Namibia

2011

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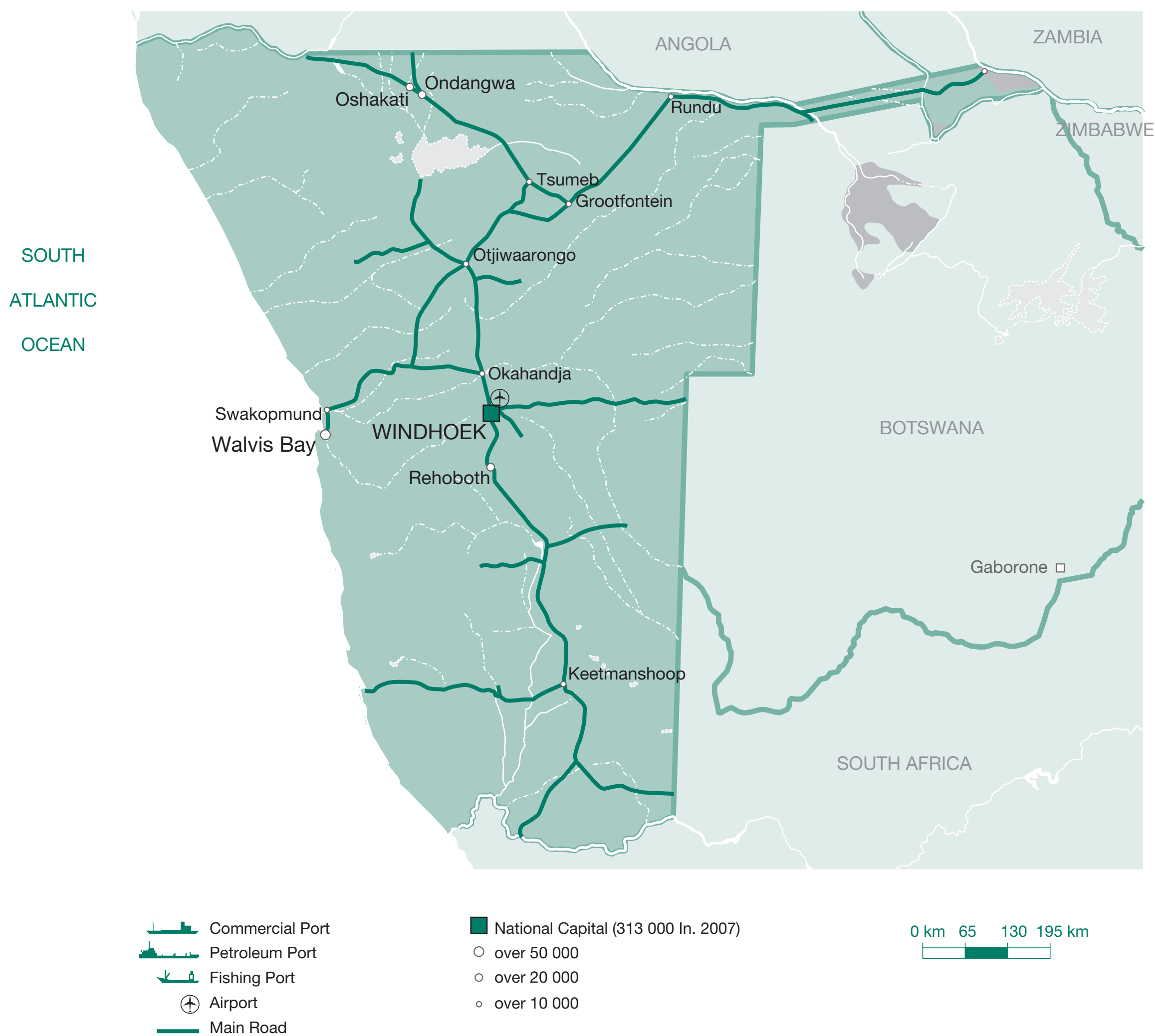

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Namibia

Overview

The Namibian economy grew by 4.2% in 2010, following a 0.7% contraction in 2009. Growth was due primarily to a rapid recovery in diamond and uranium mining activities, but also to credit extension. The sustained improvement in global demand for mineral products is expected to maintain gross domestic product (GDP) growth in 2011 with a slight rise to 4.8% in 2011, and then a minor drop to 4.6% in 2012.

Outputs in mining recovered as global demand improved, while agricultural outputs recovered due to good weather conditions. Manufacturing has not only remained resilient amid the global downturn but also expanded in 2010. However, construction contracted in 2010 driven mainly by the decline in residential building construction, which was caused by the tightening of credit and a high level of household indebtedness.

Namibia implemented strong and co-ordinated counter-cyclical fiscal and monetary policies to shield the economy from the effects of the global economic downturn. Fiscal stimulus measures together with the sharp decline in Southern African Customs Union (SACU) receipts may lead to a fiscal deficit of 2.3% of GDP in 2010/11. Namibia is one of the five member states of the SACU. Due to prudent fiscal management during the years immediately prior to the 2009 recession (2005-08), levels of public indebtedness have remained moderate. In 2009/10, total debt stood at 15.1% of GDP, of which 10.9% constituted domestic borrowings, while 4.2% represented foreign borrowing. The Bank of Namibia responded to the crisis by cutting the repo rate by 450 basis points between December 2008 and December 2010, resulting in the rate of 6%. The slowdown in domestic demand, low imported inflation, primarily from South Africa, and a strong currency have led to a decline in inflation from 8.7% in 2009 to 4.5% in 2010. Inflation is expected to be around 6.1% and 5.5% in 2011 and 2012, respectively.

