Namibia

Recent macroeconomic and financial developments

The COVID–19 pandemic hit Namibia's economy hard —it is expected to shrink by 7.9% in 2020 because of declines in tourism, retail, trade and investments, health, and education. That followed poor performances in previous years; the economy contracted in 2019 and 2017 and registered anemic growth in 2018 because of poor performance in construction and mining, persistent drought, and weakening demand for Namibian exports.

The Bank of Namibia has maintained an accommodative policy stance to support a revival of the domestic economy. It reduced the policy rate by a cumulative 275 basis points to 3.75% in 2020.Inflation was on a downward trend during the 2016–20 period, reflecting steady decline in housing prices and transport costs. The fiscal deficit was estimated to widen to 12.5% of GDP in 2020 from 4.9% in 2019, due to a surge in pandemic-related spending and lower revenues. The increased expenditure in 2020 and subsequent fiscal deficit will require large public debt financing, with the public debt-to-GDP expected to rise substantially in financial years 2020/21 and 2021/22. The current account deficit narrowed from 3.4% of GDP in 2018 to 1.7% of GDP in 2019, before widening slightly to 1.9% of GDP by the end of 2020. The country's reserves could cover 4.5 months of imports as at mid-2020, compared with 3.9 months in 2019, and are expected to remain at that level in the short to medium term.

Outlook and risks

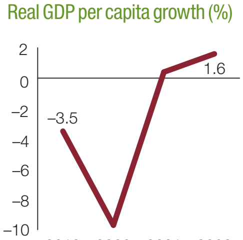
The economy is projected to grow by 2.6% in 2021 and 3.3% in 2022, on the back of a steady recovery in financial services, tourism, retail and wholesale trade, and the mining industries—combined with an improvement in the regional and global economic environment. But the economy still faces substantial risks and challenges in the short to medium term. For instance, if the pandemic continues, the revival of critical sectors such as tourism, agriculture, and retail and wholesale trade would be slower than anticipated. Furthermore, sluggish global economic growth would hold down exports and foreign direct investment inflows. The fiscal deficit and public debt levels are expected to remain elevated as the government implements its ambitious economic recovery program of NAD 8.1 billion ($0.5 billion), and limits the fiscal space needed for infrastructure and human capital investment. Inflationary pressures are expected to rise in 2021 and 2022 with anticipated increases in prices of housing, utilities, and food and nonalcoholic beverages, coupled with a steady depreciation of the Namibian dollar, which fell by 7% against the US dollar during 2020. Furthermore, the negative net exports will continue to weigh on aggregate demand despite the anticipated narrowing of the current account deficit in 2021. Other factors that risk eroding Namibia's economic outlook include high unemployment levels and widening income inequality, which have been exacerbated by the pandemic.

Financing issues and options

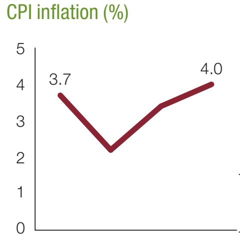
The fiscal deficit is likely to be largely financed by local debt issuance in the medium term. This will push total public debt to 67.5% of GDP in 2020 and 68.4% in 2021, up from 58.4% in 2019. Domestic debt and guarantees already account for approximately 72% of total debt. Namibia's highly liquid financial sector provides a large resource pool, particularly through pension funds and insurance companies, whose assets amount to the equivalent of 120% of GDP. The financial sector has the potential to develop long-term innovative financing instruments to fund national development projects and programs. The government established dollar- and South African rand-denominated sinking funds, with proceeds initially set aside to fund the redemption of eurobonds maturing in 2021 and 2025. However, with funds from those sinking funds subsequently prioritized to fund the post-COVID–19 economic recovery program, government is in discussions with investors to roll over the 2021 eurobond for another 10 years. Moreover, there are also plans to establish a sovereign wealth fund in 2021 to contribute to socioeconomic development.

Real GDP growth (%)

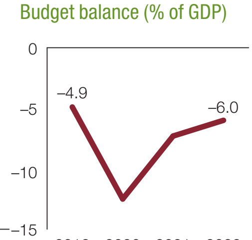
Real GDP per capita growth (%)



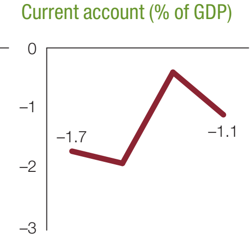
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 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.