



NAMIBIA

SELECTED ISSUES

June 2026

This paper on Namibia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on May 20, 2026.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>

International Monetary Fund
Washington, D.C.



NAMIBIA

SELECTED ISSUES

May 20, 2026

Approved By
Xiangming Li (AFR)

Prepared By Hannah Brown, Yumeng Gu, Hajime Takizawa, and Qianqian Zhang (AFR). Erick Trejo Guevara (AFR) provided administrative assistance.

CONTENTS

ANALYZING SOCIAL SPENDING IN NAMIBIA	3
A. Introduction	3
B. Context, Definitions, and Fiscal Sustainability	3
C. Education	6
D. Health	11
E. Social Protection	15
F. Conclusions	18
BOXES	
1. Health Financing, Fragmentation, and Reform in Namibia	14
2. Social Assistance Programs in Namibia	16
FIGURES	
1. Definition of Social Spending	4
2. Fiscal and Expenditure Trends	5
3. Expenditure Classification	6
4. Education Expenditure	7
5. Population Indicators	7
6. Education Expenditure Peer Comparison	7
7. Expenditure and Teachers per Student	8
8. Expenditure and Education Outcomes	9
9. Teachers and Education Outcomes	9
10. Education Outcomes and Proficiency	10
11. Education Efficiency Gap	10
12. Obstacles to Seeking Care When Needed	11
13. Government Health Expenditure	11

14. Health Spending Peer Comparison, Needs, and Human Capital	12
15. Health Outcome: Life Expectancy	13
16. Health Efficiency Gap	15
17. Social Assistance Spending Peer Comparison and Income Distribution	16
18. Simulated Impact of Social Assistance Spending	17
19. Targeting of Social Pension—Peer Comparison	18
References	20
POLICY TRANSMISSION THROUGH BANKING: EVIDENCE FROM NAMIBIA	22
A. Introduction	22
B. Context: Monetary Policy and Interest Rate Setting in Namibia	23
C. Empirical Strategy	27
D. Aggregate Pass-Through Estimates	29
E. Conclusions and Policy Implications	30
FIGURES	
1. Repo Rate and SARB Policy Rates	23
2. Composition of Bank Loans and Growth Rate	25
3. Bifurcated Transmission of Monetary Policy in Namibia	26
4. Banks' Interest Rate Margin	27
5. Pass-Through to the Aggregate Interest Rate	29
References	32

ANALYZING SOCIAL SPENDING IN NAMIBIA¹

A. Introduction

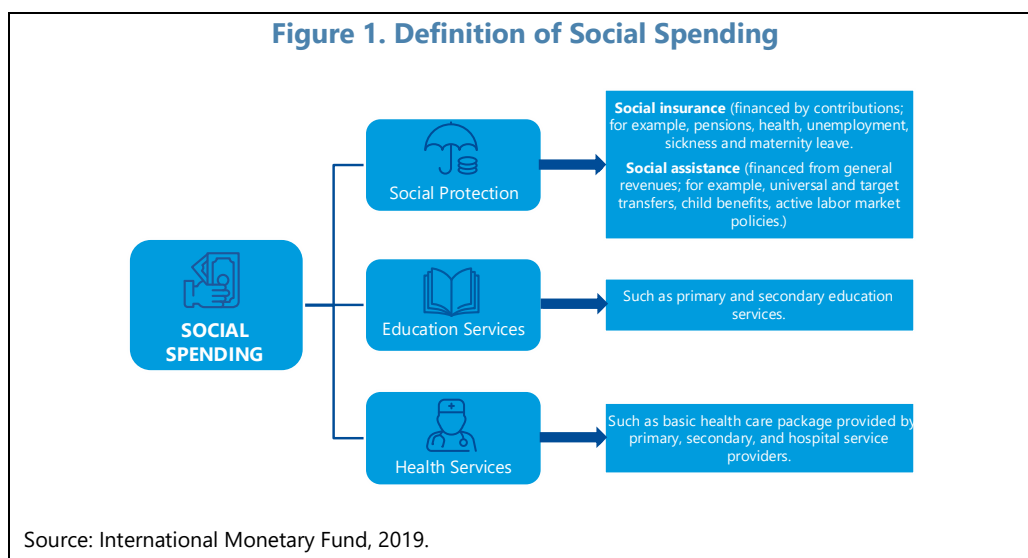
1. **Social spending plays a critical role in addressing Namibia’s socio-economic challenges, given the country’s high inequality, elevated unemployment, and still large development needs.** Namibia is a lower-middle-income country characterized by high inequality, with a Gini index of 0.63 in 2022 (World Bank). Namibia has made important progress in expanding access to basic services over recent decades, supported by relatively high public spending on education, health, and social protection compared with peers.
2. **However, outcomes remain uneven across sectors and population groups, partly reflecting structural constraints but also pointing to potential scope for improving allocative efficiency.** On education, despite relatively high spending and near-universal access, outcome gaps remain, particularly at the secondary level, and high repetition and dropout rates from school are also a concern. On health, outcomes lag peers, which may reflect gaps in resource allocation, including a fragmented financing system, a bias toward hospital-based and curative care, and an uneven distribution of health workers. Finally, on social assistance, there are still coverage gaps and weak targeting, particularly in large programs such as the old-age grant, limiting their effectiveness in reaching the most vulnerable. While these gaps partly reflect structural constraints, including low population density and geographic dispersion, they also point to scope for efficiency gains through better resource allocation and utilization to achieve stronger and more inclusive social outcomes.
3. **At the same time, the dominance of recurrent social spending amid fiscal pressures raises concerns about the sustainability of current spending patterns.** Although consolidation efforts have helped stabilize the fiscal outlook, policy space remains limited, constraining the government’s ability to respond to shocks and finance development priorities. The composition of expenditure, characterized by a high share of recurrent spending including wage-related outlays, further reduces flexibility and raises concerns about efficiency and sustainability. In this context, improving the quality and efficiency of public spending has become central to sustaining macroeconomic stability and supporting inclusive growth objectives.
4. **The paper is organized as follows.** Section B provides the conceptual framework and situates social spending within the broader fiscal context. Section C assesses the education sector. Section D examines the health sector. Section E analyzes social protection, with particular emphasis on social assistance. Section F concludes with policy implications.

B. Context, Definitions, and Fiscal Sustainability

5. **Social spending is defined broadly to encompass public expenditures that promote inclusive growth, protect households against shocks, and build human capital.** It comprises

¹ The authors would like to thank Mariano Moszoro for his insightful comments.

three interrelated pillars: education, health, and social protection (IMF, 2019) (Figure 1). Education spending covers the provision of core education services, with particular emphasis on expanding access to basic education, while health spending finances access to essential health services through primary, secondary, and hospital care providers, with the scope varying by country context and level of development.² Social protection includes both (1) contributory social insurance programs, such as pensions, health insurance, unemployment benefits, and maternity leave, which are typically financed through contributions or payroll taxes; and (2) non-contributory social assistance, financed from general revenues and aimed at protecting households from poverty through universal or targeted transfers, child benefits, and active labor market policies. Together, these components form a core set of fiscal policy instruments for promoting equity, resilience, and long-term growth.



6. The analysis of social spending can be anchored in three interrelated dimensions: fiscal sustainability, spending adequacy, and spending efficiency. First, social spending must be assessed within a credible medium-term fiscal framework to ensure that outlays are consistent with debt sustainability and macroeconomic stability. Second, spending adequacy is evaluated relative to country-specific circumstances, including the level of development, demographic and social needs, and existing coverage gaps, with a focus on whether social spending is sufficient to ensure effective access to basic education, essential health services, and social protection for vulnerable groups. Third, spending efficiency assesses the extent to which allocated resources translate into intended social outcomes, taking into account program design, targeting, implementation capacity, and governance. Strengthening efficiency is a critical lever to enhance social outcomes while preserving fiscal space and supporting inclusive and sustainable growth.

7. Fiscal sustainability is a foundation for sustained social spending, as durable improvements in social outcomes require that spending be credibly financed without undermining macroeconomic stability. Social spending that outpaces revenue capacity or is

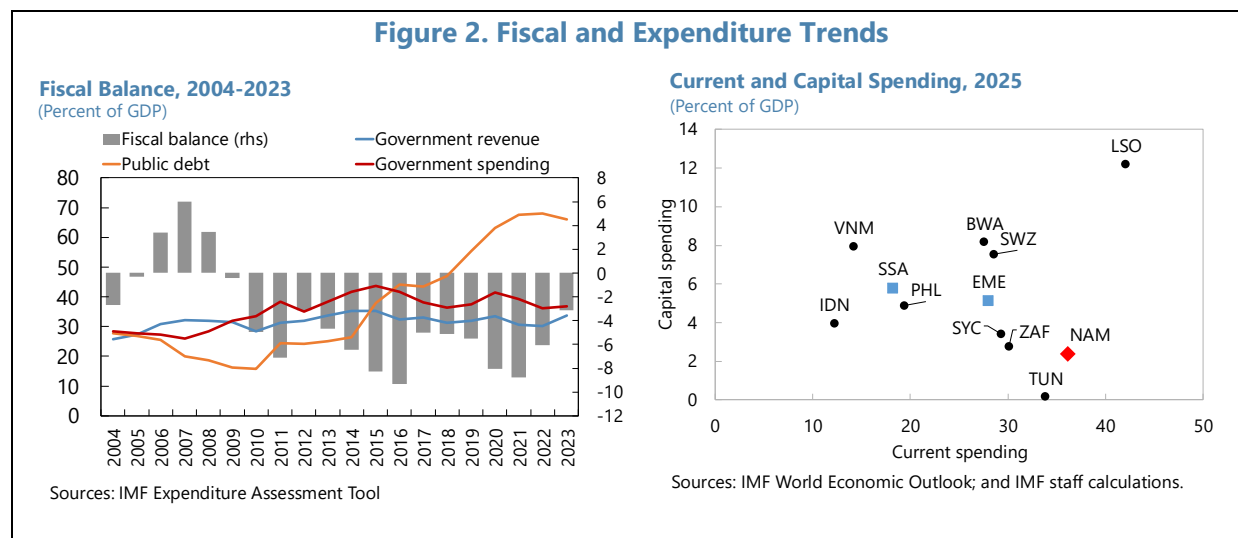
² In line with IMF practice and international standards such as the Classification of the Functions of Government (COFOG).

financed by persistent deficits and rising debt can become procyclical and ultimately unsustainable, leading to abrupt adjustments that weaken service delivery and social protection when most needed, while crowding out other important development spending, such as infrastructure.

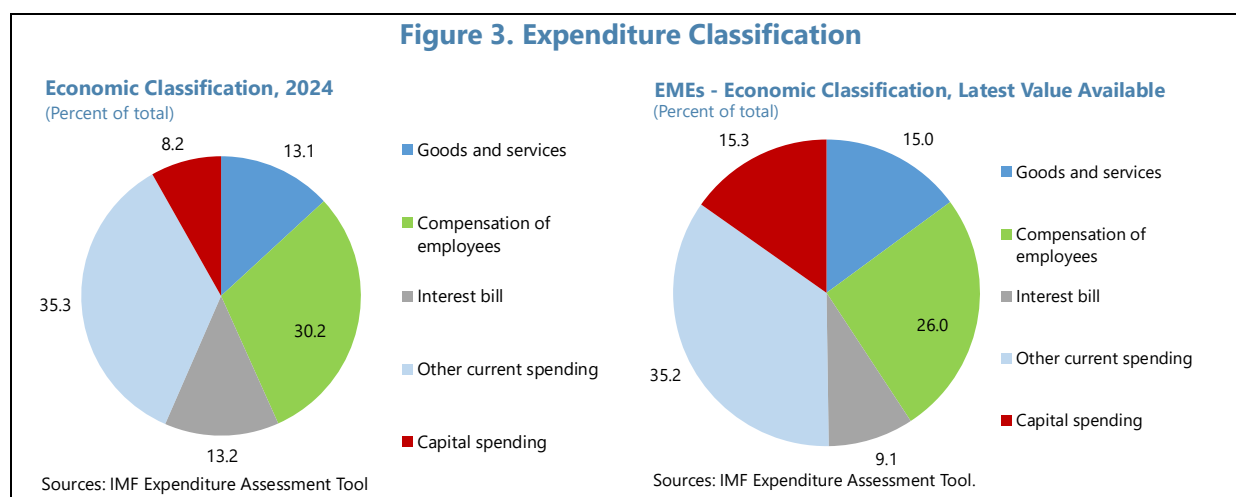
8. Social spending accounts for a large portion of expenditure in Namibia. It amounted to 56 percent of total non-interest expenditure in FY2024/25.³ At the same time, Namibia’s expenditure structure is characterized by a high share of current spending, including the compensation of employees and other current social spending, while capital spending of the central government has declined to around 3 percent of GDP (Figure 2). Relative to selected emerging market economies (EMEs), current spending appears elevated while capital spending is comparatively low (Figure 3).

