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MINISTRY OF FINANCE
Economic *Update*

This Issue…

The aim of these Updates is to inform the public of any recent economic developments, focusing on global, regional and domestic developments that are likely to impact on the Namibian economy. Every Update will contain a standard update on the global, regional and domestic economy.

Special features will also be included on specific analysis conducted in the Ministry. **In this issue, we analyse Namibia's public debt**.

Global Developments

The IMF has once again lowered its **global growth** forecast for both 2013 and 2014, although this time the downward revision comes on the back of a weaker outlook for emerging market and developing economies, rather than advanced economies. Having previously forecast world output to expand by 3.1% and 3.8%, respectively, in 2013 and 2014, the IMF is **now projecting global growth of 2.9% in 2013 and 3.6% in 2014**.

As previously mentioned, this downward revision has been prompted by weaker growth prospects in emerging market and developing economies. While exports – driven by stronger activity in advanced economies – and robust consumption and investment – encouraged by low levels of unemployment and low real interest rates – are expected to help to support growth across emerging market and developing economies, tighter external funding conditions and mounting supply-side constraints are set to weigh on economic activity.

The latter is set to impact upon **India** particularly hard, with the IMF slashing its growth forecast for the world's second most populous nation **from 5.6% to just 3.8% for 2013 and from 6.3% to 5.1% for 2014**. Concerns surrounding supply constraints (in addition to policy uncertainty and inflation anxieties) have also led the IMF to lower its growth forecast for **Brazil** for **2014 from 3.2% to 2.5%, although its 2013 projection has remained unchanged at 2.5%**. Meanwhile, a weak external environment, some acceleration of capital outflows and declining equity prices, and subdued investment has prompted the IMF to sharply reduce its growth forecast for **Russia** for **2013 from 2.5% to 1.5%, and to also lower its 2014 projection, from 3.3% to 3.0%**.

Most significantly, however, is the assumption that Chinese authorities are expected to avoid enacting major stimulus to maintain growth above the 8% level and instead accept lower growth in line with a transition of the economy towards a more balanced and sustainable growth path. As such, the IMF has lowered its growth forecast for **China** **from 7.8% to 7.6% for 2013, and from 7.7% to 7.3% for 2014**.
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However, the IMF's forecasts for **advanced economies** for **2013 and 2014 remain unchanged at 1.2% and 2.0%, respectively**. That said, the IMF has lowered its growth forecast for the **US** for both 2013 and 2014. Although private demand is still expected to remain well supported by the ongoing recovery in the housing market and accommodating financial market conditions, the US economy showed signs of weakness in Q113, with growth slowing for a second quarter in a row largely on the back of stronger-than-anticipated fiscal consolidation, and this weaker-than-expected outturn has prompted the IMF to **lower its growth forecast for 2013 from 1.7% to 1.6%**. Further, with the budget sequester now projected to remain in place longer than initially expected as it continues into 2014, the IMF's has also **lowered its US growth forecast for 2014 from 2.7% to 2.6%**.

In contrast, growth in **Japan** came in above expectations in Q113, driven by consumption and net exports on the back of accommodative economic policies and ongoing yen weakness. The ongoing success of the Japanese government's expansionary fiscal and monetary stance has encouraged the IMF to keep its growth forecasts for **Japan** **unchanged for both 2013 and 2014 at 2.0% and 1.2%, respectively**. Meanwhile, the Fund has opted to raise its forecast for the **Euro zone** as business confidence indicators suggest that activity is close to stabilizing in the periphery, and already recovering in the core economies. In light of this development, the IMF has **increased its Euro zone growth forecast for 2013 from -0.6% to -0.4% and its 2014 forecast from 0.9% to 1.0%**.

Sub-Saharan Africa

With the global outlook having soured somewhat over the course of the first half of 2013, growth prospects in **sub-Saharan Africa** (SSA) have similarly dimmed. Economic activity across the region was previously **expected to expand by 5.6% in 2013 and by 6.1% in 2014**, supported by ongoing investment in infrastructure, robust consumption, and the activation of new capacity in extractive sectors, in addition to the continuation of generally prudent macroeconomic management. However, due to a weaker external environment and a number of home-grown challenges, real output in SSA is now **forecast to grow by 5.0% in 2013 and expand by 6.0% in 2014**.

