

**Namibia: 2004 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 2004 Article IV consultation with Namibia, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on October 27, 2004, 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 January 27, 2005. 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 14, 2005 discussion of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Namibia.

The document listed below have 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 2004 Article IV Consultation**

Prepared by the Staff Representatives for the  
2004 Consultation with Namibia

Approved by Thomas Krueger and Anthony Boote

January 27, 2005

- The 2004 Article IV consultation discussions were held in Windhoek during October 14-27, 2004. The staff met with the Deputy Minister of Finance Bohitile; Governor Alweendo and Deputy Governor Hartmann of the Bank of Namibia (BoN); other senior government officials; and representatives of the private sector, NGOs, and the diplomatic and academic communities.
- The staff team comprised Mr. Mueller (head, AFR), Mr. Akatu (AFR), Ms. Yackovlev (AFR), Mr. Mathai (FAD), and Mr. Singh (ICM).
- The Executive Board concluded the 2002 Article IV consultation on April 23, 2003. Directors commended Namibia's record of macroeconomic stability but urged corrective measures to reduce the fiscal deficit, particularly with respect to personnel expenditure and subsidies to public enterprises. They observed that although prudent fiscal and monetary policies had provided strong support for the exchange rate peg over the years, the authorities should aim for a gradual buildup of reserves. Directors called for increasing attention to addressing the HIV/AIDS pandemic and removing structural impediments to growth so as to bring about a reduction in poverty and unemployment.
- Namibia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system free of restrictions in the making of transfers and payments of current account transactions.
- Namibia's relations with the Fund, including recent technical assistance, and the World Bank group are summarized in Appendices I and II, respectively. Statistical issues are discussed in Section IV and Appendix III, while the external and fiscal debt sustainability analyses are presented in Appendices IV and V, respectively.
- An accompanying Selected Issues Paper and Statistical Appendix, 1/28/05, [www.imf.org](http://www.imf.org), includes staff studies on: (i) the macroeconomic impact of HIV/AIDS; (ii) the new customs union (SACU) agreement; (iii) the civil service and government wage bill; and (iv) international reserves and investment decisions of institutional investors.

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## EXECUTIVE SUMMARY

**Notwithstanding Namibia's good record of macroeconomic stability, per-capita growth has lagged behind that of other countries in the region and has been insufficient to generate a sustained reduction in poverty and unemployment.** Real GDP growth accelerated to an estimated 4¼ percent in 2004, after averaging about 3 percent during the preceding five years. Growth benefited from declining interest rates in the wake of falling inflation following the appreciation of the Namibia dollar. Namibia's external current account surplus is estimated to have risen further in 2004, to 5½ percent of GDP, to some extent reflecting a strengthening of exports to the rand area; the Namibia dollar is pegged to the rand. External debt remains low.

**Namibia's long-term growth prospects are promising, provided that the authorities implement structural reforms and their strategy to combat HIV/AIDS.** To strengthen private sector activity, structural reforms should include measures to privatize parastatals, raise labor skills, improve access to finance and capital, and strengthen the flexibility of the economy. Under these assumptions, growth could reach 4 percent over the medium term.

**The authorities agreed with the importance of fiscal adjustment to sustaining growth and supporting the exchange rate peg.** The fiscal deficit more than doubled in 2003/04, to 7¾ percent of GDP, reflecting mainly tax administration problems and a collapse in mining taxes. The fiscal deficit is projected to fall to 2 percent of GDP in 2004/05, as tax administration problems are being addressed, SACU receipts experience a one-time windfall, and non-priority spending is being curtailed. The authorities reiterated their commitment to reduce their public debt ratio over the medium term to bring it close to their fiscal rule target of 25 percent of GDP. While feasible, this is a daunting task in light of the sharp decline of SACU receipts projected for the second half of the decade and the new spending pressures related to the implementation of the HIV/AIDS strategy. As a first step in this direction, the authorities decided to forego a supplementary budget for this fiscal year, for the first time since independence.

**The decline in international reserves reflects the continued capital outflows by Namibian pension funds and insurance companies seeking the broader investment opportunities in South Africa's financial markets.** The authorities are trying to strengthen domestic financial markets to contain such outflows but are also considering a tightening of domestic asset requirements. While strengthening domestic financial markets may be promising in lowering Namibia's net exports of capital, domestic interest rates have also a key role to play, by avoiding a negative interest rate differential vis-à-vis the anchor currency.

## I. INTRODUCTION AND KEY ISSUES

1. **Namibia has enjoyed enviable macroeconomic stability since independence.** Underpinned by a credible exchange rate peg and generally prudent fiscal policies, a market economy has been established, with a sophisticated physical infrastructure. A stable political and legal environment has been conducive to private sector activity.

2. **Economic growth, however, has been insufficient to generate a reduction in unemployment and poverty.** Namibia's per-capita growth performance lags behind that of other countries in the region. The income distribution is highly skewed, reflecting an uneven land distribution and the existence of capital-intensive mining alongside a large informal sector. The lack of labor-intensive industries, together with labor market rigidities and a shortage of skilled labor, has kept the unemployment rate above 30 percent. These problems are compounded by the high incidence of HIV/AIDS, limited access to finance, and an inefficient utilization of resources by parastatals.

Text Table 1. Growth in SACU Countries, 1998–2003  
(In percent change)

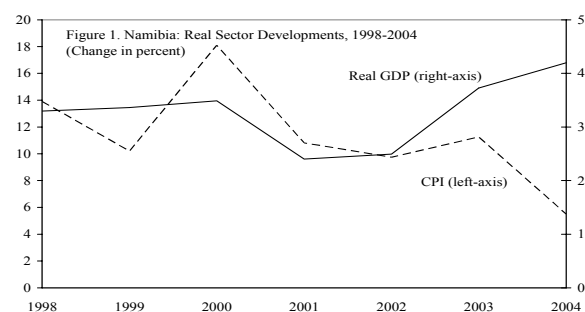
	1998	1999	2000	2001	2002	2003	1998–2003 Average
<b>Real GDP</b>							
Botswana	5.9	5.5	7.5	5.2	3.9	5.4	5.5
Lesotho	-3.5	0.5	1.9	3.3	3.8	3.9	1.7
<b>Namibia</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>2.4</b>	<b>2.5</b>	<b>3.7</b>	<b>3.1</b>
South Africa	0.8	2.0	3.5	2.7	3.6	1.9	2.2
Swaziland	3.3	3.6	1.9	1.7	3.6	2.2	2.6
<b>Real GDP per capita</b>							
Botswana	4.3	4.2	6.4	4.4	3.4	5.2	4.7
Lesotho	-5.4	-1.4	-0.1	1.3	1.9	2.0	0.7
<b>Namibia</b>	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>	<b>-0.6</b>	<b>0.2</b>	<b>0.6</b>	<b>0.2</b>
South Africa	-1.4	-0.2	2.0	0.7	1.5	-0.2	0.8
Swaziland	0.5	1.1	-0.2	0.4	2.4	1.2	0.9

Recent fiscal policy slippages and the erosion of international reserves have left Namibia more vulnerable to external shocks.

3. **Against this background, the mission discussed policies to enhance Namibia's growth potential and safeguard macroeconomic stability.** The focus was on: (i) the need to address the structural impediments to growth so as to generate stronger private sector activity and employment, mainly outside mining and agriculture; (ii) the medium-term fiscal policy stance; (iii) the impact of HIV/AIDS on growth and fiscal policy; (iv) the sustainability of the exchange rate peg; and (v) the authorities' efforts to combat inequality and poverty.

## II. RECENT ECONOMIC DEVELOPMENTS

4. **Economic activity strengthened in 2003 and 2004, following two lackluster years (Table 1).** Real GDP growth accelerated by 1¼ percentage points to 3¾ percent in 2003 and a projected 4¼ percent in 2004.<sup>1</sup> Growth has been broad-based and

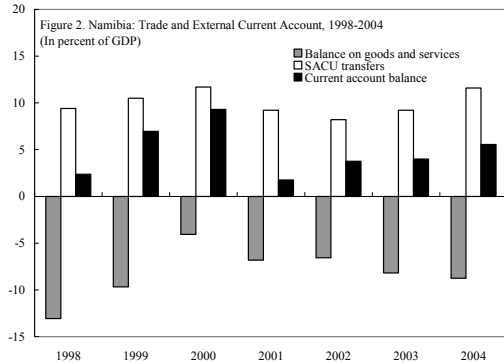


<sup>1</sup> The 2004 projection reflects improvements in the coverage of national accounts related to activities in the mining and textile sectors.

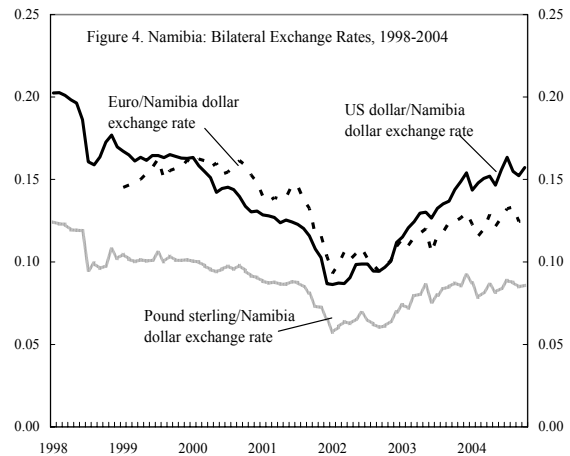
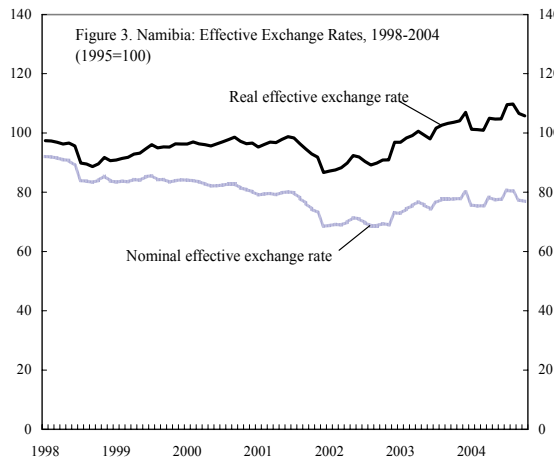
driven by investment and private consumption, bolstered by declining interest rates which benefited especially retail and construction activity. However, manufacturing, agriculture, and fishing have recently been hurt by the strength of the Namibia dollar which appreciated in tandem with the South African rand (to which it is pegged).

5. **Inflation has fallen rapidly, in line with the appreciating currency and a drop in food prices.** Year-on-year inflation declined from around 13 percent in early 2003 to 5 percent in November 2004.

6. **The external current account has remained in surplus (Table 2).** Strong services, income, and transfer receipts have offset a widening trade deficit arising from buoyant import growth. Exports have performed well overall and benefited from the 2003 opening of a large textile company. Mining exports, after slumping in 2003, recovered in 2004 as a result of rising world demand, the coming online of a new zinc mine, and an expansion of offshore diamond mining.



7. **The strengthening of the Namibia dollar has raised concerns about external competitiveness.** This appreciation has brought the exchange rate back to the level

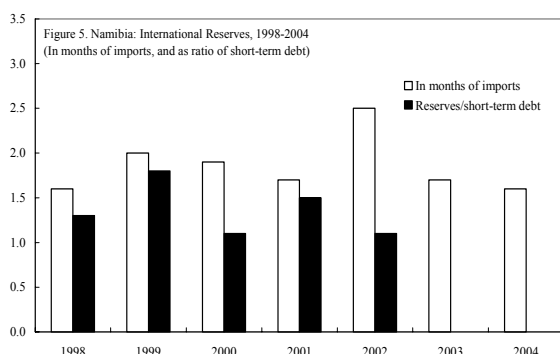


prevailing before the rand crisis in 2001, eroded profit margins, and forced some businesses to adjust, including through layoffs. At the same time, Namibia has successfully expanded its exports to the rand area. In addition, diamond exports have benefited from strong world demand countering the declining profitability of the sector emanating from the appreciation.



	2000	2001	2002	2003 Prel.
Rand area	28.0	25.6	30.3	42.9
Spain	10.8	15.6	14.2	17.1
United Kingdom	35.2	41.7	28.7	13.9
Other EU	9.8	6.8	12.4	7.5
Other	16.3	10.3	14.3	18.7
Memorandum items:				
Diamond exports	46.3	45.9	49.7	40.9
Current account surplus (In millions of U.S. dollars)	317.9	56.2	112.6	171.0

8. **The capital and financial accounts have been marked by increasing net outflows.** This reflects insurance companies and pension funds seeking broader investment opportunities in South Africa. Namibia's international reserves declined to less than



	2000	2001	2002	2003
Botswana	32.5	33.2	30.8	23.2
Lesotho	6.7	5.5	4.3	4.2
Namibia	1.9	1.7	2.5	1.7
South Africa	2.7	2.9	2.8	2.2
Swaziland	3.3	3.3	2.8	1.9

2 months of imports in 2003,<sup>2</sup> while the ratio of reserves to short-term debt remained slightly above the benchmark of 1.0 at end-2002. External debt amounted to 17½ percent of GDP at end-2003, well below levels in other sub-Saharan countries.<sup>3</sup>

9. **The new 2002 Southern African Customs Union (SACU) agreement came into force in mid-2004.** It will imply far-reaching changes for Namibia (Box 1).<sup>4</sup>

<sup>2</sup> This partly reflects valuation effects, as reserves are largely held in US dollars and euros, while around four-fifths of imports originate in South Africa.

<sup>3</sup> The mission undertook a partial reconciliation of Namibian and South African IIP data for 2001 and 2002, but more recent reliable data are unavailable; see Appendix IV.

<sup>4</sup> See Selected Issues Paper, 1/28/05, www.imf.org, Chapter II.

### Box 1. The New SACU Agreement

The new SACU agreement replaces the 1969 treaty which had concentrated all policy-making powers in South Africa. It provides for well-defined institutional structures and joint decision-making, allowing Namibia to participate in SACU's policy setting and trade negotiation framework.

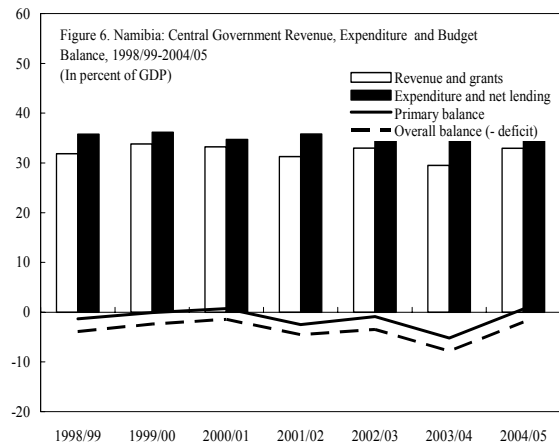
The agreement retains the common revenue pool (CRP), which is complemented by a new revenue-sharing formula (RSF) built on three components: (i) the *customs component*, shared based on intra-SACU imports; (ii) the *excise component*, consisting of 85 percent of excise collections and shared based on GDP; and (iii) the *development component*, distributing the remaining excise collections based inversely on per-capita GDP.

The new RSF reduces net transfers from South Africa to other members and eliminates the two-year lag between collections and allocations, making revenue forecasting more difficult. Namibia is poised to lose revenue from the shift to the new RSF: after a windfall in 2004/05 due to the lagged RSF and transitional arrangements, Namibia's SACU receipts are projected to fall by 4 percent of GDP by 2009/10.

The new SACU agreement requires Namibia to enhance its capacity in various areas, such as customs administration and statistical compilation.

#### 10. The fiscal deficit deteriorated sharply in 2003/04 to 7¾ percent of GDP, from 3½ percent of GDP a year earlier (Table 3).<sup>5</sup>

This outcome was more than double the target in the revised budget and mainly related to unexpected problems in the administration of VAT and income taxes. This revenue shortfall compounded the collapse in diamond and other mining taxes, which had been anticipated in the budget and related to pressure of the appreciating exchange rate on profits. On the expenditure side, some progress was made in reining in net lending to parastatals and some nonpriority current spending, although the wage bill rose as staffing levels increased. Public debt rose to 31 percent of GDP, exceeding the fiscal rule targeting public debt at 25 percent of GDP.

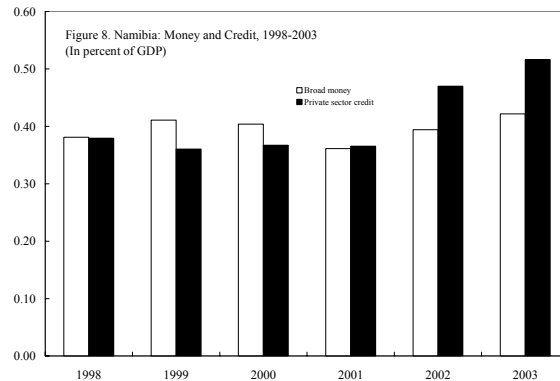
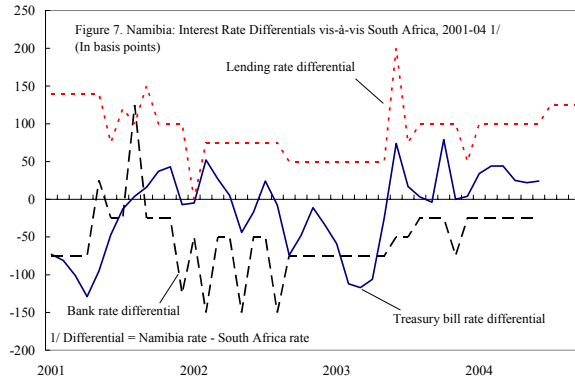


#### 11. The fiscal position is expected to improve markedly in 2004/05. A fiscal deficit of 2 percent of GDP is envisaged, built on one-time windfalls from SACU receipts (equivalent

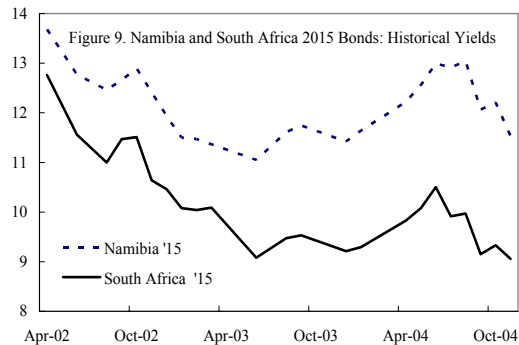
<sup>5</sup> The fiscal year is from April to March. Fiscal analysis has been hampered by long reporting lags and lack of monthly data. The authorities indicated their intention to provide preliminary monthly data with a short delay.

to 2½ percent of GDP), improvements in tax administration,<sup>6</sup> and efforts to curtail subsidies to parastatals and the wage bill, as outlined below.

