May 2009
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Namibia: 2008 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Namibia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2008 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 9, 2008, with the officials of Namibia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on Februlary 12, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 27, 2009, discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Namibia.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

NAMIBIA

Staff Report for the 2008 Article IV Consultation

Prepared by Staff Representatives for
the 2008 Consultation with Namibia

Approved by Thomas Krueger and David Marston

February 12, 2009

- Date: November 26–December 9, 2008.
- Team: Ms. Soonthornsima (head), Mr. Gaertner, Mr. Kpodar, and Ms. Masha (all AFR).
- Staff met with Prime Minister Nahas Angula, Minister of Finance Saara Kuugongelwa-Amadhila, Bank of Namibia Governor Thomas Alweendo, senior government officials, members of parliament, representatives of the private sector, labor unions, and the academic and donor communities. Staff also held a press conference.
- The Executive Board concluded the 2007 Article IV consultation on January 18, 2008. Directors commended the authorities' sound macroeconomic management; stressed that policy interest rate differentials with South Africa be limited to levels that do not destabilize capital flows, and recommended that any changes to domestic investment requirements should not prevent financial institutions from continuing to invest productively.
- As a member of the Common Monetary Area (CMA), Namibia fixes its currency at par to the South African rand, which is also legal tender in Namibia. Namibia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4.
- Statistics are broadly adequate for surveillance.

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GLOSSARY

ART	Anti—retroviral treatment
BoN	Bank of Namibia
CMA	Common Monetary Area
GNFS	Goods and nonfactor services
IIP	International Investment Position
MTEF	Medium-term Expenditure Framework
NAMFISA	Namibia Financial Institutions Supervisory Authority
NDP3	National Development Plan 3
PPP	Public-private partnerships
REER	Real effective exchange rate
SACU	Southern African Customs Union
SARB	South African Reserve Bank
SOE	State-owned enterprises
VAT	Value-added tax

Executive summary

Background and outlook

- After several years of solid economic growth, real GDP growth in Namibia slowed in 2008 and is expected to decrease further in 2009 as the downturn in the mineral sector continues.

- High international food and fuel prices pushed inflation into double digits in 2008, but with the sharp fall in fuel prices by year-end, it should fall back to single digits in 2009.

- The 2007/08 fiscal balance recorded a much higher surplus than budgeted, but the 2008/09 budget envisages a large swing in the fiscal balance to deficit, which would raise public debt close to the authorities' target level of 25 percent of GDP.

Policy issues

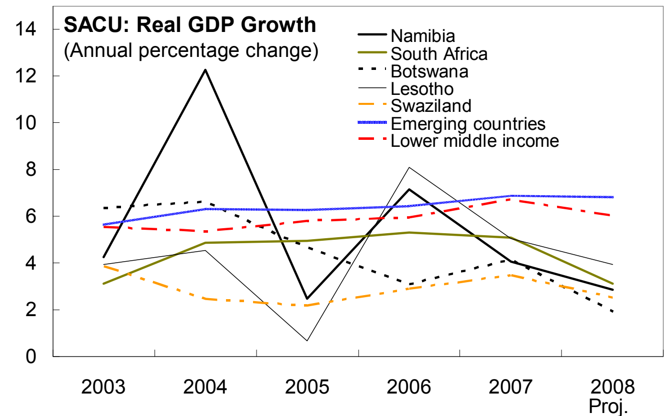
- While recognizing the need for a countercyclical fiscal expansion, staff cautioned that the planned shift in the fiscal balance in 2008/09 went beyond what was warranted by automatic stabilizers and risked compromising the quality of spending. The authorities considered the budget appropriate and able to be implemented without risk to fiscal sustainability. Staff supports the authorities' plan for a less expansionary fiscal stance in 2009/10. For more comprehensive fiscal analysis, the authorities were receptive to the staff recommendation that the current public debt target be expanded to include publicly guaranteed debt and central government deposits.

- The exchange rate peg to the rand remains a strong monetary policy anchor. The Bank of Namibia (BoN) has found some room to deviate from the interest rate policy of the South African Reserve Bank (SARB), although staff cautioned that as a small, open economy with a fixed exchange rate, Namibia has limited scope for effective independent monetary policy. Close monitoring of capital flows will be essential to allow for timely interest rate adjustments.

- A revision to the regulation on pension funds and life insurance companies introduced in 2008 will tighten domestic investment requirements, including a required minimum investment in unlisted companies. Staff recommended a more modest revision to mitigate risks to institutional investors because of limited domestic investment opportunities, although the authorities indicated that they consider the change relatively moderate with a sufficient phase-in period.

I. Background

1. **Sound macroeconomic policies and high mineral prices have supported Namibia's solid growth performance in recent years, broadly in line with the rest of the region**. Terms of trade gains and higher Southern African Customs Union (SACU) transfers have also led to a substantial external account surplus and an improved fiscal position. However, the capital-intensive mineral sector and limited opportunity in the non mining sector have left unemployment high (over 30 percent), and income inequality among the highest in the world. A high, though declining, HIV/AIDS rate and low school enrollment continue to undermine productive capacity (Figure 1).



Sources: National authorities; and IMF staff estimates.

2. **President Pohamba, who assumed office in 2005, is Namibia's second president since independence in 1990.** The ruling party, SWAPO, dominates politics and holds three-quarters of the seats in parliament. Elections are scheduled for November 2009.

II. Recent Economic Developments

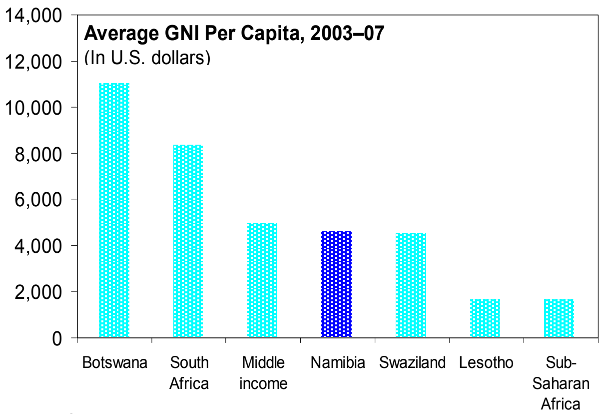
3. **Real GDP growth is expected to moderate to about 3 percent in 2008 from 4.1 percent in 2007, reflecting a downturn in the mineral sector and the lagged impact of monetary tightening in 2007 (Figure 2).**[1] Activity in the mineral sector slowed abruptly in late 2008: in November, the copper company suspended mining operations as prices fell sharply, while the main diamond company cut production following a significant drop in demand and large inventory accumulation.

4. **Large increases in international food and fuel prices pushed inflation into double digits in 2008.** The 12-month inflation rate rose sharply during the first half of the year and remained at 10.9 percent in December, compared with 7 percent a year before (Figure 2). Although world fuel prices fell significantly in late 2008, this was partly offset by the sharp depreciation of the Namibian dollar, limiting the pass-through to domestic prices. As a major trading partner with a one-to-one currency peg to the South African rand, domestic prices in Namibia continue to closely follow inflation in South Africa.

[1] National accounts data have been revised upward significantly for 2000–07. All references to GDP refer to the revised data.

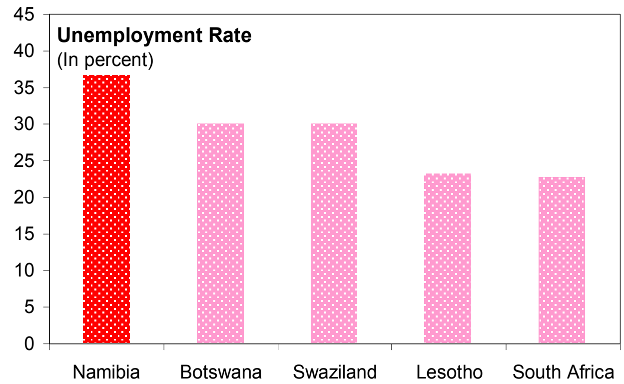
Figure 1. Namibia: Social Indicators

Despite Namibia's high per capita income...



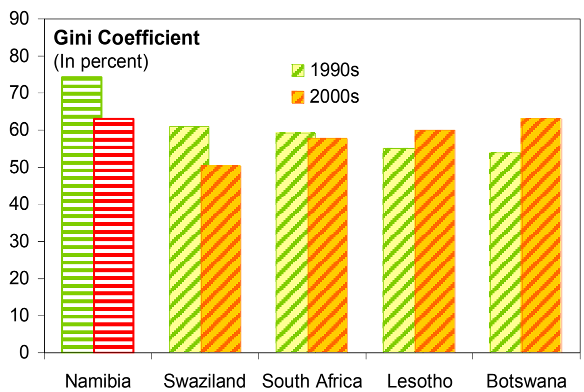
Source: World Bank.

... unemployment is widespread, ...



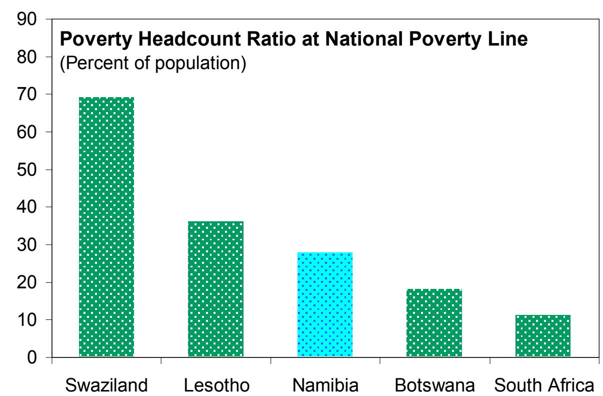
Source: National authorities.

. and inequality, though declining, remains high...



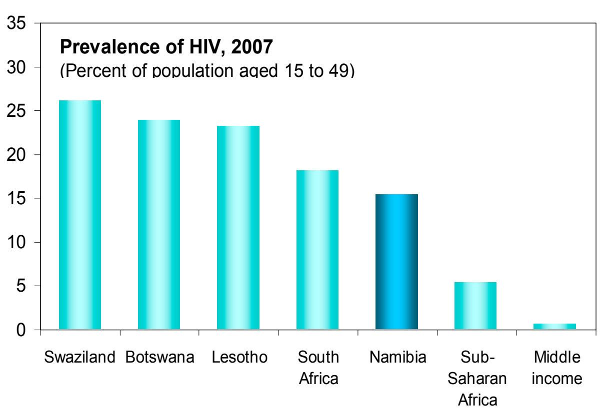
Source: World Income Inequality Database.

... while poverty is close to the regional average.



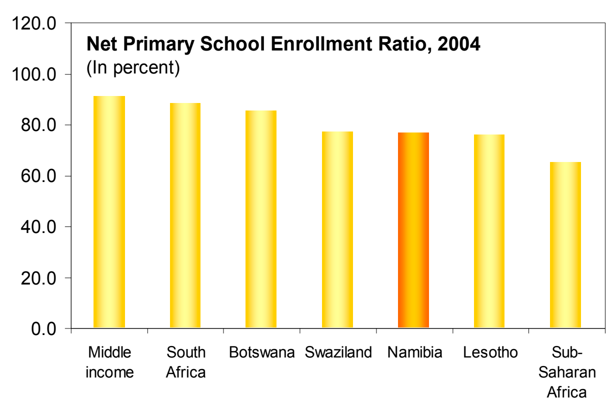
Source: National authorities.

The high HIV rate ...



Source: World Bank.

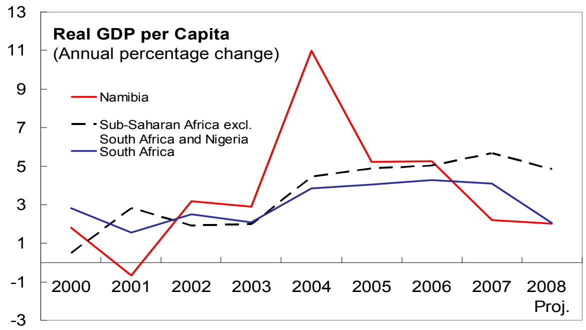
... and low school enrollment remain challenges.



Source: World Bank.

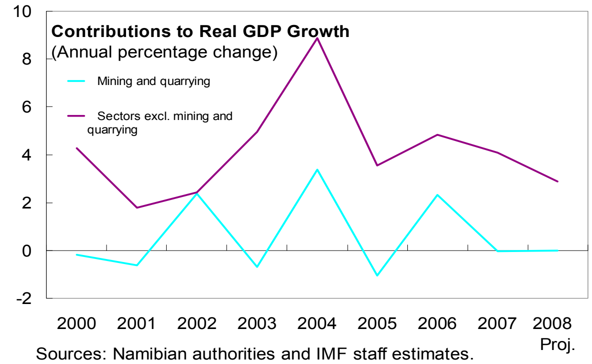
Figure 2. Namibia: Recent Macroeconomic Performance

Per capita income growth has weakened



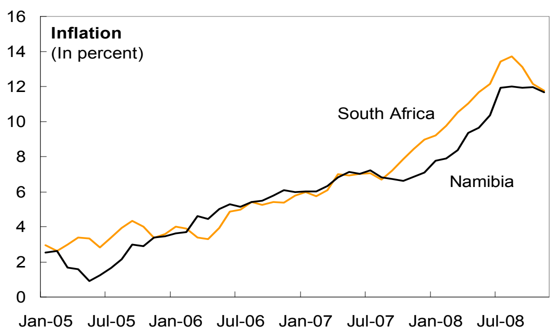
Sources: Namibian authorities; and World Economic Outlook.

… as growth slowed in both the mining and nonmining sectors.



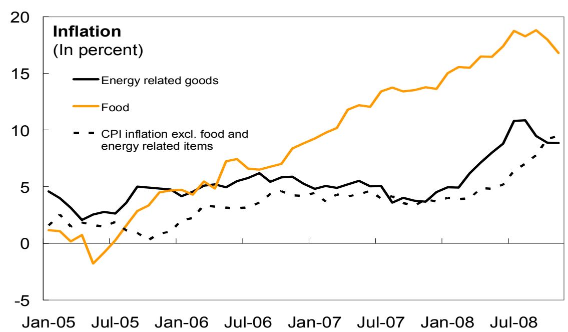
Sources: Namibian authorities and IMF staff estimates.

Namibia's inflation tracks South Africa's ...



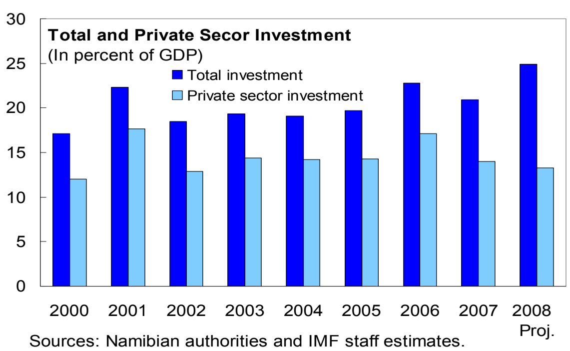
Sources: Namibian authorities and IMF staff estimates.

… and has declined slightly as food and fuel prices eased.



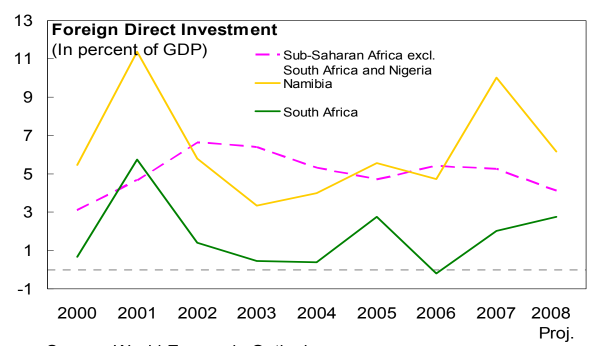
Sources: Namibian authorities and IMF staff estimates.

Private sector investment remains high, ...



Sources: Namibian authorities and IMF staff estimates.

… reflecting in part FDI inflows.



Source: World Economic Outlook.

5. **The 2007/08 (April–March) fiscal surplus, including extrabudgetary expenditure, was 4.5 percent of GDP, compared with the budgeted 0.2 percent.** Stronger revenue performance was driven by a significant improvement in tax administration, increased mineral export taxes due to high commodity prices, and strong SACU receipts. The large fiscal surplus was also partly due to lower than budgeted capital expenditure.

