REPUBLIC OF NAMIBIA

Ministry of Finance

MEDIA STATEMENT

Clarification on the object, terms and use of the

Rapid Financing Instrument (RFI) by Namibia from the International Monetary Fund (IMF)

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Distinguished Members of the Media,
Ladies and gentlemen,
Fellow Namibians

1. There has been numerous and varying public comments made on the US$270.83 million, (N$3.9 billion) budget deficit financing loan arrangement which Namibia secured from the International Monetary Fund in March this year. The loan is for a 5-year period, to be repaid at 1.1 percent interest rate. The total size of the loan is equivalent to 100 percent of Namibia's shareholding in IMF, which totals 191.1 Special Drawing Rights. At the centre of these public commentaries is a purported view that the loan comes with associated conditions, and that the Government has acceded to the loan conditions which are unfavourable to the country.

2. Among others, it has been alleged in the public media that some of the conditionalities are that the Government should suspend public sector salary increase for a duration of five years and implement a targeted early retirement scheme. It is further alleged that the Government acceded to such loan conditionalities without prior consultation with the representative labour unions, thus encroaching on employees' rights and fundamental freedom to collective bargaining and improved conditions of service.

3. In essence, this viewpoint asserts that the Government has unilaterally suspended collective bargaining and *de facto* changed the conditions of service for employees.

4. Notwithstanding the above, at least there is a noted common understanding that the current economic conditions, whose severity has been felt since 2016, do not allow for public expenditure increases without worsening the public debt beyond sustainable levels and that the public wage bill, which now stands at 15.7 percent of GDP and 55.7 percent of national revenue, is unsustainable.

5. The Ministry of Finance notes with concern the misrepresentation of the nationally announced policy measures as conditionalities of the RFI loan. The Ministry herewith wishes to reiterate to the public that the RFI loan arrangement from IMF did not come with any conditionalities.

6. The Ministry wishes to clarify this apparent misinterpretation and misinformation as follows:-

The IMF Rapid Financing Instrument (RFI)

7. The RFI is designed by IMF as an instrument which provides rapid financial assistance to its member states facing urgent balance of payment needs or economic shocks. It is available to all member states of IMF, Namibia inclusive, and it is designed for situations 'where a full-fledged economic program is not necessary".

8. Conditionality in IMF lending often arises when a country enters into a managed economic or financing program with the Fund. In the present circumstances and in response to most

IMF member countries experiencing large and urgent funding needs arising from the negative impact of COVID-19, IMF had availed funding from this facility and even temporarily increased the access limits from 50 percent to 100 percent or even to 150 percent of the country quota holding to help member countries cope with the impact of COVID-19 on their economies.

9. An RFI is not a financial program or a normal loan operation. It is an emergency funding arrangement and that is why, at 1.1 percent interest rate, it is cheaper in the context of Namibia as an Upper Middle Income Country. The RFI arrangement is provided on the basis of the country's existing and prospective policies for addressing the shocks. Suffice to say that a country is creditworthy if it has credible systems and policies in place to manage fiscal risks and its financial affairs prudently.

Namibia's existing and prospective policies for Public Finance Management

10. Since the onset of the severe economic conditions in 2016, the Namibian Government, through stakeholder consultations and appropriated national budgets, instituted a package of policy response measures to mitigate the macro-fiscal risks and revive economic recovery and growth.

11. Among others, the following policy measures have been implemented since 2016/17 financial year:-
    - a growth-friendly fiscal consolidation, anchored on expenditure containment and the alignment of public expenditure to revenue with the objective of stabilizing growth in public debt,
    - managing the increase in the wage bill, which is one of the main drivers of public spending, through net vacancy freeze and no upward remuneration adjustment through the collective bargaining process,
    - implementing administrative measures to reduce non-core expenditure under the leadership of the Office of the Prime Minister,
    - undertaking Public Enterprises reforms and eliminating unsustainable bailouts thereof,
    - implementing reform measures for the Public Service Medical Aid Scheme (PSEMAS) for long-term sustainability, and
    - formulation and implementing a broad range of national recommendations by the High-Level Panel on the Namibian Economy, including the reforms on the wage bill containment.