**12. Namibia’s monetary policy is anchored by the peg to the rand.** In line with developments in South Africa, the BoN took advantage of declining inflationary



pressures by reducing the Bank Rate in several steps from 12¾ percent in January 2003 to 7½ percent in July 2004. The last such step aligned the Bank Rate with the South African policy rate, ending several years with a negative differential maintained in an effort to support economic activity. However, the positive differential for government bonds has widened recently, pointing to an increasing risk premium for Namibia. Credit to the private sector, especially to households, grew strongly, bolstered by the stronger economic activity and declining interest rates (Table 4).



### III. POLICY DISCUSSIONS

#### A. Overview

**13. The discussions took place one month prior to presidential and parliamentary elections.** As expected, Mr. Pohamba, candidate of the ruling party (SWAPO), won the presidential elections by a large margin and will succeed Mr. Nujoma who has been president since independence. SWAPO maintains a strong majority in parliament. Namibia’s general economic policy direction is not expected to change.

<sup>6</sup> The authorities have enhanced audit capacity and addressed the IT problems that prevented them from sending out tax assessments in 2003/04.

14. **The authorities have laid out their strategic development goals in *Vision 2030* (Box 2).** The mission considered the document an important vehicle to generate ownership and momentum for future reforms, but pointed to the lack of specificity regarding possible measures that could help achieve the ambitious long-term objectives.

#### **Box 2. Vision 2030**

“Namibia Vision 2030” is a long-term development planning framework that is to guide the policies and implementation strategies under successive medium-term National Development Plans over the coming years. The framework was developed through a participatory process, with technical advice by UNDP. Its overarching economic objective is to transform Namibia into a diversified and industrialized country, marked by a high standard of living for everybody. Real GDP growth is targeted to accelerate steadily to 9½ percent by 2030. The plan aims at a substantial reduction of income inequality—cutting in half Namibia’s Gini coefficient of 0.7 (1994)—and a marked decline in unemployment.

15. **Namibia’s policies have generally been consistent with Fund advice over the years.** In particular, the authorities have adhered to a prudent fiscal policy stance prior to 2003/04 and implemented a variety of measures to strengthen the fiscal framework, such as medium-term expenditure planning. However, they have not made much headway in reducing the high wage bill and support to parastatals—both recurrent topics in Article IV discussions. In addition, the authorities have been slow in tackling structural rigidities in the labor market and enhancing skills, which have been underscored in previous discussions.

16. **The mission encouraged the authorities to consider possible benefits they could derive from Fund technical assistance and standards and codes assessments.** In particular, the mission saw merit in Namibia receiving technical assistance in statistics and tax policy and administration, which the authorities indicated they would consider. The authorities also expressed their interest in a fiscal ROSC and an FSAP.

#### **B. Economic Prospects**

17. **The authorities expected growth to accelerate to 4 percent over the medium term, which would be slightly above the average growth rate of 3.8 percent since independence.** This was predicated on strong world growth, increased trade integration, and buoyant domestic demand in light of stable macroeconomic conditions and low interest rates. The authorities expected growth to remain broad-based, bolstered by a strengthening in manufacturing, tourism, and mining. Toward the end of the decade, growth could benefit from the anticipated development of the Kudu gas field off Namibia’s coast.

18. **Achieving the authorities’ economic growth targets would require implementing their HIV/AIDS strategy, complemented by the initiation of structural reforms and the**

**pursuit of prudent fiscal policies (Box 3 and Table 5).**<sup>7</sup> Now that the formulation of the HIV/AIDS strategy has been completed and donor support been lined up, the authorities intend to begin implementing the strategy in early 2005. Growth would also benefit from the intended structural reforms—aimed at boosting private sector activity—and from the authorities’ strong intention to pursue prudent fiscal policies, as outlined below. These steps would be key to maintaining confidence in the peg and preventing a crowding out of the private sector. Under these assumptions, growth could reach 4 percent over the medium term (baseline scenario). By contrast, growth could average 1 percentage point less if the authorities fall short of expectations in these areas (alternative scenario).

19. **Implementing this policy agenda could also be conducive to meeting the Millennium Development Goals (MDGs).** A national campaign to meet the MDGs was launched in August 2003. The campaign was developed in conjunction with civil society and private sector partners and played an important part in formulating *Vision 2030*. Namibia is poised to meet some MDGs ahead of schedule, such as those related to nutrition and gender equality. By contrast, other MDGs will require greater effort and resources if they are to be met by 2015, such as in the areas of poverty reduction, education, and health (Tables 6 and 7).

	2003
Botswana	37.3
Lesotho	28.9
Namibia	21.3
South Africa	24.3
Swaziland	38.8

20. **Some downside risks could adversely affect growth in the short run.** In particular, a further appreciation of the Namibia dollar, climatic factors, and rising oil prices could worsen the trade balance and slow economic activity.<sup>8</sup> An additional downside risk could emerge if the recent move on expropriating land were to lead to social tensions and dampen agricultural output (see Box 5 below).

21. **The external sustainability analysis does not point to any immediate concerns about Namibia’s external position (Appendix IV).** However, concerns emanating from Namibia’s low international reserves are not captured by the template.

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<sup>7</sup> See Selected Issues Paper, 1/28/05, [www.imf.org](http://www.imf.org), Chapter I.

<sup>8</sup> An increase in oil prices of US\$10 per barrel raises energy imports by 1½ percent of GDP.

### Box 3. HIV/AIDS and Medium-Term Growth

HIV/AIDS has taken a severe toll on Namibia. More than one-fifth of the population is currently thought to be infected with HIV/AIDS. Adult life expectancy dropped from 67 years in 1991 to 45 years in 2002, child mortality has remained high, and 60,000 children have been orphaned so far.

The authorities' strategy to combat HIV/AIDS (MTP III) appropriately identifies the pandemic as a developmental issue. It calls for extensive prevention and treatment through improved access to health care and some, although limited access to anti-retroviral therapy (see Box 4 on the fiscal costs of MTP III).

A simple sources-of-growth model was used to gauge the impact of HIV/AIDS on growth. The model suggests that implementing MTP III—with its estimated growth impact in line with similar estimates from other country studies, such as Botswana—could reverse the declining contribution of human capital to growth, assuming that the spread of the epidemic is halted. This is the assumption behind the staff's baseline scenario. The scenario also reflects a modest strengthening of the contribution of TFP as a result of efforts to enhance skills, reform parastatals, promote SMEs, diversify exports, and increase labor market flexibility. This enhanced business environment could help foster investment and technology transfer from abroad, benefiting also from Namibia's greater integration with the rest of the world. Most of the impact of these reforms would only materialize in the long run.

Figure 10. Namibia: Sources of Growth (Baseline Scenario)

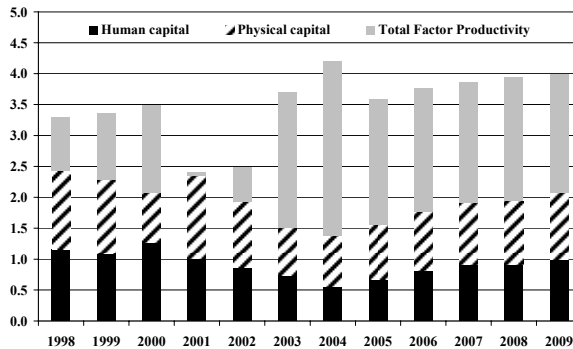
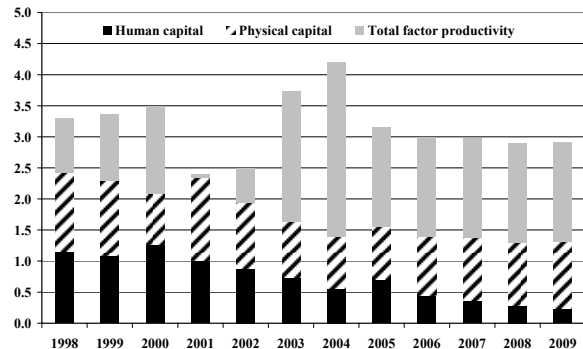


Figure 11. Namibia: Sources of Growth (Alternative Scenario)



### C. Fiscal Policy

22. **The authorities reiterated their commitment to a prudent fiscal policy stance.**

They concurred with the mission's assessment that the need to accommodate spending to combat HIV/AIDS and the decline in SACU receipts that would begin in 2005/06 warranted a curtailment and reallocation of spending and, to some extent, consideration of revenue-enhancing measures. However, they clarified that a political consensus has yet to develop to be able to incorporate into their medium-term fiscal strategy reforms of the civil service and parastatals and a consolidation of the generous tax incentives in export processing zones (EPZ) and under other regimes.

**23. The mission supported the authorities' intention to adhere to their fiscal rule aimed at limiting public debt to 25 percent of GDP and acknowledged their willingness to identify measures to achieve this objective.**

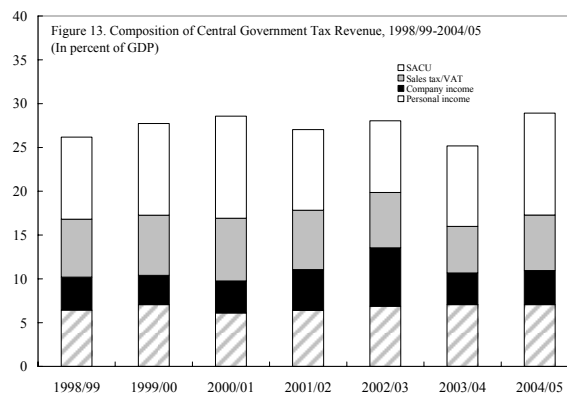
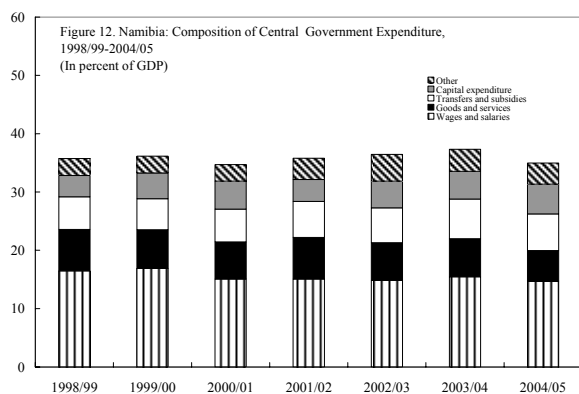
The rule has been widely publicized and guided fiscal policy-making, with some success, during the three fiscal years prior to 2003/04. The authorities expressed concern that a loosening of the target would undermine fiscal discipline. They noted that the slippages in 2003/04

	2000	2001	2002	2003
Botswana	9.3	-3.1	-4.1	-0.7
Lesotho	...	0.6	-4.2	-2.9
Namibia	-1.4	-4.5	-3.5	-7.8
South Africa	-2.0	-1.6	-1.2	-2.1
Swaziland	-1.4	-3.1	-4.5	-2.8

1/ In fiscal years.

were primarily related to the volatility of mining taxes and unexpected tax administration problems which are being addressed. The mission stressed that returning to the debt target would take several years and, unless mining taxes were to recover, may be achieved only in the next decade in light of Namibia's medium-term fiscal challenges (Box 4). Nevertheless, generating moderate primary surpluses of about 1 percent of GDP over the next few years could put public debt on a clear downward path and bring the public debt target within reach.<sup>9</sup> The mission also discussed the fiscal sustainability template, which does not point to any major vulnerabilities, provided that the authorities aim at respecting their fiscal rule (Appendix V). The authorities expressed their appreciation for these illustrations, stating that they would provide a useful basis for discussions with line ministries.

**24. The authorities concurred that most of the fiscal adjustment over the medium term would need to come from the expenditure side.** This would involve reductions in the wage bill, subsidies to parastatals, and spending for goods and services. However, the projected rapid and steep drop in SACU receipts, combined with pressing spending



<sup>9</sup> Stabilizing the public debt ratio at 31 percent of GDP would require running primary surpluses of about 0.2 percent of GDP.

### Box 4. Medium-Term Fiscal Issues

Namibia faces significant fiscal pressures over the medium term. On the revenue side, SACU receipts are projected to fall from 11½ percent of GDP in 2004/05 to 7½ percent of GDP by 2009/10. On the expenditure side, the mission projects the budgetary costs of implementing the national HIV/AIDS strategy—after identified donor support of ¾ percent of GDP—to rise to 1¾ percent of GDP by 2009/10, which is not yet reflected in the authorities’ medium-term expenditure framework.

Achieving the public debt target of 25 percent of GDP would be a daunting, yet feasible task and could take several years. At the same time, business-as-usual policies would not be tenable, as they would dramatically push up the public debt ratio.

Two scenarios, which were among those discussed with the authorities, illustrate these trade-offs.

Both incorporate improvements in tax administration. The baseline scenario also assumes the initiation of steps to rein in the wage bill, improve the efficiency of parastatals, and limit nonessential purchases of goods and services. As a result, current spending would fall by about 3 percent of GDP over the period. However, given the sharp decline in SACU receipts, an *additional* adjustment of 1.5 to 2.5 percent of GDP would be required to start running primary surpluses that would put public debt on a downward trajectory. Under this scenario, the public debt ratio would fall to 28¼ percent of GDP and within striking range of the fiscal rule target.

By contrast, the alternative scenario illustrates the debt dynamics emanating from inaction with respect to the wage bill and subsidies, failure to implement any additional measures, and consequent increases in interest rates. The public debt ratio would rise to more than twice the level targeted by the fiscal rule.

The authorities acknowledged the need for additional revenue and expenditure measures to achieve their fiscal objectives. Possible options discussed included: raising the VAT rate from 15 to 18 percent (yielding 1½ percent of GDP) to help finance HIV/AIDS spending; reviewing and consolidating existing tax incentives; negotiating an increase in the SACU development component from 15 percent to 25 percent under the RSF (yielding ½ percent of GDP); seeking additional donor support for implementation of the HIV/AIDS strategy; accelerating civil service and public enterprise reform; and issuing a Eurobond (with interest savings of 0.2 percent of GDP).

Namibia: Central Government Operations (Baseline Scenario)						
(In percent of GDP)						
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Revenue and grants	32.9	30.4	30.0	30.2	30.2	30.3
Expenditures	34.9	34.9	33.8	33.7	33.2	32.9
Additional measures	0.0	1.5	2.5	2.5	2.0	1.5
Overall balance	-2.0	-2.9	-1.4	-1.0	-1.0	-1.0
Primary balance	0.7	-0.6	0.9	1.2	1.0	0.8
Public debt	30.1	31.1	31.1	29.5	28.9	28.3

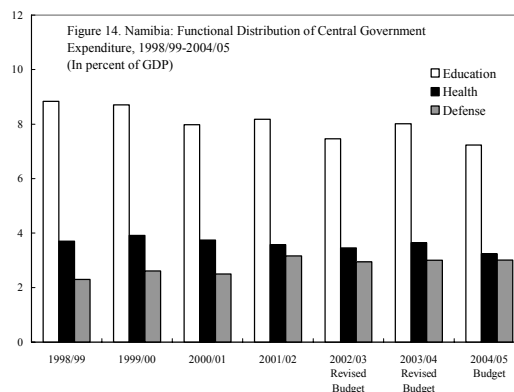
Namibia: Central Government Operations (Alternative Scenario)						
(In percent of GDP)						
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Revenue and grants	33.0	30.6	30.2	30.5	30.6	30.6
Expenditures	35.0	35.8	36.0	37.1	38.2	39.5
Additional measures	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.0	-5.2	-5.8	-6.6	-7.6	-8.8
Primary balance	0.7	-2.5	-2.5	-2.5	-2.7	-2.9
Public debt	30.1	33.5	37.9	41.7	47.0	52.8



requirements, might call for partially offsetting measures on the revenue side as well. The mission pointed to Namibia's comparatively high tax revenue/GDP ratio, which may preclude a significant reliance on revenue measures.<sup>10</sup>

**25. The authorities recognized the urgency of fiscal adjustment and decided to forego a supplementary budget for 2004/05.** They had considered submitting the

supplementary budget, with additional spending requests from line ministries, to parliament in December, in line with past practice. However, in light of the difficult fiscal outlook, they agreed with the mission on the need to take a broader view consistent with their medium-term fiscal objectives. The authorities decided to address some of the spending needs using the small contingency in the budget. Overall, the mission concurred that the 2004/05 budget targets remained feasible in light of the



strength of Namibia's public expenditure management system and the efforts to improve tax administration, provided that the authorities resist additional spending pressures.

