemployment and inequality. The implementation of the authorities' strategy to generate sustainable and inclusive growth (*Harambee Prosperity Plan II*) is progressing. Key elements are: i) diversifying sources of economic growth by attracting private investment in the green and blue economy; and ii) enhancing productivity in sectors with high employment potential, particularly agriculture. Developing the green hydrogen industry is underway, with private sector investments having started and further investors' interest heightened by the energy crisis in Europe.[30] In addition, private sector participation in the agricultural sector is encouraged, including through participation of private operators in the green schemes. The authorities are also identifying high-value products (e.g., table grapes, blueberries) and aim to reduce the barriers to entry for firms into the export market, including through establishing export standards and lowering costs of export certifications.

36. Advancing structural reforms to support economic diversification and increase productivity is key to generate higher and sustainable growth. Staff underscored that:

- **Streamlining business regulations and procedures will improve the business environment.** The Namibia Investment Promotion and Development Board (NIPDB), in coordination with government entities, is advancing measures to improve the business environment, including through digitalization. A centralized e-service for all government services and an electronic customs clearance process are being established. A physical one-

[30] Namibia is one of the most competitive potential green hydrogen producers. A large green hydrogen project investment (about 80% of GDP) was awarded to a private company in 2021, with construction anticipated to start in 2025. A smaller-size project has already started the construction phase.

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stop center for investors was launched to streamline procedures and reduce costs of doing business. In addition, a start-ups support facility was established, with funding from the Development Bank of Namibia. Moving ahead, accelerating the implementation of one-stop e-services, simplifying procedures to start a business and revising outdated requirements, strengthening coordination with the private sector, and raising awareness about the start-ups facility will be important. In parallel, ensuring a predictable regulatory framework will support private investment.[31]

- **Reducing skills mismatches will support the development of new engines of growth and job creation.** A high unemployment rate among individuals with an advanced education (about 13 percent in 2018) and the high return to advanced education points to a skills mismatch.[32] Two audits are ongoing to assess skills at the higher education level and to develop the green hydrogen industry. Staff noted that conducting a skills audit at the economy-wide level would allow to assess overall skills mismatches and align training needs with labor market demand. Internships and apprenticeships could also assist recent graduates in gaining industry-specific knowledge. Meanwhile, easing regulatory restrictions to hire skilled foreign workers would contribute to fill the skills gap.

- **Continuing to strengthen governance and the anticorruption framework will support private investment.** Namibia's institutional and governance framework is ranked as one of the strongest in Sub-Saharan Africa.[33] Staff supported the authorities' strategy to continue to improve accountability and transparency and strengthening anti-corruption mechanisms. Moving ahead with subscribing to the Extractive International Transparency Initiative (EITI) would further strengthen governance. In parallel, advancing the second Anticorruption Strategy and Action Plan (2021–25) would be important.[34] Notably, the anticorruption legislation is currently being revised to reflect international best practices.

37. Addressing food insecurity will contribute to fostering inclusion and protecting human capital. Food insecurity in Namibia has worsened due to the impact of the pandemic and the war in

[31] The National Investment Protection Act (NIPA) was promulgated in 2016 but it was not enacted due to concerns raised by the private sector. A revised version, the Investment Promotion and Facilitation Bill, was presented to the National Assembly in late 2021 and then withdrawn following widespread criticisms. The National Equitable Economic Empowerment Bill (NEEEB) was enacted in 2016. However, following negative public reactions, it was revised and consequently withdrawn.

[32] Empirical estimates based on the 2018 Labor Force Survey show a wage premium of about 79 percent between individuals with a university degree compared to the ones holding a secondary school degree (Namibia Growth Diagnostics, GrowthLab, 2022).

[33] Namibia ranks well above the average of sub-Saharan Africa and upper middle-income countries across all World Governance Indicators (WGIs), notably on voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption.

[34] Namibia's Second National Anti-Corruption Strategy and Implementation Plan was launched in March 2022.

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Ukraine (¶8), with a potential scarring effect on the quality of human capital (Annex XI).[35] Staff welcomed the increase in the CBIG and other social grants to protect the most vulnerable (¶21), which would contribute to mitigating food insecurity. Furthermore, staff noted that the vulnerability of agricultural production to weather-shocks contributes to food insecurity (Annex XI).[36] Thus, advancing structural measures to increase productivity and resilience of the agriculture sector to weather shocks would be needed to increase agricultural output and food security (Annex XII). Thus, fostering access to mechanization, investing in climate-smart technologies and climate-resilient seeds, while attracting private sector to provide burden sharing for infrastructure costs, would be important.

Authorities' Views

38. The authorities underscored that ongoing growth-supporting structural reforms will support economic diversification, increase productivity, and foster job creation and inclusion. They noted that the green hydrogen industry will generate sizable direct jobs. Furthermore, the associated renewable energy production would reduce energy costs and facilitate the expansion of job-intensive manufacturing industries, such as agro-processing. They noted that digitalization in government services and tax payment will facilitate streamlining business regulatory burdens and lowering the cost of doing business. They emphasized that improving exporters' access to international markets will boost productivity. The authorities also indicated that they are planning to finalize the Namibian Investment Promotion and Facilitation Bill to strengthen the investment framework.

39. The authorities stressed that ensuring food security is a key element of their strategy. They underscored that several initiatives are in place to mitigate food insecurity, such as the Food Bank, the Drought Relief Program, and the School Feeding Program. They also noted ongoing initiatives to improve productivity and resilience in the agricultural sector, including the Namibia Agricultural Mechanization and Seed Improvement Project and the Green Schemes Initiative. The authorities also stressed that they are working toward increasing strategic food reserves.

OTHER ISSUES

40. Staff welcomes Namibia's progress toward achieving Special Data Dissemination Standards (SDSS). The authorities have strengthened the compilation and dissemination of general government operations data, reserve assets, and external sector and monetary and financial statistics, with the support of IMF technical assistance. Staff encouraged the authorities to finalize the remaining steps to achieve the SDSS by end-2022 and allocate appropriate resources to this objective. Staff also encouraged the authorities to provide the Namibia Statistics Agency (NSA) with

[35] Malnutrition in a child's formative years might result in neurological stunting, lowering the quality of human capital for future generations. Namibia has a 34.4 percent prevalence of stunting among children under five years, nearly four-fold that of upper middle-income countries (World Bank Development Indicators, 2021).

[36] Namibia experienced extreme droughts in recent years, with the latest in 2019.

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adequate resources to conduct the population census, the household income and expenditure survey and other needed surveys for rebasing nominal GDP.

41. A first-time safeguards assessment of the Bank of Namibia is currently underway and is expected to be completed in early-2023.

STAFF APPRAISAL

42. Namibia has started to gradually recover from the impact of the COVID-19 pandemic. The pandemic severely hit Namibia, but conditions have recently eased. The authorities implemented comprehensive economic stimulus and relief package to respond to the emergency. After a sharp contraction, a gradual recovery has started and is expected to continue, driven by robust mining production and a recovery in manufacturing and tourism sectors. Real GDP would recover to its pre-pandemic level by 2023. While fiscal imbalances are expected to narrow, global spillovers from the war in Ukraine and lower SACU receipts will put pressure on the external position in the short-term.

43. Deteriorating global conditions could adversely impact Namibia's short-term outlook. Stronger spillovers from the war in Ukraine, with higher-than-anticipated fuel and food prices, a global economic slowdown, lower export commodity prices, and further tightening in global financial conditions could exacerbate inflation, worsen the external and fiscal positions, and undermine the recovery. Furthermore, delays in the planned fiscal consolidation would increase financing needs and worsen Namibia's debt dynamics. Namibia's external position is assessed as moderately weaker than medium-term fundamentals and desirable policies.

44. Implementing the authorities' medium-term fiscal consolidation strategy is pivotal to preserve debt sustainability. Staff welcomes the authorities' progress in the planned fiscal consolidation and the adoption of measures to protect the most vulnerable from higher food and fuel prices and worsening food insecurity. Continuing to move forward with the envisaged fiscal adjustment measures is needed to maintain debt sustainability and put public debt-to-GDP on a gradually declining path over the medium-term. Notably, implementing the early retirement scheme and the ongoing SOE reform will be key. Furthermore, improving tax collection and enforcement will be important to mobilize additional revenues. In parallel, strengthening public financial management will support the fiscal consolidation strategy.

45. Ensuring strong governance, management, and oversight of the newly established Welwitschia Fund (WF) is needed to mitigate risks. Staff supports the authorities' objectives but noted the risks of re-directing scarce budgetary resources to the WF in the short-term, given sizable fiscal financing needs in the near term and the need to maintain an adequate level of reserves. Delaying the operationalization of the WF until public debt declines and reserves strengthen would mitigate risks.

46. Maintaining the policy rate broadly aligned with the SARB's rate and an adequate level of reserves will help anchor inflation and preserve the currency peg. If downside risks to the

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outlook materialized, with further pressures on reserves, raising the policy rate above SARB's rate, accelerating the planned fiscal adjustment, and mobilizing additional external financing would help support reserves and the currency peg.

47. Strengthening the resilience of the financial sector and managing macro-financial risks will support financial stability. The financial sector remains stable, but risks have increased. Staff welcomes the authorities' progress in establishing a macroprudential policy framework. Further expanding the macroprudential toolbox will support early detection of vulnerabilities and managing macro-financial risks. In addition, operationalizing BoN's emergency lending assistance will strengthen crisis management and resolution.

48. Advancing structural reforms to support economic diversification and increase productivity is key to foster inclusive growth. Generating inclusive private sector-led growth is needed to create job opportunities and reduce high unemployment and inequality. Improving the business environment, increasing access to finance, further strengthening governance, and reducing skills mismatches will support the private sector and job creation. Furthermore, addressing food insecurity will be important to foster inclusion and protect human capital.

49. Staff recommends that the next Article IV consultation with Namibia be held on the standard 12-month cycle.

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Figure 1. Namibia: The Impact of the COVID-19 Pandemic and Start of the Recovery

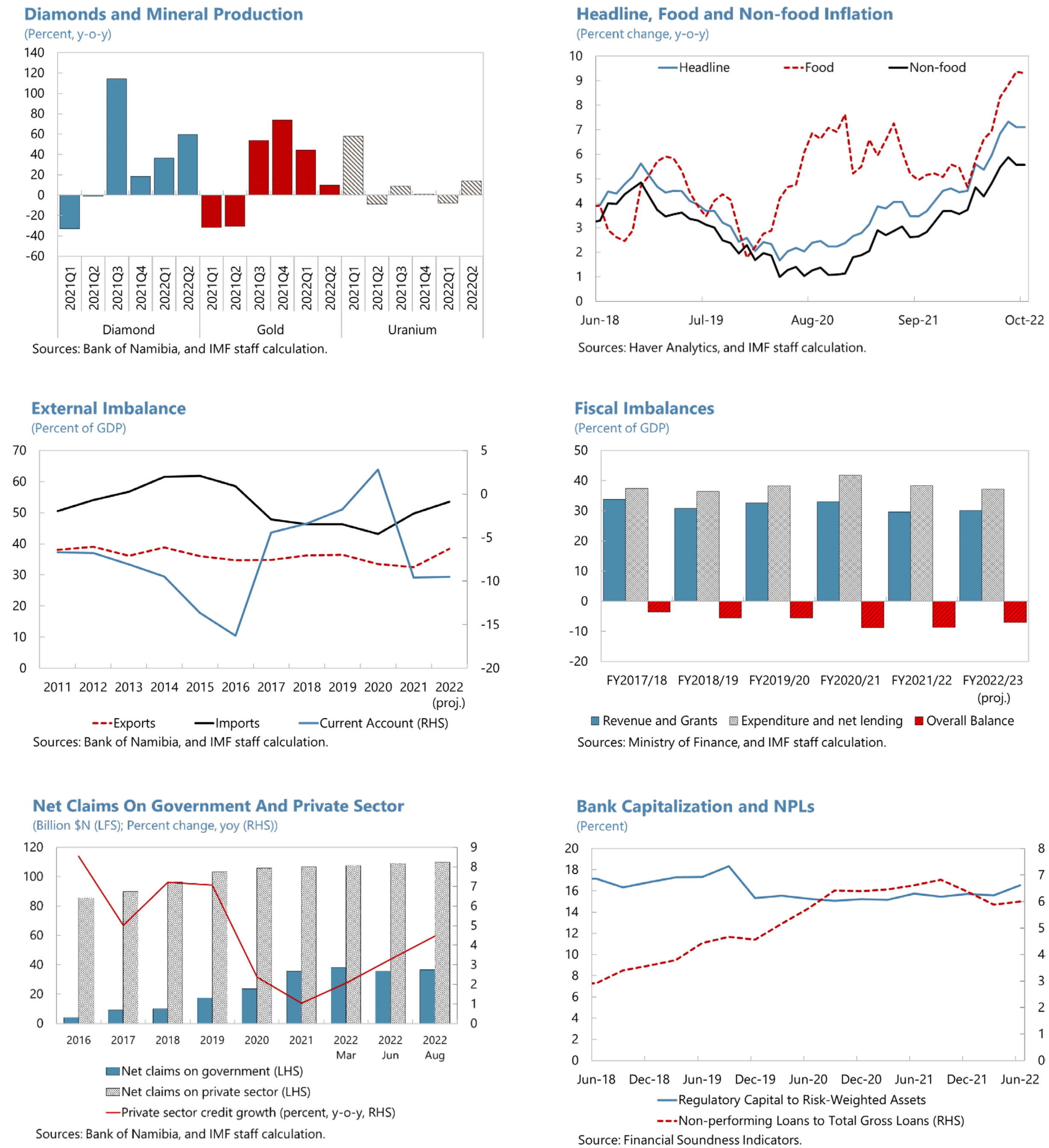

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Figure 2. Namibia: Macro-Financial Risks

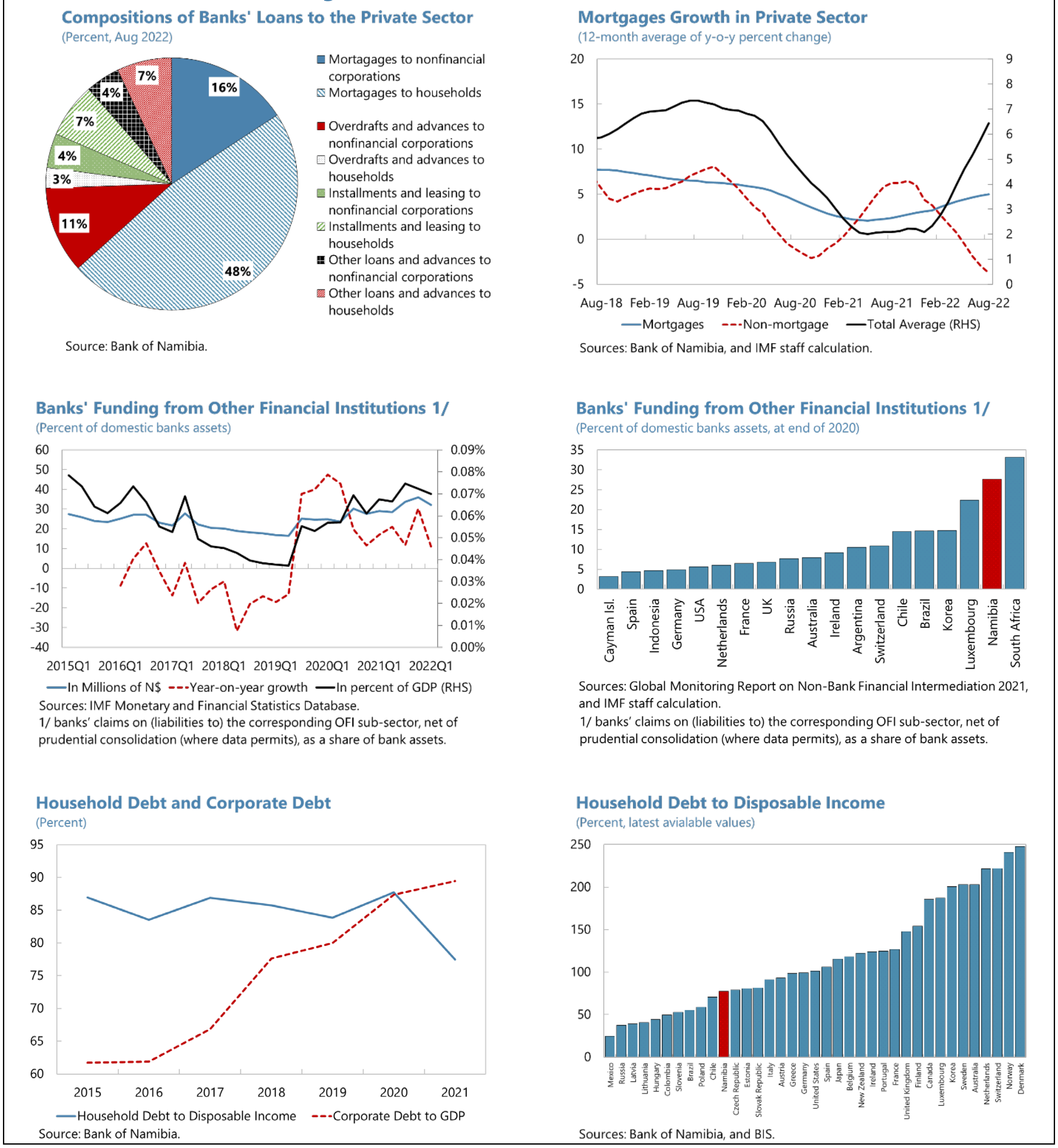

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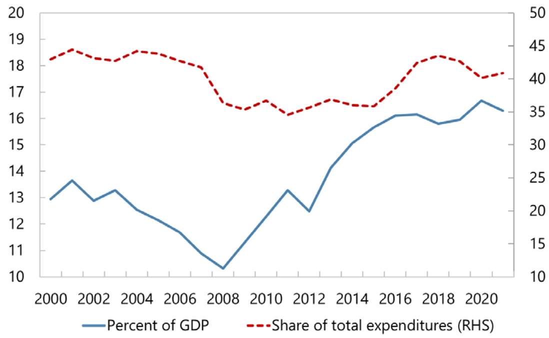
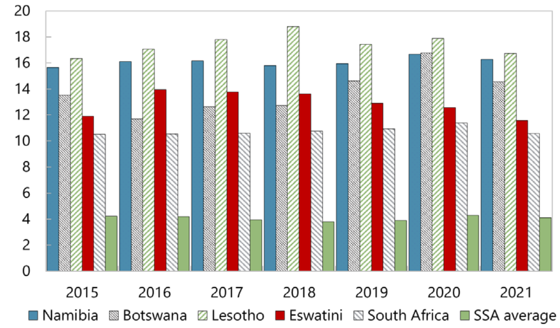
Figure 3. Namibia: Wage Bill, Transfers to SOEs and Tax Efficiency

Wage Bill
(Percent)



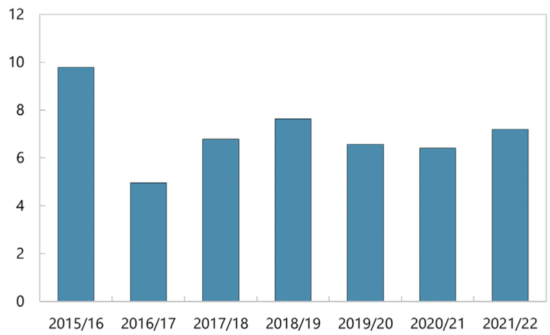
Sources: Bank of Namibia, and IMF staff calculation.

Wage Bill Comparison, 2015 - 2021
(Percent of GDP)



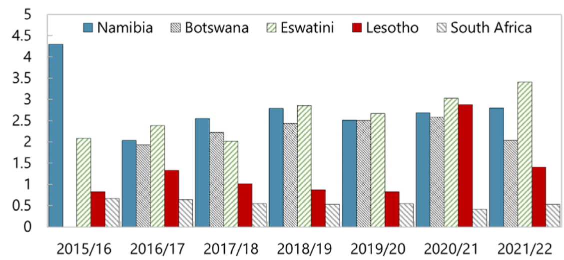
Sources: IMF WEO database, and IMF staff calculation.

Transfers to SOEs
(Percent of total expenditure)



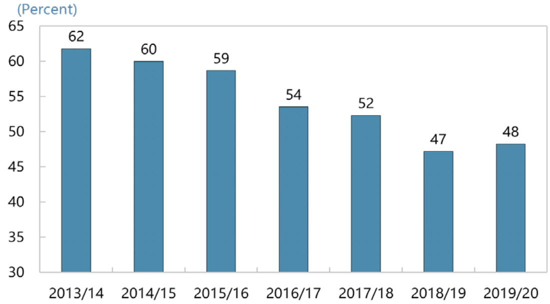
Sources: Namibia Ministry of Finance, and IMF staff calculation.

Transfers to SOEs
(Percent of fiscal year GDP)



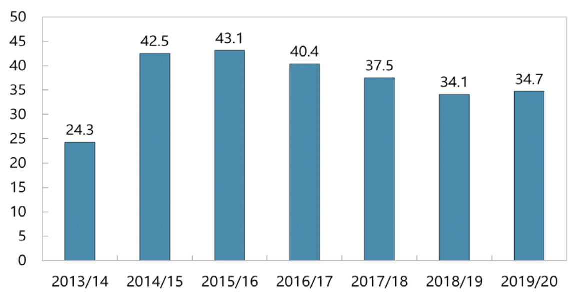
Source: IMF staff calculation.
Note: Transfers to SOEs in Botswana are budget numbers, and the actual amounts are subject to change. Data of South Africa are from budget estimates of national expenditure, and value in 2021/22 are adjusted appropriation, while numbers in previous years are audited outcome.

Value Added Tax C-Efficiency
(Percent)



Sources: Namibia Ministry of Finance, and IMF staff calculation.
Note: VAT c-efficiency is defined as the ratio of the share of VAT revenues on consumption to the standard VAT rate.

Corporate Income Tax Efficiency
(Percent)



Sources: Namibia Ministry of Finance, and IMF staff calculation.
Note: CIT efficiency as the ratio of actual CIT revenue in the reference tax base (net operating surplus in the national account) to the standard CIT rate.

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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
GDP per capita (US$, constant 2000 exchange rate)	10,817	10,626	10,030	10,287	11,168	11,959	12,639	13,308	13,981	14,697
Consumer prices (average)	4.3	3.7	2.2	3.6	6.4	4.9	4.5	4.5	4.5	4.5
External sector										
Exports (US$)	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 April 1.

2/ Public and private external debt.

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Table 2. Namibia: Balance of Payments, 2018–27[1/]

(US$ millions, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.	Proj	Proj	Proj	Proj	Proj	Proj
Current account	-455	-210	304	-1,179	-1,187	-776	-757	-727	-600	-585
Trade balance	-1,544	-1,302	-956	-1,946	-1,884	-1,734	-1,732	-1,701	-1,653	-1,683
Exports, f.o.b.	4,198	3,879	3,140	3,585	4,162	4,656	4,952	5,128	5,387	5,643
Of which:										
Diamonds	832	648	429	566	823	941	1,033	1,086	1,141	1,198
Other minerals	1,117	1,136	1,203	1,298	1,416	1,654	1,810	1,892	1,968	2,052
Other	2,249	2,095	1,508	1,721	1,922	2,061	2,108	2,150	2,278	2,393
Imports, f.o.b.	-5,742	-5,182	-4,096	-5,530	-6,046	-6,391	-6,684	-6,829	-7,040	-7,326
of which:										
Non oil imports	-4,839	-4,300	-3,532	-4,693	-4,827	-5,295	-5,629	-5,799	-6,025	-6,318
Food imports	-545	-617	-516	-935	-1,177	-1,175	-1,207	-1,209	-1,245	-1,294
Oil imports	-903	-882	-564	-837	-1,219	-1,095	-1,055	-1,029	-1,014	-1,008
Services (net)	178	82	-64	-177	-9	50	43	62	69	68
Transportation	-35	-27	-60	-130	-141	-149	-150	-153	-159	-166
Travel	327	242	45	78	260	289	305	323	320	340
Other services	-113	-134	-48	-124	-128	-90	-113	-107	-91	-107
Income (net)	-496	-300	-37	-236	-253	-261	-439	-511	-490	-512
Compensation of employees	-1	0	-5	-9	-5	-6	-7	-6	-6	-6
Investment income	-496	-300	-32	-227	-248	-255	-432	-505	-483	-505
Current transfers	1,408	1,310	1,359	1,179	959	1,170	1,371	1,423	1,473	1,541
Official transfers	1,357	1,292	1,314	1,124	904	1,110	1,309	1,357	1,404	1,469
Of which: SACU receipts	1,354	1,283	1,301	1,125	890	1,094	1,299	1,344	1,391	1,457
Other transfers	51	19	45	55	56	59	63	66	69	72
Capital and financial account	-493	90	144	-1,367	-1,089	-1,047	-995	-1,011	-884	-807
Capital account	-131	-105	-101	-137	-121	-135	-145	-148	-157	-165
Financial Account	-362	195	244	-1,229	-968	-912	-850	-863	-727	-643
Direct Investment	-110	188	208	-525	-612	-520	-436	-436	-340	-264
Portfolio Investment	230	125	-58	-468	-181	-205	-211	-222	-193	-168
Other Investment	-482	-119	95	-236	-175	-187	-203	-205	-193	-210
Errors and Omissions	-91	224	-66	47	...	...	...	...	...	...
Overall Balance	-52	-76	160	187	-98	272	238	285	284	222
Financing Gap	...	...	...	-187	...	...	...	...	...	...
Exceptional financing	...	...	...	377	...	...	...	...	...	...
IMF RFI	...	...	...	276	...	...	...	...	...	...
AfDB budget support	...	...	...	101	...	...	...	...	...	...
Change in reserves	...	...	...	-608	...	...	...	...	...	...
				(Percent of GDP)						
Current account	-3.3	-1.7	2.9	-9.6	-9.5	-5.8	-5.4	-4.9	-3.9	-3.6
Trade balance	-11.3	-10.4	-9.0	-15.8	-15.1	-13.0	-12.3	-11.5	-10.7	-10.4
Exports	30.7	30.9	29.7	29.1	33.3	34.9	35.2	34.7	34.8	34.9
Imports	-42.0	-41.3	-38.7	-44.9	-48.4	-47.9	-47.5	-46.2	-45.5	-45.2
of which:										
Oil imports	-6.6	-7.0	-5.3	-6.8	-9.8	-8.2	-7.5	-7.0	-6.6	-6.2
Food imports	-4.0	-4.9	-4.9	-7.6	-9.4	-8.8	-8.6	-8.2	-8.1	-8.0
Services (net)	1.3	0.7	-0.6	-1.4	-0.1	0.4	0.3	0.4	0.4	0.4
Income (net)	-3.6	-2.4	-0.3	-1.9	-2.0	-2.0	-3.1	-3.5	-3.2	-3.2
Current transfers	10.3	10.4	12.8	9.6	7.7	8.8	9.7	9.6	9.5	9.5
Of which: SACU receipts	9.9	10.2	12.3	9.1	7.1	8.2	9.2	9.1	9.0	9.0
Capital and financial account	-3.6	0.7	1.4	-11.1	-8.7	-7.9	-7.1	-6.8	-5.7	-5.0
Capital account	-1.0	-0.8	-1.0	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Financial account	-2.6	1.6	2.3	-10.0	-7.7	-6.8	-6.0	-5.8	-4.7	-4.0
Direct Investment	-0.8	1.5	2.0	-4.3	-4.9	-3.9	-3.1	-3.0	-2.2	-1.6
Portfolio Investment	1.7	1.0	-0.5	-3.8	-1.4	-1.5	-1.5	-1.5	-1.3	-1.0
Other Investment	-3.5	-0.9	0.9	-1.9	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3
Overall Balance	-0.4	-0.6	1.5	1.5	-0.8	1.0	1.7	1.9	1.8	1.4
Financing Gap	...	...	...	-1.5	...	...	...	...	...	...
Exceptional financing	...	...	...	3.1	...	...	...	...	...	...
IMF RFI	...	...	...	2.2	...	...	...	...	...	...
AfDB budget support	...	...	...	0.8	...	...	...	...	...	...
Change in reserves	...	...	...	-4.9	...	...	...	...	...	...
Gross International Reserves (end of period)	2,155	2,071	2,158	2,766	2,603	2,814	2,988	3,200	3,406	3,586
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 (US$ millions) from IIP	8,444	8,325	8,182	8,180	8,074	8,199	8,228	8,304	8,327	8,196
Short-term debt (US$ millions)	1,021	994	848	649	878	842	804	793	829	817
Exchange rate (N$/US$, period average)	13.2	14.5	16.5	...	...	...	...	...	...	...
GDP at market prices (US$ millions)	13,676	12,539	10,581	12,307	12,492	13,340	14,079	14,778	15,462	16,192

Sources: Namibian authorities and Fund staff estimates and projections.