9. Fiscal space in Namibia has shrunk against the backdrop of elevated social and other current spending. The period of elevated spending has coincided with persistent fiscal deficits and rising public debt, reducing fiscal space to respond to shocks (Figure 2). While social spending plays a critical role in supporting inclusive growth and social cohesion, its expansion in a context of limited revenue growth and high expenditure rigidities risks further debt accumulation or crowding out priority investment and countercyclical policy capacity.

10. It is, therefore, important to assess social spending efficiency to help achieve intended outcomes within tight fiscal constraints. The remainder of the paper examines spending adequacy and efficiency across the three pillars—education, health, and social protection—and draws policy implications.



³ It comprises health, education and social protection as reported in “Classification of Expenditure by Functions of Government According to Division and Groups” in the budget document *Estimate of Revenue and Expenditure 2026–2027*.



C. Education

11. Namibia’s education system is characterized by near-universal access and high public spending, but there is room to improve learning outcomes and resource allocation. The system comprises pre-primary, primary, and secondary education with academic and technical streams, alongside a growing technical and vocational training and tertiary sector (UNICEF, 2017), and is anchored in the authorities’ long-term objective of transitioning to a knowledge-based economy under Vision 2030. Despite these achievements, structural constraints, particularly those stemming from low population density and geographic dispersion, contribute to the high cost of service delivery and complicate equitable access. At the same time, elevated youth unemployment (44.4 percent) and skill mismatches (UNICEF, 2017) highlight potential challenges in school-to-work transitions, suggest scope to better understand how education outcomes connect with labor market opportunities.

12. Public spending on education in Namibia has increased over time, with the most expenditures allocated to recurrent items, notably wages (Figure 4). Education currently absorbs roughly one-quarter of total government expenditure. Recurrent spending on personnel and operational costs dominates, potentially at the expense of complementary inputs such as infrastructure, teaching materials, and targeted programs that play an important supporting role in the education system. At the same time, rapid population growth (Figure 5) is increasing demand pressures on the education system. In this context, improving the relevance and alignment of education programs with labor market needs could help strengthen school-to-work transitions and support the absorption of graduates into productive employment. Such improvements would contribute to better translating education spending into human capital gains, supporting growth over the medium term while operating within a constrained fiscal envelope.

Figure 4. Education Expenditure

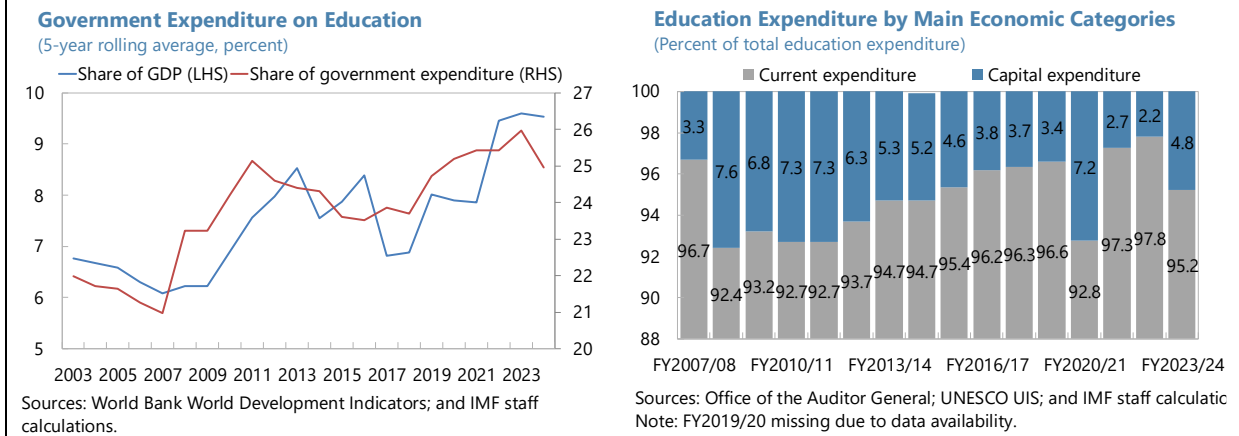


Figure 5. Population Indicators

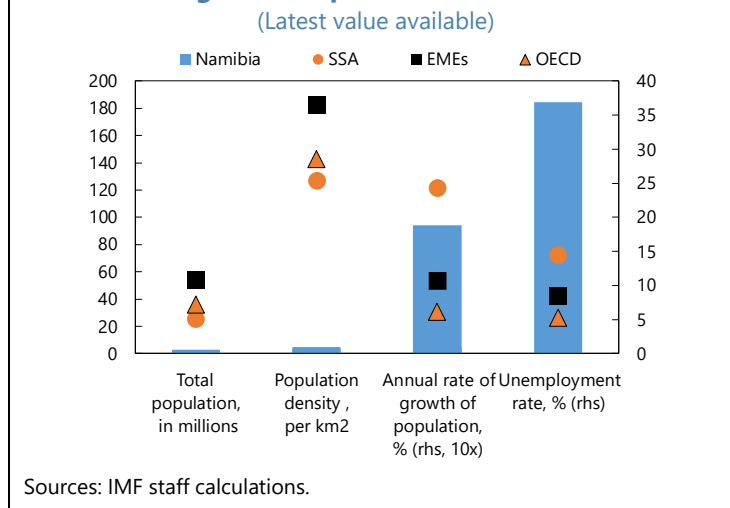
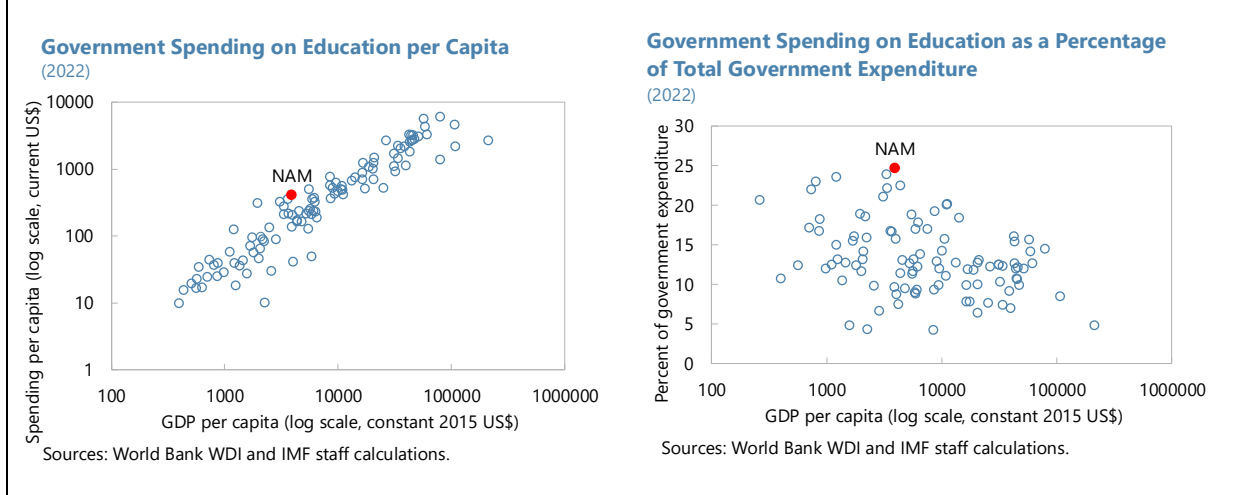
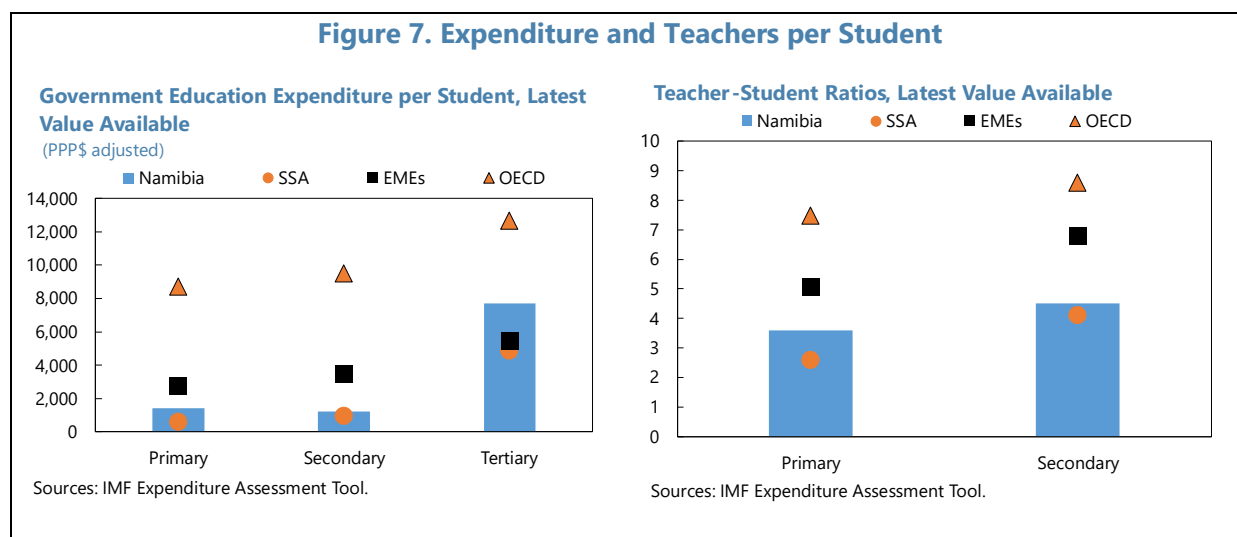


Figure 6. Education Expenditure Peer Comparison



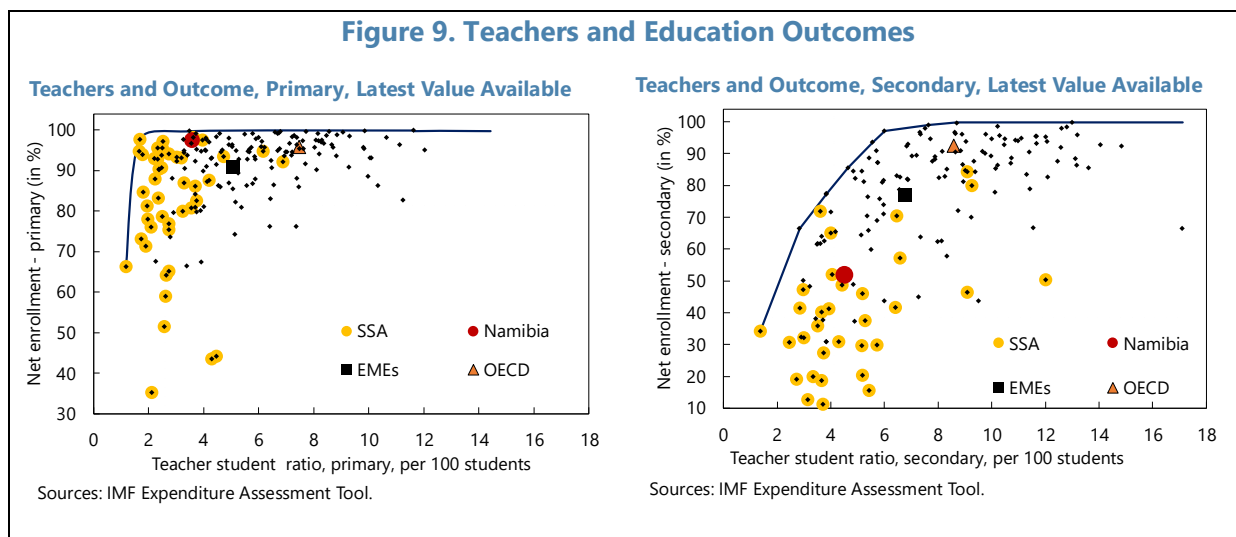
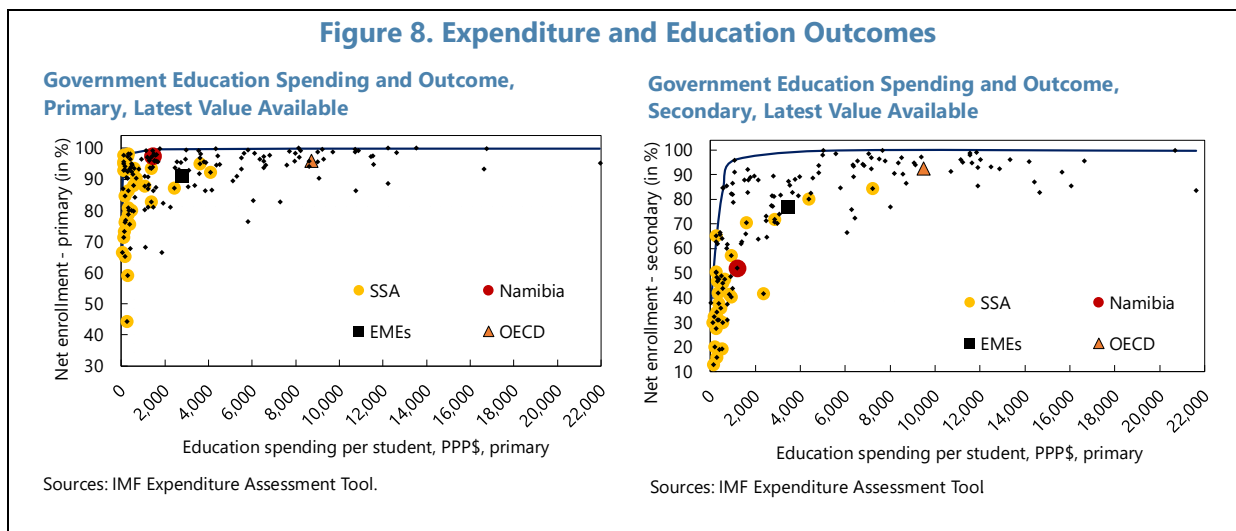
13. Public spending on education in Namibia is high compared with peers at similar income levels, but the allocation of education resources is tilted toward tertiary education.