**26. The costs and benefits of tax incentives were actively debated within the government.** While some counterparts stressed the importance of EPZs in attracting FDI and generating employment, others pointed to the hitherto limited benefits and the associated revenue loss. The mission stressed that international experience suggested that investors considered political and economic stability and the availability of infrastructure and skilled labor as more important factors in their decisions than tax incentives. The mission urged an independent review of existing tax incentives and saw scope for consolidating them and enhancing their transparency.

**27. The authorities intend to enhance their medium-term expenditure framework with the gradual introduction of output-based program budgeting.** The mission considered this an important step to help improve the identification of budgetary priorities and reorient spending toward areas conducive to long-term economic growth—especially education, health (including for HIV/AIDS), and infrastructure investment. The authorities also expected output-budgeting to enhance the quality of spending, especially in these key areas.

**28. The authorities saw the civil service as an important employment vehicle in light of widespread unemployment.** They pointed to their efforts to contain wage increases, by

<sup>10</sup> In 2003, the tax revenue/GDP ratio amounted to less than 18 percent of GDP in Sub-Saharan African countries and 24 percent of GDP in South Africa.

relying on three-year wage pacts and aiming at wage increases below the inflation rate. They expected additional savings from a hiring freeze and reductions in overtime pay and travel allowances, but would not consider a retrenchment program at this stage.

29. **The mission advocated a clear road map on civil service reform to support the reorientation of spending.** In the mission's view, more determination was needed to bring about a reduction in the wage bill, which ranked among the highest in Africa mainly as a result of the size of the civil service.<sup>11</sup> Some of the measures discussed included the development of sector-specific staffing strategies, the introduction of a real-time monitoring system of actual staffing levels, and the linking of staffing allocations with priorities identified under output-budgeting. The mission supported the government's strong commitment to enhance performance management in the civil service.

30. **The authorities have yet to develop a strategy for the closure or divestiture of parastatals.** Their emphasis to date has been on the commercialization of public enterprises, as a consensus in support of more far-reaching actions has not yet emerged. The authorities were open to the possibility of divestiture but argued that it was not a panacea, pointing to many failed cases in other countries. They stressed that some of the larger parastatals lacked skilled managers and clear business plans and were saddled with debts, requiring sustained reforms before such entities could be privatized. They also emphasized their commitment to advancing the empowerment of previously disadvantaged Namibians in any future privatization.

31. **In the mission's view, attempts to date to commercialize parastatals have not yielded satisfactory results.** Key elements of the enabling legislation for the Central Governance Agency (CGA), established two years ago to promote the commercialization and divestiture of parastatals, are still missing, especially regarding the demarcation of supervisory authority between the CGA and line ministries. In light of budgetary pressures, the mission encouraged the authorities to pass the legislation quickly and urged that sufficient authority be given to the CGA to enable it to perform its functions effectively.

#### **D. Monetary and Exchange Rate Policies**

32. **The authorities firmly reiterated their commitment to the exchange rate peg.** In their view, the peg had served Namibia well in maintaining macroeconomic stability and anchoring policymaking. They pointed to the robust current account surplus, the very close—and rapidly increasing—trade and financial links with South Africa, the resilience of diamond exports in light of strong world demand, and the role of the rand as legal tender in Namibia. They saw the recent appreciation of the rand as related to factors within South Africa and stressed that while the appreciation has caused hardship to some exporters, the economy remained competitive overall.

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<sup>11</sup> See Selected Issues Paper, 1/28/05, [www.imf.org](http://www.imf.org), Chapter III.

33. **The mission concurred that the current exchange rate regime remained appropriate.** However, it pointed to the likely negative growth and employment implications should the rand's appreciation continue unabated. This would call for an acceleration of structural reforms so as to induce productivity gains and enhance the flexibility of the economy. The mission urged analysis of additional competitiveness indicators, such as unit labor costs, which are not available at present.

34. **The authorities did not see the drain in international reserves as a sign of lack of confidence.** Rather, it reflected the insufficient investment opportunities for nonbank financial institutions (NBFIs) in the Namibian financial markets. The resulting net export of capital has been an issue throughout Namibia's post-independence period, but has become more pronounced over time in line with the continued rapid growth of NBFIs.<sup>12</sup> The authorities' focus was to use regulatory means and efforts to promote domestic financial markets to safeguard reserves. They remained noncommittal regarding the mission's recommendation to avoid, as a minimum, a negative interest rate differential vis-à-vis South Africa. The mission argued that the decline in reserves warranted a clear signal to contain capital outflows and that from the perspective of the central bank the sustainability of the peg should take precedence over efforts to support growth.

35. **The mission recommended a thorough analysis of the implications of the proposed regulatory amendments aimed at curbing capital outflows by NBFIs.** The proposals included reducing the limit on investments in dual-listed companies—quoted in Johannesburg and Windhoek—and requiring a minimum investment of 5 percent of assets in unlisted Namibian companies. The mission cautioned that this might have unintended consequences. The provision on dual-listed companies could lessen the importance of the Namibia Stock Exchange (NSX) and run counter to efforts to promote domestic capital markets. NBFIs may also find insufficient investment options of good quality in unlisted Namibian companies. The authorities indicated that they would reassess the regulations once comments from market participants were received.

36. **The mission suggested that the authorities consider alternative measures to strengthen reserves in the short run, aside from raising interest rates.** Possibilities discussed included stepping up outright foreign exchange purchases, privatizing parastatals to foreign investors, and obtaining a sovereign credit rating and tapping international capital markets—in line with examples of other countries that have strengthened reserves through a Eurobond issue.<sup>13</sup> The authorities appreciated the discussion and indicated that they would study these options.

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<sup>12</sup> See Selected Issues Paper, 1/28/05, [www.imf.org](http://www.imf.org), Chapter IV.

<sup>13</sup> This could have other desirable effects, such as lowering interest rates by an estimated 500 basis points (the difference between the domestic interest rate of 13 percent and a possible Eurobond rate of 8 percent), providing a benchmark for private debt, helping attract FDI, and  
(continued...)

## E. Financial Sector Policies

37. **Key indicators suggest that the resilience of the banking system, which is closely intertwined with that of South Africa, has strengthened (Tables 8 and 9).** Among other things, all banks met the capital-adequacy ratio of 10 percent at end-2003, and the share of non-performing loans in total loans has steadily declined. Competition in the banking system has been limited though, and lack of access to financing and a standard 100 percent collateral requirement have been a problem for SMEs. Microfinance remains in its infancy.

38. **The mission urged careful monitoring of financial sector vulnerabilities.** The declining interest rates appear to have fueled growth in consumer loans and mortgages. Some market participants were concerned about the sustainability of the strong increase in housing prices which has raised indebtedness among households.

39. **The BoN recently completed a self-assessment on compliance with the Basel Core Principles (BCP) of Effective Banking Supervision.** The BoN considered itself compliant with 21 of the 25 BCP, but recognized weaknesses with respect to the country risk, market risk, consolidated supervision, and risk management. The mission encouraged the authorities to work toward full compliance, which could be assessed in the context of an FSAP. Revisions to the Banking Institutions Act have been initiated; they would enhance the powers of the BoN to deal with pyramid schemes and banks not respecting prudential requirements.

40. **The preparation of AML/CFT legislation is underway.** A Financial Intelligence Bill approved by Cabinet assigns lead responsibility to the BoN to collect and analyze financial intelligence, forward relevant information to law enforcement agencies, and establish “Know Your Customer” rules. CFT legislation is at the drafting stage.

41. **The mission urged a further strengthening of the legal and regulatory framework for NBFIs.** In particular, adopting legislation to strengthen the effectiveness of NAMFISA, the regulating agency established in 2002, should be a priority. The proposed amendments would close regulatory loopholes and establish reporting and sanctions procedures, bringing Namibia’s regulatory framework closer to South Africa’s where most NBFIs invest their assets.

42. **The mission was concerned about the large equity exposure of Namibian pension funds and insurance companies.** The mission suggested introducing prudential investment limits by type of assets, including specific limitations on the equity risk, in line with international best practices. This should apply especially for defined benefit plans, such as the government pension fund which has 60 percent of its assets invested in equity. The authorities indicated that they would study the mission’s proposal.

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anchoring a domestic rating system. However, technical preparations could be demanding, and an exchange rate risk would arise.

43. **Some of the preconditions for the emergence of a domestic bond market are developing.** Several potential borrowers are ready to issue their instruments, and large future investment projects, such as the Kudu gas field, may bring additional placements. The mission recommended that the authorities seize the opportunity and support an industry proposal of reporting bond transactions through the NSX. This could be the nucleus for the development of a secondary market for bonds.

#### F. Structural Issues

44. **There was agreement that structural reforms were critical to promoting private sector activity, generating employment, and addressing income inequality.** In the mission's assessment, there is a need to step up, better coordinate and improve the targeting of the various initiatives.

45. **The authorities acknowledged that the lack of skills was a major impediment to private sector activity.** The mission encouraged the authorities to focus in particular on education. The authorities acknowledged that although Namibia was among the countries with the highest education spending in Africa, the quality of such spending needed to be improved to allow it to achieve the MDG goals. The mission pointed to potential benefits of additional vocational training programs, and, referring to discussions with the private sector, urged that their curricula meet the demands of the labor market. The authorities indicated that an expansion of vocational training is being considered. The mission proposed that the authorities consider a labor-intensive public works program—similar to the one in South Africa—which could provide a useful vehicle for temporarily expanding job opportunities, enhancing skills and empowering disadvantaged segments of the population.

46. **The recently adopted amendments to the 1992 Labor Act will make labor markets less flexible and raise labor costs.** Among other things, the amendments will increase vacation leave from 18 to 24 days and restrict the use of temporary workers. On the other hand, they ease arbitration procedures for dismissing employees. While the authorities viewed the amendments as balanced, the mission underscored the importance of flexible labor markets to allow enterprises to adjust so as to maintain their competitiveness.

47. **The authorities have created a variety of programs to assist SMEs.** The programs focus on improving access to finance through a credit lines and guarantee program and on facilitating the acquisition of skills and technology. Notwithstanding some success stories, there is evidence that the credit and guarantee ceilings are too low and institutional capacity is insufficient to evaluate proposals. The authorities indicated that they intend to review the existing policy. Additional SME programs encompass the provision of business sites, assistance in the purchase of equipment, provision of equipment for rent, and support to prepare business plans.

48. **In early 2004, the government initiated land acquisitions through expropriations against compensation to accelerate the slow pace in redistributing land (Box 5).** There is widespread agreement among the government, the farmers unions, and donors on the need

for action, since the status quo is considered politically, socially, and economically unsustainable. However, the uncertainty on the modalities surrounding the new policy has raised concerns about possible repercussions on agricultural production and economic and political stability. Anecdotal evidence points toward delays in investment and rising difficulties in obtaining financing.

#### **Box 5: Namibia's Land Redistribution Policy**

Since the mid-1990s, Namibia has relied on a "willing buyer, willing seller" program to address the inequalities in land distribution stemming from the colonial era. The program is complemented by a concessional affirmative action loan scheme for the purchase and modernization of farms.

The pace of implementation of the program has been slow. About 3 million hectares of the total commercial farming land of 36 million hectares have been redistributed, leaving some 4,000 farmers with about half of Namibia's arable land, mainly in the south. The slow pace has been attributed to cumbersome decision-making and bureaucratic procedures and the reluctance of farmers to sell their land at prices acceptable to the government.

Land acquisition through expropriation is envisaged under the constitution "in the public interest" subject to "just compensation". About 20 farmers have so far received expropriation letters. While some seem willing to sell, others have protested the expropriation and are expected to go to court.

The main criticism of the new policy is related to the lack of objective and transparent criteria to identify underutilized land that could become subject to expropriation. The authorities felt that the existing legal framework was sufficiently transparent and that recourse to the court system would provide sufficient protection against arbitrary decisions. They also hoped that the new land tax would help identify underutilized land. Nevertheless, they indicated that they would work with the farmers unions and donors to allay their concerns.

### **G. Trade Policy**

49. **The authorities reiterated their commitment to further trade liberalization, driven in large part by Namibia's WTO obligations.** Along with other SACU members, Namibia is engaged in bilateral trade negotiations with the United States, the EU, and Mercosur. Jointly with its SADC partners, Namibia is aiming at creating a free trade area by 2008. Namibia's simple average tariff has been reduced to 11.4 percent, compared with 24 percent a decade ago and the sub-Saharan average of 20 percent. The reduction has been accompanied by a simplification in the tariff structure.

### **IV. DATA ISSUES**

50. **The authorities have made significant progress in addressing data weaknesses (Appendix III).** Namibia is participating in the GDDS regional project for Anglophone African countries. The mission recommended that the timeliness of fiscal data, the coverage of the national accounts and the consumer price index, and the quality of balance of payments and IIP data be improved, and labor surveys be conducted more frequently to allow more informed policy-making.

## V. STAFF APPRAISAL

51. **Namibia has enjoyed moderate growth and an enviable record of macroeconomic stability since independence.** During the period, the external current account has consistently been in surplus, inflation has been reduced, and fiscal deficits were generally well contained prior to the 2003/04 fiscal year. This has helped keep public and external debt at low levels. However, while Namibia's per-capita GDP is among the highest in Africa, per-capita income growth has been slow, unemployment and poverty are pervasive, and the income distribution is highly skewed.

52. **Namibia's macroeconomic prospects are promising as long as the authorities implement their HIV/AIDS strategy and address the structural impediments to growth.** While mining, agriculture, and fishing have driven growth in the past, raising Namibia's long-term growth potential and generating employment requires a larger contribution from the manufacturing and services sectors, including tourism. Allowing the private sector to flourish is the best vehicle to provide higher income and work to all Namibians. The authorities can facilitate this process by strengthening the flexibility of the economy—including with respect to the labor market—enhancing the availability of skilled labor, promoting export diversification, and improving access to capital and finance. There are many promising initiatives already in place in these areas, such as vocational training programs and the availability of a credit and guarantee scheme for SMEs. However, there is a need to expand and better coordinate these efforts and ensure that they are well-targeted and meet the needs of the private sector. In addition, the recent amendments to the Labor Act may raise the costs of doing business in Namibia.

53. **Namibia faces difficult fiscal challenges over the next few years.** The sharp rise in the fiscal deficit in 2003/04 has increased Namibia's vulnerability to shocks. The projected large decline of SACU receipts comes at an inopportune time as pressing spending needs have to be accommodated, in particular to achieve the MDGs and implement the HIV/AIDS strategy. Implementing this strategy, while costly, will be critical for containing the pandemic and supporting growth.

54. **The authorities' commitment to return to a path of fiscal consolidation in this difficult environment is commendable.** Their decision to forego a supplementary budget for 2004/05 sets an appropriate signal as does their intention to place the public debt ratio on a downward trajectory over the medium term. This requires the generation of moderate primary surpluses. Given Namibia's already high tax revenue/GDP ratio, the authorities have little choice but to curtail nonessential current spending.

55. **To this end, clear roadmaps for civil service and public enterprise reform are needed.** Namibia's wage bill and subsidies for parastatals account for almost half of all spending, thereby crowding out other, more productive expenditure. Decisive action is needed in these areas to allow for a reorientation of spending. Ongoing efforts to strengthen medium-term expenditure planning and introduce output-budgeting should facilitate

identifying budgetary priorities and enhancing the quality of expenditure. This should ultimately help strengthen Namibia's long-term growth potential.

56. **In the same vein, the authorities should consider consolidating the existing tax incentives.** It appears doubtful whether these incentives serve their intended objective of providing a cost-effective way to generate employment and stimulate growth. In light of the conflicting views within the government, the staff recommends that an independent review be undertaken, which would also assess the associated revenue loss and provide a basis for an informed policy decision.

57. **The exchange rate peg to the rand has served Namibia well in providing a credible anchor for policy-making and reducing inflation.** As a small open economy, Namibia reaps considerable benefits from its increasingly close ties with South Africa. The appreciation of the Namibia dollar has heightened the need for an acceleration of structural reforms so as to enhance the flexibility of the economy and unleash productivity gains.

58. **Namibia's international reserves need to be strengthened.** Most importantly, the Bank of Namibia should avoid a negative interest rate differential, and, if need be, establish a positive differential, vis-à-vis the anchor currency. The authorities' efforts to strengthen domestic financial markets and create investment opportunities could also help contain outflows of institutional investors. However, the proposed tightening of domestic asset requirements for such investors may undermine these efforts and should be revisited.

59. **There are signs that Namibia's banking system is strengthening.** The recently completed self-assessment of compliance with international banking supervision standards forms a good basis for an independent outside assessment; in this context, the staff welcomes the authorities' interest in an FSAP. On the other hand, supervision of nonbank financial institutions needs to be strengthened, notably in two areas: first, enabling legislation needs to be approved expeditiously to make the regulatory agency fully effective; and second, the large equity exposure of Namibian pension funds and insurance companies poses a risk that needs to be addressed.

60. **Namibia's commitment to trade liberalization is commendable.** The new SACU framework will provide Namibia with the opportunity to help shape trade negotiations and policies. The staff welcomes the progress made in negotiating the free trade agreements with key trade partners and lowering tariffs.