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

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Table 3a. Namibia: Fiscal Operations of the Central Government, 2018/19–27/28
(N$ millions)

	2018/19	2019/20	2020/21	2021/22	2022/23	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Prel.	Proj	Budget	Mid-Year Budget	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	55,820	58,525	58,103	55,365	61,982	56,678	61,564	69,201	76,713	81,066	87,023	93,317
Domestic revenue	55,748	58,427	57,837	55,360	61,982	56,678	61,564	69,201	76,713	81,066	87,023	93,317
Tax revenue	52,189	54,816	54,576	51,248	53,931	50,376	53,439	62,959	69,944	73,920	79,150	84,821
Personal income tax	13,588	14,147	13,768	14,629	15,833	14,657	15,302	17,127	18,407	19,728	21,099	22,610
Corporate income tax	7,325	7,257	7,559	7,485	8,412	7,291	8,416	9,233	10,031	10,804	11,628	12,520
o/w Diamond mining	1,496	1,143	1,367	933	1,546	1,385	1,546	1,949	2,158	2,317	2,488	2,621
VAT and sales taxes	12,542	12,999	9,760	13,174	14,106	12,947	14,174	15,719	17,140	18,366	19,650	21,033
Taxes on international trade (includes SACU receipts)	17,375	18,922	22,252	14,751	14,190	14,190	14,190	19,246	22,611	23,142	24,760	26,503
Other taxes	1,360	1,490	1,238	1,208	1,391	1,292	1,357	1,633	1,756	1,882	2,013	2,155
Nontax revenue	3,559	3,611	3,262	4,112	8,050	6,302	8,125	6,243	6,769	7,145	7,872	8,496
Diamond and other mineral royalties	1,652	1,253	1,500	1,390	1,880	2,052	1,849	2,227	2,478	2,573	3,004	3,310
Adminstrative fees, including license revenues	1,228	1,027	1,045	1,182	1,302	1,418	1,418	1,414	1,521	1,629	1,743	1,866
Other	679	1,332	717	1,540	4,869	2,831	4,858	2,601	2,770	2,943	3,125	3,320
Grants	72	98	266	5	0	0	0	0	0	0	0	0
Expenditure and net lending 1/	65,939	68,571	73,549	71,583	76,505	71,928	75,827	81,310	86,918	91,694	97,950	104,517
Current expenditure	60,190	62,491	66,378	65,730	70,089	66,052	69,480	74,866	79,901	84,234	90,017	96,065
Personnel	29,317	29,584	29,592	30,210	32,047	30,116	32,056	32,799	34,021	35,323	37,645	40,119
Goods and services	6,952	8,510	9,775	8,782	9,672	8,233	9,199	10,510	11,299	12,107	12,954	13,866
Interest payments and borrowing charges	6,014	6,887	7,291	7,975	9,329	9,210	9,133	11,554	13,068	13,983	15,643	16,632
Domestic	4,066	4,674	5,195	5,853	7,543	7,542	7,542	9,536	11,030	12,191	14,318	15,308
Foreign	1,944	2,203	2,076	2,056	1,787	1,668	1,591	2,017	2,038	1,791	1,325	1,324
Borrowing related charges	4	11	21	65	0	0	0	0	0	0	0	0
Subsidies, transfers and guarantees	17,906	17,510	19,720	18,764	19,042	18,492	19,092	20,003	21,513	22,821	23,775	25,449
Capital expenditures 2/	5,812	5,908	7,183	5,871	6,435	5,876	6,347	6,465	7,039	7,484	7,959	8,479
Acquisition of capital assets	5,032	4,736	4,247	3,322	4,595	4,010	4,497	4,358	4,685	5,149	5,509	5,897
Project Finance (extrabudgetary)	0	257	1,526	1,299	1,135	1,162	1,135	990	990	990	990	990
Capital transfers	779	915	1,410	1,250	705	705	715	1,117	1,364	1,345	1,460	1,593
Net lending	-62	171	-12	-18	-20			-21	-23	-25	-26	-28
Overall balance 2/	-10,119	-10,046	-15,446	-16,218	-14,523	-15,250	-14,263	-12,109	-10,205	-10,628	-10,927	-11,199
Primary balance	-4,105	-3,159	-8,154	-8,243	-5,194	-6,040	-5,130	-555	2,864	3,355	4,716	5,433
Financing	8,813	11,387	15,446	16,343	14,523	15,250	14,263	9,688	10,205	10,628	10,927	11,199
Domestic financing (net)	6,123	11,471	8,990	21,215	10,777	11,730	10,294	9,446	10,553	12,750	11,866	10,857
of which: Accounts Payable	0	3,800	-3,800	0	0			0	0	0	0	0
External financing (net)	2,690	-84	6,455	-4,872	1,246	520	1,469	2,163	-348	-2,122	-938	343
Disbursements	3,000	257	7,651	2,799	4,111	3,162	4,111	3,411	1,490	13,832	1,490	1,490
Project loans	0	257	1,526	1,299	1,135	1,162	1,135	990	990	990	990	990
External bond	0	0	0	0	0	0	0	500	500	12,842	500	500
Budget support loan			2,000	1,500	2,300	2,000	2,300	0	0	0	0	0
IMF RFI 4/			4,006				0					
KFW					676		676	1,921				
Amortization	-310	-341	-1,195	-7,671	-2,865	2,642	2,642	-1,247	-1,838	-15,954	-2,428	-1,147
Privatization					2,500	3,000	2,500	500				
Financing Gap	...	...	...	...	...	...		...	...	...	...	...
Anticipated Financing	...	...	...	...	...	...		...	...	...	...	...
IMF RFI	...	...	...	...	...	...		...	...	...	...	...
AfDB COVID Facility	...	...	...	...	...	...		...	...	...	...	...
Residual financing gap	...	...	...	...	...	...		...	...	...	...	...
Discrepancy	-1,306	1,341	...	125	...	...		...	...	...	...	...
Memorandum items:												
Primary Balance (excluding SACU receipts)	-21,480	-22,082	-30,406	-22,994	-19,383			-19,801	-19,747	-19,787	-20,044	-21,070
Primary Balance (excluding SACU and mineral revenues)	-24,628	-24,477	-33,273	-25,318	-22,810			-23,977	-24,383	-24,676	-25,537	-27,001
Public and publicly guaranteed debt	102,242	119,657	127,265	141,055	155,681			168,804	180,456	192,420	204,143	216,599
Public debt	91,260	107,577	116,039	130,917	143,341			155,395	166,040	176,973	187,616	198,908
Domestic 3/	59,037	70,892	78,669	96,948	107,600			117,045	127,598	140,347	152,213	163,823
External	32,224	36,685	37,370	33,969	35,741			38,349	38,442	36,626	35,403	35,085
GDP at market prices (Fiscal Year)	181,103	179,460	176,140	186,730	205,666	197,460	198,965	223,486	240,264	257,449	275,454	294,839

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

4/ IMF RFI was on lent by BoN o MoF to finance the budget.

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Table 3b. Namibia: Fiscal Operations of the Central Government, 2018/19–27/28

(Percent of GDP)

	2018/19	2019/20	2020/21	2021/22	2022/23	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Prel.	Proj	Budget	Mid-Year Budget	Proj	Proj	Proj	Proj	Proj
Total revenue and grants	30.8	32.6	33.0	29.6	30.1	28.7	30.9	31.0	31.9	31.5	31.6	31.7
Revenue	30.8	32.6	32.8	29.6	30.1	28.7	30.9	31.0	31.9	31.5	31.6	31.7
Tax revenue	28.8	30.5	31.0	27.4	26.2	25.5	26.9	28.2	29.1	28.7	28.7	28.8
Personal income tax	7.5	7.9	7.8	7.8	7.7	7.4	7.7	7.7	7.7	7.7	7.7	7.7
Corporate income tax	4.0	4.0	4.3	4.0	4.1	3.7	4.2	4.1	4.2	4.2	4.2	4.2
o/w Diamond mining	0.8	0.6	0.8	0.5	0.8	0.7	0.8	0.9	0.9	0.9	0.9	0.9
VAT and sales taxes	6.9	7.2	5.5	7.1	6.9	6.6	7.1	7.0	7.1	7.1	7.1	7.1
Taxes on international trade (includes SACU receipts)	9.6	10.5	12.6	7.9	6.9	7.2	7.1	8.6	9.4	9.0	9.0	9.0
Other taxes	0.8	0.8	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Nontax revenue	2.0	2.0	1.9	2.2	3.9	3.2	4.1	2.8	2.8	2.8	2.9	2.9
Diamond and other mineral royalties	0.9	0.7	0.9	0.7	0.9	1.0	0.9	1.0	1.0	1.0	1.1	1.1
Administrative fees, including license revenues	0.7	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Other	0.4	0.7	0.4	0.8	2.4	1.4	2.4	1.2	1.2	1.1	1.1	1.1
Grants	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending 1/	36.4	38.2	41.8	38.3	37.2	36.4	38.1	36.4	36.2	35.6	35.6	35.4
Current expenditure	33.2	34.8	37.7	35.2	34.1	33.5	34.9	33.5	33.3	32.7	32.7	32.6
Personnel	16.2	16.5	16.8	16.2	15.6	15.3	16.1	14.7	14.2	13.7	13.7	13.6
Goods and services	3.8	4.7	5.5	4.7	4.7	4.2	4.6	4.7	4.7	4.7	4.7	4.7
Interest payments	3.3	3.8	4.1	4.3	4.5	4.7	4.6	5.2	5.4	5.4	5.7	5.6
Domestic	2.2	2.6	2.9	3.1	3.7	3.8	3.8	4.3	4.6	4.7	5.2	5.2
Foreign	1.1	1.2	1.2	1.1	0.9	0.8	0.8	0.9	0.8	0.7	0.5	0.4
Borrowing related charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies, transfers and guarantees	9.9	9.8	11.2	10.0	9.3	9.4	9.6	9.0	9.0	8.9	8.6	8.6
Capital expenditure	3.2	3.3	4.1	3.1	3.1	3.0	3.2	2.9	2.9	2.9	2.9	2.9
Acquisition of capital assets	2.8	2.6	2.4	1.8	2.2	2.0	2.3	2.0	2.0	2.0	2.0	2.0
Project Financed (extrabudgetary)	0.0	0.1	0.9	0.7	0.6	0.6	0.6	0.4	0.4	0.4	0.4	0.3
Capital transfers	0.4	0.5	0.8	0.7	0.3	0.4	0.4	0.5	0.6	0.5	0.5	0.5
Net lending	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 2/	-5.6	-5.6	-8.8	-8.7	-7.1	-7.7	-7.2	-5.4	-4.2	-4.1	-4.0	-3.8
Primary balance	-2.3	-1.8	-4.6	-4.4	-2.5	-3.1	-2.6	-0.2	1.2	1.3	1.7	1.8
Financing	4.9	6.3	8.8	8.8	7.1	7.7	7.2	4.3	4.2	4.1	4.0	3.8
Domestic financing (net)	3.4	6.4	5.1	11.4	5.2	5.9	5.2	4.2	4.4	5.0	4.3	3.7
of which: Accounts Payable	0.0	2.1	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	1.5	0.0	3.7	-2.6	0.6	0.3	0.7	1.0	-0.1	-0.8	-0.3	0.1
Disbursements	1.7	0.1	4.3	1.5	2.0	1.6	2.1	1.5	0.6	5.4	0.5	0.5
Project loans	0.0	0.1	0.9	0.7	0.6	0.6	0.6	0.4	0.4	0.4	0.4	0.3
External bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	5.0	0.2	0.2
Budget support loan			1.1	0.8	1.1	1.0	1.2	0.0	0.0	0.0	0.0	0.0
IMF RFI 4/			2.3									
KFW					0.3		0.3	0.9				
Amortization	-0.2	-0.2	-0.7	-4.1	-1.4	1.3	1.3	-0.6	-0.8	-6.2	-0.9	-0.4
Privatization					1.2	1.5	1.3	0.2				
Financing Gap	**…**	**…**	**…**	**…**	**…**	**…**		**…**	**…**	**…**	**…**	**…**
Anticipated Financing	**…**	**…**	**…**	**…**	**…**	**…**		**…**	**…**	**…**	**…**	**…**
IMF RFI	…	…	…	…	…	…		…	…	…	…	…
AfDB COVID Facility	…	…	…	…	…	…		…	…	…	…	…
Residual financing gap	**…**	**…**	**…**	**…**	**…**	**…**		**…**	**…**	**…**	**…**	**…**
Discrepancy	-0.7	0.7	…	0.1	…	…		..	..	..	..	..
Memorandum items:												
Primary Balance (excluding SACU receipts)	-11.9	-12.3	-17.3	-12.3	-9.4			-8.9	-8.2	-7.7	-7.3	-7.1
Primary Balance (excluding SACU and mineral revenues)	-13.6	-13.6	-18.9	-13.6	-11.1			-10.7	-10.1	-9.6	-9.3	-9.2
Public and publicly guaranteed debt	56.5	66.7	72.3	75.5	75.7			75.5	75.1	74.7	74.1	73.5
Public debt	50.4	59.9	65.9	70.1	69.7			69.5	69.1	68.7	68.1	67.5
Domestic 3/	32.6	39.5	44.7	51.9	52.3			52.4	53.1	54.5	55.3	55.6
External	17.8	20.4	21.2	18.2	17.4			17.2	16.0	14.2	12.9	11.9

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

4/ IMF RFI was on lent by BoN o MoF to finance the budget.

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Table 4. Namibia: Monetary Accounts, 2018–27[1/]

(N$ millions, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Prel.	Proj	Proj	Proj	Proj	Proj	Proj
Central Bank										
Reserve money	9,256	7,081	8,223	8,238	8,980	9,697	10,418	11,188	12,014	12,900
Currency	4,521	4,518	4,711	4,759	5,187	5,602	6,018	6,463	6,940	7,452
Reserves	3,735	2,563	3,512	3,479	3,792	4,096	4,400	4,725	5,074	5,448
Net foreign assets	28,360	26,491	28,940	32,736	30,463	34,285	37,581	41,664	45,775	49,244
Net domestic assets	-20,103	-19,410	-20,717	-24,498	-21,483	-24,588	-27,163	-30,476	-33,761	-36,344
Monetary survey										
Currency	2,936	2,873	2,914	3,128	3,417	3,707	4,017	4,357	4,729	5,130
Deposits	101,409	112,463	121,738	126,816	138,222	149,255	160,307	172,111	184,765	198,345
Net foreign assets	38,220	38,186	41,975	46,376	44,424	48,531	52,119	56,521	60,963	64,599
Net domestic assets	66,125	77,151	82,677	83,569	97,216	104,431	112,204	119,947	128,532	138,876
Domestic credit	113,509	127,622	134,933	148,158	155,678	164,149	174,579	185,792	197,637	210,273
Claims on central government (net)	9,929	17,344	23,694	35,787	36,939	38,401	40,127	41,858	43,661	45,591
Claims on private sector	96,386	103,211	105,668	106,773	112,375	118,641	126,641	135,412	144,725	154,668
Others	7,194	7,067	5,571	5,597	6,365	7,107	7,810	8,522	9,250	10,015
Other items (net) 2/	-47,384	-50,471	-52,256	-64,590	-58,463	-59,718	-62,375	-65,845	-69,105	-71,397
Monetary base	9,256	7,081	8,223	8,238	8,980	9,697	10,418	11,188	12,014	12,900
Currency outside banks	4,521	4,518	4,711	4,759	5,187	5,602	6,018	6,463	6,940	7,452
Commercial bank deposits	4,735	2,563	3,512	3,479	3,792	4,096	4,400	4,725	5,074	5,448
	(Percent of GDP)									
Net foreign assets	21.1	21.1	24.1	25.5	22.1	22.1	22.1	22.3	22.5	22.3
Net domestic assets	36.5	42.6	47.5	45.9	48.3	47.6	47.5	47.4	47.5	47.9
Domestic credit	62.7	70.4	77.5	81.4	77.4	74.8	74.0	73.4	73.0	72.6
Claims on central government (net)	5.5	9.6	13.6	19.7	18.4	17.5	17.0	16.5	16.1	15.7
Credit to the private sector	53.2	57.0	60.7	58.7	55.9	54.1	53.7	53.5	53.5	53.4
Monetary base	5.1	3.9	4.7	4.5	4.5	4.4	4.4	4.4	4.4	4.5
Broad money (M2)	57.6	63.6	71.6	71.4	70.4	69.7	69.6	69.7	70.0	70.2
	(Percentage change)									
Net foreign assets	22.5	-0.1	9.9	10.5	-4.2	9.2	7.4	8.4	7.9	6.0
Net domestic assets	-1.1	16.7	7.2	1.1	16.3	7.4	7.4	6.9	7.2	8.0
Domestic credit	7.5	12.4	5.7	9.8	5.1	5.4	6.4	6.4	6.4	6.4
Claims on central government (net)	10.1	74.7	36.6	51.0	3.2	4.0	4.5	4.3	4.3	4.4
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
Monetary base	5.7	5.0	16.1	0.2	9.0	8.0	7.4	7.4	7.4	7.4
Broad money (M2)	6.4	10.5	8.1	4.2	9.0	8.0	7.4	7.4	7.4	7.4
Memorandum items:										
Velocity	1.7	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Money multiplier	11.3	16.3	15.2	15.8	15.8	15.8	15.8	15.8	15.8	15.8
Exchange rate (N$/US$)	14.4	14.0	14.7	15.9	…	…	…	…	…	…
Domestic interest rates (end of period)										
Deposit rate	5.6	5.5	3.3	2.9	…	…	…	…	…	…
Lending rate	10.1	9.9	7.9	6.9	…	…	…	…	…	…
BoN repo rate	6.75	6.50	3.75	3.75	…	…	…	…	…	…
Three-month T-bill rate	7.9	7.6	4.0	4.8	…	…	…	…	…	…

Sources: Namibian authorities and Fund staff estimates and projections.

1/ End of period.

2/ Including valuation.

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Table 5. Namibia: Financial Sector Indicators, 2013–2022[2/]

(Percent, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Mar-22	Jun-22
Banking indicators											
Capital adequacy											
Capital to assets	11.1	11.3	11.4	11.5	11.7	11.4	9.3	9.6	9.3	9.1	10.2
Regulatory capital to risk-weighted assets	14.4	14.7	14.3	15.1	15.5	16.8	15.3	15.2	15.7	15.6	16.5
Regulatory tier I capital to risk-weighted assets	11.5	11.9	11.8	12.4	12.6	13.9	13.0	13.1	13.7	13.6	15.1
Asset quality											
Large exposure to capital	119.6	148.3	137.7	125.1	141.0	135.5	211.9	181.6	146.7	127.2	84.1
Nonperforming loans to total gross loans	1.3	1.2	1.6	1.5	2.5	3.6	4.6	6.4	6.4	5.9	6.0
Earnings and profitability											
Trading income to total income	6.5	5.7	6.5	4.6	4.8	5.1	7.5	8.1	6.5	5.8	6.4
Return on assets 1/	3.1	3.4	3.7	3.5	3.0	2.9	2.8	1.8	2.2	2.1	2.3
Return on equity 1/	31.9	33.8	36.0	32.6	28.0	25.0	17.4	10.8	12.8	12.7	13.4
Interest margin to gross income	54.7	56.8	57.4	56.7	55.1	56.7	56.4	54.0	56.3	56.4	56.5
Noninterest expenses to gross income	54.8	52.7	51.6	51.0	54.3	55.7	56.9	61.0	60.0	61.2	61.1
Personnel expenses to noninterest expenses	50.3	49.7	50.4	49.5	53.7	51.0	52.3	52.3	51.6	51.6	50.6
Liquidity											
Liquid assets to total assets	11.8	12.7	12.1	11.9	13.9	13.6	13.3	13.8	14.8	14.0	14.9
Liquid assets to short-term liabilities	19.7	20.9	21.9	23.5	26.5	27.9	27.5	24.4	17.9	21.2	17.1
Customer deposits to total (non-interbank) loans	102.5	98.6	95.2	95.4	97.0	97.3	98.8	99.6	103.0	95.9	101.9
Exposure to foreign exchange risk											
Net open position in foreign exchange to capital	2.6	2.7	5.1	2.7	2.6	7.6	5.3	2.3	4.5	2.3	6.4
Foreign currency-denominated loans to total loans	2.0	1.4	1.5	0.9	0.5	0.2	0.2	0.2	0.2	0.1	0.4
Foreign currency-denominated liabilities to total liabilities	3.7	3.3	3.7	2.8	4.7	3.7	3.8	4.7	4.6	4.5	4.3
Memorandum item:											
Holdings government debt to risk-weighted assets	12.8	10.9	13.0	13.9	16.9	18.8	23.3	-	-	-	-

Sources: Bank of Namibia and IMF staff estimates.

1/ Before taxes.

2/ as of June 2022.

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Annex I. Risk Assessment Matrix[1]

Source of Main Risks	Likelihood	Expected Impact on the Economy	Recommended Policy Response
Conjunctural Risks			
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	High	**High.** Limited direct trade and financial links to Russia and Ukraine. However, higher global energy and food prices could further increase inflation, worsen the external position, and put additional pressures on reserves, slow down the recovery and increase poverty and inequality.	• Accelerating fiscal adjustment, raising the policy rate above South Africa's, and seeking affordable external financing would support reserves and the currency peg. • Provide targeted support to vulnerable households to mitigate the impact of higher fuel and food prices.
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High	**High.** Higher international oil and food prices would increase inflation, put additional pressure on international reserves, slow down economic recovery and increase poverty and inequality.	• Accelerating fiscal adjustment, raising the policy rate above South Africa's, and seeking affordable external financing would support reserves and the currency peg. • Provide targeted support to vulnerable households to mitigate the impact of higher fuel and food prices.
Systemic social unrest. Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	High	**High.** Slower global demand for commodities would negatively impact the mining sector, worsen the fiscal and current account positions, add pressures on reserves, and weaken growth.	• Accelerating fiscal adjustment, raising the policy rate above South Africa's, and seeking external financing would support reserves and the currency peg. • Accelerate structural reforms to support the private and foster economic diversification and alternative sources of growth.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	Medium	**High.** Slower global demand for commodities would negatively impact the mining sector, worsen the fiscal and current account positions, add pressures on negatively impact the mining sector on reserves and weaken growth.	• Accelerating fiscal adjustment, raising the policy rate above South Africa's, and seeking affordable external financing would support reserves and the currency peg. • Accelerate structural reforms to support the private sector and foster economic diversification and alternative sources of growth.