Growth prospects in **South Africa** have once again weakened on the back of a tighter financing environment, still weak investor and consumer confidence, continued tense industrial relations, policy uncertainty, and elevated household debt. Against this backdrop, the IMF has **lowered its growth forecasts for SSA's biggest economy from 2.8% to 2.0% for 2013 and from 3.3% to 2.9% for 2014**. Meanwhile, reduced oil production in Nigeria and delays in budget execution in Angola and have also seen the regions' send and third largest economies received a growth forecast downgrade. Having previously been expected to expand by 7.2%, **Nigeria** is **now forecast to grow by 6.2% in 2013, although the country's 2014 growth forecast has be revised up, from 7.0% to 7.4%** due to base effects. However, **Angola** has followed in the footsteps of South Africa and seen its growth forecasts for both 2013 and 2014 lowered. **Having been expected to grow by 6.2% in 2013 and by 7.3% in 2014, Angola's economy is now projected to expand by 5.6% and 6.3%, respectively**.

South African Economy

Real GDP in South Africa grew by 2.0% y-o-y in Q213, marking a very minor acceleration from the 1.9% y-o-y expansion recorded in the first three months of the year. *Agriculture, forestry and fishing* experienced strong growth in Q213, accelerating from 4.0% y-o-y in Q113 to 6.7%, while *Manufacturing* saw a return to positive growth – of 2.7% y-o-y – having recorded a decline of 0.4% y-o-y in the first quarter. This resulted in *Agriculture, forestry and fishing* contributing 0.2 percentage points (pp) to headline growth in Q213, up from 0.1pp in the previous quarter, and *Manufacturing* adding 0.4pp, reversing the negative contribution of 0.1pp provided in Q113.

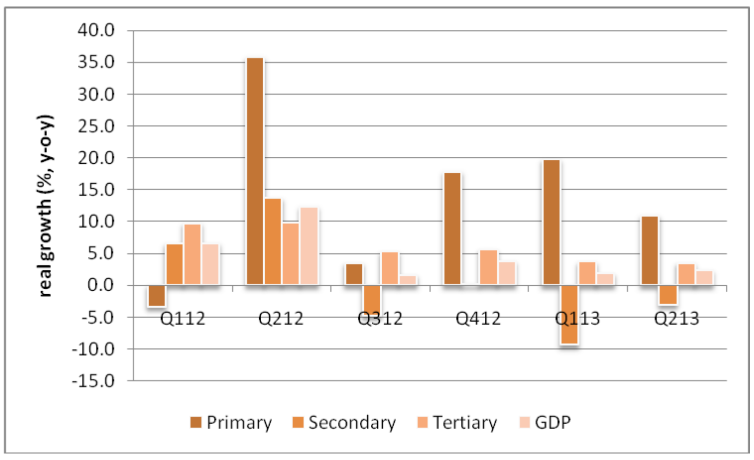
Finance, real estate and business service, however, remained the largest contributor to real GDP growth in Q213, adding 0.5pp – a figure which matched the contribution made in Q113 – as growth in the sub-sector accelerated slightly from 2.4% y-o-y to 2.6% y-o-y. Similarly, growth in *Wholesale, retail and motor trade; catering and accommodation* accelerated in Q213, to 2.4% y-o-y from 2.1% y-o-y in Q113, yet was still only able to equal the contribution made by the sub-sector in the previous quarter, of 0.3pp. Elsewhere, *Electricity, Water and Gas* followed *Manufacturing* in reversing a decline in activity in the first quarter of the year in Q213, as the sub-sector grew by 0.2% y-o-y in Q213 after shrinking by 2.4% y-o-y in the first three months of the year. However, due to both the small magnitude of the growth recorded by the sub-sector and the limited size of *Electricity, Water and Gas* as a proportion of total GDP, this improvement had only a negligible impact on headline real GDP growth.