12. The above reform measures did not commence as a result of COVID-19 impact on the economy nor are they a consequence of the RFI loan uptake. These forms have been announced in the successive budget statements and budget policy frameworks. Their gradual and prioritized implementation has been under way over the last four years.

13. In particular, the zero public salary adjustment has been exercised since 2017/18, thanks to the understanding and patriotism of the civil servants and the recognized labour unions

in favour of long-term fiscal sustainability of the country. This understanding arises from the annual consultations with the stakeholders.

14. The above reforms are, therefore, not conditionalities of the RFI loan but homegrown policy response measures. The RFI loan appraisal only recognizes the reforms which the country is implementing and encourages the country to continue implementing such home-grown reforms, as reiterated in the Letter of Intent by the Government to the IMF. The commitments expressed in the Letter of Intent are a reaffirmation that the Government will continue to implement the broad spectrum of national policy measures to manage fiscal risks and support economic recovery and inclusive growth going forward.

15. I should also hasten to add that the Letter of Intent which Namibia has signed for this arrangement is not a contract. If any, a contract binds the parties to particular terms and conditions. The Letter of Intent is a description of the country's policies and measures which are self-initiated and implemented to address particular circumstances. It does not constitute a binding contract with the Fund. In respect of the public sector wage adjustments, the Letter of Intent has not contemplated the freezing of public sector wage bill for five years as recently alleged in the media. It only makes reference to the 2021/22 financial year for which the due process of stakeholder consultation has been undertaken. The Government wishes to further reiterate its commitment to transparency and accountability and it is on this basis that a commitment is made for the audit of COVID-19 related expenditures to be undertaken and the reports to be published.

Other Countries benefiting from the RFI and related facilities

16. It is worth stating that Namibia is not the only country which has accessed and benefited from the IMF RFI facility. As at the last count, a total of 65 countries have applied for and received disbursements from the RFI and Rapid Credit facilities of the IMF to support their economies during these unprecedented times. These include, Seychelles, Tunisia, Nigeria, South Africa, Senegal, Jordan, Lesotho, Gabon, Eswatini, Rwanda, Egypt, Jamaica, Tajikistan, Montenegro, etc.

Use of the RFI Proceeds

17. There is also a mix of inferences made regarding the use of the proceeds from the RFI loan. The Ministry wishes to inform the public that the proceeds of the RFI loan are part of the combined sources of financing to enable the Government to fund the financing gap between revenue and expenditure and meet the related borrowing requirements. Namibia's financing gap increased significantly because of the devastating impact of COVID-19 on the economy and revenue.

18. As may be noted, the 2021/22 budget presented in March this year estimated revenue at N$52.1 billion, which is N$6.4 billion or 10.9 percent less than the pre-pandemic revenue collection in 2019/20.

19. As such, the Government expenditure has been significantly reduced to N$67.9 billion equivalent to 36.8 percent of GDP, from the peak of N$72.8 billion or 41.2 percent of GDP in 2020/21. Expenditure could not be further reduced in the short term without threatening the provision of essential services especially in the health sector at this unusual point in time.

20. Even at this reduced level of public expenditure, the budget deficit, which needs to be financed through borrowing stands at N$15.9 billion. This size of the budget deficit cannot be financed from a single source. It requires diversified sources of financing. As stated in the 2021/22 budget statement, the deficit is to be "financed through a combination of domestic and external borrowing". The total borrowing requirements and sources of financing are published in the Government Borrowing Plan, which is a public document and obtainable from the website of the Bank of Namibia, www.bon.com.na\financialmarkets\borrowingplan .

21. Accordingly, the proceeds of the RFI will enable the Government to fund the budgeted programs and development projects, particularly the elevated needs in the health sector but also the developmental programs to enable the country to cope with the adverse impacts of COVID-19 on lives and livelihoods.

22. The Ministry, therefore, urges the public to remain factual and not to give way to populist misinformation. At the same time, the Ministry wishes to thank all Namibians for their forbearance as the country implements its own sovereign policies in the current challenging circumstances to fight COVID-19 and place the economy on a long-term recovery path.

Thank you.