[1] Based on the latest G-RAM (August 2022). The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

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Source of Main Risks	Likelihood	Expected Impact on the Economy	Recommended Policy Response
Conjunctural Risks			
Local COVID-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	Medium	**High.** Larger current account and fiscal imbalances following lower demand for commodities; lower SACU revenues as the regional economy slowdowns; pressures on public debt and reserves and refinancing risks.	• Provide targeted and temporary fiscal support to the most vulnerable households and businesses.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	Medium	**Medium.** Slower growth and higher financing cost deteriorating the fiscal balance and worsening the debt level; lower commodity prices translating into larger current account and fiscal imbalances; lower capital inflows.	• Accelerating fiscal adjustment, raising the policy rate above South Africa's, and seeking affordable external financing would support reserves and the currency peg.
Structural Risks			
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	High	**Medium.** Limited direct trade and financial links to Russia and Ukraine. However, higher global energy and food prices could further increase the inflationary pressure.	• Provide targeted support to vulnerable households to ensure inclusive recovery.
Domestic Risks			
Incomplete or weak policy implementation, that undermines confidence in the government's fiscal adjustment plans, e.g., triggered by political and capacity constraints, and materialization of contingent liabilities.	Medium	**High.** Rising public debt, and tighter budget financing; declining international reserves; possible disorderly fiscal adjustment and deterioration in financial sector's asset quality.	• Identify permanent spending reductions and revenue mobilization measures that support long-term development. Accelerate reforms of public extra budgetary entities, continue policies restraining the wage bill. Implement mitigating measures for the most vulnerable. Monitor and manage key fiscal risks and financial sector vulnerabilities.
Protracted drought and climate change in Southern Africa, that causes water shortages, frequent flood, and lower production.	Medium	**Medium.** Higher food prices; lower electricity production; fiscal costs to support farmers and rural population; higher unemployment.	• Implement adaptation measures to climate shocks. Accelerate the structural transformation of the economy. • Provide targeted support to affected households.

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Annex II. Implementation of Past IMF Advice

Goals	Objectives	Actions/Measures	Developments
Bring public debt to a sustainable path by implementing a growth friendly fiscal consolidation (reducing the impact on low-income and cash-constrained households) and preserve macroeconomic stability.	Enact sustainable spending reduction while protecting the vulnerable.	Improve targeting of cash transfers through spending review of education and health sectors, broadening the coverage of children, and improving the targeting of existing housing programs (improving the targeting and doubling the coverage of the housing subsidy component of the BTP, particularly in urban areas, at a very low fiscal cost); contain the public wage bill, rationalize transfers to public entities and enterprises, and strengthen their governance and oversight, fast-tracking turnaround plans for key loss-making enterprises.	Namibia has a comprehensive social safety nets (SSNs) system, which has contributed to reduce poverty. Several social assistance programs are in place, including old age and disability grants, child grants, veterans' support program, and food support programs. The recent unified social registry is expected to further enhance targeting. Furthermore, in response to the COVID-19 pandemic, the authorities implemented a new targeted cash transfer program to support unemployed and low-income individuals and a wage subsidy program to support the private sector and protect jobs. The authorities have started implementing a fiscal consolidation plan underpinned by containing the wage bill and SOEs reform. Public spending was reduced by 3 percent of GDP in FY21/22 through a no-inflation adjustment of nominal wages and hiring freeze (except in priority sectors); re-prioritizing spending in goods and services and public investment, and the unwinding of the 2020 COVID-19 fiscal package. Furthermore, reductions in the wage bill are envisaged through the implementation of an early retirement scheme. Transfers to SOEs will be reduced through divestiture from selected entities and improving SOEs' performance and management. The authorities have already taken key measures to reduce these transfers: the loss-making national airline was liquidated in March 2021 and the mobile telecommunications company was partially privatized in November 2021.
	Advance reforms in revenue administration and improve progressivity of tax policy.	Simplify tax regime for small taxpayers; prioritize the collection of tax arrears and avoid tax amnesties that would undermine tax compliance; expanding tax bases by eliminating special tax regimes, reducing exemptions, and eliminating tax loopholes; increase progressivity of personal income tax and eliminate some of the zero-rating under the VAT could raise enough revenue to offset possible negative distributional effects. Removing the zero-rate VAT for residential utilities and fuel products could increase revenues by about 0.1–0.6 percent of GDP.	The Namibia Revenue Agency (NamRA) was operationalized in April 2021, with the support of IMF technical assistance, to improve tax collection. Strengthening tax collection and enforcement is a key element of the authorities' strategy to mobilize additional revenues. Efforts to mobilize tax arrears led to additional 1.4 percent of GDP tax revenues in FY2021/22 and sizable amount is expected in FY22/23. SACU revenues declined significantly due to the pandemic (4.7 percent of GDP in FY21/22).

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Goals	Objectives	Actions/Measures	Developments
	Strengthen the PFM framework and the management of extra-budgetary entities and public enterprises. Manage fiscal risks.	Finalize the PFM bill and amendments to the State Finance Act. Implement the 2015 Public Procurement Act regulations and extend new procurement rules to all public entities; focus on delivering value-for-money and not be used for broad developmental objectives that would complicate procurement processes and reduce opportunities for cost savings; develop the fiscal risks framework, publish a risks statement, and widen the coverage of fiscal accounts beyond the central government; control off-budget financing of investment projects.	The authorities are seeking to finance public investment through public-private partnerships (PPPs) and SOEs. This could increase fiscal risks, notably creating contingent liabilities. The long-standing Public Financial Management (PFM) Bill is being finalized and is expected to the presented to Parliament in 2024. This will support strengthening budget planning and execution, establishing SOEs' financial oversight by the Ministry of Finance through regular reporting and audits, and improving fiscal risks management. Developing a comprehensive fiscal risks framework is under consideration.
	Preserve the peg with the rand and maintain adequate level of reserves.	Maintain the BoN rate broadly in line with the SARB's policy rate and manage reserves to support the peg.	The BoN has maintained its policy rate broadly in line with the SARB policy rate. The BoN lowered its policy rate from 6.5 to 3.75 percent in 2020, following the SARB's rate reduction and kept it unchanged during 2021. As the SARB started unwinding its accommodative monetary policy stance, the BoN gradually raised its policy rate by cumulative 250 basis points (to 6.5 percent) during 2022. The authorities have maintained an adequate level of reserves, reaching 5 months of imports at end-2021. The authorities decided to use the 2021 general SDR allocation (183.2 mln SDR) from the IMF to boost reserves consistent with staff advice. Following through with the fiscal consolidation plan in the medium-term will support the external position and the peg.
Strengthen productivity, external competitiveness and boost long-term growth.	Streamline business regulations.	Improve product market regulations and business conditions; avoid regulations hampering domestic competition such as preferential procurement rules.	The authorities have laid out their overarching strategy to engender sustainable and inclusive growth laid out in the Harambee Prosperity Plan. This builds on: i) diversifying sources of economic growth by attracting private investment in the green and blue economy; ii) enhancing productivity in sectors with high employment potential, particularly agriculture. In addition, the authorities have launched a partnership with the Harvard Kennedy School, under the framework of the Harvard Growth Lab, to identify potential sectors and sub-sectors for investment and actions to make the business environment more conducive toward private sector led growth. The partnership is ongoing with a comprehensive report containing key recommendations having been published. The authorities are also identifying high-value products (e.g., table grapes, blueberries) and aim to reduce the barriers to entry for firms into the export market, including through establishing export standards and lowering costs of export certifications.

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Goals	Objectives	Actions/Measures	Developments
	Foster financial inclusion to support economic growth.	Enhance credit allocation toward more productive sectors; improve credit information system and establish a secured transaction framework for movable assets. Reassess the mandate of the poorly performing state-owned financial institutions, particularly in housing and agriculture.	The authorities are following a multi-prong strategy to foster financial inclusion to support long-term growth. They have launched the Namibia Financial Sector Strategy (NFSS) to address the structural constraints in the financial sector. The strategy focuses on five priority reform areas: financial markets deepening and development; financial safety net; financial inclusion; localization of the Namibian financial sector; and skills development in the financial sector. To enhance firm access to credit, the authorities are pursuing a strategy toward making SME financing more accessible. The SME financing strategy includes three complementary facilities, namely the Credit Guarantee Scheme, the Catalytic First Loss Venture Capital Fund and the Mentoring and Coaching Program. The BoN is also overseeing the operationalization of the Credit Guarantee Scheme, which has seen a limited pick up thus far, underlining the challenge of bankable projects and lack of credit demand in the COVID-19 recovery phase.
	Contain public sector wage dynamics and reduce skill mismatches.	Establish a well-structured-salary policy for the public sector and invest in human capital by increasing labor permits for skilled workers, improving access and quality of secondary and tertiary education and the efficiency of public education spending, and enhancing vocational and on-the-job training programs.	Two audits are ongoing to assess skills at the higher education level and to develop the green hydrogen industry. The authorities are considering conducting a comprehensive skills audit to identify gaps and train the workforce to match business needs. Advancing the early retirement scheme and the reform of SOE reforms will contribute to make the public salary structure more streamlined and competitive. The authorities have already taken measures to contain public sector wage dynamics: i) no inflation adjustment in FY21/22; and ii) below-inflation adjustment in FY22/23.
	Reduce costs of key production inputs.	Foster technological readiness and strengthen the capacity to adopt to new technologies; reduce the high electricity and transportation costs (reforming public enterprises operating in these sectors).	The authorities have been encouraging innovation-driven investments with initiatives to make Namibia a global leader in the production and exportation of green hydrogen, developing renewable sources of energy, and a buildup of skills complementarity in emerging high-value added sectors. Developing the green hydrogen industry is underway, with private sector investments having started and further investors' interest heightened by the energy crisis in Europe. Furthermore, the associated renewable energy production would reduce energy costs and facilitate the expansion of job-intensive manufacturing industries, such as agro-processing.

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Goals	Objectives	Actions/Measures	Developments
Strengthen financial sector resilience and manage macro-financial risks.	Strengthen Banking and NBFI oversight and enhance management of interconnectedness risks.	Legislative changes to address existing regulatory gaps in the industry (NAMFISA, Financial Institutions and Market bills) should be adopted while reviving efforts to introduce risk-based supervision; the coordination framework between the BoN, NAMFISA and the Ministry of Finance should be strengthened, including through the creation of the planned Financial Stability Committee.	NAMFISA and Financial Institutions and Market bills have been adopted while significant progress has been made to advance risk-based supervision through two stress tests of systemically important banks and the development of a risk-based supervision framework for NBFIS. Financial Stability Committee has been established, and coordination between BoN, NAMFISA and the Ministry of Finance has been strengthened with clarification of responsibilities and assignment of full resolution powers to BoN. The liquidity management framework has been strengthened with a functional liquidity forecasting model in place that needs to be incorporated to the monetary policy decision framework. Interconnectedness risks are being evaluated through a system-wide liquidity stress test under the macroprudential policy framework.
	Strengthen the macroprudential policy framework.	Complement the macroprudential toolkit with DSTI limits and other macroprudential measures to manage risks from the highly leveraged private sector.	Key steps were taken to establish a macroprudential policy framework. Thus, an explicit macroprudential mandate was attributed to the BoN, and a Financial Stability Macroprudential Oversight Department and a Financial Stability Committee were established. The authorities are considering expanding the macroprudential tools, with the support of IMF technical assistance.
	Develop a full crisis management and resolution framework.	Develop a full crisis management and resolution framework, including by granting BoN and NAMFISA full resolution powers of financial institutions, and operationalizing emergency lending assistance.	A crisis management and resolution framework has been developed, including by granting BoN full resolution powers, in consultation with NAMFISA. The operationalization of the emergency lending assistance framework is in progress with the support of IMF technical assistance.

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Annex III. Capacity Development Strategy

Overview of Capacity Building in Namibia

1. **The capacity development strategy in Namibia has focused on supporting the implementation of economic policies and reforms to foster macroeconomic stability and growth.** Capacity development (CD) has been supporting the implementation of the authorities' fiscal consolidation; strengthening the resilience of the financial sector and mitigating risks, and enhancing the quality of statistics.

2. **In the fiscal area, CD has focused on supporting revenue mobilization and strengthening the Public Financial Management (PFM) framework.** Past CD has focused on:

- **The establishment of the revenue authority and administrative reforms.** The Namibia Revenue Authority (NamRA) has been successfully established in 2021. Priorities include the recruitment of staff, improving capacity of the Large Taxpayer Office, adopting the new ITAS in domestic taxes, reviewing the ASYCUDA system in customs, and strengthening VAT management. Recently, additional support has been provided on post clearance audit; business continuity planning (BCP); risk management and intelligence; and strategy development and monitoring framework.

- **Strengthening the Public Financial Management (PFM) framework.** Technical assistance (TA) support covered (i) reviewing the new PFM bill and supporting implementing regulations; (ii) developing macro-fiscal forecasting capacity at the Ministry of Finance; (iii) improving budget formulation and execution, anchoring the budget on medium term objectives, and considering fiscal risks; (iv) strengthening the governance of extrabudgetary entities and public enterprises; (v) enhancing fiscal reporting; and (vii) reviewing the PPP framework to ensure consistency with best practice and containment of risks to the budget.

3. **In the monetary and financial areas, CD has focused on establishing a risk-based supervision framework, liquidity forecasting and a deposit insurance scheme, and updating stress-testing.** The last FSAP was conducted in 2018, and good progress has been made in the implementation of key recommendations. With assistance from MCM and AFRITAC South TA, BoN has developed a state-of-the-art liquidity forecasting framework. The next step is to incorporate it to calibrate the monetary operations. Risk-based supervision has been developed by NAMFISA with a Special Resolution Regime for the BoN, which has been passed in the revisions to the Banking Institutions Act. The Namibia Deposit Guarantee Authority (NDGA) was established in 2020. TA is supporting the authorities in updating stress-testing tools, including the long-Term Insurance Industry and Old Mutual Stress Testing Framework.

4. **In the statistical area, CD support was delivered on all macroeconomic statistics.** CD focused on strengthening the compilation processes of macroeconomic statistics and assist Namibia's progress in the implementation of the international statistical standards. Support was

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conducted by AFRITAC South for National Accounts and Prices and from HQ for external sector statistics, monetary and finance statistics, as well as government finance statistics.

5. **Implementation of CD recommendations has been broadly satisfactory.** Progress has been made on establishing a revenue authority, developing a fiscal risk management framework, implementing key FSAP recommendations, and improving the quality of BOP and FSI statistics. Although a PPP framework has been approved by parliament in 2018, more effort is needed to advance PFM reforms. On the financial sector side, enhancing NBFIs oversight, in particular, the regulatory and oversight framework has faced delays.

Moving Ahead: Priorities in Capacity Building

6. **Technical assistance will continue to support revenue mobilization, strengthening the Public Financial Management (PFM) framework, and the achievement of Sustainable Development Goals (SDGs).** Moving ahead, technical assistance will support:

- **Developing further capacity in NamRA and streamlining of exemptions.** Support will focus on strengthening risk-based compliance management; and addressing issues related to ITAS and Asycuda to make revenue monitoring and collection more efficient. Furthermore, conducting a review and consolidation of exemptions, especially discretionary ones, can help streamline exemptions management and limit losses to the budget.

- **Supporting the setting-up and building capacity of a Tax Policy Unit within the Ministry of Finance.**

- **Enhancing the Public Financial Management (PFM), including planned support to perform a PIMA to improve planning and execution of public investment and reviewing the PPP framework.** In addition, there is planned TA on digitalization of the budget formulation process.

- **Supporting the achievement of Sustainable Development Goals (SDGs) through assessing the spending needs and mapping interventions in the budget.** A virtual workshop was the first of three complementary activities to strengthen strategic spending and public financial management to achieve the SDGs. The subsequent activities will focus on (i) assessing additional spending needs to achieve selected SDGs; (ii) budgeting the implementation of Namibia's 6th National Development Plan; and (iii) supporting the medium-term expenditure framework.

7. **Furthermore, TA will support the strengthening macroprudential framework, managing macro-financial risks, and fostering financial stability.** Moving forward, CD will support:

- **Operationalizing the new macroprudential framework and expanding the macroprudential toolbox.** Significant progress has been made in establishing a macroprudential framework, in line with FSAP recommendations. An explicit

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macroprudential mandate was attributed to the BoN, and a Financial Stability Macroprudential Oversight (FSMO) Department and a Financial Stability Committee were established at the BoN. Further work is needed to map and develop tools to enhance the capacity of FSMOD to manage financial stability risks. To this end, TA engagement will focus on: (i) reviewing the authorities' early warning indicator framework; (ii) supporting the application of the Growth at Risk (GaR) analysis as well as the monitoring of systemic risks and conducting stress-testing; (iii) providing assistance on using the stress testing framework delivered to the Namibian authorities in 2019 and evaluating banks' capital needs with a scenario specific to Namibia; (iv) supporting the introduction of a framework for counter cyclical capital buffer (CCyB); (v) monitoring interconnectedness risks (between NBFIs and commercial banks); and (vi) developing an Emergency Liquidity Assistance (ELA) framework.

- **Mitigating cyber-risk to support financial stability**. There is an ongoing TA engagement jointly with AFRITAC South to support mitigation against cyber risk. Namibia is one of six pilot countries and CD will focus on: (i) developing a regulatory and supervisory framework on cyber risk; (ii) conducting a cyber security training and (iii) launching a comprehensive cyber security strategy with the first phase being planned for end-2023.

- **Developing Central Bank Digital Currency (CBDCs) as well as updating Namibia's regulatory framework on virtual and crypto assets.** Discussions are ongoing on potential TA covering CBDC implications for monetary policy transmission and financial stability as well as a better understanding of TA needs on regulating virtual and crypto assets.

8. ICD has launched a multi-year TA project to enhance macroeconomic policy analysis and forecasting at the Bank of Namibia (BoN). In 2021, the BoN requested ICD TA to enhance its ability to conduct coherent macroeconomic forecasting and risk analysis. The BoN also envisages becoming a national center of excellence for economic analysis, research and forecasting that would upgrade the overall quality of macroeconomic analysis. In the first phase of ICD TA project: (i) a centralized database for the BoN's forecasting team has been built; (ii) BoN research staff has been trained in macroeconomic forecasting and nowcasting; (iii) the BoN's near-term forecasting models for inflation have been evaluated and re-estimated; and (iv) GDP nowcasting has been introduced. In the second phase, the development of a semi-structural core model for the medium-term forecast is planned. Such a model would need to account for Namibia's close integration with the South African economy, including large SACU transfers and its exchange rate peg to the rand.

9. STA will continue to provide support on dissemination of timely and comprehensive economic statistics through a roadmap for subscribing to the Special Data Dissemination Standards (SDDS). To this end, STA conducted missions to strengthen the consistency between monetary and finance statistics and international investment position data, and improve the coverage of the external sector, monetary and finance statistics, and general government operations (GGO) data. Subscription to the SDDS is expected to be finalized before the end of 2022.

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Table AIII.1. Namibia: Capacity Development Priorities

A. FAD	
Topics	**Objectives**
Revenue Administration	• Improve revenue administration processes, particularly audit functions. • Strengthen core customs and tax functions and provide training on digital taxation and transfer pricing.
Tax Policy	• Review and streamline the exemptions regime. • Establish and build capacity of a Tax Policy Unit within the Ministry of Finance. • Review natural resource taxation.
Public Financial Management	• Review the new PFM bill/act and support implementing regulations. • Develop macro-fiscal forecasting capacity of the MoF, improve budget formulation through digitalization and execution processes and anchor the budget on medium term objectives while considering fiscal risks. • Perform a PIMA to improve planning and execution of public investment including reviewing the PPP framework. • Strengthen governance of extrabudgetary entities and public enterprises and support SOEs reforms. • Enhance fiscal reporting (Chart of Accounts).
SDG Costing	• Assess the cost for reaching the SDGs in the areas of education, health, and infrastructure (roads, electricity, water/sanitation).
B. MCM	
Topics	**Objectives**
Financial Supervision and Regulation	• Map and develop tools to financial sector risks for use by the FSMOD. • Review early warning indicator framework. • Evaluate banks' capital needs with a stress test scenario specific to Namibia's vulnerabilities. • Review development of counter cyclical capital buffer (CCyB) and the possibility of a positive neutral rate. • Update the liquidity regulatory framework. • Develop stress testing capacity for pension funds and insurance companies and strengthen the existing framework for banks. • Update the capital requirement regulation for pension funds. • Follow up on other key issues identified by the 2018 FSAP, including NBFI supervision and crisis management preparedness.

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Table AIII.1. Namibia: Capacity Development Priorities (concluded)

B. MCM (continued)	
Topics	**Objectives**
Monetary policy and central bank operations	• Revamp the liquidity management framework and improve liquidity forecasting capacities.
C. ICD	
Topics	**Objectives**
Forecasting and Policy Analysis System (FPAS) at the Bank of Namibia	• Develop modeling and analytical capacity, establishing processes and organizational structure of FPAS, and incorporating it into the decision-making process.
D. STA	
Topics	**Objectives**
Real sector statistics	• Rebase national accounts, improve quarterly GDP statistics. Follow-up on producer price index.
Government finance statistics	• Review the completeness of reported fiscal operations accounts, particularly investments financed by non-central government entities. Adopt and report fiscal accounts using latest GFS standards and expand coverage to general government and key SOEs as needed.
Financial statistics	• Expand FSI coverage to non-banks. • Continue expanding coverage of the monetary survey to asset managers.

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Annex IV. Debt Sustainability Analysis

Under the baseline scenario, Namibia's public debt-to-GDP ratio is expected to stabilize and then decline but risks are significant. Public debt increased sharply during FY20/21–21/22 due to the impact of the COVID-19 pandemic, compounded by the sharp decline in SACU tax revenues. The implementation of the planned medium-term fiscal consolidation and the recovery of the Namibian economy will help reduce the primary balance over the medium-term and put debt on a downward trajectory. Gross financing needs are expected to gradually decline while remaining above the MAC DSA benchmarks for emerging markets. Stress test scenarios suggest that the debt levels and gross financing needs are particularly vulnerable to real GDP growth shocks. A more protracted impact of the COVID-19 crisis, stronger-than-anticipated spillovers from the war in Ukraine, delays in the planned medium-term fiscal consolidation, and weaker export commodity prices could worsen Namibia's macroeconomic outlook, increase financing needs, and worsen Namibia's debt dynamics. On the external debt side, stress test scenarios indicate vulnerabilities to current account and exchange rate depreciation.

A. Public Debt[1]

Background

1. **Namibia's public debt increased sharply during FY20/21–21/22 due to the impact of the COVID-19 crisis, compounded by the sharp decline in SACU tax revenues**. While the public debt ratio had been rising since 2010, the rate of increase in the debt stock had significantly slowed down in the years preceding the pandemic.[2] This reflected the authorities' fiscal consolidation efforts during FY16/17–FY19/20 to contain the build-up of public debt, with primary spending reduced from 38.3 percent to 34.4 percent of GDP over the period. Due to the COVID-19 shock, the authorities had to temporarily deviate from their planned fiscal consolidation to respond to the crisis. Public debt sharply increased to 65.9 percent of GDP in FY20/21, as the fiscal deficit widened to 8.8 percent of GDP to accommodate the COVID-19 response package and real GDP contracted by 8 percent (y-o-y). Public debt further increased to 70.1 percent of GDP in FY21/22, slightly above the MAC-DSA benchmark of 70 percent. This reflected a widening of the fiscal deficit to 8.7 percent of GDP, despite the implementation of fiscal adjustment measures to contain the wage bill and mobilize additional revenues, as SACU tax revenues sharply declined by 4.7 percent. Moody's and Fitch downgraded Namibia's rating to B1 in April 2022 and BB- in June 2022, respectively.

2. **The authorities have been diversifying their funding sources and borrowing instruments to finance rising gross financing needs.** During FY16/17–FY19/20, gross financing

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[1] The analysis of public debt is based on fiscal year (April 1–March 31). Public debt is defined as central government debt only. Namibia does not produce consolidated debt data for the overall public sector (including local governments, extra-budgetary funds, and parastatals).

[2] Nominal debt stock growth declined from 29 percent of GDP during FY 15/16–17/18 to 19.6 percent of GDP in FY18/19–19/20.

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needs averaged about 18.3 percent of GDP, above the MAC DSA benchmark of 15 percent of GDP. Gross financing needs increased to 25.5 percent of GDP in FY20/21 due to the impact of the pandemic and to 29.3 percent of GDP in FY21/22, also reflecting the redemption of the US$500 million 2010 Eurobond. To diversify financing instruments, the authorities issued a US$750 million ten-year Eurobond in 2015; rand-denominated bonds of about R2 billion over 2015–16 (R1.55 billion in 2015 and R492 million in 2016); and used AfDB budget support loans during 2017–21 (cumulative of R9.5 billion). In parallel, they added 30-year instruments to their domestic debt maturity structure. This change in debt composition has increased foreign exchange risk, although non-rand foreign currency debt remains low at about 14.3 percent of total debt in FY21/22. The repayment of the 2010 Eurobond in FY21/22, through the issuance of domestic debt, has partly reduced the exchange rate risk.

3. **Despite the recent recourse to external borrowing, the domestic market remains the government's main source of financing**. Banks typically purchase short-term debt while non-bank financial institutions mostly purchase long-term fixed-rate and, to a lesser extent, inflation-indexed debt. The 2018 change in regulation to increase the minimum required investment in domestic assets for pension funds and other institutional investors, from 35 to 45 percent of assets, increased domestic absorption capacity. This has heightened the financial-sovereign nexus.

4. **Namibia's public debt carries significant roll-over risks**. Although the share of domestic short-term debt declined from 40 percent of domestic debt in FY17/18 to 35.8 percent in FY20/21, it remains sizable and could expose Namibia to rollover risks. Furthermore, 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, with the repayment of 2010 Eurobond (US$ 500 million) in FY21/22 and the repayment of 2015 Eurobond (US$750 million) falling due in FY25/26.

Outlook and Risks

5. **Under the baseline scenario, the debt to GDP ratio is gradually declining, but risks are significant**. Public debt is expected to start declining in FY22/23, with public debt at 69.7 percent of GDP. This would reflect: i) the anticipated narrowing of the fiscal deficit to 7.1 percent of GDP, on the back of fiscal adjustment measures to contain the wage bill and budgetary transfers to SOEs as well as better-than-expected revenues outturn; ii) non-debt creating financing from the partial privatization of the telecommunication company, and iii) the strengthening of the domestic recovery, with real GDP growth anticipated at 3 percent in 2022. The continuation of Namibia's economic recovery and the implementation of the planned medium-term fiscal consolidation, supported by wage bill, SOEs, and Public Service Employees Medical Aid Scheme reforms, will help to stabilize debt over the medium term. Thus, the primary fiscal deficit is expected to gradually decline to below the debt-stabilizing level by FY25/26 while public debt is expected to decline gradually to 67.5 percent of GDP by FY27/28. After reaching 29.3 percent of GDP in FY21/22, gross financing needs would gradually decline, reaching 20.7 percent of GDP in FY27/28. Yet, it will remain higher than the MAC-DSA benchmark of 15 percent of GDP, with a spike in 25/26 corresponding to the 2015 Eurobond repayment needs. A more protracted impact of the COVID-19 crisis, stronger-

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than-anticipated spillovers from the war in Ukraine, delays in the planned medium-term fiscal consolidation, and lower non-oil commodity prices could worsen Namibia's macroeconomic outlook, widen external and fiscal imbalances, increase financing needs, and worsen debt dynamics.