These improvements from the first quarter's turnout, however, were all but cancelled out by weaknesses elsewhere, most notably in *Mining and quarrying*. Having expanded by 3.7% y-o-y in Q113, *Mining and quarrying* declined by 2.8% y-o-y in the second quarter, shaving 0.1pp off of headline growth (having added 0.2pp in the previous quarter). Meanwhile, slower growth in *General government services* and *Construction* also dragged overall economic activity lower. After growing by 2.5% y-o-y in the first quarter, and contributing 0.4pp to headline GDP growth, *General government services* just 0.2pp to real growth, while growth in *Construction* slowed from 1.6% y-o-y in Q113 to 1.3% y-o-y in Q213, which resulted in a the sub-sector's contribution to total growth falling from 0.1 pp in the first quarter of the year to almost zero in the second. Growth in both *Transport, storage and communication* and *Personal services* also slowed in Q213 – from 1.8% y-o-y to 1.7% y-o-y and from 2.1% y-o-y to 1.6% y-o-y, respectively. However, this weaker growth had no impact on the contribution to overall growth made by the two sub-sectors, with *Transport, storage and communication* adding 0.3pp in both Q113 and Q213, and *Personal services* adding 0.1pp in both periods.

With growth remaining fairly anaemic in the first half of the year, and the global outlook for H213 having weakened, the IMF has made a sharp downward revision to its growth forecast for South Africa in 2013. **Previously, the Fund expected SSA's largest economy to expand by 2.8% in 2013, but recent developments have prompted the IMF to slash its growth forecast for 2013 to 2.0%**. Economic activity is still expected to pick up next year, but it is now projected to do so at a more subdued pace with the IMF **lowering its growth forecast for 2014 from 3.3% to 2.9%**.

Namibian Economy

Although real GDP growth accelerated in the second quarter of the year, economic activity in Namibia remained rather lacklustre as the economy expanded by just 2.3% y-o-y in Q213, up from 1.9% y-o-y in the previous quarter.



Anaemic growth of just 1.9% y-o-y in Q113 came in spite of an expansion of 45.3% y-o-y in *Agriculture* as livestock were sold due to the recent drought conditions, as well as strong growth of 20.8% y-o-y in *Mining and quarrying* as several industries witnessed double-digit y-o-y declines. *Fishing* fell by 11.2% y-o-y, *Manufacturing* contracted by 10.3% y-o-y, *Construction* shrunk by 10.4% and *Hotels and restaurants* suffered a 17.0% y-o-y decrease in activity.

Agriculture once again posted stellar growth in Q213, recording an expansion of 42.3% y-o-y, while *Fishing* rebounded strongly to grow by 11.7% y-o-y and Wholesale and retail trade increased by 12.8% y-o-y. However, these impressive performances were largely offset by a reversal in fortunes for the *Mining and quarrying* sector and continued weakness in *Construction* and *Hotels and Restaurants*. *Mining and quarrying* declined by 10.4% y-o-y, while *Construction* activity fell by 17.7% y-o-y and *Hotels and Restaurants* contracted by 31.2% y-o-y.

Despite the weakness witnessed in the first half of the year, the Namibian economy is still forecast to post robust full-year growth in 2013. Indeed, economic growth forecasts for both 2013 and 2014 have been revised up. Economic activity is **now projected to expand by 4.8% in 2013, up from a previous growth forecast of 4.5%**, while real GDP is **now expected to increase by 5.0% in 2014,**

marking an upward revision of 0.5 percentage points from the 4.5% figure initially anticipated. Robust growth over 2013 and 2014 will be driven by ongoing strength in tertiary industries, particularly in *Wholesale and retail trade*, *Financial intermediation* and *Real estate and business services*, and in particular by a boom in *Construction* activity. Looking beyond 2014, real GDP growth is slow to 4.8% in 2015, before slowing further to 4.6% in 2016, a figure which is projected to be matched in 2017.

