Namibia

Macroeconomic performance

After strong growth averaging 5.6% between 2010 and 2016, driven by high public spending, construction of new mines, and favorable commodity prices, the economy has entered a recession. Real GDP growth contracted by 0.9% in 2017 and an estimated 0.1% in 2018, thanks to domestic and external factors, including a sharp reduction in public spending necessitated by falling revenues and weak growth in trading partner economies and subdued household demand.

High public spending amid falling revenue led to a widening of the fiscal deficit from 6.3% of GDP in 2015 to 8.1% in 2016. With increased deficit financing requirements, public debt stock rose from 29.5% of GDP to 42% in 2018, 64% of which is domestic. The surge in domestic borrowing has exerted pressure on the small domestic debt market, with the risk of crowding out private credit. To ensure fiscal and debt sustainability, the government is implementing a fiscal consolidation plan that aims to lower the fiscal deficit to 2.7% of GDP by 2022 and limit public debt to 48% of GDP. The plan also aims to improve spending efficiency and boost growth by creating fiscal space for public investment and promoting private participation in infrastructure through public–private partnerships.

Monetary policy has remained largely accommodative since 2017. The repo rate has been maintained at 6.75% to support growth while keeping inflation low and maintaining parity between the Namibian dollar and the South African rand. Inflation declined from 6.2% in 2017 to an estimated 4.2% in 2018, driven by falling food prices and subdued demand in the economy.

Reliance on primary commodity exports coupled with the high import content in consumption and investment has rendered the economy vulnerable to exogenous shocks. The current account deficit widened to 14% of GDP in 2016, as the terms of trade deteriorated and receipts from the Southern African Customs Union (SACU) fell, but improved to 3.4% in 2017, due to slow growth in imports and higher receipts from SACU. The current account deficit is financed largely through foreign direct investment and other nonportfolio investments.

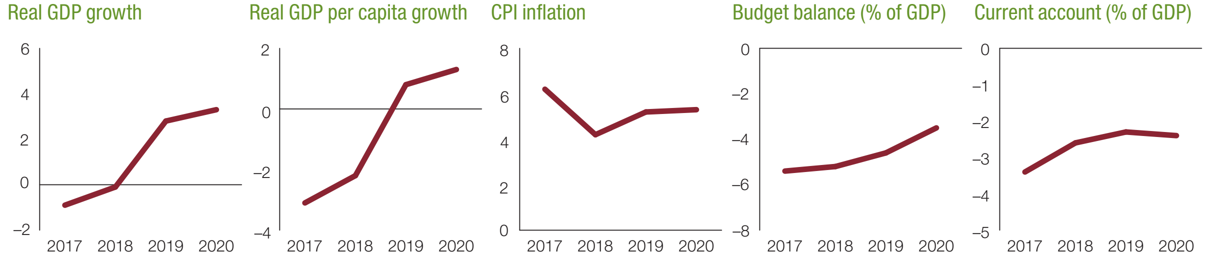
International reserves surged from 3.7 months of imports at the end of 2016 to 4.4 months at the end of September 2018. The highly volatile real effective exchange rate depreciated in 2018, improving the competitiveness of exports.

Tailwinds and headwinds

The medium-term outlook is mixed. Aggregate demand is expected to recover steadily as private activity picks up and new infrastructure projects are implemented as part of the stimulus package. Growth will also be boosted by increased capacity utilization in a new uranium mine as well as improved business confidence as reforms are accelerated.

But growth could remain weak if growth in key trading partners, notably South Africa and Angola, continues to be slow or if international prices of Namibia's commodity exports fall. Uncertainty over land reform and the economic empowerment agenda could also weigh on the growth outlook. The government's assurance that land will not be expropriated without compensation should help ease such concerns.

Going forward, structural reforms to improve competitiveness and spur economic diversification will be crucial in fostering sustainable and job-creating growth. With public debt at a sustainable level, key policy priorities could focus on enhancing domestic revenue mobilization to strengthen the government's fiscal position, providing incentives to shift the economy's structure toward higher value added industries, and advancing the wealth redistribution agenda to address long-standing inequities.



Source: Data from domestic authorities; figures for 2018 are estimates; figures for 2019 and 2020 are projections by the African Economic Outlook team.