6. Macro-fiscal standard shocks and stress test scenarios point to multiple vulnerabilities.

- ***Growth shock.*** This scenario assumes lower real GDP growth because of slower-than-anticipated recovery, reducing the real GDP growth by one standard deviation for two consecutive years (2023–24). Under this scenario, the debt-to-GDP ratio would be above the MAC-DSA benchmark of 70 percent, remaining elevated well above 70 percent over the medium term.

- ***Primary balance shock.*** This scenario assumes that about half of the planned fiscal adjustment is not realized (with a cumulative shock impact of 2.2 percent of GDP), leading to higher primary deficit through FY2027/28. This scenario could capture, for instance, lower-than-anticipated mining revenues and/or delays in the wage bill and SOEs reform. Under this scenario, debt-to-GDP ratio would remain above 70 percent of GDP through FY2027/28.

- ***Combined macro-fiscal shock.*** This shock considers the most severe scenario of lower growth, higher primary deficit, and the associated higher interest rate. Under this scenario, public debt would peak at 89.2 percent of GDP in 2024/25 with gross financing needs above 25 percent of GDP. Public debt would remain elevated, staying above 88 percent of GDP over the medium-term.

- ***Contingent liabilities shock.*** This shock considers that a large share of contingent liabilities related to SOEs' debt is called. The scenario assumes a one standard-deviation shock to growth, with associated deterioration of the primary balance (as in the standard contingent liability shock scenario in the MAC DSA template), and a slight increase in interest rates. Under this scenario, debt would rise to about 84.1 percent of GDP in 2024/25. Gross financing needs would spike to 31.3 percent in 2023/24 and remain elevated through the medium term.

7. The heat map, which summarizes the risk assessment of Namibia's debt and gross financing needs (Figure AIV.1), points to significant risks. All shock scenarios for the debt level and gross financing needs flash red, reflecting the already elevated debt levels and financing needs under the baseline. However, the large domestic institutional investor base, market appetite for long maturity debt instruments and the low share of foreign currency debt, could mitigate the elevated risk.

8. Realism of Baseline Assumptions

- Past inflation projections were neither too optimistic nor pessimistic, with a percentile rank of 81 percent compared to other surveillance MACs. Projections of real GDP and primary balance show an optimistic bias—with median forecast errors of -4.5 percent and

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-1.2 percent, respectively, during 2013–21— partly, however, reflecting volatility in the mineral production and SACU tax revenues.

- Under the baseline scenario, the projected 3-year adjustment in the cyclically adjusted primary balance (CAPB) is relatively strong with the percentile rank of 13 percent, reflecting the expected positive adjustment to SACU revenue and output recovery.[3] However, the level of the CAPB is relatively small, with a percentile rank of 54 percent compared to the historical experience for high-debt market access countries.

B. External Debt[4]

9. Namibia's external debt declined in 2021, following the redemption of the US$500 million 2010 Eurobond. Despite the disbursement of the IMF's emergency financing under the Rapid Financing Instrument (RFI) and AfDB's budget support in 2021, the stock of public external debt fell to 16.7 percent of GDP at end-2021 (from 21.3 percent at end-2020). This reflected the repayment of the US$500 million Eurobond issued in 2010 , which was rolled over through the issuance of domestic debt. Private sector external debt, primarily comprising intercompany lending in the mining sector, picked-up in nominal terms following the resumption of mining activities, but declined to 49.9 percent of GDP at end-2021 (from 56 percent at end-2020), as the Namibian economy started to recover. Most of the external debt has long and medium-term maturities. Namibia's public external debt is mostly owed to multilateral official creditors and commercial creditors (international investors) (Table AIV.1), with the proportion owed to multilateral creditors nearly doubling in 2021, compared to pre-pandemic levels.

Namibia: Evolution of External Debt

(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021
Total	**49.6**	**60.9**	**64.9**	**61.7**	**66.4**	**77.3**	**66.5**
Public (without guarantees)	13.2	17.5	16.0	15.5	17.5	21.3	16.6
Private	36.4	43.5	48.9	46.2	48.8	56.0	49.9
Original maturity							
Short-term	5.2	6.4	7.8	7.5	7.9	8.0	5.3
Long and medium-term	44.4	54.5	57.0	54.3	58.5	69.3	61.2

Source: Bank of Namibia; IMF staff calculations.

[3] The distribution of SACU receipts to member states is based on revenue projections. Typically, forecast errors (with respect to the actual) are adjusted with a two-year lag. In FY23/24, a positive adjustment is anticipated based on FY21/22 actual customs and excise revenue figures, which were higher than anticipated. A positive adjustment is also anticipated in FY24/25 as customs and excise revenue in FY23/24 are expected to be higher than forecasted.

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

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Namibia: Structure of External Public Debt

	2019			2020			2021		
	USD (million)	% of Total	% of GDP	USD (million)	% of Total	% of GDP	USD (million)	% of Total	% of GDP
Bilateral official creditors	194	8.8	1.5	191	8.5	1.8	176	8.6	1.4
Multilateral official creditors	541	24.6	4.3	677	30.1	6.4	990	48.4	8.0
Commercial creditors	1465	66.6	11.7	1384	61.5	13.1	879	43.0	7.1
Eurobonds	1259	57.2	10.0	1245	55.3	11.8	750	36.7	6.1
JSE listed bonds	206	9.4	1.6	139	6.2	1.3	128	6.3	1.0
Total	**2200**			**2252**			**2045**		

Source: Bank of Namibia; IMF staff calculations.

10. Namibia's external debt as a ratio of GDP is expected to decline gradually. External debt peaked in 2020, reaching 77.3 percent of GDP (with public external debt at 21.3 percent of GDP and private external debt at 56 percent of GDP), reflecting the sharp contraction in output and sizable exchange rate depreciation (about 14 percent). Starting in 2022, external debt is expected to gradually decline as the economy recovers and the current account position gradually improves (Table AIV.1). Gross external financing needs are expected to remain large but to gradually decline over the medium-term.

11. Sensitivity tests suggest that external debt is vulnerable to current account shocks. If the non-interest current account deficit widened by 6.4 percent of GDP (one 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 86 percent by 2027 (compared to 53 percent under the baseline). 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 relatively modest. A 30 percent exchange rate depreciation in 2023 would increase external debt by about 9 percentage points of GDP, compared to the baseline.

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Figure AIV.1. Namibia: Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP, unless otherwise indicated)

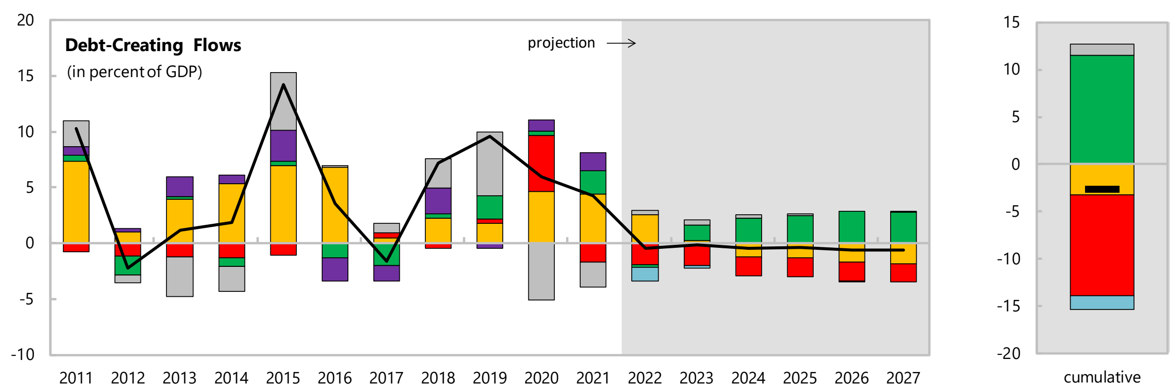
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2011-2019 [2]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	38.0	65.9	70.1	69.7	69.5	69.1	68.7	68.1	67.5
Public gross financing needs	13.7	25.5	29.3	26.3	23.9	21.9	27.8	23.2	20.7
Real GDP growth (in percent)	2.8	-8.0	2.7	3.0	3.2	2.7	2.6	2.6	2.6
Inflation (GDP deflator, in percent)	6.2	4.5	1.7	7.3	5.7	4.8	4.5	4.3	4.4
Nominal GDP growth (in percent)	8.8	-1.9	6.0	10.1	8.7	7.5	7.2	7.0	7.0
Effective interest rate (in percent) [4]	7.3	6.8	6.9	7.1	8.1	8.4	8.4	8.8	8.9

As of October 11, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		464
5Y CDS (bp)		547
Ratings	Foreign	Local
Moody's	B1	B1
S&Ps	n.a.	n.a.
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	4.9	5.9	4.2	-0.4	-0.2	-0.4	-0.4	-0.6	-0.6	-2.6	
Identified debt-creating flows	3.7	11.0	6.5	-0.9	-0.6	-0.7	-0.5	-0.5	-0.7	-3.9	
Primary deficit	4.0	4.6	4.4	2.5	0.2	-1.2	-1.3	-1.7	-1.8	-3.3	1.2
Primary (noninterest) revenue and grants	33.1	33.0	29.6	30.1	31.0	31.9	31.5	31.6	31.7	187.8	
Primary (noninterest) expenditure	37.1	37.6	34.1	32.7	31.2	30.7	30.2	29.9	29.8	184.5	
Automatic debt dynamics [5]	-0.3	6.4	2.1	-2.2	-0.6	0.5	0.8	1.2	1.2	0.9	
Interest rate/growth differential [6]	-0.8	5.4	0.4	-2.2	-0.6	0.5	0.8	1.2	1.2	0.9	
Of which: real interest rate	-0.2	0.4	2.1	-0.3	1.4	2.3	2.5	2.8	2.8	11.5	
Of which: real GDP growth	-0.6	5.0	-1.7	-1.9	-2.0	-1.7	-1.7	-1.6	-1.6	-10.6	
Exchange rate depreciation [7]	0.5	1.0	1.7	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	-1.2	-0.2	0.0	0.0	0.0	0.0	-1.4	
Privatization Proceeds (negative)	0.0	0.0	0.0	-1.2	-0.2	0.0	0.0	0.0	0.0	-1.4	
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]	1.2	-5.1	-2.2	0.4	0.4	0.3	0.2	-0.1	0.1	1.2	



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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (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.

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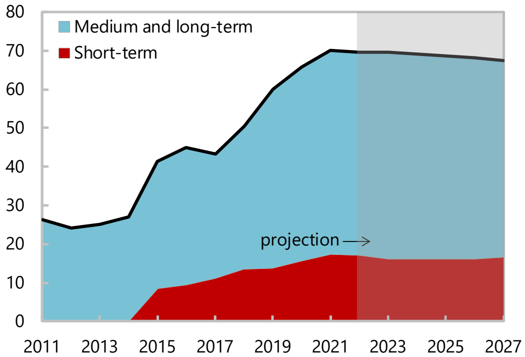
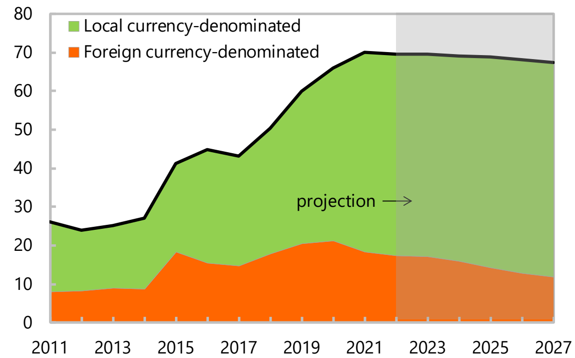
Figure AIV.2. Namibia: Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)

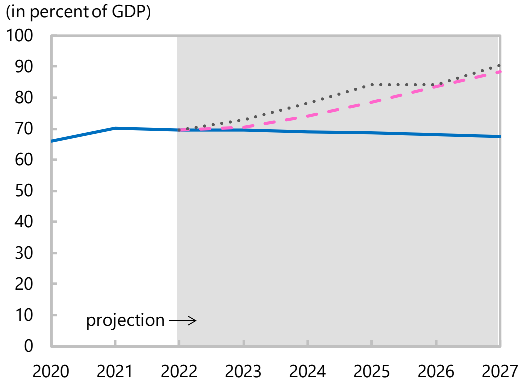


By Currency
(in percent of GDP)

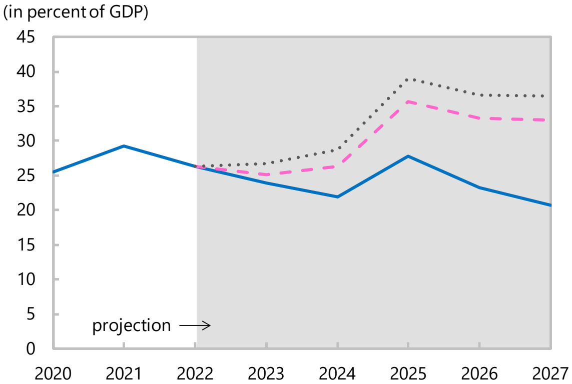


Alternative Scenarios

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.0	3.2	2.7	2.6	2.6	2.6
Inflation	7.3	5.7	4.8	4.5	4.3	4.4
Primary Balance	-2.5	-0.2	1.2	1.3	1.7	1.8
Effective interest rate	7.1	8.1	8.4	8.4	8.8	8.9
Constant Primary Balance Scenario						
Real GDP growth	3.0	3.2	2.7	2.6	2.6	2.6
Inflation	7.3	5.7	4.8	4.5	4.3	4.4
Primary Balance	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	7.1	6.8	7.5	7.6	8.4	8.1

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	3.0	1.5	1.5	1.5	1.5	1.5
Inflation	7.3	5.7	4.8	4.5	4.3	4.4
Primary Balance	-2.5	-3.8	-3.8	-3.8	-3.8	-3.8
Effective interest rate	7.1	6.8	6.8	6.8	7.4	7.3

Source: IMF staff.

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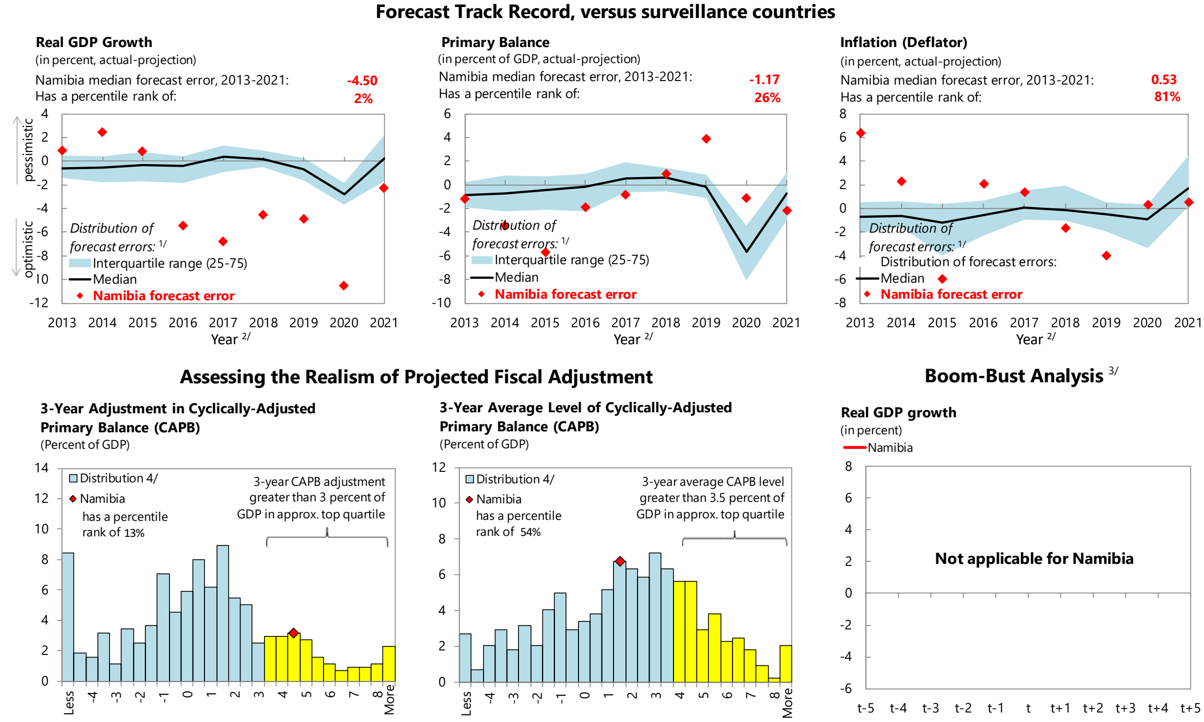
Figure AIV.3. Namibia: Public Debt Sustainability Analysis – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes surveillance 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.

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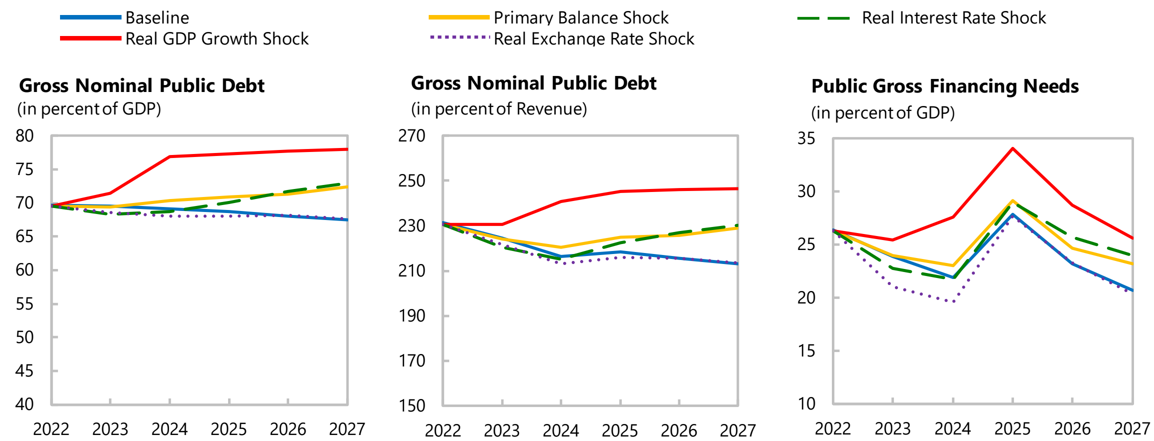
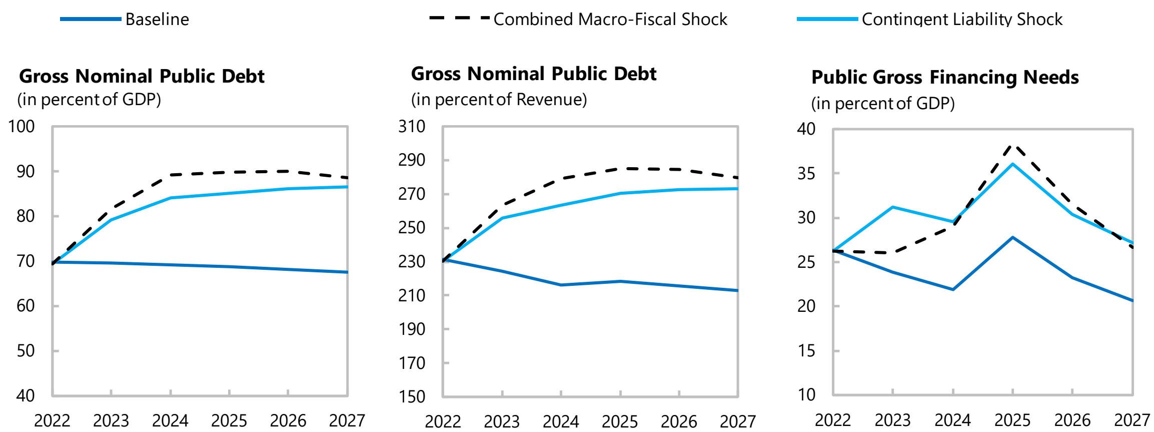
Figure AIV.4. Namibia: Public Debt Sustainability Analysis – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	3.0	3.2	2.7	2.6	2.6	2.6
Inflation	7.3	5.7	4.8	4.5	4.3	4.4
Primary balance	-2.5	-1.4	0.0	1.3	1.7	1.8
Effective interest rate	7.1	6.8	7.6	7.7	8.4	8.1
Real Interest Rate Shock						
Real GDP growth	3.0	3.2	2.7	2.6	2.6	2.6
Inflation	7.3	5.7	4.8	4.5	4.3	4.4
Primary balance	-2.5	-0.2	1.2	1.3	1.7	1.8
Effective interest rate	7.1	6.8	8.7	9.1	10.2	10.3
Combined Shock						
Real GDP growth	3.0	-1.1	-1.6	2.6	2.6	2.6
Inflation	7.3	4.6	3.7	4.5	4.3	4.4
Primary balance	-2.5	-1.7	-1.9	1.3	1.7	1.8
Effective interest rate	7.1	7.3	7.6	7.1	7.4	6.3

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	3.0	-1.1	-1.6	2.6	2.6	2.6
Inflation	7.3	4.6	3.7	4.5	4.3	4.4
Primary balance	-2.5	-1.7	-1.9	1.3	1.7	1.8
Effective interest rate	7.1	6.8	7.6	7.9	8.8	8.5
Real Exchange Rate Shock						
Real GDP growth	3.0	3.2	2.7	2.6	2.6	2.6
Inflation	7.3	17.3	4.8	4.5	4.3	4.4
Primary balance	-2.5	-0.2	1.2	1.3	1.7	1.8
Effective interest rate	7.1	7.3	7.1	7.2	8.1	7.9
Contingent Liability Shock						
Real GDP growth	3.0	-1.1	-1.6	2.6	2.6	2.6
Inflation	7.3	4.6	3.7	4.5	4.3	4.4
Primary balance	-2.5	-7.1	1.2	1.3	1.7	1.8
Effective interest rate	7.1	7.4	8.2	7.9	8.6	8.3

Source: IMF staff.

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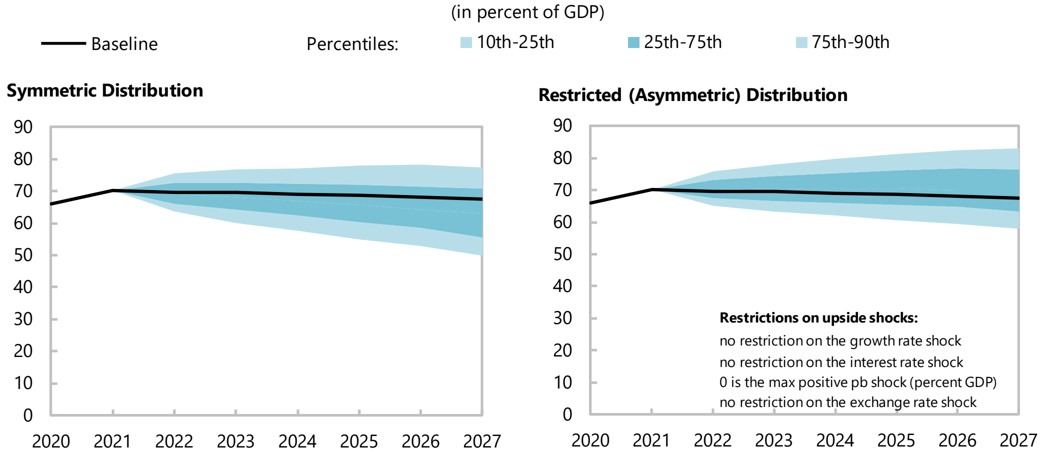
Figure AIV.5. Namibia: Public Debt Sustainability Analysis Risk Assessment

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

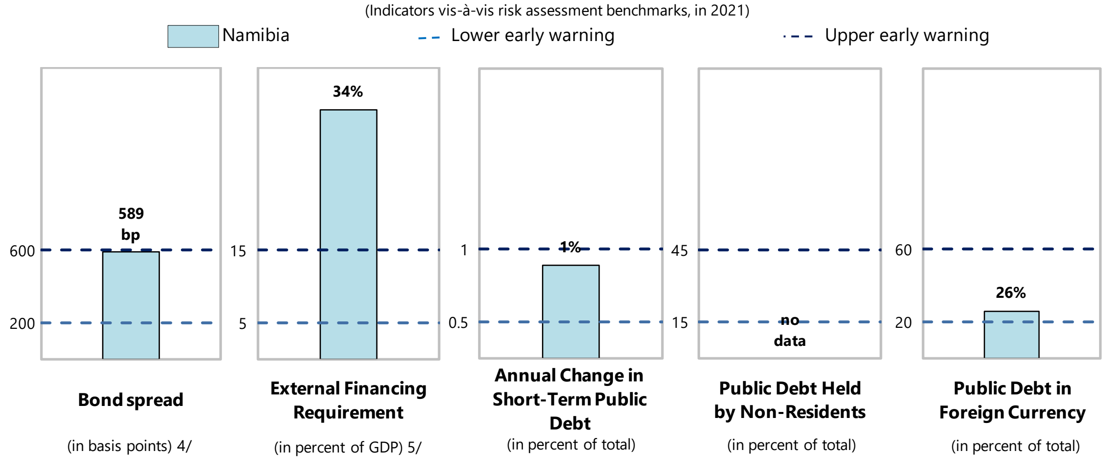
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



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-Jul-22 through 11-Oct-22.

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.

