

NAMIBIA

Recent developments

Table 1 **2015**

Population, million	2.5
GDP, current US\$ billion	12.2
GDP per capita, current US\$	4947
Poverty rate (\$1.9/day 2011PPP terms) ^a	22.6
Poverty rate (\$3.1/day 2011PPP terms) ^a	45.7
Gini Coefficient ^a	61.0
School enrollment, primary (% gross) ^b	109.5
Life Expectancy at birth, years ^b	63.9

Sources: World Bank WDI and Macro Poverty Outlook.

Notes:

(a) Most recent value (2009)

(b) Most recent WDI value (2014)

As new mining investment winds down and production begins, Namibia's current account deficit should narrow, while government works toward fiscal consolidation. GDP gains are expected to reach 5.5 percent by 2018, grounded in extractive industries. Strong growth and spending on social programs have contributed to impressive reductions in poverty. But further progress will require structural reforms to generate more jobs for the unskilled. Persistent drought poses food and water security risks; and as agriculture employs 70 percent of the population, poverty reduction will be pressured in coming years.

Growth of the Namibian economy moderated in 2015 to 4.5 percent from 6.4 percent in 2014. Growth was driven by ongoing massive extractive sector investments and continued government stimulus, offsetting in part the effects of lower commodity prices, slower private sector credit growth (9.5 percent in 2015, down from 16.5 percent in 2014) and weaker agricultural production and exports stemming from drought and foot and mouth disease. Namibia has maintained an expansionary fiscal stance since 2011, with government pursuing a stimulus program to support job creation and poverty reduction. The overall deficit was 6.6 percent of GDP in 2015, higher than the budgeted deficit of 5.4 percent due to over-optimistic income tax revenue projections. The deficit was partially financed by a US\$750 million Eurobond in 2015 (5.375 percent coupon with 10-year maturity), with proceeds bolstering reserves and financing investment projects. Total government debt now stands at around 36 percent of GDP up substantially from 12 percent in 2010.

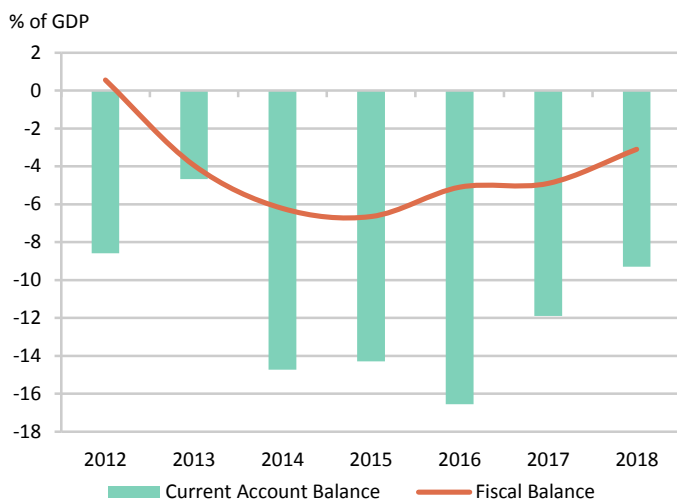
Inflation remained low and stable during 2015, at 3.4 percent down from 5.3 percent in 2014, with easing energy prices partly offsetting the effects of depreciation and increased food prices arising from drought. Monetary policy has tightened, however, to maintain alignment with South African interest rates and avoid capital outflows, and in response to incipient inflationary pressures arising from

depreciation, continued credit growth, and increasing food prices. The repo rate has been increased five times since June 2014, including a 25 bps increase to 6.75 percent in February 2016.

The current account deficit remains substantial, registering some 14.3 percent of GDP in 2015, reflecting low prices for mineral exports and elevated imports for both mining investment and consumer products—the latter driven by fiscal stimulus and credit growth. International reserves reached a low of just 1.5 months of import cover during 2015, but have since recovered to 3.5 months, primarily due to SACU receipts and currency depreciation. Relatively strong economic growth has not been sufficient to deal with poverty, inequality, and unemployment. And this has recently been exacerbated by persistent and deepening drought, conditions that have hit agricultural production hard, as crops failed and livestock deaths surged. About 19.5 percent of the population lived on less than \$1.9 a day in 2015 compared to 20.0 percent in 2014. 42.8 percent lived below the \$3.1 per day international poverty line in 2015 compared to 43.2 percent in 2014. Namibia remains one of the most unequal countries in the world, with a consumption Gini coefficient of 0.597 in 2010.

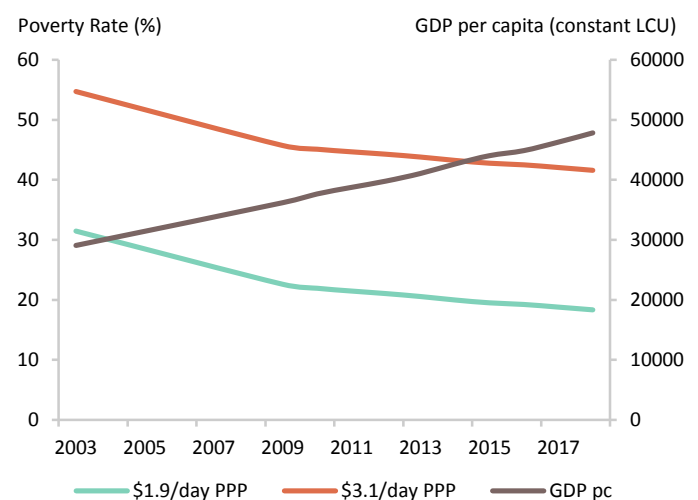
High unemployment is of particular concern. The 2014 Labor Force Survey reports an unemployment rate of 28.1 percent in 2014, down slightly from 29.6 percent in 2013. At 39.2 percent, unemployment is highest among youth and is higher among women (31.7 percent) compared to men (24.3 percent). Most employment

FIGURE 1 Namibia / Actual and projected current account and overall fiscal balance



Source: World Bank staff estimates.