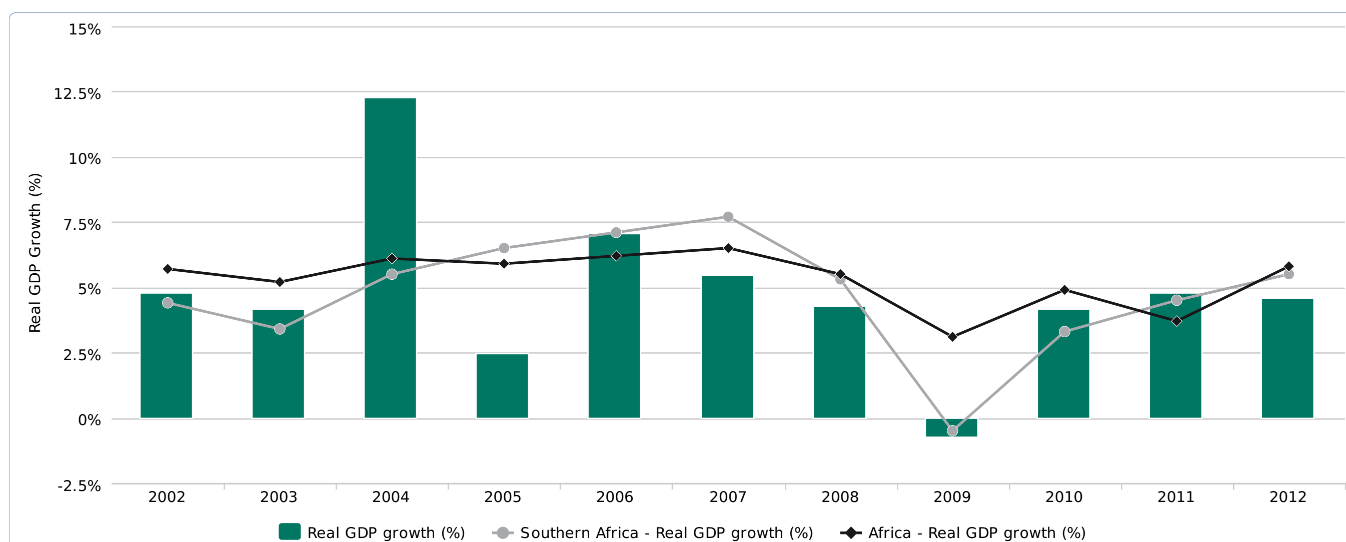
In the medium term, the main policy challenge will continue to be the need to ensure balance between fostering growth, maintaining fiscal sustainability and a stable currency peg with the South African rand.

The Namibian economic and social environment is overshadowed by massive structural challenges, notably, very high unemployment, heavy reliance on a few mineral products and deficiencies in water and energy infrastructure, which limit growth potential. While public service delivery has improved, more must be done to address both quality and coverage of basic services, particularity in rural areas. Human resource development remains one of the most important long-term investments to ensure sustainable economic growth that will benefit the majority of the population.

The ruling party, Swapo, must re-invigorate efforts towards alleviating poverty and inequality – against the backdrop of extremely high unemployment levels – to ensure future social and political stability in the country. Furthermore, the government needs to ensure that the political climate does not deteriorate in election years.

China, India and Russia remain the three most important emerging economic partners of Namibia. Emerging economic partnerships can provide better terms of bilateral co-operation compared to traditional partnerships, as well as benefit the local economy through job creation, economic diversification and transfer of technology, even if at a limited level. The main challenge is to negotiate advantageous terms so that the country fully benefits from the expanding trade, and that assistance received is integrated into the long-term national and regional development agenda.

Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404408

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	-0.7	4.2	4.8	4.6
CPI inflation	8.7	4.5	6.1	5.5
Budget balance % GDP	2.1	-3	-2.3	-1.1
Current account % GDP	1.5	-2.9	-3.5	-3

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for budget balance refer to fiscal year April (n)/ March (n+1).

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	11.3	9.4
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	10.1	10.8
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	13.6	14.7
of which hydrocarbon	-	-
Electricity, gas and water	2.6	2.7
Electricity, water and sewerage	-	-
Construction	3	4.1
Wholesale and retail trade, hotels and restaurants	14.3	14.1
of which hotels and restaurants	2	2.1
Transport, storage and communication	6.3	5.2
Transport and storage, information and communication	-	-
Finance, real estate and business services	13.1	11.7
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	21	23
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	4.9	4.2
Gross domestic product at basic prices / factor cost	100	100

Source: Data from National Accounts of Namibia.

Figures for 2010 are estimates; for 2011 and later are projections.

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The Namibian economy rebounded from the global economic downturn in 2010 due to rapid recovery in mining

activities; in particular, diamond and uranium mining. The gross domestic product is expected to expand further in 2011 and 2012, due primarily to sustained improvement in global demand for mineral products and improvements in credit extension. However, the risk of a sovereign debt crisis in the euro area poses a threat to domestic mining and tourism industries; a euro area debt crisis could derail the current recovery process.

In 2010, agricultural production expanded by 1.6% due to favourable weather conditions. Namibian agricultural production has benefited from exceptionably high levels of rains during the past three years and this trend is predicted to continue during 2011 and 2012. The agriculture, fishing, forestry and hunting sectors contributed 9.4% to GDP in 2009. The recovery in the sector is driven primarily by livestock farming anchored by the Combating Bush Encroachment for Namibia's Development (CBEND) project, or debushing programme. Good harvests are also expected in the crop farming sector mainly due to the expansion of land for crop production, the governments' Green Scheme programme and the Millennium Challenge Account (MCA) investment to increase crop production and business capacity. However, access to land remains one of the biggest challenges to boost rural productivity and reduce the current high levels of unemployment.

The mining sector, the backbone of the economy, was hit severely by the 2008-09 global recession. In 2009, production in total mining and quarrying declined by 45%; diamond mining declined by 49.7% and other mining and quarrying by 22.5%. The mining and quarrying sector contributed 10.8% to GDP in 2009. In 2010 there was some recovery in the mining sector, which expanded by an estimated 20.3% as a whole, while diamond mining output grew by 25%. Diamond, gold and zinc production increased by 71.8%, 38.1% and 5.6% year-on-year during the third quarter of 2010, respectively, while uranium output declined by 5.4%. Namibia is the fourth largest producer of uranium in the world; an increase in uranium prices – due to increased demand from China and India – is expected to anchor economic growth in the future. Uranium is poised to overtake diamonds as the main export commodity; nonetheless, the latter still contributes 15% of the foreign exchange earnings.