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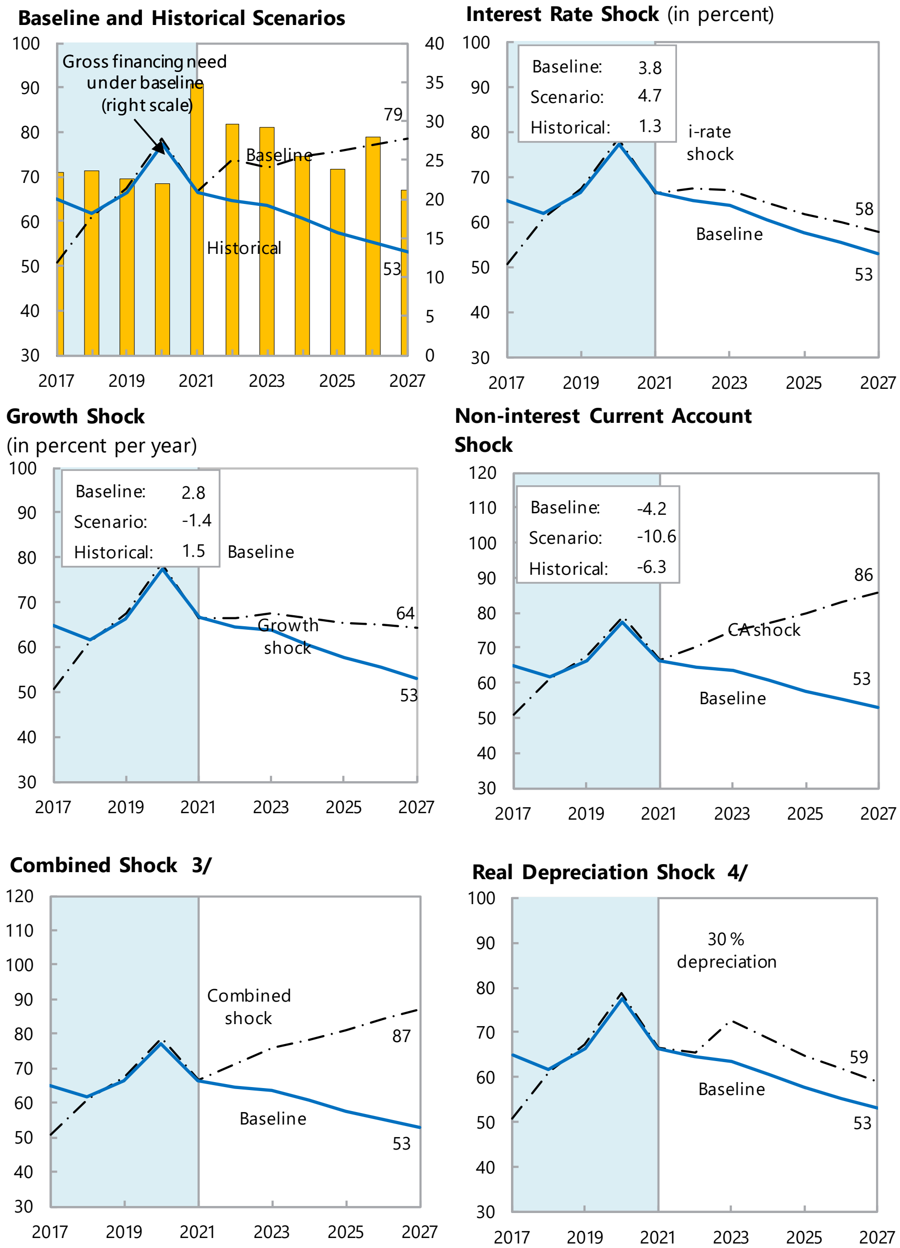
Figure AIV.6. Namibia: External Debt Sustainability: Bound Tests 1/ 2/

(External Debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 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 2022.

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Table AIV.1. Namibia: External Debt Sustainability Framework, 2017–2027

(In percent of GDP, unless otherwise indicated)

	Actual 2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	64.9	61.7	66.4	77.3	66.5			**64.6**	**63.7**	**60.6**	**57.6**	**55.4**	**53.1**	**-2.2**
Change in external debt	3.9	-3.1	4.6	10.9	-10.9			-1.8	-1.0	-3.1	-3.0	-2.2	-2.3	
Identified external debt-creating flows (4+8+9)	-8.5	-1.2	4.3	3.8	0.4			3.4	2.6	0.0	0.7	0.5	0.3	
Current account deficit, excluding interest payments	3.5	1.7	-0.1	-3.6	9.3			7.7	7.6	2.7	2.5	2.7	2.2	
Deficit in balance of goods and services	-82.7	-82.6	-82.7	-76.7	-82.2			-91.9	-90.6	-91.5	-91.5	-89.6	-88.9	
Exports	34.8	36.3	36.5	33.5	32.5			38.4	37.8	39.5	39.8	39.3	39.4	
Imports	-47.9	-46.3	-46.2	-43.2	-49.7			-53.6	-52.8	-52.0	-51.6	-50.3	-49.5	
Net non-debt creating capital inflows (negative)	-2.7	-0.8	1.6	2.0	-4.2			-4.2	-4.8	-3.8	-3.0	-2.9	-2.1	
Automatic debt dynamics 1/	-9.4	-2.1	2.8	5.5	-4.6			-0.2	-0.1	1.1	1.3	0.7	0.3	
Contribution from nominal interest rate	0.9	1.7	1.7	0.7	0.3			1.8	1.8	3.0	2.8	2.1	1.7	
Contribution from real GDP growth	0.5	-0.6	0.6	6.3	-1.8			-2.0	-1.9	-1.9	-1.6	-1.4	-1.4	
Contribution from price and exchange rate changes 2/	-10.8	-3.1	0.5	-1.6	-3.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	12.5	-1.9	0.3	7.1	-11.3			-5.2	-3.6	-3.2	-3.7	-2.8	-2.6	
External debt-to-exports ratio (in percent)	186.4	170.0	181.9	230.7	204.7			168.3	168.3	153.1	144.6	140.7	134.6	
Gross external financing need (in billions of US dollars) 4/	3.0	3.2	2.8	2.3	4.3			3.7	3.7	3.4	3.4	4.2	3.3	
in percent of GDP	23.4	23.6	22.6	21.9	34.7	10-Year	10-Year	25.7	25.3	22.1	20.7	24.3	18.3	
Scenario with key variables at their historical averages 5/								**73.8**	**72.2**	**74.6**	**75.6**	**77.2**	**78.6**	**-4.0**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							For debt stabilization
Nominal GDP (US dollars)	12.9	13.7	12.5	10.6	12.3			14.4	14.6	15.6	16.4	17.2	18.0	18.9
Real GDP growth (in percent)	-1.0	1.1	-0.8	-8.0	2.7	1.5	4.3	3.0	3.0	3.2	2.7	2.6	2.6	2.6
GDP deflator in US dollars (change in percent)	21.4	5.0	-7.5	-8.2	13.3	-1.0	11.1	13.3	-1.5	3.5	2.8	2.3	2.0	2.3
Nominal external interest rate (in percent)	1.7	2.7	2.6	0.9	0.4	1.3	0.8	2.8	2.8	5.1	4.9	3.9	3.1	3.1
Growth of exports (US dollar terms, in percent)	20.5	10.8	-7.8	-22.5	12.7	-0.7	14.6	20.0	20.0	11.6	6.3	3.7	4.8	
Growth of imports (US dollar terms, in percent)	-1.6	2.7	-8.4	-21.3	34.0	0.8	15.4	9.3	9.3	5.2	4.9	2.2	3.0	
Current account balance, excluding interest payments	-3.5	-1.7	0.1	3.6	-9.3	-6.3	5.9	-7.7	-7.6	-2.7	-2.5	-2.7	-2.2	
Net non-debt creating capital inflows	2.7	0.8	-1.6	-2.0	4.2	3.2	3.4	4.2	4.8	3.8	3.0	2.9	2.1	
B. Bound Tests														
B1. Nominal interest rate is at historical average plus one standard deviation								**67.5**	**67.0**	**64.2**	**61.7**	**59.8**	**57.8**	**-3.5**
B2. Real GDP growth is at historical average minus one standard deviations								**66.3**	**67.5**	**66.5**	**65.4**	**64.9**	**64.2**	**-2.1**
B3. Non-interest current account is at historical average minus one standard deviations								**70.1**	**74.8**	**77.3**	**79.9**	**83.0**	**85.8**	**-4.8**
B4. Combination of B1-B3 using one standard deviation shocks								**71.3**	**75.9**	**78.4**	**81.1**	**84.3**	**87.3**	**-2.4**
B5. One time 30 percent real depreciation in 2022								**65.6**	**72.6**	**68.7**	**64.7**	**61.9**	**59.2**	**-5.0**

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.

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Annex V. External Sector Assessment

Overall Assessment. *Namibia's external position in 2021 was moderately weaker than the level implied by fundamentals and desirable policy settings, based on the results of the IMF's EBA-lite current account model.*[1] *The external position weakened in 2021, owing to rebounding imports, a sharp temporary decline in SACU transfers, and the lingering impact of the COVID-19 pandemic on tourism. However, exceptional financial inflows including the RFI and the general SDR allocation, helped to strengthen reserve coverage significantly. Moving ahead, continued efforts to strengthen the fiscal position and advance the planned fiscal consolidation strategy will help strengthen the external position.*

Potential Policy Responses. *To ensure that the external sector remains consistent with the fundamentals and desirable policies over the medium-term, the authorities are implementing a medium-term growth-friendly fiscal consolidation that will also support the external position. This will assist a gradual accumulation of reserves consistent with achieving the ARA metrics reserve adequacy level thereby ensuring the sustainability of the exchange rate peg with South Africa. Gradual accumulation of reserves will support the currency peg and strengthen buffers against shocks. Structural reforms to improve the business climate and competitiveness would be conducive to more sustainable financial inflows, including FDIs to non-resource intensive sectors, and help diversify sources of external funding.*

Net International Investment Position

1. Background. The NIIP has deteriorated steadily since 2009, with Namibia becoming a net debtor country in 2015 as its net foreign position reached -2.8 percent of GDP, from a positive net position in the previous years. However, Namibia's NIIP has been improving since 2018, driven in part by the accumulation of portfolio assets by the non-bank financial institutions, outpacing liabilities. Meanwhile, sustained positive returns on external financial assets also resulted in higher valuation. The improvement continued during the COVID-19 pandemic with a current account surplus in 2020 and as reserve assets increased in 2021, supported by the IMF emergency assistance under the RFI, the IMF general SDRs allocation and the AfDB budget. Thus, Namibia's NIIP improved to -2.9 percent of GDP in 2021 from -4.4 percent of GDP in 2020 and -8.0 percent of GDP in pre-pandemic 2019. The redemption of the 2015 Eurobond in November 2021 contributed to the improvement in the NIIP on a net basis, despite the repatriation of pension fund foreign assets to finance large fiscal needs. External debt decreased to 66.9 percent of GDP from 77.5 percent of GDP in 2020, while increasing relative to its pre-pandemic level at end-2019 (66.4 percent of GDP).

2. Assessment. Under Staff's baseline scenario, over the medium-term, lower current account deficits and the anticipated decline in external debt, driven by the authorities' planned growth-supportive fiscal consolidation would contribute to containing the deterioration of the NIIP. The main risks arise from: i) a worse-than-anticipated public external debt dynamics in case of delays in

[1] The external sector assessment is based on staff's estimates.

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the implementation of the planned fiscal consolidation; ii) the exposure of the non-bank financial sector to foreign liabilities, as debt servicing costs increase from higher interest rates globally; and iii) potentially lower returns to external assets resulting in lower valuation gains, reflecting increased volatility in financial markets. These risks are partially mitigated by the authorities' progress and continued commitment to advance the planned fiscal consolidation and given that a large part of private external debt is due by mining companies to their parents.

Current Account

3. Background. During 2017–2019, the CA deficit narrowed, reaching -1.7 percent in 2019, on the back of robust mineral exports and declining imports, reflecting fiscal consolidation efforts and limited new mining projects. As the COVID-19 pandemic led to a sharp contraction of the Namibian economy in 2020, the current account recorded a surplus of 2.8 percent of GDP, on the back of a strong import compression that more than compensated the sharp decline in mining exports and the Southern Africa Customs Union (SACU) transfers, due to the impact of the pandemic. As the economy started to recover in 2021, the current account deficit widened to 9.6 percent of GDP. This was driven by a strong rebound in imports, also reflecting the higher food and fuel prices, and a sharp decline in SACU transfers due to the impact of the pandemic, which more than outpaced the moderate recovery in mining exports. Negative public savings (-5.4 percent of GDP) put pressure on the external position.[2] The current account deficit continued to be large in the first half of 2022, reflecting the pick-up in international oil and food prices due to the repercussions of the war in Ukraine, large FDI-related imports in oil and gas exploration and a further decline in SACU receipts, which outpaced the strong mining exports recovery.

Table AV.1. Namibia: EBA-lite Model Results, 2021

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-9.6**	
Cyclical contributions (from model) (-)	1.0	
COVID-19 adjustor (-) 2/	-1.5	
Additional temporary/statistical factors (-)	-3.3	
SACU transfers 3/	-1.6	
Diamond exports 4/	-1.0	
Air Namibia lease 5/	-0.7	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-5.6**	
CA Norm (from model) 6/	**-3.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-3.7**	
CA Gap	**-1.9**	**4.1**
o/w Relative policy gap	3.1	
Elasticity	-0.29	
REER Gap (in percent)	**6.4**	**-13.9**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.7 percent of GDP) and estimated medical imports, excluding donations (0.8 percent of GDP).
3/ Adjustment based on the temporary sharp decline in SACU transfers due to the impact of the pandemic.
4/ Adjustment based on temporary disruptions to diamond exports as shipping constraints due to the pandemic prevented the production from being exported. Difference between 2021 and average of last three years prior to pandemic.
5/ Adjustment based on a one-off penalty payment related to the early termination of an Air Namibia contract, as the company was liquidated. US$ 25.6 million (regular yearly lease payment for two aircrafts) was subtracted from US$109 million one time penalty payment to yield 83.4 mln USD or 0.68 percent of GDP.
6/ Cyclically adjusted, including multilateral consistency adjustments.

4. Assessment. Using the EBA-lite revised CA methodology, the multilaterally consistent cyclically adjusted CA norm is estimated at -3.7 percent of GDP (versus an actual CA deficit of

[2] Despite the implementation of fiscal adjustment measures, the overall fiscal deficit remained large at 8.7 percent of GDP, due to a sharp decline in SACU revenues.

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-9.6 percent of GDP at end-2021).[3] However, adjustments have been applied to the cyclically adjusted CA deficit to account for the temporary impact of the COVID-19 shock as well as one-off factors, which did not reflect fundamentals: i) the temporary decline in tourism activity due to the impact of the pandemic ;[4] ii) exceptional medical imports, including purchase of vaccines and equipment for the vaccination campaign, to fight the pandemic; iii) the temporary sharp decline in SACU transfers due to the impact of the pandemic;[5] iv) temporary disruptions to diamond exports, as shipping was constrained by the pandemic, preventing production from being exported;[6] v) a one-off penalty payment related to the early termination of an Air Namibia contract following the liquidation of the company.[7] The impact of these exceptional temporary factors yields an aggregate adjustment of 5.0 percent of GDP and a further adjusted current account deficit of -5.6 percent of GDP. As a result, the gap with respect to the estimated CA norm declines to -1.9 percent of GDP, pointing to a REER overvaluation (after adjustments) of 6.4 percent (Table AV.1). The positive policy gap mostly reflects the strong reserves accumulation in 2021 relative to a desired policy setting consistent with reaching adequate levels of reserves over the medium-term.[8]

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[3] See IMF Background note "Review of the EBA-Lite Methodology," 2019.

[4] Tourism in Namibia suffered a significant decline that saw the number of visitors drop 68 percent in 2021 compared to the period prior to the pandemic, exacerbated with travel restrictions imposed on the region from Omicron. The adjustment to reflect this temporary weakness is taken directly from the baseline estimate in the EBA-Lite Methodology.

[5] Southern African Customs Union (SACU) is Common Customs Area, which has a Common Revenue Pool (CRP) in terms of which all customs, excise and additional duties collected by the different member states, are paid into this pool within three months of the end of the quarter of a particular financial year. SACU Member States are then paid from this pool transfers (SACU transfers). Due the negative impact of the pandemic on trade and economic activities, SACU revenues dropped by more than 3 percent of GDP in 2021 (compared to 2020). As the impact of the shock gradually subsides, SACU receipts are expected to start rebounding in FY2023/24, before gradually recovering to the pre-pandemic share of GDP. The average of last three years was taken as a baseline to determine the impact of COVID-19. Subtracting the three years' average prior to the pandemic (10.8 percent of GDP) yields an adjustment of 1.6 percent of GDP.

[6] Diamond export volumes suffered exceptionally in 2021 due to logistical challenges temporarily emanating from the pandemic, related primarily to shipping disruptions and licensing challenges from receiving ports that caused a temporary drop in exports, that is expected to reverse. To take this into account, the difference in export values in 2021 (4.6 percent of GDP) and the three years' average prior to the pandemic (5.6 percent of GDP) was used to adjust the current account deficit by 1 percent of GDP.

[7] This is a one-off penalty payment as part of the liquidation of Air Namibia. In early 2021, Air Namibia (the state-owned public airline) was liquidated as a key element of the SOEs reform. At the time of the liquidation, the airline was leasing two aircrafts from a private entity. As part of the liquidation, these leases were terminated early, resulting in a negotiated payout of US$109 million to the private entity. Ordinarily, the government would have been liable to pay US$2.1 million per month or US$25.6 million in 2021. As such, staff subtracted this "regular" payment amount and used an adjustment of US$ 83.4 (0.7 percent of GDP) to account for the one-off payment that contributed to the deterioration of the current account deficit in 2021 through the income channel.

[8] The remainder of the policy gap is primarily explained by weak private credit growth, compared to the rest of the world. The fiscal gap contribution is limited due to the larger fiscal gap the world had compared to Namibia's gap, despite the deterioration in the fiscal position. Namibia had a cyclically adjusted fiscal balance of -8.7 percent of GDP in 2021, vis-à-vis a desired policy settings of -4.2 percent of GDP, which is expected to stabilize debt-to-GDP ratio.

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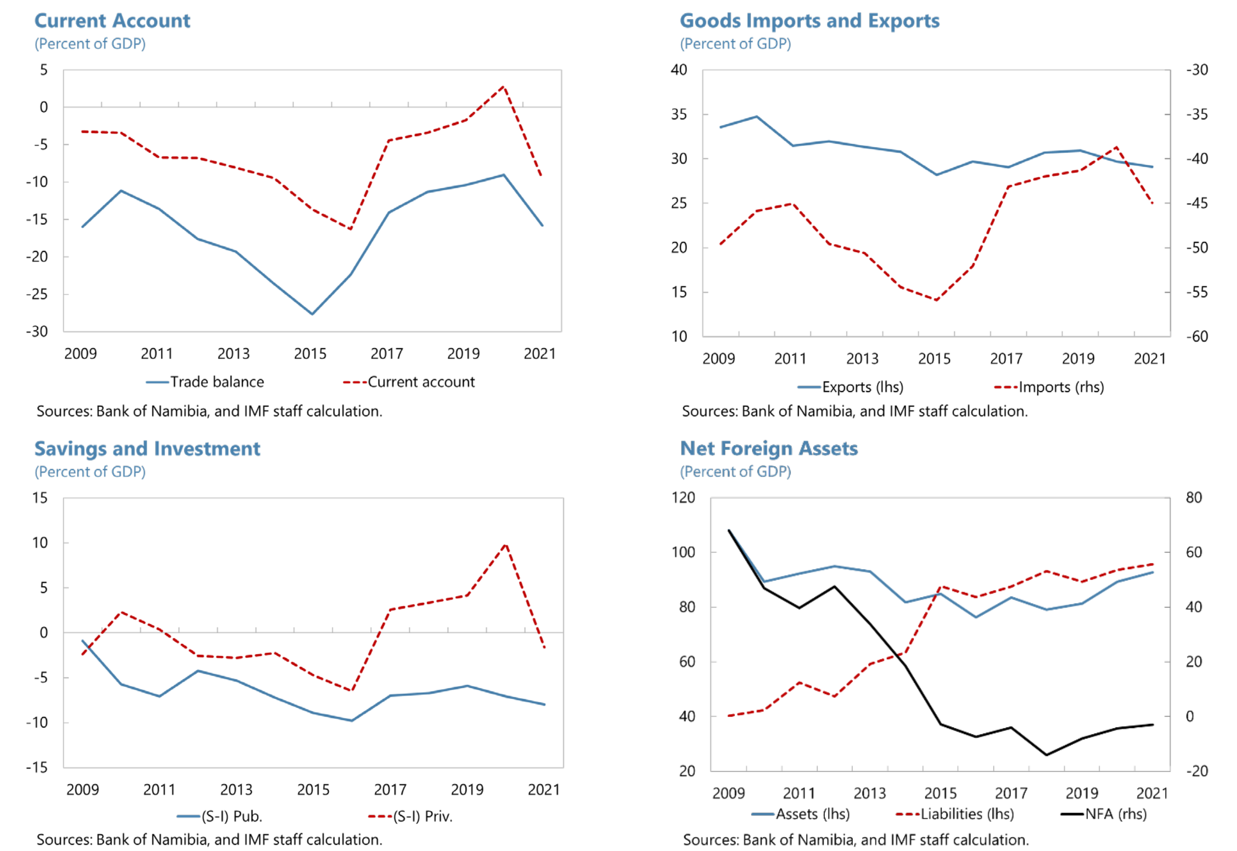
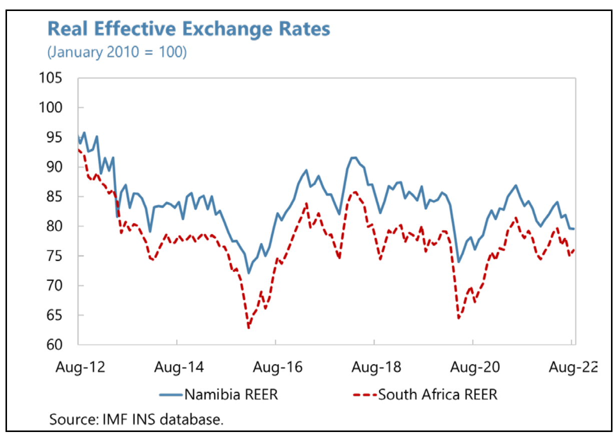
Figure AV.1. Namibia: Balance of Payment



Real Effective Exchange Rate

5. Background. The Namibian dollar is pegged at par to the South African rand and developments in Namibia's real exchange rate (REER) largely reflect changes in the nominal exchange rate of the rand and inflation differential with South Africa, Namibia's main trading partner. Namibia's REER has experienced large fluctuations over the past decade, depreciating by 22 percent between 2010–2016 and remaining broadly stable until the COVID-19 pandemic. In 2020 the REER depreciated by 7.3 percent and in 2021 it appreciated by 5.5 percent (y-o-y, average). In 2021, on account of higher inflation in South Africa, the average difference between the two REERs widened. It should be noted that this CPI-based measure underestimates the weakening of cost competitiveness in a context of increasing wages that outstrips productivity growth. This divergence likely moderated in 2021, as there was no inflation adjustment to public wages in FY2021/22 to contain the wage bill. After appreciating by 5.5 percent



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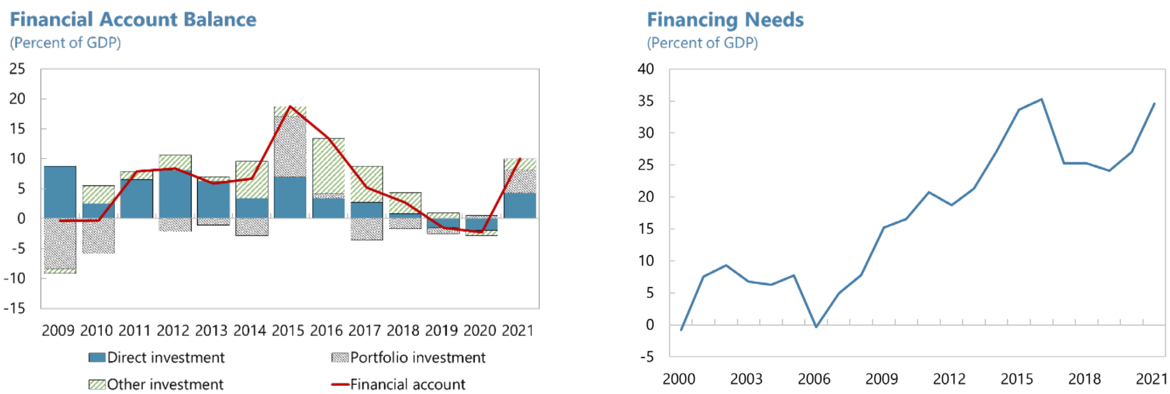
in 2021, the real effective exchange rate depreciated by 2.5 percent during January-August 2022 and the NEER depreciated by 2.3 percent.

6. Assessment. The EBA-lite REER model using the CPI-based measure suggests an undervaluation of 13.9 percent. This result likely reflects rising inflationary pressures in the economy. However, using the Unit Labor Cost (ULC) based REER yields a lower undervaluation at 7.7 percent, reflecting the slowdown in wage growth.

Financial Account

7. Background. After a declining trend over 2015–19, exceptionally high financial inflows marked 2021. This pick-up reflected IMF emergency financing under the RFI, the general SDR allocation, the AfDB budget support, and higher FDIs inflows due to higher mining inter-company loans, especially in the uranium sector, to support operations. In parallel, a large financial outflow stemming from the redemption of the 2010 Eurobond (USD$ 500 million, 4 percent of GDP) was more than compensated by the non-bank financial sector's repatriation of assets, especially of pension funds, reflecting large fiscal financing needs. Gross financing needs increased substantially in 2021, as amortization picked-up to 4.3 percent of GDP, also reflecting the repayment of the 2010 Eurobond.