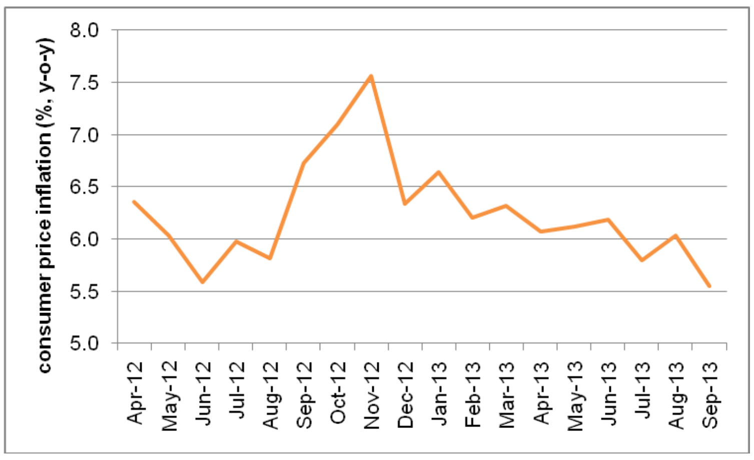
Balance of Payments

The first quarter of 2013 saw Namibia's current account deficit trade deficit widened by a massive N$1.6bn from the final quarter of 2012, from N$197mn to N$1.7bn, as the merchandise trade balance and net investment income both deteriorated sharply. Exports rose by 4.1% q-o-q, but were outpaced by imports which grew by 8.1% q-o-q, resulting in an increase in the merchandise trade balance of N$574mn. Meanwhile, net investment income fell by N$888mn in Q113 as outflows of direct investment increased by a mammoth 82.9% q-o-q, from N$1.0bn to N$1.9bn.

On the capital and financial account side, direct investment in Namibia and other long-term investment both increased in the first quarter compared to Q412, by N$266mn (16.0% q-o-q) and N$194mn (56.9% q-o-q), respectively. However, these improvements were entirely overshadowed by an enormous drop in other short-term investment (which is dominated by the banking sector) which went from a surplus of N$623mn in Q412 to a deficit of N$2.1bn. Meanwhile, portfolio investment remained largely unchanged from Q412 in the first three months of the year, declining by just N$11mn (2.0% q-o-q) as an increase in debt inflows largely offset an outflow of equities. Nonetheless, the country's combined capital and financial account remained in surplus in Q113 to the tune of N$478mn, although this did represent a sharp decline from the N$2.8bn surplus posted in the previous quarter.

Consumer Prices

Consumer price inflation slowed to a two-year low of 5.5% y-o-y in September as food price inflation continued its descent from recent highs. The price of *Food and non-alcoholic beverages* (which holds a 29.6% weighting in the consumer price index) rose by 5.2% y-o-y in September – down from 6.7% y-o-y in the previous month – marking the slowest increase since April 2011. Meanwhile, price growth of *Housing, water, electricity, gas and other fuels* (which holds the second highest weighting in the CPI at 20.6%) also moderated slightly in September, slowing from 7.8% y-o-y in August to 7.4% y-o-y, as did price growth of *Clothing and footwear* and *Furnishings, household equipment and routine maintenance of the house*.

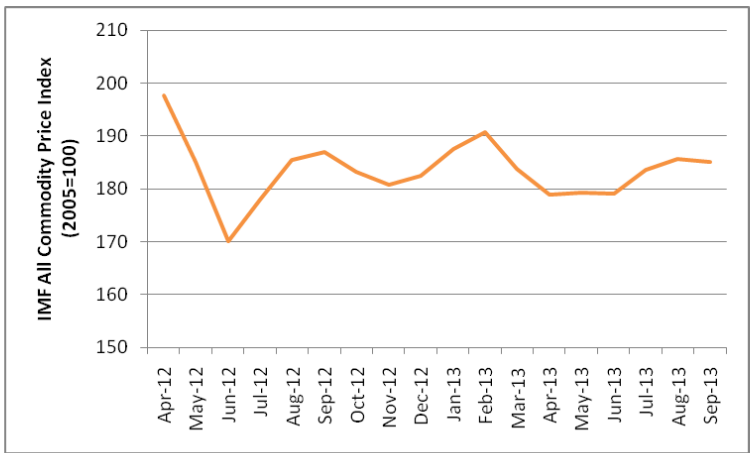


The price growth of *Clothing and footwear* slowed for a fourth consecutive month to just 0.3% y-o-y in September (from 1.6% y-o-y in August), while the price growth of *Furnishings, household equipment and routine maintenance of the house* witnessed a third straight month of deceleration, slowing to 4.4% y-o-y from 5.6% y-o-y in the previous month. However, price growth of *Transport* – which holds a 14.6% weighting in the consumer price index – moved in the opposite direction, accelerating for a fourth straight month to 7.2% y-o-y (up from 6.8% y-o-y in August).

With food price inflation expected to continue to moderate over the coming months, the general downward trend for headline inflation is forecast to remain in place over the remainder for 2013 as well as the start of 2014. Food prices are expected to gradually trend lower over the medium term as prices steadily return to historical trend levels on the back of improving supply, while the recent downward trend in oil prices is also is set to remain in place on the back of a combination of an improved outlook for supply – as oil supply recovers from last year's outages and non-OPEC production increases – and sluggish demand. Against this backdrop, therefore, **full-year average inflation forecast to slow to 6.0% in 2013, down from the 6.5% registered in 2012 to 5.8% in 2014**.

