

Recent macroeconomic and financial developments

The economy underwent a major contraction of 7.9% in 2020, due to the shock of COVID-19, with declining activity mainly in tourism, retail and wholesale trade, financial services, investment, health, and education on the supply side, and in private final consumption expenditure and investment partly offset by higher net exports on the demand side. Subsequently, there was a sharp decline in GDP per capita and rise in unemployment and poverty. The economy reopened in 2021, concurrently with the rollout of the national COVID-19 vaccine program, resulting in a modest recovery in most industries and subdued GDP growth estimated at 2.4% in 2021.

The central bank kept the policy rate at a record low of 3.75% to support the domestic economy amid subdued inflationary pressures. Although the quality of banking assets deteriorated, the ratio of NPLs to gross loans remained well within the bank's threshold. The fiscal deficit averaged 8.1% of GDP in FY2020/21, driven by COVID-19-related spending and lower revenues, taking public debt to 57.8% of GDP. The fiscal deficit was financed by local bond issuance and by development partner financing. The current account balance switched from a 1.8% of GDP deficit in 2019 to a 2.8% of GDP surplus in 2020—mainly on the merchandise trade surplus—back to a deficit of 1.3% of GDP in 2021, funded by foreign capital. International reserves increased to 6.3 months of imports in 2021 from 4.3 months in 2020. Namibia was allocated \$300 million (2.9% of GDP and 10.0% of gross international reserves) in SDRs. Portions may be used for the Economic Stimulus and Recovery Program, social protection and services provision, and vaccinations. The allocation would allow the country to build its reserves.

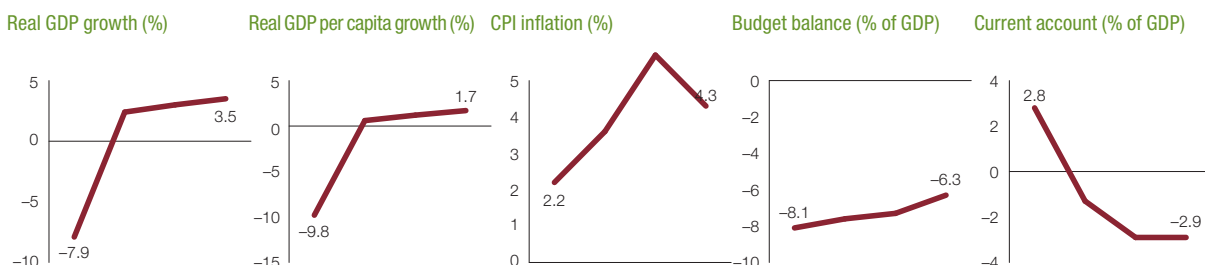
Outlook and risks

The economy is projected to grow by 3.0% and 3.5% in 2022 and 2023 on the assumption of recovery in most domestic sectors and of a rebound in regional and

global economic demand. Monetary policy is expected to remain accommodative in 2022, in support of the domestic economy, and the financial services sector is seen picking up, with reserves rising to 7 months of import cover. The economy faces many risks, such as a prolonged pandemic and slow vaccine uptake. Any global economic shocks would weigh on exports and FDI and contribute to widening the current account deficit by a projected 4.1% in 2022. The fiscal deficit is projected at 7.3% in 2022 and public debt expected to remain elevated, at above 70% of GDP. The current account deficit is projected to widen to 2.9% of GDP in 2022 but could be wider if global economic shocks that weigh on exports and FDI materialize. Other risk factors include high unemployment, income disparities, and environmental hazards that may be mitigated by the Economic Stimulus and Recovery Program and reforms in the public and private sectors. Inflation will remain moderate at around 4.3% in 2023.

Climate change issues and policy options

Namibia is highly vulnerable to climate change and is 113 on the 2021 GCRI. It is prone to severe droughts, which have expected pressure on GDP of 1–2 percentage points, and which hurt the livelihoods of low-income households and rural communities dependent on climate-sensitive sectors. The drought of 2019 caused agricultural output to drop by 5.0% and made water scarcity worse. Namibia has developed policies and strategies to foster climate change resilience and adaptation, and promote low carbon and green growth, as in the Climate Change Strategy and Action Plan (2013–20) and NDC (updated 2021). It has identified RE projects, including the first green hydrogen project in Africa, estimated to cost \$9.6 billion (89% of GDP). Funding for these projects is to be sourced from bilateral and multilateral partners, as well as through social and green bonds in the country's domestic markets. The extent of successful implementation will determine whether Namibia meets SDG 13 on climate action by 2030.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data for the budget balance as a % of GDP reflect a financial year that begins April 1 and ends March 31 the following year.