6. **The 2008/09 budget envisages a sharp swing in the fiscal balance to a deficit, with an unprecedented increase in expenditure (Figure 3).** The fiscal balance is projected to shift to a deficit of 5.7 percent of GDP, a swing of over 10 percent of GDP from the 2007/08 outturn. Budgeted current and capital expenditures are considerably higher than the average for the past three years, with externally financed capital expenditure projected at 3.7 percent of GDP compared to 0.6 percent in 2007/08. While revenue performance in the first two quarters of 2008/09 remained strong, the impact of falling global demand could dampen it for the rest of the fiscal year. Should the budget be fully implemented, public debt would rise to 24.8 percent of GDP, close to the authorities' target of 25 percent.

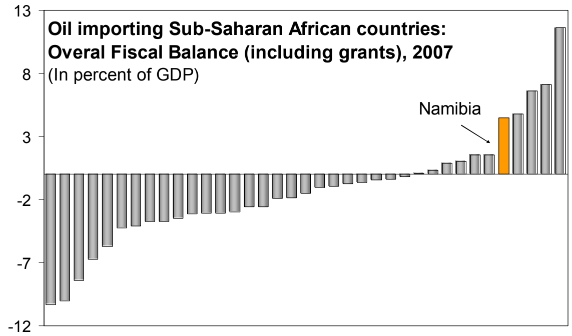
7. **The current account surplus is projected to fall to 2 percent of GDP in 2008, reflecting declining terms of trade and substantial imports for mineral exploration and public infrastructure projects (Figure 4).** The terms of trade decline mostly reflected the collapse in mineral export prices from historic peaks in recent years. Although capital outflows—mostly through pension funds—slowed, they remained large. Official international reserves increased to an equivalent of 3.7 months of imports of goods and services in December 2008, up from 3 months at end-2007. In line with the South African rand, the Namibian dollar depreciated by 26 percent against the U.S. dollar during 2008, roughly two-thirds of which took place during September–December.

8. **The BoN reduced its repo rate by 50 basis points in December 2008 in response to slowing economic activity and moderating inflation, in line with the move by the SARB.** This left the rate at 10 percent, still 150 basis points below the SARB repo rate, after the BoN opted not to follow three SARB rate increases in 2007–08 (Figure 5). The BoN also modified its operational framework in 2008, introducing a seven-day repo facility as the key monetary policy instrument and increasing issuance of BoN bills in order to manage liquidity and provide an alternative asset for banks to meet statutory asset requirements. Growth in credit to the private sector slowed drastically in 2008 as a result of monetary tightening in 2007,[2] falling to 5.6 percent in November (year on year) from 13 percent in December 2007.

[2] The BoN increased the repo rate by 150 basis points in the second half of 2007.

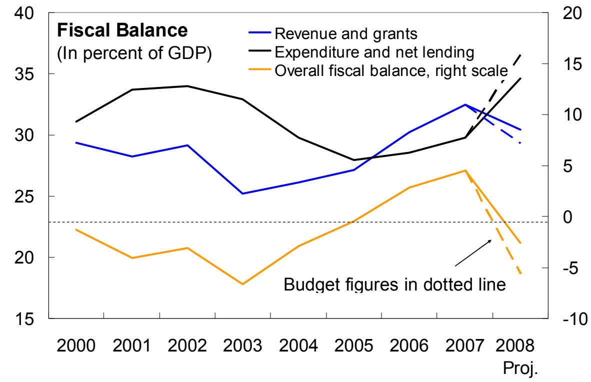
Figure 3. Namibia: Fiscal Developments

Namibia had one of the strongest fiscal positions in Africa in 2007 …



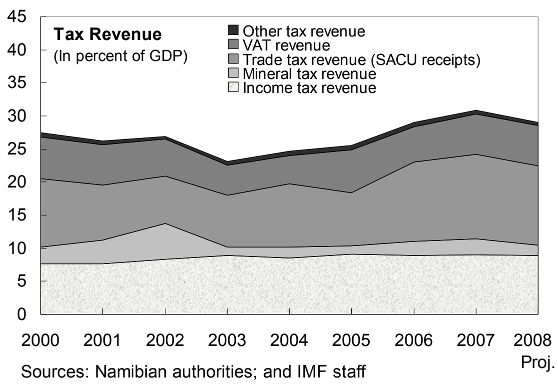
Source: World Economic Outlook.

… mainly reflecting strong revenue growth.



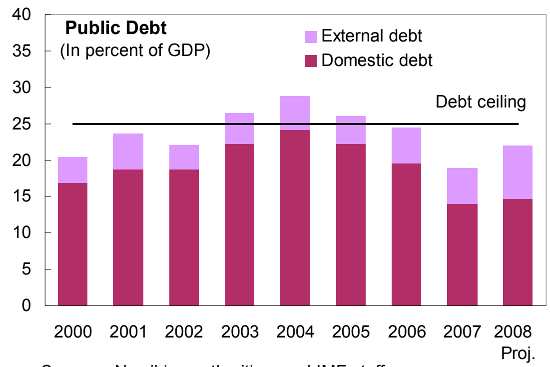
Sources: Namibian authorities; and IMF staff estimates.

Revenues benefited from higher mineral taxes and SACU receipts …



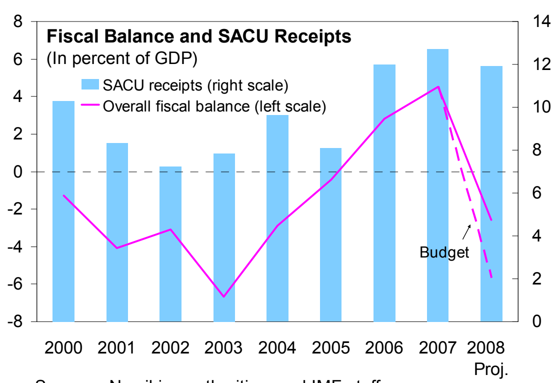
Sources: Namibian authorities; and IMF staff

… helping to reduce public debt to below the government target.



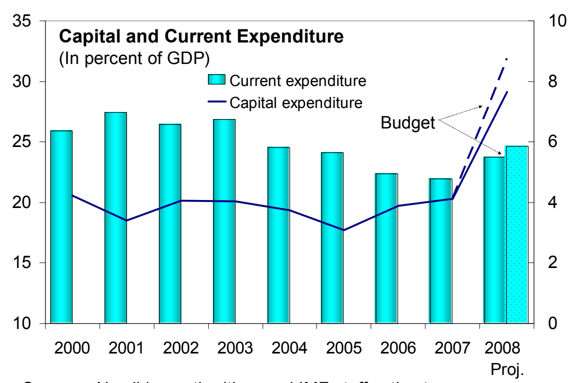
Sources: Namibian authorities; and IMF staff.

The fiscal stance has eased in 2008/09…



Sources: Namibian authorities; and IMF staff.

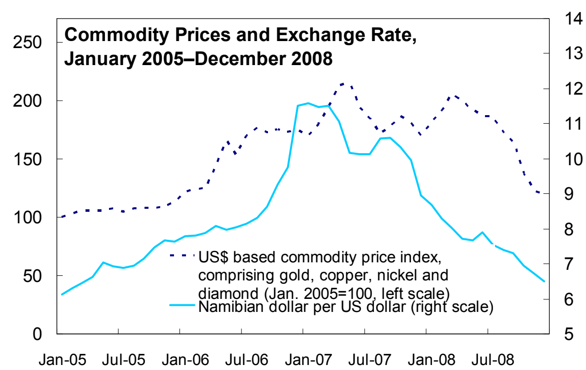
… with both capital and current expenditure on the rise.



Sources: Namibian authorities; and IMF staff estimates.

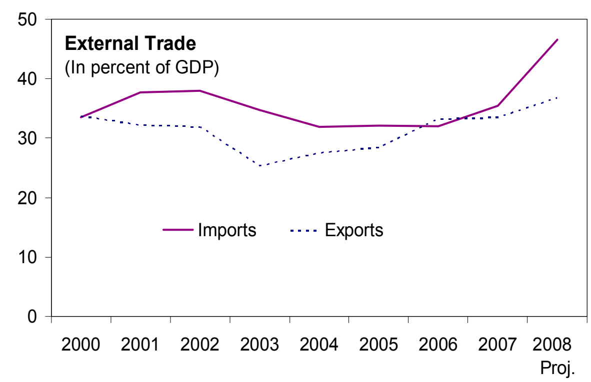
Figure 4. Namibia: External Environment

The decline in commodity prices...



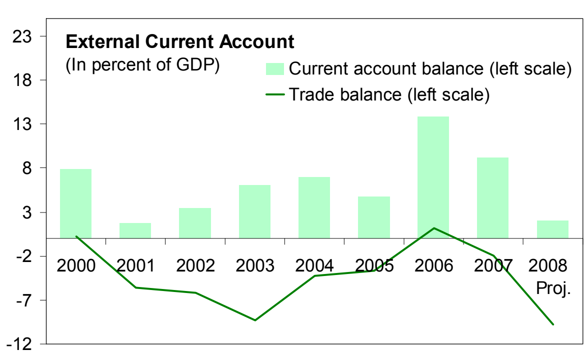
Sources: Namibian authorities; Reuters; and IMF staff

... and increased imports ...



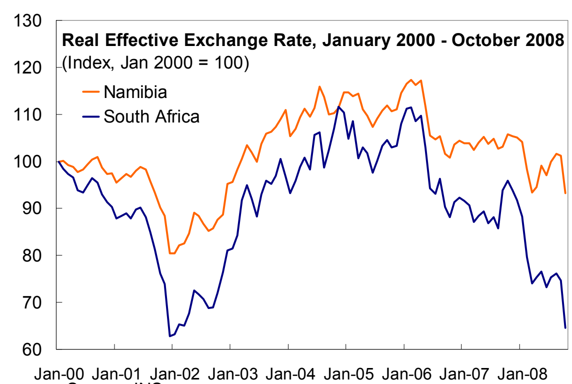
Sources: Namibian authorities; International Financial Statistics; and IMF staff estimates.

... contributed to a smaller current account surplus.



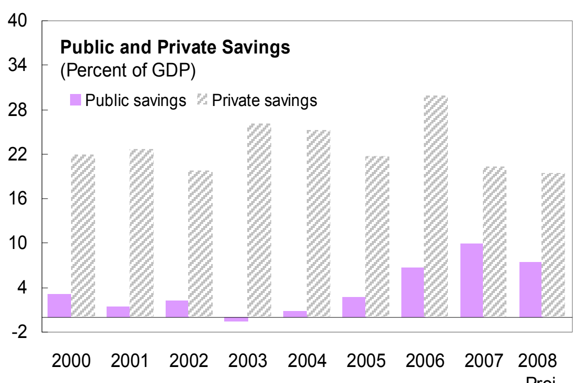
Sources: Namibian authorities; *International Financial Statistics;* and IMF staff estimates.

The real effective exchange rate has depreciated since 2005 in line with South Africa's.



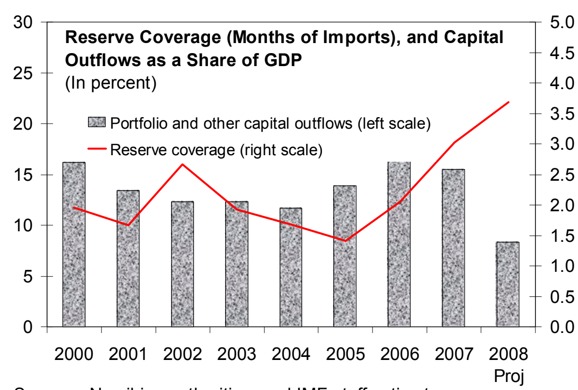
Source: INS.

Public and private savings remain high ...



Sources: Namibian authorities and IMF staff estimates.

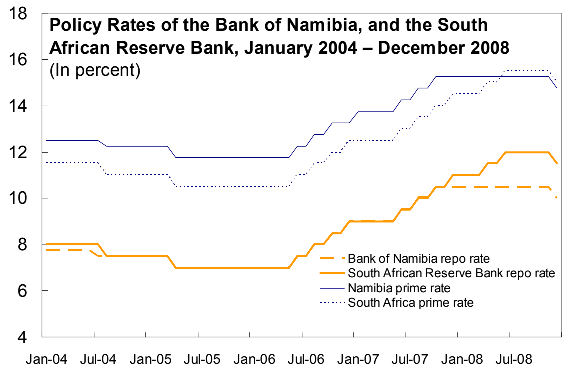
... but smaller capital outflows helped increase reserve coverage.



Sources: Namibian authorities; and IMF staff estimates.

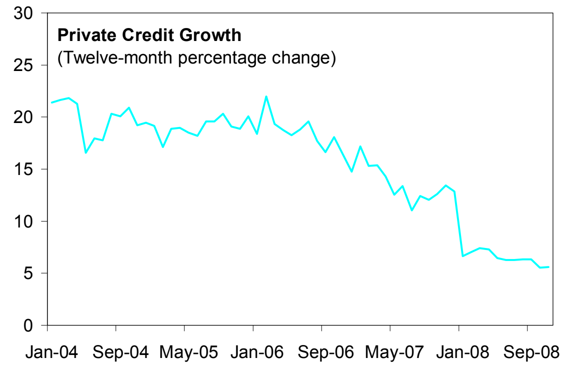
Figure 5. Namibia: Financial Sector Developments

The BoN opted not to match SARB interest rate hikes in 2007–08



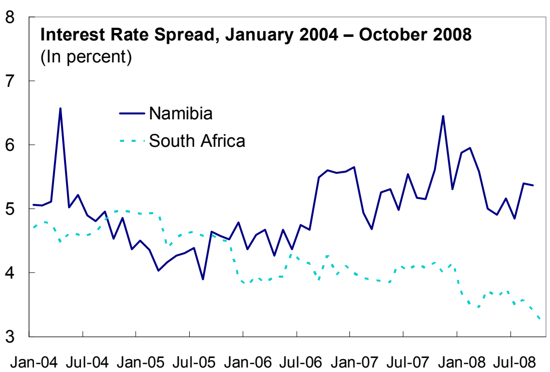
Source: *International Financial Statistics*.

… but credit growth still slowed abruptly.



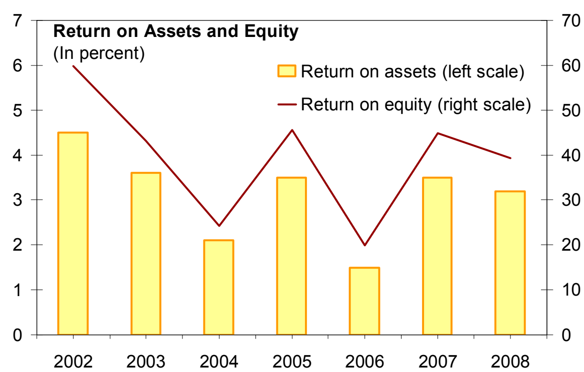
Source: Namibian authorities.

Lending margins remain relatively high, …



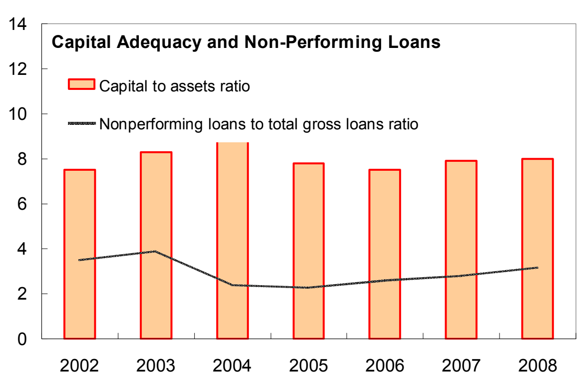
Source: *International Financial Statistics*.

… banks are very profitable…



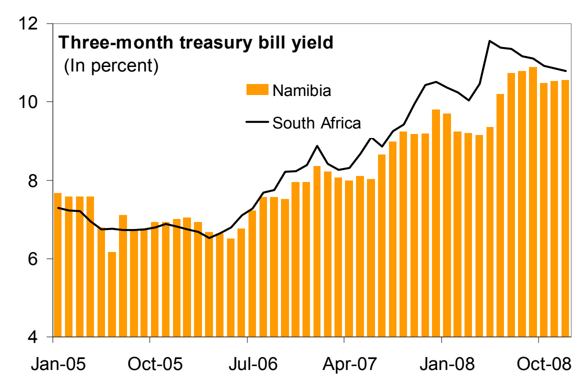
Sources: Namibian authorities; and IMF staff estimates.

… and prudential ratios are sound.



Sources: Namibian authorities; and IMF staff estimates.

Treasury bill yields continue to track rates in South Africa



Source: Namibian authorities.

