Statement by Mr. Willie Nakunyada Executive Director for Namibia and Ms. Abigail Nainda, Advisor to the Executive Director for Namibia
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Introduction

1. Our Namibian authorities, appreciate the robust engagement with the IMF staff team during the 2022 Article IV consultations. The authorities broadly share the staff's assessment and concur with the general policy prescriptions.

2. Namibia is beginning to experience a gradual economic recovery following the severe repercussions of the COVID-19 pandemic. The incipient recovery has benefitted from the removal of pandemic restrictions, and resumption of activities including in contact intensive sectors such as tourism. At the same time, the implementation of robust and highly effective pandemic response measures under the Economic Stimulus and Relief Package that moderated the fallout from the pandemic, laid the groundwork for the economic rebound. More importantly, the authorities have continued to direct macroeconomic policies towards preserving stability while cushioning the most vulnerable, despite the challenging circumstances. In this context, they have started implementing a package of fiscal adjustment measures to restore debt sustainability while preserving priority social and investment spending. These ongoing efforts are in line with the government's targeted reform agenda, the Harambee Prosperity Plan II (HPP II), launched in March 2021 which is firmly anchored on the objective to foster an inclusive economy built on the solid foundation of peace, stability and the rule of law.

Recent Economic Developments and Outlook

3. Real GDP is expected to grow from 2.7 percent in 2021 to 2.8 percent in 2022 anchored by increased output from primary industries and tertiary industries. The expansion of output in these sectors benefited from a strong recovery in mining activities. supported by buoyant performance in the diamond sub-sector and a return to growth for most of the tertiary industries. Looking ahead, growth is expected to expand further by 3.4 percent in 2023 underpinned by strong diamond, gold, and uranium production buoyed by firming external demand, favorable export commodity prices, and a new vessel for diamonds mining. Similarly, activity in the manufacturing and tourism sector is projected to gradually recover as economic activity fully re-opens. Although real GDP is projected to return to pre-pandemic levels in 2023, the outlook remains clouded by the lingering effects of the pandemic and spillovers from the conflict in Ukraine. Meanwhile, average inflation increased from 3.6 percent in October 2021 to 7.1 percent in October 2022 on the back of the surge in oil and food prices, as well as a depreciating currency.

4. On the external sector front, the current account deficit is expected to significantly widen in 2022, driven by higher import payments and the considerable decline in SACU receipts. In this regard, the stock of international reserves declined on account of higher imports, portfolio outflows and government's external payments. This notwithstanding, international reserves remained sufficient at 5.7 months of import cover.

Fiscal Policy

5. Consistent with their commitment to deliver on the fiscal consolidation path, the authorities' plan to further fast-track measures outlined in the 2022-23 Fiscal Strategy to support economic recovery and achieve macroeconomic stability. As such, they are optimistic that the tax administration measures currently being implemented by the Namibia Revenue Authority (NAMRA), would strengthen tax compliance and enforcement to support additional revenue generation along with the sizable tax arrears recovery anticipated in FY22/23. Considering the expected recovery in economic activity, these efforts are expected to steadily increase revenue in the medium-term. Furthermore, the authorities project SACU revenues to recover over the medium-term in line with improved economic activity in the region and the normalization of regional trade flows. Against this backdrop, the fiscal position has been improving gradually on the back of the resumption of economic activity with the FY22/23 mid-year projecting a modest narrowing of the fiscal deficit.

6. On the expenditure front, the authorities are determined to intensify efforts to increase spending efficiency through the implementation of the public wage bill and SOEs' reforms, while reducing the costs of the Public Service Medical Aid Scheme (PSMAS). As noted in the staff report, considerable efforts have been to rationalize public spending including through wage containment and natural attrition in non-priority sectors. Further, the authorities are also actively embarking on an initiative to target an early retirement scheme, which they expect to generate additional savings. Additionally, the authorities have also reduced allocations to the PSMAS for the next two fiscal years in line with expected gains from envisaged reforms of the scheme's benefit structure. Moreover, to reduce the burden on public finances, the authorities intend to limit capital spending to growth-enhancing projects while advancing their SOEs reform agenda. In this connection, they already started the process to liquidate the national airline and partial privatization of the mobile telecommunication company.

7. Maintaining debt sustainability remains an integral part of the authorities' agenda. As such, the authorities affirm their commitment to redirecting a large share of the increased revenue towards debt redemption and reducing the borrowing requirement. They will focus on maintaining a positive primary budget balance over the medium term. Further, the process to enact the Public Financial Management (PMF) Bill is at an advanced stage. The bill aims to enhance budget planning and execution, as well as strengthen oversight of SOEs. The bill is particularly important as the authorities are planning to leverage the PPP financing model to increase investment. Going forward, the FY2023/24 Fiscal Strategy will center on maintaining prudent expenditure management and promoting economic recovery. As part of its efforts to ensure debt sustainability, the government has committed to entrenching fiscal sustainability and stabilizing the pace of debt accumulation.

Monetary and Financial Sector Policies

8. The authorities have shifted to a tight monetary policy stance to contain inflation, following an extended period of accommodative measures to moderate the fallout from the pandemic. In this regard, in its latest meeting in October 2022 the Monetary Policy Committee of the Bank of Namibia (BoN) increased the Repo rate by 75 basis points to 6.25 percent to anchor inflation expectations, safeguard the peg with the South African Rand, and continue to meet the

country's international obligations. Our authorities are committed to safeguarding the exchange rate parity to sustain the policy rate alignment with the South African Reserve Bank along with adequate reserves to anchor inflation. To this end, the BoN considers the currency arrangement to have served the country well and they will continue to comprehensively assess economic developments to preserve price stability in a context of heightened inflationary pressures.

