NAMIBIA

Table 1	2019
Population, million	2.6
GDP, current US$ billion	12.4
GDP per capita, current US$	4685.8
International poverty rate ($1.9)[a]	13.8
Lower middle-income poverty rate ($3.2)[a]	30.3
Upper middle-income poverty rate ($5.5)[a]	51.0
Gini index[a]	59.1
School enrollment, primary (% gross)[b]	124.2
Life expectancy at birth, years[b]	63.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

COVID-19 has created challenges for an already struggling economy, with depressed global demand, falling commodity prices and movement restrictions adding to an economy characterized by low productivity and growing unemployment. Output will contract by 7.1 percent in 2020, pushing an additional 125,000 people below the US$1.9 international poverty line. The fiscal response has been strong but growing debt levels require urgent attention. A recovery is expected in 2021, although this will be conditioned by the duration and intensity of COVID-19.

Key conditions and challenges

Namibia's economy entered 2020 in an already weakened position. After experiencing average annual growth of 4.4 percent between 1991 and 2015, the economy fell into recession in 2016 and has since struggled to recover. With growth being largely dependent on investments in mineral extraction and government spending, falling commodity prices and the much-needed fiscal consolidation to correct growing imbalances brought the economy to a halt. Severe drought conditions have created an added challenge, especially to the rural population, whilst a growing skills mismatch and uncompetitive business environment have hindered the private sector's ability to spur economic activity. Per capita growth has thus remained negative at a time where absence of productive jobs has led to extremely high unemployment, further exacerbating geographical disparities in economic opportunities and access to services. Globally, Namibia remains one of the most unequal countries.

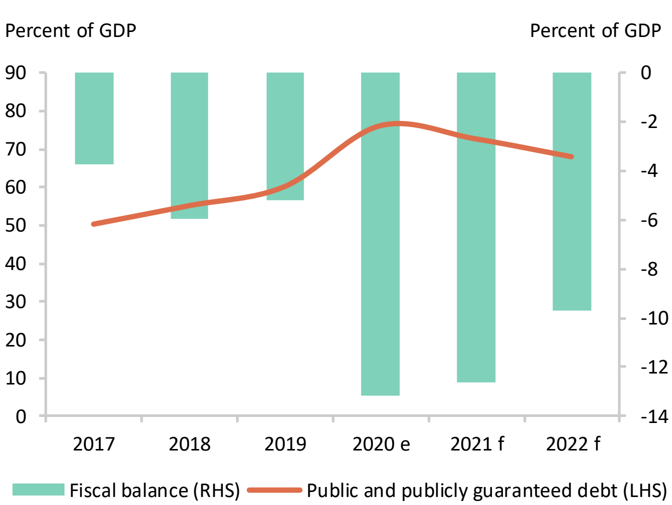
The pandemic is confronting every level of Namibia's economy with an unprecedented challenge. Locally, the uncertainty around the intensity and duration of the outbreak is a key concern, particularly as the recent sharp rise in cases resulted in more restrictive nation-wide measures. Prolonged duration of these could require additional fiscal stimulus, whilst further worsening growth and inequality. The authorities' capacity to effectively implement social protection programs will be key to mitigating COVID-19 impacts on poverty, as will efforts to mitigate the impacts of climate change on agriculture. Regional developments will remain important given the key export market, important SACU transfers and links to supply chains. Globally, persistently low international prices for uranium, which have already squeezed margins of local mines, and volatility in prices of other export commodities present additional risks.

Recent developments

COVID-19 has added challenges for an already struggling economy. Namibia's mineral industry, a key source of forex, has been hit by falling commodity prices and dwindling global demand. Already grappling with insufficient supply of water for uranium production and depleting zinc deposits, COVID-19 has forced a scale-back in mineral production. Declines in diamond, uranium and zinc production put Namibia's overall mining production index at a 12-month low in May. Travel restrictions have severely impacted the hospitality sector: indices for occupancy rates dropped to below 5 in April, while international arrivals fell to near zero. Job losses in the sector have amassed and are likely to continue if restrictions remain in place into 2021. Livestock farming, which struggled with drought conditions in previous years, now faces reduced local and foreign demand.

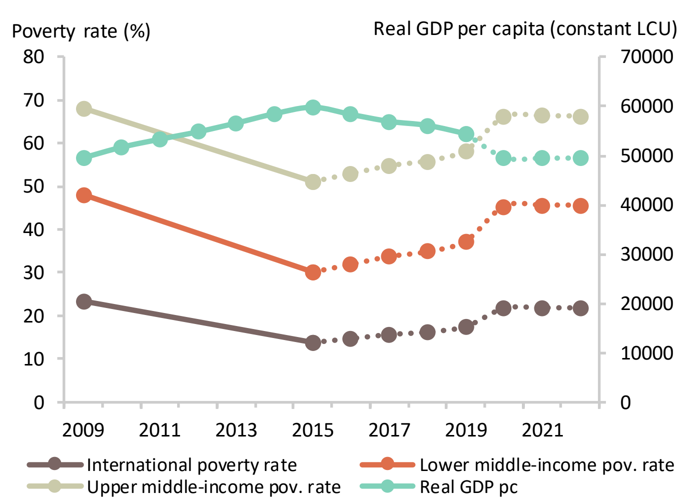
The pandemic has derailed on-going fiscal consolidation efforts. The FY2020/21 budget

FIGURE 1 Namibia / Actual and projected overall fiscal balance and public debt



Sources: Namibia Ministry of Finance and World Bank staff estimates.