III. POLICY DISCUSSIONS

A. Global Outlook and Risks

9. **Namibia's real GDP growth is projected to slow to 1 percent in 2009, despite the large fiscal expansion, as external demand weakens further.** Mining output is expected to fall significantly, and after slowing dramatically in late 2008, investment in mineral exploration is likely to remain weak. The marked tightening in international financial markets could also jeopardize several investment projects expected to be the main drivers of medium-term growth, including investments in electricity generation and water desalination. The authorities agreed that output growth was likely to slow in 2009, but projected real GDP growth of roughly 2 percent during the November 2008 mission, when the global environment was still more benign.

10. **There is potential for a more significant slowdown in 2009 if a protracted global downturn results in an even sharper decline in mining output.** Preliminary reports indicate that the diamond industry is considering a reduction in output of as much as 40 percent relative to initial plans for 2009 in response to concerns that demand will weaken further. In addition, a more significant slowdown in South Africa than currently envisaged could further reduce the SACU revenue pool. As an illustrative scenario, if both of those risks should materialize, real GDP is projected to decline by roughly 0.5 percent, compared with an increase of 1 percent projected in the baseline. In addition, the current account would shift to a deficit of 2 percent of GDP compared to a projected surplus of 0.8 percent, while the 2009/10 fiscal deficit would widen from the projected 2.3 percent of GDP to nearly 5 percent.

11. **Further depreciation of the Namibian dollar could put upward pressure on inflation through increased import prices.** While the decline in international food and fuel prices should help moderate inflation in 2009, the rapid depreciation raises the risk of a substantial increase in imported inflation that could constrain the scope for monetary easing within the CMA.

B. Maintaining Macroeconomic Stability

Fiscal policy

12. **The authorities considered the planned fiscal expansion in 2008/09 an appropriate countercyclical response to the economic downturn that would support growth and address infrastructure deficiencies.** The authorities were optimistic that the budget would be fully executed, including the planned 7 percent of GDP increase in spending, and that implementation capacity would not pose a significant constraint, given the high import content of expenditure. Moreover, the budget implies that public debt would remain within the 25 percent of GDP target, limiting the risks to macroeconomic stability.

13. **Staff agreed that an expansionary fiscal stance was appropriate given the economic slowdown, but cautioned that the magnitude of the planned increase appears large and expressed concern about compromising the quality of spending.** Taking into consideration the import content of expenditure, the historical implementation rate, and the expected impact of the slowdown on mining sector revenue, staff estimated that a deficit of 2.6 percent of GDP for 2008/09 would be a more likely outcome. Staff also considered a deficit in this range to be a more appropriate fiscal target to safeguard macroeconomic stability, while still entailing a strong discretionary fiscal impulse.

14. **The authorities indicated that the increase in spending in the 2008/09 budget would be largely one-off, with a decline planned for 2009/10–2010/11, as described in their Medium-term Expenditure Framework (MTEF; 2008/09–2010/11).** They explained that spending will remain higher than the recent trend in order to address infrastructure bottlenecks and reduce poverty, but that the fiscal deficit will be less than during 2008/09. Staff supported the less expansionary fiscal stance planned for 2009/10. However, a staff projection based on the authorities' MTEF indicates that authorities' target of a 25 percent public debt-to-GDP ratio would be breeched by 2011/12.

Namibia: Staff Baseline Medium Term Fiscal Outlook

(In percent of GDP)

	Est.	Budget	Staff Est.	Projections				
	2007/08	2008/09	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue and grants	32.4	29.3	30.4	30.0	29.1	29.0	28.8	28.5
Mineral tax	2.4	2.0	1.6	1.5	1.5	1.5	1.6	1.6
SACU receipts	12.7	11.9	11.9	11.6	10.7	10.6	10.3	10.0
Other revenue	17.3	15.4	16.9	16.9	16.9	16.9	16.9	16.9
Grants	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Expenditures	27.9	35.0	33.0	32.4	32.2	32.2	32.3	32.4
Current expenditure	21.9	24.6	23.8	24.0	23.9	23.9	24.0	24.1
Capital expenditure	4.1	8.8	7.6	6.7	6.7	6.7	6.7	6.7
Of which:								
Project Financed (extrabudgetary)	0.6	3.7	2.6	2.0	2.0	2.0	2.0	2.0
Net lending	1.9	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Overall balance 1/	4.5	-5.7	-2.6	-2.3	-3.1	-3.2	-3.5	-3.8
Overall balance excluding extrabudgetary spending 1/	5.1	-2.0	0.0	-0.3	-1.1	-1.2	-1.5	-1.8
Overall balance excluding SACU receipts and mineral taxes	-10.6	-19.7	-16.1	-15.4	-15.3	-15.3	-15.4	-15.4
Primary balance	6.4	-4.0	-0.8	-0.3	-1.2	-1.3	-1.5	-1.8
Memorandum items:								
Public and publicly guaranteed debt	24.3	33.1	28.8	29.8	31.9	33.6	34.5	35.3
Public debt	18.9	24.8	22.0	22.6	24.3	25.6	27.1	28.7
Domestic 2/	13.9	16.7	14.7	13.9	13.9	14.0	14.4	15.0
External	4.9	8.1	7.3	8.7	10.4	11.6	12.7	13.6
Publicly guaranteed debt	5.4	8.2	6.9	7.2	7.6	8.0	7.3	6.6
Net public and publicly guaranteed debt	19.4	…	24.3	25.5	27.9	29.7	30.6	31.4

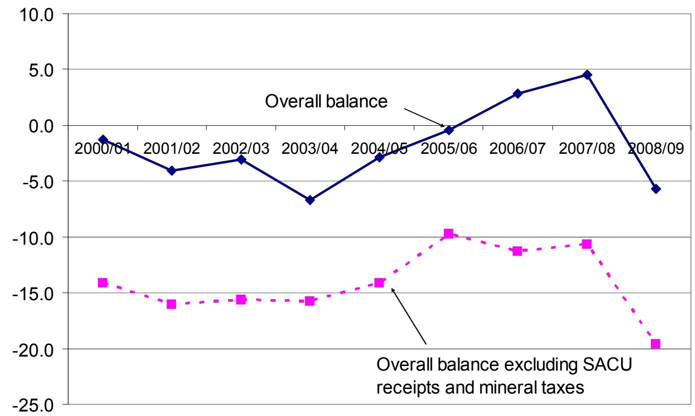
Sources: Namibian authorities; and IMF staff estimates and projections.

1/ "Overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account. "Overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the authorities' budget balance.

2/ The change in domestic debt includes bonds issued for local capital market development.

15. **The authorities shared staff's concern about the risks to medium-term fiscal sustainability in the event of a prolonged economic downturn.** Customs and mineral-related taxes, currently accounting for just under half of total receipts, will be impacted directly by slower growth in South Africa and a decline in mineral exports that could continue through mid-2010. SACU revenue is expected to fall by about 2 percent of GDP during 2008/09–2010/11, with further declines likely in the medium term, given the planned transformation of Southern African Development Community (SADC) into a customs union and the planned Economic Partnership Agreement between countries in the region and the EU. The authorities' medium-term fiscal projection does not appear to have taken these risks sufficiently into consideration. The deficit in the overall balance excluding SACU and mineral revenue is projected to increase from 10.6 percent of GDP in 2007/08 to 19.6 percent in 2008/09, despite a healthy surplus in 2007/08.

Namibia: Fiscal Balance, with and without SACU and Mineral



Sources: Namibian authorities, and Fund staff estimates and projections.

16. **Staff agreed that a public debt target of 25 percent of GDP continues to provide an appropriate fiscal policy anchor, but recommended that the definition of public debt be expanded to include publicly guaranteed debt and be adjusted for government deposits.** The anchor is consistent with research indicating that on average the sustainable level of public debt for emerging market economies is about 25 percent of GDP and does not breech the threshold for debt intolerance derived in a recent staff study.[3] Given the volatility of cyclical revenue booms and a significant increase in publicly guaranteed debt, staff considered that a broader definition of 'net public and publicly guaranteed debt'[4] would better anchor the fiscal stance and safeguard against surprise calls of publicly guaranteed debt. The authorities generally agreed, with the inclusion of government deposits in the coverage addressing their concern about a possible lack of fiscal space under the new definition. However, they could not commit to a timeframe for implementation.

[3] *World Economic Outlook* (October 2003), Chapter 3; and *Public Debt Threshold for Kenya* in Kenya: Selected Issues (2008).

[4] Publicly guaranteed debt has almost doubled in the last 10 years. On volatility of revenue and cyclical policies, see Selected Issues Paper, *Southern African Customs Union(SACU) Revenue Surge and Fiscal Response in Botswana, Lesotho, Namibia and Swaziland (BLNS).*

Namibia: Staff Alternative Medium Term Fiscal Outlook

(In percent of GDP)

	Est.	Budget	Staff Est.	Projections				
	2007/08	2008/09	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue and grants	32.4	29.3	30.4	29.9	29.1	29.0	28.7	28.5
Expenditures	27.9	35.0	33.0	32.3	31.4	31.1	30.8	30.5
Overall balance 1/	4.5	-5.7	-2.6	-2.3	-2.3	-2.0	-2.0	-2.0
Overall balance excluding extrabudgetary spending 1/	5.1	-2.0	0.0	-0.6	-0.6	-0.3	-0.3	-0.3
Memorandum items:								
Public and publicly guaranteed debt	24.3	33.1	28.3	29.4	29.0	28.2	28.3	28.3
Public debt	18.9	24.8	22.0	22.6	23.5	23.8	24.0	23.9
Domestic 2/	13.9	16.7	14.7	14.2	13.6	12.9	12.3	11.6
External	4.9	8.1	7.3	8.4	9.9	10.8	11.7	12.4
Publicly guaranteed debt	5.4	8.2	6.3	6.8	5.5	4.4	4.3	4.4
Government deposits	4.8	4.5	4.5	4.3	4.0	3.9	3.9	3.9
Net public and publicly guaranteed debt	19.4	28.6	23.8	25.1	25.0	24.3	24.4	24.4

Sources: Namibia authorities; and Fund staff estimates.

1/ "Overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account. "Overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the authorities' budget balance.

2/ The change in domestic debt includes bonds issued for local capital market development.

17. **Staff's alternative scenario achieves a reduction of net public and publicly guaranteed debt to the 25 percent of GDP target through two main modifications.** First, the scenario assumes that the planned reforms of state-owned enterprises (SOEs) will result in a gradual decline in their need for budgetary support and debt guarantees starting in 2010/11. The anticipated reforms of SOEs include improvements in operational efficiency and in financial management by tightening the criteria on publicly guaranteed debt of SOEs, consistent with the public and publicly guaranteed debt target. Second, the scenario adjusts the planned level of capital expenditure to reflect historical implementation rates. Estimates of public debt sustainability confirm that the level of public debt is largely sustainable.[5] The simulations were sensitive, however, to declining SACU revenue, increases in publicly guaranteed debt, and a moderation of recent high GDP growth rates.

18. **The authorities have made considerable progress in reforming public financial management.** Revenue administration was strengthened through the introduction of comprehensive auditing of value added tax (VAT) refunds, and there are plans to expand the mineral tax to all minerals. The use of the Integrated Financial Management System has improved utilization of resources and prevented diversion of funds, while the first Annual Accountability Report on budget implementation prepared for 2006/07 will further strengthen budget execution and make the budgetary process more transparent. The authorities are also working to improve program budgeting and revenue forecasting, which is crucial for efficient fiscal management.

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[5] See Debt Sustainability Analysis Annex.

19. **Staff recommended consolidating extrabudgetary project expenditure into regular budget reporting in order to provide more comprehensive coverage.** This would not only enhance transparency, but also allow for a more comprehensive assessment of the overall fiscal balance and the macroeconomic impact of fiscal policy.

20. **The authorities are moving forward with fiscal decentralization and exploring how best to effectively use public-private partnerships (PPP).** Staff commended recent progress on decentralization, but suggested a more comprehensive approach to fiscal relations between the central and lower tiers of government, with clear guidelines on revenue and expenditure assignments, transfers and subsidies, and financing and borrowing.[6] The authorities agreed with this recommendation, and noted that they were formulating a formula-based intergovernmental fiscal allocation mechanism with minimum standards for fiscal accountability. The authorities also agreed on the importance of establishing a clear legal and institutional framework for implementing PPP projects, clearly identifying and disclosing the fiscal risks associated with such projects.

Pursuing external stability

21. **The authorities stressed that the peg of the Namibian dollar to the rand has underpinned Namibia's deep economic and financial ties with South Africa.** Although the significant recent depreciation and prolonged current account surplus may suggest a possible undervaluation, staff's assessment suggests that the real effective exchange rate (REER) is not significantly different from the equilibrium level and is broadly consistent with external stability (Box 1). The REER depreciated by 9 percent in real terms from the end of 2007 through November 2008, but this follows an appreciation of more than 30 percent from 2001–07. In addition, the large current account surplus of 2006–07 appears to reflect a temporary boom in SACU receipts and export prices, while exports of nonrenewable mineral resources are expected to decline as these resources are depleted over the medium term.

Namibia: Tradeable Sector Performance, 2004–08

(Percentage changes one year earlier; unless otherwise noted)

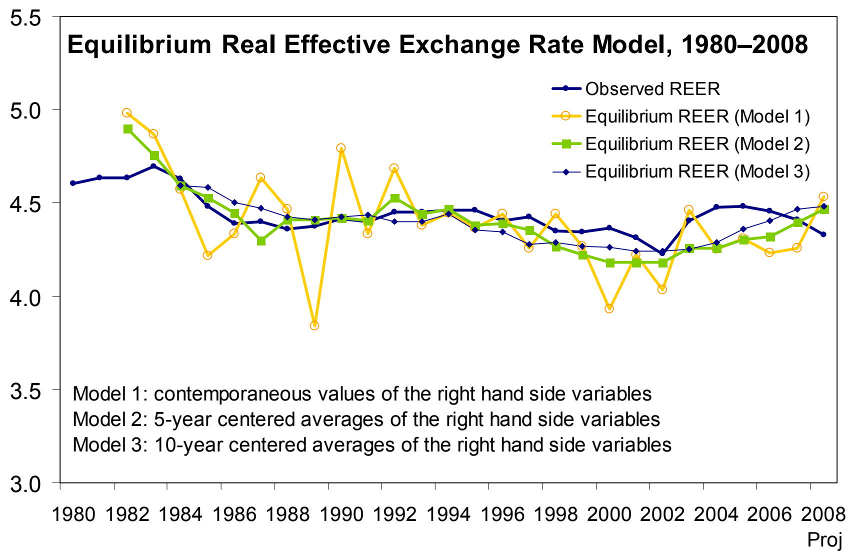
	2004	2005	2006	2007	Proj. 2008
Export growth (Namibian dollars)	24.3	11.8	36.5	14.6	24.7
Mineral goods	29.3	5.3	47.6	14.7	33.4
Nonmineral goods	18.0	20.6	23.3	14.4	12.4
Of which: Manufactured goods	2.8	13.6	59.3	26.1	...
Manufacturing value added (real terms)	0.4	7.5	2.7	7.2	3.4
Share of exports in world trade (percent	0.020	0.020	0.022	0.021	0.018

Sources: Namibian authorities; and IMF staff estimates.

[6] Staff gave a presentation on *Fiscal Decentralization: General Principles, International Evidence, and Lessons for Namibia.*

Box 1. An Assessment of External Stability

The equilibrium real exchange rate approach suggests that Namibia's REER may be undervalued. An econometric analysis of behavioral determinants of the equilibrium REER[1]—trade openness, investment rate, broad money, and relative productivity against main trading partners—indicates that Namibia's REER is undervalued. However, these estimates are highly volatile, depending on the assumption about the smoothing factor for the fundamentals, an important consideration for a commodity exporting country like Namibia. The magnitude of the undervaluation ranges from 13 to 20 percent, depending on the period considered.



Source: IMF staff estimates.

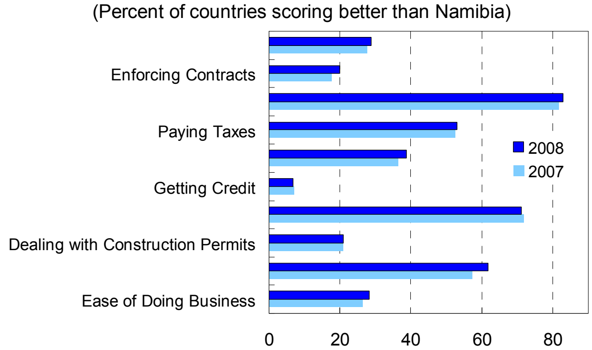
However, the macroeconomic balance approach finds the current REER to be overvalued. The underlying current account deficit is estimated to about 4.5 percent of GDP, while the current account norm stands at 4 percent. This results in an overvaluation of 11 percent assuming that current account elasticity with respect to the REER is about 0.8.