Four investments, worth a total of about USD 714 million, were undertaken in the mining and exploration sector in 2010. Between 2006 and 2009, the country received several investments in the mining and exploration sector due to the discovery of significant deposits of uranium. For instance, gross fixed investment in mining and quarrying increased by 139% from NAD 1.8 billion in 2005 to NAD 4.3 billion in 2008. In spite of the recovery in global demand, a strong currency exchange rate remained a serious challenge for the sector during 2010.

Manufacturing remained resilient amid the global economic downturn in 2009, expanding by 6.5%, while the sector is likely to grow by an estimated 6.2% in 2010. The main drivers of growth in the manufacturing sector are fish processing onshore and processing of other food, excluding meat processing. The estimated growth rate for fish processing is 9.7%, while 6.5% growth is anticipated in the processing of other foodstuffs in 2010. Manufacturing contributed 14.7% to GDP in 2009 and employed approximately 6% of the total labour force.

The construction sector declined by an estimated 3.7% in 2010, following a more severe contraction of 7.2% in 2009 compared to 2008. The decline was driven mainly by the fall in residential building construction owing to a tightening of credit and high levels of household indebtedness. During the third quarter of 2010, the value of buildings completed fell by 35.5% year-on-year, compared to the corresponding quarter of 2009.

The service sector, whose growth remained resilient during the 2009 global financial and economic crises, slowed down in 2010 with the exception of hotels and restaurants, transport, storage and communications. Growth in wholesale and retail trade slowed down by an estimated 2.5% in 2010 from 3.1% in the previous year, while growth in financial intermediation declined by 5.2% in 2010 from 6.6% in 2009. Real estate and business services grew by an estimated 2.1% in 2010 compared to 6.0% in 2009.

On the demand side, private consumption expenditure, the major driver of growth, was depressed in 2010 due to lower consumer confidence arising from higher household indebtedness, credit tightening and high levels of unemployment exacerbated by job losses during the economic downturn in 2009. Growth in private consumption slowed down by an estimated 3.2% in 2010 compared to 5.8% in 2009. Government consumption slowed down to 4.5% in 2010 from 9.8% in 2009.

However, due to the global economic recovery and improved demand for commodities, investment expanded in 2010. Private investment, which accounts for more than two-thirds of the total investment, grew by an estimated 3.5% in 2010 after declining by 5.4% in 2009, while public investment grew by an estimated 4% in 2010 after slower expansion by 3.5% in 2009. About 51 new FDI projects were announced by the end of the third quarter of 2010. The MCA investments included projects in the education, agriculture and tourism sectors.

With global economic recovery expected to be sustained in the medium term, the mining sector is expected to remain the major driver of growth for 2011 and beyond. Private consumption is expected to expand further in 2011 anchored by lower interest rates, and increasing income, although the high levels of unemployment are expected to continue. Exports fully recovered and expanded by 11.7% in 2010 following a 15% decline in 2009

and are expected to foster the expansion of private sector investment. Output growth is expected to accelerate in 2012 when the global economy fully recovers and the third uranium project becomes operational.

Growth potential has been constrained by structural weaknesses associated with excessive dependency on a few mineral products, which is exacerbated by the high unemployment levels, lack of skilled labour and energy shortages. To address this challenge, Namibia must speed up structural reform to improve the private investment climate, expand access to land for the rural poor and invest in skills development.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	18.5	27.3	22.3	3.1	6	7.6	1.2	2.3
Public	3.1	6.4	20	-10	-10	1.6	-0.9	-0.8
Private	15.5	20.8	23	7	10	6	2.2	3.1
Consumption	83.5	81.6	4.3	1.6	2.1	3.9	1.5	1.9
Public	21.5	24.4	4.4	0.9	1.6	1.2	0.2	0.4
Private	62.1	57.2	4.3	2	2.4	2.7	1.3	1.5
External sector	-2.1	-8.9	-	-	-	-7.3	2.1	0.4
Exports	46	44.4	5	5.8	5.3	3.1	3.6	3.3
Imports	-48.1	-53.3	11.9	1.7	3.3	-10.4	-1.6	-3
Real GDP growth rate	-	-	-	-	-	4.2	4.8	4.6

Source: Data from Central Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

Macroeconomic Policy

The government focused on consolidating the base for long-term sustainable and equitable growth with job creation, addressing the welfare needs of citizens and maintaining fiscal sustainability, as indicated in the March 2010 budget speech.

The government responded to the 2009 global economic crisis with an expansionary budget to shield the economy from the effects of the global economic and financial crises. Alongside an expansionary budget, generous tax cuts were provided to individuals and businesses to bolster aggregate demand. The spending increase and lower taxes assisted the strong rebound of the economy in 2010. The government is committed to continue these counter-cyclical policy measures over the Medium Term Expenditure Framework (2010-13), to sustain the recovery and to position the economy on a path of a higher and sustainable growth.

One of the major policy challenges for Namibia in the medium term (2012-14) will remain the need to strike the right balance between fostering growth, maintaining fiscal sustainability and a stable currency peg to the South African rand. Policy tightening is expected for 2011 through 2012 and beyond.

Fiscal Policy

Counter-cyclical fiscal policy, instituted in 2008/09, was continued in 2009/10 and 2010/11 when government revenue rose by 0.52%, yet total public expenditure increased by 16.1%. Additional spending in the 2010/11 budget year concentrated on human resource development, food security, social services and promoting economic growth. Old-age grants increased by 21.6% per month and coverage reached over 90% of the target group. Grants for orphans and vulnerable children (OVC grants) and the school feeding programme expanded. Additional allocations to the education budget went towards improving access to formal education and the building of more school infrastructure. Budget implementation reached 98% in 2009-10. A planned 12% increase in salary for public servants in 2010/11 is expected to enhance productivity and increase consumption, providing an extra boost to the domestic economy. In 2010/11, the operational expenditure has been increased by 14.8% and development expenditure has been increased by 16.8%. As a result of the increase in public expenditures, the general budget deficit rose to 3% in 2009/10 after registering a surplus of 2.1% of GDP in 2008/09. Domestic borrowing financed most of the current deficit.