Figure AV.2. Namibia: Financial Account and Financing Needs



Sources: Bank of Namibia, and IMF staff calculation.

Sources: Bank of Namibia, and IMF staff estimates.

8. Assessment. Net FDI flows have been positive but on a moderate downward path prior to the pandemic, with volatility linked to investments in the mining sector and short-term operations. Higher domestic assets requirements instituted in 2018, led to higher portfolio inflows, in part compensating for declining FDI inflows. Long-term investments in green hydrogen and oil and gas are expected to enhance inflows in the medium-term. Large FDI inflows in oil and gas exploration were already recorded in the first half of 2022. Volatility in the international financial markets and lower equity returns could pose a risk to portfolio inflows. Accelerating reforms to improve the business climate and competitiveness, would help contribute to more sustainable financial flows, including attracting FDIs inflows to non-resource intensive sectors, and help diversify sources of external funding.

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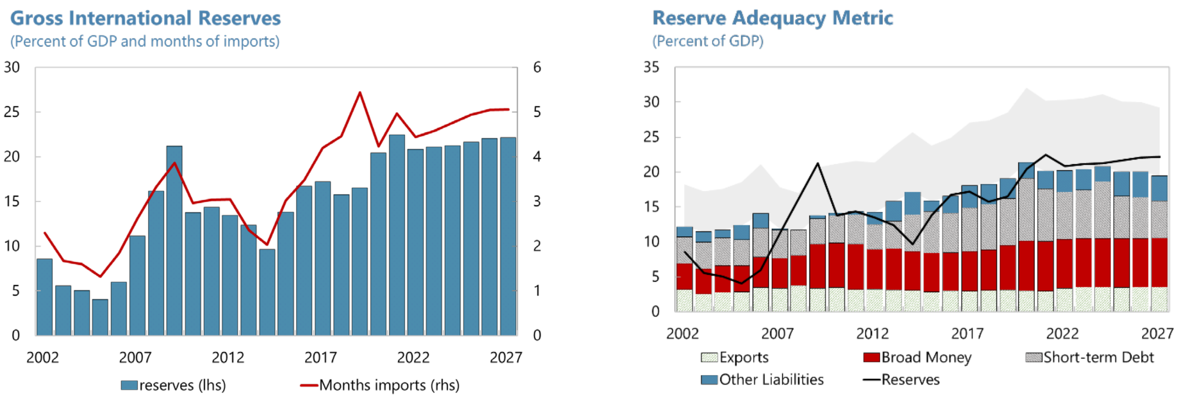
International Reserves Adequacy

9. Background. After being on a declining trend, international reserves increased to 3.2 months of imports in 2015, boosted by the issuance of the 2015 Eurobond and swap operations by the Bank of Namibia. International reserves have been steadily increasing since then, reaching 5.4 months of imports pre-pandemic (19.1 percent of GDP) at end-2019, on the back of an improved current account (¶4) and higher private external borrowing, remaining above IMF's reserve adequacy metric for market access economies.[9] International reserves coverage declined sharply to 4.2 months of imports in 2020, reflecting net FDI outflows and outward financial institutions' investments, moderated by the current account surplus. International reserves rebounded to 5 months of imports coverage at end-2021, supported by COVID-19 exceptional financing as the IMF emergency assistance under the RFI (2.2 percent of GDP), the IMF general SDR allocation (2.1 percent of GDP), and the AfDB budget support (0.8 percent of GDP), above the adequacy levels estimated by the IMF Assessment of Reserve Adequacy (ARA) measures (Table AV.2). The authorities' foreign exchange interventions in the market are consistent with prudent reserves management to support the currency peg.

Figure AV.3. Namibia: Reserves and Reserve Adequacy



Sources: Bank of Namibia and IMF staff estimates.

Sources: Bank of Namibia and IMF staff estimates.

10. Assessment. Gross international reserves stood at 5 months of import coverage and 22.5 percent of GDP at end-2021, above the IMF's metric to assess reserve adequacy for market access countries. Under staff baseline scenario, international reserves are expected to decline to 4.4 months of imports (20.8 percent of GDP) at end-2022, below the IMF reserve adequacy metrics (Table AV.2). Notably, the current account deficit is expected to remain large at 9.5 percent of GDP in 2022, as a further decline in SACU receipts and a pick-up in oil and food imports,[10] would be only in part mitigated by a recovery in mining exports.[11] Despite anticipated financial net inflows

[9] The IMF's reserve adequacy metrics for market access economies for 2019 is estimated at 18–27 percent of GDP and 5 months of imports (IMF, 2019). The specific range of months of imports coverage corresponding to 18–27 percent of GDP is 4.5 to 6.8 months of imports.

[10] Food and oil imports represent 16.9 and 15.2 percent of overall imports, respectively.

[11] The SACU revenue sharing formula adjusts for forecast errors with a two-year lag. A large negative adjustment is expected in FY22/23 to reflect lower-than-anticipated SACU revenues in FY20/21 due to the impact of the pandemic.

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supported mainly by oil and gas exploration-related FDIs and one-off transactions related to the foreign acquisition of a local airline as well as IFIs budget support, international reserves are expected to decline to 2.6 billion (4.4 months of imports coverage) at end-2022, slightly below the IMF reserve adequacy metrics. International reserves are expected to reach adequacy levels by 2023 and continue to gradually increase over the medium-term. This would be supported by a gradual improvement in the external position on the back of the planned fiscal consolidation, sustained mining production and prices, recovering SACU receipts, and lower international oil and food prices. Delays in the implementation in the fiscal consolidation strategy and lower-than-anticipated non-oil commodity prices as well as a slowdown in the oil exploration FDI, could weaken Namibia's reserve accumulation dynamics. In this vein, diversifying the economy within a broader economic transformation strategy would contribute to mitigate risks.

Table AV.2. Namibia: Reserve Adequacy Thresholds

	2022	*2023*	*2024*	*2025*	*2026*	*2027*
Percent of GDP						
minimum	20.2	20.3	20.8	20.0	20.0	19.5
maximum	30.3	30.4	30.9	30.4	30.0	29.5
baseline scenario	*20.8*	*21.1*	*21.2*	*21.7*	*22.0*	*22.1*
Months of imports						
minimum	4.5	4.6	4.8	4.7	4.7	5.1
maximum	6.7	6.9	7.2	7.1	7.1	7.7
baseline scenario	*4.4*	*4.6*	*4.8*	*4.9*	*5.0*	*5.1*

Sources: Namibian authorities and staff estimates.

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Annex VI. The COVID-19 Economic Stimulus and Relief Package

1. The authorities implemented a comprehensive *Economic Stimulus and Relief Package*, approved in the FY20/21 budget, to respond to the COVID-19 crisis. Key elements of the COVID-19 response plan were: 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 execution of the COVID-19 response plan was slightly below the budgeted amount, mostly reflecting slower-than-anticipated response to some of the COVID-19 targeted programs.

Namibia: Fiscal Costs of the COVID-19 Response Plan

	Millions of $N		Percent of FY GDP	
Covid-19 emergency spending	**Budgeted (1)**	**Actual (2)**	**Budgeted**	**Actual**
Health	727	728	0.4	0.4
Education	600	468	0.3	0.3
Water	80	72	0.05	0.04
Protecting the most vulnerable groups				
Emergency Income Grant	772	576	0.4	0.3
Supporting private sector and jobs				
Arrears repayment	3800	3800	2.2	2.2
Wage subsidy and employee salary protection programs	400	107	0.2	0.1
Total	**6379**	**5750**	**3.6**	**3.3**

1. Ministry of Finance, FY 2020/21 Budget; IMF Country Report No. 21/76
2. Ministry of Finance, FY 2021/22 Budget Statement

2. Emergency health and education spending were swiftly undertaken to respond to the COVID-19 outbreak. Emergency health spending of N$727.7 million (0.4 percent of GDP) was executed, in line with the budgeted envelope, to purchase protective equipment and pharmaceuticals, conduct testing and contact tracing, set-up quarantine facilities, and step-up health personnel. Furthermore, emergency education spending of N$468 million (0.3 percent of GDP, about 80 percent of the budgeted amount) was allocated to promote sanitation and improve health facilities in public schools throughout the country. Finally, N$72 million (0.04 percent of GDP, 90 percent of the budgeted amount) was used to improve water provisions and infrastructure.

3. 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, budgeted for N$772 million (0.4 percent of GDP) targeted about 800,000 individuals (about 35 percent of the Namibian population). Under the EIG, a one-off cash transfer (N$750 per person) was provided to eligible individuals: i) unemployed (as of February 1st, 2020) and not benefitting from other social grants; or ii) operating in the informal sector and having experienced a loss of income. Access to the program was based on self-nomination and payment was made through mobile banking modalities. About 769,000 individuals are estimated to have benefited from the EIG, for a fiscal cost of N$576 million (0.4 percent of GDP, 72 percent of the total allocation).

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4. A comprehensive set of measures supported the private sector and protected jobs. The Employer Wage Subsidy and Employee Salary Protection Program aimed at supporting firms and preserve jobs in the sectors most affected by the pandemic. Employers in tourism, aviation, and construction sectors have received a subsidy to cover a share of their wage bill for three months. In parallel, beneficiary employers committed not to retrench staff for the same period and not to reduce salaries by more than 50 percent. The program covered about 230 employers and 21,359 employees, for an overall cost of N$106.7 million (0.1 percent of GDP, about 25 percent of the allocated amount). 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 paid in full. A government guarantee loan scheme for firms, notably SMEs, for a total of N$2.4 billion (1.3 percent of GDP) was introduced but its use has remained limited so far mainly because of administrative bottlenecks.

5. In parallel, temporary financial sector measures were implemented to support liquidity and provision of credit to the economy. In conjunction with a more accommodative monetary policy stance, in April 2020, the BoN eased regulatory requirements for banks for 24 months. The determination on liquidity risk management was relaxed; the capital conservation buffer rate was reduced to 0 percent, and the implementation of the 25 percent single borrower limit and concentration risk limit was postponed. Furthermore, banks were allowed to grant a loan payment moratorium to firms and individuals (payment holidays) from 6 up to 24 months. NBFIs were required to grant premium and contribution holidays/reductions in most affected sectors, notably the tourism sector. In October 2021, the Bank of Namibia extended the relief measures, (due to expire in April 2022) until April 2023 to support the economic recovery.

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Annex VII. The Welwitschia Fund

1. **Namibia launched a sovereign wealth fund -the Welwitschia Fund- in May 2022.** The authorities established the Welwitschia Fund (WF) as a key component of their strategy to strengthen natural resources management (Harambee Prosperity Plan II).[1] Notably, recent discoveries of oil and gas off the coast of Namibia are expected to generate substantial windfall revenue over the medium-term. The WF aims to insure against cyclical shocks and strengthen resilience, promote intergenerational equity through intertemporal distribution of benefits derived from the country's natural resource endowments and state assets, and contribute to macroeconomic stability. Thus, the WF has two stated interrelated objectives: saving for the future generations and serve as fiscal and official reserves buffer. The WF will be funded from windfalls from natural resources, fiscal surpluses, and proceeds from divestiture and privatization receipts (¶4).

2. **Staff welcomes the authorities' engagement with the IMF on the principles for the WF establishment, management, and operations**. Staff has highlighted some ambiguities and conflicting authorizations in the governance and management structure and need for clarification of deposit and withdrawal rules. The authorities are currently reviewing the draft WF Act with a view to incorporate the feedback received from the IMF and other key stakeholders. Until Parliament approves the WF Act, the WF is set up as a reserve account, with management delegated to the Bank of Namibia. Once the WF Act is approved, the Fund will be set-up as a state-owned Fund, with separate legal personality. An initial seed capital of N$262 million (0.1 percent of GDP) was provided to the WF. The temporary funding rules are outlined in a Memorandum of Understanding signed between the Bank of Namibia and the Ministry of Finance.

3. **The WF will begin to receive fundings once public revenue recovers to its long-term average.** Savings from budgetary resources will begin to flow to the WF once public revenue reaches its long-term average of 30.5 percent of GDP and expenditure falls below the voluntary non-legislative ceiling of 33 percent of GDP.[2] However, funds from discretionary sources (such as sales of government assets) will accrue to the WF regardless of the aggregate revenue collection rate. Staff noted that re-directing budgetary resources to the WF could heighten financing needs and put pressure on reserves. In view of sizable financing needs and the importance of bolstering reserves, staff advised the authorities to delay the WF operationalization until public debt and borrowing costs have declined and reserves have strengthened to mitigate risks.

4. **The WF will be structured as a stabilization account and an intergenerational saving account, with distinct sources of funding**. The source of funding for the stabilization account will include: i) SACU receipts: at least 2.5 percent of SACU receipts when SACU receipts are above 9.5 percent of GDP; and at least 33 percent of positive adjustments in SACU receipts ii) fiscal surpluses: at least 50 percent of fiscal surplus in years of overall fiscal surpluses because of increased

[1] The WF establishment is in anticipation of substantial windfall revenue from the recent discoveries of oil and gas off the coast of Namibia. Oil and gas production is expected to start in 2026.

[2] While the 33 percent of GDP expenditure ceiling is ambitious, overall spending is expected to decline to 35.4 percent of GDP by FY27/28 under staff's baseline scenario.

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revenue from non-renewable sources; iii) renewable resources: 10 percent of revenues from renewable resources, including from green hydrogen projects. On the other hand, the source of funding for the intergenerational saving account will include: i) non-renewable resources: 15 percent of mineral royalties; ii) sales of government assets: at least 33 percent of proceeds from divestiture from government assets, unless the sale was attached to a specific commitment.

5. **Withdrawals from the WF will be rule-based, with resources to be used for budgetary support and financing of national projects with a positive intergenerational impact.**[3] Withdrawals from the Fund will be appropriated by Parliament through the annual National Budget or amendments to the Appropriation Bill. The WF resources will be used to provide budgetary support and finance national projects with socioeconomic impact for future generations. Thus:

- **Withdrawals from the stabilization account will be used to provide budgetary support under well-specified circumstances**: i) fiscal deficits exceed 8 percent of GDP over a two-year period due to business cycle, climate, and external shocks. Notably, the fiscal deficit would need to be caused primarily by shortfalls in revenue collection rather than spending increases; ii) fiscal revenue as a percent of GDP falls below its long-term average level (30.5 percent of GDP) over a two-year period; and iii) at any given time, withdrawals from the Fund cannot exceed 10 percent of the total asset value of the Stabilization Account. Under exceptional circumstances, withdrawals from the WF could also be made to defend the currency in the event of a balance of payments shock.

- **Withdrawals from the intergenerational account will be used to finance national projects under the following criteria:** i) the intergenerational account has reached financial accumulation equivalent to 20 percent of GDP; ii) withdrawals can only be made against the returns on its investments; capital cannot be withdrawn; iii) the withdrawn returns can only be used to fund national projects and infrastructure that will have a positive socioeconomic impact on future generations; iv) withdrawals are limited to 10% of total returns accumulated in the intergenerational account. In exceptional circumstances, withdrawals can be made to defend the currency in the event of a balance of payments shock if the Stabilization Account is depleted.

6. **Ensuring strong governance and management of the WF is important to mitigate risks.** The WF will be managed by a Board of Directors under the overall guidance of the Minister of Finance. The Board is charged with determining and proposing changes to the investment policy, supervising the WF's investment and management, ensuring the adequacy and effectiveness of the WF's investment management controls, and ensuring appropriate systems and risk controls to protect assets from avoidable financial and operational losses. According to the draft WF policy framework, the Board of Directors of the Bank of Namibia will also serve as the WF's Board of Directors. However, staff has recommended that the WF be governed by a separate board to strengthen governance and independent oversight and avoid impeding the ability of the BoN to

[3] See https://www.bon.com.na/Bank/Welwitschia-Fund.aspx for the details.

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fulfill its core mandate. Staff also suggested clarifying the Minister of Finance and the Board's roles in WF policy and management.

7. To promote transparency and accountability, the WF Board is required to submit audited financial statements and an annual report. The annual report will be submitted to the National Assembly for consideration and published on the websites of the Ministry and BoN. Furthermore, the Board is required to publish in the Gazette a monthly report on the WF's return on assets and liabilities. Staff has recommended that, in addition to producing audited financial statements, the Auditor-General conduct an external audit, which should be explicitly articulated in the WF Act.

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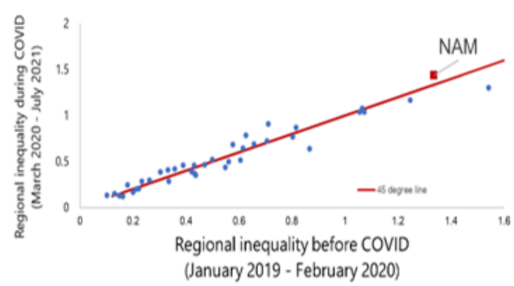
Annex VIII. Addressing the Distributional Impact of Fiscal Consolidation[1]

1. Namibia is implementing a medium-term fiscal consolidation strategy to preserve debt sustainability. The authorities have adopted a medium-term fiscal consolidation framework in late 2020, supported by a reform of the wage bill and state-owned enterprises (SOEs), and strengthening tax administration. The package of fiscal adjustment measures (5.5 percent of GDP, cumulative over FY2021/22–24/25) builds on: i) containing the wage bill by freezing nominal wage increases in FY2021/22; allowing for natural attrition (excluding in priority sectors); and implementing an early retirement scheme; ii) reducing transfers to SOEs by divesting from selected entities and improving SOEs' performance and management; iii) mobilizing tax arrears and one-off exceptional revenues.

2. The planned fiscal consolidation could have an important distributional impact. Namibia is one of the most unequal countries in the world, with a Gini coefficient of 59.1 percent in 2015[2] (the most recent data available), which is estimated to have been exacerbated by the COVID-19 pandemic. Thus, one of Namibia's key challenges is to carry out the planned fiscal consolidation without exacerbating the country's already high inequality. This requires careful fine-tuning of policies and the implementation of mitigating measures to maintain the delicate balance between fiscal consolidation and distributional outcomes.

Regional Inequality in Sub-Saharan Africa, Before and After COVID-19
(Index)



Source: IMF Sub-Saharan Africa Regional Economic Outlook, October 2021.

3. A general equilibrium model[3] was used to examine the distributional consequences of selected fiscal measures envisaged in the authorities' consolidation package. The model is customized to reflect the main characteristics of the Namibian economy, featuring a very large number of simulated forward-looking and optimizing households that live in rural or urban areas. Households are employed in formal and informal work in multiple production sectors. Supply and demand in each market is in equilibrium via price adjustments. The model features Namibia specific characteristics, including the large share of mining exports in GDP, a dependence on food imports, the presence of productive public enterprises, and a progressive income tax system. The model is calibrated to mimic Namibia's tax system, demographics, national accounts, and income/wealth distributions.

[1] Prepared by Alejandro Badel and Daniel Gurara.

[2] See IMF Country Report No. 19/295 for the details on the inequality and poverty profiles.

[3] Based on the Strategy, Policy, and Review Department's Multisector Incomplete Markets Macro Inequality App (MIMMI).

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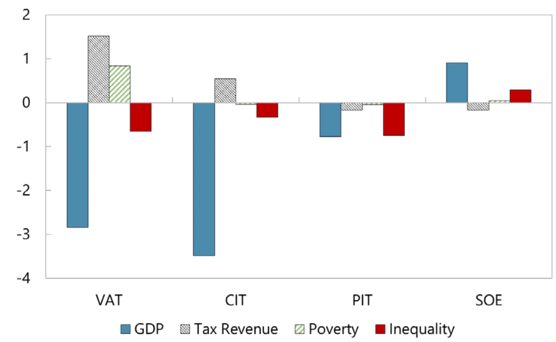
Policy Experiments

4. Complementing fiscal reforms with distributional policies is needed. Experiments highlight the importance of complementary fiscal policies to ensure that revenue-enhancing measures do not exacerbate existing inequalities (see text chart). Tax reform measures may help mobilize more revenue, but they may have undesirable distributional consequences. Similarly, expenditure side reforms, such as the authorities' divesture plan to reduce transfers to public enterprises, could aggravate existing inequalities. It is, thus, critical to complement fiscal reform packages with other distributional policies. For example, a share of the additional revenue generated by the reform measures could be used to offset the undesirable distributional effects, e.g., in the form of targeted social transfers.

Long-term Impacts of Fiscal Reforms
(Percentage points; GDP in percent)



Source: IMF staff calculation.

Improving the Efficiency of the Value Added Tax

5. The Value added tax (VAT) efficiency has been declining over time in Namibia. The VAT C-efficiency[4] declined from 62 percent in FY2013/14 to 49 percent in FY2019/20, falling further to 34 percent in FY2020/21, following the onset of the COVID-19 pandemic[5] (see Figure AVIII.1). In FY2019/20, prior to the COVID-19 pandemic, the VAT tax gap reached about 51 percent.[6] As this VAT tax gap rate does not distinguish between policy gap (e.g., because of exemptions) and collection gap because of non-compliance, the highest observed c-efficiency score (62 percent) was used to compute potential VAT revenue based on the observed tax efforts (Figure AVIII.1). Thus, potential VAT revenue in FY2019/20 is estimated at 8.2 percent of GDP, against the actual collection of 6.4 percent of GDP, implying about a 21 percent tax gap.

[4] C-efficiency is defined as the ratio of the share of VAT revenues in consumption (consumption exclusive of VAT, since consumption is calculated in the national accounts at current prices inclusive of tax) to the standard VAT rate. It compares the actual VAT revenues collected with the VAT revenues that could be raised if it were perfectly enforced and levied at a uniform standard rate on all consumption, and with no exemptions.

[5] VAT revenue declined significantly in FY20/21 partly because of the accelerated repayment of VAT refund of N$3 billion as part of the authorities' COVID-19 response measures.

[6] VAT tax gap is the difference between potential VAT revenue and the actual VAT revenue, which is equivalent to 1- C efficiency rate.

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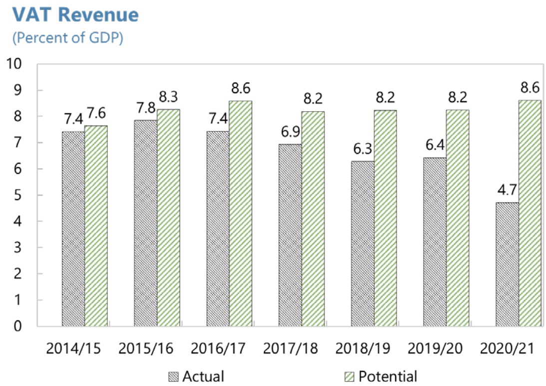
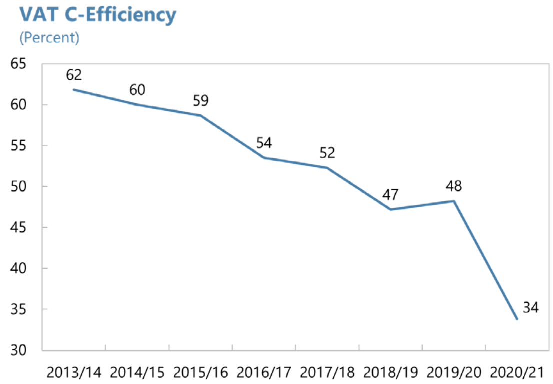
Figure AVIII.1. Namibia: VAT Revenue

VAT revenue in Namibia is well below its potential…. *…with VAT efficiency having declined over time.*

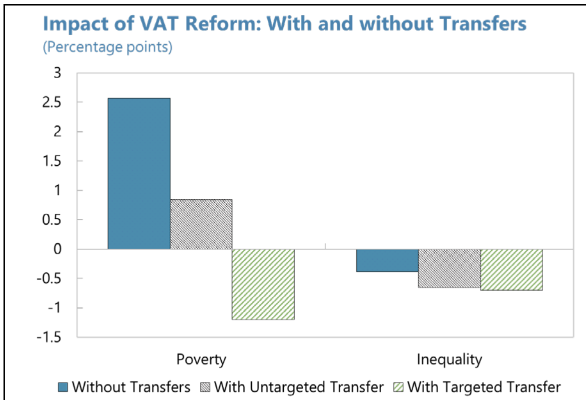


Sources: IMF staff calculations; Namibia Ministry of Finance.



Sources: IMF staff calculations; Namibia Ministry of Finance.

6. **Closing the VAT gap could generate significant tax revenue without worsening distributional outcomes, if accompanied by targeted social transfers.** Improving VAT efficiency (e.g., by improving enforcement and eliminating exemptions) would lower aggregate demand as it is equivalent to raising the effective VAT rate,[7] which boosts revenue, and lower output. Because the consumption share of lower income household is high, the impact could be regressive, leading to higher poverty and inequality. However, using part of the additional revenue from the VAT reform in the form of targeted social transfers could reduce poverty and alleviate negative impact on inequality. The targeted transfer could also help ease the decline in aggregate demand and moderate the overall decline in output because of its impact on the sectoral composition of demand.



Source: IMF staff calculation.

Improving the Efficiency of the Corporate Income Tax (CIT)

7. **The corporate Income Tax (CIT) gap has been increasing in Namibia**.[8] Since FY2015/16, the CIT efficiency ratio has been declining. Because the CIT efficiency ratio is influenced by tax compliance, collection efforts, and other factors (see Ueda, 2018 for more information), the highest observed CIT efficiency ratio (43.1 percent in FY2015/16) is used to calculate the potential CIT revenue that could be collected (Figure AVIII.2). Thus, the potential CIT revenue was at 5 percent of

[7] Overall consumption tax in the economy (i.e., effective tax) will rise if previously untaxed consumption is brought into the tax net through stricter enforcement and the elimination of exemptions.

[8] The CIT gap is measured by the CIT efficiency ratio. The CIT efficiency is defined as the ratio of actual CIT revenue in the reference tax base (net operating surplus in the national account) to the standard CIT rate.