Commodity Prices

Having posted increases of 0.1% y-o-y and 1.1% m-o-m in August, the IMF's All Commodity Price Index (ACPI) fell on both a y-o-y (1.0%) and m-o-m (0.3%) basis in September on the back of declines in *Food* and *Metals* prices. After falling by 6.4% y-o-y (5.2% m-o-m) in August and by 0.6% y-o-y (0.7% m-o-m) in July, *Food* prices decreased for a third consecutive month in September, by 7.8% y-o-y (3.5% m-o-m), while *Metals* prices recorded their eighth decline in nine months, falling by 1.1% y-o-y (1.7% m-o-m) to reverse the 4.9% y-o-y (4.8% m-o-m) increase witnessed in August.



Meanwhile, although y-o-y price growth of *Agricultural raw materials* remained in positive territory, it nonetheless slowed for a third straight month in September, with the price of *Agricultural raw materials* increasing by 2.0% y-o-y having risen by 4.1% y-o-y in the previous month and by 4.2% y-o-y in the month before that. On a m-o-m basis, however, the trend has moved in the opposite direction, with the price of *Agricultural raw materials* remaining unchanged in September after falling by 1.2% m-o-m in August and by 2.4% m-o-m in July.

Oil price growth on the other hand, continued to witness decelerations on both a y-o-y and m-o-m basis. The price of *Oil* rose by 2.0% y-o-y in September marking a third consecutive month of slower growth after posting increases of 2.4% y-o-y in August and 8.5% in July, while on a m-o-m basis, *Oil* prices rose by just 0.7% following increases of 2.7% m-o-m in August and 5.4% m-o-m in the month before that.

SPECIAL FEATURE

Spotlight on: Debt

Public debt has risen sharply in Namibia in recent years as the Government has pursued an expansionary fiscal policy aimed at countering the ill effects of the recent global financial crisis. While debt levels remain low by international standards, this pro-growth stance has nonetheless seen debt levels approaching the domestically-established benchmarks set out in the country's Sovereign Debt Management Strategy (SDMS), published in 2005.

Table 1: Benchmarks for Government Debt

	Benchmark	2008/09	2009/10	2010/11	2011/12	2012/13
Domestic Debt						
Domestic debt to GDP	20%	13.3%	11.6%	12.7%	18.0%	15.8%
Domestic debt to Revenue	70%	41.6%	36.9%	45.3%	57.6%	39.8%
External Debt						
External debt to GDP	5%	5.1%	4.3%	3.9%	7.8%	8.2%
External debt to Exports	10%	9.8%	9.2%	8.5%	18.9%	19.2%
Guarantees						
Outstanding guarantees to GDP	10%	4.1%	3.4%	2.4%	2.7%	2.1%
Total Debt						
Total debt to GDP	25%	18.4%	15.9%	16.5%	25.9%	24.0%
Total debt service to Revenue	10%	4.7%	5.0%	4.1%	3.8%	3.9%
Debt falling due within 12 months	30%	36.3%	36.4%	39.8%	50.3%	47.3%
Average Time to Maturity	5 years	4.3	4.3	4.7	3.8	3.6

Source: Sovereign Debt Management Strategy, Ministry of Finance, Bank of Namibia

Total Debt

Between FY2008/09 and FY2012/13, total debt as a proportion of GDP averaged 20.1%, comfortably below the 25% threshold outlined in the SDMS. However, a 78.8% increase in total debt in FY2011/12 – to N$24.7bn, up from N$13.8bn in FY2010/11 – saw this benchmark level broken, with the total debt to GDP ratio rising to 25.9%.

The sharp increase in total debt in FY2011/12 was due the launch of Namibia's first Eurobond, and even thought this did push total debt as a proportion of GDP above the 25% level, the slip beyond the benchmark established in the SDMS was only marginal, and could even perhaps be deemed as being merely on the boundary rather than over it given the small magnitude of the transgression. This argument is given more weight by the fact that the slip above the 25% threshold was only temporary, with total debt as a proportion of GDP dipping back below the 25% level in FY2012/13, to 24.0%. That said, the total debt to GDP ratio is still currently hovering around the benchmfark established in the SDMS, and as such it appears that there is little scope for further expanding total debt

Domestic Debt

Domestic debt as a proportion of GDP averaged 14.3% over the FY2008/09 to FY2011/12 period, but just as for total debt, FY2011/12 saw this metric spike to skew this figure higher. Domestic debt grew by 62.8% to N$17.2bn, which saw the ratio of domestic debt to GDP increase from 12.7% to 18.0%. Despite this sharp increase, however, the domestic debt to GDP ratio nonetheless remained below the benchmark level established in the SDMS of 20%. Further, domestic debt as a proportion of GDP fell to 15.8% in FY2012/13.