The 2010/11 budget, presented in March 2010, provides for the continuation of the expansionary fiscal policy, in spite of the progressively declining revenue outlook, albeit more moderately than the previous year. The budget deficit for 2010/11 is estimated to be 2.3% of GDP. Spending priorities for 2010/11 and 2011/12 include fostering further development of human capital, law and order, food security, health services, social welfare and economic growth. For 2011/12 and 2012/13 the government plans to reduce growth in nominal public expenditure to 0.6% and 7.1% respectively in line with fiscal sustainability concerns. Moreover, revenue is likely to decline by an estimated 4.4% in 2010/11 and forecast to decline by 7.1% in 2011/12 only to increase by a forecast 25.2% in 2012/13. The sharp decline for the first two years is due to the SACU revenue shocks, with income from SACU set to decrease by 47% in 2010/11 and a further 45% in 2011/12. The SACU constitutes about 42% of government revenue. As result of moderated expenditure, fiscal deficit is forecast to decrease over the medium term.

Levels of public indebtedness have remained moderate, thus far, due to prudent fiscal management during the three successive years prior to the recession. In 2009/10, total debt stood at 15.1% of GDP, of which 10.9% constituted domestic borrowings and 4.2% represented foreign borrowing. However, total debt is projected to increase to 29% of GDP in 2012/13. This is expected to raise the debt service burden significantly, which stood at 1.6% of GDP in 2009/10.

Table 4: Public finances (percentage of GDP)							
	2002	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total revenue and grants	28.3	31.4	32.3	32.1	31	28.4	27.8
Tax revenue	25.7	28.3	29.7	28.9	28.5	25.8	25.3
Oil revenue	-	-	-	-	-	-	-
Grants	0.2	0.1	0.1	0.1	0.4	0.3	0.2
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	32.4	27.3	27.4	30	34	30.7	28.9
Current expenditure	27.3	22.1	21.6	23.1	25.9	23.5	22.8
Excluding interest	25.4	19.9	19.7	21.6	24.2	21.9	20.9
Wages and salaries	13.6	11.1	10.6	10.4	11.8	10.9	10.6
Goods and services	6.2	3.9	4.5	5	6	5	4.7
Interest	1.9	2.3	1.8	1.5	1.7	1.6	1.9
Capital expenditure	3.6	3.6	3.9	5.4	7.5	6.7	5.7
Primary balance	-2.3	6.4	6.7	3.6	-1.3	-0.7	0.8
Overall balance	-4.2	4.1	4.9	2.1	-3	-2.3	-1.1

aa. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.
FFiscal year July (n-1)/June (n).
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Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The fixed currency peg to the South African rand underpins Namibia’s monetary policy framework. Thus, the country does not operate monetary policy independently from the anchor country. The stance of monetary policy can deviate, however, to a certain degree from that of the anchor currency by using capital controls and prudential requirements imposed on financial institutions, including keeping the repo rate different, controlling money supply and credit extension to the private sector.

Monetary policy goals for 2010 were to address weaknesses in the real sector and boost growth on the demand side through successive monetary easing, while at the same time working to bring down the domestically generated component of inflation. According to the Bank of Namibia, over 65% of Namibia’s inflation is imported, primarily from South Africa, while the remaining 35% is domestically generated. The maintenance of the stable peg ensures that Namibia imports stable inflation from the anchor country.

The slowdown in domestic demand, low imported inflation and a strong currency led to a decline in inflation from 8.7% in 2009 to 4.5% in 2010. The subdued inflationary environment provided more space for monetary easing. Interest rates were cut by 450 basis points between December 2008 and December 2010, resulting in the rate of 6%. Falling rates have led to a revival in credit demand towards the end of 2010 with credit extension to the private sector growing by 9.6% in September 2010 year-on-year. Expansionary monetary policy is likely to continue in 2011 given the current fragile global and domestic economic recovery. Inflation is expected to remain around 6.1% and 5.5% for 2011 and 2012, respectively.

External Position

Namibia is a very open economy, with the ratio of total trade to GDP growing from 85.5% in 2000 to 97.7% in

2009. From 2000-09, nominal imports of goods and services grew by 24% per annum on average, while nominal exports of goods and services grew by 21% per annum on average, over the same period. Import growth prior to 2009 was boosted by increased domestic demand for goods, services and investment. However, the current account continued to record a surplus primarily due to current transfers from the SACU, except for 2009 when a deficit of 5% was recorded.

In 2010, the current account deficit was estimated to be 2.9% of GDP. This was due to the deteriorating trade balance and the expected decline in receipts from the SACU. The actual current account balances for the first three quarters of 2010 have indeed shown surplus, albeit declining ones. However, merchandise trade deficits deteriorated further as a stronger Namibian dollar boosted imports. Namibia is characterised by volatility and high outflows of short-term portfolio investments, both in equity and debt securities, often leading to deficits in the capital and financial accounts. However, much of the deficit is offset by increased FDI inflows. During the third quarter of 2010 alone, Namibia received FDI inflows of NAD 1.7 billion.

In 2011 and 2012, the current account deficit is projected to increase moderately with imports recovering faster than exports and with an expected further decline in SACU receipts. Imports will be boosted by increased demand for capital goods as private investment recovers in the medium term. The Millennium Challenge Account (MCA) investments in the tourism sector are expected to enhance the surplus in the service account in the future.