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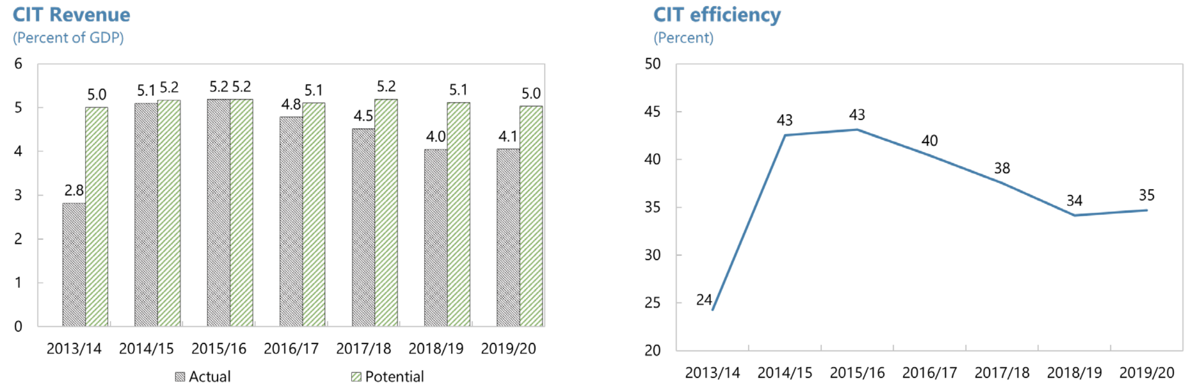
GDP in FY2019/20, compared to actual CIT revenue of 4 percent of GDP, implying a 20 percent CIT gap.[9] Other indicators, such as the low share of taxpayers filing taxes on time (19 percent in 2019), of CIT paid on time (3.3 percent in 2019), and the stock of CIT arrears (11.1 percent of GDP in FY2020/21) further point to the presence of a large CIT gap.

Figure AVIII.2. Namibia: CIT Revenue

CIT revenue in Namibia is below the potential.... ... *and CIT efficiency has been declining.*



Sources: IMF staff calculations; Namibia Ministry of Finance. Sources: IMF staff calculations; Namibia Ministry of Finance

8. Closing the CIT gap would increase government revenue at the cost of higher output loss. Bringing previously untaxed or under-taxed firms into the tax system may reduce their profitability, resulting in lower input demand and, consequently, lower output. Government CIT revenue, on the other hand, could rise slightly. Similar to the VAT reform, both poverty and inequality would worsen in the absence of social transfers. With targeted social transfers, the reform could lower poverty and inequality while additional revenues are collected.

Increasing the Progressivity of the Personal Income Tax

9. Increasing the progressivity of PIT could reduce income inequality but at the expense of reducing output. Increasing the progressivity of personal income taxes (e.g., by lowering bracket cut-offs and raising tax rates for the top two income tax brackets) could reduce income inequality, but it would likely discourage formal work and increase informality. This would result in a decrease in aggregate productivity and output over time. The increase in informality would partially offset the revenue gain from the increase in progressivity, resulting in lower revenue. However, because of its impact on overall economic productivity, the reform may exacerbate poverty.

SOEs Reform

10. Rationalizing SOEs through targeted privatization has the potential to increase aggregate productivity. Reduced public supply of services would result in an increase in service prices, incentivizing the private sector to enter these sectors. The private sector's entry would boost

[9] This estimate may be the lower bound because it reflects previous efforts.

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labor demand, raising wages in the modern/urban sectors of the economy. Higher wages would increase demand for agricultural goods, boosting rural households' agricultural income. Nonetheless, inequality would rise slightly, necessitating supplementary policies to mitigate unintended distributional effects.

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Annex IX. Fiscal Consolidation and Growth in Namibia[1]

1. The authorities are moving ahead in implementing a medium-term fiscal consolidation strategy. This builds on a cumulative fiscal adjustment package of 6.7 percent of GDP over FY2021/22–25/26. Key elements of the fiscal consolidation strategy are: i) containing the wage bill; ii) reducing transfers to SOEs; and iii) mobilizing domestic revenue.

2. A dynamic, stochastic model of a small economy (DIGNAR)[2] is used to assess the growth impact of fiscal consolidation in Namibia. The calibration of the DIGNAR model relies on a set of macroeconomic assumptions underlying key variables. These assumptions are summarized in Table AIX.1. Table AIX.2 summarizes the path for the macro-fiscal parameters that underlie the fiscal consolidation in staff's baseline scenario.

Table AIX.1. Namibia: Calibration of Initial Steady-State Variables

(In percent of GDP unless otherwise indicated (2021))

GDP growth rate	2.7
Exports	29.1
Imports	-44.9
Government consumption	34.8
Government investment expenditure	3.4
Private investment	11.5
Mining value added	9.8
Government domestic debt 1/	39
Private foreign debt	0
Government external commercial debt	31.7
Grants	0

Sources: Namibian authorities and staff estimates.

1/ The actual amount of domestic debt in 2021 was too high for the calibration of the model at above 50 percent of GDP, and hence the remaining debt was added to the government external debt to arrive at the actual total debt to GDP ratio for 2021.

3. Simulations are run on the staff baseline scenario and four alternative scenarios to assess the marginal impact on growth. Alternative scenarios are: i) spending substitution; ii) assuming successful reforms in expenditure quality; iii) successful reforms in revenue administration; and iv) and different speeds of adjustment relative to the baseline.

[1] Prepared by Mehmet Cangul with valuable inputs from the Ministry of Finance, the Bank of Namibia, Giorgia Albertin, Zamid Aligishiev, Daniel Gurara, Giovanni Melina, and Tiana Wang.

[2] Melina et. all, "Debt Sustainability, Public Investment, and Natural Resources in Developing Countries: the DIGNAR Model, IMF Working Paper, 2014.

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Table AIX.2. Namibia: Macro-Fiscal Variables Consistent with the Baseline Consolidation Path

(In percent of GDP unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027
Capital Expenditure	3.4	3.0	2.9	2.9	2.9	2.9	2.9
Current Expenditure	34.8	33.5	33.5	33.3	32.7	32.7	32.6
Public Transfers	9.7	9.4	9.0	9.0	8.9	8.6	8.6
Overall Revenue	28.8	28.7	31.0	31.9	31.5	31.6	31.7
Overall Deficit	-9.3	-7.7	-5.4	-4.2	-4.1	-4.0	-3.8

Soures: Namibian authorities and staff estimates.

4. **The spending substitution scenario, protecting capital with greater reduction in current spending, improves the growth path.** Assuming that an additional capital spending of 0.1 percent of GDP is achieved each year by reducing current spending by the same amount, the average growth path does not materially differ from the baseline. However, increasing capital spending more forcefully toward 4 percent of GDP by the end of the projection increases yearly average growth by 0.1 percent of GDP.

5. **Expenditure quality scenario with a permanently higher efficiency improves the growth outlook.** Assuming that there is a one-time, 10 percent permanent efficiency gain in expenditure quality starting in year 2023 accruing from reform efforts in 2022, average yearly growth picks up an additional 0.02 percentage points.

6. **Revenue administration with less reliance on expenditure cuts improves the growth path by a similar proportion.** This scenario assumes that fiscal consolidation is less reliant on expenditure contraction because of successful revenue administration reforms. If the authorities can conservatively reduce the overall spending contraction by 0.5 percent of GDP each year with the gains falling equally across government expenditure, there is a yearly average gain of 0.1 percentage point in growth with respect to the baseline.

7. **In assessing various changes to the pace of consolidation, scenarios are considered under equal, more backloaded and less backloaded fiscal adjustments relative to the baseline.**[3] Assuming an equal distribution of the fiscal adjustment over the projection period

[3] Blanchard and Leigh (2013) argue that the pace of fiscal adjustment will be irrelevant for growth since whether it is frontloaded or backloaded, the aggregate impact will be the same. This logic however is only valid if we assume that the fiscal multiplier is homogenous across the projection period. Engler and Tervala (2017) argue that fiscal multipliers in hysteresis are 542 percent larger, which we will take as an initial reference, and assume it for 2022 in the context of the fragility from COVID. On the other hand, the risk of entering a so called "bad" equilibrium due to high debt should also be considered since at high levels of debt, the chances of entering such an equilibrium could be quite high, with significant damage to growth. To capture this channel, we will assume that debt above 60 percent of GDP causes a 3 to 4 basis points increase in the sovereign risk premium for every percentage point increase in the debt to GDP ratio, consistent with IMF and the European Commission rule of thumb for countries that are highly

(Continued)

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produces no significant gains to growth. Meanwhile, varying the pace of the adjustment to optimize the growth impact produces a scenario that is fairly close to the actual fiscal consolidation path.[4] Assuming a more backloaded consolidation path relative to the baseline does not significantly alter the growth path while the less backloaded scenario relative to the baseline produces a relatively small average gain of 0.02 percentage points of growth over the projection period. This result highlights the higher risk assessment of high debt captured by the sovereign risk premium relative to the impact of the larger fiscal multiplier assumed in the initial years of the projection period.

Table AIX.3. Namibia: Marginal Changes to Average Growth Across Alternative Paths of Fiscal Consolidation

(In percentage points)

Spending substituition	0.10
Investment efficiency	0.02
Revenue reforms	0.10
Equal distribution of adjustment	0.00
Backloaded curve adjustment	-0.08
Less backloaded curve adjustment	0.02

8. **Various alternative scenarios do not produce significantly different growth paths but marginal changes across scenarios.** Marginal changes across scenarios imply higher weights for certain measures than others in considering the impact of fiscal consolidation on growth, (Table AIX.3). Notably, gains in investment efficiency bring less in growth premium than substituting investment spending for current spending and revenue reforms.

9. **The baseline pace of fiscal consolidation produces a growth path that is close to the optimal scenario produced by simulations.** Assuming a sovereign risk premium associated with high levels of debt (above 60 percent of GDP) and that the fiscal multiplier is significantly larger in years following an external shock, such as the COVID-19 pandemic, then a slightly less backloaded fiscal consolidation than the baseline could yield a modest yearly average growth gain of 0.02 percentage points over the projection period. However, costs from high debt may be underestimated in the model as the sovereign risk premium may not sufficiently capture the damage from switching from a good equilibrium to a bad one where lack of confidence in government debt could be a self-fulfilling reality. Therefore, striking the right balance between

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indebted. One should note however that if there emerges a bad equilibrium, the damage resulting from a lack of confidence in sovereign debt could be much more severe; this assumption is therefore on the conservative side.

[4] This assumes progressive changes to the parameters of a logistic function, which is a non-linear curve that will define the fiscal consolidation path where there will be an arbitrary maximum and a logistic growth rate, k or the "steepness" of the curve that will determine the pace of the fiscal consolidation over time. Using simulations in DIGNAR, k is chosen to maximize the average growth rate over the projected period with the constraint that the area under the consolidation path equal the total fiscal adjustment.

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consideration of a fragile economic recovery on the one hand, and reducing the negative growth risk from high debt remains paramount.

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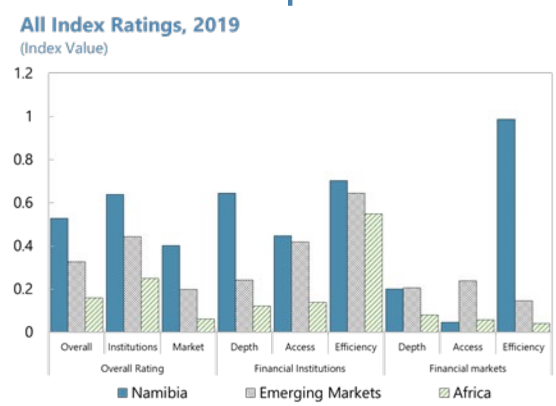
Annex X. Financial Sector-Growth Nexus: Fostering Financial Sector Contribution to Growth[1]

1. Namibia has a large, highly interdependent, and well-developed financial sector. As of end-2021, banking sector assets represent over 100 percent of GDP while non-bank financial sector (NBFS) assets represent 187 percent of GDP, with a fully funded government pension fund (GIPF) and several insurance companies. Households hold aggregate claims on non-bank financial institutions (NBFIs) equivalent to 80 percent of GDP, half of which are GIPF liabilities, and others are long-term investments in insurance and private pensions. The financial system in Namibia is closely linked to South Africa where most of the banks and asset managers have parent companies.

2. Namibia's financial sector development is significantly above emerging markets and sub-Saharan Africa averages (Figure AX.1).[2] This dynamic is mainly driven by high financial depth and relative ease of access to financial services by the general population, the relative efficiency of financial institutions, captured by high ROE and ROA, and a relatively low lending-deposit spread (Table AX.1). However, financial access challenges are still prevalent for firms, especially SMEs.

Figure AX.1. Namibia: Financial Development



Sources: Financial Development Index.

[1] Prepared by Mehmet Cangul with valuable inputs from HE the Minister of Finance of Namibia, Dr. Ipumbu Shiimi, colleagues of the Namibia Ministry of Finance, the Bank of Namibia (BON), The Namibia Financial Institutions Supervisory Authority (NAMFISA), the Monetary and Capital Markets (MCM) Department of the IMF, Giorgia Albertin, Adolfo Barajas, Naomi Nakaguchi Griffin, Daniel Gurara, Murad Omoev, Maximilien Queyranne, Katsiaryna Svirydzenka, Fabián Valencia, Tianyuan Wang, and Torsten Wezel.

[2] Based on the index developed by Sahay et. all, "Rethinking Financial Deepening: Stability and Growth in Emerging Markets", IMF Staff Discussion Note, 2015.

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Table AX.1. Namibia: Financial Sector Development: Namibia Selected Comparators

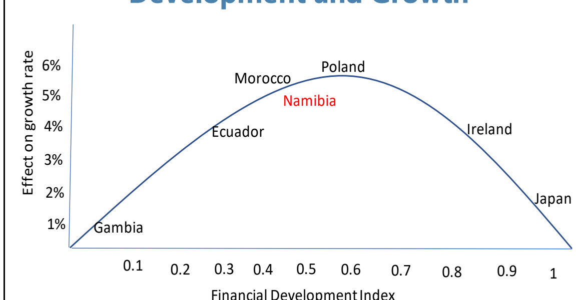
	Namibia	Global Mean	SSA Mean	Emerging Markets Mean	South Africa	United States	Botswana	Ethiopia
Financial Instituitions: Depth	**0.65**	**0.27**	**0.12**	**0.24**	**0.88**	**0.81**	**0.36**	**0.05**
Private Sector Credit to GDP	71.21	131.47	39.93	42.13	116.13	190.76	36.22	
Pension Fund Assets to GDP		10.39		18.36	41.64	70.44		
Mutual Fund Assets to GDP		10.11		7.63	40.75	91.13		
Insurance Premiums (life and non-life) to GDP	7.13	2.06		1.87	13.92	6.49	3.28	0.53
Financial Instituitions: Access	**0.45**	**0.36**	**0.14**	**0.42**	**0.40**	**0.84**	**0.31**	**0.03**
Bank branches per 100,000 adults	11.18	11.51	4.45	14.62	9.59	30.46	9.37	
ATMs per 100,000 adults	72.37	42.61	6.09	44.11	65.31		45.02	
Financial Instituitions: Efficiency	**0.70**	**0.61**	**0.55**	**0.65**	**0.70**	**0.72**	**0.68**	**0.73**
Net interest margin (in percent)	7.84	7.66	10.44	8.28	4.57		3.41	33.13
Lending-deposits spread	4.17	5.78		7.55	3.12		4.80	
Non-interest income to total income	0.26	0.31	0.38	0.31	0.26		0.35	0.23
Overhead cost to total assets	4.08	3.01		3.57	2.92	2.75	3.70	2.89
Return on assets (in percent)	2.79	1.94	1.94	2.37	1.50	1.60	2.35	2.86
Return on equity (in percent)	17.56	13.89	15.52	16.59	14.04	11.50	15.55	20.55
Financial Markets' Depth	**0.20**	**0.22**	**0.08**	**0.21**	**0.76**	**0.99**	**0.10**	**0.02**
Stock market capitalization to GDP	8.95	30.76		25.17	132.32	106.97	28.46	
Stocks traded to GDP	0.78	83.95		13.36	73.42	108.21		
International debt securities of government to GDP	64.56				47.80		8.41	28.23
Total debt securities of financial corporation to GDP	3.67	73.40		57.94	69.60	17.82		
Total debt securities of nonfinancial corporation to GDP	2.77	32.17	21.58	15.35	30.33			
Financial Markets Access	**0.05**	**0.23**	**0.06**	**0.24**	**0.42**	**0.66**	**0.55**	**0.00**
Percent of market capitalization outside of top 10 largest companies		49.61		50.11	80.25	75.49		
Financial Markets Efficiency	**0.99**	**0.16**	**0.04**	**0.15**	**0.41**	**1.00**	**0.06**	**0.00**
Stock market turnover ratio (value traded/stock market capitali	3.76		31.55	21.97	33.13		4.48	

Notes: If aggregated values (the Global, SSA and Emerging Markets) are not directly avialable from the corresponding database and are calculatable, they are simple averages based on data avialablility which not necessarily covers all the countries in each group. Data were

Financial Sector's Contribution to Growth

3. **Given Namibia's significant development, the financial sector would be expected to provide a positive dividend to growth.** According to the empirical findings by Sahay et. al (2015), the relationship between financial development and growth is expressed by an inverse U-shaped function. Thus, financial development above a certain threshold has declining returns on real growth. Applying the bell curve estimation to Namibia, the impact of financial development on growth would be expected to be approximately 4.5 percentage points (Figure AX.2).

Figure AX.2. Namibia: Financial Development and Growth



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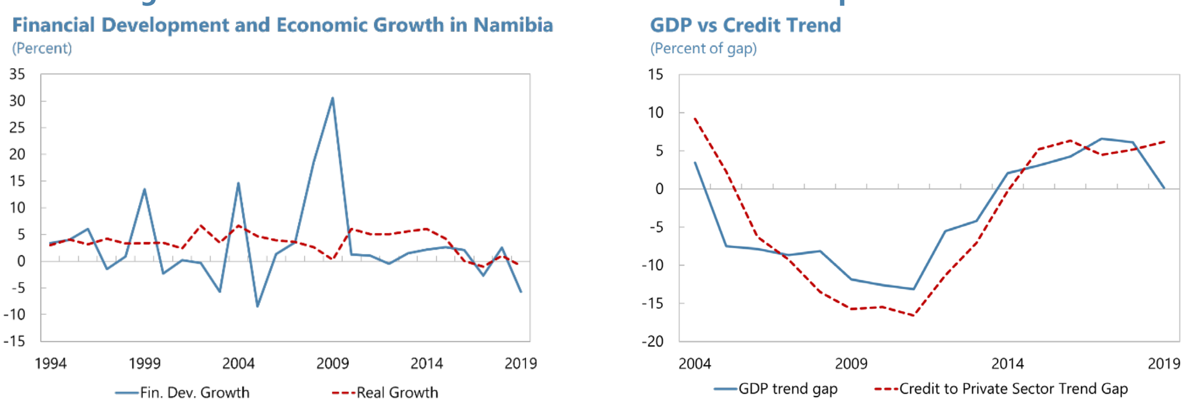
Notably, Namibia is still estimated to be positioned to the left of the bell curve, implying that further financial development would potentially increase returns to growth.

4. However, the growth contribution of Namibia's financial sector has been historically limited or negative. Assessing the growth impact of the financial sector is challenging since exogenous shocks, like the COVID-19 pandemic, can adversely impact the financial sector and overall growth simultaneously. However, during periods of large growth spurts in financial development, Namibia's real growth has largely been flat (Figure AX.3). Lack of causality is also confirmed with a Granger causality test. However, running the test separately for a more recent period (to account for structural shifts in the data), implies a reverse relationship where economic activity is a stronger determinant of financial sector development rather than the other way around. This finding is consistent with the demand-following hypothesis by Patrick (1966) where demand from economic activity determines financial sector development. On the other hand, previous analyses suggest that the growth contribution could be negative through the credit channel, with a 1 percent decline in real credit associated with a 0.47 percent decline in real GDP (IMF Country Report 15/276). An analysis of the trend gaps between GDP and credit using a simple HP filter is consistent with this result. The overall conclusion from these observations is that rather than being a positive contributor to growth, financial sector development has largely been determined by growth, while contributing negatively to growth during contractions.

Figure AX.3. Namibia: Contribution of Financial Development to Growth



Sources: Bank of Namibia, Namibia Statistical Agency, and IMF staff calculation.

Sources: Bank of Namibia, Namibia Statistical Agency, and IMF staff calculation.

Constraints to the Role of the Financial Sector in Supporting Growth

5. Despite its size and complexity, the financial sector in Namibia appears not to be contributing optimally to growth. Several factors could explain the limited contribution of the financial sector to growth: (i) firms' weak access to credit, especially for SMEs; (ii) uneven pace of development of financial markets versus institutions with the former lagging behind; (iii) high loan concentration in the real estate market; and (iv) a significant linkage between the government and the financial sector through high concentration of government debt holdings by financial institutions.

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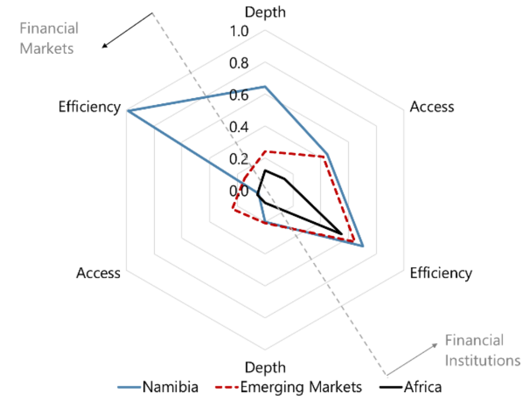
6. Firms' limited access to financial markets, especially for SMEs, could be constraining financial sector's contribution to growth. Access to financial markets is the dimension of financial development that has least progressed in Namibia, and it is the weakest relative to other metrics (Figure AX.4). While access to financial institutions is at par with the rest of sub-Saharan Africa and better than the average for emerging markets, access to financial markets remains weaker. This is mainly driven by constrained firm access to credit. [3]

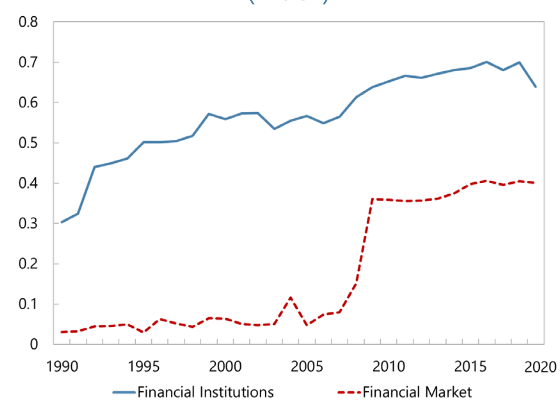
Figure AX.4. Namibia: Sub-Index Rating, 2019
(Index)



Source: IMF Financial Development Index Database.

7. Furthermore, the different pace of development between financial markets and financial institutions could also play a role. Development of financial institutions, - measured by number of bank branches by adults, ROE and ROA ratios - has considerably strengthened since independence. However, the development of the financial market - measured by stock market capitalization and total debt securities of non-financial corporations - has been more lagged (Figure AX. 5). The latter is mainly driven by the limited availability of equity financing. In Namibia only 1.4 percent of all investments are financed by equity, compared to 300 percent stock market capitalization for South Africa.

Figure AX.5. Namibia: Development of Financial Institutions vs. Market
(Index)



Source: IMF Financial Development Index Database.

8. Excessive loan concentration in the housing market could be a further factor constraining financial sector contribution to growth. More than 90 percent of household debt at end-2021 was in housing mortgages, representing half of all banking sector loans to the private sector.[4] The concentration of credit provision in less productive sectors could make the growth contribution of the financial sector asymmetric, as observed in the data: limited potential for a

[3] Sahay et. all, "Rethinking Financial Deepening: Stability and Growth in Emerging Markets", IMF Staff Discussion Note, 2015.

[4] Research indicates that credit concentration in a non-tradable sector, especially in the housing market, can be conducive to more volatile and severe growth contractions following a shock, more so than in other sectors. (Muller and Verner, 2021).

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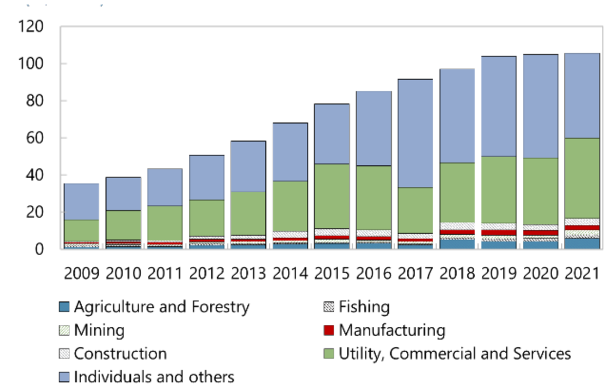
Figure AX.6. Namibia: Private Credit Allocation
(N$ Billion)



Sources: Bank of Namibia

positive contribution, but with the risk of a negative contribution during economic contractions. This risk is significant for households exposed to rising interest rates and declining real wages.[5]

9. **A significant sovereign-financial nexus can compound these challenges.** Large budgetary financing needs may have crowded out credit to the private sector. Furthermore, the large role of the public sector in financial markets can also increase fragility and reduce the cushioning impact of the private sector in the context of fiscal consolidation. The link between government spending and private sector contracts heightens the vulnerabilities of loan concentration in construction and real estate market. More than 70 percent of construction projects receive banking credits through government contracts.[6] Therefore, when public spending slows or its composition switches toward current expenditures, as in the context of the fiscal response to the pandemic, the construction sector may also experience a significant contraction, in turn affecting financial sector credit and growth negatively.

Fostering Financial Sector Contribution to Growth

10. **Enhancing firm access to credit could enhance the role of the financial sector in supporting growth.** Reducing collateral constraints (lack thereof or absence of reliable information), especially for SMEs, by enhancing the functionality of credit bureaus and investing in the development of digital databases would help reduce information asymmetries. Furthermore, strengthening contract enforcement and the role of micro-credit institutions, and supporting local collective collateralization projects would increase the confidence of the financial sector in the ability of the private sector to repay debt. In parallel, diversifying government funding and reducing pressure on domestic financing sources would reduce the crowding out of the private sector.