Education spending exceeds peer countries both as a share of GDP and as a share of total public expenditure (Figure 6). Meanwhile, spending on tertiary education exceeds the emerging market economies (EMEs) average, but spending on primary and secondary education is below, albeit comparable with the sub-Saharan African (SSA) average (Figure 7). Reflecting this, Namibia’s teacher–student ratio in primary and secondary education remains below the EME averages, consistent with comparatively lower spending per student at these levels. Beyond demographic pressures and geographic dispersion, this pattern may reflect allocation choices, particularly a relatively high share of spending on tertiary education. While such prioritization can support skills upgrading and long-term growth, it may come at the expense of resources available per student at lower levels of education. This raises questions about allocative choices within education spending, and, in turn, its efficiency, particularly the balance between tertiary and basic education, as well as the balance between recurrent and capital spending as discussed previously. These allocation patterns are reflected in uneven outcomes across education levels, as discussed below.

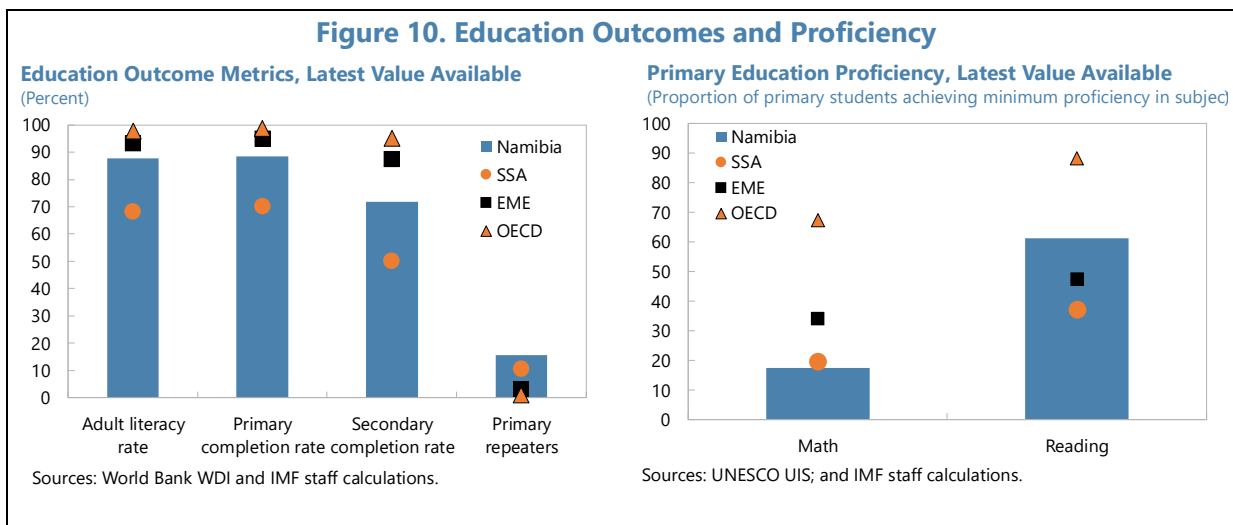


14. While Namibia compares favorably in primary education enrollment, secondary education lags behind.

Primary enrollment rates are significantly higher than those of its peers. This suggests that compared with countries with similar spending per student, at the primary level, access has achieved a level comparable to the best observed among peers. By contrast, secondary school enrollment falls below peers (Figure 8 and 9). This points to the need for targeted examinations of the relationship between inputs and enrollment outcomes in secondary education, and to identify the factors constraining enrollment at the secondary level.

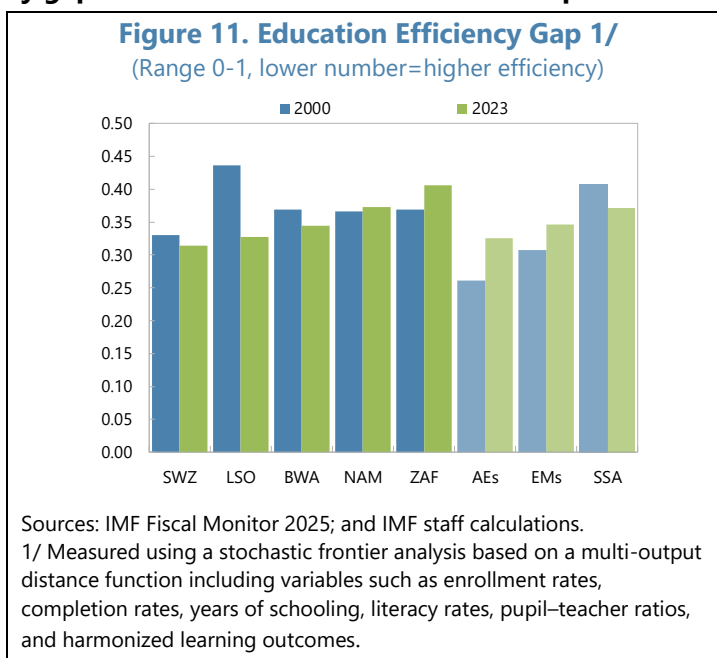


15. Other education outcomes point to efficiency gaps in both primary and secondary education (Figure 10). School completion rates remain below the EME average, while repetition rates are above, even exceeding the SSA average. While Namibia compares favorably in reading skills, it falls below the SSA average in math. Taken together, these patterns suggest that although Namibia has achieved broad access supported by substantial fiscal commitment, there is scope for improving outcomes, possibly through better resource allocation.



16. The education spending efficiency gaps in Namibia have shown limited improvement over the past two decades⁴

(Figure 11). Using a stochastic frontier framework that benchmarks outcomes against best-performing countries in terms of enrollment rates, completion rates, years of schooling, literacy rates, pupil–teacher ratios, and harmonized learning outcomes, Namibia’s efficiency gap has edged up slightly over the past two decades and remains high among SACU countries and compared with EMs. This indicates that relative to peers with comparable levels of total public education spending per capita, outcomes still have room to improve, which may reflect—among other factors—a combination of structural constraints and inefficiencies in resource allocation and service delivery.

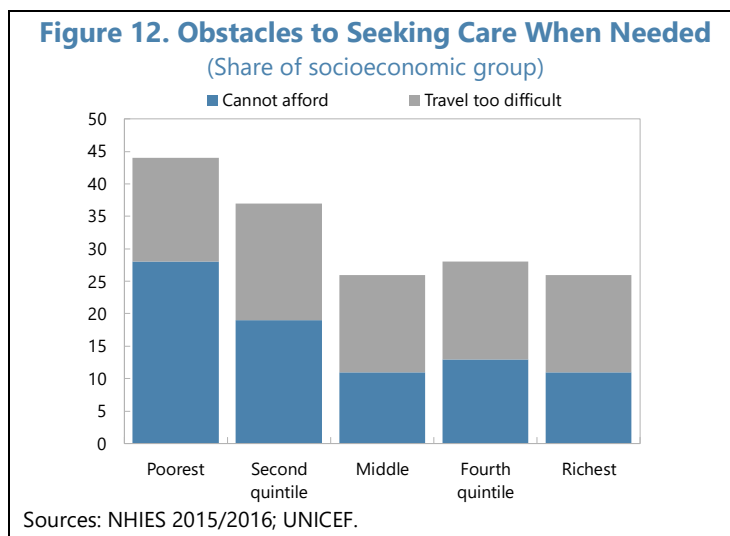


⁴ The spending efficiency gap is estimated using a stochastic frontier analysis (SFA) framework that compares observed public spending outcomes with the maximum achievable outcomes given the same level of inputs. For education, the input is public education expenditure per capita (expressed in constant 2021 PPP dollars and typically smoothed using a five-year moving average for persistence effects). The outputs capture both quantity and quality dimensions of education outcomes and include indicators such as primary enrollment rates, completion rates, years of schooling, literacy rates, and measures of education quality (e.g. pupil–teacher ratios or harmonized learning scores). These multiple outcome indicators are incorporated jointly in a multi-output distance function to assess how far observed performance lies from the best-practice frontier. See the IMF Fiscal Monitor 2025 Chapter 1 Online Annex for more details on methodology (IMF Fiscal Monitor 2025).

D. Health

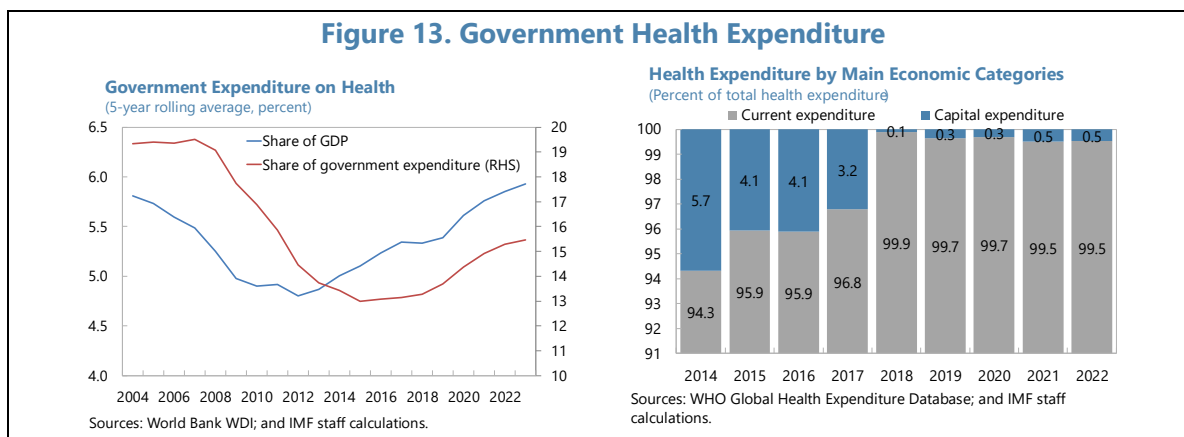
17. While Namibia has made progress in health outcomes, it still faces significant challenges in achieving equitable service delivery (Figure 12). Namibia operates a dual health

system in which the public system serves over 80 percent of the population, including the poorest, whereas the private sector employs a disproportionately large share of the country’s health care professionals (UNICEF, 2022). This pattern has been documented across many low- and middle-income countries (Basu et al., 2012). As the public system faces capacity constraints, this segmentation could contribute to unequal access to quality care, suggesting a potential uneven distribution of resources