The share of manufactured goods in total exports has increased from 38% in 2000 to 49% in 2008 and 59% in 2009 as other commodities, particularly mineral exports, declined due to the global economic downturn. Namibia's main manufactured exports include processed foods, such as meat and fish, beverages, copper and zinc. According to the local authorities, starting from 2011 Namibia is expected to become a net exporter of cement with Angola as a primary destination.

Imports are dominated by manufactured goods, particularly machinery and equipment, the share of which, in total goods imported, rose from 38.8% in 2000 to 44% in 2009. The machinery and equipment imported includes transport equipment, fabricated metal products, electrical machinery and apparatus, among others. The share of imported refined petroleum products in total goods imported also increased – from 2.6% in 2000 to 7.1% in 2009.

There have been no major changes in the regional distribution of trade. South Africa remains the major trading partner of Namibia. During the third quarter of 2010, South Africa accounted for 66% of imports, followed by the Netherlands, the United Kingdom and China, which accounted for 6%, 5% and 4% of imports, respectively. South Africa also remains the major destination of Namibia's exports absorbing 28% of total exports, followed by the United Kingdom, United States and Angola absorbing 17%, 8% and 7% of total exports, respectively.

The collapse of the Doha Round of the World Trade Organization (WTO) trade talks in August 2008 did not have a dramatic impact on Namibia's trade patterns, but could have contributed to improved competitiveness and efficiency and increased trade flows had it been successfully completed. Namibia is currently negotiating a Trade and Investment Cooperation Agreement (TICA) with the United States. Economic Partnership Agreement (EPA) negotiations with the European Union have stalled because of several sticking issues, including the demand by the European Union for reciprocal liberalisation. Namibia and South Africa did not sign an Interim EPA agreement due to concerns over unfair advantages the interim agreement provides to the European Union. The European Union states that, based on WTO rules, EPAs allow exclusion of up to 20% on goods to protect infant industries.

One of the strategic goals of the Namibian government is for the country to become a fully industrialised nation by the year 2030. One plan for achieving this is through import substitution by creating the capacity to process raw materials and hence, become a competitive goods manufacturing nation.

The Namibian dollar (NAD) appreciated by 24.4% against the US dollar (USD) year-on-year during the first quarter of 2010. This followed increased short-term capital inflows to emerging market economies resulting from near zero yields in advanced economies. The South African rand appreciated against the US dollar nearly by one-third since May 2009. Due to the appreciation of the Namibian dollar, the export sector lost NAD 200 million in export revenues in 2010 in terms of the 2008 prices. Since Namibia follows a fixed exchange rate regime anchored to the South African rand, there is a little room in the policy for the country to counter currency volatility.

The foreign exchange reserves declined to NAD 11.6 billion at the end of the third quarter of 2010 from NAD 12.3 billion at the end of the previous quarter. As a result, import cover fell from four months and one week during the second quarter to three and one-half months during the third quarter. The three and one-half months of import cover, however, remained sufficient to maintain the currency peg to the South African rand.

The external debt stock of Namibia decreased significantly by 30.3% to NAD 12.7 billion at the end of the third

quarter of 2010. The largest portion of Namibia's external debt continued to be held by the private sector, which accounts for 65% of total external debt, while central government and parastatals hold the remaining 24.0% and 11.0%, respectively. Debt service as a ratio of export free on board (fob) declined from 20.1% in the fourth quarter of 2009 to 7.8% in the third quarter of 2010. Foreign debt stood at 4.2% of the GDP at the end of the 2009/10 fiscal year. Foreign debt is estimated to be 5.2% of GDP in 2010/11.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-3.4	-2.3	0.3	-8.4	-8.9	-6	-5.1
Exports of goods (f.o.b.)	38	43.9	46.4	38.6	34.2	36.4	36.4
Imports of goods (f.o.b.)	41.4	46.2	46.1	46.9	43.1	42.4	41.5
Services	1.4	1	-0.7	-0.5	0.6	1	1.2
Factor income	0.7	-1.2	-1.7	-3.2	-3.2	-3.5	-3.6
Current transfers	9	12	13.2	13.6	8.6	4.9	4.5
Current account balance	7.6	9.4	11	1.5	-2.9	-3.5	-3

Source: Data from local authorities' data; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

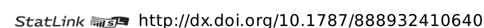
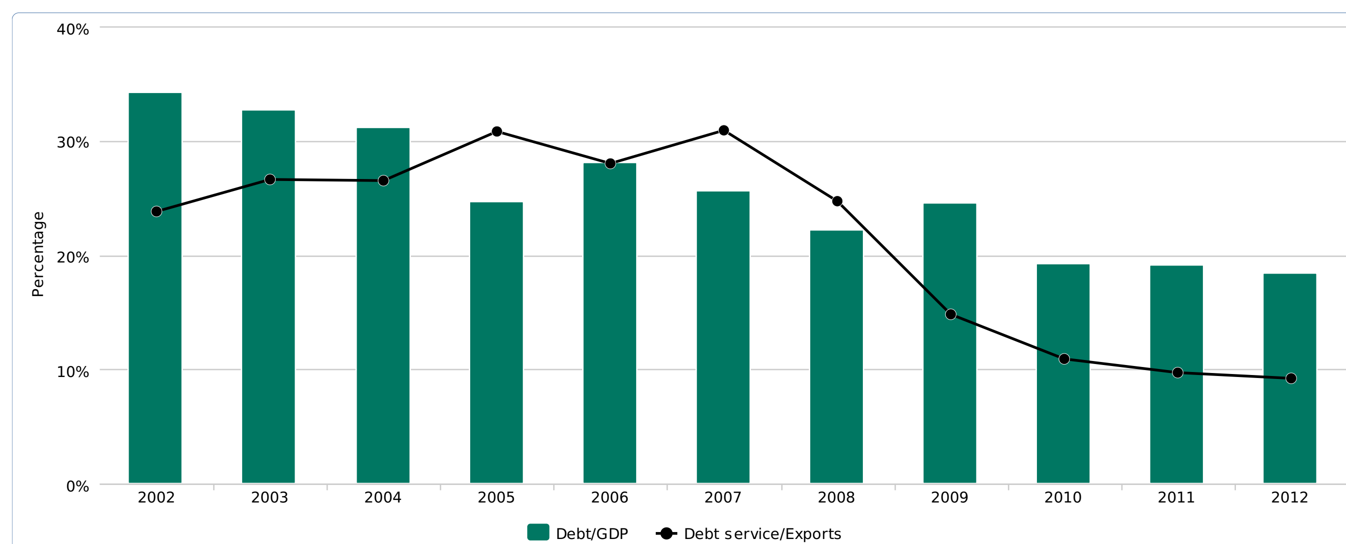
 http://dx.doi.org/10.1787/888932410640