Overall, these results do not provide conclusive evidence that the REER was not aligned with its equilibrium value at the end of 2008 and the findings do not indicate substantial risks to external stability.

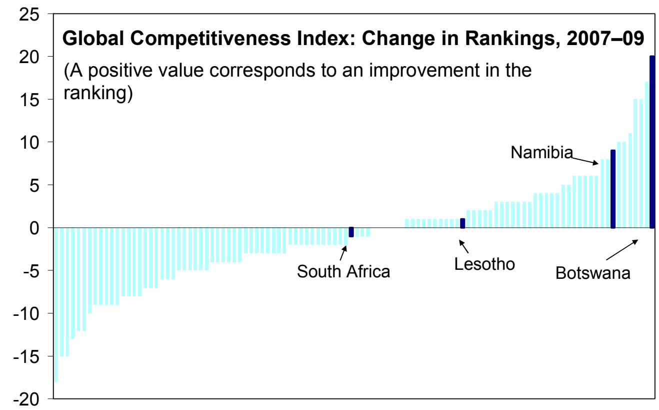
[1] The model, documented in "What Do We Know About Namibia's Competitiveness?" WP/07/191, is based on data for 1980–2007.

22. **Improving competitiveness is essential to stimulate Namibia's growth and reduce high unemployment**. The country's main strengths remain its strong institutions and good infrastructure. However, labor skill shortages and complicated business registration and licensing procedures continue to undermine firms' competitiveness. With the support of the World Bank and the EU, Namibia's Strategic Plan for Education and Training Sector Improvement Program (2005–20) aims to make the education system more effective. To promote investment and trade, a "one stop-shop" has been established to facilitate fast-track processing of regulatory requirements.

Cost of Doing Business
(Percent of countries scoring better than Namibia)



Source: World Bank's Doing Business (2009).



Source: Global Competitiveness Report 2008–09.

Monetary policy and financial stability

Monetary policy

23. **The BoN did not follow the SARB interest rate hikes from December 2007 through June 2008, considering that further monetary tightening was not necessary given moderating inflation.** The authorities maintain that capital controls allow them to retain some scope for independent monetary policy within the CMA. The BoN requires that domestic assets of commercial banks be equal to or greater than their domestic liabilities, and limits their foreign assets to one-half their level of equity capital. While the exchange rate peg to the rand remains the monetary policy anchor, the BoN considers that these constraints on capital movement provide some discretion to deviate from the SARB repo rate without significantly affecting capital flows. Also, to ensure the stability of the fixed peg, the BoN maintains foreign exchange reserves well above the level necessary to cover currency in circulation and monthly average capital outflows.

24. Staff agreed that the current deviation from the SARB repo rate poses little risk at present, provided that the BoN maintains sufficient international reserves. Staff noted, however, that as a small, open economy with a fixed exchange rate as a member of CMA, Namibia has limited scope for an effective independent monetary policy. Although the

current capital controls constrain banks to some extent, there remain a wide range of other possible channels for capital to move back and forth from South Africa, which keeps money market and deposit rates closely linked to rates in South Africa.

Financial stability

25. **The global financial crisis has had little direct impact on the Namibian financial sector, which has benefited from continued prudent supervision by the BoN.** Banks in Namibia appear to have been well-protected by conservative lending practices and little direct overseas exposure, and remain well-provisioned and profitable. The expected entrance of a fifth bank in 2009 is expected to increase competition within the sector. Nonperforming loans are at very low levels despite a modest increase in 2008, but can be expected to increase as the real economy continues to slow. Given that banks have relatively high concentration to real estate and consumer lending, the banking system may be exposed to higher risks.

26. **The BoN has acted quickly to curb pyramid schemes.** It closed down one such scheme in 2008, and has initiated a public awareness campaign to deter others. The authorities plan to increase consultation within the CMA on the issue, given similar problems elsewhere in the region and will participate in an IMF workshop on the issue in early 2009. The BoN has also continued to strengthen its stress-testing framework and will move forward with implementation of Basel II in 2009.

27. **The capacity of the Namibia Financial Institutions Supervisory Authority (NAMFISA) is increasing, but the authorities recognize the need for further improvement.** A new law to consolidate regulation of nonbank institutions and clearly define NAMFISA's supervisory authority is expected to be approved by the end of 2009. NAMFISA has also introduced regular standardized reporting for pension funds and insurance companies that should help address deficiencies in data collection and monitoring and is implementing a risk-based auditing system.

28. **The government is considering modifications to the tighter domestic investment requirements introduced for pension funds and life insurance companies in 2008 to address market uncertainty about their interpretation.** The new regulation, which was to be phased-in over five years beginning in 2009, limits dual-listed companies (largely traded in South Africa) to a maximum of 10 percent of local assets and requires a minimum of 5 percent of total assets to be invested in unlisted Namibian companies. The previous regulation permitted investment in dual-listed companies to be counted toward the 35 percent domestic investment requirement, with no required minimum investment in unlisted companies.

29. **The authorities consider the revision an important step to help channel high domestic savings to support economic growth.** They indicated that the previous regulation was not working as envisaged, given that the domestic investment requirement was mostly

met through investment in dual-listed companies that also trade in South Africa, and that they considered the revision a relatively modest change with a sufficient phase-in period. The authorities maintained that it would not create undue risk for these funds and cited the example of many other emerging market economies with similar requirements.

30. **Staff encouraged the authorities to consider a more moderate change to the requirements on domestic investment.** Staff agreed that a modest revision to direct a larger share of investment into local assets rather than dual-listed shares could be appropriate, but cautioned that there are insufficient instruments to absorb efficiently the significant volume of capital inflows that the new regulation would require. The limited number of domestically listed companies and corporate and government bonds are mostly held by buy-and-hold investors and do not trade in sufficient volume or size to absorb the capital inflow. In addition, staff noted the higher risk associated with the required allocation in unlisted companies and the implications for insurance reserves and pension savings. Experience with investment in unlisted domestic companies by the government pension fund in the mid-1990s raises significant concerns about excessive risk associated with these investments.

C. Poverty Reduction and Structural Reforms

31. **The authorities have taken several measures to address poverty and alleviate the temporary impact of high food and fuel prices.** These include a zero-rate value-added tax on selected food items, rebate facilities for food importers, and a food distribution program to feed the most vulnerable. The authorities restated their commitment to combating poverty and expanding the social safety net and noted that the 2008/09 budget increased payments to the elderly, orphans and vulnerable children, and war veterans' allowances. The mission supported additional but targeted social safety support and recommended that any increase should be accommodated by reallocation of resources within the existing budget envelope.

32. **The National Development Plan 3 (NDP3) (2007/08–2011/12) aims to achieve sustainable economic growth and reduce poverty**. Under NDP3, the authorities plan to focus resources on the poorest and the most vulnerable, improve the social safety net to alleviate poverty and inequality, and foster competitiveness to promote growth and employment. Each ministry is required to develop a strategic plan consistent with the MTEF, with a firm focus on monitoring and evaluation of outputs.

33. **Unemployment and HIV/AIDS remain the major challenges to overcoming poverty**. The Labor Act of 2007, enacted in 2008, aims to provide greater protection to workers while acknowledging that the business sector needs flexibility and cost competitiveness in staffing. Under the National Strategic Plan on HIV/AIDS, Namibia has made good progress in expanding the availability of anti-retroviral treatment (ART), with about 80 percent of those in need currently receiving treatment. Progress on prevention remains a priority, however, and reliance on external funding could jeopardize the long-term provision of ART.

IV. Staff Appraisal

34. **The macroeconomic outlook faces significant downside risks from the slowing global economy**. Real GDP growth is projected to slow to 1 percent in 2009, with the potential for a much more significant slowdown if weakening global demand results in further cuts in mining activity. However, the decline in world food and fuel prices toward the end of 2008 should bring the inflation rate back down to single digits in 2009.

35. **Although countercyclical fiscal policy is appropriate in the context of the economic slowdown, the budget for 2008/09 appears too expansionary.** A less expansionary fiscal stance would allow for a more gradual increase in capital expenditure, while remaining within the target for the net public debt-to-GDP ratio over the medium term. In this regard, the more modest fiscal deficit projected for 2009/10 appears appropriate. SOE reform remains a priority to improve their operational efficiency and reduce the need for budgetary support for these enterprises.

36. **The exchange rate peg to the rand remains a strong monetary policy anchor.** The BoN has found some room to deviate from the interest rate policy of the SARB, although the peg and close financial links with South Africa are likely to constrain the scope for effective independent monetary policy over the longer-term. It will be important to maintain sufficient international reserves and monitor capital flows closely to allow timely adjustment of interest rates. At present, staff's analysis does not indicate substantial risks to external stability and the real exchange rate appears broadly in line with equilibrium, with the estimates subject to considerable uncertainty.

37. **The turbulence in international financial markets seems to have had little impact as yet on the banking sector.** The banks are well-capitalized and very profitable, with a low level of non-performing loans, although the authorities will need to remain vigilant as the economic downturn advances in 2009, especially given a high concentration of real estate and consumer loans.

38. **Consideration should be given to easing the new regulation on domestic investment requirements for pension fund and life insurance companies.** The authorities' plan to phase in the changes will help smooth the transition, but further flexibility to mitigate the risks to institutional investors would be desirable.

39. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Table 1. Namibia: Selected Financial and Economic Indicators, 2005–13

	2005	2006	2007	2008	2009	2010	2011	2012	2013
				Projections					
	(Annual percentage change; unless otherwise noted)								
National income and prices									
GDP at constant 2004 prices	2.5	7.2	4.1	2.9	1.0	2.8	3.5	3.7	4.0
GDP deflator	5.6	9.2	9.3	10.2	8.4	6.3	5.3	4.8	4.7
GDP at current market prices (N$ millions)	46,176	54,013	61,456	69,672	76,254	83,320	90,777	98,627	107,306
GDP per capita (US$)	3,709	4,007	4,296	4,127	3,892	4,034	4,222	4,411	4,637
Consumer price index (period average)	2.3	5.1	6.7	10.3	9.1	6.3	5.2	4.9	4.6
Consumer price index (end of period)	3.5	6.0	7.1	10.9	7.3	5.3	5.0	4.8	4.5
External sector									
Exports (US$)	13.3	28.3	9.9	6.6	-23.5	11.2	5.8	5.5	5.2
Imports (US$)	10.7	9.7	20.7	27.4	-11.4	6.8	4.5	3.8	3.9
Export volume	-1.2	17.6	-1.7	1.8	-4.2	2.5	2.6	2.7	3.0
Import volume	5.2	5.0	10.2	11.8	2.2	1.8	1.7	1.8	2.0
Terms of trade	0.0	11.5	2.0	-8.1	-7.9	3.3	0.3	0.8	0.3
Real effective exchange rate (period average)	0.7	-2.6	-4.3	…	…	…	…	…	…
Money and credit									
Credit to the private sector	20.1	14.8	12.9	6.1	4.0	7.5	9.9	9.6	10.3
Broad money	9.7	29.6	10.2	15.5	10.4	12.1	11.3	11.1	11.3
	(In Percent of GDP; unless otherwise noted)								
Investment and savings									
Gross investment	19.7	22.8	20.9	24.9	23.5	23.5	24.0	24.5	24.8
Public 1/	5.4	5.7	6.9	11.6	11.8	11.5	11.5	11.5	11.5
Private	14.3	17.1	14.0	13.3	11.7	12.0	12.5	13.0	13.3
Gross domestic savings	16.6	25.2	19.9	15.5	12.9	14.3	14.8	15.5	15.3
Gross national savings	24.4	36.6	30.2	26.9	24.3	24.7	24.8	25.2	25.2
Public	2.8	6.8	9.9	7.5	6.2	5.5	5.3	5.1	4.7
Private	21.7	29.9	20.2	19.4	18.1	19.1	19.5	20.1	20.5
Central government finance 2/									
Revenue and grants	27.2	30.2	32.4	30.4	30.0	29.1	29.0	28.8	28.5
Of which : SACU receipts	8.1	12.0	12.7	11.9	11.6	10.7	10.6	10.3	10.0
Expenditure and net lending	27.6	27.4	27.9	33.0	32.4	32.2	32.2	32.3	32.4
Of which:									
Personnel expenditure	12.2	11.1	10.7	10.6	10.6	10.6	10.6	10.6	10.6
Capital expenditure and net lending	3.5	5.0	6.0	9.2	8.3	8.3	8.3	8.3	8.3
Primary balance (deficit = –)	2.0	5.1	6.4	-0.8	-0.3	-1.2	-1.3	-1.5	-1.8
Overall government deficit including grants	-0.4	2.8	4.5	-2.6	-2.3	-3.1	-3.2	-3.5	-3.8
Gross public and publicly guaranteed debt outstanding/GDP	33.3	31.2	24.3	28.8	29.8	31.9	33.6	34.5	35.3
Net public and publicly guaranteed debt outstanding/GDP 3/	…	26.4	19.4	24.3	25.5	27.9	29.7	30.6	31.4
Public debt outstanding/GDP 4/	26.0	24.4	18.9	22.0	22.6	24.3	25.6	27.1	28.7
External sector									
Current account balance									
Including official transfers	4.7	13.8	9.2	2.0	0.8	1.2	0.9	0.7	0.4
Excluding official transfers	-4.2	2.2	-2.0	-10.4	-11.4	-10.2	-10.3	-10.2	-10.1
Gross official reserves 5/									
US$ millions	316.0	512.8	906.6	1394.2	1178.2	1245.2	1276.1	1301.0	1369.2
Months of imports of goods and services	1.4	2.1	3.0	3.7	3.6	3.6	3.5	3.4	3.3
External debt/GDP (percent) 6/	25.5	28.1	24.3	28.4	28.0	27.9	27.8	27.2	27.6
Exchange rate (N$/US$, end of period)	6.3	7.0	6.8	9.3	…	…	…	…	…
Exchange rate (N$/US$, period average)	6.4	6.8	7.1	8.3	…	…	…	…	…

Sources: Namibian authorities; and IMF staff estimates and projections.

1/ Figures include public enterprise and central government investment.
2/ Figures are for the fiscal year, which begins April 1.
3/ Figures include government deposits.
4/ Additional debt was issued in 2008 to build up the redemption account for the maturing bonds.
5/ Figures of 2007 based on actual data through September 2007.
6/ Public and private external debt.