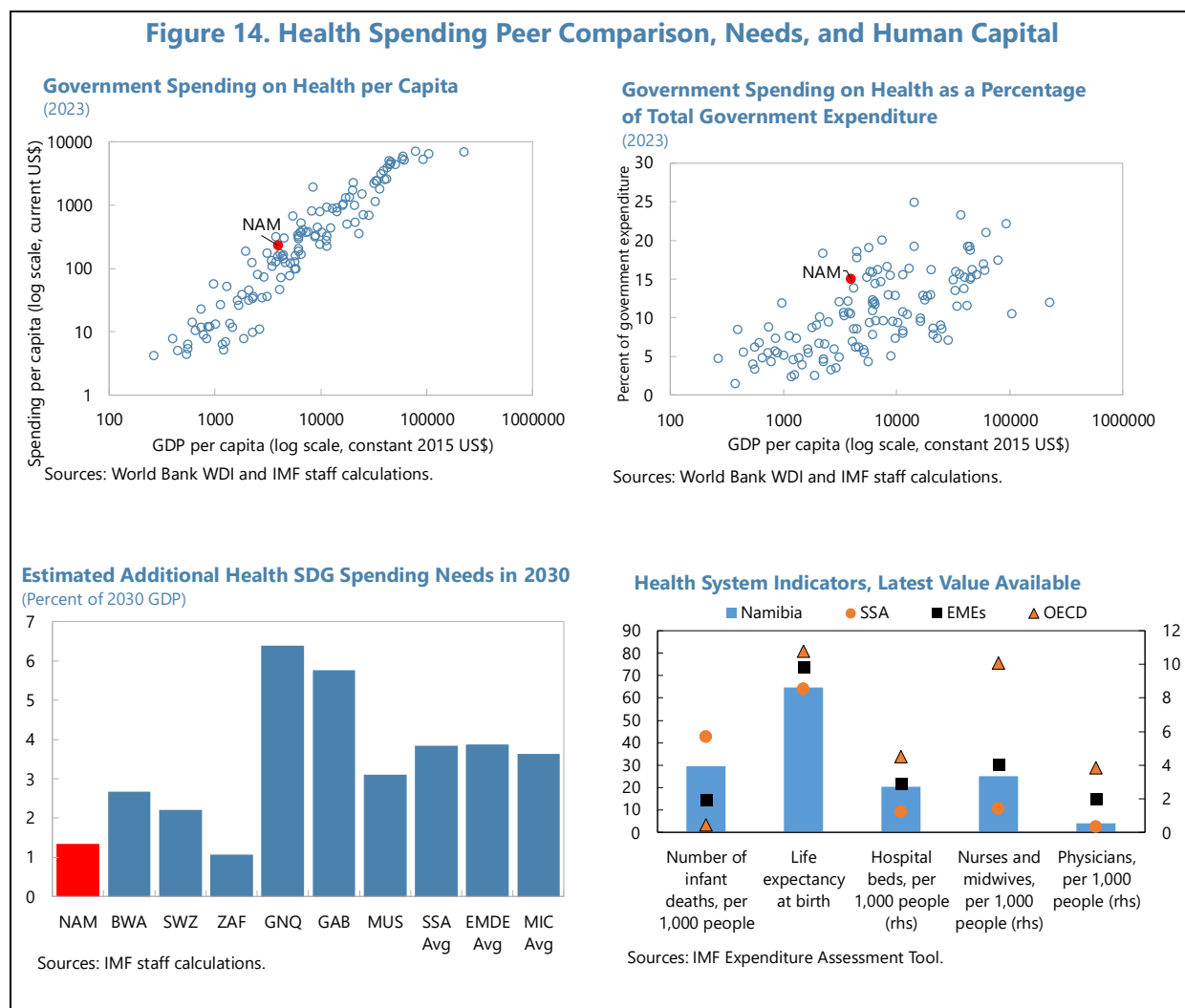


across the health system. Low population density further raises delivery costs and exacerbates disparities in access to health services. Despite significant reductions in AIDS-related, child, and maternal mortality, Namibia still faces high burdens of communicable and non-communicable diseases, including HIV and tuberculosis, placing sustained pressure on public health spending amid a constrained fiscal envelope (World Bank, 2019; WHO, 2025).

18. Namibia’s health expenditure has increased in recent years and is heavily concentrated in current spending. Public health expenditure accounts for about 15 percent of total government spending, or 5.5 percent of GDP in 2023 (Figure 13). However, the composition of spending is skewed toward recurrent outlays, with wage costs—and overtime payments in particular—being a major source of budget overruns, especially in the post-COVID-19 period. This has coincided with limited capital investment and under provision of quality-enhancing inputs, which have represented less than 1 percent of total spending in recent years.



19. Reflecting the relatively large share of public resources devoted to health, Namibia’s health spending adequacy compares favorably with many of its peers. At comparable levels of GDP per capita, Namibia ranks among the highest in government health spending, both in per capita terms and as a share of total government expenditure (Figure 14). IMF estimates further suggest that the additional financing required for Namibia to close health-related Sustainable Development Goal (SDG) gaps, approximately 1.4 percent in 2030 as a percent of 2030 GDP, is modest relative to peers at comparable income levels (Figure 14)⁵.



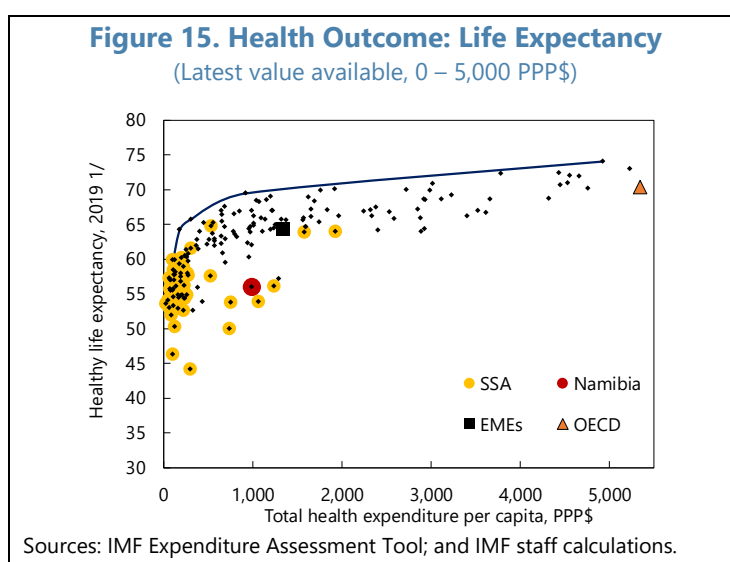
⁵ Health-related SDG (SDG3) spending needs are estimated using a peer-benchmarking framework that maps key health-sector input requirements, such as medical staff density and wage levels relative to GDP per capita, to those observed in high-performing income peers. Target health spending in 2030 is derived by applying these benchmarks, adjusted for projected demographics trends, particularly the share of high-cost populations (children under one and adults aged 60 and above), and GDP. Additional spending needs are measured as the gap between this target and current health spending, expressed as a percent of GDP. Estimates cover total health spending (public and private) and assume constant relative prices and no efficiency gains beyond those embedded in peer benchmarks (Carapella et al, 2023).

20. Despite the relatively high level of spending, Namibia’s health input indicators are below EME averages (Figure 14). While the availability of health workers and hospital beds are higher than SSA averages, they are below EME averages and distributed unevenly, with a large share of health professionals concentrated in the private sector.

21. Against this backdrop, health outcomes also lag those of emerging market peers. Both infant mortality and life expectancy indicators are weaker than those of emerging market peers. Healthy life expectancy is below the best observed outcomes for life expectancy at comparable spending levels (Figure 15). It stood at 52.8 years in 2021, below both the SSA and middle-income country averages of 54.9 and 62.4 years, respectively; and had declined from earlier highs, partly reflecting COVID-19 disruptions, as well as underlying structural challenges that predate the pandemic (WHO, 2024).

22. The outcomes may be associated with features of Namibia’s segmented financing architecture (Box 1). About a quarter of government health spending is used to subsidize the Public Service Medical Aid Scheme (PSEMAS), an insurance scheme for civil servants and their dependents, which covers only 12 percent of the population and allows access to both private and public health care services (UNICEF, 2022). This arrangement constrains effective risk pooling and the redistribution of public resources

across the population and is associated with a spending composition that places relatively less emphasis on primary and preventive care. In addition, health spending has become increasingly concentrated in hospitals and clinical and curative care,⁶ accounting for over 70 percent of the MoHSS budget, which are typically more resource-intensive than primary and preventive interventions (UNICEF, 2022; MoHSS, 2025). The authorities have initiated reforms aimed at addressing these structural features and strengthening public services, although implementation risks remain.



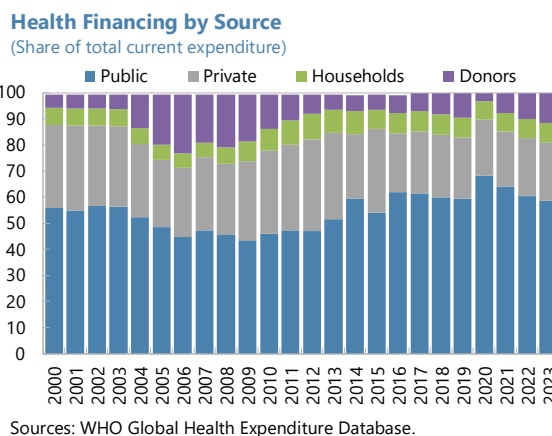
⁶ “Curative and clinical care” refers to spending under the Ministry of Health and Social Services (MoHSS) Budget Programme 02, covering inpatient and outpatient clinical services, specialized hospital-based care, and the procurement of medicines and medical equipment (MoHSS, 2025).

Box 1. Health Financing, Fragmentation, and Reform in Namibia

Namibia’s health system is financed through a mix of public funding, private medical aid schemes, out-of-pocket payments, and donor financing concentrated on HIV/AIDS. The government is the predominant financier, but the financing architecture is segmented. The Public Service Medical Aid Scheme (PSEMAS)—a government-subsidized insurance scheme for civil servants and their dependents—is financed largely through government contributions, accounting for over 75 percent of total funding, with the remainder funded through employee contributions at a flat-rate as a percentage of earnings (UNICEF, 2022). PSEMAS provides access to both private and public health care providers, creating a two-tier system in which civil servants can access private care while most of the population relies on tax-funded public services.

To address these structural features, the authorities have launched an ambitious reform agenda centered on achieving universal health coverage (UHC). Key milestones include:

- October 2025: Adoption of the UHC Policy and the Ministry of Health and Social Services Strategic Plan for 2025/26–2029/30, targeting expanded access, improved quality, and strengthened governance.
- April 2026: Launch of the Vision April 2026 initiative, which requires civil servants to seek inpatient care in public facilities, with PSEMAS reimbursements reinvested into the public system. Complementary measures include infrastructure upgrades, workforce expansion, improved medical equipment procurement, and electronic billing and IT systems.



These reforms aim to consolidate risk pooling, reduce financing fragmentation, and strengthen the link between health spending and service delivery. Implementation risks remain, particularly regarding facility readiness, referral systems, and administrative capacity.

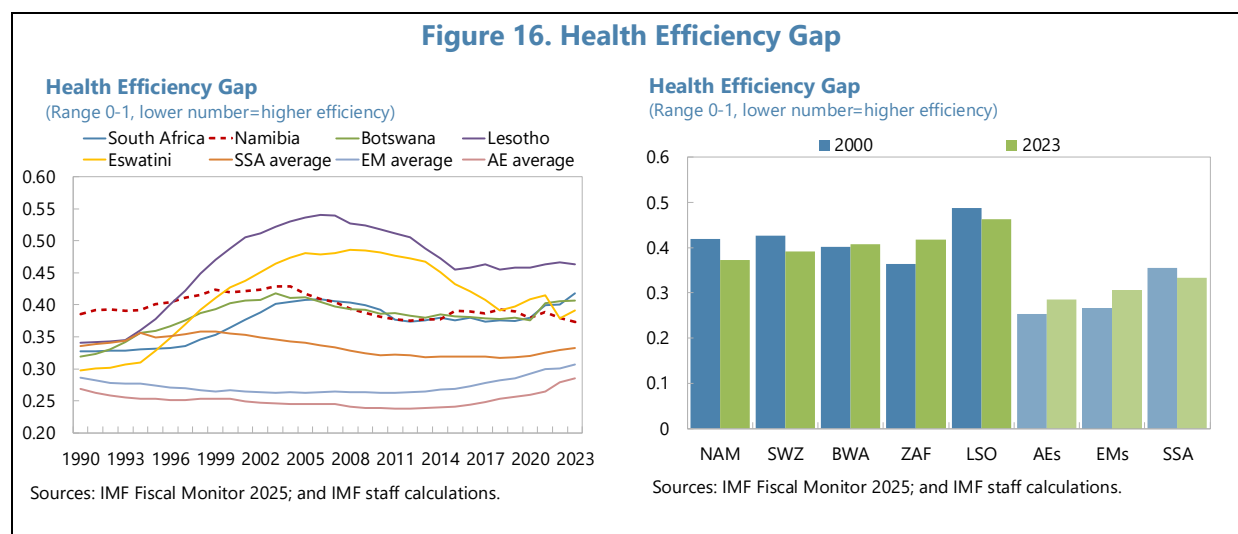
Sources: Republic of Namibia, 2025 and 2026; UNICEF, 2022; and IMF staff.