61. It is proposed that Namibia remain on the standard 12-month consultation cycle.



Table 1. Namibia: Selected Financial and Economic Indicators, 2000–09

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
			Est.	Prel.	Projections					
(Annual percent change, unless otherwise noted)										
National income and prices										
GDP at constant 1995 prices	3.5	2.4	2.5	3.7	4.2	3.6	3.8	3.9	3.9	4.0
GDP deflator	11.0	14.3	11.2	-1.3	4.7	5.5	4.7	4.7	4.7	4.7
GDP per capita (U.S. dollars)	2,374	2,389	2,411	2,125	2,184	...	...	...	...	...
Consumer price index (period average)	9.3	9.3	11.3	7.2	5.5	5.8	5.0	5.0	5.0	5.0
Consumer price index (end-of-period)	10.8	8.3	13.6	2.0	5.0	5.8	5.0	5.0	5.0	5.0
External sector										
Exports (U.S. dollars)	10.7	-13.7	-6.1	16.5	8.1	3.8	7.2	5.9	5.1	10.6
Imports (U.S. dollars)	-5.9	1.8	-4.6	33.7	9.6	5.6	5.6	6.4	5.6	9.0
Export volume	-0.9	-4.5	-8.2	19.8	11.0	3.9	4.1	3.8	3.8	3.8
Import volume	-5.2	4.0	13.9	5.6	3.5	3.9	5.3	5.2	5.5	5.6
Terms of trade	12.5	-7.8	22.1	-23.2	-8.0	-1.7	2.0	0.5	1.2	2.4
Central government finance 1/										
Revenue and grants	13.6	9.1	16.8	-6.8	22.0	0.9	7.0	9.5	8.9	9.5
Expenditure and net lending	10.7	19.7	12.8	6.7	2.3	8.9	5.5	8.2	7.3	7.8
Money and credit 2/										
Credit to the private sector	17.0	16.3	20.2	12.4	17.2	16.3	14.0	15.0	14.3	14.0
Broad money	13.0	4.5	6.9	9.6	12.7	14.3	13.9	14.2	14.6	14.9
(In percent of GDP, unless otherwise noted)										
Investment and savings										
Gross investment	19.5	23.4	17.2	22.7	22.6	23.6	24.1	24.9	25.6	26.3
Public	6.1	8.7	6.9	8.5	8.9	9.1	8.5	8.8	9.0	9.2
Private	13.4	14.7	10.3	14.3	13.7	14.5	15.5	16.1	16.6	17.1
Gross domestic savings	15.5	16.6	10.6	14.5	13.9	14.8	15.9	16.8	17.7	19.0
Gross national savings	28.9	25.2	20.9	26.7	28.2	28.0	27.7	28.4	29.1	29.7
Public	3.6	1.5	2.5	-0.7	2.6	2.8	2.5	3.1	3.9	4.6
Private	25.3	23.6	18.4	27.4	25.6	25.2	25.2	25.3	25.2	25.1
Central government finance 1/										
Revenue and grants	33.3	31.3	33.0	29.5	32.9	30.4	30.0	30.2	30.2	30.3
<i>Of which:</i> SACU receipts	11.7	9.2	8.2	9.2	11.6	9.0	8.1	8.1	7.7	7.4
Expenditure and net lending	34.7	35.8	36.5	37.3	34.9	34.9	33.8	33.7	33.2	32.9
<i>Of which:</i> wages	15.1	15.1	14.8	15.5	14.7	14.4	14.2	14.0	13.7	13.5
capital expenditure and net lending	5.3	5.4	6.6	5.9	6.0	5.9	5.4	5.7	5.6	5.6
Additional measures	...	...	...	...	...	1.5	2.5	2.5	2.0	1.5
Primary balance (- deficit) 3/	0.7	-2.5	-0.9	-5.2	0.7	-0.6	0.9	1.2	1.0	0.8
Overall government deficit including grants 3/	-1.4	-4.5	-3.5	-7.8	-2.0	-2.9	-1.4	-1.0	-1.0	-1.0
Public and publicly guaranteed debt outstanding/GDP	34.1	39.5	35.2	41.2	39.6	39.9	39.3	37.2	36.0	34.8
Public debt outstanding/GDP	23.1	26.2	25.0	30.9	30.1	31.1	31.1	29.5	28.9	28.3
External sector										
Current account balance										
Including government transfers	9.3	1.7	3.8	4.0	5.6	4.4	3.6	3.5	3.5	3.4
Excluding government transfers	-2.9	-8.6	-5.0	-6.3	-7.4	-7.1	-6.6	-6.6	-6.4	-5.9
Gross official reserves										
In millions of U.S. dollars	262.4	223.0	311.2	280.0	293.3	339.0	380.5	429.5	460.2	497.9
In months of imports of goods and services	1.9	1.7	2.5	1.7	1.6	1.8	1.9	2.1	2.1	2.1
External debt/GDP (in percent)	23.0	26.1	25.4	17.5	...	...	...	...	...	...
Exchange rate (Namibia dollar/U.S. dollar, end-of-period)	7.6	12.1	9.3	7.6	...	...	...	...	...	...
Exchange rate (Namibia dollar/U.S. dollar, period average)	6.9	8.6	10.5	7.6	...	...	...	...	...	...
Real effective exchange rate 4/	-1.6	-5.6	13.3	3.8	...	...	...	...	...	...

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

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

2/ Data for 2003 onwards reflect new monetary data.

3/ Deficit for 2005 onwards reflects additional measures not yet allocated to individual revenue or expenditure items.

4/ Base year=1995.

Table 2. Namibia: Balance of Payments, 2000–09

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
			Est.	Est.			Projections			
Current account	317.9	56.2	112.6	171.0	259.5	220.9	191.7	199.2	209.8	224.5
Goods	6.8	-198.9	-207.6	-461.8	-524.1	-578.3	-587.2	-631.6	-675.4	-708.7
Exports, f.o.b.	1,324.2	1,142.3	1,072.4	1,249.3	1,350.9	1,401.9	1,502.9	1,591.9	1,673.7	1,851.7
<i>Of which:</i> diamonds	612.5	523.8	533.3	510.9	574.3	599.7	630.2	662.8	697.4	734.1
other minerals	185.7	194.4	200.3	182.6	231.9	254.4	269.2	279.7	290.6	302.1
fish	184.8	157.4	112.6	222.6	239.7	230.2	233.0	236.1	252.9	271.0
Imports, f.o.b. (excluding duty)	-1,317.3	-1,341.3	-1,280.0	-1,711.1	-1,875.1	-1,980.2	-2,090.1	-2,223.5	-2,349.1	-2,560.3
Services	-145.7	-20.3	11.1	111.9	115.4	134.7	154.7	175.1	199.2	229.7
Transportation	-90.6	-82.1	-73.7	-60.3	-66.1	-69.8	-72.2	-78.4	-84.2	-91.7
Travel	75.2	163.3	162.0	256.7	269.8	295.9	320.3	349.5	382.6	425.6
Other services	-130.3	-101.5	-77.2	-84.5	-88.3	-91.4	-93.4	-96.1	-99.2	-104.2
Income	22.5	-70.6	34.0	58.1	69.6	92.2	85.9	92.4	97.8	97.0
Compensation of employees	-1.4	-0.9	-1.2	-3.6	-3.9	-4.2	-4.3	-4.5	-4.7	-5.0
Investment income	23.8	-69.7	35.2	61.7	73.5	96.3	90.2	96.9	102.6	102.0
Current transfers	434.3	346.0	275.1	462.8	598.6	572.4	538.3	563.4	588.2	606.5
<i>Of which:</i> SACU receipts 1/	391.9	313.9	248.0	386.8	517.3	482.6	441.4	457.9	473.1	491.3
Capital and financial account	-250.9	-99.4	-71.6	-364.0	-259.5	-220.9	-191.7	-199.2	-209.7	-224.5
Capital account	112.1	94.8	110.8	60.0	88.5	86.4	78.3	22.0	23.0	23.0
Financial account	-363.0	-194.3	-182.4	-423.9	-348.0	-307.4	-270.0	-221.2	-232.7	-247.5
(Excluding reserve assets)	-348.7	-135.0	-166.8	-526.5	-313.3	-261.6	-222.2	-172.3	-202.0	-209.8
Direct investment	189.2	352.8	176.7	139.1	146.0	151.0	150.9	153.6	157.1	163.4
Portfolio investment	-139.2	-196.5	-187.8	-293.4	-272.3	-268.9	-287.9	-282.8	-286.1	-292.0
Other investment	-398.7	-291.2	-155.7	-372.2	-187.0	-143.8	-85.3	-43.1	-73.0	-81.2
Reserve assets	-14.3	-59.2	-15.6	102.6	-13.2	-45.8	-41.5	-48.9	-30.7	-37.7
Net errors and omissions	-67.0	43.2	-41.0	193.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Trade balance/GDP	0.2	-6.2	-6.9	-10.8	-11.2	-11.5	-11.1	-11.2	-11.2	-10.8
Current account/GDP										
Including government transfers	9.3	1.7	3.8	4.0	5.6	4.4	3.6	3.5	3.5	3.4
Excluding government transfers	-2.9	-8.6	-5.0	-6.3	-7.4	-7.1	-6.6	-6.6	-6.4	-5.9
Exports of goods and non-financial services	1,509.9	1,395.6	1,307.8	1,607.3	1,726.7	1,806.9	1,935.5	2,055.0	2,171.7	2,397.9
Exports/GDP (in percent)	44.2	43.4	43.6	37.6	37.0	36.0	36.6	36.4	35.9	36.5
Imports of goods and non-financial services	1,648.8	1,614.8	1,504.2	1,957.2	2,135.4	2,250.5	2,368.0	2,511.5	2,648.0	2,876.9
Imports/GDP (in percent)	48.3	50.2	50.1	45.8	45.7	44.8	44.7	44.5	43.8	43.7
International reserves (end-of-period) 2/	262.4	223.0	311.2	280.0	293.3	339.0	380.5	429.5	460.2	497.9
In months of imports of goods and services	1.9	1.7	2.5	1.7	1.6	1.8	1.9	2.1	2.1	2.1
Ratio of reserves/short-term debt	1.1	1.5	1.1	...	...	...	...	...	...	...
Short-term debt (in millions of U.S. dollars)	238.6	147.5	294.2	...	...	...	...	...	...	...
External debt/GDP (in percent)	23.0	26.1	25.4	17.5	...	...	...	...	...	...
External debt (in millions of U.S. dollars) from IIP	797.4	840.5	761.0	817.1	...	...	...	...	...	...
Exchange rate (Namibia dollar/U.S. dollar, end-of-period)	7.6	12.1	9.3	7.6	...	...	...	...	...	...
Exchange rate (Namibia dollar/U.S. dollar, period average)	6.9	8.6	10.5	7.6	...	...	...	...	...	...
GDP at market prices (in millions of U.S. dollars)	3,415.8	3,218.0	3,000.0	4,271.0	4,669.8	5,018.4	5,294.7	5,642.2	6,040.9	6,578.2

Sources: Namibian authorities; and Fund staff estimates.

1/ Southern African Customs Union.

2/ Gross foreign assets of the Bank of Namibia, converted to U.S. dollars at the end-of-period exchange rate.

Table 3. Namibia: Central Government Operations, 2002/03–2009/10

(In millions of Namibia dollars)

	2002/03	2003/04		2004/05		2005/06	2006/07	2007/08	2008/09	2009/10
		Rev. Budg.	Est.	Budget	Proj.					
Revenue and grants	10,469.4	10,799.7	9,754.1	12,067.6	11,901.8	12,011.0	12,854.1	14,079.9	15,327.1	16,787.1
Revenue	10,434.9	10,743.8	9,719.9	11,986.9	11,821.0	11,934.5	12,794.6	14,079.9	15,327.1	16,787.1
Tax revenue	9,195.9	9,629.9	8,632.7	10,732.1	10,743.8	10,738.3	11,439.5	12,592.1	13,692.2	14,933.4
Personal income tax	2,180.6	2,705.0	2,333.6	2,556.1	2,551.1	2,824.0	3,112.9	3,433.6	3,788.7	4,208.8
Corporate income tax	2,113.0	1,010.0	1,198.4	960.7	1,406.1	1,471.2	1,612.2	1,769.0	1,942.5	2,132.9
Diamond mining	1,157.4	220.0	175.4	52.0	201.3	228.9	259.3	293.7	332.7	376.7
Other mining	283.9	20.0	3.2	14.9	100.0	109.5	119.3	130.0	141.9	154.8
Non-mining	671.8	770.0	1,019.8	893.8	1,104.8	1,132.8	1,233.6	1,345.2	1,467.9	1,601.5
Value added tax and sales taxes	2,008.9	2,554.0	1,756.4	2,680.5	2,287.6	2,575.8	2,886.0	3,233.4	3,621.5	4,065.5
International taxes (includes SACU receipts)	2,596.9	3,035.7	3,035.6	4,206.8	4,206.8	3,548.4	3,481.6	3,778.9	3,928.9	4,078.9
Other	296.4	325.2	308.7	328.0	292.2	318.9	346.7	377.2	410.7	447.2
Nontax revenue	1,239.1	1,113.9	1,087.2	1,254.8	1,077.2	1,196.2	1,355.1	1,487.9	1,634.9	1,853.7
Diamond royalties	479.1	450.0	301.9	500.0	329.9	387.8	418.4	451.4	486.9	565.1
Administrative fees, including license revenues	388.0	279.5	461.1	376.2	412.4	450.1	532.2	579.0	630.3	686.5
Other	371.9	384.4	324.2	378.6	334.9	358.3	404.5	457.5	517.7	602.2
Grants (tied)	34.4	55.9	34.2	80.8	80.8	76.5	59.5	0.0	0.0	0.0
Expenditures	11,572.9	12,324.2	12,343.8	12,786.8	12,631.8	13,752.0	14,509.4	15,702.5	16,853.2	18,172.1
Current expenditure	9,481.7	10,324.9	10,387.0	10,609.2	10,454.1	11,060.1	11,753.4	12,543.0	13,277.0	14,139.2
Personnel	4,708.9	5,200.2	5,117.0	5,303.6	5,303.6	5,690.2	6,078.8	6,520.5	6,945.9	7,467.3
Goods and services	2,056.8	2,114.3	2,149.9	1,910.2	1,910.2	2,055.4	2,202.3	2,361.2	2,532.3	2,716.2
Interest payments	823.1	749.9	864.8	1,125.5	970.5	915.9	984.7	1,010.9	1,015.0	1,021.0
Domestic	771.5	698.8	813.8	1,050.4	942.1	879.9	941.1	958.3	948.2	938.0
Foreign	51.5	51.1	51.1	75.2	28.3	36.1	43.6	52.6	66.8	83.0
Subsidies and current transfers	1,892.9	2,260.4	2,255.3	2,269.8	2,269.8	2,398.6	2,487.5	2,650.5	2,783.7	2,934.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	1,457.4	1,635.1	1,570.2	1,848.1	1,848.1	2,020.5	2,021.8	2,351.3	2,594.9	2,870.2
Acquisition of capital assets	1,370.2	1,522.4	1,479.3	1,639.8	1,639.8	1,832.6	1,860.4	2,222.4	2,454.5	2,717.4
Capital transfers	87.2	112.7	91.0	208.3	208.3	187.9	161.4	128.9	140.4	152.9
Net lending	633.8	364.2	386.5	329.6	329.6	320.3	305.3	285.5	260.0	227.9
Additional HIV/AIDS-related expenditure 1/	0.0	0.0	0.0	0.0	0.0	351.1	428.9	522.6	721.3	934.9
Additional measures					0.0	591.7	1,072.2	1,166.6	1,015.9	829.8
Overall balance 2/	-1,103.5	-1,524.4	-2,589.7	-719.2	-730.0	-1,149.2	-583.1	-456.0	-510.2	-555.3
Overall balance excluding extrabudgetary spending 2/	-828.8	-1,280.3	-2,345.6	-538.6	-549.4	-925.8	-491.6	-166.2	-185.2	-185.9
Primary balance	-280.4	-774.5	-1,724.8	406.3	240.5	-233.3	401.6	554.9	504.8	465.7
Statistical discrepancy	-27.4	0.0	21.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	1,076.1	1,524.4	2,611.4	719.2	730.0	1,149.2	583.1	456.0	510.2	555.3
Domestic	815.2	1,300.2	2,387.2	558.5	576.8	959.8	537.5	220.0	236.3	241.6
Bank	...	...	...	...	-106.7	-100.0	-100.0	-400.0	-200.0	-100.0
Nonbank	...	...	...	...	683.4	1,059.8	637.5	620.0	436.3	341.6
External	260.9	224.2	224.2	160.7	153.2	189.4	45.7	236.0	273.9	313.6
Disbursements	274.7	244.1	244.1	180.6	180.6	223.4	91.5	289.8	325.0	369.3
Amortization	-13.8	-19.9	-19.9	-20.0	-27.4	-34.0	-45.9	-53.8	-51.0	-55.7
Memorandum items:										
Public and publicly guaranteed debt	11,182.6	...	13,635.5	...	14,297.6	15,733.9	16,861.0	17,355.4	18,273.0	19,244.5
Public debt	7,924.3	...	10,213.4	...	10,875.3	12,276.2	13,339.3	13,788.2	14,668.6	15,640.1
Domestic	6,712.1	...	8,606.1	...	9,182.9	10,142.7	10,680.2	10,900.2	11,136.5	11,378.2
External	1,212.3	...	1,607.2	...	1,692.4	2,133.4	2,650.9	2,888.0	3,532.0	4,261.9
Publicly guaranteed debt	3,258.3	...	3,422.1	...	3,422.3	3,457.7	3,521.7	3,567.2	3,604.4	3,604.4
GDP at current market prices	31,739.8	33,061.7	33,061.7	36,143.2	36,143.2	39,449.9	42,887.6	46,662.3	50,797.3	55,318.2

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

1/ This expenditure corresponds to commitments in the national HIV/AIDS strategy and is over and above any HIV/AIDS-related expenditure already embedded in the budget.