9. The authorities have made substantial progress in the implementation of the 2018 Financial Sector Stability Assessment (FSAA) recommendations to strengthen the resilience of the financial sector and manage macro-financial risks to support financial stability. In this respect, the BoN was assigned an explicit macroprudential mandate and established the Financial Stability Macroprudential Oversight (FSMO) Department and Financial Stability Committee. Concurrently, the central bank has made important strides in establishing a macroprudential policy framework, strengthening financial supervision, and setting-up a crisis management and resolution framework. With support from the Fund's technical assistance, they intend to continue managing macro-financial risks and expanding the macroprudential toolkit. Furthermore, the authorities are actively working toward swiftly rolling out an action plan to strengthen the AML/CFT framework, and progress is underway to reform the appropriate legislation. That said, the authorities will continue to closely monitor financial stability risks including staff's concerns about a possible heightened financial-sovereign nexus and the implications of the sizable exposure of commercial banks to mortgages amidst rising interest rates.

Structural Policies

10. The authorities are finalizing ongoing work on the *Economic Diversification and Growth Strategy* aimed at promoting macroeconomic stability, fiscal sustainability, and boosting socio-economic stability through job creation. In this respect, their efforts are directed towards developing complementary new engines of growth through facilitating private sector development, as outlined in the Presidential Economic Recovery Plan, HPPII. With the establishment of the Namibia Investment Promotion and Development Board (NIPDB), progress has been made in intensifying investment promotion initiatives that have delivered a strong recovery in Foreign Direct Investment (FDI) flows during the first half of 2022 mainly in the mining and oil exploration sectors. There are ongoing efforts to position Namibia as a regional and global decarbonization champion by translating the vision of a synthetic fuels industry into immediate FDI and to unlock concessional financing to deliver the country's green hydrogen strategy. The authorities also recognize that the green hydrogen industry will generate sizable jobs. At the same time, the associated renewable energy production would reduce energy costs and facilitate the expansion of job-intensive manufacturing industries, such as agro-processing. Going forward, the authorities expect the increased interest in mining and exploration activities as well as lucrative opportunities in the renewable energy sector to sustain the recovery.

11. Measures to alleviate cost of living pressures, continue to rank high on the authorities' agenda to protect vulnerable households, and preserve social cohesion. Moreover, our authorities recognize the consequences of the war in Ukraine on food insecurity and poverty incidences.

While the authorities had limited direct policy tools to respond to food price shocks considering most basic food items are already zero-rated for Value Added Tax (VAT), other short-term relief measures were rolled out to address food security challenges (Annex XI). The government also increased the monthly Conditional Basic Income Grant (CBIG) for former food bank recipients, effective October 2022. Importantly, the authorities are working towards finding long-lasting solutions to boost local food production and significantly reduce the high dependency on food imports. Further, a well-developed program of cash transfers to benefit vulnerable segments of the population has been a cornerstone of social protection initiatives, and Namibia is one of the few African countries that fully funds these programs out of its own resources. This includes old age pensions, veterans' grants, children's grants, foster parents' grants, and disability grants for adults and children. This notwithstanding, authorities acknowledge that additional efforts are warranted in the context of heightened vulnerabilities and increasing poverty incidence.

12. To address skills mismatches, the authorities are conducting an economy-wide skills audit to align training needs with labor market demand. Concurrently, the authorities are taking measures aimed at developing human capital, including by addressing the negative repercussions of food insecurity caused by the surge in global food prices. In this regard, they are committed to strengthening the Social Safety Nets (SSNs) by increasing budget allocation to CBIG. In parallel, the authorities have also dedicated resources to improve productivity and resilience in the agricultural sector, including the Namibia Agricultural Mechanization and Seed Improvement Project and the Green Schemes Initiative. Other measures are also underway to increase strategic food reserves.

13. The authorities have taken pro-active measures to enhance inter-generational equity by establishing a sovereign fund, the Welwitschia Fund (WF), ahead of expected windfall revenues from oil and gas resources. In this regard, they are committed to mitigating potential fiscal risks associated with the fund's operations through a strong governance and management framework, with implementation planned for the medium term. In the same vein, leveraging strong institutions, the authorities are striving to further strengthen the anti-corruption framework, including through the second anti-corruption strategy and implementation plan that was launched in March 2022. At the same time, Namibia subscribed to the Extractive International Transparency Initiative (EITI) to promote the open and accountable management of oil, gas, and mineral resources.

14. In line with the authorities' public finance governance mechanisms, they are on track to fulfill commitments made under the Rapid Financing Instrument (RFI) to ensure the appropriate and transparent use, monitoring, and reporting of pandemic-related spending. In this regard, all COVID-19 spending was appropriately budgeted, with a progress report on the execution presented in the FY2021/22 budget. So far, governance commitments on COVID-19 spending under the RFI were met and remaining ones are being finalized, while the comprehensive audit of COVID-19 spending was conducted by the General Auditor and published online.

Conclusion

15. As a small open economy, Namibia managed to weather the unprecedented shocks to lay the groundwork for a return onto a gradual recovery path. The authorities reiterate their commitment to focusing their policy priorities on promoting sustainable and inclusive growth while achieving fiscal consolidation, anchoring inflation expectations, and advancing key structural reforms to diversify the economy. They value Fund advice and continued technical support which they regard as key in addressing macroeconomic challenges. Importantly, the authorities seek Director's support in concluding the 2022 Article IV Consultations.