Similarly, in spite of a sharp increase in FY2011/12 – to 57.6%, up from 45.3% in FY2010/11 – the domestic debt to revenue ratio also remained below the 70% benchmark prescribed by the SDMS. Moreover, domestic debt as a proportion of revenue followed the ratio of domestic debt to GDP in dropping in FY2012/13, to 39.8%, dragging the average for this metric down to 44.3% between FY2008/09 and FY2012/13. This, along with the domestic debt to GDP ratio, suggests that there is still some scope for increasing domestic debt.

External Debt

The launch of Namibia's Eurobond in October 2011 saw external debt to GDP rise to 7.3% in FY2011/12, thus exceeding the 5% threshold set out in the SDMS. Moreover, the ratio of eternal debt to GDP rose further in FY2012/13, to 8.3%, as Namibia launched a ZAR-denominated offering on the Johannesburg Stock Exchange. These two international offerings dragged the average external debt to GDP ratio to 5.9% over the FY2008/09 to FY2012/13 period.

Furthermore, the ratio of external debt to exports spiked to 18.9% in FY2011/12 on the back of the Eurobond issue – almost double the 10% benchmark published in the SDMS – and this figure rose to 19.2% in FY2012/13. The external debt to exports ratio was already in excess of this threshold prior to the Eurobond being launched, standing at 10.1% in FY2010/11, which actually represented a decline from 11.4% in FY2009/10. With external debt to exports also coming in at 11.4% in FY2008/09, the average of this metric stood at 13.1% over the FY2008/09 to FY2012/13 period. These ratios, therefore, suggest that there is no room for more external debt, and indeed, that external debt needs to be decreased going forward to bring it more in line with benchmark levels.

Debt Servicing

Total debt servicing to revenue has remained comfortably below the 10% threshold outlined in the SDMS, and in fact has even been generally trending downwards since FY2009/10. Total debt servicing to revenue rose to 5.0% in FY2009/10 from 4.7% in the previous year, but FY2010/11 saw this figure fall to 4.1% and FY2011/12 saw it drop to 3.8%. A very slight increase in FY2011/12 – to 3.9% – saw this trend reverse, although given the tiny magnitude of the increase, it could be argued that this metric in fact remained stable.

This suggests that there is still much room to accommodate a greater level of debt servicing. However, going forward, the expectation would be that debt servicing will increase in line with higher levels of total debt, meaning that caution on this front may well be warranted. That said, revenue collections have improved drastically in recent years. Total revenue rose by 28.0% in FY2011/12 and revenue growth was even higher in FY2012/13 at 47.0%.

This will of course help to keep total debt servicing as a proportion of revenues well anchored, but caution should nonetheless still be exercised with respect to allowing total debt servicing to expand too rapidly. If revenue growth slows – a likely prospect given the extremely high base it is now operating from – total debt service to revenues could potentially increase rapidly.

Guarantees

Guarantees as a proportion of GDP have remained well below the 10% benchmark established in the SDMS, and have in fact declined since FY2008/09, falling from 4.1% to 2.1% in FY2012/13 (although FY2011/12 did see this metric increase slightly, to 2.7% from 2.4% in the previous year). This suggests that there is plenty of room for the government to offer further guarantees, but it should be kept in mind that this metric only tracks explicit guarantees, and therefore the implicit guarantees associated with state owned enterprises are excluded. This, naturally, changes the picture where guarantees are concerned. Furthermore, should just a few significant guarantees be issued – such as for the Kudu gas project and the planned Walvis Bay port expansion – guarantees as a proportion of GDP could potentially rise very rapidly.