Table 2. Namibia: Balance of Payments, 2005–13

(In millions of U.S. dollars)

	2005	2006	2007	Projections 2008	2009	2010	2011	2012 1/	2013
Current account	**344.4**	**1,105.1**	**804.0**	**168.6**	**58.2**	**90.5**	**63.2**	**52.1**	**34.5**
Goods	-265.3	94.8	-172.0	-825.2	-1,108.6	-1,081.0	-1,095.2	-1,089.6	-1,092.9
Exports, f.o.b.	2,066.7	2,652.3	2,915.3	3,107.1	2,376.5	2,642.0	2,794.7	2,949.8	3,103.3
Of which:									
Diamonds	848.3	1,083.8	909.8	898.0	525.1	521.1	411.2	321.8	327.4
Other minerals	275.0	474.7	804.6	1,056.1	797.9	980.1	1,339.1	1,503.2	1,584.9
Fish	155.9	431.0	445.1	466.1	379.5	419.8	445.6	476.4	505.8
Imports, f.o.b. (excluding duty)	-2,331.9	-2,557.5	-3,087.3	-3,932.3	-3,485.1	-3,723.0	-3,889.9	-4,039.5	-4,196.2
Services	43.1	97.2	84.9	28.5	253.9	310.9	286.7	250.2	152.6
Transportation	-107.8	-48.5	-120.9	-205.5	-109.0	-104.5	-152.5	-201.9	-286.8
Travel	239.7	265.3	301.5	318.0	383.7	434.2	473.2	499.3	509.9
Other services	-88.8	-119.8	-95.8	-84.0	-20.8	-18.8	-34.1	-47.2	-70.5
Income	-103.1	-37.3	-109.0	-101.5	-74.8	-105.0	-119.0	-126.5	-77.6
Compensation of employees	-3.6	-5.9	-2.3	-30.2	-2.0	-6.0	-6.0	-6.1	-6.1
Investment income	-99.5	-31.4	-106.7	-71.2	-72.8	-99.0	-112.9	-120.5	-71.5
Current transfers	669.7	950.3	1,000.2	1,066.7	987.7	965.6	990.6	1,018.1	1,052.4
Of which : SACU receipts 2/	650.1	893.9	957.1	1,017.1	938.0	915.9	940.9	968.4	1,002.7
Capital and financial account	**-451.9**	**-1,177.6**	**-856.4**	**-168.6**	**-58.2**	**-90.5**	**-63.2**	**-52.1**	**-34.5**
Capital account	79.4	84.7	83.1	82.4	83.4	82.9	82.9	83.1	83.0
Financial account	-531.2	-1,262.3	-939.5	-250.9	-141.6	-173.4	-146.1	-135.2	-117.5
(Excluding reserve assets)	-568.8	-1,121.8	-495.3	238.1	-357.6	-106.5	-115.2	-110.2	-49.3
Direct investment	360.4	398.5	976.4	654.6	525.9	636.3	652.7	654.7	661.1
Portfolio investment	-1,043.7	-1,112.4	-1,470.2	-1,017.9	-995.9	-905.9	-1,033.6	-1,189.2	-1,428.4
Other investment	114.4	-407.9	-1.5	601.3	112.4	163.1	265.8	424.2	718.0
Reserve assets (net)	37.6	-140.5	-444.2	-489.0	216.0	-67.0	-30.9	-24.9	-68.2
Net errors and omissions	**107.4**	**72.5**	**52.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Trade balance/GDP	-3.7	1.2	-2.0	-9.8	-13.8	-12.9	-12.4	-11.7	-11.1
Current account/GDP									
Including transfers	4.7	13.8	9.2	2.0	0.7	1.1	0.7	0.6	0.3
Excluding transfers	-4.2	2.2	-2.0	-10.4	-11.4	-10.2	-10.3	-10.2	-10.1
Nonmineral, non-SACU current account/GDP	-19.7	-16.9	-21.4	-33.2	-27.5	-27.7	-29.7	-29.4	-29.1
Exports of goods and nonfactor services (GNFS)	2,477.4	3,181.8	3,513.0	3,733.1	3,047.4	3,375.5	3,559.4	3,788.8	4,020.1
Exports/GDP (percent)	34.1	39.9	40.3	44.2	38.0	40.2	40.2	40.6	40.7
Imports of GNFS	2,699.6	2,989.7	3,600.2	4,529.8	3,902.0	4,145.6	4,367.9	4,628.2	4,960.4
Imports/GDP (percent)	37.2	37.5	41.3	53.7	48.6	49.4	49.4	49.6	50.2
Gross International reserves (end of period) 3/	316.0	512.8	906.6	1,394.2	1,178.2	1,245.2	1,276.1	1,301.0	1,369.2
Months of imports of goods and services	1.4	2.1	3.0	3.7	3.6	3.6	3.5	3.4	3.3
Ratio of reserves/short-term debt	0.5	0.6	1.3	1.8	2.7	3.7	3.8	3.7	3.5
Short-term debt (US$ millions)	699.8	862.7	718.8	761.0	432.7	336.0	333.1	348.3	390.1
External debt/GDP (percent)	25.5	28.1	24.3	28.4	28.1	28.0	28.1	27.7	28.0
External debt (US$ millions) from IIP 4/	1,848.4	2,245.5	2,116.5	2,398.0	2,252.1	2,351.5	2,483.7	2,578.5	2,765.2
Exchange rate (N$/US$, end of period)	6.3	7.0	6.8	9.3	...	...	...	...	...
Exchange rate (N$/US$, period average)	6.4	6.8	7.1	8.3	...	...	...	...	...
GDP at market prices (US$ millions)	7,257.8	7,981.6	8,711.2	8,438.2	8,024.9	8,387.2	8,850.0	9,323.5	9,882.9

Sources: Namibian authorities; and IMF staff estimates and projections.

1/ Namibia will become a net exporter of electricity in 2012, when electricity production from the Kudu gas project is expected to be fully operational.
2/ Southern African Customs Union.
3/ Gross foreign assets of the Bank of Namibia, converted to U.S. dollars.
4/ International investment position.

Table 3a. Namibia: Central Government Operations, 2006/07–2013/14

(In millions of Namibian dollars)

	Est.	Budget	Est.	Budget	Proj.	Projections				
	2006/07	2007/08	2007/08	2008/09	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue and grants	16,893	18,363	20,608	20,844	21,710	23,439	24,822	26,931	29,069	31,551
Revenue	16,843	18,159	20,404	20,703	21,568	23,282	24,652	26,745	28,867	31,330
Tax revenue	15,734	16,910	19,048	19,300	20,070	21,628	22,847	24,780	26,732	28,987
Personal income tax	3,374	2,983	3,714	3,728	4,279	4,681	5,111	5,564	6,048	6,633
Corporate income tax	2,161	2,070	2,834	2,674	2,353	2,575	2,811	3,060	3,427	3,759
Diamond mining	360	250	221	355	214	234	256	278	302	332
Other mining	351	350	780	461	285	312	341	371	504	553
Nonmining	1,451	1,470	1,834	1,858	1,854	2,029	2,215	2,411	2,621	2,874
VAT and sales taxes	3,002	3,263	3,854	3,756	4,350	4,681	5,111	5,564	6,048	6,633
International taxes (includes SACU receipts)	6,698	8,085	8,085	8,502	8,502	9,050	9,115	9,830	10,382	11,055
Other	500	509	561	640	585	640	699	761	827	907
Nontax revenue	1,109	1,249	1,356	1,404	1,498	1,655	1,805	1,965	2,136	2,342
Diamond royalties	482	500	543	643	642	624	681	742	806	884
Administrative fees, including license revenues	412	490	491	486	499	624	681	742	806	884
Other	215	259	322	275	357	407	442	481	523	574
Grants	50	204	204	141	143	156	170	185	202	221
Expenditures	15,315	18,246	17,736	24,902	23,540	25,252	27,458	29,896	32,565	35,799
Current expenditure	12,512	14,053	13,933	17,564	16,948	18,758	20,368	22,177	24,176	26,598
Personnel	6,213	6,725	6,827	7,709	7,584	8,297	9,058	9,862	10,719	11,756
Goods and services	2,289	3,105	2,913	4,038	3,566	3,901	4,259	4,637	5,040	5,528
Interest payments	1,263	1,156	1,179	1,189	1,234	1,567	1,599	1,743	1,966	2,239
Domestic	1,169	1,037	1,067	1,050	1,095	1,254	1,190	1,298	1,427	1,597
Foreign	94	119	112	139	139	313	409	445	539	642
Subsidies and current transfers	2,747	3,067	3,015	4,630	4,564	4,993	5,452	5,935	6,451	7,075
Capital expenditure	2,169	2,998	2,612	6,242	5,451	5,246	5,727	6,235	6,777	7,433
Acquisition of capital assets	...	2,168	...	3,469	3,469	3,511	3,833	4,173	4,536	4,975
Project Financed (extrabudgetary)	...	488	...	2,613	1,823	1,560	1,704	1,855	2,016	2,211
Capital transfers	...	342	...	159	159	174	190	207	225	247
Net lending	633	1,195	1,190	1,096	1,141	1,248	1,363	1,484	1,613	1,769
Overall balance 1/	1,578	117	2,873	-4,058	-1,830	-1,813	-2,636	-2,965	-3,496	-4,249
Overall balance excluding extrabudgetary spending 1/	1,776	605	3,228	-1,445	-7	-253	-932	-1,110	-1,480	-2,038
Primary balance	2,840	1,273	4,051	-2,869	-596	-246	-1,038	-1,222	-1,530	-2,010
Financing	-1,578	-117	-2,873	4,058	1,830	1,813	2,636	2,965	3,496	4,249
Domestic	-1,742	-571	-3,154	1,540	102	365	986	1,169	1,544	2,108
Central bank	-2,800	…	…	…	…	...	...	...	...	...
Commercial banks	584	…	…	…	…	...	...	...	...	...
Nonbank	473	…	…	…	…	...	...	...	...	...
External	164	454	281	2,518	1,728	1,449	1,650	1,796	1,952	2,141
Disbursements	198	488	355	2,613	1,823	1,560	1,704	1,855	2,016	2,211
Amortization	-34	-34	-74	-95	-95	-112	-54	-59	-64	-70
Privatization	0	…	…	…	…	…	…	…	…	…
Memorandum items:										
Public and publicly guaranteed debt	17,406	…	15,408	19,692	20,571	23,264	27,157	31,147	34,743	38,996
Public debt	13,638	…	11,995	14,785	15,664	17,628	20,695	23,760	27,356	31,705
Domestic 2/	10,928	…	8,852	9,955	10,453	10,817	11,804	12,973	14,517	16,625
External	2,710	…	3,143	4,830	5,212	6,810	8,891	10,787	12,839	15,080
Publicly guaranteed debt	3,768	…	3,413	4,907	4,907	5,637	6,462	7,387	7,386	7,291
GDP at current market prices (N$ millions)	55,874	63,510	63,510	59,516	71,318	78,020	85,184	92,739	100,797	110,552
Government deposits	2,681	…	3,059	…	3,209	2,777	2,801	3,524	3,528	3,317
Net public and publicly guaranteed debt	14,725	…	12,349	…	17,362	19,265	21,076	27,623	31,215	35,679

Sources: Namibian authorities; and IMF staff estimates and projections.

1/ "Overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account. "Overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the authorities' concept.

2/ The change in domestic debt includes bonds issued for local capital market development.

Table 3b. Namibia: Central Government Operations, 2006/07–2013/14

(In percent of GDP)

	Est.	Budget	Est.	Budget	Projections					
	2006/07	2007/08	2007/08	2008/09	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue and grants	30.2	28.9	32.4	29.3	30.4	30.0	29.1	29.0	28.8	28.5
Tax revenue	28.2	26.6	30.0	27.1	28.1	27.7	26.8	26.7	26.5	26.2
Personal income tax	6.0	4.7	5.8	5.2	6.0	6.0	6.0	6.0	6.0	6.0
Corporate income tax	3.9	3.3	4.5	3.7	3.3	3.3	3.3	3.3	3.4	3.4
Diamond mining	0.6	0.4	0.3	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Other mining	0.6	0.6	1.2	0.6	0.4	0.4	0.4	0.4	0.5	0.5
Nonmining	2.6	2.3	2.9	2.6	2.6	2.6	2.6	2.6	2.6	2.6
VAT and sales taxes	5.4	5.1	6.1	5.3	6.1	6.0	6.0	6.0	6.0	6.0
International taxes (includes SACU receipts)	12.0	12.7	12.7	11.9	11.9	11.6	10.7	10.6	10.3	10.0
Other	0.9	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Nontax revenue	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Grants	0.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Expenditures	27.4	28.7	27.9	35.0	33.0	32.4	32.2	32.2	32.3	32.4
Current expenditure	22.4	22.1	21.9	24.6	23.8	24.0	23.9	23.9	24.0	24.1
Capital expenditure	3.9	4.7	4.1	8.8	7.6	6.7	6.7	6.7	6.7	6.7
Acquisition of capital assets	...	3.4	3.0	4.9	4.9	4.5	4.5	4.5	4.5	4.5
Project Financed (extrabudgetary)	...	0.8	0.6	3.7	2.6	2.0	2.0	2.0	2.0	2.0
Capital transfers	...	0.5	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Overall balance 1/	2.8	0.2	4.5	-5.7	-2.6	-2.3	-3.1	-3.2	-3.5	-3.8
Overall balance excluding extrabudgetary spending 1/	3.2	1.0	5.1	-2.0	0.0	-0.3	-1.1	-1.2	-1.5	-1.8
Primary balance	5.1	2.0	6.4	-4.0	-0.8	-0.3	-1.2	-1.3	-1.5	-1.8
Financing	-2.8	-0.2	-4.5	5.7	2.6	2.3	3.1	3.2	3.5	3.8
Domestic	-3.1	-0.9	-5.0	2.2	0.1	0.5	1.2	1.3	1.5	1.9
Central bank	-5.0	…	...	...	...	...	...	...	...	...
Commercial banks	1.0	…	...	...	...	...	...	...	...	...
Nonbank	0.8	…	...	...	...	...	...	...	...	...
External	0.3	0.7	0.4	3.5	2.4	1.9	1.9	1.9	1.9	1.9
Disbursements	0.4	0.8	0.6	3.7	2.6	2.0	2.0	2.0	2.0	2.0
Amortization	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Privatization	0.0	…	0.0	…	…	…	…	…	…	…
Memorandum items:										
Public and publicly guaranteed debt	31.2	…	24.3	33.1	28.8	29.8	31.9	33.6	34.5	35.3
Public debt	24.4	…	18.9	24.8	22.0	22.6	24.3	25.6	27.1	28.7
Domestic 2/	19.6	…	13.9	16.7	14.7	13.9	13.9	14.0	14.4	15.0
External	4.9	…	4.9	8.1	7.3	8.7	10.4	11.6	12.7	13.6
Publicly guaranteed debt	6.7	…	5.4	8.2	6.9	7.2	7.6	8.0	7.3	6.6
GDP at current market prices (N$ millions)	55,874	...	63,510	71,318	71,318	78,020	85,184	92,739	100,797	110,552
Net public and publicly guaranteed debt	26.4	...	19.4	…	24.3	25.5	27.9	29.7	30.6	31.4

Sources: Namibian authorities; and IMF staff estimates and projections.

1/ "Overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account. "Overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the authorities' concept.

2/ The change in domestic debt includes bonds issued for local capital market development.

Table 4. Namibia: Monetary Developments, 2004–08

(In millions of Namibian dollars, end of period)

	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Nov.
Bank of Namibia					
Reserve money	1,238.6	1,372.6	1,532.4	1,647.7	2,032.8
Currency	945.8	1,026.8	1,151.4	1,323.7	1,570.4
Reserves	292.9	345.7	381.0	323.9	462.4
Net foreign assets	1,977.8	1,983.6	3,165.1	6,117.1	12,727.1
Net domestic assets	-739.2	-611.0	-1,632.7	-4,469.4	-10,694.2
Domestic credit	-637.4	-79.5	-744.4	-3,361.9	-7,488.4
Government (net)	-889.7	-608.1	-2,093.3	-4,595.1	-6,892.5
Banks	238.7	515.2	1,333.0	1,215.9	-619.8
Other sectors	13.6	13.4	15.8	17.4	23.8
Other items net	-101.8	-531.5	-888.2	-1,107.5	-3,205.8
Monetary survey					
Broad money	15,821.6	17,370.2	22,518.1	24,808.2	29,715.3
Currency	632.7	680.0	763.4	820.3	1,221.0
Deposits	15,188.9	16,690.2	21,754.8	23,987.9	28,494.3
Net foreign assets	493.1	-156.7	4,853.3	6,843.9	15,662.4
Net domestic assets	15,328.5	17,526.9	17,664.8	17,964.3	14,053.0
Domestic credit	19,570.4	22,831.0	24,948.5	25,454.7	24,404.0
Government (net)	871.7	1,405.7	121.3	-2,134.9	-4,753.7
Private sector	19,918.7	23,922.4	27,452.6	30,990.2	32,669.7
Others 1/	-1,220.0	-2,497.1	-2,625.5	-3,400.6	-3,512.0
Other items net	-4,241.9	-5,304.1	-7,283.6	-7,490.4	-10,351.0
Contribution to change in broad money					
Broad money	16.1	9.8	29.6	10.2	13.4
Currency	0.4	0.3	0.5	0.3	1.6
Deposits	15.8	9.5	29.2	9.9	11.8
Net foreign assets	-1.4	-4.1	28.8	8.8	30.4
Net domestic assets	17.5	13.9	0.8	1.3	-17.0
Domestic credit	22.2	20.6	12.2	2.2	-6.8
Government (net)	2.7	3.4	-7.4	-10.0	-11.4
Private sector	23.8	25.3	20.3	15.7	6.6
Others 1/	-4.2	-8.1	-0.7	-3.4	-1.9
Other items net	-4.7	-6.7	-11.4	-0.9	-10.2
Memorandum items:					
Annual percent change					
Reserve money	13.9	10.8	11.6	7.5	22.9
Private sector credit	19.4	20.1	14.8	12.9	5.6
Velocity	2.9	2.8	2.7	2.6	2.4
Money multiplier	12.8	12.7	14.7	15.1	14.6
Exchange rate (N$/US$)	5.6	6.3	7.0	6.8	10.1
Net foreign assets (US$ millions)	87.6	-24.8	696.3	1,005.0	1,545.4
Bank of Namibia	351.3	313.6	454.1	898.3	1,255.8
Commercial banks	-263.7	-338.4	242.2	106.7	289.6
Domestic interest rates (end of period)					
Deposit rate	6.4	6.0	6.9	8.3	8.6
Lending rate	10.7	10.8	12.4	13.6	14.3
BoN repo rate	7.5	7.0	9.0	10.5	10.5
Three-month T-bill rate	7.5	7.0	8.7	9.2	10.5

Sources: Bank of Namibia; and IMF staff estimates and projections.

