NAMIBIA

Table 1	2020
Population, million	2.5
GDP, current US$ billion	10.8
GDP per capita, current US$	4265.5
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).

Namibia's economy has been hard hit by the pandemic which has triggered the sharpest contraction in recorded history. After an estimated 7.3 percent decline in 2020, GDP growth is projected to rebound to 1.8 percent this year. The adverse welfare effects of the pandemic are likely to linger, especially as the growth recovery remains hampered by pre-pandemic structural constraints, and poverty is at risk of increasing further. Growth-friendly fiscal consolidation will be essential to preserve debt sustainability.

Key conditions and challenges

Namibia's growth challenge predates the COVID-19 crisis and structural constraints are likely to limit the post-COVID recovery. The economy has been in recession in three of the last four years, indicating deep-rooted economic difficulties even before the COVID-19 shock. Per capita growth has been negative for several years. Namibia is largely dependent on investments in mineral extraction and government spending, and has suffered from falling commodity prices, weak growth in key trade partners (Angola, South Africa) and tight fiscal policy on the back of government's effort to rebalance public finances. Weak demand and skills mismatches have constrained job creation with the unemployment rate hovering at around 20 percent over the last 5 years.

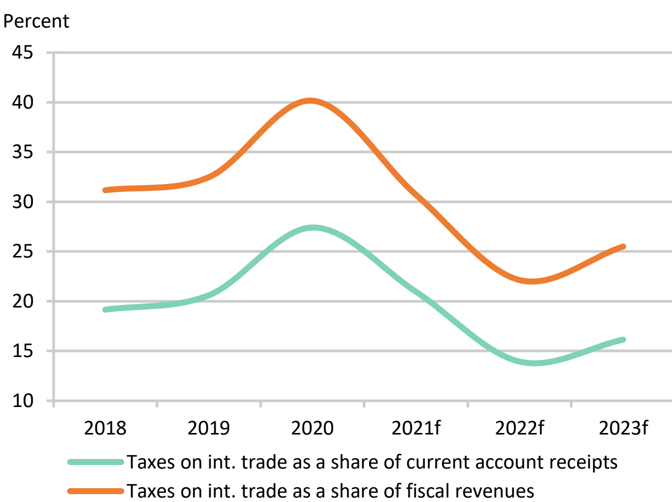
The ongoing COVID-19 pandemic and structural rigidities have resulted in elevated macroeconomic vulnerabilities. The room for additional fiscal stimulus is significantly reduced. Global and regional developments will remain an important driver of Namibia's fiscal and external positions as the country is highly reliant on commodity exports and SACU transfers. Volatility in prices of Namibia's export commodities, particularly diamonds and uranium, presents risks as do growth prospects in key trade partners (e.g. South Africa).

Uncertainty regarding the outlook this year combined with an uncompetitive business environment will continue to constrain private investment, leading to weak growth and job creation. While COVID-19 vaccinations are set to begin, the possibility of recurrent restrictive measures domestically will remain a downside risk to the recovery until the spread of the virus is sufficiently lowered. The pandemic has further exacerbated Namibia's disparities in economic opportunities and access to services. Globally, Namibia remains one of the most unequal countries and about 64 percent of the population live with less than US$5.5 daily (real PPP).

Recent developments

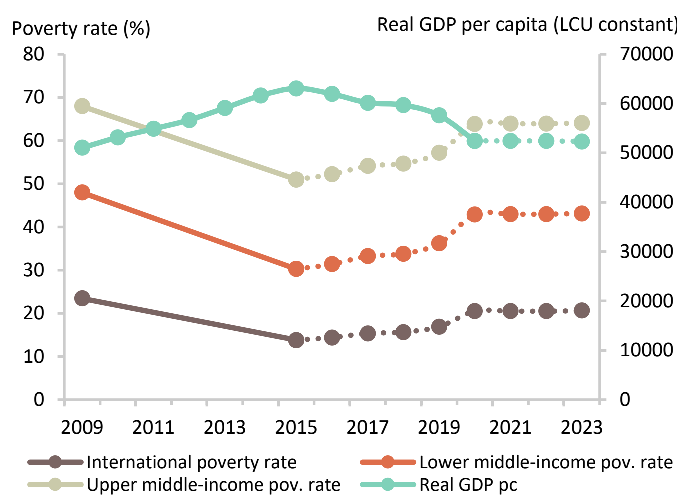
The pandemic has exacerbated preexisting challenges. Real GDP is projected to have contracted by 7.3 percent in 2020. The mining sector, an important earner of foreign exchange, contracted by 12.2 percent y-o-y over Q1-Q3 affected by domestic factors (insufficient supply of water for uranium production, depleting zinc deposits), and falling global demand (especially diamonds). The hospitality industry recorded a large contraction of 46.5 percent y-o-y following local and foreign restrictions. 200,000 more people fell into poverty bringing the number of poor to a record-high 1.6 million. On the back of depressed domestic demand, inflation averaged 2.2 percent in 2020.