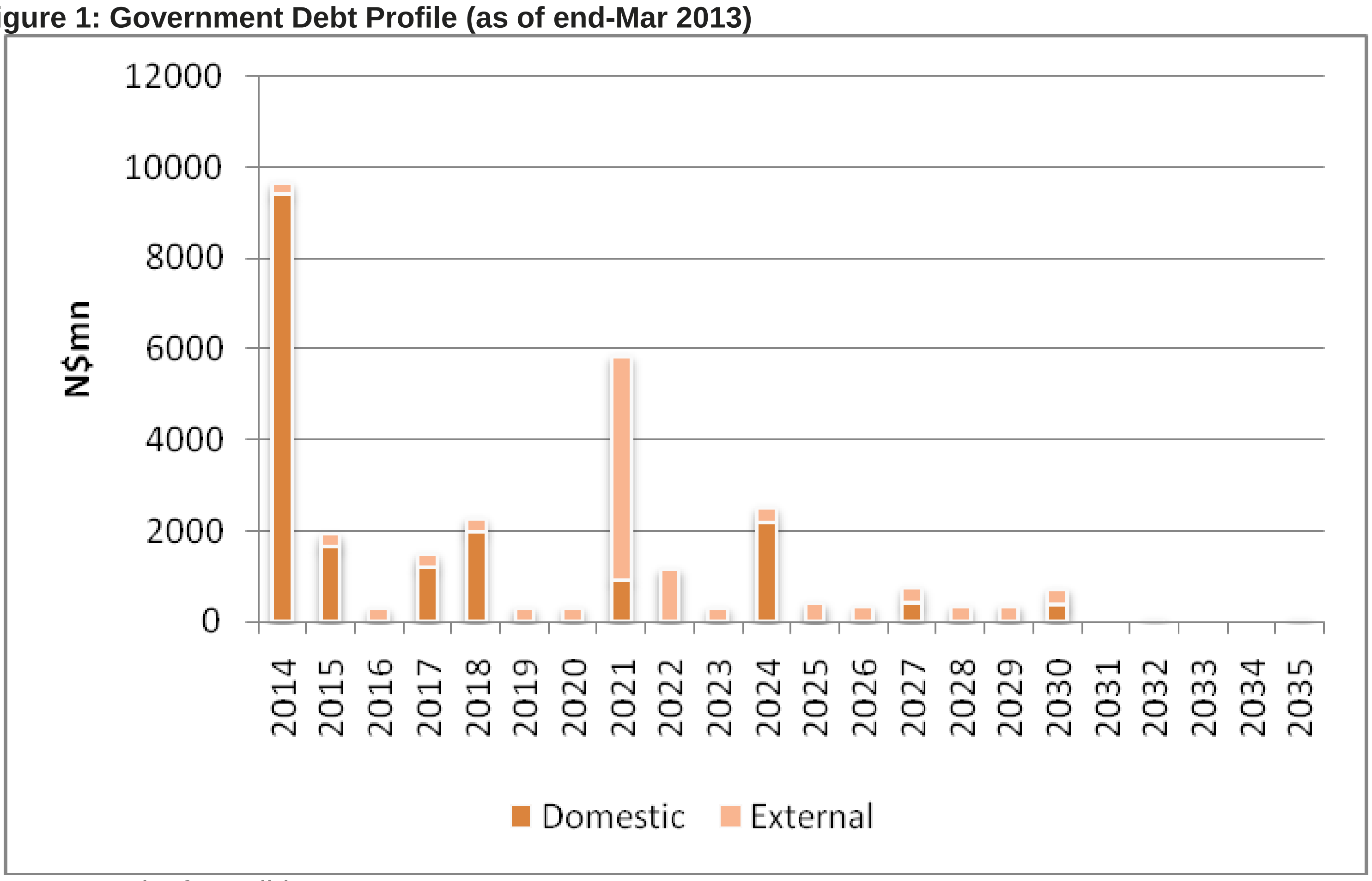
Maturity

The SDMS specifies that debt falling due within 12 months should not exceed 30% of the total debt portfolio. This, however, is one benchmark that has consistently been missed. Debt falling due within 12 months stood at 47.3% in FY2012/13 – which actually marked a decline from the 50.3% figure recorded in FY2011/12 – and the average for this ratio between 2008/09 and FY2012/13 stood at 42.0%. This suggests not only that there is no room for increasing short-term debt, but that in fact short-term debt must actively be decreased.