1/ "Others" includes local and regional government and nonfinancial public enterprises.

Table 5. Namibia: Millennium Development Goals, 1990–2007

	1990	1995	2000	2007
Eradicate extreme poverty and hunger 1/				
Income share held by lowest 20%	...	1.4	...	...
Malnutrition prevalence, weight for age (% of children under 5)	21.5	...	20.3	...
Poverty headcount ratio at $1 a day (PPP) (% of population)	...	34.9	...	...
Prevalence of undernourishment (% of population)	34.0	35.0	...	...
Achieve universal primary education 2/				
Literacy rate, youth female (% of females ages 15–24)	90.0	...	93.0	...
Literacy rate, youth male (% of males ages 15–24)	86.0	...	91.0	...
Persistence to grade 5, total (% of cohort)	62.0	...	94.0	77.0
Primary completion rate, total (% of relevant age group)	...	74.0	82.0	76.0
School enrollment, primary (% net)	...	...	76.0	77.0
Promote gender equality and empower women 3/				
Proportion of seats held by women in national parliament (%)	7.0	18.0	22.0	27.0
Ratio of girls to boys in primary education (%)	103.0	...	101.0	100.0
Ratio of girls to boys in secondary education (%)	122.0	...	112.0	115.0
Ratio of young literate females to males (% ages 15–24)	106.0	...	...	...
Share of women employed in the nonagricultural sector (% of total employment)	...	...	47.5	...
Reduce child mortality 4/				
Immunization, measles (% of children ages 12–23 months)	57.0	68.0	69.0	63.0
Mortality rate, infant (per 1,000 live births)	60.0	55.0	50.0	45.0
Mortality rate, under-5 (per 1,000)	86.0	77.0	69.0	61.0
Improve maternal health 5/				
Births attended by skilled health staff (% of total)	68.0	...	76.0	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	210.0
Combat HIV/AIDS, malaria, and other diseases 6/				
Incidence of tuberculosis (per 100,000 people)	306.0	458.0	664.0	767.0
Prevalence of HIV, female (% ages 15–24)	...	...	...	10.3
Prevalence of HIV, total (% of population ages 15–49)	...	...	...	15.3
Tuberculosis cases detected under DOTS (%)	...	21.0	77.0	83.0
Ensure environmental sustainability 7/				
CO2 emissions (metric tons per capita)	0.0	1.0	0.9	...
Forest area (% of land area)	11.0	...	10.0	9.0
Improved sanitation facilities (% of population with access)	26.0	29.0	32.0	35.0
Improved water source (% of population with access)	57.0	70.0	81.0	93.0
Nationally protected areas (% of total land area)	...	...	...	...
Develop a global partnership for development 8/				
Mobile phone subscribers (per 100 people)	0.0	0.2	4.4	38.6
Telephone mainlines (per 100 people)	3.7	4.7	5.9	6.7
Internet users (per 100 people)	0.0	0.0	1.6	4.9

Source: World Development Indicators database, April 2007.

1/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

2/ Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

3/ Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

4/ Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

5/ Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate.

6/ Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

7/ Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

8/ Goal 8 targets: Develop further an open, rule-based, predictable, non discriminatory trading and financial system. Address the special seeds of the least developed countries. Address the special needs of landlocked countries and small island developing nations.

Table 6. Namibia: Financial Sector Indicators, 2002–08

(In percent; unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	Sep. 2008
Banking indicators							
Capital adequacy							
Capital to assets	7.5	8.3	8.8	7.8	7.5	7.9	8.0
Regulatory capital to risk-weighted assets	14.1	14.8	15.4	14.6	14.2	15.7	15.8
Regulatory tier I capital to risk-weighted assets	11.0	12.2	12.7	11.2	11.1	11.6	12.0
Nonperforming loans net of provisions to capital	11.6	14.3	1.1	3.0	2.5	7.2	10.3
Asset quality							
Large exposure to capital	207.2	190.2	181.2	182.8	189.3	166.1	172.9
Nonperforming loans to total gross loans	3.5	3.9	2.4	2.3	2.6	2.8	3.2
Sectoral distribution of loans to total loans							
Agriculture	8.6	5.5	3.1	3.9	3.0	2.8	3.1
Mining	1.5	2.6	2.0	2.8	0.7	2.0	0.8
Manufacturing	5.4	3.8	2.3	1.8	2.4	2.2	2.7
Construction	4.5	4.1	5.5	1.5	1.6	1.7	1.9
Electricity and water	4.4	3.4	0.7	0.8	0.3	0.3	0.5
Trade and accommodation	5.2	2.6	3.7	4.1	5.1	6.3	6.2
Transport and communications	3.6	4.6	2.3	3.1	3.1	1.4	1.5
Finance, real estate, and business services	11.1	9.6	11.4	13.2	15.8	18.9	21.9
Other services (including government)	7.0	8.6	8.2	6.8	4.1	4.6	4.8
Individuals	47.1	47.1	51.2	54.9	56.4	58.0	54.9
Other	1.8	8.3	9.4	7.1	7.6	1.7	1.8
Earnings and profitability							
Trading income to total income	3.0	4.2	7.5	3.8	3.7	5.6	6.3
Return on assets	4.5	3.6	2.1	3.5	1.5	3.5	3.2
Return on equity	59.8	43.2	24.2	45.6	19.9	44.9	39.4
Interest margin to gross income	53.0	51.3	57.0	49.8	53.7	53.4	47.3
Noninterest expenses to gross income	49.3	58.1	69.2	54.9	63.7	56.9	55.8
Spread between reference lending and deposit rates	6.2	6.0	4.4	4.8	5.6	5.3	5.3
Personnel expenses to noninterest expenses	48.4	43.8	47.1	47.8	39.6	49.8	49.7
Liquidity							
Spread between highest and lowest interbank rate	4.0	9.0	0.2	5.3	10.3	2.3	1.1
Liquid assets to total assets	1.9	2.4	1.3	1.2	1.0	1.1	0.9
Liquid assets to short-term liabilities	9.4	11.0	10.4	9.5	9.1	9.2	9.1
Customer deposits to total (non-interbank) loans	84.3	87.4	87.1	94.6	101.8	97.8	103.5
Exposure to foreign exchange risk							
Net open position in foreign exchange to capital	0.1	0.0	0.5	1.4	0.3	0.3	0.9
Foreign currency-denominated loans to total loans	5.0	3.0	1.9	0.7	1.0	0.1	0.2
Foreign currency-denominated liabilities to total liabilities	5.2	4.5	2.0	1.1	2.5	2.7	2.8
Financial system structure (in number)							
Banks	5	4	4	4	4	4	4
Private commercial	2	1	1	1	1	1	1
State-owned	0	0	0	0	0	0	0
Foreign-owned subsidiaries	3	3	3	3	3	3	3
Branches of foreign banks	0	0	0	0	0	0	0
Assets (N$ billions)							
Banks	17.8	20.0	23.4	28.2	33.4	36.5	40.4
Private commercial	5.7	4.3	5.2	6.8	8	9.6	11
State-owned	...	...	0	0	0	0	0
Foreign-owned subsidiaries	12.1	15.8	18.2	21.4	25.4	26.9	29.4
Branches of foreign banks	...	...	0	0	0	0	0
Deposits (N$ billions)							
Banks	12.7	14.3	17.2	21.5	26.4	33	36.4
Private commercial	4.7	3.5	2.5	5.5	6.9	8.7	10
State-owned	...	...	0.0	0	0	0	0
Foreign-owned subsidiaries	7.9	10.7	14.7	16	19.5	24.3	26.4
Branches of foreign banks	...	...	0.0	0	0	0	0

Sources: Bank of Namibia; and IMF staff estimates.

Table 7. Namibia: Indicators of External and Financial Vulnerability, 2002–08

(In percent of GDP; unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	Latest	Date of Latest Observation
Financial indicators								
Public sector debt of the central government 1/	22.1	26.4	28.8	26.0	24.4	18.9	...	Mar. 2008
Broad money (percent change, 12-month basis)	6.9	9.6	16.2	9.7	29.6	10.2	13.4	Nov. 2008
Private sector credit (percent change, 12-month basis)	20.2	12.4	19.4	20.1	14.8	12.9	5.6	Nov. 2008
Bank of Namibia overdraft interest rate (bank rate) 2/	12.8	7.8	7.5	7.0	9.0	10.5	10.0	Dec. 2008
Bank of Namibia overdraft real interest rate 2/, 3/	0.3	5.2	3.2	3.5	3.0	3.4	-0.9	Dec. 2008
External indicators								
Exports (percent change, 12-month basis in US$)	-6.1	16.6	45.8	13.3	28.3	9.9	--	Dec. 2007
Imports (percent change, 12-month basis in US$)	-4.6	33.7	23.1	10.7	9.7	20.7	--	Dec. 2007
Terms of trade (percent change, 12-month basis)	-1.4	-1.6	2.9	0.0	11.5	2.0	--	Dec. 2007
Current account balance	3.4	6.1	7.0	4.7	13.8	9.2	--	Dec. 2007
Capital and financial account balance	-6.3	-5.7	-9.1	-6.2	-14.8	-9.8	--	Dec. 2007
Gross official reserves (US$ millions) 2/	336.2	318.9	352.7	316.0	512.8	906.6	1267	Nov. 2008
Official reserves in months of imports of goods and services 2/	2.7	1.9	1.7	1.4	2.1	3.0	--	Dec. 2007
Broad money to reserves	3.5	5.6	7.0	8.6	6.5	3.9	2.3	Nov. 2008
Reserves/total short-term external debt 2/	1.1	0.5	0.5	0.5	0.6	1.3	--	Dec. 2007
Total external debt (US$ millions) 2/	1151.5	1618.1	2060.1	1848.4	2245.5	2116.5	--	Dec. 2007
Of which : public sector debt (US$ millions)	171.1	241.2	340.6	316.3	362.5	445.6	--	Dec. 2007
Total external debt to exports of goods and services 2/	85.7	97.3	89.7	74.6	70.6	60.2	--	Dec. 2007
Nominal exchange rate (N$/US$, period average)	10.5	7.6	6.4	6.4	6.8	7.1	10.1	Nov. 2008
Real effective exchange rate (percent change, depreciation = –)	-8.2	20.0	7.0	0.7	-2.6	-4.3	--	Dec. 2007
Financial market indicators								
End-of-period stock market index	305.0	347.0	425.9	581.7	852.8	929.4	552.4	Dec. 2008

Sources: Namibian authorities; and IMF staff estimates.

1/ Fiscal years, which begin on April 1.

2/ End of period.

3/ Deflated by the percentage change in end-of-period CPI.

Table 8. Namibia: Social and Demographic Indicators, 2007

	Namibia	South Africa	Sub-Saharan Africa
Area (thousands of square kilometers)	824	1,219	24,265
Population (2005)			
Total (millions)	2.0	46.9	743.0
Annual rate of growth (percent) 1/	1.0	0.1	2.2
Population characteristics			
Population density (per square kilometer)	2.4	38.5	30.6
Urban population (percent of total)	32	59	36
Population age structure (percent of total)			
0–14 years	41.5	32.6	43.5
15–64 years	55.0	63.1	53.4
65 years and above	3.5	4.3	3.1
Income distribution 2/			
Income share held by highest 20 percent	78.7	62.2	...
Income share held by lowest 20 percent	1.4	3.5	...
Access to improved water source (percent of population, 2004)			
Total	87	88	56
Rural	79	73	44
Urban	98	98	82
Health (2005)			
Life expectancy at birth	47	48	47
Infant mortality (per 1,000 live births)	46	55	96
People living with HIV/AIDS 3/	19.6	18.8	5.8
PPP gross national income per capita (2005)	7,690	10,880	1,913
Labor force (2005)			
Total (millions)	0.6	19.2	306.0
Female (percent of total population)	43.6	38.2	42.1
Education (2005)			
School enrollment (percent, gross)			
Primary	99	104	92
Secondary	61	93	30
Tertiary	6	16	5
Adult literacy rate	85.0	82.5	61.5

Source: World Bank, *World Development Indicators,* 2007.

1/ Based on 2005 data from the United Nations Populations Division.
2/ Based on latest household income and expenditure survey.
3/ Reflects prevalence rate in sentinel survey.

INTERNATIONAL MONETARY FUND

NAMIBIA

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by the African Department

February 12, 2009

- **Relations with the Fund**. Describes Namibia's membership status, exchange arrangement, and financial and technical assistance from the Fund.
- **The JMAP Bank-Fund Matrix.** Describes the priorities and main activities of the World Bank Group and the IMF and areas of cooperation in their work with the Namibian authorities.
- **Statistical Issues.** Assesses the quality of the statistical data. Namibia's statistical coverage is generally good although some data are not timely.
- **Fiscal Debt Sustainability Analysis.** Examines the long-run sustainability of Namibia's public debt. It finds that Namibia has a sustainable public debt level, which however remains vulnerable to exogenous shocks.

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Figures

I. Relations with the Fund

(As of November 30, 2008)

Membership Status	Joined 9/25/90; Article VIII	
General Resources Account	SDR (million)	% of Quota
Quota	136.50	100.0
Fund holdings of currency	136.43	99.95
Reserve position in Fund	0.08	0.06
SDR Department	SDR (million)	% of Allocation
Holdings	0.02	N/A
Outstanding purchases and loans	None.	
Financial arrangements	None.	
Projected obligations to Fund	None.	

Exchange rate arrangement

The Namibia dollar is pegged at par to the South African rand, and both currencies are legal tender in Namibia. Namibia formally accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement, as of September 20, 1996, and maintains an exchange rate system free of restrictions in the making of transfers and payments of current account transactions. The mission will update this assessment.

Article IV consultations

Namibia is on the standard 12-month Article IV consultation cycle; the last Article IV consultation was concluded by the Executive Board on January 18, 2008.

During the Executive Board meeting, Directors commended the authorities' sound macroeconomic management, which, together with a favorable external environment, has led to robust economic growth, subdued inflation, and large current account surpluses. Directors stressed, however, that improved expenditure prioritization is needed within the context of the new medium-term expenditure framework. Directors considered that the exchange rate peg to the South African rand remains appropriate, but stressed the importance for policy interest rate differentials with South Africa to be limited to levels that do not destabilize capital flows or official reserves. Directors also stressed the importance of further progress in addressing the HIV/AIDS pandemic, high unemployment, and large disparities of income.