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



Source: World Bank (see notes to table 2).

(31.4 percent) is in low productivity sectors, including agriculture, forestry and fishing. While a full 47.1 percent of employment is in the informal sector, contributing to income insecurity and vulnerability.

Outlook

The economy is expected to grow by 4.2 percent in 2016, with weak prices for mineral exports and continuing negative drought effects partially offset by increased exports from new extractive projects. Over the medium-term, growth is expected to reach 5.5 percent, with spillovers of declining investment and fiscal consolidation offset by recovery in extractive sector export prices and increasing volumes, as new projects reach capacity. Responding to downward revision in revenue figures, the government expects expenditure cuts averaging 1.7 percent of GDP per year over 2016-2018, bringing the deficit down to around 3 percent of GDP by 2018. Fiscal consolidation is welcome but may prove difficult to implement, with a history of slippage against expenditure targets set under successive MTEFs. Inflation is expected to remain moderate, at around 5 percent, as monetary

measures constrain credit growth, fiscal consolidation restrains domestic consumption, and recovery of agricultural production helps to ease food prices. The current account is expected to deteriorate further in 2016, widening to 16.6 percent of GDP, as imports for investment projects gain momentum and mineral prices remain weak. Over the medium-term, however, the current account deficit is expected to narrow to around 9.3 percent of GDP as export prices strengthen and completion of extractive projects reduces imports and increases mineral production and exports.

Steady yet moderate progress in poverty reduction is expected due to both stronger GDP gains and public social sector outlays. 19.2 percent of the population will be living below the \$1.90/day international extreme poverty line in 2016, 18.8 percent in 2017, and 18.3 percent by 2018. Using the \$3.1/day poverty line, 42.5 percent of Namibians are expected to be poor in 2016, declining to 41.6 percent by 2018. The on-going drought is expected to put a damper on poverty reduction. The 2014/15 and 2015/16 harvests were the worst in 80 years, prompting the President to declare in June 2016, the country to be in a state of emergency. Adverse effects are expected for the rural poor who rely on subsistence farming as well

as the urban poor via upward pressure on food prices. Spending on transfers and grants will provide a degree of relief for the affected population.

Risks and challenges

Planned fiscal consolidation and production from new extractive industry projects should support a reduction in fiscal and current account deficits. This outcome, however, is dependent on implementation of planned expenditure cuts in the context of expected declines in SACU revenues. Further falloff in commodity export prices and worsening of external conditions also present downside risks.

Over the longer-term, Namibia faces important challenges in diversifying the economy and broadening economic opportunities. The economy remains heavily dependent on mining, while limited demand for unskilled labor leads to concentration of labor in unproductive subsistence agriculture. Policy priorities for a more inclusive economy include: i) improving access to and quality of secondary, tertiary, and vocational education; and ii) addressing labor market rigidities.

TABLE 2 Namibia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2013	2014	2015	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	5.7	6.4	4.5	4.2	5.4	5.5
Private Consumption	8.5	8.9	5.0	5.0	5.0	6.0
Government Consumption	4.8	3.7	9.7	-4.1	4.7	0.4
Gross Fixed Capital Investment	14.4	38.7	-1.9	-6.4	-6.2	1.5
Exports, Goods and Services	6.9	1.4	5.0	5.1	11.0	5.5
Imports, Goods and Services	8.8	22.6	4.0	-2.6	2.5	2.5
Real GDP growth, at constant factor prices	5.2	6.0	4.5	4.2	5.4	5.5
Agriculture	-11.4	4.6	-8.0	7.8	2.6	3.0
Industry	6.2	3.3	5.8	2.9	7.1	6.0
Services	6.9	7.4	5.3	4.4	4.8	5.6
Inflation (Consumer Price Index)	5.6	5.4	3.4	5.0	5.0	5.0
Current Account Balance (% of GDP)	-4.7	-14.7	-14.3	-16.6	-11.9	-9.3
Financial and Capital Account (% of GDP)	6.6	18.2	14.3	16.6	11.9	9.3
Net Foreign Direct Investment (% of GDP)	6.5	5.1	6.3	10.6	7.6	6.7
Fiscal Balance (% of GDP)	-3.9	-6.2	-6.6	-5.1	-4.9	-3.0
Debt (% of GDP)	24.2	24.6	35.9	37.9	39.2	38.4
Primary Balance (% of GDP)	-2.9	-4.9	-5.2	-3.0	-2.6	-1.1
Poverty rate (\$1.9/day PPP terms)^{a,b,c}	20.6	20.0	19.5	19.2	18.8	18.3
Poverty rate (\$3.1/day PPP terms)^{a,b,c}	43.8	43.2	42.8	42.5	42.1	41.6

Sources: World Bank. Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2009-NHIES.

(b) Projection using annualized elasticity at regional level with pass-through = 1 based on GDP per capita in constant LCU.

(c) Projections are from 2013 to 2018.