2/ The "overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account. By contrast, the "overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the GRN concept.

Table 3. Namibia: Central Government Operations, 2002/03–2009/10 (continued)

(In percent of GDP)

	2002/03	2003/04		2004/05		2005/06	2006/07	2007/08	2008/09	2009/10
		Rev.	Est.	Budget	Proj.					
Revenue and grants	33.0	32.7	29.5	33.4	32.9	30.4	30.0	30.2	30.2	30.3
Revenue	32.9	32.5	29.4	33.2	32.7	30.3	29.8	30.2	30.2	30.3
Tax revenue	29.0	29.1	26.1	29.7	29.7	27.2	26.7	27.0	27.0	27.0
Personal income tax	6.9	8.2	7.1	7.1	7.1	7.2	7.3	7.4	7.5	7.6
Corporate income tax	6.7	3.1	3.6	2.7	3.9	3.7	3.8	3.8	3.8	3.9
Diamond mining	3.6	0.7	0.5	0.1	0.6	0.6	0.6	0.6	0.7	0.7
Other mining	0.9	0.1	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Non-mining	2.1	2.3	3.1	2.5	3.1	2.9	2.9	2.9	2.9	2.9
VAT and sales taxes	6.3	7.7	5.3	7.4	6.3	6.5	6.7	6.9	7.1	7.3
International taxes (includes SACU receipts)	8.2	9.2	9.2	11.6	11.6	9.0	8.1	8.1	7.7	7.4
Other	0.9	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Nontax revenue	3.9	3.4	3.3	3.5	3.0	3.0	3.2	3.2	3.2	3.4
Diamond royalties	1.5	1.4	0.9	1.4	0.9	1.0	1.0	1.0	1.0	1.0
Administrative fees, including license revenues	1.2	0.8	1.4	1.0	1.1	1.1	1.2	1.2	1.2	1.2
Other	1.2	1.2	1.0	1.0	0.9	0.9	0.9	1.0	1.0	1.1
Grants (tied)	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.0	0.0	0.0
Expenditures	36.5	37.3	37.3	35.4	34.9	34.9	33.8	33.7	33.2	32.9
Current expenditure	29.9	31.2	31.4	29.4	28.9	28.0	27.4	26.9	26.1	25.6
Personnel	14.8	15.7	15.5	14.7	14.7	14.4	14.2	14.0	13.7	13.5
Goods and services	6.5	6.4	6.5	5.3	5.3	5.2	5.1	5.1	5.0	4.9
Interest payments	2.6	2.3	2.6	3.1	2.7	2.3	2.3	2.2	2.0	1.8
Domestic	2.4	2.1	2.5	2.9	2.6	2.2	2.2	2.1	1.9	1.7
Foreign	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Subsidies and current transfers	6.0	6.8	6.8	6.3	6.3	6.1	5.8	5.7	5.5	5.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	4.6	4.9	4.7	5.1	5.1	5.1	4.7	5.0	5.1	5.2
Acquisition of capital assets	4.3	4.6	4.5	4.5	4.5	4.6	4.3	4.8	4.8	4.9
Capital transfers	0.3	0.3	0.3	0.6	0.6	0.5	0.4	0.3	0.3	0.3
Net lending	2.0	1.1	1.2	0.9	0.9	0.8	0.7	0.6	0.5	0.4
Additional HIV/AIDS-related expenditure 1/	0.0	0.0	0.0	0.0	0.0	0.9	1.0	1.1	1.4	1.7
Additional measures					0.0	1.5	2.5	2.5	2.0	1.5
Overall balance 2/	-3.5	-4.6	-7.8	-2.0	-2.0	-2.9	-1.4	-1.0	-1.0	-1.0
Overall balance excluding extrabudgetary spending 2/	-2.6	-3.9	-7.1	-1.5	-1.5	-2.3	-1.1	-0.4	-0.4	-0.3
Primary balance	-0.9	-2.3	-5.2	1.1	0.7	-0.6	0.9	1.2	1.0	0.8
Statistical discrepancy	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	3.4	4.6	7.9	2.0	2.0	2.9	1.4	1.0	1.0	1.0
Domestic	2.6	3.9	7.2	1.5	1.6	2.4	1.3	0.5	0.5	0.4
Bank	...	...	...	...	-0.3	-0.3	-0.2	-0.9	-0.4	-0.2
Nonbank	...	...	...	...	1.9	2.7	1.5	1.3	0.9	0.6
External	0.8	0.7	0.7	0.4	0.4	0.5	0.1	0.5	0.5	0.6
Disbursements	0.9	0.7	0.7	0.5	0.5	0.6	0.2	0.6	0.6	0.7
Amortization	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Memorandum items:										
Public and publicly guaranteed debt	35.2	...	41.2	...	39.6	39.9	39.3	37.2	36.0	34.8
Public debt	25.0	...	30.9	...	30.1	31.1	31.1	29.5	28.9	28.3
Domestic	21.1	...	26.0	...	25.4	25.7	24.9	23.4	21.9	20.6
External	3.8	...	4.9	...	4.7	5.4	6.2	6.2	7.0	7.7
Publicly guaranteed debt	10.3	...	10.4	...	9.5	8.8	8.2	7.6	7.1	6.5
GDP at current market prices (in millions of Namibia dollars)	31,739.8	33,061.7	33,061.7	36,143.2	36,143.2	39,449.9	42,887.6	46,662.3	50,797.3	55,318.2

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

1/ This expenditure corresponds to commitments in the national HIV/AIDS strategy and is over and above any HIV/AIDS-related expenditure already embedded in the budget.

2/ The "overall balance" reflects externally financed project spending (except for roads) that is not channeled through the state account. By contrast, the "overall balance excluding extrabudgetary spending" excludes such spending and thus corresponds directly with the GRN concept.

Table 4. Namibia: Monetary Developments, 2002–09 1/

(In millions of Namibia dollars, end-of-period)

	2002 Dec.	2002 Dec. Revised	2003 Jun. Revised	2003 Oct. Revised	2003 Dec.	2003 Dec. Revised	2004 Jun. Revised	2004 Oct. Revised	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.	2009 Dec.
										Projections				
<b>Bank of Namibia</b>														
Reserve money	991.7	980.8	926.7	1,064.1	1,187.5	1,172.9	1,073.2	1,187.5	1,359.0	1,567.0	1,768.5	1,951.0	2,197.8	2,505.2
Currency	819.2	819.2	756.0	798.6	918.9	918.9	852.1	858.8	1,046.4	1,190.9	1,326.4	1,443.7	1,604.4	1,803.7
Reserves	172.5	161.6	170.7	265.5	268.6	254.0	221.1	328.6	312.6	376.1	442.1	507.2	593.4	701.5
Net foreign assets	2,847.2	2,886.1	2,165.8	2,467.9	1,974.7	2,110.3	1,783.2	2,207.6	1,883.2	2,235.2	2,564.2	2,960.2	3,213.1	3,523.5
Net domestic assets	-1,855.5	-1,905.2	-1,239.1	-1,403.8	-787.2	-937.4	-710.0	-1,020.1	-524.2	-668.2	-795.7	-1,009.2	-1,015.3	-1,018.3
Domestic credit	-1,043.2	-980.7	-497.7	-782.6	-250.2	-315.7	-209.3	-856.9	-313.0	-313.0	-313.0	-313.0	-313.0	-313.0
Banks	0.0	117.5	59.1	78.2	0.0	95.3	113.1	122.5	113.1	113.1	113.1	113.1	113.1	113.1
Government (net)	-1,044.6	-1,114.8	-575.4	-880.9	-251.7	-430.1	-336.3	-992.9	-440.0	-440.0	-440.0	-440.0	-440.0	-440.0
Other sectors	1.3	16.6	18.6	20.1	1.6	19.0	13.9	13.5	13.9	13.9	13.9	13.9	13.9	13.9
Other items net	-812.2	-924.5	-741.4	-621.2	-537.0	-621.7	-500.7	-163.2	-211.2	-355.2	-482.7	-696.3	-702.3	-705.3
<b>Monetary survey</b>														
Broad money	10,698.1	12,433.7	12,821.6	13,208.5	12,913.3	13,626.7	14,410.8	16,462.5	15,356.8	17,550.5	19,983.8	22,826.1	26,153.8	30,062.3
Currency	545.8	543.7	555.0	595.3	584.6	584.6	606.1	667.0	645.0	723.1	805.3	913.0	1,030.5	1,172.4
Deposits	10,152.3	11,890.0	12,266.6	12,613.3	12,328.7	13,042.1	13,804.7	15,795.5	14,711.8	16,827.5	19,178.5	21,913.1	25,123.4	28,889.9
Net foreign assets	1,769.6	2,083.8	1,041.2	1,797.1	536.1	1,259.6	503.5	1,839.1	440.0	290.0	315.0	315.0	380.0	50.0
Net domestic assets	8,928.5	10,349.8	11,780.3	11,411.5	12,377.2	12,367.0	13,907.4	14,623.4	14,916.8	17,260.5	19,668.8	22,511.1	25,773.8	30,012.3
Domestic credit	12,085.5	14,932.7	16,180.1	16,158.5	16,340.2	17,346.6	19,384.5	20,319.2	20,114.6	23,200.4	26,282.7	29,769.6	33,830.9	38,499.4
Private sector	12,161.2	14,834.3	15,550.8	16,009.7	15,405.8	16,676.3	18,289.2	19,354.0	19,544.6	22,730.4	25,912.7	29,799.6	34,060.9	38,829.4
Government (net)	-242.1	-150.9	441.7	5.4	774.0	506.7	726.2	565.2	400.0	300.0	200.0	-200.0	-400.0	-500.0
Others 2/	166.4	249.3	187.6	143.4	160.4	163.6	369.1	400.0	170.0	170.0	170.0	170.0	170.0	170.0
Other items net	-3,157.1	-4,582.9	-4,399.8	-4,747.0	-3,962.9	-4,979.5	-5,477.2	-5,695.7	-5,197.9	-5,939.9	-6,613.8	-7,258.4	-8,057.1	-8,487.1
<b>Memorandum items:</b>														
Annual percent change														
Reserve money	7.8	...	...	...	19.7	19.6	15.8	11.6	15.9	15.3	12.9	10.3	12.7	14.0
Broad money	6.9	...	...	...	20.7	9.6	12.4	24.6	12.7	14.3	13.9	14.2	14.6	14.9
Private sector credit	20.2	...	...	...	26.7	12.4	17.6	20.9	17.2	16.3	14.0	15.0	14.3	14.0
Velocity	3.0	2.5	2.9	2.7	2.7	2.5	2.5	2.4	2.3	2.2	2.1	2.0	1.9	1.8
Money multiplier	10.8	12.7	13.8	12.4	10.9	11.6	13.4	13.9	11.3	11.2	11.3	11.7	11.9	12.0
Exchange rate (Namibia dollars/U.S. dollars)	9.3	9.3	6.9	6.9	7.6	7.6	6.1	6.4	...	...	...	...	...	...
<b>Domestic interest rates (end-of-period)</b>														
Deposit rate	9.0	9.0	9.5	8.2	6.9	6.9	6.4	6.3	...	...	...	...	...	...
Lending rate	15.2	15.2	15.5	14.1	12.9	12.9	11.6	10.8	...	...	...	...	...	...
Bank rate 3/	12.8	12.8	11.5	8.3	7.8	7.8	7.8	7.5	...	...	...	...	...	...

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

1/ Following Fund advice, the authorities recently revised the monetary statistics, involving several reclassifications in the central bank and commercial bank balance sheets.

The adjustments made are still subject to review.

2/ Others includes local and regional government, non-financial public enterprises and other fiscal corporations.

3/ BON overdraft rate.

Table 5. Namibia: Medium-Term Macroeconomic Framework, 2003–09

(In percent of GDP)

	2003	2004	2005	2006	2007	2008	2009
	Prel.	Projections					
<b>Baseline scenario</b>							
Foreign savings 1/	-4.0	-5.6	-4.4	-3.6	-3.5	-3.5	-3.4
Gross national savings	26.7	28.2	28.0	27.7	28.4	29.1	29.7
Private sector	27.4	25.6	25.2	25.2	25.3	25.2	25.1
Public sector	-0.7	2.6	2.8	2.5	3.1	3.9	4.6
Gross investment	22.7	22.6	23.6	24.1	24.9	25.6	26.3
Private sector	14.3	13.7	14.5	15.5	16.1	16.6	17.1
Public sector	8.5	8.9	9.1	8.5	8.8	9.0	9.2
<b>Memorandum items:</b>							
Private savings-investment balance	13.2	11.9	10.7	9.6	9.2	8.7	8.0
Public savings-investment balance	-9.2	-6.3	-6.3	-6.0	-5.7	-5.2	-4.6
Central government deficit including grants	-7.8	-2.0	-2.9	-1.4	-1.0	-1.0	-1.0
Revenues and grants	29.5	32.9	30.4	30.0	30.2	30.2	30.3
Expenditure and net lending	37.3	34.9	34.9	33.8	33.7	33.2	32.9
Public debt/GDP	30.9	30.1	31.1	31.1	29.5	28.9	28.3
Real GDP growth rate	3.7	4.2	3.6	3.8	3.9	3.9	4.0
Inflation (annual average rate)	7.2	5.5	5.8	5.0	5.0	5.0	5.0
<b>Alternative scenario</b>							
Foreign savings 1/	-4.0	-5.6	-3.7	-2.7	-2.7	-2.6	-2.6
Gross national savings	26.7	28.2	26.2	24.4	24.3	24.1	23.8
Private sector	27.4	25.6	24.0	23.5	24.0	24.5	25.1
Public sector	-0.7	2.6	2.2	0.9	0.3	-0.4	-1.3
Gross investment	22.7	22.6	22.5	21.6	21.7	21.5	21.2
Private sector	14.3	13.7	13.4	13.1	12.8	12.4	12.0
Public sector	8.5	8.9	9.1	8.5	8.8	9.1	9.3
<b>Memorandum items:</b>							
Private savings-investment balance	13.2	11.9	10.6	10.4	11.2	12.1	13.2
Public savings-investment balance	-9.2	-6.3	-6.9	-7.7	-8.5	-9.4	-10.6
Central government deficit including grants 2/	-7.8	-2.0	-5.2	-5.8	-6.6	-7.6	-8.8
Revenues and grants 2/	29.5	33.0	30.6	30.2	30.5	30.6	30.6
Expenditure and net lending 2/	37.3	35.0	35.8	36.0	37.1	38.2	39.5
Public debt/GDP 2/	30.9	30.1	33.5	37.9	41.7	47.0	52.8
Real GDP growth rate	3.7	4.2	3.2	3.0	3.0	2.9	2.9
Inflation (annual average rate)	7.2	5.5	5.8	5.0	5.0	5.0	5.0

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

1/ External current account surplus.

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

Table 6. Namibia: Millennium Development Goals

	1990	1995	2001	2002
Eradicate extreme poverty and hunger 1/				
Population below 1 U.S. dollar a day (in percent)	...	34.9	...	...
Poverty gap at 1 U.S. dollar a day (in percent)	...	14.0	...	...
Percentage share of income or consumption held by poorest 20 percent	...	1.4	...	...
Prevalence of child malnutrition (percent of children under 5)	26.2	...	...	...
Population below minimum level of dietary energy consumption (in percent)	20.0	12.0	7.0	...
Achieve universal primary education 2/				
Net primary enrollment ratio (percent of relevant age group)	89.4	91.7	78.2	...
Percentage of cohort reaching grade 5 (in percent)	63.2	78.6	94.2	...
Youth literacy rate (percent ages 15–24)	87.4	89.7	91.9	92.3
Promote gender equality 3/				
Ratio of girls to boys in primary and secondary education (inpercent)	112.5	104.7	103.6	...
Ratio of young literate females to males (percent ages 15–24)	103.7	103.9	103.8	103.7
Share of women employed in the nonagricultural sector (in percent)	45.5	44.7	48.8	...
Proportion of seats held by women in national parliament (in percent)	...	18.0	...	...
Reduce child mortality 4/				
Under 5 mortality rate (per 1,000)	84	78	69	67
Infant mortality rate (per 1,000 live births)	65	61	56	55
Immunization, measles (percent of children under 12 months)	41	69	58	68
Improve maternal health 5/				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	300	...
Births attended by skilled health staff (percent of total)	68.2	...	77.7	...
Combat HIV/AIDS, malaria and other diseases 6/				
Prevalence of HIV, female (percent ages 15-24)	...	...	24.3	...
Contraceptive prevalence rate (percent of women ages 15-49)	28.9	...	...	...
Number of children orphaned by HIV/AIDS	...	...	47,000	...
Incidence of tuberculosis (per 100,000 people)	...	...	626.0	750.8
Tuberculosis cases detected under DOTS (in percent)	...	31.0	98.0	76.1
Ensure environmental sustainability 7/				
Forest area (percent of total land area)	10.7	...	9.8	...
Nationally protected areas (percent of total land area)	...	12.9	12.9	13.6
GDP per unit of energy use (PPP U.S. dollar per kg oil equivalent)	11.2	8.9	10.1	...
CO2 emissions (metric tons per capita)	0.0	1.0	1.0	...
Access to an improved water source (percent of population)	72.0	...	77.0	...
Access to improved sanitation (percent of population)	33.0	...	41.0	...
Access to secure tenure (percent of population)	...	...	...	...
Develop a Global Partnership for Development 8/				
Youth unemployment rate (percent of total labor force ages 15–24)	...	31.7	...	10.9
Fixed line and mobile telephones (per 1,000 people)	39.3	52.4	119.0	144.8
Personal computers (per 1,000 people)	...	12.5	54.7	70.9

Source: World Development Indicators database, April 2004

Note: In some cases the data are for earlier or later years than those stated.