23. Health spending efficiency gaps in Namibia have narrowed modestly over time

(Figure 16). Using a stochastic frontier analysis⁷ that benchmarks health outcomes against those observed in higher-performing countries, Namibia’s estimated efficiency levels have increased slightly over the past two decades and are broadly comparable to those of other SACU members. However, relative to emerging market peers, Namibia’s efficiency estimates remain lower, improvements over time have been gradual. The estimated efficiency gap indicates that, at existing

⁷ The health spending efficiency gap is estimated using a stochastic frontier analysis (SFA) framework that benchmarks observed outcomes against a best-practice frontier, representing the highest outcomes achieved by comparable countries given the same level of inputs. For health, the primary input is public health expenditure per capita, expressed in constant 2021 PPP dollars and smoothed using a five-year moving average to account for persistence in spending effects. The outputs capture both quantity and outcome dimensions of health system performance and include measures of healthcare capacity (such as physicians per capita) and health outcomes (including life expectancy and infant mortality). These multiple outcome indicators are incorporated jointly through a multi-output distance function, allowing assessment of how far observed performance lies from the efficiency frontier. See the IMF Fiscal Monitor 2025 Chapter 1 Online Annex for more details on methodology. (IMF Fiscal Monitor 2025).

spending levels, health outcomes are below those achieved by some peer countries, although the analysis does not identify the underlying drivers of these differences.



24. The analysis indicates that improving resource allocation and service delivery has the potential to improve health outcomes in Namibia. Health spending is comparatively high relative to regional and income group peers, and the additional financing needed to close SDG-related gaps appears modest. Yet Namibia remains well below the efficiency frontier: for comparable levels of expenditure, peer countries achieve significantly better health outcomes, and the efficiency gap has narrowed only modestly over time. As discussed above, this may reflect a combination of systemic allocation choices—including financing fragmentation and a concentration of spending on PSEMAS and curative care—and structural cost factors, such as low population density and geographic dispersion—all of which constrain the system’s ability to translate resources into better outcomes. Other studies have documented weaknesses in budget execution, inter-regional resource allocation, procurement, pharmaceutical management, and hospital productivity (World Bank, 2019). The authorities' universal health coverage reform agenda, including the phased redirection of PSEMAS beneficiaries toward public facilities, aims at addressing these structural distortions.

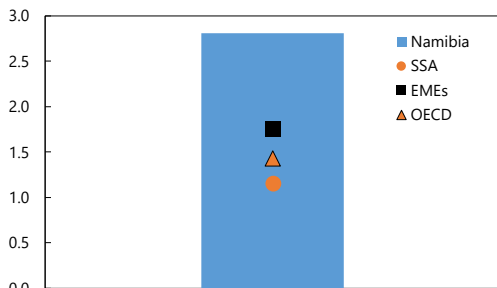
E. Social Protection

25. Namibia allocates a relatively high level of resources to social assistance, covering many types of vulnerabilities. Social assistance spending, at around 3 percent of GDP, exceeds the averages of all comparison groups, reflecting a strong policy commitment to redistribution (Figure 17). Vulnerabilities addressed by social assistance programs include old-age poverty, disability, child vulnerability, extreme poverty and food insecurity, and shock-related distress, including drought (Box 2).

Figure 17. Social Assistance Spending Peer Comparison and Income Distribution

Social Assistance Spending

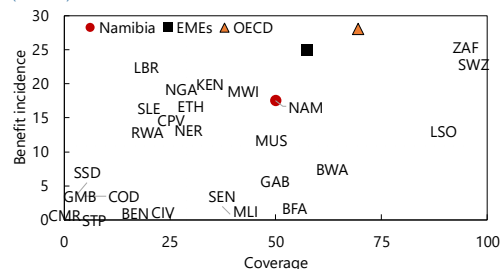
(Latest value available, percent of GDP)



Sources: IMF Expenditure Assessment Tool; and IMF staff calculations.

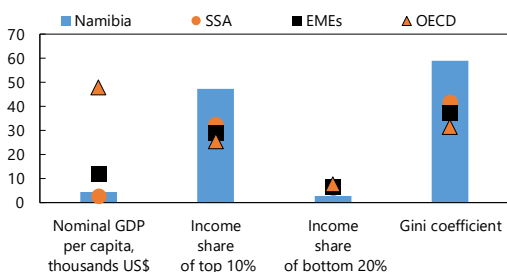
Social Assistance Coverage and Benefit Share of Poorest 20 percent, Latest Value Available

(Percent)



Sources: IMF Expenditure Assessment Tool; and IMF staff calculations.

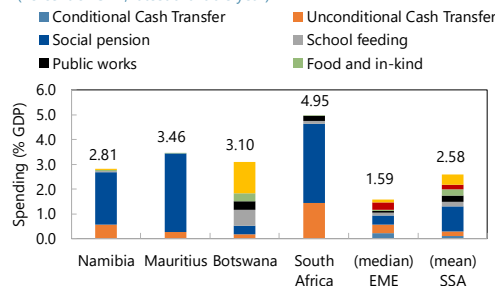
Income Distribution Indicators, Latest Value Available



Sources: IMF Expenditure Assessment Tool; and IMF staff calculations.

Annual Spending by Composition

(Percent of GDP, latest available year)



Sources: IMF Social Protection and Labor Toolkit.

Box 2. Social Assistance Programs in Namibia

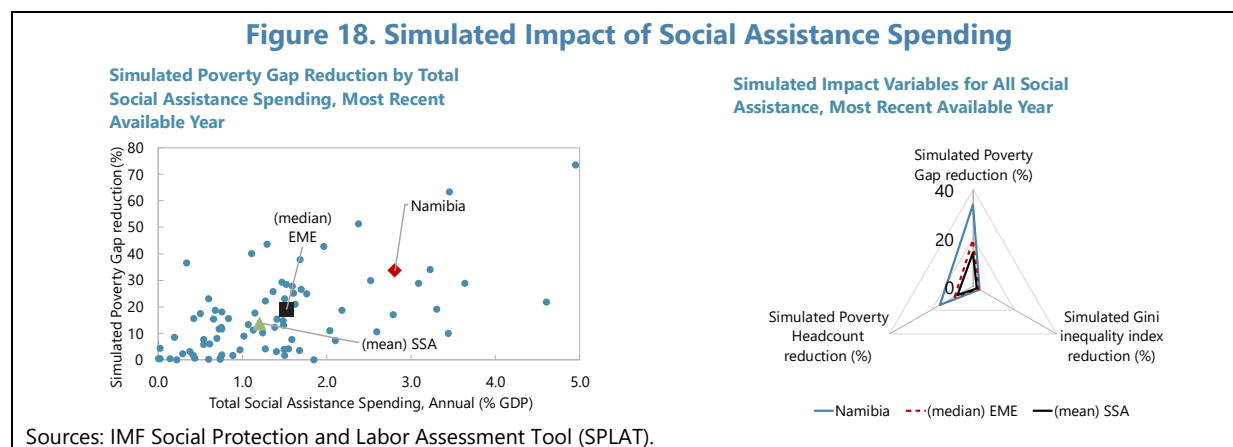
Namibia’s social assistance system covers multiple dimensions of vulnerability. These programs are generally not income- or means-tested. Key programs include:

- **Old Age Grant (Social Pension):** A non-contributory unconditional cash transfer paid to older persons who have reached the statutory eligibility age. It is intended to address poverty and income insecurity among the elderly.
- **Disability Grant:** An unconditional cash grant provided to individuals assessed as having a qualifying disability. It aims at addressing reduced earning capacity and the higher living costs associated with disability.
- **Child Grants:** A basic income support to children facing poverty, family disruption, or lack of parental care.
- **Veterans’ Grant:** A categorical cash transfer provided to recognized veterans of Namibia’s liberation struggle, providing income security for war veterans and their dependents.
- **Conditional Basic Income Grant (CBIG):** A conditional cash transfer, targeting destitute households based on observed deprivation. It aims to alleviate extreme poverty among highly vulnerable households.
- **National Drought Relief Program:** Provides food assistance, food vouchers, cash support, water access, seeds and livestock support. It is deployed to address acute food insecurity and livelihood losses caused by drought and other climate-related shocks.

Sources: Republic of Namibia, 2021; and UNICEF, 2023.

26. Evidence suggests that Namibia’s social assistance system fares well in reducing poverty, although caution is warranted to draw definitive conclusions given data limitations.⁸

In particular, Namibia’s social assistance system is assessed to reduce the simulated poverty gap and headcount to a greater extent than the median EME and mean SSA, controlling for total social assistance spending levels (Figure 18).⁹ This suggests that Namibia’s social assistance system translates spending into poverty reduction more effectively than the peer median, conditional on spending levels.



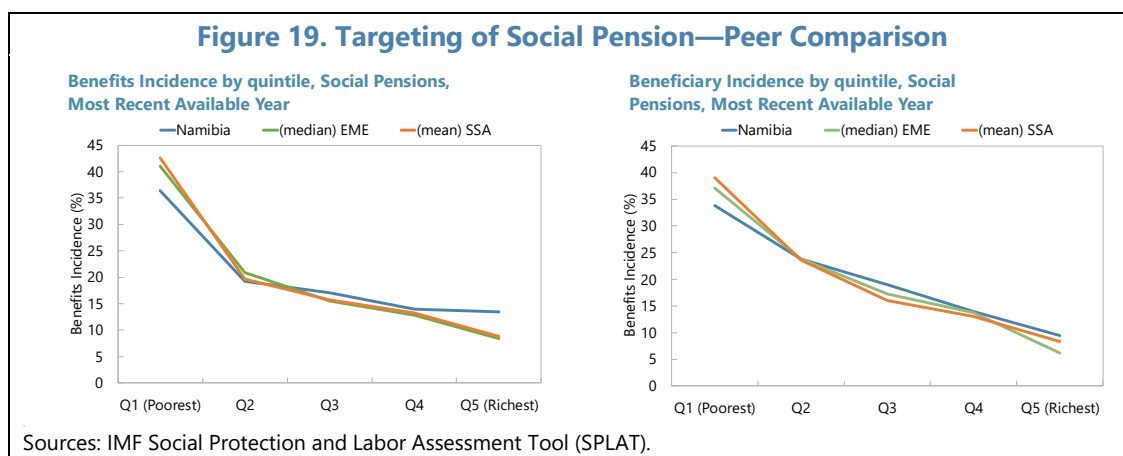
27. Despite relatively high spending, challenges remain with respect to adequacy along the dimension of coverage and benefit distribution. Coverage of social assistance programs remains moderate, with a sizable share of the poor not reached, while the benefit incidence accruing to the poorest 20 percent is below that observed in several EMEs and OECD countries.¹⁰ A close look at the Old Age Grant, which accounts for a large share of Namibia’s social assistance spending, reveals room for improving targeting, with the benefit and beneficiary shares accruing to the poorest being lower and the benefit share accruing to the richest being higher in Namibia than those observed in the median EME and mean SSA (Figure 19). These gaps are particularly salient in light of Namibia’s socioeconomic context, characterized by high income inequality, elevated unemployment, and relatively rapid population growth, which amplify demands on social protection systems. Overall, the evidence indicates that while aggregate social assistance spending is not low by regional standards, adequacy challenges persist due to gaps in coverage and weaknesses in targeting. In this context, and amid a constrained fiscal envelope, improving targeting and expanding the effective reach of programs could help ensure that existing resources translate into

⁸ The analysis in this section is based on Namibia’s 2015/16 Household Income and Expenditure Survey, the latest available. Namibia’s economy has gone through substantial structural changes since this survey was conducted.

⁹ Measured by percent change in poverty gap due to social protection programs, where poverty gap is calculated as an average shortfall of the poor’s income or consumption from the poverty line. It is calculated as (poverty gap pre-transfer - poverty gap post-transfer) divided by poverty gap pre-transfer. The “simulated” impact means the indicator is measured assuming the absence of the social protection programs (pre-transfer welfare distribution).

¹⁰ Coverage is measured as a share of a population that receives a social assistance benefit. Benefit incidence is measured as distribution of social assistance benefits by quintile.

meaningful protection for vulnerable households without unduly crowding out other policy priorities.



F. Conclusions

28. Namibia’s social spending is characterized by high aggregate outlays in the context of constrained fiscal space, underscoring the importance of improving spending efficiency. Social spending accounts for a large share of public expenditure and has contributed to important gains in education, health, and social protection. Given that spending levels already compare favorably to peers—both as a share of GDP and of the budget—and amid fiscal deficits and rising debt, improving the efficiency of these services is important for achieving better outcomes while helping address rigidities in current spending that crowd out growth-enhancing investment. This, in turn, would help anchor public spending within a credible medium-term fiscal framework to ensure debt sustainability, and preserve space to respond to shocks and secure priority investments.