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Structural Issues

Private Sector Development

Namibia's private business regulatory environment deteriorated during 2009 and 2010. The country's overall rank in the World Bank *Doing Business* report declined to 69 in 2011 from 66 in 2010. The country remains, nonetheless, the seventh-best performer in the African continent in 2011 after Mauritius (20), South Africa (34), Botswana (52), Tunisia (55), Rwanda (58) and Ghana (67).

Economic activity is constrained by several structural bottlenecks that negatively affect the efficiency and competitiveness of the private sector. The most important challenges to the private sector include: high levels of concentration in key economic sectors; regulations that undermine competitiveness; energy shortages; lack of skilled workers; non-tariff barriers imposed by non-SACU/SADC member states; high transport costs, due to the large size of the country and low population density; bureaucratic inefficiencies, which affect the time taken to start businesses and register property; and rigid labour laws. The private sector remains divided into a small number of large, profitable businesses, and a large number of very small, unproductive and low-skilled businesses.

In 2010, the government took a number of measures to improve the overall business climate, and enhance productivity and competitiveness. The government also embarked on automating the property registration system to reduce time and red tape involved in the process. Apart from this, the Namibian Competition Commission commissioned two studies to investigate the impacts of the abuse of dominance in businesses on the competitiveness of the economy and the impacts of increasing mergers and acquisitions. Mergers occur in all sectors in the Namibian economy with two to three mergers taking place per month. The study on firm dominance, to be completed in 2011, will assess how the position is used to hamper entry. The results should aid policy makers in devising appropriate strategies to promote the development of small and medium enterprises (SMEs), which are needed crucially to curb the current high level of unemployment in the economy.

In spite of the adverse impacts on the economy of the global financial crisis, the Namibian financial system remained healthy and liquid in 2010. Banks in Namibia are characterised by excess liquidity, usually in the form of savings and pension funds, which they transfer to parent companies in South Africa making Namibia a net exporter of capital. To curb the outflow of capital, the government is encouraging Namibians to invest in non-listed companies. Non-performing loans remain around 3% of the total bank credit while household debt constitutes 66% of the total bank assets. Insurance and pension funds are also well developed and competitive.

A new financial sector regulation, the Namibia Banking Institutions Amendment Act 2010, became law in November 2010. The law gives more powers to the Namibian Central Bank and the Ministry of Finance to enforce changes in the ownership structures of banking institutions or controlling companies, among other things. The main objective of the government is to increase local ownership in the banking and other financial sectors. The law will allow the Bank of Namibia to issue licences to set up new branches, allow more entrants into the sector and enhance competition in a sector that is dominated by foreign ownership.

Namibia has the second biggest stock exchange in the southern African region. However, the stock exchange is dominated by the secondary listings with companies based mostly outside Namibia. The stock exchange, therefore, faces the challenge of few locally listed companies and low liquidity. During the third quarter of 2010, both the overall index and local index recorded positive movements. During 2010, the local index increased by 11.6% to 172.72 index points, the highest level in the last 10 years. The movements in the overall index closely track the developments on the Johannesburg Stock Exchange (JSE) due to a large number of JSE dual listings.

Other Recent Developments

Public sector reforms have progressed in some areas, but are slow in others. The government introduced the Public Finance Management (PFM) reform programme during the 2005/06 fiscal year in order to improve efficiency and effectiveness of public finance management. Since the introduction of the PFM, significant progress has been made in a number of areas. These include: the enhancement of measures previously introduced in the three-year Medium-Term Expenditure Framework (MTEF) (2003/04); the implementation of the Integrated Financial Management System (since 2006/07); the institution of accountability reporting (since 2006/07), as a mandatory performance measure of budget execution and outcomes; and the expansion of the forensic tax audit to all regions. Since the introduction of PFM, efficiency in revenue collection has improved significantly. In spite of the economic crisis, tax revenue increased by 2.4% in 2009/10 compared to the preceding fiscal year.

A process of administrative decentralisation has also been a part of government reform; however it has not been implemented sufficiently. Namibia is a unitary state with 13 regions; each of these has a regional council and a local authority. Local authorities are more autonomous than regional councils are, as the latter have

minimal autonomy and power. However, there is no effective devolution of financial management to regional and local administrations.

In spite of increased pressure for the privatisation of poorly performing state-owned enterprises (SOEs), progress has been slow. Towards the end of 2010, the government ruled out privatisation of the SOEs, in spite of significant losses suffered by some of these enterprises. The government has a major role in the Namibian economy and is likely to continue its intervention in the economy to tackle rising unemployment and extreme inequalities in income distribution.

The development of infrastructure is crucial for the competitiveness of an economy. Investment in infrastructure in Namibia increased in recent years; nevertheless, challenges still abound. Namibia still imports most of its electricity supply from South Africa; consequently, it could face severe power shortages in the event of grid failures or other unforeseen and uncontrollable situations. Namibia's national power authority, NamPower, has therefore intensified investments in several power generation projects. These include plans to build an 800-megawatt coal-fired plant at Walvis Bay, and the Kudu gas project being developed by a consortium of Russian gas giant Gazprom, Namcor, Tullow oil and Itochu Corporation worth NAD 14 billion. Moreover, in 2010, Nampower commissioned the NAD 3.2 billion Caprivi Inter-connector project, which is part of the Southern Africa Power Pool, and jointly financed by the European Union, Nampower and the Development Bank of Namibia (DBN). Further, the construction of a NAD 375 million Anixas diesel power plant with a generating capacity of 22.5 megawatts is on track with commissioning set for early 2011. The installation of the fourth unit at Ruacana hydro power station worth NAD 750 million is also on track with commissioning planned for March 2012. The country also plans to supply growing demand for electricity from nuclear sources using its rich uranium resources.