Meanwhile, average time to maturity (ATM) – which measures how long it takes on average to rollover or refinance the debt portfolio – stood at 3.6 years in FY2012/13, marking a slight decline from 3.8 years in FY2011/12. The SDMS sets 5 years as the benchmark for ATM, and so this metric is currently comfortably below the threshold. However, given that a low ATM indicates that a high proportion of total debt will be due for payment or roll over in the near future, it therefore implies that there is a relatively high exposure to refinancing risk if resources are not available to meet or roll over the maturing debt.

Given the country's low ATM and the fact that the proportion of debt falling due within 12 months is far in excess of the 30% limit imposed by the SDMS, Namibia perhaps needs to consider extending the maturity of its public debt profile. This becomes even more apparent when considering the current (end-Mar 2013) government debt profile, as depicted in Figure 1. This highlights how highly heavily weighted the government debt portfolio – particularly domestic debt – is towards short-term debt, and how relatively little there is on offer at the longer end of the yield curve. In a positive move, July this year has seen the launch of three new longer-term bonds – the GC25, the GC32 and the GC35 – in an attempt to extend the maturity of the government's debt profile and increase the ATM. However, a key problem remains the lack of a well functioning secondary market. Until this issue is addressed, demand will continue to be weighted in favour of short-term debt over longer term instruments, particularly in the current climate where investors are expecting an increase in future market yields, which means appetite for longer maturing bonds remains limited.

Figure 1: Government Debt Profile (as of end-Mar 2013)



Source: Bank of Namibia

Conclusions

Many of the metrics for debt sustainability are rapidly approaching the benchmarks set out in the SDMS, if they are not there already. The first question that needs to be asked, however, is whether these benchmarks are appropriate. Namibia's total debt is still very low by international comparisons, which perhaps suggests that the benchmarks originally established in the 2005 SDMS could be adjusted upwards will few ill effects on macroeconomic stability. That said, by allowing debt to expand simply because the country can afford to do so is potentially a rather reckless attitude. The higher debt levels go, the less scope there is for expanding them; should a time come where further fiscal expansion is required, Namibia could be in a position where it is unable to react as it wishes due to concerns over debt sustainability.

Another key issue with public debt in Namibia is what purpose it serves. Domestic debt is used primarily to finance the budget deficit, but it is doing so in an environment of low execution rates and high cash balances. Preliminary data for FY2012/13 suggests that the overall execution rate for the FY2012/13 budget is 93.0%, but was as low as 64.7% for the O/M/A with the weakest rate of budgetary execution. Meanwhile, the most recently published book of Estimates of Revenue and Expenditure show cash balances totalling in excess of N$8bn. Against this backdrop, therefore, issuing debt to finance the country's budget deficit seems an unnecessary luxury, and a potentially expensive one at that.

A higher budget deficit and more state debt could be justified if the Government uses the additional finance for real economic investments in infrastructure, education or environmental projects. Those investments lead to a return on investment for society as a whole, and benefit future generations of Namibians. However that is currently not the case: More than 50% of Namibia's budget is used for salaries of civil servants and additional 30% is used for subsidy payments. In other words, the majority of the budget is used for state consumption and not investment. As such, any expanded deficit – and corresponding higher debt levels – should be avoided.

Of course, government debt also plays a role in providing a benchmark for corporate bonds, etc, but given the paucity of government debt offered with a maturity beyond 2 years (only 39% of total domestic government debt has a maturity longer than this), it could be argued that even this function is not being adequately performed at present. Indeed, the maturity profile of government debt in Namibia is something that needs to be considered. At present, Namibia is exposed to refinancing risk due to its low ATM and high proportion of debt falling due within 12 months. Although demand for short-term domestic debt remains strong in Namibia, this is a risk that should not be overlooked. Unfortunately, as has been previously highlighted, the lack of a well functioning secondary market serves as a key obstacle to extending the maturing of the government's debt profile.

Another issue of potential concern is the sharp increase in external debt. While this has helped to bolster the country's official foreign exchange reserves – which in June stood at just N$16.1bn, equal to 3.7 months worth of import cover – it has also increased the country's exposure to exchange rate risk. Given the volatility of the Rand, external debt is a potentially expensive source of financing unless appropriate hedging policies are put in place.

Ultimately, while the current situation may not merit any undue concern at present given the still low levels of debt by international standards, it is increasing becoming the case that there are issues which will need to be addressed – and perhaps sooner rather than later