NAMIBIA

Table 1	2016
Population, million	2.5
GDP, current US$ billion	10.9
GDP per capita, current US$	4354
International poverty rate ($1.9)[a]	22.6
Lower middle-income poverty rate ($3.2)[a]	47.0
Upper middle-income poverty rate ($5.5)[a]	67.3
Gini coefficient[a]	610
Life expectancy at birth, years[b]	64.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2009), 2011 PPPs.
(b) Most recent WDI value (2014)

The pace of economic growth significantly subsided in 2016, as construction activity shrank and mineral prices remained low. In the medium-term, growth is projected to recover gradually, reaching 3 percent by 2018, driven mostly by mining and services sector activities. The fiscal consolidation is expected to continue, though its success will be highly dependent on mining sector revenues, SACU receipts and policy commitment. With expected weak per capita growth in the medium run, modest gains in poverty reduction are forecasted.

Recent developments

The Namibian economy slowed substantially in 2016, with a real GDP growth of 1.1 percent, compared to 6 percent in the preceding year. The economic slowdown is mostly due to the contraction of the construction activity, low mineral prices, and the process of fiscal consolidation.

The construction activity contracted significantly in 2016 due to the completion of the Husab uranium mine, which was not replaced with new mega-projects. The contraction was also reinforced with the process of fiscal consolidation that was primarily achieved through the reduction of capital investments.

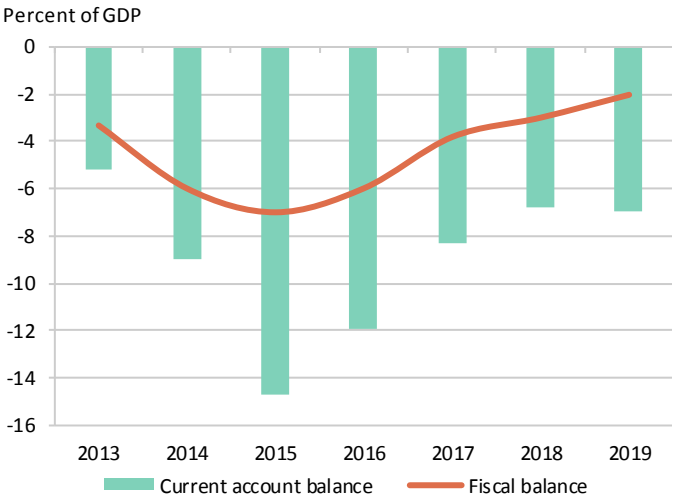
Subdued growth in the global economy, and low mineral prices have negatively affected mining activity in Namibia, as delaying the startup of the Husab uranium mine till beginning of 2017. Diamond production declined in 2016 because of lower offshore extraction due to a regular maintenance of the vessels. This yielded significant negative spillovers to many sectors of the economy including external trade and public sector finance.

With declining oil prices, the economic slowdown in Angola also adversely affected most of Namibia's tertiary sector activities: wholesale and retail trade, transport and communication and real estate activities. Financial intermediation services have also registered a slow-down that is consistent with reduction of the credit growth in the country. The rebound in agriculture, following the end of droughts, only modestly contributed to overall economic growth, given its size in Namibian economy.

The expansionary fiscal policy since FY2011/12 resulted in a sharp increase in public debt that exceeded the national cap of 35 percent of GDP. Large borrowing needs from the Government on the domestic market, drained the liquidity and the credit to the private sector and was partly met by accumulating arrears. In October 2016, the Government made the decision to shift from an expansionary to a contractionary fiscal stance. Consequently, little-to-no space for further fiscal expansion remained, and a necessary process of fiscal consolidation began with the mid-year budget review of October 2016. Accordingly, the budget deficit was reduced by one and a half percentage points compared to the previous FY. The budget cuts have been exacted mostly on capital expenditures, and in absence of large private investment projects, it resulted in significant contraction of overall investments in the country. Reduced investment activity and lower credit growth negatively affected private consumption that also slowed in 2016. Because of the recent deterioration of the macro and fiscal position of the country and the appearance of liquidity problems, in August 2017 Moody's downgraded Namibia's credit rating to sub-investment category. Fitch has also downgraded the outlook for Namibia from stable to negative in September 2016.

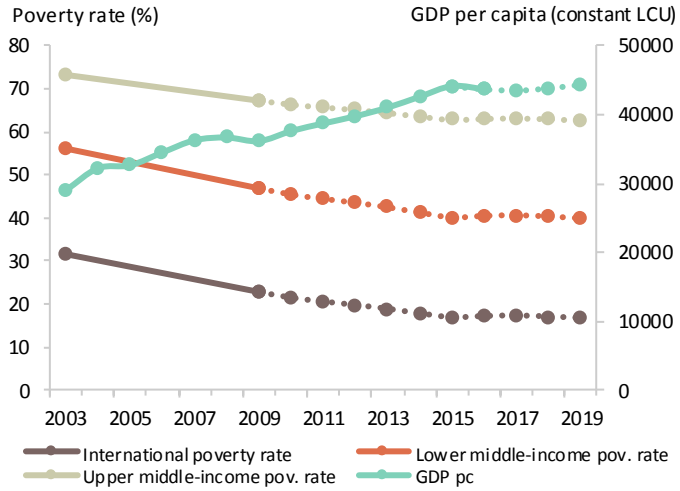
The current account deficit has narrowed in 2016 mostly because of lower imports of machinery and equipment due to the completion of the Husab mine and the

FIGURE 1 **Namibia** / Actual and projected current account and overall fiscal balance



Sources: Bank of Namibia, Ministry of Finance and WB staff calculations

FIGURE 2 **Namibia** / Actual and projected poverty rates and GDP per capita



Source: World Bank. Notes: see table 2.

slowdown of domestic activity. Inflation in 2016 went up to 6.7 percent, reflecting an increase in imported and domestic food and oil prices.