11. **Namibia has devised a strategy to facilitate SME access to credit, inter-alia, by increasing the bankability of projects.** The strategy involves three complementary facilities: the

[5] However, significant social returns can accrue from higher access to housing for the vulnerable population. The social dimension of this credit concentration in the housing market underlines the importance of distinguishing growth in upper segments of the housing market versus the lower segments. According to the housing report by the First National Bank (FNB)[5] in the last 3 months, the housing segment prices that grew most forcefully were for large homes (8.3 percent y-o-y) versus small home prices that grew 5.3 percent y-o-y while the luxury home prices contracted by 3.2 percent y-o-y.

[6] Namibian authorities and Construction Industries Federation.

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Credit Guarantee Scheme,[7] the Catalytic First Loss Venture Capital Fund (VCF), and the Mentoring and Coaching Program. In addition to providing funding, the Bank of Namibia oversees the operationalization of the Credit Guarantee Scheme. This initiative has seen limited pick-up so far, highlighting the challenge of lack of credit demand as well the limited set of bankable projects and low risk appetite by the banking sector. To this end, VCF will finance riskier projects with value-added potential while the Mentoring Program aims to increase the bankability of projects by young entrepreneurs.

12. **Deepening equity markets and making equity financing more accessible to firms could also help broaden credit.** Equity financing could be a more viable alternative for some firms if they can be matched with investors who have a higher risk appetite. Introducing a Single Central Securities Depository (CSD) would enhance Financial Market Infrastructure (FMI) safety and efficiency, consistent with the recommendations from the 2018 Financial Sector Assessment Program.[8] CSD would transfer the current paper-based system to a digital platform. This reform would also facilitate equity market deepening and potentially incentivize international entry into the domestic market, providing more investment options to foreign capital. Efforts are underway toward this objective, notably through the Financial Institutions and Market Act (FIMA) and the demutualization of the Namibian Stock Exchange (NSX).

13. **Development of digital finance could provide businesses alternative and less costly financing options, such as crowdfunding,[9] but associated risks would need to be managed prudently.** The BoN has been actively exploring FinTech development prospects and has adopted a Digital Transformation Strategy to widen digital access to rural areas and strengthen supportive investments in electricity and network infrastructure. The BoN also developed a FinTech regulatory framework to oversee the operations of FinTechs in controlled environments such as regulatory sandboxes and innovation hubs that explore the potential for digital assets to enhance financial inclusion. However, risks to data integrity, cyber security, financial stability, and the policy transmission of the Central Bank should be managed with a robust regulatory framework.

14. **Broadening macroprudential tools could contribute to manage excessive risk taking and concentration of credit.** The use of such tools as debt service-to-income (DSTI) and loan to value ratio (LTVR) could curb risks from highly leveraged households, protect private debt sustainability, and reduce growth volatility from contractions in credit and lower demand from indebted households. However, considering the potential procyclical impact on growth and facilitating targeted access to sustainable credit for low to middle income housing should also be weighed to avoid adverse social consequences.

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[7] The Credit Guarantee Scheme for SMEs aims to provide collateral cover of 60 percent for qualifying SMEs applying for finance from participating commercial financial institutions. This framework will be funded with N$98 million seed capital from the Government of Namibia and the BoN. SMEs will be assessed in line with the participating financial institution's credit (business loan) risk policies and procedures.

[8] IMF Country Report No. 18/77, Namibia Financial System Stability Assessment, March 2018.

[9] Crowdfunding is the practice of funding a project or venture by raising money from a large number of people, typically via the internet. Crowdfunding is a form of crowdsourcing and alternative finance.

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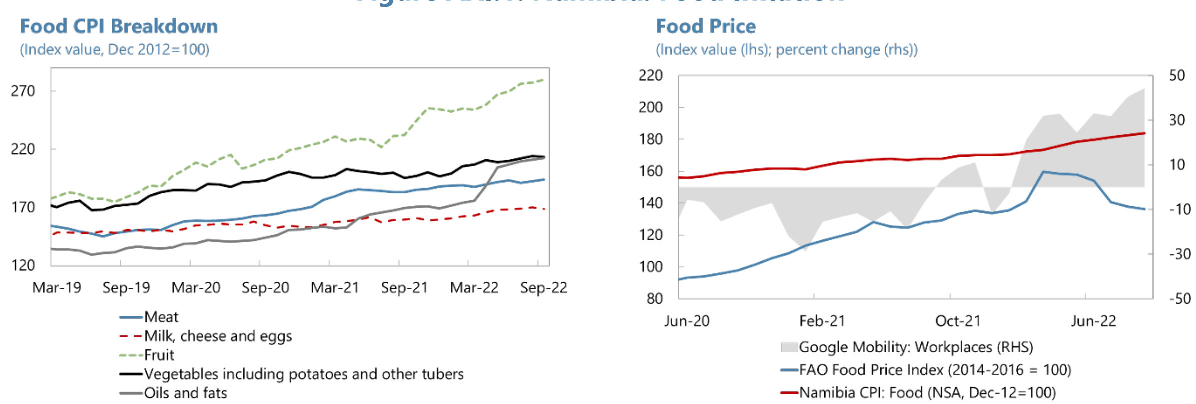
Annex XI. Addressing Food Insecurity in Namibia[1]

1. Food security has emerged as a fundamental challenge in Namibia, brought to sharp relief by the COVID-19 crisis and more recently the war in Ukraine. These dynamics have exacerbated underlying structural factors. The authorities have identified food security as a priority, responding with both short-term and structural mitigation. However, the number of people suffering from food insecurity still constitutes a sizeable percentage of the population, increasing by 53 percent during COVID to more than a quarter of the population.[2]

2. Food security in Namibia has been hit by a scissor effect: higher prices and lower earnings. According to FAO, food prices rose to a third record high since the beginning of the year, rising by 34 percent (y-o-y) amidst disrupted supply lines from Ukraine and Russia, impacting Namibia (Figure AXI.1), a net importer of food. At the same time, earnings of low-income family households declined as COVID-19 containment measures negatively impacted activity in most sectors, and having only partially recovered.

Figure AXI.1. Namibia: Food Inflation



Source: Namibia Statistics Agency.

Sources: FAO, Google Mobility, and Namibia Statistics Agency.

Impact of Food Insecurity

3. Persistent food inflation can lead to erosion of earnings and savings for low-income families, exacerbating existing income inequalities. For the low-income household, food can absorb up to 65 percent of earnings.[3] Staff estimates that for every 1 percent increase in the price of

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[1] Prepared by Mehmet Cangul with valuable inputs from the Ministry of Finance of Namibia, the Ministry of Agriculture of Namibia, the Bank of Namibia, partnership with the United Nations Namibia, Giorgia Albertin, Daniel Gurara and Tianyuan Wang.

[2] Integrated Food Security Phase Classification (IPC) analysis by the UN Office for the Coordination of Humanitarian Affairs (OCHA). https://reliefweb.int/report/namibia/namibia-acute-food-insecurity-analysis-october-2021-march-2022-issued-december-2021

[3] This is based on NamibiaHub and the 2015/16 Namibia Household Income and Expenditure Survey by the Namibia Statistics Agency (NSA) which points to the average household in Namibia earning N$ 17,400 per month per capita (lower range is N$ 4,480), translating to N$96 (or N$25 for low-income families) per day per capita while the average

(Continued)

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food, there is a 1.9 percent reduction in the welfare of low-income households in Namibia.[4] A persistent food inflation and earnings erosion could undermine long-term threat to growth through lower savings and capital accumulation.

4. Food insecurity also poses a threat to human capital. Most immediately, food insecurity lowers workers' productivity. Food insecurity also increases the opportunity cost of schooling, making education compete with food for families relying on their children to bring nourishment to the table. Finally, lack of proper nutrition in formative years of a child's development results in neurological stunting. According to the World Bank Development Indicators (WDI), Namibia has a 34.4 percent rate of stunting among children under five years, nearly four-fold that of upper middle-income countries. Studies suggests that stunting can reduce GDP per capita by as much as 0.4 percent each year.[5]

Vulnerabilities and Food Insecurity in Namibia

5. Structural vulnerabilities contribute to food insecurity in Namibia. These factors include: (i) the reliance on rain fed crops; (ii) the dependance of a large share of the population on informal subsistence agriculture; (iii) and high dependance of critical calories on imported food exposed to international price swings.

- **Agricultural output relies mostly on rain fed crops.** As of 2017, 54 percent of crop production was rainfed with 81 percent of the population dependent on a semi-arid environment (Ministry of Agriculture). This dependence renders the harvest susceptible to volatile weather patterns, further fueled by climate change.

- **A large share of the population depends on informal subsistence agriculture.** While representing only 7.4 percent of GDP, agriculture is a direct or an indirect source of income for 70 percent of the population (Figure AXI.2). Agriculture in Namibia can be divided into two strata: (i) the formal, commercialized sector that covers 44 percent of the land, but

cost of a daily meal is N$97 per capita. Due to the lack of a more recent household income and expenditure survey, there is uncertainty regarding this estimate. Applying the IMF Food Insecurity Assessment Tool (FIAT), for the lowest quartile of the consumption distribution, 46 percent of the household spending corresponds to spending on food products while representing only 8 percent for the highest quartile.

[4] Assuming disposable income after food consumption is an indication of welfare, staff estimates that a 1 percent increase in food, increases the share of food in income to 65.65 percent, shrinking the remaining share of disposable income after food consumption from 35 percent to 34.35 percent, i.e.a reduction of 1.86 percent. However, when we look at the impact on overall income, the reduction in purchasing power is 0.6 percent, highlighting the significantly larger impact of food prices on purchasing power of low-income households. Although some research indicates that in developing economies, wages usually rise in tandem with food prices (Walsh and Yu, 2012), with COVID disproportionally affecting rural and informal sectors in Namibia, earnings could be much more inelastic. This can be the result of an environment where economic activity is repressed and where agents do not have the opportunity to adjust own wages or prices for their services for a prolonged period.

[5] Mary, Sebastien, (2018). How Much Does Economic Growth Contribute to Child Stunting Reductions? Economies. 6. 55. 10.3390/economies6040055.

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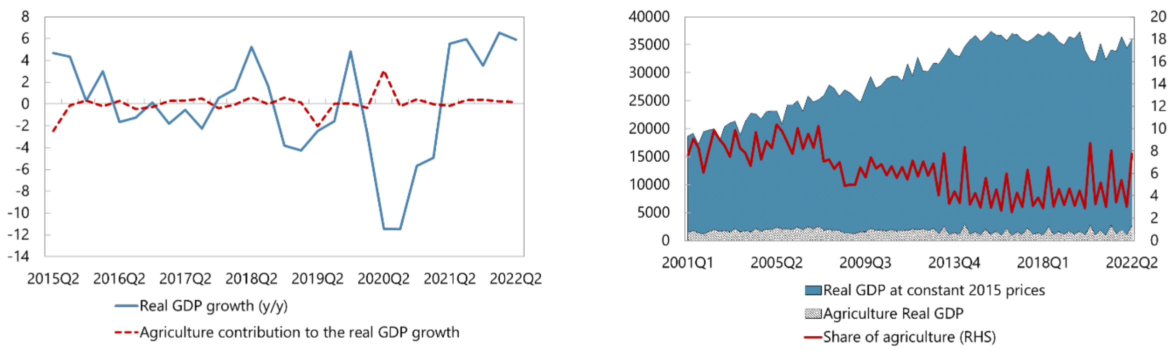
supports only 10 percent of the population, and (ii) the subsistence driven informal sector that covers 41 percent of the land and supports 60 percent of the population.

- **Namibia is a net food importer with a 60 percent food deficit between its food exports and imports, which makes it exposed to the volatility of international food prices.** According to FAO, more than half of daily calories consumed per person are import dependent in Namibia. In particular, the Russia-Ukraine conflict has highlighted an acute fragility vis-à-vis wheat and potential substitutes, Box A11.1.

Figure AXI.2. Namibia: Agriculture to Real GDP

Contribution Of Agriculture To Real GDP Growth
(Percent)

Share of Agriculture in Real GDP
(Million Namibia dollars (lfs); percent of real GDP (rhs))



Source: Namibia Statistics Agency.

Source: Namibia Statistics Agency.

Addressing Food Insecurity

6. Namibia might be facing one of the severest food insecurity episodes with the confluence of both income compression and supply constraints. Incomes and hence demand is under pressure from lower earnings (compared to pre-pandemic levels) and muted recovery while production of food faces global constraints as well as domestic challenges due to factors such as climate change. Thus, it is critical to ensure that vulnerable households and farmers continue to receive targeted support while structural efforts make agriculture more resilient and productive, thus boosting incomes and food security in the long-rum, inter-alia, by investing in climate-smart technologies and continuing to attract foreign and private investment into high value crops.

7. A multi-pronged strategy is needed to tackle food insecurity. Targeted cash and in-kind transfers are needed to mitigate food insecurity in the short-term, but a longer-term strategy is critical. Since agriculture is a main source of income for the majority, making agriculture more productive and resilient would contribute to reduce food insecurity by boosting food supply, increasing incomes, and reducing inequality. To this end, it would be important to: (i)invest in climate-smart infrastructure, including in micro-irrigation and climate-resilient seeds; (ii) increase market and credit access, and develop weather insurance options for the small-scale farmer; and by (iii) attract private sector investments and FDIs into high-value added crops to expand know-how and burden-share the cost of new investments.

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8. Food security is a priority for the government as it attempts to confront these challenges. This urgency is evident both in the implementation of short-term mitigation measures such as the Food Bank and the Drought Relief Program, but also in structural initiatives such as NAMSIP (The Namibia Agricultural Mechanization and Seed Improvement Project) to improve access to mechanization; conduct research of climate-resilient seeds and new climate smart technologies like nano-clay and (ii) the Green Schemes initiative that aims to match productive land with private farmers to grow crops with commercial potential. The School Feeding Program jointly conducted with the World Food Program has the potential to reduce stunting and enhance learning if scaled effectively. Finally, an overarching principle in these initiatives is to source them with local production and inputs where possible to produce externalities to the wider economy while protecting the vulnerable.

9. Although it is important to increase agricultural spending, it is also essential to increase efficiency.[6] Phasing out inefficient and untargeted general subsidies while scaling and increasing the targeted benefits for the vulnerable would contribute to reduce food insecurity with optimal impact. A review of (i) the import and price control policies of the National Agronomic Board (NAB) and (ii) the financial integrity of the Agro-Marketing and Trade Agency (AMTA) that buys from farmers and also supplies the strategic reserve, and (iii) any implicit, untargeted subsidies emanating from either agency, and gradually phasing them out would be advisable. In the process, clearly defined objectives, better targeting, more transparency, timing of input delivery and an exit strategy toward market price inputs would enable a successful transition.

[6] Namibia has committed to increase agricultural spending to 10 percent of the overall budget as part of the commitment under the Comprehensive Africa Agricultural Development Program (CAADP).

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Box AXI.1. The Impact of the Russia-Ukraine Conflict on Food Security in Namibia

The repercussions of the war in Ukraine and global supply shortages are exacerbating food insecurity in Namibia, causing price pressures for wheat and other staples. Namibia is 96 percent import dependent for wheat, also representing 16 percent of daily calories. Wheat imported from Russia in turn represents a significant 60 percent of total wheat imports. Therefore, not only is Namibia exposed to the overall price impact from international markets, but it is also particularly vulnerable to imported wheat prices. Food inflation accelerated to its highest rate in 5 years at 9.3 percent as of September 2022. The BOP impact of wheat price increases is estimated to be above 0.2 percent of GDP in 2022.[1/]

The control of wheat import quantities and prices could make food insecurity. In Namibia, wheat import quantities and prices are controlled by the Namibia Agronomic Board (NAB) that estimates local production volumes, determining local demand, and subsequently regulating the imported quantity and a floor price for the producer. At a time of high volatility of international prices and food insecurity, this mechanism can yet add another layer of fragility for producers and consumers alike. High cost of imported fuel exacerbated by the war is also contributing to higher food prices, reflecting higher transport costs which have risen 13.8 percent y/y as of September 2022. Finally, the cost of other inputs such as seeds and fertilizers are also culminating to put further pressure on local production costs.

Namibia Wheat Import Composition and Impact

	mln USD	*import dependence*	*% of wheat imports*	*% food consumption*	*% of calorie consumption*	*% consumer basket*	*percentage impact: average household income*	*percentage impact: vulnerable household income*
Imports	33.8	95.6		14.2	15.7	3.9	2.4	9.3
Russia	20.2	57.3	59.9	8.5	9.4	2.3	1.5	5.5
USA	4.5	12.6	13.2	1.9	2.1	0.5	0.3	1.2
South Africa	3.6	10.2	10.6	1.5	1.7	0.4	0.3	1.0
Germany	3.1	8.7	9.1	1.3	1.4	0.4	0.2	0.8
Canada	2.4	6.7	7.1	1.0	1.1	0.3	0.2	0.7

Sources: Namibian authorities and UN Comtrade

1/ World Economic Outlook and staff estimates. Effect on BOP was calculated as the difference between import trade values of cereal and wheat with pre-war prices and current price projections (GAS LIVE), using most recent trade values available during the 2016–2020 timeframe.

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Annex XII. The Impact of Weather Shocks on Agricultural Output[1]

1. **Namibia is highly vulnerable to weather shocks.** Namibia's climate is characterized by persistent droughts, unpredictable and variable rainfall patterns, temperature variability, and water scarcity (World Bank, 2021). As an arid country, Namibia is a water-stressed country with high solar radiation, low humidity, and a high evaporation rate. Potential evaporation is at least five times greater than average rainfall across the majority of the country[2]. According to the ND-Gain Index,[3] Namibia ranks 62nd out of 182 countries in terms of vulnerability to weather shocks.

2. **Rising temperatures, combined with recurring drought and flooding, would negatively impact agricultural output, and endanger lives and livelihoods.** The average annual temperature in Namibia has been increasing consistently over the last century (Figure AXII.1). Concerningly, with a 2°C global warming, Namibia's average temperature is expected to rise by 2.7°C; the amount of rain in extremely heavy rainfall events will increase by 13 percent; and annual rainfall will fall by 7 percent.[4] Droughts would become more frequent and longer in duration, as would heat waves and flooding, adversely affecting the agricultural sector as well as health outcomes. As a comparison, during the 2018/19 drought—one of the worst in a decade—crop production fell by nearly 32 percent, putting about 20 percent of the population at risk.

3. **Weather shocks have a significant negative impact on Namibia's rain-fed agricultural sector and real output.** Staff examined the impact of two weather shocks—temperature and rainfall—on crop yields, using crop-level panel data from 2000-2020. Results from the panel data estimation suggest that a one percent temperature deviation from its long-term annual average is associated with a 4 percent to 11.5 percent decline in crop yield (Table AXII.1, column 4 and 5). Given Namibia's current production structure, the direct impact of this weather shock is equivalent to 0.1 to 0.3 percent loss in overall real GDP. Similarly, above-normal rainfall is significantly associated with lower crop yields due to the deleterious impact of floods, resulting in a 0.1 percent loss in overall real GDP (Table AXII.1, column 5).

4. **Furthermore, weather shocks could also have a long-term impact**. Liquidity constrained households may sell their productive assets to cope with the weather shocks and smooth their consumption. Empirical evidence suggests that, after a weather shock, productive assets may fall below the minimum required threshold to sustain agricultural production, pushing households into

[1] Prepared by Daniel Gurara.

[2] Republic of Namibia (2020). Fourth National Communication to the United Nations Framework Convention on Climate Change. https://unfccc.int/sites/default/files/resource/Namibia%20-%20NC4%20-%20Final%20signed.pdf

[3] The ND-GAIN Country Index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. https://gain-new.crc.nd.edu/country/namibia.

[4] Adaptation at Scale in Semi-Arid Regions (ASSAR): https://bit.ly/NAM_Climate

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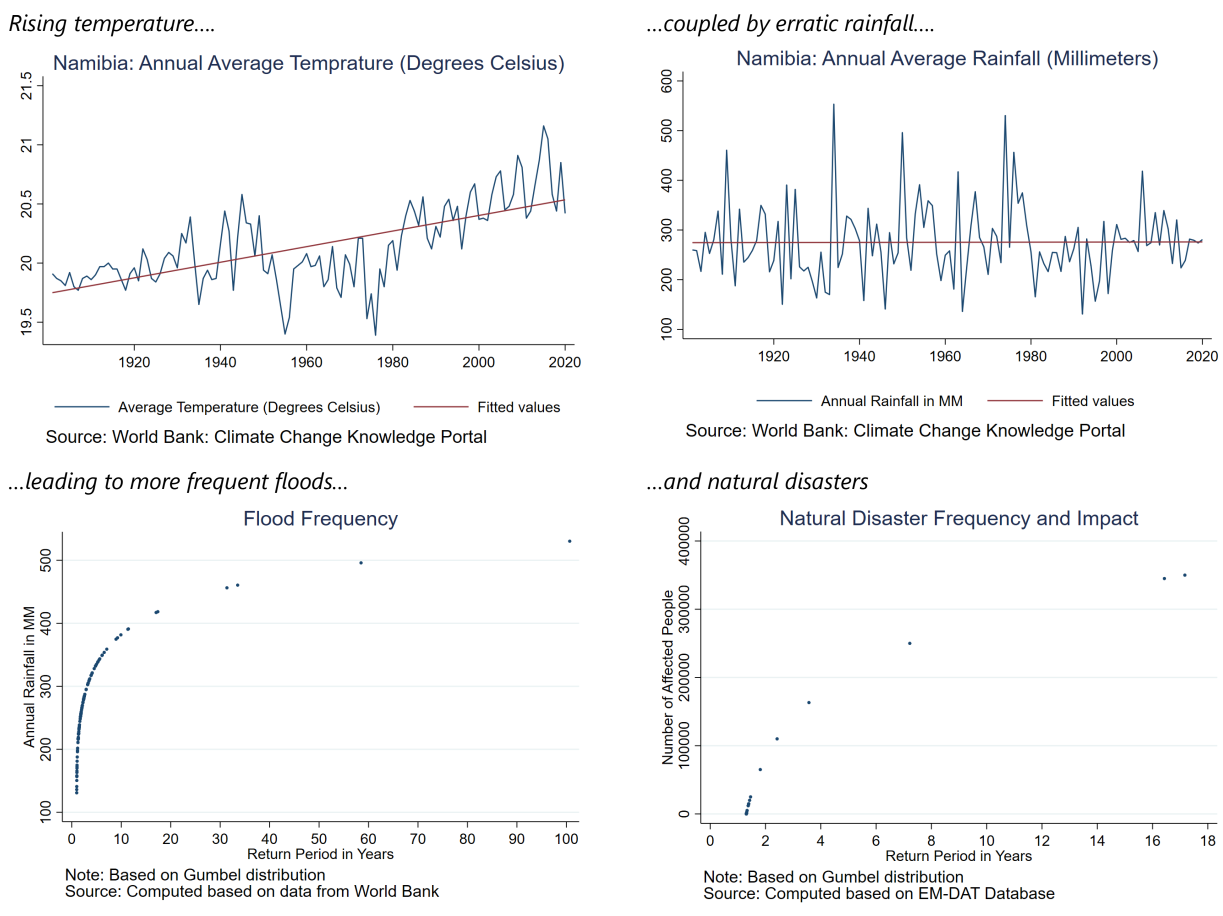
poverty traps.[5] Access to credit, including for consumption smoothing, and weather insurance could play a significant role in preserving productive assets from depletion.[6,7]

Figure AXII.1. Namibia: Weather Shocks



[5] See Carter, M. et al. "Poverty Traps and Natural Disasters in Ethiopia and Honduras." World Development 35, no. 5 (May 1, 2007): 835–56. https://doi.org/10.1016/j.worlddev.2006.09.010.

[6] On access to credit, see Banerjee, A, E Breza, E Duflo and C Kinnan (2019), "Can Microfinance Unlock a Poverty Trap for Some Entrepreneurs?", NBER Working paper No. w26346.

[7] On the role of weather insurance, see Noritomo, Yuma, and Kazushi Takahashi, 2020. "Can Insurance Payouts Prevent a Poverty Trap? Evidence from Randomized Experiments in Northern Kenya." The Journal of Development Studies 56:1, 2079–96. https://doi.org/10.1080/00220388.2020.1736281

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Table AXII.1. Namibia: Weather Shocks and Agricultural Yield

	(1)	(2)	(3)	(4)	(5)
VARIABLES			Dependent variable: Yield per hectare		
Time	-0.0025	-0.0005	0.0058	0.0059	0.0037
	(0.0052)	(0.0061)	(0.0071)	(0.0071)	(0.0026)
Time Squared	0.0001	0.0001	-0.0002	-0.0002	-0.0001
	(0.0002)	(0.0002)	(0.0003)	(0.0003)	(0.0001)
Lagged output growth					
Cultivated land growth					
Rainfall		-0.0001	-0.0006		
		(0.0004)	(0.0021)		
Rainfall (t-1)		0.0004			
		(0.0003)			
Temperature		-0.0896*	-0.1171*		
		(0.0483)	(0.0603)		
Temperature (t-1)		0.0249			
		(0.0631)			
Rainfall Squared			0.0000		
			(0.0000)		
Rainfall Deviation from Long-term Mean				-0.0324	
				(0.0373)	
Temperature Deviation from Long-term mea				-0.1151*	-0.0421**
				(0.0622)	(0.0172)
Rainfall Deviation below normal					0.0025
					(0.0098)
Rainfall Deviation above normal					-0.0335**
					(0.0147)
Lagged yield growth	-0.2994***	-0.2982***	-0.3013***	-0.3015***	-0.3319***
	(0.0671)	(0.0680)	(0.0680)	(0.0676)	(0.0291)
Observations	437	437	437	437	437
R-squared	0.0988	0.1119	0.1082	0.1082	0.1209
FE	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Data Source: (1) Yield: FAOSTAT: https://www.fao.org/faostat/en/#data/QCL; (2) Rainfall and temperature: World Bank https://climateknowledgeportal.worldbank.org/

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