

NAMIBIA

Table 1	2015
Population, million	2.5
GDP, current US\$ billion	12.2
GDP per capita, current US\$	4951
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 (2013)

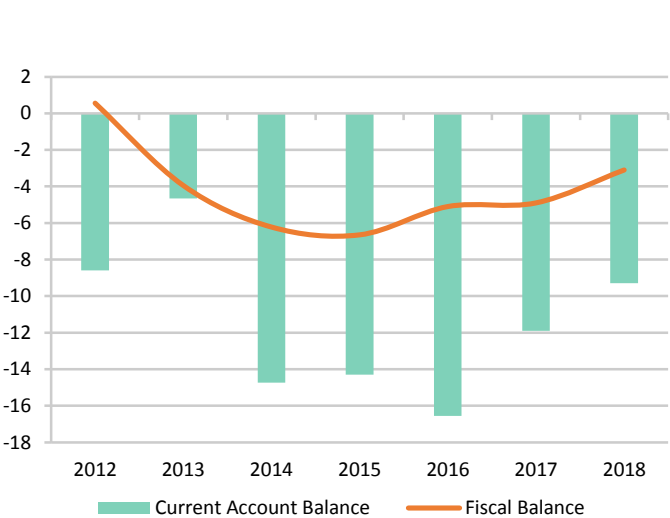
Fiscal stimulus, rapid credit growth, and large scale mining investments have been driving strong growth and a widening current account deficit over recent years. As construction of new mining projects winds down and production begins, the current account should narrow, while the government's recent budget statement signals welcome fiscal consolidation. Strong recent growth and public spending on social programs has contributed to impressive reductions in poverty rates. Further poverty-reduction will require structural change in the economy to generate more jobs for the unskilled.

Recent developments

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, partially offsetting the impact of low commodity prices, slowing of private sector credit growth (9.5 percent in 2015, down from 16.5 percent in 2014) and lower agricultural production and exports resulting from drought and an outbreak of 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. An overall deficit of around 6.6 percent of GDP is expected in 2015 (the fiscal year runs from April 1 to March 31), higher than the budgeted deficit of 5.4 percent of GDP due to over-optimistic income tax revenue projections. The deficit was partially financed by a US\$750 million Euro-bond in 2015 (5.375 percent coupon with 10-year maturity), with proceeds used to support foreign exchange reserves and finance investment projects. Total government debt has grown rapidly and now stands at around 36 percent of GDP (from 12 percent of GDP in 2010). Inflation remained low and stable during 2015, at 3.4 percent down from 5.3 percent in 2014, with low energy prices partly offsetting the impacts of depreciation and increased food prices arising from drought. Monetary policy has tightened,

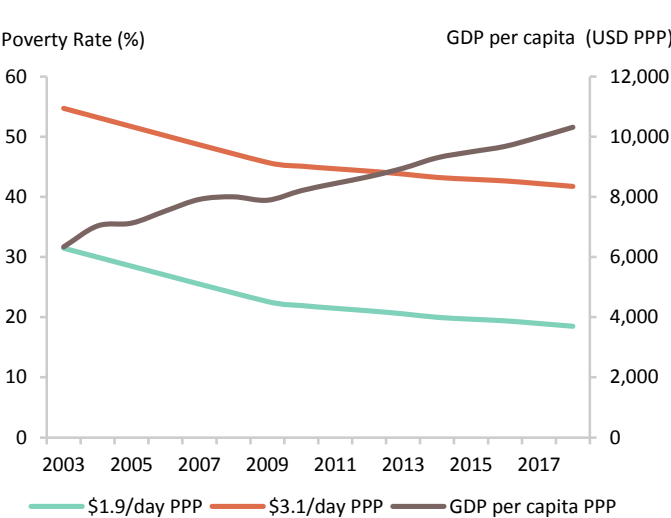
however, to maintain alignment with South African interest rates and avoid capital outflows, and in response to incipient inflationary pressures arising from depreciation, continued credit growth, and increasing food prices. The repo rate has been increased five times since June 2014, most recently with a 25 bps increase to 6.75 percent in February 2016. The current account deficit remains wide (14.3 percent of GDP in 2015) reflecting low prices for mineral exports and elevated imports for both mining investments 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. Using the national poverty line of N\$ 377.96, 28.7 percent of Namibian were poor in 2009/10, following a 9.0 percentage point fall from 37.7 percent in 2003/04. The reduction was driven by gains in in rural areas. Using the international poverty lines, 19.7 percent of the population lived on less than \$1.9 a day in 2015 compared to 22.6 percent in 2009. 42.9 lived below the 3.1 per day poverty line in 2015 compared to 45.7 percent in 2009. Namibia remains one of the most unequal countries in the world, with a Gini coefficient of 0.61. 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

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 (PPP)



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

2013. At 39.2 percent, unemployment is highest among youth. Unemployment is higher among women (31.7 percent) compared to men (24.3 percent). Most employment (31.4 percent) is in low productivity sectors, including agriculture, forestry and fishing. 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 impacts partially offset by increased exports from new extractive projects. Over the medium-term, growth is expected to reach 5.5 percent by 2018, with the impacts 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 revenue revisions, the recent budget statement announced expenditure cuts averaging 1.7 percent of GDP per year over 2016-2018, bringing the deficit down to around 3.1 percent of GDP by 2018. Fiscal consolidation is welcome in the context of robust

growth and recent deterioration of the current account, 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 5.0 percent, as monetary measures constrain credit growth, fiscal consolidation constrains domestic consumption, and recovery of agricultural production eases food prices. The current account is expected to further deteriorate in 2016, widening to 16.6 percent of GDP as imports for investment projects continue 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 leads to a reduction of imports and an increase in mineral production.

Limited progress is expected in poverty reduction. 19.4 percent will be living below the \$1.90/day international extreme poverty line in 2016, 18.9 percent in 2017, and 18.5 percent in 2018. Using the \$3.1/day poverty line, 42.6 percent of Namibians are forecasted to be poor in 2016, 42.2 percent in 2017, and 41.7 percent in 2018. The drought is expected to adversely affect 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 may provide relief to 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 successful implementation of planned expenditure cuts in the context of expected declines in SACU revenues. Further declines 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 e	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	0.2
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	4.5	4.9	5.5
Inflation (Consumer Price Index)	5.6	5.3	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	10.7	7.4	6.5
Fiscal Balance (% of GDP)	-3.9	-6.2	-6.6	-5.1	-4.9	-3.1
Debt (% of GDP)	24.2	24.6	36.0	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	19.7	19.4	18.9	18.5
Poverty rate (\$3.1/day PPP terms)^{a,b,c}	43.8	43.2	42.9	42.6	42.2	41.7

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

Notes: 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 constant PPP.