Technical Assistance:

Date	Duration	Dept.	Recipient	Purpose	Form
04/05	2 weeks	STA	Bank of Namibia	ROSC	Mission
06/05	10 days	MFD	Bank of Namibia	Payments Oversight	Advisor
02/06	2 weeks	FAD	Ministry of Finance	Modernizing Tax Administration	Mission
02/06	2 weeks	FAD	Ministry of Finance	Fiscal Regime for Mining and Processing	Mission
04/06	1 weeks	MFD	Bank of Namibia	Payment Systems	Advisor
05/06	3 weeks	STA	Centr. Bur. Of Stat.	National Accounts (GDDS project)	Advisor
05/06	4 days	MFD	Nonbank Financial Institution	Bank of Namibia	Advisor
06/06	2 weeks	STA	Ministry of Finance	GFS (GDDS project)	Advisor
06/06	2 weeks	FAD	Ministry of Finance	ROSC	Mission
10/06	2 weeks	MFD	Bank of Namibia	Lending Policy, Monetary Operations, Bank Supervision	Mission
10/06	4 days	STA	Bank of Namibia	SDDS project	Advisor
03/07	2 weeks	MCM	Bank of Namibia	Risk-Based Supervision	Advisor
04/07	2 weeks	FAD	Ministry of Finance	Revenue Modeling And Forecasting	Mission
08/07	2 weeks	MCM	Bank of Namibia	Payments Systems	Advisor
10/07	2 weeks	STA	Bank of Namibia	Monetary and Financial statistics	Mission
04/08	2 weeks	STA	Ministry of Finance	GFS	Mission
04/08	3 weeks	MCM	Bank of Namibia	Risk-Based Supervision	Advisor
05/08	2 weeks	STA	Centr. Bur. Of Stat.	National Accounts	Advisor
07/08	2 weeks	STA	Bank of Namibia	Monetary and Financial statistics	Mission

07/08	2 weeks	STA	Centr. Bur. Of Stat.	National Accounts SDDS project	Advisor
07/08	2 weeks	STA	Bank of Namibia	Balance of Payments Statistics	Mission
09/08	2 weeks	FAD	Ministry of Finance	Public Financial Management	Mission
11/08	3 weeks	MCM	Bank of Namibia	Risk-Based Supervision	Advisor

II. THE JMAP BANK-FUND MATRIX

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	• Nonlending Technical Assistance for multi-sector economic modeling. • Support to ETSIP1 (DPL2) • Health Sector Note (ESW) • eGovernance (TA) • GEF—Public Environmental Expenditure Review (ESW Dissemination) • Namibia Energy Sector (TA) • CEM Dissemination	November-December 2008.	May 2009 Q2, FY09 (appr) Q3, FY09 Q2, FY09 Q3, FY09 Q4, FY09 Q4, FY10
The Fund work program in the next 12 months	1. 2008 Article IV consultation and FSSA report Background papers on (i) managing Southern African Customs Union revenues; and (ii) Southern African Development Community's Macroeconomic Convergence Program: Initial Performance. 2. 2009 Article IV consultation 3. Technical assistance missions • State-owned enterprises and PPP • Program budgeting • Payments systems • Banking supervision • Balance of payments statistics • Government finance statistics • National accounts statistics	November-December 2008 Q4 2009	Board meeting in February 2009 Board meeting in Q1 2010 2009
B. Requests for work program inputs			
Fund request to Bank	Periodic update on progress on analytical work (Sectoral strategy on education, and follow-up on assessment of the investment climate).		
Bank request to Fund	Periodic updates on macroeconomic developments and analytical work ; Assessment of the impact of global financial crisis on Namibia.		
C. Agreement on joint products and missions			
Joint products in next 12 months	• Debt Sustainability Analysis		January 2009

III. Statistical Issues

1. Data provision has some shortcomings, but is broadly adequate for surveillance purposes. Significant lags and revisions of key macroeconomic data continue to hamper staff analysis. Namibia is participating in the SDDS and the monetary and financial statistics modules of the Anglophone Africa project (funded by the U.K. Department for International Development (DFID)). GDDS metadata were posted on the Fund's Dissemination Standards Bulletin Board on December 19, 2002. Since then, metadata on central government debt were updated in November 2003 while metadata for the financial and external sectors were updated in May 2005.

Real sector statistics

2. The Central Bureau of Statistics (CBS) recently released updated national accounts data for 2000-2007 that significantly revised the previous series for both constant and current prices. The revisions reflect the introduction of an expanded data survey that has resulted in a substantial upward adjustment to estimates of output, particularly in the mining, services and manufacturing sectors. In addition, the constant price series was rebased from 1995 to 2004 prices, with adjustments to the deflators used for a number of sectors. As a result, gross domestic product measured in current prices has increased by an average of 14 percent for the period 2000-2007 over previous estimates, while growth in real GDP increased by an average of 0.7 percentage points. A regional real sector advisor covering Botswana, Mauritius and, Namibia assisted the CBS with these improvements. However, further efforts are needed to compile and disseminate seasonally adjusted QNA estimates and to improve existing source data.

3. In February 2005, the government introduced a nation-wide consumer price index to replace the previous index that only covered the capital city of Windhoek. The new index is available from January 2002.

4. Data on the labor market, including labor force, employment, and wages are not systematically collected, which impedes the analysis of labor market developments. The last labor market survey was conducted in 2004.

Government finance statistics

5. Annual fiscal data on budgetary central government through 2003 have been disseminated in the 2007 *GFS Yearbook* and *IFS*. These data, which are reported on a cash basis in the *GFSM 2001* format, are reasonably complete, despite some gaps in terms of details. The African Department receives actual fiscal data (including government debt) several months after the end of the fiscal year. No data on budget implementation during the fiscal year are provided.

6. Expenditure data of line ministries are not available in a timely manner after the end of the fiscal year, and are also subject to frequent revisions; however, preliminary general ledger data related to the 2006/07 fiscal year were received by the area department relatively quickly following the end of the fiscal year, contrary to past practice. Overall, the system for providing expenditure information needs to be strengthened, and preliminary information on cash expenditures of ministries should be made available on a regular basis and more quickly. Similarly, the reconciliation of above-the-line fiscal data with financing data should be conducted on a regular and timely basis.

Monetary and financial statistics

7. Monthly monetary statistics for the Bank of Namibia (BoN) and the other depository corporations (ODCs) are reported on a regular basis, although there is room for improving the timeliness of reporting particularly with regard to BoN data. Beginning in April 2002, data are based on standardized report forms which accord with the concepts and definitions of the *Monetary and Financial Statistics Manual.* The coverage of the ODC sector was expected to include unit trusts beginning in September 2008. The consistency in inter-ODCs positions as well as between the ODCs and BoN has improved substantially. In July 2008, an STA technical assistance mission assisted BoN staff in developing a base call report form for collecting quarterly balance sheet data from other financial corporations (OFCs).

External sector statistics

8. Since 2001, the BoN has been reporting the balance of payments data on a quarterly basis with a lag of one quarter. Those data are subject to substantial revisions. The methodology underlying the balance of payments is consistent with the fifth edition of the IMF's *Balance of Payments Manual* and is well documented. The international investment position (IIP) data are compiled quarterly with a lag of one quarter. Through a series of three missions between January 2003 and May 2004, the Bank of Namibia received Fund TA to improve the compilation of the capital and financial transactions and IIP statistics. However, further work is needed to expand the coverage of the IIP and restate the IIP in a format that will allow for comparison with the balance of payments statistics.

Table 1. Common Indicators Required for Surveillance

(As of February 3, 2009)

	Date of Latest Observation	Date Received	Frequency of Data 1/	Frequency of Reporting 1/	Frequency of Publication 1/	Memo Items: Data Quality—Methodological Soundness 2/	Memo Items: Data Quality—Accuracy and Reliability 3/
Exchange rates	Dec. 2008	Jan. 2009	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities 4/	Dec. 2008	Jan. 2009	M	M	M		
Reserve/Base money	Nov. 2008	Dec. 2008	M	M	M	O, O, LO, LO	O, LO, O, O, O
Broad money	Nov. 2008	Dec. 2008	M	M	M		
Central bank balance sheet	Nov. 2008	Dec. 2008	M	M	M		
Consolidated balance sheet of the banking system	Nov. 2008	Dec. 2008	M	M	M		
Interest rates 5/	Dec. 2008	Dec. 2008	M	M	M		
Consumer price index	Dec. 2008	Jan. 2009	M	M	M	O, LNO, LO, O	LO, LNO, O, O, NA
Revenue, expenditure, balance and composition of financing 6/—general government 7/	…	…	I or NA	I or NA	I or NA	LNO, LNO, LO, O	O, O, O, LO, NA
Revenue, expenditure, balance and composition of financing 6/—central government	Mar. 2007	May. 2008	I, NA (Comp. of Financing)	I, NA (Comp. of Financing)	I, NA (Comp. of Financing)		
Stocks of central government and central government—guaranteed debt 8/	Mar. 2007	May. 2008	M, I (Gov.-Guar. Debt)	M, I (Gov.-Guar. Debt)	M, I (Gov.-Guar. Debt)		
External current account balance	Q2 2008	Oct. 2008	Q	Q	Q	O, O, O, LO	LO, LO, LO, LNO, NO
Exports and imports of goods and services	Q2 2008	Oct. 2008	Q	Q	Q		
GDP/GNP	2007	Oct. 2008	A	A	A	O, O, O, LO	LNO, LO, LO, LO, O
Gross external debt	2007	Oct. 2008	A	A	A		
International investment position 9/	2007	Oct. 2008	A	A	A		

1/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

2/ Reflect the assessments provided in the data ROSC Substantive Update and the data ROSC module published, respectively, in September 2005 and September 2002, and based on the findings of the missions that took place during April 2005 and January 2001) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

3/ Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical output, and revision studies.

4/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

5/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

6/ Foreign, domestic bank, and domestic nonbank financing.

7/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

8/ Including currency and maturity composition.

9/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

IV. Fiscal Debt Sustainability Analysis

1. At end-2008, Namibia's public debt is estimated at about N$14.1 billion, (20.2 percent of GDP). About a third of the debt is owed to bilateral and multilateral foreign creditors, while the rest is domestic debt. Since 2004, domestic debt has declined gradually from around 28 percent of GDP due to strong fiscal consolidation and prudent fiscal policies. Privatization receipt of 1.3 percent of GDP in 2006, from the sale of a telecommunications firm, contributed to the decline. On current projections, the debt-to-GDP ratio will rise steadily in the medium term, reaching 28.1 percent in 2013, driven largely by rising external debt.

2. The baseline scenario underlying the macroeconomic framework assumes that the central government primary budget balance moves from a substantial surplus in 2007 to a deficit in 2008, and remains so throughout the projection period. During the same period, revenue and grants decline by about 2 percentage points of GDP, mainly due to declining SACU revenue. Primary expenditure increases by around 4 percentage point of GDP owing to a large increase in foreign financed project expenditure in 2008. Expenditure remains at around 31 percent of GDP in the projection period due mainly to continuous future commitments to foreign financed projects. As a result of these, the public debt ratio rises from around 20.2 percent of GDP in 2007 to 28.1 percent in 2013. Reflecting the more expansionary fiscal stance relative to revenue receipts, public debt to revenue ratio, which was 63 percent in 2007, gradually increases to around 97.3 percent by the end of the projection period.

3. Table 1 shows two additional scenarios. The first shows the fiscal outcome if real GDP growth, real interest rates, and the primary balance are maintained at their historical 10 year averages. In this case, instead of remaining stable around 20 percent of GDP, the public debt ratio declines by about 3.3 percentage point of GDP by 2013. The projected decline reflects the relatively more benign historical levels of the key variables, as well as a prudent fiscal stance that delivered primary surpluses in the recent past. The second scenario shows the outcome if government's policies in 2008 remain unchanged, with the result that the primary deficit for the projection period remains at the 1.6 percent of GDP. In this case, public debt rises to 28.8 percent of GDP by the end of the forecast period. In all, relative to the 2007 Debt Sustainability Analysis, debt indicators have worsened.

4. The bounds tests illustrate the vulnerability of the fiscal position to exogenous shocks (Figure 1). The results show that with different levels of standard deviation shock to key indicators, the debt-to-GDP ratio is projected to increase by between 4 to 8 percentage points of GDP depending on the shock. The most benign shock is that from real interest rate, which nevertheless could result in up to 4 percentage point increase in the debt to GDP ratio, while the 10 percent of GDP increase in public and publicly guaranteed debt in 2009, results in more than 10 percentage point increase in the debt to GDP ratio. The inclusion of a country

specific shock of around 2 percentage point of GDP annual decline in SACU revenue starting from 2009, also worsens the debt to GDP ratio.[1]

5. A further analysis of the extent to which Namibia is overborrowing confirms that Namibia is at low risk of default. A government is overborrowing if the ratio of actual public debt to the benchmark level of debt (calculated as the present discounted value of expected future primary surpluses) is greater than 1.[2] The analysis, based on a benchmark model of constant primary balance using 10 year historical average; and comparing the public debt to GDP ratio in the baseline and benchmark models indicates an overborrowing range of around 0.1 in 2013 to 0.6 percent in 2013, much less than the 2½ times median value found for emerging market economies that are at risk of default.

6. The authorities' fiscal policy has been anchored on maintaining a public debt ratio of 25 percent of GDP. Though this was achieved in the recent past, positive shocks to both SACU revenue and strong performance in diamond production have been instrumental to the debt reduction. While the debt to GDP ratio remains sustainable and is still relatively low, declining SACU revenue and higher contingent liabilities from publicly guaranteed debts could change the outcome. In light of government's plan to increase infrastructure spending consistent with the objectives of the National Development Plan 3, especially by raising foreign financed debt, debt ratios would rise above the target. As SACU revenues decline, and in the presence of additional negative shocks to the economy from declining mining production, the impact of these on the debt to GDP ratio could be substantial. The authorities will need to improve tax administration and reduce expenditures to moderate the impact from declining SACU and mineral revenue. In addition, including publicly guaranteed debt in the target would allow for appropriate policy to focus on the growth of publicly guaranteed debt. Without these efforts, the public debt ratio could rise substantially.

[1] This is a nonstandard scenario, and is not included in Figure 1.

[2] See WEO (2003); Chapter 3.

Table 2. Namibia: Public Sector Debt Sustainability Framework, 2003–13

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	primary balance 9/
Baseline: Public sector debt 1/	**25.8**	**28.1**	**27.2**	**24.7**	**20.2**	**20.2**	**22.2**	**23.9**	**25.3**	**26.8**	**28.5**	**5.3**
Of which: Foreign-currency denominated	4.0	4.5	4.1	4.6	4.9	6.3	8.3	10.0	11.4	12.5	13.5	
Change in public sector debt	3.8	2.2	-0.9	-2.4	-4.6	0.0	2.0	1.7	1.4	1.5	1.7	
Identified debt-creating flows (4+7+12)	12.8	6.2	6.4	-2.8	-1.5	7.5	6.8	5.3	9.1	8.9	6.7	
Primary deficit	3.6	1.5	-1.4	-4.4	-6.1	1.6	1.2	1.0	1.3	1.5	1.8	
Revenue and grants	26.6	25.7	27.4	29.5	32.0	29.8	29.9	29.4	29.1	28.9	28.8	
Primary (noninterest) expenditure	30.3	27.2	26.0	25.1	25.9	31.5	31.1	30.4	30.4	30.4	30.6	
Automatic debt dynamics 2/	0.1	-1.6	0.8	-1.3	-1.1	-0.7	0.2	0.0	-0.1	-0.1	-0.1	
Contribution from interest rate/growth differential 3/	1.2	-1.0	0.3	-1.6	-1.0	-0.7	0.2	0.0	-0.1	-0.1	-0.1	
Of which contribution from real interest rate	2.1	1.8	1.0	0.0	-0.2	-0.2	0.4	0.6	0.7	0.8	0.8	
Of which contribution from real GDP growth	-0.9	-2.8	-0.6	-1.7	-0.9	-0.5	-0.2	-0.6	-0.8	-0.9	-1.0	
Contribution from exchange rate depreciation 4/	-1.0	-0.6	0.5	0.4	-0.1	...	...	...	...	...	...	
Other identified debt-creating flows	9.1	6.3	7.0	2.9	5.7	6.5	5.4	4.3	7.9	7.5	5.1	
Privatization receipts (negative)	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	9.1	6.3	7.0	1.6	5.7	6.5	5.4	4.3	7.9	7.5	5.1	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2–3) 5/	-9.1	-4.0	-7.3	0.4	-3.0	-7.4	-4.8	-3.6	-7.7	-7.4	-5.0	
Public sector debt-to-revenue ratio 1/	97.1	109.0	99.1	83.8	63.0	67.8	74.2	81.4	87.1	92.7	99.0	
Gross financing need 6/	**17.4**	**18.1**	**16.6**	**9.0**	**6.2**	**10.4**	**10.3**	**12.1**	**12.8**	**12.4**	**13.2**	
In billions of U.S. dollars	0.9	1.2	1.2	0.7	0.5	0.9	0.8	1.0	1.1	1.2	1.3	
Scenario with key variables at their historical averages 7/						**20.2**	**19.9**	**19.6**	**18.9**	**18.1**	**17.3**	**4.4**
Scenario with no policy change (constant primary balance) in 2008–13 8/						**20.2**	**22.4**	**24.8**	**26.6**	**28.3**	**29.9**	**5.3**
Key macroeconomic and fiscal assumptions underlying baseline												
Real GDP growth (in percent)	4.3	12.3	2.5	7.2	4.1	2.9	1.0	2.8	3.5	3.7	4.0	
Average nominal interest rate on public debt (in percent) 9/	10.9	10.0	9.4	9.9	9.0	9.6	10.5	9.4	8.6	8.3	8.2	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	9.9	8.1	3.8	0.7	-0.4	-0.6	2.1	3.1	3.3	3.5	3.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	40.1	17.9	-11.0	-9.3	2.3	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	1.0	1.9	5.6	9.2	9.3	10.2	8.4	6.3	5.3	4.8	4.7	
Growth of real primary spending (deflated by GDP deflator, in percent)	6.7	0.8	-2.0	3.6	7.4	24.9	-0.3	0.6	3.5	3.8	4.6	
Primary deficit	3.6	1.5	-1.4	-4.4	-6.1	1.6	1.2	1.0	1.3	1.5	1.8	
B. Bound tests												
B1. Real interest rate is at historical average plus one standard deviation						**20.2**	**22.8**	**25.3**	**27.6**	**30.0**	**32.8**	**6.4**
B2. Real GDP growth is at historical average minus one standard deviation						**20.2**	**23.0**	**26.1**	**29.3**	**33.2**	**37.8**	**6.3**
B3. Primary balance is at historical average minus one standard deviation						**20.2**	**23.7**	**26.9**	**29.8**	**32.8**	**36.1**	**5.3**
B4. Combination of B1-B3 using 1/2 standard deviation shocks						**20.2**	**23.4**	**26.5**	**29.3**	**32.3**	**35.5**	**6.4**
B5. One time 30 percent real depreciation in 2009						**20.2**	**25.7**	**27.5**	**29.0**	**30.5**	**32.2**	**5.3**
B6. 10 percent of GDP increase in contingent liabilities in 2009						**20.2**	**32.2**	**34.1**	**35.6**	**37.2**	**38.9**	**5.3**
B7. Annual 2 percent of of GDP decline in SACU from 2009						**20.2**	**24.2**	**27.9**	**31.4**	**35.0**	**36.7**	**5.3**