Other infrastructure projects currently under construction include Rundu-Elundu road upgrading financed by Japan and Namibia with NAD 214 million in allocations for each of the fiscal years of 2010/11 and 2011/12 and a rural gravel road linking Namibia and Angola; the Ondangwa-Oshikango railway extension with a planned budget of NAD 125 million will commence during the 2010/11 fiscal year. Namibia established a public-private partnership (PPP) to promote the Walvis Bay port and this has been going on for nearly a decade. The Ministry of Trade, together with the DBN, is currently working on a PPP framework for wider segments of the economy.

Total public investment as a proportion of GDP has increased only marginally from 7% in 2000 to 7.6% in 2009. The government invested NAD 1.88 billion or 7.8% of the total budget on infrastructure in the 2009/10 fiscal year. The infrastructure investment is expected to decline slightly to NAD 1.77 billion in 2010/11 and NAD 1.75 billion in 2011/12.

Improved access to land is an important means of reducing the high level of unemployment and raise agricultural productivity. Current land ownership is dual; the state owns communal land, while private individuals own other lands. The "willing buyer, willing seller" model applied in South Africa guides land reform, but the pace of the reform has been slow. This has constrained the development of the agriculture sector. Moreover, the budget allocated to the Ministry of Agriculture, Water and Forestry is relatively small, comprising 6% to 7% of the total budget.

Emerging Economic Partnerships

China is the most important emerging economic partner of Namibia. Namibia and China marked 20 years of diplomatic relations in March 2010. The two countries signed a bilateral agreement for Economic and Technical Cooperation in 2009 and a number of other co-operation agreements. Namibia-China bilateral co-operation involves both trade and aid, including grants, interest-free loans and business partnerships. Namibia also signed two specific bilateral agreements on energy and mineral explorations with China in November 2010.

China has invested in a number of sectors, including social services, construction and mining. In the 2009/10 fiscal year, China provided approximately NAD 109 million in bilateral development assistance for "green scheme" and aquaculture projects, construction, capacity building, education, health, defence and other sectors compared to NAD 1.29 billion provided by all development partners. China also provided just over NAD 424 million in concessional loans to the technology, transport, health and sanitation, youth, and government services and public administration sectors during the same period compared to just over NAD 1.29 billion provided by all development partners.

China is the third largest provider of bilateral development assistance after the United States and Germany, and the second largest provider of concessional loans after Germany. China provided nearly 33% of the total concessional loans the country received in the 2009/10 financial year. Moreover, the total volume of bilateral trade between the two countries grew by 20% in 2010 compared to 2009 to reach USD 750 million.

India is the second most important emerging partner; it has an increasingly important role in the education and health sectors. In 2009, Namibia and India signed two bilateral agreements: one in the communication field and the other for co-operation in peaceful uses of nuclear energy. They also signed agreements on co-operation in the field of defence, co-operation in the field of geology and mineral resources, among others. This is expected to boost trade, particularly in uranium and diamonds, as well as heighten investment activities between the two countries. Further, Namibia, together with other SACU member states, is currently negotiating a preferential trade agreement (PTA) with India for trade in services, which is expected to be finalised in 2011.

Russia has also become an increasingly important economic partner of Namibia. In May 2010, Namibia and Russia signed a memorandum on co-operation for exploration and development of Namibian uranium deposits. Currently, Russia is actively involved in the natural gas fields, where the Russian state owned gas and oil company, Gazprom, is heading a consortium to develop Namibia's large gas resources.

Emerging partners are becoming increasingly important compared to traditional partners. However, for historical reasons, a regional partner, South Africa, still dominates Namibia's foreign direct investment (FDI) and overall trade.

Economic and political interests are the major driving forces in these partnerships. The new partners are looking for markets for their rapidly expanding products and seeking to create diplomatic ties commensurate to their growing global political interests and influence.

The main differences between emerging and traditional partners are better terms of bilateral co-operation. The emerging partners are characterised by fewer excessive rules and procedures, limited bureaucracy, higher flexibility and better response time. The most important benefits associated with the new partnerships are evident in three areas: technology and innovation, employment and economic diversification. The emerging partners bring technology and innovation, although there are no clear mechanisms to ensure effective technology transfer. Two main factors limit the smooth transfer of technology. First, the emerging partners' exclusive focus on non-agricultural sectors meant that Namibia could not reap the benefits of the green revolution where most of these partners have historically been very successful. Second, employees from the partner countries often handle the operation, repair and maintenance of the advanced equipment used. However, emerging partners have clearly contributed to both direct and indirect local employment creation. According to Namibian authorities, the size of imported labour in the emerging partners construction projects has declined over time with local labour progressively replacing labourers from emerging partner countries. The emerging partners are also contributing to economic diversification around the mineral and energy sectors; more benefits are expected when the current PTA on trade in services with India becomes operational in 2011.

Emerging partners are not perceived as substitutes to traditional partners. They are supplementing the traditional donors and filling the resource gaps. However, in recent years, the importance of traditional donors has diminished in Namibia. The only two main remaining traditional bilateral donors are the United States and Germany. The European Union remains one of the main traditional multilateral partners, particularly in the education sector. Several traditional bilateral donors have left the country. For example, Italy and theNetherlands closed down their embassies before 2009. However, this is not linked directly with the increasing role of emerging partners in the country. Since Namibia attained upper-middle-income country status, it has had limited interest in external borrowing due to increased availability of domestic resources.