The weak economic activity in 2016 has likely entailed a marginal increase (near stagnation) in the poverty rates between 2015 and 2016: 17.0 percent of Namibians lived below the $1.9 per day international poverty line in 2016 compared to 16.8 percent in 2015, a marginal increase of 0.2 percentage point. The recovery of agricultural production following a persistent and deepening drought had a positive but limited boost on economic activity, but was not sufficient to support poverty reduction between 2015 and 2016. With a consumption Gini coefficient of 0.597 in 2010, high inequality remains a drag on poverty reduction. At 28.1 percent in 2014, unemployment rates are relative high and remain a major reason for slow poverty reduction.

Outlook

Economic activity is expected to recover gradually, reaching GDP growth of 1.7 percent in 2017 and above 3 percent in the years thereafter. Near-term recovery will be driven by the increase in mining production. The uranium production will be determined to great extent by the operation of the Husab mine that currently operates with very low capacity. Services are also expected to contribute significantly to recovery, as the regional trading partners slowly recover; while a further boost, though with limited impact, should stem from recuperation in agricultural production. An impeding factor to growth recovery will be the recent credit rating downgrade that will further reduce investors' confidence.

Fiscal consolidation will continue through FY 2019/20, according to which the budget deficit is projected to narrow to 2 percent of GDP with further cuts in government spending. The liquidity problems have eased in early 2017 mostly due to the budget support provided by the African Development Bank.

The current account deficit is anticipated to narrow in 2017 and 2018 due to uranium exports from the operation of the Husab mine and the recovery of the rest of the mining sector production. Inflation is expected to accelerate moderately in 2017 due to the rising food and oil prices, and ease into the medium term.

No gain in poverty reduction is expected for 2017. Forecasts suggest that the proportion of Namibians living below $1.9 per day will rise by a very marginal 0.1 percentage point between 2016 and 2017. Marginal reduction in poverty is expected to prevail in 2018 and 2019 when the $1.9 per day poverty rate is projected to be 16.9 and 16.6 percent, respectively. The poverty gains in the medium-term will be supported by recovery in economic activity, particularly agricultural production. The U.N. Food and Agriculture Organization forecast cereal production to double in 2017 and this, together with expected fall in food prices, is expected to contribute to improved food security in 2018.

Risks and challenges

Namibia is highly vulnerable to external shocks. As an economy heavily dependent on commodity-exports and public sector activity, major risks stem from a weaker-than expected global recovery, principally placing downward pressure on mineral prices. And more sluggish recovery of countries in the region would result in even lower than expected SACU revenues, inhibiting fiscal consolidation. The risk of running ineffective fiscal consolidation may additionally increase the public-sector debt for which the borrowing space is limited.

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

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	6.4	6.0	1.1	1.7	3.0	3.5
Private Consumption	6.9	11.8	6.8	1.8	2.9	3.6
Government Consumption	4.6	11.9	-0.2	-1.5	-1.2	-0.9
Gross Fixed Capital Investment	33.8	8.6	-25.3	-9.5	2.8	4.7
Exports, Goods and Services	-0.5	-0.6	6.1	6.4	6.7	6.0
Imports, Goods and Services	17.6	11.5	-4.7	-1.4	3.4	4.0
Real GDP growth, at constant factor prices	6.5	5.4	0.8	1.7	3.0	3.5
Agriculture	5.5	-5.6	3.6	3.8	3.5	3.4
Industry	4.0	3.0	-7.1	-1.8	2.5	3.6
Services	7.9	7.8	4.0	2.9	3.1	3.5
Inflation (Consumer Price Index)	5.4	3.4	6.7	7.1	6.3	5.5
Current Account Balance (% of GDP)	-9.0	-14.7	-11.8	-8.4	-6.9	-7.0
Financial and Capital Account (% of GDP)	10.0	15.3	12.3	8.9	7.4	7.4
Net Foreign Direct Investment (% of GDP)	3.9	3.8	3.7	3.7	3.6	3.6
Fiscal Balance (% of GDP)[a]	-6.0	-7.0	-6.5	-3.8	-3.0	-1.9
Debt (% of GDP)	23.6	38.2	40.7	41.5	41.8	42.1
Primary Balance (% of GDP)[a]	-4.5	-5.5	-4.3	-1.3	-0.5	0.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	17.7	16.8	17.0	17.2	16.9	16.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	41.2	40.1	40.4	40.6	40.3	39.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	63.7	62.9	63.2	63.3	63.1	62.8

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty and Equity Global Practice.
Notes: f = forecast.
(a) Fiscal year starts from April 1st.
(b) Calculations based on 2003-NHIES and 2009-NHIES. Nowcast: 2014 - 2016. Forecast are from 2017 to 2019.
(c) Projection using annualized elasticity (2003-2009) with pass-through = 1based on GDP per capita in constant LCU.