1/ Central government gross debt.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = 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).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

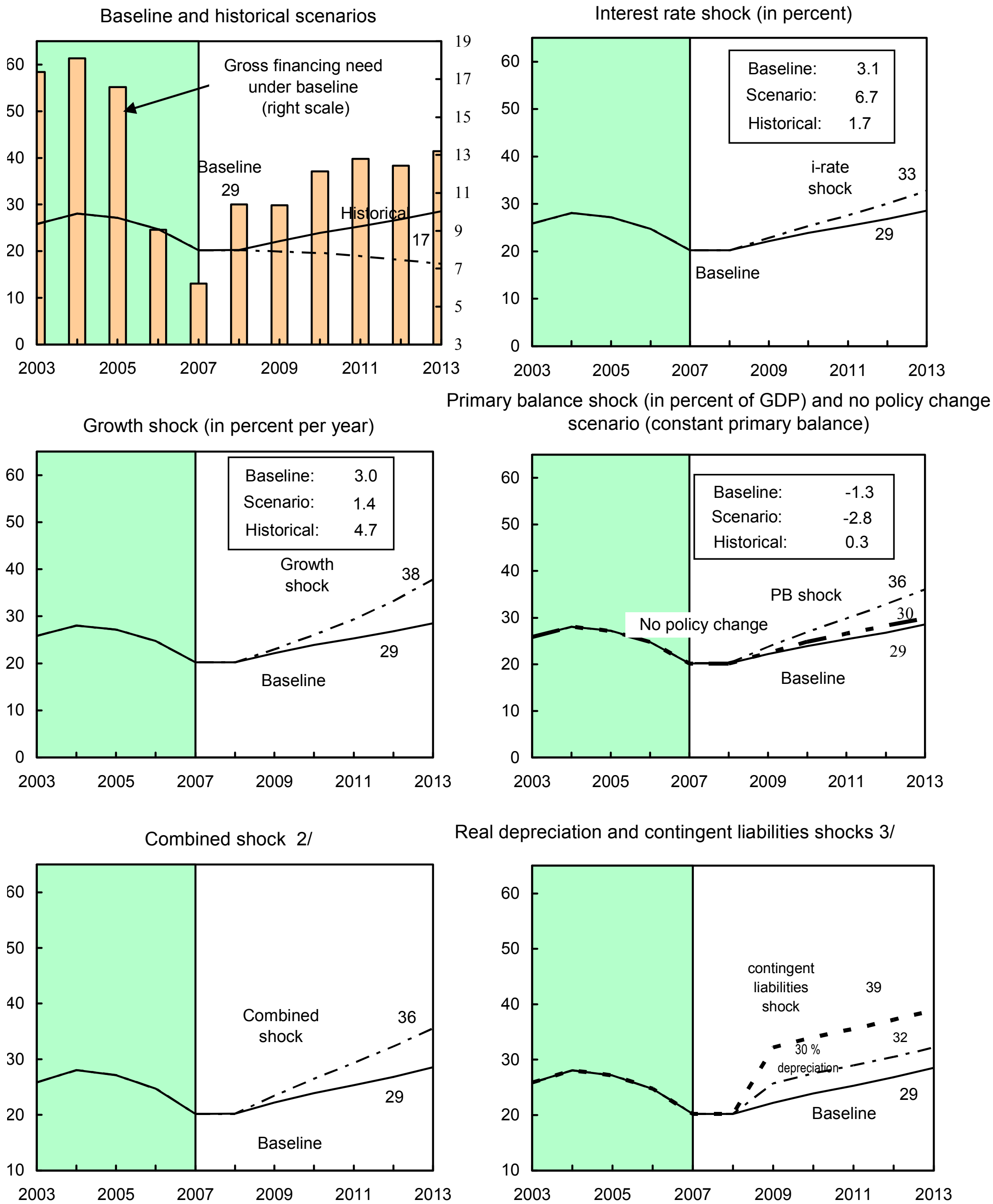
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ 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.

9/ Derived as nominal interest expenditure divided by previous period debt stock.

Figure 1. Namibia: Public Debt Sustainability: Bound Tests 1/

(Public 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Namibia

On February 27, 2009 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Namibia.[1]

Background

Real GDP growth is expected to moderate to about 3 percent in 2008 from 4.1 percent in 2007, reflecting a downturn in the mining sector owing to the global economic slowdown, and the lagged impact of monetary tightening in 2007. The external current account surplus is expected to fall to 2 percent of GDP in 2008 on account of declining terms of trade and substantial imports for mineral exploration and public infrastructure projects. Official international reserves have increased to an equivalent of 3.7 months of imports of goods and services in December 2008, up from 3 months at end-2007.

Large increases in international food and fuel prices pushed inflation into double digits in 2008. The 12-month inflation rate rose sharply during the first half of the year and remained at 10.9 percent in December, compared with 7 percent a year before. In line with the South African Reserve Bank (SARB) rate cut, the Bank of Namibia (BoN) reduced its repo rate by 50 basis

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

points in December 2008. This left the rate at 10 percent, still 150 basis points below the SARB repo rate, after the BoN opted not to follow three SARB rate increases in 2007–08. Mirroring the weakening of the South African rand, the Namibian dollar depreciated by 26 percent against the U.S. dollar during 2008, roughly two-thirds of which took place during September-December.

The 2007/08 (April-March) fiscal balance recorded a much higher surplus than budgeted, reflecting stronger revenue performance driven by high commodity prices and an improvement in tax administration. Accordingly the 2008/09 budget envisages a large swing in the fiscal balance to a deficit, which would raise public debt close to the authorities' target level of 25 percent of GDP.

Executive Board Assessment

Executive Directors commended the authorities' sound macroeconomic management, which had contributed to solid growth and strong external and fiscal positions. The global economic and financial turmoil has, however, worsened the near-term outlook. In particular, the deterioration of the global economy has led to a downturn in the mineral sector, which could be more pronounced in the event of a prolonged global crisis. Directors recommended continued pursuit of sound macroeconomic policies and determined implementation of structural reforms to accelerate growth in the non-mineral sectors of the economy with a view to reducing unemployment and poverty.

Directors noted that the authorities' prudent fiscal policies in recent years have created fiscal space to support growth and address infrastructure needs. They agreed that some loosening of the fiscal stance in 2008/09 was appropriate in view of the economic slowdown. At the same time, Directors cautioned that the planned fiscal expansion is sizable, and should not compromise the quality of spending. A less expansionary fiscal stance would allow for a more gradual increase in capital expenditure, while safeguarding fiscal sustainability. Directors welcomed the authorities' intention to broaden the definition of the public debt target to include publicly guaranteed debt and central government deposits, while stressing the need to keep in place a strong and appropriately defined fiscal anchor. They encouraged the authorities to continue to strengthen public financial management and revenue administration.

Directors considered that the exchange rate peg to the South African rand continues to serve Namibia well in view of the large trade and capital flows between the two countries. They noted the staff's assessment that the real effective exchange rate appears broadly in line with equilibrium. While the Bank of Namibia has found some room to deviate from the interest rate policy of the South African Reserve Bank, Directors considered that the peg and close financial links with South Africa are likely to constrain the scope for effective independent monetary policy over the longer-term. In this connection, they stressed the importance of maintaining sufficient international reserves and monitoring closely capital flows so as to adjust interest rates in a timely manner as necessary.

Directors noted that the turbulence in international financial markets has so far had little immediate impact on the banking sector, as banks remain well-capitalized with a low level of non-performing loans. Nonetheless, they urged the authorities to remain vigilant as the economic downturn advances in 2009, especially given a high concentration of real estate and consumer loans.

Directors encouraged the authorities to press ahead with their structural reform agenda so as to improve the country's competitiveness, diversify the economy, and bolster growth prospects. They noted the authorities' intention to phase in the tightening in domestic investment requirements for pension fund and life insurance companies, while monitoring the developments closely and making adjustments as necessary to mitigate the risks to institutional investors. Directors encouraged the authorities to implement the planned reforms of state-owned enterprises with a view to reducing their burden on the budget. Sustained further efforts are needed to address the high unemployment and HIV/AIDS challenges.

Namibia: Selected Economic Indicators

	2005	2006	2007	2008 Proj.
	(Percent)			
Change in real GDP	2.5	7.2	4.1	2.9
Change in CPI (end of period)	3.5	6.0	7.1	10.9
	(Percent of GDP)			
Overall fiscal deficit/surplus[1]	-0.4	2.8	4.5	-2.6
Public debt [1]	26.0	24.4	18.9	22.0
	(End of period; percent change)			
Broad money	9.7	29.8	10.2	15.5
Credit to the private sector	20.1	14.8	12.9	6.1
	(Percent of GDP, unless stated otherwise)			
Current account balance	4.7	13.8	9.2	2.0
International reserves (months of imports)	1.4	2.1	3.0	3.7
Exchange rate (Namibia dollar/U.S. dollar, end of period)	6.3	7.0	6.8	9.3

Sources: Namibian authorities; and IMF staff estimates.
[1] Figures are for fiscal year, which begins April 1.

Statement by Samuel Itam, Executive Director for Namibia
February 27, 2009

1. The Namibian authorities value the constructive engagement and policy dialogue with Fund staff. They also appreciate the support of the Executive Board and Management. They find the staff report and selected issues paper informative and useful.

Economic performance and prospects

2. The Namibian authorities have pursued sound macroeconomic policies, which have resulted in solid economic performance over the last few years. However, real GDP growth was expected to moderate to below 3 percent in 2008 from 4.1 percent in 2007, reflecting weaker external demand for the country's exports as well as the impact of monetary tightening since the second half of 2007. Domestic economic activity in the mining sector slowed rapidly in the second half of 2008 due to rapid deterioration in global economic conditions and falling commodity prices. While economic activity is likely to remain weak in 2009, the authorities are implementing countercyclical measures and are prepared to adopt additional suitable measures to support growth. These include bringing down the central bank's policy rate by 150 basis points since December 2008 and spearheading high-level consultations between Government and the private sector on possible policy responses.

3. Increases in global food and fuel prices in 2008 pushed inflation into double digits for the first time since 2002. Annual inflation increased to 10.3 percent in 2008 from 6.7 percent in 2007. Food price inflation, which accounts for 30 percent of the CPI basket, peaked to 18 percent in the twelve months through October 2008, before declining to 16.5 percent in December 2008 due to a decline in a global food prices. In addition, a decline in global fuel prices in the second half of 2008, is expected to significantly dampen further inflationary pressures. However, the authorities are aware that the sharp depreciation of the Namibia dollar over the same period, may limit the full-pass-through of the oil price effect into domestic prices. Domestic price developments in Namibia continue to closely follow the path of inflation in South Africa, mainly due to exchange rate parity and the strong trade linkage between the two economies.

Fiscal policy

4. The Namibian authorities remain committed to prudent fiscal policy. In 2007/08 fiscal year, the fiscal outturn, including extrabudgetary capital expenditure, registered a surplus of 4.5 percent of GDP, much larger than budgeted. This strong performance stemmed from a stricter enforcement of tax regime, and aggressive collection of tax arrears from corporations and self-employed individuals. In addition, strong commodity prices boosted mineral export taxes, while SACU receipts remained strong. Lower than budgeted capital expenditure also supported the fiscal outturn.

5. The fiscal stance in 2008/09 fiscal year, however, targets a deficit of around 5.0 percent of GDP, mostly reflecting large increases in capital expenditures such as, power supply, rural development, and roads and rail networks. Notwithstanding the large expected deficit, compared to a surplus in the previous year, public debt will continue to remain below the authorities' target of 25 percent.

6. The Namibian authorities remain committed to enlarging the fiscal space, through strengthening revenue collection. They are aware of the emerging risks of SACU revenues, and are mindful of the volatility of the SACU, mining, and other receipts, and continue to reflect these in their spending decisions. Moreover, they are gearing their efforts towards a broad-based and effective domestic tax system.

Monetary and exchange rate policy

7. The Namibian authorities view the exchange rate peg to the rand as an appropriate monetary policy anchor. Being a member of the Common monetary area (CMA), the authorities are aware of their limited scope for independent monetary policy. However, capital controls (domestic asset requirements) provided for within the CMA arrangement, could allow member countries to exercise with limited extent, an independent monetary policy. Recently, the Bank of Namibia opted not to follow the South African Reserve Bank's interest rate hikes, as they considered that further monetary tightening was not necessary given the moderating inflation and slowdown in the economy. Also, to further enhance the efficacy of monetary policy, the Bank of Namibia introduced a seven-day repo facility to help manage liquidity and provide an alternative instrument to commercial banks to meet statutory asset requirements.

8. The foreign exchange reserves level has remained well above the central bank's target. The level increased to about 4.5 months of imports cover in December 2008, compared to 3.2 months of cover for the same period in the previous year. In line with the South African rand, the Namibia dollar depreciated by 26 percent against the U.S dollar during 2008.

Financial sector

9. The global financial crisis has had little direct impact on the Namibian financial sector, which has benefited from continued prudent supervisory and regulatory framework.

Commercial banks in Namibia are sound, profitable, and well capitalized; and their balance sheets have little direct overseas exposure. The authorities are mindful that a high concentration of banks' loan portfolios to real estate and consumer lending may pose risks, though manageable, if the economy continues to slow. They are, therefore closely monitoring this development in the financial sector. A new law to strengthen the regulatory framework of non-bank financial institutions under the supervision of Namibia Financial Institutions Supervisory Authorities (NAMFISA) is under consideration and is expected to be approved in the second half of 2009. This law will consolidate regulation of nonbank financial institutions and give more supervisory authority to NAMFISA.

10. The authorities consider the modest revision of domestic asset requirements for pension funds and life insurance companies as an important step to help channel high domestic savings to support domestic economic growth. The revision entails reducing 35 percent of domestic qualifying assets for dual-listed companies gradually over a five-year period. The tightening of the domestic investment requirements for the dual-listed companies is expected to encourage more domestic investment. Being cognizant of possible distortionary effects if implemented unsystematically, the authorities plan to undertake these reforms in phases over a five-year period to allow the development of market-based instruments, and provide an opportunity to monitor the developments closely, in order to make adjustments when necessary.

Poverty reduction and structural reforms

11. The authorities launched the Third National Development Plan (NDP3) in 2008, which aims at achieving sustainable economic growth and reducing widespread poverty. They also focus on improving the living standards of the people, especially of the poorest and the most vulnerable, and further improving the social safety net to alleviate poverty and inequality. Fostering competitiveness and enhancing productivity also remain key factors in promoting growth and creating employment under the government national development plan.

12. The authorities are committed to implementing program-based budgeting to help improve accountability and prioritize government expenditure. They have also made substantial progress in reforming public financial management. Additional measures to strengthen revenue administration have been adopted, including the introduction of comprehensive auditing of value added tax (VAT) refunds, and plans to extend the current mineral tax to all minerals. The planned reform of state-owned enterprises, which include improvements in operational efficiency and financial management by tightening the criteria on publicly guaranteed debt, is also expected to contribute positively to enhancing public financial management. This would lead to reduce dependency for budgetary support and debt guarantees.

Conclusion

13. The Namibian authorities remain committed to implementing prudent macroeconomic policies. They consider that a countercyclical fiscal stimulus during the period of economic

slowdown is warranted. They are positive that this temporary fiscal expansion would not pose risk to medium and long-term fiscal sustainability. They continue to monitor the unfolding global economic and financial crisis and stand ready to take appropriate action to mitigate its negative impact on the economy. As usual, they continue to count on the support of the Fund through its technical assistance as well as policy advice to assist them overcome current and future economic challenges.