Namibia needs more predictable approaches towards economic partnerships; emerging partnerships are assisting in the realisation of this objective. The current engagement strategy is formal and the assistance provided by the emerging partners is integrated into the national development plan. These partnerships are long term and are intertwined with the broader regional agenda; they provide opportunities for the realisation of future economic and development potential. Despite the emergence of new partners and the on-going relationships with traditional partners, regional partners are key to the regional integration process; hence, new partners cannot take their place.

While emerging partnerships have created markets for local mining and manufactured products, competition for local manufacturing firms from imported goods from emerging partner countries is a challenge. On the one hand, consumer prices have lowered and become more affordable due to imports, but on the other hand, it has been at the expense of local manufacturing enterprises.

Political Context

President Hifikepunye Pohamba was re-elected for a second term in November 2009 after winning 76.4% of the vote while his governing Swapo party got 74% of the parliamentary vote, maintaining its two-thirds majority. The main opposition party — the Rally for Democracy and Progress (RDP) party, led by Hidipo Hamutenya — won 11.3% of the vote. Eight of 13 opposition parties that took part in the election contested the elections in court; they are awaiting the outcome of the court hearings. Observers however, have declared the election "largely free, fair, and peaceful, except for minor and isolated incidences. In the November 2010 regional and local elections, Swapo won 98 out of 107 constituencies in the regional vote and won majorities in 33 out of 44 of the country's local authorities. Nevertheless, the turnout was the lowest since independence with only 38.63% of eligible voters casting their ballots.

The transfer of political power in Namibia has been largely peaceful since independence in 1990. However, the government needs to moderate the hardening of the political regime in election years.

There were no riots in the country in 2010. A threat by the public sector unions to strike was averted at the last minute. Two peaceful demonstrations took place in 2010 opposing the delays in court decisions on opposition court applications against the results of the 2009 presidential and parliamentary elections. Judgment, expected by early 2011, may lead to a recount of votes, but is not likely to result in new elections.

The Anti-corruption Commission, established in 2004, largely succeeded in creating awareness among the public, but more needs to be done. In some instances, the government established a parallel anti-corruption committee to deal with specific corruption issues undermining the authority of the commission. Namibia's rank in the Transparency International Corruption Perceptions Index dropped from 55 in 2006 to 61 in 2008, but slightly improved to 56 in 2010. According to Namibian authorities, changes in corruption perceptions were largely due to increased awareness about corruption created by vibrant media and the activities of the Anti-corruption Commission.

Incidences of abuse of women and children have increased in 2010. The government has not introduced any new measures for the defence of the rights of woman and children, but it treats this as a key priority. It plans to enforce strictly relevant laws aimed at the protection of life and human dignity as provided for in the constitution.

Social Context and Human Resource Development

Poverty and inequality remain high in Namibia. The upper 20% of the population lives on 78.7% of the country's total annual income, while the bottom 20% lives on a mere 1.4%. The Gini coefficient was around 0.7 in 2010 making Namibia one of the most unequal economies in the world. In 2008, 33% of Namibia's 2 million people lived on USD 1 or less a day. About 35%-40% of the population depends on subsistence agriculture for its livelihood.

Some progress has been made towards the achievement of the Millennium Development Goals (MDGs). The goal of achieving gender parity in secondary education was met in 2008. The gender parity goal is likely to be met in primary and tertiary education before 2015. However, more needs to be done in other areas. The government considers education as the most important long-term investment if Namibia is to achieve sustained economic growth. Accordingly, it continues to allocate the largest share of the budget, 23%, to this sector followed by health with 12% in 2010. In spite of free and compulsory basic education until grade 10 or age of 16, the quality of education is low as measured by the generally low performance of students in Namibian schools, particularly in mathematics and English. Moreover, secondary schools fail to produce leaving students with the requisite skills needed by the economy.

While service delivery has improved in recent years, basic water supply and sanitation for the rural communities is still lacking.

Life expectancy at birth declined from an average of 57 years in 1990 to around 42 in 2003, but has increased since then to reach 62.1 years in 2010. The drastic decline in life expectancy between the early 1990s and 2000s was due to the impacts of the HIV/AIDS pandemic. Recent improvements are attributed to improved living conditions and better medical care. According to the 2010 Sentinel Survey, the HIV prevalence among pregnant women attending antenatal care services in the country was 18.8% in 2010 compared with 17.8% in 2008. The infection rate among the 15-19 year old age group is declining, while the infection rate among the above 35 age group is rising. Namibia has an effective anti-retroviral (ARV) programme. About 77 000 people needed ARV treatment in 2009 and the coverage was over 80%. Namibia's HIV/AIDS control effort will be boosted by USD 100 million in 2010, 2011 and 2012 with funds provided by the President's Emergency Plan for AIDS Relief (PEPFAR). Child mortality figures have not shown significant improvements.

The global economic downturn exacerbated unemployment in the country, which reached 51.2% in 2010. The total number of the employed workforce was 331 000 in 2008. The National Labour Force Survey (NLFS) 2008 found that the agriculture sector was the largest employer (15.9%), followed by the wholesale and retail sector (15.1%). The manufacturing sector employed 6.32% of the workforce, while the mining sector employed only 2.58%; approximately 8 000 jobs. In rural areas, agriculture employed 38.3% of labourers. It was estimated that at least 1 900 jobs were lost in the mining sector since the economic downturn, while about 50% of agricultural workers have lost their jobs in recent years. Unemployment is geographical, as well as gender- and age-based. Rural unemployment was 64.9% and unemployment among rural women was 72.1%, while unemployment among all women was 58.4%. Youth unemployment was 68%.

The Employment Creation Summit organised by the National Planning Commission (NPC) in September 2010 concluded that the unemployment problem should be tackled in partnership with various stakeholders. The summit considered agriculture, mining, manufacturing, tourism and the service sectors as potential areas for job creation.

There is significant job-creation potential in rural areas. Farming, agro-processing, service industries and small- to medium-sized enterprises are crucial to realise both rural development and job-creation objectives. However, challenges remain due to limited access to land because of the slow pace of land reform.