29. Across the three sectors, the analysis points to a common pattern: spending adequacy is generally strong, but differences in how spending translates into outcomes remain. In education, high spending has achieved near-universal access at the primary level, yet outcomes at the secondary level lag. The allocation of education resources across levels and inputs remains uneven, including a tilt toward tertiary education at the expense of basic education, partly reflected in the mixed education outcomes. In health, Namibia compares favorably to its peers in terms of spending levels, but outcomes remain below those achieved by some peer countries at comparable levels of spending. In social assistance, despite high levels of spending, coverage and adequacy remain comparatively limited, with a sizable share of the poor not reached.

30. Structural factors, including low population density, geographic dispersion, and high inequality, continue to raise service delivery costs and complicate equitable access. In this context, improving outcomes is likely to rely less on increases in spending and more on strengthening allocative efficiency within existing resource constraints. This could involve shifting health spending toward primary and preventive care, strengthening accountability in education

including school-level performance monitoring, and enhancing the targeting and coverage of social assistance programs to better reach vulnerable populations.

31. Looking ahead, improving the efficiency of social spending offers a practical path to strengthening social outcomes within Namibia's constrained fiscal envelope. Policy efforts should focus on better aligning resource allocation toward interventions with the greatest impact. In education, this includes greater attention to the composition of spending, including the balance between wage-heavy recurrent outlays and quality-enhancing inputs, alongside a closer examination of resource allocation across education levels. Addressing high repetition and dropout rates remains a key area for improvement. In health, building on the authorities' universal health coverage reform agenda, improving allocative efficiency within the existing envelope could help strengthen outcomes. This could include a gradual shift toward capital investment and frontline service delivery, such as infrastructure, equipment, and workforce deployment, as well as greater emphasis on primary and preventive care, supporting more effective and equitable use of health resources. In social assistance, strengthening targeting mechanisms and redirecting resulting savings toward better coverage of the most vulnerable could help enhance the use of public resources.

References

- Basu, S., J. Andrews, S. Kishore, R. Panjabi, and D. Stuckler (2012), "Comparative Performance of Private and Public Healthcare Systems in Low- and Middle-Income Countries: A Systematic Review," *PLoS Medicine*, 9(6): e1001244.
- Baum, M. A., Hodge, A., Mineshima, M. A., Badia, M. M. M., & Tapsoba, R. (2017). Can they do it all? Fiscal space in low-income countries. International Monetary Fund.
- International Monetary Fund (IMF). 2019. A Strategy for IMF Engagement on Social Spending. IMF Policy Paper No. 19/016. Washington, DC.
- International Monetary Fund (IMF). 2025. Expenditure Assessment Tool (EAT). Washington, DC.
- International Monetary Fund (IMF). 2025. Fiscal Monitor, October 2025: Spending Smarter: How Efficient and Well-Allocated Public Spending Can Boost Economic Growth. Washington, DC.
- International Monetary Fund (IMF). 2026. World Economic Outlook Database (WEO Live), April 2026. Washington, DC.
- Namibia Statistics Agency (NSA). 2018. Namibia Household Income and Expenditure Survey (NHIES) 2015/2016 Report. Windhoek.
- Piergiorgio M Carapella, Tewodaj Mogues, Julieth C Pico-Mejia, and Mauricio Soto. 2023. "How to Assess Spending Needs of the Sustainable Development Goals: The Third Edition of the IMF SDG Costing Tool", IMF How To Notes 2023, 005.
- Republic of Namibia, Ministry of Gender Equality, Poverty Eradication and Social Welfare. 2021. Social Protection Policy 2021–2030. Windhoek.
- Republic of Namibia, Ministry of Health and Social Services. 2026. Vision April 2026: Ministerial Statement to Parliament. Windhoek.
- Republic of Namibia, Ministry of Health and Social Services. 2025. Budget Motivation Statement: Vote 13 – Ministry of Health and Social Services, 2025/26 Financial Year. Presented by Hon. Dr. Esperance Luvindao, MP to the National Assembly. Windhoek.
- Republic of Namibia. Office of the Auditor-General. 2025. Report of the Auditor-General on the Accounts of the Ministry of Education, Arts and Culture for the Financial Year Ended 31 March 2024. Windhoek.
- UNESCO Institute for Statistics (UIS). 2025. UNESCO Institute for Statistics Database. Montreal.
- UNICEF. 2017. Public Expenditure Review of the Education Sector in Namibia. Windhoek.
- UNICEF. 2022. Namibia Health Budget Brief 2022/23. Windhoek.
- UNICEF. 2023. Namibia Budget Brief Social Protection 2023/24. Windhoek. World Bank. 2019. Namibia Health Sector Public Expenditure Review. Washington, DC.
- World Bank. 2025. ASPIRE: The Atlas of Social Protection—Indicators of Resilience and Equity. Washington, DC.

- World Bank. 2025. World Development Indicators. Washington, DC.
- World Health Organization (WHO). 2023. Namibia: Country Disease Outlook – August 2023. Brazzaville: WHO Regional Office for Africa.
- World Health Organization (WHO). 2024. Healthy Life Expectancy (HALE) at Birth. Geneva.
- World Health Organization (WHO). 2025. Global Health Expenditure Database (National Health Accounts). Geneva.
- World Health Organization (WHO). 2025. Namibia Launches MoHSS Strategic Plan and Universal Health Coverage *Policy*. WHO Regional Office for Africa, Brazzaville.

POLICY TRANSMISSION THROUGH BANKING: EVIDENCE FROM NAMIBIA¹

A. Introduction

1. Understanding interest rate pass-through is important under a pegged exchange rate regime. As a member of the Common Monetary Area (CMA), Namibia maintains a one-to-one peg of the Namibian dollar to the South African rand, which sharply constrains monetary policy autonomy. Under the exchange rate peg, the exchange rate channel is not an independent monetary policy instrument and is instead stabilized through interest rate adjustments. In this setting, the interest rate channel—particularly the pass-through to bank lending and deposit rates—becomes the primary mechanism through which policy rate decisions, whether originating from the South African Reserve Bank (SARB) or the Bank of Namibia (BoN), transmit to the domestic economy. The strength, speed, and symmetry of this transmission, particularly between lending and deposit rates, directly affect borrowing costs, savings incentives, and real economic activity. Yet, empirical evidence on interest rate pass-through in Namibia remains limited.

2. This paper examines monetary policy transmission to bank lending and deposit rates in Namibia. It analyzes the pass-through of policy rates to aggregate banking interest rates and the extent to which interest rate dynamics are driven by the SARB policy rate rather than the BoN repo rate. To this end, the paper employs the local projections framework of Jordà (2005), which has the advantage of being robust to misspecification of the data-generating process relative to a VAR, and exploits periods of imperfect co-movement between the BoN and SARB policy rates to examine the roles of domestic and foreign monetary policy. This approach also allows for a flexible characterization of dynamic responses without imposing strong identifying restrictions. The analysis contributes to the literature on monetary transmission in small open economies with pegged exchange rate regimes and offers policy-relevant insights into the effectiveness and the limits of interest rate policy under such arrangements.

3. The results show that aggregate interest rate pass-through in Namibia is largely driven by changes in the SARB policy rate, consistent with the constraints imposed by the exchange rate peg. Domestic policy rate innovations have weaker and less persistent effects on bank lending and deposit rates, although deviations between the BoN repo rate and the SARB policy rate still influence domestic interest rate dynamics at the margin. In addition, policy rate transmission is asymmetric across bank rates: pass-through to lending rates is strong and complete, reflecting the prevalence of variable-rate contracts and the close linkage to the prime rate, while pass-through to deposit rates is slower and incomplete, reflecting differences in funding structures and pricing behavior across banks.

¹ The authors would like to thank Guido Della Valle and Thomas Carter for their insightful comments and authorities of the Bank of Namibia for providing data.

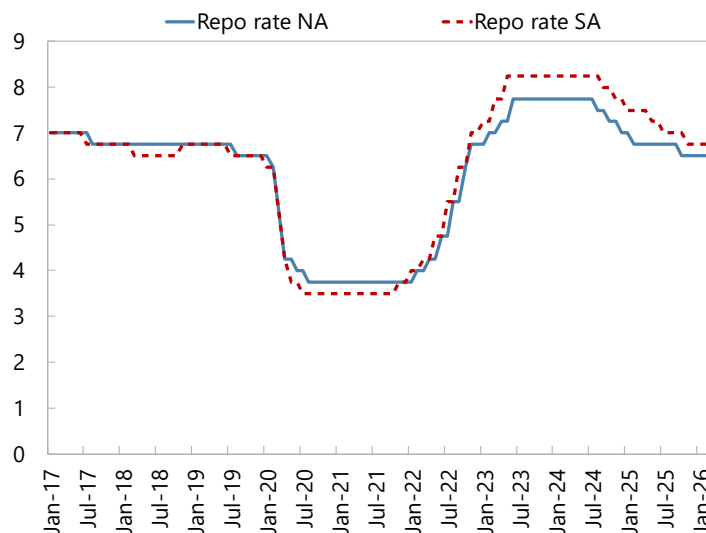
B. Context: Monetary Policy and Interest Rate Setting in Namibia

4. Under the CMA arrangement, the BoN maintains full convertibility and free capital mobility with CMA member countries, which in practice closely anchors domestic monetary conditions to those prevailing in South Africa. The BoN's policy rate is its seven-day repo rate, at which the BoN lends on a full-allotment basis, i.e., lending the full amount banks demand. The BoN sets the rate with reference to the SARB policy rate while also taking into account domestic economic conditions. This policy rate is the basis for the Prime Lending Rate (PLR), which is currently mandated by the BoN at 3.5 percentage points above the policy rate.² The PLR serves as the benchmark for most bank loans. In an environment of broad-based excess liquidity, bank demand for liquidity via the seven-day repo window is limited. The BoN's main open market operations are the issuance of seven-, fourteen-, and twenty-one-day BoN bills at variable allotment, with yields often set above the repo rate and tending to track the SARB's Corporations for Public Deposits (CPDs) rates more closely. This help keep the BoN bills competitive with South African offerings, in which Namibian banks could alternatively invest their excess liquidity, without exchange-rate risk, effectively reducing incentives for capital outflows and supporting the international reserves.

5. The close tracking of the BoN's policy rate with that of the SARB has changed in recent years. Prior to 2021, the BoN repo rate closely tracked the SARB policy rate and was typically set at a modest premium, reflecting the BoN's assessment of domestic liquidity conditions and capital flow dynamics (Figure 1). Since early 2022, however, this co-movement has weakened. As the SARB raised its policy rate to combat post-pandemic inflation, the BoN did not fully match the increases, maintaining a more accommodative stance aimed to support the domestic recovery. A negative policy rate differential—the BoN repo rate falling below the SARB rate—currently stands at 25 basis points (as of April 2026), having widened to as much as 100 basis points at the peak. This episode of departure from interest rate parity within

Figure 1. Repo Rate and SARB Policy Rates
(Percent)

A negative policy rate differential opened in 2022 as the SARB started its monetary tightening cycle and persisted into the easing cycle that followed.



Sources: Bank of Namibia; and South African Reserve Bank.

² The margin of PLR above the policy rate has been gradually reduced by the BoN from 375 basis points (maintained from November 2010) to approximately 350 basis points since September 2025.

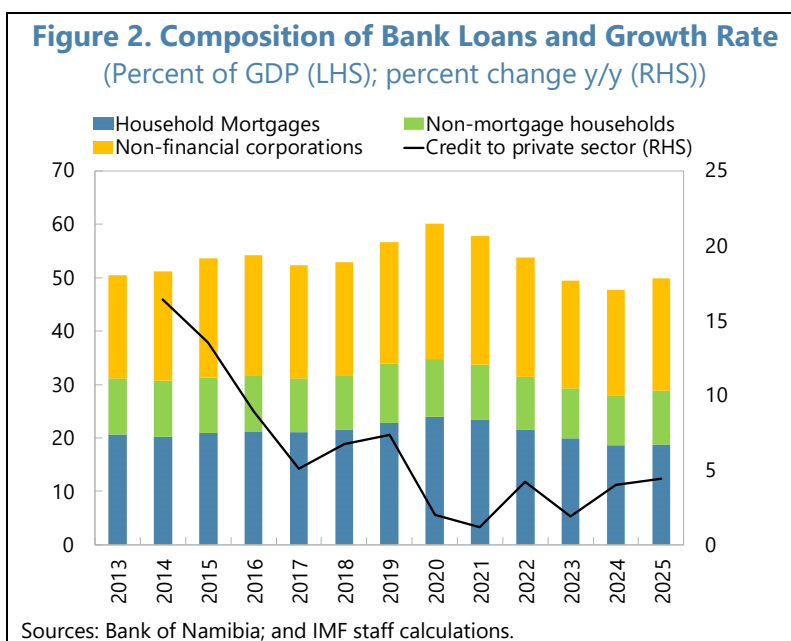
the CMA framework provides useful variation for studying the relative importance of domestic versus foreign policy rates in driving bank interest rate dynamics.