FIGURE 1 Namibia / Importance of SACU transfers



Sources: Ministry of Finance, Central Bank 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.

The fiscal situation deteriorated as the pandemic delayed fiscal consolidation efforts and the COVID-19 crisis added to expenditure pressures. The government implemented a stimulus package of NAD8.3 billion (4.5 percent of GDP) that included spending on health, an emergency income grant, wage subsidies in affected sectors and loan guarantees for SMEs. As a result, expenditures are expected to reach 41.2 percent of GDP this fiscal year (ending in March 2021). At the same time, revenues declined due to fiscal relief measures and the economic contraction. The fiscal deficit is projected to widen to 10.2 percent of GDP in 2020/21 and the debt-to-GDP ratio to go up to 74.4 percent. Most of the deficit is financed through domestic market issuances and use of cash reserves. The government also approached the AfDB and IMF for budget support.

On the external side, the current account balance swung to a surplus of NAD3.6 billion over the first nine months of 2020 on the back of a smaller trade deficit – driven by lower imports – and higher SACU inflows. It is expected to have reached a small surplus of 0.6 percent of GDP in 2020, the first since 2007. Reserves rose to about US$2.1 billion at the end of 2020 and cover more than 5 months of imports.

Outlook

Namibia's potential for recovery depends on the evolution of the pandemic globally and domestically and the government's ability to address long-lasting challenges to higher economic growth. Improvement in global demand for commodities should support a rebound in exports but other sectors like tourism will remain hampered by global restrictions. Overall, GDP is expected to grow by 1.8 percent in 2021.

The authorities are committed to restoring fiscal sustainability, but public finances will remain under pressure. In a context of deteriorated social outlook and the persistence of the pandemic, additional spending pressures are likely to materialize, including vaccine expenditures. The government has secured some vaccines through the COVAX facility to cover about 20 percent of the population and is looking to scale up the program to cover 60 percent of Namibians. However, lower SACU transfers expected for the upcoming fiscal year will limit room for maneuver in the budget and translate into persistently high financing requirements. The fiscal deficit is projected to hover around 9 percent of GDP in 2021/22 and debt will continue to rise. Financing needs will be filled primarily in the domestic market. Namibia is also planning to roll-over its upcoming maturing Eurobond. Reduced SACU transfers and a larger trade deficit from next year will keep international reserves under pressure over the medium term. Monetary policy will remain driven by the peg to the Rand.

Reversing the social impact of the pandemic and putting Namibia on a higher and more sustainable growth trajectory that allows for higher job creation and poverty-reduction will require unlocking structural constraints that predate the crisis. Needed reforms include improving the business environment to foster private investment and boost productivity and diversifying the economy. Preserving social spending will also be important to limit the risks of further worsening of poverty and inequality.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.1	-1.6	-7.3	1.8	1.8	1.5
Private Consumption	-0.9	3.6	-4.7	4.1	4.2	3.5
Government Consumption	-0.1	0.4	5.2	-2.4	-2.2	-1.7
Gross Fixed Capital Investment	-5.2	-4.2	-26.6	3.0	2.7	2.9
Exports, Goods and Services	16.5	-2.0	-27.0	8.0	5.6	4.5
Imports, Goods and Services	0.9	2.4	-18.0	7.0	5.8	5.0
Real GDP growth, at constant factor prices	1.2	-1.5	-7.3	1.8	1.8	1.5
Agriculture	3.3	-5.7	7.4	1.3	1.3	1.4
Industry	6.3	-3.2	-14.2	2.7	2.5	2.7
Services	-1.2	-0.1	-5.8	1.5	1.6	1.1
Inflation (Consumer Price Index)	4.3	3.7	2.2	3.8	4.5	4.5
Current Account Balance (% of GDP)	-3.4	-1.8	0.6	-5.4	-4.5	-4.5
Net Foreign Direct Investment (% of GDP)	0.8	-1.5	-1.8	0.9	1.5	1.6
Fiscal Balance (% of GDP)[a]	-5.2	-5.5	-10.2	-9.0	-8.7	-7.4
Debt (% of GDP)[b]	54.4	62.2	74.4	80.4	85.8	89.7
Primary Balance (% of GDP)[a]	-1.3	-1.2	-5.7	-4.4	-3.9	-2.0
International poverty rate ($1.9 in 2011 PPP)[c,d]	15.6	16.9	20.5	20.5	20.5	20.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	33.8	36.2	42.9	42.9	42.9	43.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	54.7	57.2	63.9	63.9	63.9	64.1

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: 2016-2020. Forecast are from 2021 to 2023.

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