1/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar 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 ratio.

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 needs of the least developed countries. Address the special needs of landlocked countries and small island developing nations.

Table 7. Namibia: Social and Demographic Indicators, 2004

	Namibia	South Africa	Sub-Saharan Africa
Area (in thousands of square kilometers)	824.3	1,221.0	24,266.0
Population (2002)			
Total (in millions)	2.0	45.3	710.0
Annual rate of growth (percent)	2.1	1.2	2.2
Population characteristics			
Population density (per square kilometer)	2.4	37.1	29.2
Urban population (percent of total)	31.9	58.4	33.1
Population age structure (percent of total)			
0–14 years	41.1	31.5	43.8
15–64 years	53.5	62.2	53.3
65 years and above	3.7	4.4	3.0
Income distribution 1/			
Income share held by highest 20 percent	78.7	66.5	...
Income share held by lowest 20 percent	1.4	2.0	...
Access to safe water (percent of population, 2000)			
Total	77.0	86.0	58.2
Rural	67.0	73.0	46.5
Urban	100.0	99.0	41.9
Health (2002)			
Life expectancy at birth	45.3	46.5	45.8
Infant mortality (per 1,000 live births)	55.0	52.0	103.1
People living with HIV/AIDS 2/	19.8	...	...
GDP per capita (constant 1995 U.S. dollars)	2,184.0	4,019.9	474.6
Labor force (2002)			
Total (in millions)	0.8	18.1	305.1
Female (percent of total population)	41.0	37.9	42.0
Education (2001)			
School enrolment (percent, gross)			
Primary	106.4	105.1	86.9
Secondary	61.4	86.4	...
Tertiary	7.3	14.6	...
Adult literacy rate	83.3	86.0	64.9

Source: World Bank, *World Development Indicators*, 2004.

1/ Based on latest household income and expenditure survey.

2/ Reflects prevalence rate in sentinel survey.



Table 8. Namibia: Financial Soundness Indicators, 1998–2003

(In percent, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003
Banking indicators						
Capital adequacy						
Capital to assets	...	...	...	8.7	7.5	8.3
Regulatory capital to risk-weighted assets	13.2	14.9	14.8	15.5	14.1	14.8
Regulatory tier I capital to risk-weighted assets	11.4	13.1	13.2	12.4	11.0	12.2
Nonperforming loans net of provisions to capital	69.7	53.8	14.3	8.3	11.1	11.8
Asset quality						
Large exposure to capital	...	...	...	146.0	179.0	186.0
Nonperforming loans to total gross loans	11.3	9.7	4.7	4.0	3.9	3.9
Sectoral distribution of loans to total loans						
Agriculture	10.9	10.8	8.7	9.0	8.6	5.5
Mining	1.2	1.0	0.7	0.7	1.5	2.6
Manufacturing	4.0	2.7	5.3	5.4	5.4	3.8
Construction	4.1	4.3	3.8	3.9	4.5	4.1
Electricity and water	0.2	0.7	0.3	0.3	4.4	3.4
Trade and accommodation	9.6	6.6	4.9	4.8	5.2	2.6
Transport and communications	3.8	3.1	3.9	3.7	3.6	4.6
Finance, real estate, and business services	10.3	14.7	15.1	15.5	11.1	9.6
Other services (including government)	8.4	9.5	11.4	11.6	7.0	8.6
Individuals	43.0	44.2	44.1	44.1	47.1	47.1
Other	4.6	2.3	2.0	1.1	1.8	8.3
Earnings and profitability						
Trading income to total income	...	...	...	10.6	11.5	10.9
Return on assets	2.1	2.5	2.6	2.5	2.8	2.5
Return on equity	23.0	25.8	28.1	26.4	34.3	21.9
Interest income to gross income	168.0	152.2	119.8	116.4	123.9	137.0
Noninterest expenses to gross income	44.6	47.7	47.9	50.6	49.1	53.9
Spread between reference lending and deposit rates	...	...	...	7.3	6.2	6.0
Personnel expenses to noninterest expenses	...	...	...	51.2	48.9	46.0
Liquidity						
Spread between highest and lowest interbank rate	...	...	...	...	9.3	9.0
Liquid assets to total assets	10.5	12.5	9.7	9.6	9.2	11.0
Liquid assets to short-term liabilities	18.4	22.5	15.8	15.6	15.7	19.3
Customer deposits to total (non-interbank) loans	...	...	...	88.0	84.0	87.0
Exposure to foreign exchange risk						
Net open position in foreign exchange to capital	0.8	0.6	0.5	0.2	0.1	0.0
Foreign currency-denominated loans to total loans	...	...	...	6.0	5.0	3.0
Foreign currency-denominated liabilities to total liabilities	...	...	...	5.1	5.2	4.5
Financial system structure						
Number						
Banks	...	...	...	5	5	4
Private commercial	...	...	...	2	2	1
State-owned	...	...	...	0	0	0
Foreign-owned subsidiaries	...	...	...	3	3	3
Branches of foreign banks	...	...	...	0	0	0
Assets (in billions of Namibia dollars)						
Banks	...	...	...	1.3	17.8	20.0
Private commercial	...	...	...	3.7	5.7	4.3
State-owned	...	...	...	...	...	...
Foreign-owned subsidiaries	...	...	...	10.0	12.1	15.8
Branches of foreign banks	...	...	...	...	...	...
Deposits (in billions of Namibia dollars)						
Banks	...	...	...	9.9	12.7	14.3
Private commercial	...	...	...	3.0	4.7	3.5
State-owned	...	...	...	...	...	...
Foreign-owned subsidiaries	...	...	...	6.9	7.9	10.7
Branches of foreign banks	...	...	...	...	...	...

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

Table 9. Namibia: Indicators of Financial and External Vulnerability, 1998–2003

(In percent of GDP, unless otherwise indicated)

	1998	1999	2000	2001	2002 Est.	2003 Est.
<b>Financial indicators</b>						
Public sector debt of the central government 1/	22.4	24.3	23.1	26.2	25.0	30.9
Broad money (percent change, 12-month basis)	11.3	18.4	13.0	4.5	6.9	9.6
Private sector credit (percent change, 12-month basis)	8.8	4.3	17.0	16.3	20.2	12.4
Bank of Namibia overdraft interest rate 2/	18.8	11.5	11.3	9.3	12.8	7.8
Bank of Namibia overdraft interest rate (real) 2/ 3/	9.3	3.3	0.4	0.9	-0.7	5.6
<b>External indicators</b>						
Exports (percent change, 12-month basis in U.S. dollars)	-10.3	-0.6	10.7	-13.7	-6.1	16.5
Imports (percent change, 12-month basis in U.S. dollars)	-9.5	-5.9	-5.9	1.8	-4.6	33.7
Terms of trade (percent change, 12-month basis)	7.4	2.6	12.5	-7.8	22.1	-23.2
Current account balance	81.0	234.5	317.9	56.2	112.6	171.0
Capital and financial account balance	-86.8	-194.6	-250.9	-99.4	-71.6	-364.0
Gross official reserves (in millions of U.S. dollars) 2/	260.6	305.0	262.4	223.0	311.2	280.0
Official reserves in months of imports of goods and services 2/	1.6	2.0	1.9	1.7	2.5	1.7
Broad money to reserves	4.7	4.6	4.9	3.8	3.8	6.5
Total short term external debt to reserves 2/	1.3	1.8	1.1	1.5	1.1	...
Total external debt (in millions of U.S. dollars) 2/	676.6	630.8	797.4	840.5	761.0	817.1
<i>Of which:</i> public sector debt (in millions of U.S. dollars) 2/	283.0	400.1	531.1	354.9	487.4	546.5
Total external debt to exports of goods and services 2/	44.3	41.5	52.8	60.2	58.2	46.5
Exchange rate (per U.S. dollar, period average)	5.5	6.1	6.9	8.6	10.5	7.6
Real effective exchange rate appreciation (-) (12-month basis) 4/	5.5	-0.8	1.6	5.6	-13.3	-3.8
<b>Financial market indicators</b>						
Stock market index	176.0	292.0	292.0	392.0	305.0	371.0

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

1/ Fiscal years, which begin on April 1.

2/ End-of-period.

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

**Namibia: Relations with the Fund**  
(As of December 31, 2004)

<b>Membership Status</b>	Joined 9/25/90; Article VIII	
<b>General Resources Account</b>	<u>SDR (million)</u>	<u>% of Quota</u>
Quota	136.50	100.0
Fund holdings of currency	136.45	99.96
Reserve position in Fund	0.05	0.04
<b>SDR Department</b>	<u>SDR (million)</u>	<u>% of Allocation</u>
Holdings	0.02	N/A
<b>Outstanding purchases and loans</b>	None.	
<b>Financial arrangements</b>	None.	
<b>Projected obligations to Fund</b>	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.

**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 April 23, 2003.

**Technical assistance:**

<b>Date</b>	<b>Duration</b>	<b>Department</b>	<b>Recipient</b>	<b>Purpose</b>	<b>Form</b>
6/98	6 months	FAD	Ministry of Finance	VAT implementation	Advisor
11/98	1 year	MAE	Bank of Namibia	Monetary operations	Advisor
1/01 and	4 weeks	TGS	Bank of Namibia	Implement spreadsheet/time series database technology	Advisor

<b>Date</b>	<b>Duration</b>	<b>Department</b>	<b>Recipient</b>	<b>Purpose</b>	<b>Form</b>
6/01	3 months	FAD	Ministry of Finance	VAT implementation	Advisor
1/02	2 weeks	STA	Bank of Namibia	ROSC	Advisor
01/02	2 weeks	STA	Bank of Namibia	ROSC	Mission
07/02	2 weeks	STA	Centr. Bur. of Stat.	National Accounts (GDDS project)	Advisor
10/02	2 weeks	STA	Centr. Bur. of Stat	National Accounts (GDDS project)	Advisor
10/02	2 weeks	STA	Ministry of Finance	GFS (GDDS project)	Advisor
11/02	2 days	STA	Country visits	GDDS Project	
11/02	2 weeks	STA	Bank of Namibia	Money and Banking Statistics	Advisor
01/03	5 weeks	STA	Bank of Namibia	First of a three part Peripatetic BOP mission (GDDSS Project)	Advisor
03/03	2 weeks	STA	Ministry of Finance	GFS (GDDS project)	Advisor
06/03	2 weeks	STA	Bank of Namibia	Second of a three part BOP mission (GDDS project)	Advisor
06/03	2 weeks	STA	Ministry of Finance	GFS (GDDS project)	Advisor
11/03	2 weeks	MFD	Bank of Namibia	Financial Sector Needs Assessment	Mission
01/04	2 weeks	STA	Bank of Namibia	Third of a three part BOP mission (GDDS project)	Advisor
02/04	3 weeks	STA	Centr. Bur. of Stat.	National Accounts	Advisor
07/04	2 weeks	MFD	Bank of Namibia	Issues in Reserves Management	Mission
11/04	1 week	FAD	Ministry of Finance	Revenue Forecast	Advisor

### **Namibia: Relations with the World Bank Group**

1. Namibia joined the World Bank, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) in 1990. Currently, the Bank has no IBRD loans to Namibia. With a GDP per capita of about US\$2,000, Namibia is not eligible for IDA assistance. The dialogue and knowledge development and sharing interventions in Namibia are focused on five areas: (i) growth and poverty reduction; (ii) capacity building for both public and private sectors; (iii) education sector; (iv) support for implementing decentralization; and (v) support in environmental management and bio-conservation.
2. In response to Government's interest in obtaining Bank support for projects in these areas, a Policy and Human Resource Development (PHRD) grant is being used to prepare programs dealing with sub-national governments and service delivery through fiscal decentralization. The Bank is also supporting the conduct of a public expenditure tracking survey (PETS) through an Institutional Development Fund (IDF) grant. The PETS covers the Ministries of Education and Health, and assesses the capacity of the institutions involved in managing public spending in the two ministries.
3. The Integrated Community-Based Ecosystem Management Project (ICEMA) is the first Bank-financed operation in Namibia (a grant from the Global Environment Facility (GEF)). Its goal is to promote community based integrated ecosystem management through targeted activities that would improve rural livelihoods. Two other GEF projects will assist the government in preparing the Namibia Coast Biodiversity project and promote environmental sustainability through improved land use planning.
4. The Bank is working with the Government to prepare a Country Economic Memorandum that will address the issues identified in the Government's key policy documents. While there is no country assistance strategy (CAS) for Namibia at present, the Bank is engaged in discussions with the Government on developing a framework for Bank assistance to Namibia over the next few years. The framework would strengthen the partnership between the Bank and Namibia and form the basis for collaboration in addressing the key challenges of achieving sustainable growth, and reducing poverty and inequality.
5. The Government has approached the Bank for assistance in designing a human resources development strategy, in part to address its intention to establish a national center for innovation, entrepreneurship and technology (CIET) in the rural north. In response, the Bank has finalized an economic and sector work to support the decision-making process for the proposal. Preliminary findings suggest the need for substantial reform of educational and the training sector in Namibia. This analytical work will provide the basis for a possible IBRD operation to support implementation of the education sector strategic plan. A donor round table is being planned, indicatively in February 2005.

6. The IFC portfolio in Namibia is US\$16.2 million in 6 projects. The two main projects are a fishery and an insurance company. Foreign Investment Advisory Services (FIAS) is assisting Namibia in improving their investment climate. IFC has a loan investment in the fishery project (Pescanova) including an approval in November 2002 of US\$7.9 million long-term financing to enhance the company's ability to catch its full quota. IFC also has an equity investment in Namibia's first indigenous life insurance company (Namibia Life) of US\$1.6 million. During the last fiscal year IFC completed its investment in the Pandu Ondangwa Hotel project ( the hotel is now operational) and the Namibia Investment Bank transaction. It is currently negotiating the sale of its stake in Namlife to a local Namibian group.

7. MIGA is currently processing a project in the agribusiness sector, with a total potential coverage of US\$65 million. The project is expected to be executed in FY 05.

### **Namibia: Statistical Issues**

1. Some of the core data for surveillance—exchange rate, international reserves, reserve money, and interest rates—are available on a monthly basis with reasonable promptness. Although the reliability, quality, and coverage of these data are generally satisfactory, recent changes to the monetary and financial statistics need to be clarified. The core real sector data and the balance of payments and international investment position data are reported on an annual frequency only. Namibia is participating in the GDDS regional project for Anglophone African countries that is funded by the Department for International Development (DfID) of the UK. The authorities have prepared an initial set of metadata that include detailed plans for improvement over the short and medium term; these were posted on the Fund's DSBB on December 19, 2002. These metadata were subsequently updated in February 2004.

#### **Real sector**

2. The authorities do not report any real sector data to STA; data published in the *International Financial Statistics (IFS)* are taken from publications of Namibia's Central Bureau of Statistics. The present consumer price index covers only the capital city of Windhoek. Two STA missions in May/June and September 2002 provided technical assistance to CBS in compiling a nationwide consumer price index. It is planned that the new index will be published in early 2005, with historical indices starting in December 2001.

3. Data on the labor market, including data on the labor force, employment, and wages are not systematically collected, which impedes the analysis of labor market developments. The last labor market survey published was conducted in 2000. A new labor market survey was conducted in 2004, but the results have not yet been published.

#### **Government finance**

4. After a long lag, the authorities resumed reporting of fiscal data to STA. Central government budgetary data through 2002, in the *GFSM 2001* format, were reported for publication in the *2004 GFS Yearbook*, and the same data are being published in *IFS*.

5. 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. The system for expenditure reporting to the Fund needs to be strengthened. Preliminary information on the cash expenditures of ministries should be more quickly available; and exercises to reconcile the above-the-line estimates with financing data should be conducted more frequently.

### **Monetary accounts**

6. Following the introduction of an *IFS* page in 1994, reporting of monetary data was timely and comprehensive until February 2004. As a result of TA received from the Fund, the Bank of Namibia substantially revised its Monetary and Financial Accounts data. Subsequently, there was a gap in *IFS* reporting for Namibia from March 2004 through October 2004. *IFS* reporting resumed in November 2004, but further clarification on the mapping between the old and new data series is still needed. The new data series are available beginning in April 2002.

### **Balance of payments**

7. Until 2001, Namibia reported balance of payments and international investment position data on an annual frequency. Since then the Bank of Namibia has been reporting quarterly balance of payments data with a lag of one quarter. However, the quarterly data are subject to substantial revisions. The methodology underlying the Namibian balance of payments is consistent with the fifth edition of the IMF's *Balance of Payments Manual* and is well documented. The Bank of Namibia received Fund technical assistance focused on improving the compilation of the capital and financial transactions and international investment position statistics.



Namibia: Core Statistical Indicators  
(as of January 10, 2005)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt/Debt Service
Date of latest observation	Nov. 2004	Nov. 2004	Nov. 2004	Nov. 2004	Nov. 2004	Nov. 2004	Nov. 2004	Mar. 2004	Mar. 2004	Mar. 2004	2003	Mar. 2004
Date received	Jan. 2005	Jan. 2005	Jan. 2005	Jan. 2005	Jan. 2005	Jan. 2005	Jan. 2005	Oct. 2004	Oct. 2004	Oct. 2004	Oct. 2004	Oct. 2004
Frequency of data <u>1/</u>	M	M	M	M	M	M	M	Q	Q	A	A	A
Frequency of reporting <u>1/</u>	M	M	M	M	M	M	M	Q	Q	A	A	A/O (irregularly in Quarterly Bulletin)
Source of data <u>2/</u>	A	A	A	A	A	A	A	A	A	A	A	A/N
Mode of reporting <u>3/</u>	C	C	C	C	C	C	C	C/M/V	C/M/V	C/M/V	C/M/V	M/V
Confidentiality <u>4/</u>	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of publication <u>1/</u>	M	M	M	M	M	M	M	A	A	A	A	O (irregularly in Quarterly Bulletin)

1/ M = monthly; Q = quarterly; A = annually; and O = other.  
2/ A = direct report by the authorities; and N = official publication.  
3/ C = cable or facsimile; M = mail; and V = staff visits.  
4/ C = unrestricted use.