6. Standard open-economy macroeconomic models predict that the domestic policy rate should align with that of the anchor currency up to a country-specific uncovered interest parity (UIP) premium, under a credible exchange rate peg with high capital mobility. In this framework, observed policy rate differentials do not necessarily indicate monetary policy independence, but may instead reflect movements in the risk premium required by investors. This perspective could help rationalize the positive policy rate gaps observed during 2020–21. By contrast, the persistence of negative policy rate gaps since 2022 is more difficult to reconcile with standard UIP logic. If these negative gaps reflect some degree of monetary operational discretion in policy implementation by the BoN, the macroeconomic trilemma would imply that frictions to capital mobility must be present, as full financial integration would otherwise arbitrage away sustained interest rate differentials.

7. Several structural features of Namibia’s financial system may give rise to such frictions. Namibia’s regulatory framework favors domestic asset holdings through different channels for banks and non-bank financial institutions (NBFIs). Pension funds and long-term insurers are subject to explicit domestic asset requirements, mandating that at least 45 percent of assets be invested in Namibian instruments. While banks face no formal domestic asset requirement, prudential liquidity regulations, collateral eligibility in Bank of Namibia operations, limits on foreign exposures, and shallow secondary markets effectively anchor bank portfolios domestically. Together, these regulatory and structural features limit asset substitutability with South African instruments and dampen capital mobility under the exchange rate peg.

8. Despite the recent policy easing, private sector credit growth has remained subdued following the sharp contraction observed during the COVID-19 pandemic. Both the credit-to-GDP ratio and year-on-year credit growth remain subdued (Figure 2), even as monetary policy has eased since mid-2024. This persistent weakness raises questions about the effectiveness of monetary policy transmission in Namibia, particularly through the bank lending channel.

9. Weak credit growth in the post-pandemic period may reflect a range of factors, including structural constraints in the banking and mortgage markets, demand-side weaknesses, or heightened risk aversion among both borrowers and lenders. While some of these issues lie beyond the scope of this study—including structural impediments to housing supply in Namibia—this paper focuses on the monetary dimension of the problem, particularly whether and to what extent changes in the policy rate are transmitted to bank lending and deposit rates.



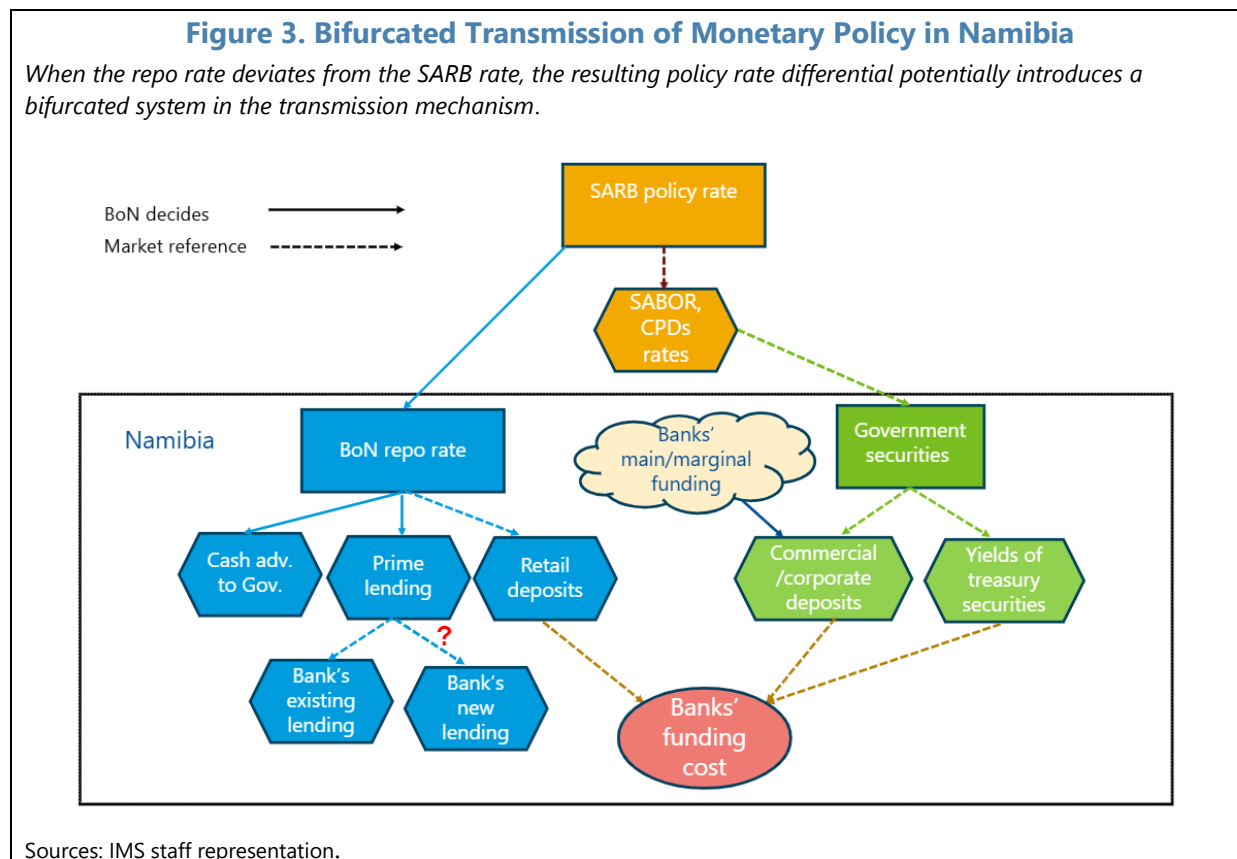
10. In Namibia, lending interest rates typically follow a floating-rate convention, whereby lending rates adjust with the BoN repo rate through the PLR. Loans are typically priced off the PLR with an additional margin (maybe positive or negative) to reflect borrower specific credit risk, market conditions, and banks' balance sheet considerations. As a result, when the BoN adjusts its repo rate, the stock of outstanding loans reprices automatically, and average lending rates adjust relatively quickly. By contrast, the transmission to rates on new loans depends on banks' discretionary adjustments to the margin over the PLR. In practice, banks may price the potential losses and gains from the repo rate changes into the margin. Because the aggregate lending rate averages both new and existing loans, it may mask banks' response to the policy signal.

11. Deposit rate setting in Namibia is considerably more heterogeneous and is closely linked to banks' individual funding structures and competitive positioning. Namibian banks rely on a combination of retail deposits and wholesale funding, with the latter largely sourced from non-bank financial institutions (NBFIs), reflecting the sector's large size relative to the banking system.³

12. While retail deposit rates are often referenced to the BoN repo rate, banks' adjustments to changes in the BoN repo rate are discretionary, and commercial and corporate deposit rates are more closely tied to market interest rates. These include BoN bill rates and Namibian government securities yields, which drive banks' marginal returns as they represent the immediate risk-free assets in which wholesale deposits can be reinvested at the margin. South African financial market benchmarks, such as the SARB policy rate and short-term Johannesburg interbank rates, are also relevant for banks' funding costs, indirectly through their influence on BoN bill rates and Namibian government securities yields and directly as alternatives for large corporates

³ NBF1 assets stood at about NAD 552.8 billion at end-2025, or 205.0 percent of GDP, making Namibia one of the most NBF1-deep financial systems in SSA. It is about 2.5 times the size of the banking system, with assets of about NAD 228.0 billion or 84.5 percent of GDP at end-2025.

to place funds at exchange-rate-risk-free returns. Discussions with banks suggest that marginal funding costs are frequently driven by competition for large corporate deposits, which are more price sensitive and more tightly integrated with South African financial market conditions. Therefore, average funding costs of banks reflect both the BoN repo rate and the SARB policy rate (Figure 3).

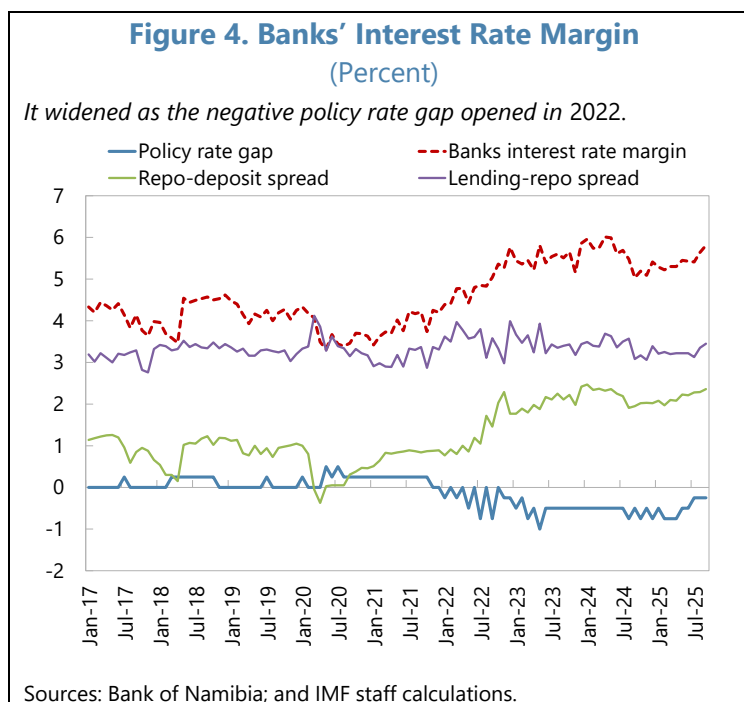


13. Reflecting the different dynamics, the bank interest rate margin, measured as the difference between average lending and deposit rates, has widened since early 2022, coinciding with the opening of a negative policy rate gap (Figure 4). This widening has been driven primarily by a growing gap between deposit rates and the repo rate, while the gap between lending rates and the repo rate has fluctuated within a relatively narrow range of about 3–4 percentage points and shows no clear trend. Prior to 2022, when the Bank of Namibia (BoN) closely tracked the South African Reserve Bank (SARB) policy rate or maintained a positive policy rate gap, such dynamics were less pronounced. It remains unclear whether the opening of the policy rate gap and the associated shift in the relative policy stance can account for the observed widening in the interest rate margins, or whether it reflects broader structural developments, time-varying pass-through across different deposit types, or changes in the composition of bank funding.⁴

⁴ In practice, pass-through to deposit rates differs markedly across funding sources. When lending rates increase, banks may have little need to raise remuneration on retail deposits, resulting in limited pass-through to retail funding costs. By contrast, wholesale and corporate deposit rates tend to adjust more closely in line with market

(continued)

Identification of factors behind these trends would require analysis using more disaggregated interest rate measures, which are unavailable.



14. Namibia's mortgage-heavy credit structure, the prevalence of variable-rate lending, and the heterogeneous nature of bank funding suggest that monetary transmission may operate through multiple channels with potentially uneven pass-through across loan and deposit categories. These structural features motivate an empirical investigation that would also require disaggregated rates to explicitly account for differentiated pass-through dynamics across loan types and funding sources, which remains an area for future study.

C. Empirical Strategy

15. Data. We use monthly average lending and deposit interest rate series for June 2017–September 2025, provided by the Bank of Namibia. The rates are constructed using lending and deposit rate data reported monthly by the four largest banks in Namibia. Each bank submits average rates across major lending and deposit products, as well as an overall lending and deposit rate based on outstanding balances. Industry-level lending and deposit rates are then computed by weighting each bank's overall rate by its share of total banking assets and averaging over the four banks. While aggregate rates do not distinguish between new and existing contracts,

conditions. As a result, average funding costs may rise only modestly if banks rely heavily on retail deposits with sticky rates, even as wholesale funding costs increase. Similar aggregate dynamics could also arise from changes over time in pass-through to wholesale and retail deposits, even with an unchanged funding composition, or from simultaneous changes in both deposit margins and the funding structure.

and thus may not fully capture marginal pricing responses, they provide an important benchmark for overall monetary transmission.