FIGURE 2 Namibia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

focusses on mitigating the impact of COVID -19 through additional health spending, a one-off Emergency Income Grant (EIG) for low-income groups, a wage subsidy for severely affected sectors, and guarantees for loan schemes made available to SMEs. This increased spending puts expenditures at 43 percent of GDP (from 38 percent last year) and, combined with lower revenue collection due to fiscal relief measures and muted economic activity, will widen the budget deficit to 13 percent of GDP (from 5.2 last year). Beyond increased domestic borrowing and use of the Contingency Fund savings, Namibia has auctioned fishing quotas to obtain much-needed forex to reduce the financing gap. The authorities have also approached the IMF for support through a Rapid Financing Instrument. Additional financing will push public and publicly guaranteed debt to 76 percent of GDP (from 60 percent in 2019).

Reduced exports of key commodities have further weakened Namibia's external position. Year-on-year exports fell 43 percent in April, reflecting sharp declines in exports of metalliferous ores, mineral manufactures, transport equipment and fish. Whilst increased imports of food items linked to relief packages have been offset by lower fuel prices, these have not been enough to curtail the impact of reduced export earnings, thus increasing financing pressures. Reserves fell US$ 200m between end April and end June, although remaining enough to cover 5.3 months of imports.

Outlook

Accentuated declines in output across key sectors including hospitality, mining, transport, trade and construction will cause the economy to contract by 7.1 percent this year, pushing extreme poverty up to 21.8 percent in 2020 (from 17.6 percent in 2019). Consequently, an additional 125,000 people will fall below the US$1.9/day international poverty line –the "new poor" being male, young workers, those with low educational attainment, and/or those in larger households. With urban households likely to be more severely affected, unemployment is set to rise. Almost 6,000 people have become jobless between April and June. A moderate growth recovery is expected in 2021 as mining production picks up and easing restrictions stimulate trade and transport activities. Recovery in other sectors, especially hospitality, is conditioned on the health crisis being averted, financial recovery and a build-up in confidence. Whilst the coming on-line of the new Debmarine ship in 2022 could provide further impetus for growth, efforts to diversify growth sources will remain critical for a more sustainable recovery. Namibia's poverty rate will remain at a high level over the medium-term.

The fiscal outlook will remain weak, particularly as SACU transfers are set to decline sharply in FY21/22 due to the impact of COVID-19 on regional growth and trade. While the authorities have committed to recalibrating expenditures from the temporary COVID induced peak to stabilize growth in public debt levels, further spending pressures are likely to materialize from the much-needed reforms to address key structural challenges and COVID-19's long-term economic implications. This, along with the international bonds due over the next two years, will create additional challenges for the fiscal consolidation.

The expected global recovery in demand for Namibia's key exports (diamonds, minerals, meat and fish) will help improve the trade balance in 2021, as will the expected recovery in travel for tourism albeit from a lower base given that several instances have had to close. Despite this, the external position is set to remain fragile given lower SACU transfers and, in 2022, the imports related to the Debmarine Vessel. International reserves are thus expected to remain under pressure over the medium term, although efforts to diversify exports and attract foreign investment could lead to an improvement in the external position.

TABLE 2 Namibia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-0.3	0.7	-1.0	-7.1	1.8	2.0
Private Consumption	-5.5	-1.3	4.3	-3.6	1.0	1.5
Government Consumption	-2.1	-0.1	0.4	-0.9	-9.8	-5.9
Gross Fixed Capital Investment	-10.6	3.0	0.6	-25.7	14.7	9.2
Exports, Goods and Services	2.2	16.4	-2.2	-24.0	8.6	8.9
Imports, Goods and Services	-8.6	3.9	3.2	-18.0	3.0	5.0
Real GDP growth, at constant factor prices	0.1	0.7	-0.7	-7.1	1.8	2.0
Agriculture	7.0	-1.9	-2.6	-4.5	1.2	1.3
Industry	-0.4	6.2	-3.1	-13.9	2.6	2.8
Services	-0.5	-1.4	0.6	-4.3	1.5	1.8
Inflation (Consumer Price Index)	6.1	4.3	2.9	2.5	3.2	3.5
Current Account Balance (% of GDP)	-3.3	-2.9	-2.0	-5.2	-6.0	-4.3
Net Foreign Direct Investment (% of GDP)	3.4	0.4	-0.2	-0.8	0.5	1.0
Fiscal Balance (% of GDP)[a]	-3.7	-5.9	-5.2	-13.2	-12.6	-9.7
Debt (% of GDP)[b]	50.4	55.3	60.3	76.2	72.8	68.1
Primary Balance (% of GDP)[a]	-0.5	-1.9	-0.9	-8.3	-7.3	-4.0
International poverty rate ($1.9 in 2011 PPP)[c,d]	15.6	16.2	17.6	21.8	22.0	21.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	33.8	34.9	37.4	45.3	45.6	45.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	54.7	55.9	58.4	66.2	66.4	66.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).

(b) Refers to Public and Publicly Guaranteed debt.

(c) Calculations based on 2009-NHIES and 2015-NHIES.Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(d) Projection using annualized elasticity (2009-2015) with pass-through = 1based on GDP per capita in constant LCU.