### Namibia: External Debt Sustainability

1. Namibia's total gross external debt stood at an estimated US\$761 million, or about 25 percent of GDP, at end-2002.<sup>14</sup>

Public and publicly-guaranteed external debt, most of which was on concessional terms, accounted for only about 12 percent of GDP. Net external debt was negative, reflecting the persistent outflows of savings, mainly in the form of portfolio investment by Namibian pension funds, insurance companies, and asset management companies to South African financial markets. Short-term debt consisting of trade credits and credit from parent banks in South Africa to their Namibian subsidiaries accounted for about two-fifths of Namibia's gross external debt of all maturities. On the whole, South Africa accounted for more than four-fifths of total short-term external debt.

Table 1. External Debt Indicators, 2002	
	2002
Gross External debt (in millions of U.S. dollars)	761.0
(in percent of GDP)	25.4
<i>Of which:</i>	
Public and publicly-guaranteed debt	354.9
(in percent of GDP)	11.8
Short-term debt (in millions of U.S.dollars)	294.2
(in percent of GDP)	9.8
Net external debt (in millions of U.S. dollars)	-88.0
Gross official reserves (in millions of U.S. dollars)	311.2
(ratio to short-term debt)	1.1
(ratio to reserve money)	3.0
Memorandum items:	
GDP at current market prices (in millions of U.S.dollars)	3,000.0
Reserve money (in millions of U.S. dollars)	105.5
Sources: Namibian and South African authorities; and Fund staff estimates.	

2. The baseline scenario—consistent with the medium-term macroeconomic framework (Table 6)—envisages a moderate build-up of gross external debt by about 5 percentage points to 22½ percent of GDP in 2009.<sup>15</sup> This increase reflects (i) a moderate decline in the external current account surplus to about 4 percent of GDP; and (ii) the projected new borrowing by the government and the private sector to fund various projects. On the financial account, it is envisaged that the net outflows that have characterized Namibia's external transactions over the years will continue and, as a result, the country's net external debt is expected to remain negative.

3. The simulations under the external sustainability framework indicate that Namibia's external debt is sustainable over the medium term and does not give rise to any immediate

<sup>14</sup> External debt data are based on the *International Investment Position (IIP)*. The mission undertook a partial reconciliation of Namibian and South African IIP data for 2001 and 2002. Large differences were observed in several categories, which the authorities will take up with their South African counterparts. 2003 IIP data were only partially available.

<sup>15</sup> External debt is estimated at 17½ percent of GDP at end-2003. The decline in the external debt/GDP ratio relative to the previous year mainly reflects the appreciation of the Namibian dollar against the U.S. dollar, which led to a sharp increase in nominal GDP in U.S. dollar terms.

concerns. Although the stress tests indicate a significantly higher debt accumulation compared to the baseline, the levels appear manageable. The debt/GDP ratio rises to 62½ percent of GDP in the most extreme bound test which includes a decrease of the *U.S. dollar* GDP deflator by two standard deviations below its historical average. This scenario implies a real depreciation of about 57 percent. However, as two-thirds of Namibia's external debt is rand-denominated at present, the bound test overstates the possible impact of a depreciation.



### **Namibia: Fiscal Debt Sustainability**

1. Namibia's public debt rose by 6 percentage points, to 31 percent of GDP, during the 2003/04 fiscal year. This strong increase followed three years during which public debt had hovered around 25 percent of GDP, which is the debt level under the fiscal rule chosen by the authorities.<sup>16</sup> Namibia's public debt is still moderate in comparison to other sub-Saharan African countries.
2. The authorities felt that breaking the fiscal rule undermined their policy credibility. They were determined to maintain the rule to anchor their future fiscal policy making. Doing so would be challenging in any environment, but it is especially difficult given the fiscal pressures that Namibia will face over the medium term, including the decline in SACU receipts and the need for increased HIV/AIDS spending. As described in greater detail in Box 4, significant fiscal adjustment would be required simply to keep the public debt stock under 30 percent of GDP by 2009/10, while a business-as-usual approach would result in a public debt ratio that could quickly exceed 50 percent of GDP by the end of the decade.
3. The mission complemented the fiscal scenarios presented in Box 4 with the standard fiscal sustainability analysis, which was discussed with the authorities. The first panel of Table 1 corresponds to the baseline scenario underlying the macroeconomic framework: after rising modestly in the very short run, the public debt ratio would start to decline, dropping to 28¼ percent of GDP by the end of the decade in light of the generation of primary surpluses and real interest rates that are surpassed by GDP growth. The interest-growth differential implies that if the projections were extended, the public debt ratio would continue to decline, even in the absence of a primary surplus. Alternatively, as shown in Table 1, it would be possible to run a small primary deficit while stabilizing the public debt ratio at its 2009/10 level.
4. Table 1 also illustrates some alternative scenarios to analyze the baseline public debt profile under different assumptions. Scenario A1, for instance, shows that if one were to use the historical performance of key variables as a guide to the future, public debt would be expected to increase steadily, reaching 36 percent of GDP by the end of the period. The more optimistic prediction in the baseline scenario hinges on primary deficits that are considerably lower than their historical averages.
5. The bound tests performed in Section B illustrate the vulnerability of the fiscal position to economic shocks. Even if the Namibian authorities were fully successful in effecting the ambitious fiscal adjustment underlying the baseline scenario, shocks to interest

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<sup>16</sup> It is important to note that these figures exclude publicly guaranteed debt, which accounted for another 10 percent of GDP in 2003/04.

rates, growth, or the exchange rate could still occur, resulting in a higher public debt, approaching 40 percent of GDP.

6. For completeness, Table 2 presents the fiscal sustainability analysis based on the alternative fiscal scenario in Box 4, assuming that the authorities undertake no adjustment whatsoever. As described in Box 4, Namibia's public debt stock would spiral out of control. Primary deficits would be large and increase over time, with a concomitant increase in interest rates. As a result, Namibia's vulnerability to shocks would be magnified, as illustrated in the stress tests, as public debt levels would quickly reach alarming levels.

7. The Namibian authorities have recognized the importance of keeping their public debt in check. While placing the public debt ratio on a downward trajectory is a daunting task, failure to do so could quickly result in unsustainable public debt levels.

Table 1. Namibia: Public Sector Debt Sustainability Framework, 1999/2000-2009/10  
(In percent of GDP, unless otherwise indicated)

	Actual				Projections							Debt-stabilizing primary balance 10/
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
<b>Public sector debt 1/</b>	24.3	23.1	26.2	25.0	30.9	30.1	31.1	31.1	29.5	28.9	28.3	-0.5
o/w foreign-currency denominated	3.5	3.9	5.4	3.8	4.9	4.7	5.4	6.2	6.2	7.0	7.7	
Change in public sector debt	1.9	-1.3	3.1	-1.2	5.9	-0.8	1.0	0.0	-1.6	-0.7	-0.6	
Identified debt-creating flows (4+7+12)	0.5	-0.9	3.2	-1.0	6.5	-0.5	0.3	-1.1	-1.5	-1.4	-1.4	
Primary deficit	0.1	-0.7	2.5	0.9	5.2	-0.7	0.6	-0.9	-1.2	-1.0	-0.8	
Revenue and grants	33.8	33.3	31.3	33.0	29.5	32.9	30.4	30.0	30.2	30.2	30.3	
Primary (noninterest) expenditure	33.9	32.5	33.7	33.9	34.7	32.3	31.0	29.0	29.0	29.2	29.5	
Automatic debt dynamics 2/	0.5	-0.2	0.7	-1.9	1.3	0.2	-0.3	-0.2	-0.4	-0.4	-0.5	
Contribution from interest rate/growth differential 3/	0.3	-0.9	-1.3	-0.8	2.0	0.2	-0.3	-0.2	-0.4	-0.4	-0.5	
Of which contribution from real interest rate	1.0	-0.2	-0.9	-0.1	3.0	1.3	0.7	0.9	0.8	0.7	0.5	
Of which contribution from real GDP growth	-0.7	-0.7	-0.5	-0.6	-0.9	-1.1	-1.0	-1.1	-1.1	-1.1	-1.1	
Contribution from exchange rate depreciation 4/	0.1	0.7	2.1	-1.1	-0.7	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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/	1.4	-0.3	-0.1	-0.2	-0.6	-0.3	0.7	1.1	0.0	0.7	0.7	
Public sector debt-to-revenue ratio 1/	72.1	69.5	83.8	75.7	104.7	91.4	102.2	103.8	97.9	95.7	93.2	
<b>Gross financing need 6/</b>	11.0	11.5	13.3	13.6	18.8	16.0	16.4	14.7	13.7	12.8	12.0	
in billions of U.S. dollars	0.4	0.4	0.4	0.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
<b>Key Macroeconomic and Fiscal Assumptions 7/</b>												
Real GDP growth (in percent)	3.4	3.2	2.4	2.8	3.8	4.0	3.6	3.8	3.9	3.9	4.0	3.9
Average nominal interest rate on public debt (in percent) 8/	11.4	10.2	10.3	11.0	10.9	9.5	8.4	8.0	7.6	7.4	7.0	8.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.2	-0.7	-4.0	-0.2	12.2	4.8	2.9	3.3	2.8	2.6	2.3	3.1
Nominal appreciation (increase in US dollar value of local currency, in percent)	-4.8	-18.7	-37.6	30.4	22.9	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.2	11.0	14.3	11.2	-1.3	4.7	5.5	4.7	4.7	4.7	4.7	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	6.7	0.0	5.3	0.0	8.2	-3.0	-0.5	-2.9	3.7	4.6	5.2	1.2
Primary deficit	0.1	-0.7	2.5	0.9	5.2	-0.7	0.6	-0.9	-1.2	-1.0	-0.8	-0.7
<b>A. Alternative Scenarios</b>												
A1. Key variables are at their historical averages in 2005-09 9/						30.1	31.4	33.0	33.5	34.6	35.8	-1.5
A2. No policy change (constant primary balance) in 2005-09						30.1	29.9	30.1	29.1	28.8	28.3	-0.5
<b>B. Bound Tests</b>												
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006						30.2	34.0	37.0	35.5	34.8	34.1	-0.6
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006						30.2	32.6	34.7	34.4	35.0	35.7	-0.6
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006						30.2	36.3	43.0	41.4	40.6	39.8	-0.7
B4. Combination of B1-B3 using one standard deviation shocks						30.2	35.6	41.7	40.0	39.3	38.5	-0.7
B5. One time 30 percent real depreciation in 2005 10/						30.2	33.6	33.6	32.1	31.4	30.8	-0.5
B6. 10 percent of GDP increase in other debt-creating flows in 2005						30.2	41.2	41.2	39.6	38.8	38.0	-0.7

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.  
2/ Derived as  $(r - \pi - \alpha(1+r)) / (1+r-\pi-gr)$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $\varepsilon$  = 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  $r - \pi(1+r)$  and the real growth contribution as  $-g$ .  
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha\varepsilon(1+r)$ .  
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/ Note that these data correspond to fiscal years and thus may differ from the calendar-year data presented in earlier tables.  
8/ Derived as nominal interest expenditure divided by previous period debt stock.  
9/ The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.  
10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).  
11/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Table 2. Namibia: Public Sector Debt Sustainability Framework, 1999/2000-2009/10 (Alternative Scenario)  
(In percent of GDP, unless otherwise indicated)

	Actual				Projections							Debt-stabilizing primary balance 11/
	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
<b>Public sector debt 1/</b>	24.3	23.1	26.2	25.0	30.9	30.1	33.5	37.9	41.7	47.0	52.8	2.3
o/w foreign-currency denominated	3.5	3.9	5.4	3.8	4.9	4.7	5.4	6.3	6.3	7.2	7.9	
Change in public sector debt	1.9	-1.3	3.1	-1.2	5.9	-0.8	3.4	4.4	3.8	5.3	5.8	
Identified debt-creating flows (4+7+12)	0.5	-0.9	3.2	-1.0	6.5	-0.9	2.7	3.3	3.8	4.5	5.0	
Primary deficit	0.1	-0.7	2.5	0.9	5.2	-0.7	2.5	2.5	2.5	2.7	2.9	
Revenue and grants	33.8	33.3	31.3	33.0	29.5	33.0	30.6	30.2	30.5	30.6	30.6	
Primary (noninterest) expenditure	33.9	32.5	33.7	33.9	34.7	33.3	33.1	32.7	33.0	33.3	33.6	
Automatic debt dynamics 2/	0.5	-0.2	0.7	-1.9	1.3	-0.2	0.2	0.2	0.8	1.3	2.0	
Contribution from interest rate/growth differential 3/	0.3	-0.9	-1.3	-0.8	2.0	-0.2	0.2	0.8	1.3	1.8	2.0	
Of which contribution from real interest rate	1.0	-0.2	-0.9	-0.1	3.0	0.9	1.1	1.7	2.3	3.0	3.3	
Of which contribution from real GDP growth	-0.7	-0.7	-0.5	-0.6	-0.9	-1.1	-0.9	-0.9	-1.0	-1.1	-1.3	
Contribution from exchange rate depreciation 4/	0.1	0.7	2.1	-1.1	-0.7	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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/	1.4	-0.3	-0.1	-0.2	-0.6	0.1	0.7	1.1	0.0	0.7	0.8	
Public sector debt-to-revenue ratio 1/	72.1	69.5	83.8	75.7	104.7	91.1	109.6	125.7	136.8	153.5	172.3	
<b>Gross financing need 6/</b>	11.0	11.5	13.3	13.6	18.8	16.0	18.7	20.1	21.9	24.1	26.5	
in billions of U.S. dollars	0.4	0.4	0.4	0.4	0.8	0.8	0.9	1.1	1.2	1.4	1.7	
<b>Key Macroeconomic and Fiscal Assumptions 7/</b>												
Real GDP growth (in percent)	3.4	3.2	2.4	2.8	3.8	3.9	3.1	3.0	2.9	2.9	2.9	3.1
Average nominal interest rate on public debt (in percent) 8/	11.4	10.2	10.3	11.0	10.9	9.5	9.7	10.6	11.5	12.7	13.6	11.3
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	5.2	-0.7	-4.0	-0.2	12.2	3.5	4.1	5.8	6.7	7.8	7.8	5.9
Nominal appreciation (increase in US dollar value of local currency, in percent)	-4.8	-18.7	-37.6	30.4	22.9	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.2	11.0	14.3	11.2	-1.3	6.0	5.6	4.8	4.8	4.8	5.8	5.3
Growth of real primary spending (deflated by GDP deflator, in percent)	6.7	0.0	5.3	0.0	8.2	-4.1	5.5	1.7	4.1	3.8	3.7	2.4
Primary deficit	0.1	-0.7	2.5	0.9	5.2	-0.7	2.5	2.5	2.5	2.7	2.9	2.1
<b>A. Alternative Scenarios</b>												
A1. Key variables are at their historical averages in 2005-09 9/	30.1	31.3	33.0	33.4	34.5	30.1	31.3	33.0	33.4	34.5	35.7	-1.5
A2. No policy change (constant primary balance) in 2005-09	30.1	30.3	31.4	31.7	33.1	30.1	30.3	31.4	31.7	33.1	34.6	1.5
<b>B. Bound Tests</b>												
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006	29.8	35.3	41.8	45.3	50.4	29.8	35.3	41.8	45.3	50.4	56.0	2.4
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006	29.8	33.9	39.6	44.1	50.2	29.8	33.9	39.6	44.1	50.2	56.9	2.5
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006	29.8	29.8	36.4	44.1	47.8	29.8	29.8	36.4	44.1	47.8	58.7	2.6
B4. Combination of B1-B3 using one standard deviation shocks	29.8	35.2	41.2	45.1	50.5	29.8	35.2	41.2	45.1	50.5	56.5	2.5
B5. One time 30 percent real depreciation in 2005 10/	29.8	35.2	39.4	42.8	47.8	29.8	35.2	39.4	42.8	47.8	53.3	2.3
B6. 10 percent of GDP increase in other debt-creating flows in 2005	29.8	43.2	47.9	52.1	57.8	29.8	43.2	47.9	52.1	57.8	64.1	2.8

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.  
 2/ Derived as  $[(r - \pi(1+g) - \epsilon + \alpha\epsilon(1+r)] / (1+g - \pi + \pi g)$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $\epsilon$  = 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  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .  
 4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha\epsilon(1+r)$ .  
 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/ Note that these data correspond to fiscal years and thus may differ from the calendar-year data presented in earlier tables.  
 8/ Derived as nominal interest expenditure divided by previous period debt stock.  
 9/ The key variables include real GDP growth, real interest rate, and primary balance in percent of GDP.  
 10/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).  
 11/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.