16. Local projection estimation. We employ the local projections (LP) method developed by Jordà (2005) to estimate interest rate pass-through from policy rates to bank lending and deposit rates. Specifically, for each horizon $h = 0, 1, \dots, H$, we estimate the following equation:

$$y_{t+h} - y_{t-1} = \alpha_h + \beta_h \text{SARB}_t + \gamma_h \text{RateDifferential}_t + \theta_h X_t + u_{t+h},$$

where y_{t+h} denotes the lending or deposit interest rate at horizon $t + h$. SARB_t is the policy rate set by the South African Reserve Bank (SARB), and $\text{RateDifferential}_t$ captures deviations between the domestic policy rate and the SARB policy rate. This specification allows us to disentangle the influence of the anchor-currency policy rate from domestic policy actions. X_t is a vector of control variables, which includes two lags of the outcome variables (lending or deposit rates), two lags of both the SARB rates and the policy rate differentials, as well as the same period and two lags of macroeconomic controls (CPI inflation and three-month domestic treasury bill yields). The error term u_{t+h} is estimated using a heteroskedasticity and autocorrelation consistent (HAC) covariance estimator (Newey-West) adjusted for small-sample size.

Coefficients of interest are β_h and γ_h , which trace out the impulse response functions of interest rates to changes in the SARB policy rate and to movements in the policy rate differential, respectively.

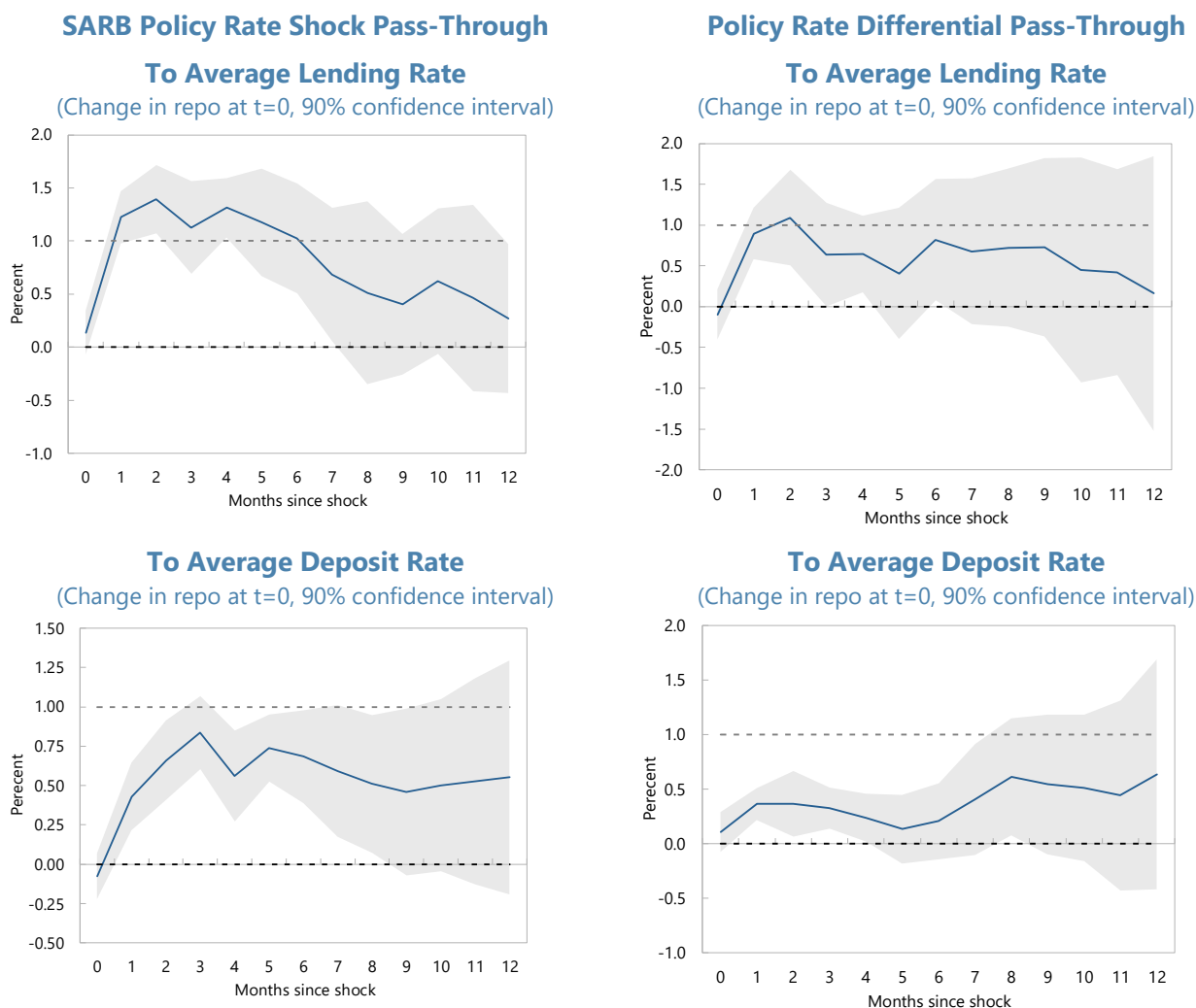
17. Identification. Identification is predicated on the fact the SARB has a well-established inflation-targeting framework, under which policy rate decisions are aimed at anchoring inflation expectations in South Africa, reflecting South Africa's domestic economic fluctuations. As a result, these decisions are largely exogenous to economic conditions in Namibia, albeit both economies may be affected by similar global and regional developments. Empirically disentangling the effects of the domestic policy rate from those of the anchor currency, however, is challenging in pegged exchange rate regimes. Under a standard peg, the domestic policy rate and the anchor-country policy rate move closely together by construction, making conventional identification difficult. This challenge is reflected in the limited empirical literature, and in particular the paucity of studies that decompose the relative influence of domestic versus anchor-country policy rates on bank lending rates in pegged economies. In the case of Namibia, we partly address this issue by exploiting periods of imperfect co-movement between the two policy rates, during which deviations create the policy rate differential. Variation during these episodes allows us to separately identify the response of lending and deposit rates to movements in the anchor-currency rate and to changes in the domestic policy stance. Nevertheless, estimates associated with the policy rate differential should be interpreted with caution, as such episodes are infrequent and may reflect broader macro-financial considerations that are not captured by the model.

D. Aggregate Pass-Through Estimates

18. The pass-through from SARB policy rate changes to aggregate lending rates is strong and complete. Figure 5. presents estimates of the aggregate pass-through from SARB policy rate changes to average lending and deposit rates. The solid lines show point estimates of the impulse responses over a 12-month horizon, while the shaded areas indicate 90 percent confidence intervals. The horizontal reference line at unity corresponds to full (one-for-one) pass-through. Changes in the SARB policy rate transmit rapidly and fully to average lending rates: pass-through is essentially complete within one month, indicating a strong and swift adjustment of borrowing costs at the aggregate level. By contrast, innovations in the domestic policy rate differential have noticeably weaker and shorter-lived effects on average lending rates, while movements in the SARB rate exert larger and more persistent influences.

Figure 5. Pass-Through to the Aggregate Interest Rate

From the SARB rate shocks and the policy rate differential.



Source: IMF staff estimations.

19. Turning to deposit rates, the estimates suggest incomplete pass-through. Following a change in the SARB policy rate, average deposit rates adjust gradually, reaching about 90 percent pass-through after three months. Pass-through from domestic policy rate differentials is even more muted, with smaller point estimates and shorter persistence. Overall, the aggregate results highlight the dominant role of the anchor-currency policy rate in shaping system-wide deposit interest rates, while domestic policy actions exert a more limited influence at the aggregate level.

20. The transmission of policy rates is asymmetric across lending and deposit rates. Pass-through to lending rates is strong and complete, reflecting the established convention of variable-rate loan contracts with lending rates linked to the prime rate. By contrast, pass-through to deposit rates is slower and incomplete.⁵ This asymmetry implies that changes in policy rates affect borrowing costs more rapidly and more fully than deposit remuneration, with implications for bank interest rate margins across the monetary policy cycle. In particular, banks' interest rate margins are compressed during easing cycles, which may dampen the policy signal for easing lending conditions, while the margins are expanded during tightening cycles, dampening the signal for tightening credit conditions.

E. Conclusions and Policy Implications

21. The finding that the SARB policy rate plays a dominant role is consistent with evidence from other studies. The analysis above shows that both lending and deposit rates are more responsive to changes in the SARB policy rate than to those in the BoN policy rate. While deviations in the BoN repo rate influence average domestic interest rates through the automatic repricing of variable-rate loans, their effects are comparatively weak and short-lived. Similar conclusions are found in Espinoza and Prasad (2012) and Cevik and Teksoz (2012) for the Gulf Cooperation Council countries (all pegged to the USD), which show that domestic policy rate innovations tend to have weak and short-lived effects on lending rates, while the US Federal Funds rate movements have larger and more persistent effects. The dominance of the SARB policy rate is also consistent with the fact that banks' marginal funding costs are driven by wholesale deposits, priced off South African market rates.

22. The analysis highlights the limited scope for independent monetary policy under a pegged exchange rate regime with free capital flows and strong financial ties with the anchor country. A persistent policy rate gap on either side may create scope for arbitrage, as large corporates can shift borrowing or fund placement between Namibia and South Africa. Keeping the policy rate below that of the SARB will have limited effects on stimulating lending, as banks will be reluctant to lower lending rates given the compressed interest rate margin, while lower domestic rates may create incentives for large corporates to move excess funds abroad. Similarly, raising the policy rate above that of the SARB may have limited effectiveness in cooling domestic demand as large corporates can choose to borrow abroad, including from parent companies, and it could

⁵ This pattern is not unique to Namibia. Low elasticity and stickiness of retail deposit rates, combined with faster pass-through to lending rates—particularly in systems dominated by variable-rate loans—are well-documented features of many banking systems, including the US (Berry et al. 2019) and the EU (Chen et al. 2024).

attract capital inflows. In this context, carefully calibrating the alignment of the BoN policy rate with the SARB rate could help reduce the bifurcated structure of bank funding and avoid distortions that rate misalignment may introduce. In addition, other structural constraints, including limited housing supply and a scarcity of viable investment opportunities for business lending, may play an important role in shaping credit developments in Namibia. The monetary policy rate, however, is not the right tool to address these issues.

23. The asymmetric pass-through across lending and deposit rates is also consistent with findings elsewhere. The passthrough from both SARB policy rate changes and differential BoN policy actions to lending interest rates is stronger and faster than that to deposit interest rates, indicating that policy rates affect borrowing costs and, thus, investment and consumption decisions, but are less effective in altering incentives for saving. The slower passthrough to deposit rates is consistent with findings in the post-COVID euro area ([Messer and Niepmann, 2023](#)), with the abundance of banking liquidity, a key feature of Namibia's banking system, indicated as an explanatory factor. Reforms that effectively manage excess liquidity through systematic, predictable, and transparent absorption at rates aligned with the BoN policy rate could help improve monetary transmission, including by strengthening saving incentives and narrowing interest rate margins.

24. These findings also underscore the importance of moving beyond aggregate interest rate measures to better understand monetary transmission in practice. Aggregate lending and deposit rates may mask substantial heterogeneity in pricing dynamics across loan types, borrower segments, and funding sources, particularly when a large share of lending is at variable rates and when new lending conditions may differ from the repricing of the existing loan stock. More granular, loan-level data would allow for a clearer distinction between pass-through at origination and pass-through through automatic repricing and help identify which types of loans and deposits are driving the observed aggregate dynamics.

References

- Berry, Jared, Felicia Ionescu, Robert Kurtzman, and Rebecca Zarutskie. 2019. "Changes in Monetary Policy and Banks' Net Interest Margins: A Comparison across Four Tightening Episodes." FEDS Notes.
- Cevik, Serhan and Katerina Teksoz. 2012. "Lost in Transmission? The Effectiveness of Monetary Policy Transmission Channels in the GCC Countries". IMF Working Paper No. 12/191.
- Chen, Ruo, Vincenzo Guzzo, Fazurin Jamaludin, Adil Mohommad, Ritong Qu, and Yueshu Zhao, 2024. "Bank Profitability in Europe: Not Here to Stay," IMF Working Papers 2024/142.
- Espinoza, Raphael A. and Ananthakrishnan Prasad. 2012. "Monetary policy transmission in the GCC countries." IMF Working Paper No. 12/132.
- Jordà, Òscar. 2005. "Estimation and Inference of Impulse Responses by Local Projections." American Economic Review 95 (1): 161–182.
- Messer, Todd Messer and Friederike Niepmann. 2023. "[What determines passthrough of policy rates to deposit rates in the euro area?](#)" FEDS Notes.