INTERNATIONAL MONETARY FUND

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EXTERNAL  
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International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2004 Article IV Consultation with Namibia**

On February 14, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Namibia.<sup>1</sup>

### **Background**

Real GDP growth accelerated to an estimated 4¼ percent in 2004, after averaging about 3 percent during the preceding five years. Growth benefited from declining interest rates, as the Bank of Namibia took advantage of declining inflationary pressures and reduced its key policy rate in several steps from 12¾ percent in January 2003 to 7½ percent in July 2004. In the process, the negative interest rate differential vis-à-vis the South African policy rate was eliminated. During the period, inflation fell from around 13 percent to less than 5 percent. Namibia's per-capita growth has lagged behind that of other countries in the region and has been insufficient to generate a sustained reduction in poverty. The unemployment rate continues to exceed 30 percent, and more than one-fifth of the population is infected with HIV/AIDS.

The fiscal deficit more than doubled in 2003/04, to 7¾ percent of GDP, representing a deviation from Namibia's traditionally good record of macroeconomic stability. As a result, the public debt ratio increased by 6 percentage points, to 31 percent of GDP. The rise in the

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<sup>1</sup> 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.

fiscal deficit reflected mainly tax administration problems, a collapse in mining taxes, and a higher wage bill. The fiscal deficit is projected to fall to 2 percent of GDP in 2004/05, as tax administration problems are being addressed, customs union (SACU) receipts experience a one-time windfall, and non-priority spending is being curtailed. The authorities reiterated their commitment to reduce their public debt ratio over the medium term to bring it close to their fiscal rule target of 25 percent of GDP, notwithstanding the sharp decline of SACU receipts projected for the second half of the decade and the new spending pressures related to the implementation of the HIV/AIDS strategy.

Namibia's external current account surplus is estimated to have risen further in 2004, to 5½ percent of GDP, to some extent reflecting a strengthening of exports to the rand area; the Namibia dollar is pegged to the rand, which has appreciated considerably. While external debt remains low, Namibia's capital account has been marked by increasing net outflows over the past few years, which has contributed to a decline in international reserves. This reflected Namibian pension funds and insurance companies seeking broader investment opportunities in South Africa's financial markets.

### **Executive Board Assessment**

Directors commended the authorities for Namibia's continued strong record of macroeconomic stability, and welcomed the recent rise in GDP growth, decline in inflation, and strengthening of the external current account surplus. At the same time, Directors noted that per capita income growth has been slow, HIV/AIDS is taking a severe toll on the population, unemployment remains high, and income distribution is highly skewed. In addition, the recent sharp widening of the fiscal deficit has increased Namibia's vulnerability to shocks.

Directors considered that Namibia's prospects for sustaining the recent higher growth rates are favorable, provided that the authorities press ahead with the implementation of their strategy to combat the HIV/AIDS pandemic and of structural reforms to promote private sector activity. It will also be important to continue to pursue prudent macroeconomic policies. Several Directors also stressed the importance of creating private sector employment opportunities.

Against the backdrop of the deterioration in the fiscal situation in 2003/04, Directors welcomed the authorities' commitment to return to a path of fiscal consolidation and place the public debt ratio on a downward trajectory. They commended the authorities' decision to forgo a supplementary budget for the current fiscal year and to meet spending needs from the contingency in the budget. Directors observed that the projected large decline in customs union receipts and rising spending related to implementing the HIV/AIDS strategy and meeting the Millennium Development Goals call for a determined effort to curtail nonessential expenditure in the years ahead.

Directors accordingly saw ongoing efforts to strengthen expenditure planning and introduce output-based budgeting as welcome initiatives to facilitate the identification of budgetary priorities and enhance the quality of expenditure. They stressed that lasting progress in

containing expenditure will require firm action to reduce the wage bill and support for public enterprises, which together account for nearly half of total spending. Recent measures, such as the hiring freeze, are encouraging steps that need to be complemented by decisive action on civil service and public enterprise reforms. Directors suggested that the authorities step up their efforts to improve management of inefficient parastatals, and develop a privatization strategy. Directors also encouraged the authorities to commission an independent review and consider the consolidation of tax incentives aimed at attracting foreign investment. They welcomed the authorities' interest in a fiscal ROSC.

Directors observed that the peg of the Namibia dollar to the South African rand has served the country well given Namibia's close economic ties to South Africa. At the same time, the implications for growth and employment prospects of possible further rand appreciation underscore the importance of accelerating structural reforms to enhance the economy's productivity and flexibility.

Directors underscored the importance of ensuring that Namibia maintains an adequate level of international reserves, including by avoiding a negative interest rate differential vis-à-vis the anchor currency. They supported the authorities' efforts to develop domestic financial markets, which should provide more domestic investment opportunities to the rapidly growing pension funds and insurance companies, and help contain investment outflows. In this context, they called for reconsideration of the proposed regulatory amendments to tighten domestic asset requirements.

Directors welcomed the indications that Namibia's banking system is strengthening, but urged careful monitoring of the surge in consumer lending. They welcomed the authorities' request for an FSAP, which will provide the opportunity to evaluate their recently completed self-assessment of compliance with international banking supervision standards and to analyze other financial sector issues. Directors urged the authorities to move expeditiously in making the supervisory agency for the nonbank financial sector fully operational, and to consider prudential limits on the large equity exposure of pension funds and insurance companies. They welcomed the progress made in drafting AML/CFT legislation.

Directors noted that broad-ranging structural reforms will be key to promoting private sector activity, generating employment, and addressing income inequality. These are also the main objectives of Namibia's "Vision 2030" strategic development plan, and will require well-coordinated and targeted efforts to enhance the quality of education, broaden skills development through vocational training, strengthen the business environment (especially for small- and medium-sized enterprises), and improve access to finance. Directors also underscored the importance of enhancing labor market flexibility and ensuring that Namibia's labor costs remain competitive. They acknowledged the broad support among the government, donors, and the farmers union for an acceleration of the government's land redistribution program. Going forward, it will be important to ensure that the new expropriation policy is implemented based on transparent criteria, including to contain any negative repercussions on production and investment.

Directors commended the authorities for their commitment to trade liberalization. The new Southern African Customs Union agreement allows Namibia to participate in the custom union's policy setting and trade negotiation framework, but also requires enhanced capacity in various areas, including customs administration and statistical compilation. In this context, Directors encouraged the authorities to continue their efforts to address data weaknesses building on the significant progress achieved in recent years.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Namibia: Selected Economic Indicators

	2000	2001	2002	2003	2004 Est.
			(In percent)		
Change in real GDP	3.5	2.4	2.5	3.7	4.2
Change in CPI (end-of-period)	10.8	8.3	13.6	2.0	5.0
			(In percent of GDP)		
Overall fiscal deficit 1/	-1.4	-4.5	-3.5	-7.8	-2.0
Public debt 1/	23.1	26.2	25.0	30.9	30.1
			(End-of-period; changes in percent)		
Broad money	13.0	4.5	6.9	9.6	12.7
Credit to the private sector	17.0	16.3	20.2	12.4	17.2
			(In percent of GDP, unless stated otherwise)		
Current account balance	9.3	1.7	3.8	4.0	5.6
International reserves (in months of imports)	1.9	1.7	2.5	1.7	1.6
Exchange rate (Namibia dollar/U.S. dollar, end-of-period)	7.6	12.1	9.3	7.6	5.7

Sources: Namibian authorities and IMF staff estimates.

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

**Statement by Peter Ngumbullu, Executive Director for Namibia  
and John Steytler, Advisor to Executive Director  
February 14, 2005**

1. The Namibian authorities appreciate the candid exchange of views during the 2004 Article IV Consultation discussions. They agree with the thrust of the staff assessment and commend staff for the report, which reflects an open dialogue between staff and the authorities, and gives a fair account of economic developments in Namibia and the challenges ahead. The Namibian authorities also find the topics for the selected papers to be well chosen, as they supplement ongoing work by the authorities in these areas.

### **Background**

2. Namibia has established an enviable record of macroeconomic stability since attaining independence in 1990. This has largely been due to implementation of market-oriented policies, including a credible exchange rate peg, supported by prudent fiscal policies and a stable political and legal environment. Over the period 1990-2004, the country registered an average real GDP growth rate of about 4 percent, making it one of the fastest growing economies in sub-Saharan Africa. Notwithstanding this accomplishment, the country faces enormous developmental challenges, some of which are due to the legacy of the apartheid regime, including high-income inequality, widespread poverty, a narrow economic base, and recently the high incidence of HIV/AIDS.

3. The authorities have responded effectively to these challenges and have made good progress in the context of its medium-term development plans, and their strategy going forward is sound. Building on the progress made, the country launched its long-term development strategy, Vision 2030, which is a comprehensive development plan aimed at transforming Namibia into a diversified and industrialized country, with a high standard of living for all its citizens. The plan further aims at substantially reducing income inequality and unemployment by 2030. The plan has been formulated in close collaboration and consultation with all major stakeholders, including the private sector, labour unions, and civil society and non-governmental organizations. There is, therefore, a strong degree of ownership, which is crucial for its success.

### **Recent Economic Developments and Prospects**

4. Namibia's economic performance improved significantly in 2004. Real GDP growth is estimated to have accelerated to over 4 percent and has been broad-based, driven by private consumption and supported by declining interest rates. The average annual inflation rate declined from 7.3 percent in 2003 to 3.9 percent in 2004, and the surplus on the external current account is estimated to have increased as a ratio of GDP in 2004, while foreign debt stock of the central government remained low. During fiscal year 2003/04, the fiscal deficit, excluding extra-budgetary spending increased to 7.5 percent of GDP. This undesirable outcome was due to the weakening of the US dollar against other currencies that affected corporate profits margins of the export oriented industries and subsequent tax contribution. In

addition, the authorities experienced temporary setbacks in computer systems that support collection of VAT and income tax.

5. Looking ahead, real GDP growth of up to 4 percent is expected for 2005, supported by an increase in mining sector activities, inflation is expected to remain at the existing single digit level, and the external current account is expected to remain in a comfortable surplus. The fiscal position is expected to strengthen markedly during 2004/05, supported by expenditure restraint measures such as freezing of civil service recruitments and traveling related expenditure.

### **Fiscal Policy**

6. The overarching objective of fiscal policy remains fiscal sustainability aimed at keeping inflation low and to sustain the peg exchange rate. The authorities do agree with staff that most fiscal adjustment over the medium term would need to come from the expenditure side, including through freezing of further increase of the wage bill in relation to GDP, reduction of subsidies to parastatals, and spending on goods and services. In part due to larger than expected SACU receipts, the Namibian authorities were able to significantly reduce the budget deficit to 2.0 percent of GDP in 2004/05. In addition, the authorities have implemented several measures to consolidate the fiscal position during fiscal year 2004/05 and in the medium term, including, the following:

- (i) The authorities recognized the urgency of fiscal adjustment and decided not to request for supplementary budget in 2004/05, the first time since independence. Instead, any additional spending needs were addressed by utilizing the contingency provision in the 2004/05 budget.
- (ii) Measures to improve tax administration were implemented, including employment of private audit companies to assist the Ministry of Finance to improve audit capacity. The authorities will further explore measures to broaden the tax base such as the integration of the informal sector into the formal sector.
- (iii) On expenditure outlays, more resources will be allocated for capital expenditure aimed at enhancing economic growth, while trying to restrain current expenditure, including freezing of civil service recruitment, as well as reduction of travel related expenditure.
- (iv) The Ministry of Finance agrees that tax incentives under the Export Processing Zone (EPZ) regime, especially to mining companies might have been rather generous. At the same time, they also believe that the EPZ regime did enable Namibia to attract substantial foreign direct investment. In this connection, the authorities have decided to establish a task force comprising representatives of the Ministry of Finance, the Ministry of Trade and Industry and the Bank of Namibia to review Namibia's incentives regime with a view to streamlining and making it more efficient. The Namibian authorities also agree that an overall stable environment, including political stability, strong legal institutions, and protection of property rights, elements already well

entrenched in Namibia's policy framework, are very important for attracting foreign direct investment.

- (v) Finally, the authorities intend to enhance their medium-term expenditure framework with the gradual introduction of output based program budgeting.

### **Monetary, Exchange Rate and Financial Sector Issues**

7. Monetary policy is anchored on Namibia's exchange rate peg to the South African Rand and membership in the Common Monetary Area (CMA). The primary long-term objective of Namibia's monetary policy is to achieve low and sustainable inflation. The authorities believe that while the recent appreciation of the exchange rate has caused hardship to some exporters, the economy remained competitive overall. Apart from the inflationary expectations problem that is generally associated with a weak currency, there is also the concern that to rely on a depreciating exchange rate for price competitiveness runs the risk of sharp fluctuations in relative prices, and may only be beneficial in the very short-term. The authorities therefore believe that for long-term prosperity the country will be better off with exchange rate stability, and focusing on improvements of total factor productivity for enhancing external competitiveness. In this connection, they recognize the need to develop additional competitiveness indicators that will provide adequate guide to policy.

8. While the authorities do not see drain in international reserves as an indication of lack of confidence, they nevertheless remain concerned about the relatively low level of international reserves, and are exploring ways to build more reserves. In this regard, they welcome the exchange of views with staff on measures to strengthen reserves and will give careful consideration to these suggestions, including obtaining a credit rating and tapping international capital markets through the issuing of a Eurobond. The authorities would also explore other options to bolster reserves such as syndicated borrowing in South Africa or external markets and marketing Namibian public debt instruments in South Africa. They believe that factors contributing to the low reserves level is the large outflow of capital, supported by free flow of capital under the open capital regime under the CMA arrangement as well as lack of investment opportunities in Namibia. The authorities have taken note of staff's advice on the recently proposed measures to stem capital outflow and will reassess the proposed regulations after full consultations with market participants. They, however, believe that the argument of interest rate differential between Namibia and South Africa cannot be blamed for outflows and that hiking interest rate may put undue pressure on the State and may stifle economic growth in Namibia.

9. The banking industry is financially sound, solvent, profitable and liquid, with banks maintaining prudential ratios in excess of statutory requirements, and low ratios of non-performing loans. A recent self-assessment shows that the Bank of Namibia is compliant with 21 of the 25 Basel Core Principles of Effective Banking Supervision. To further strengthen the financial system the authorities have requested for a Bank/Fund Financial Sector Assessment Program (FSAP). An anti-money laundering and CFT legislation is expected to be tabled before Parliament for consideration and adoption in the near future.



## **Structural Issues**

10. The Namibian authorities agree with staff that structural reforms are critical to promoting private sector development, generating employment and addressing the problem of income inequality. In this regard, they recognize the need to strengthen and enhance development of skills, which had been neglected under the apartheid regime, due to lack of vocational training. Notwithstanding the fact that education spending exceeded 25 percent of total spending every year since independence and is among the highest in sub-Saharan Africa, the authorities continue to place this item as one of the highest priority in their agenda. They have also implemented several programs to assist development of small and medium size enterprises.

11. Progress on the trade liberalization front has been significant and Namibia has one of the most open and liberal trade regimes in sub-Saharan Africa, with a simple average tariff of only 11.4 percent compared to the sub-Saharan average of 20 percent. Namibia is committed towards further trade liberalization, and together with its SACU partners, it recently concluded a PTA with MERCOSUR. In the mean time, they are engaged in free trade discussions with the United States, the EU and EFTA. Free Trade under SADC is also progressing well. In 2005, SACU partners are going to unilaterally open their markets for non-SACU members of SADC. The authorities also welcome the US Africa Growth and Opportunity Act, which has enabled them to establish a textile industry, and export textiles and apparels into the US market.

12. The Namibian government reaffirms its commitment to an orderly process in implementing its land distribution program. It has emphasized that expropriation with “just” compensation has become necessary to speed up the land distribution program, which has not been very successful under the “willing buyer willing seller principle” and to free up land that is currently under-utilized. There is a healthy dialogue between the authorities and all stakeholders, and government will continue to make efforts to clarify its policy on this matter. The authorities would like to thank the international community, in particular the European Union and the German government for their support of the land redistribution program.

## **Fight against HIV/AIDS**

13. The Namibian authorities are determined to take the challenge of the HIV/AIDS pandemic head on. In this regard, the government has launched its third medium-term National Strategic Plan (NSP) on HIV/AIDS, covering the period 2004-2009. The goal of NSP is to reduce the incidence of HIV infection to below the epidemic threshold, by 2007. The Namibian government recognizes that HIV/AIDS is also a developmental issue, which requires a comprehensive approach in managing the pandemic. Accordingly, the NSP is built around five core action areas: (i) prevention, (ii) treatment care and support services, (iii) impact mitigation, (iv) provision of strengthened legal and ethical environment and (v) integrated and coordinated program management.

14. Antiretroviral treatment has been introduced in 19 out of 35 public hospitals, while 3000 patients are receiving treatment under the government program. The treatment of prevention of mother-to-child transmission has been rolled out to 25 public hospitals. The authorities hope to be able to extend these services significantly to cover all public hospitals by the end of 2005, with financial assistance from the Global Fund Grant, PEPFAR and domestic resource mobilization. The authorities appreciate the assistance provided by international community in their fight against this pandemic. Thanks to the authorities determined efforts and assistance of the international community, there are currently encouraging signs that the incidence rate of HIV/AIDS may have already begun to level off in 2004, well before the target date of 2007.

### **Other Issues**

15. The Namibian authorities are committed to strengthening the statistical system, by implementing the recommendations of the data module of the Report on Observance of Standards and Codes (ROSC) concluded in 2001. A fair number of these recommendations have already been implemented, and work is ongoing.

16. In conclusion, we believe that the continued dialogue between the authorities and the staff is fruitful. We want to reiterate the strong commitment of the authorities on the reforms and in addressing the economic challenges ahead. In this regard, we trust that the Fund will continue to be fully responsive in providing the technical assistance requested by the authorities to strengthen their ability to implement the reform agenda.