Namibia

After contracting by 0.7% in 2009, following the global economic downturn, the economy grew by 4.2% in 2010 due to rapid recovery in mining activities. In the medium term, the main policy challenge will be 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 clouded by massive structural challenges, notably, very high unemployment, heavy reliance on a few mineral products and deficiencies in energy and water infrastructure, which limit growth potential.

Emerging partners, especially China, are becoming increasingly important participants in the Namibian economy. The challenge is to engage the new partners purposefully to reap the full benefits of buoyant trade ties and ensure that development assistance received is integrated into the national development plan and form part of the long-term national and regional development agenda.

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.

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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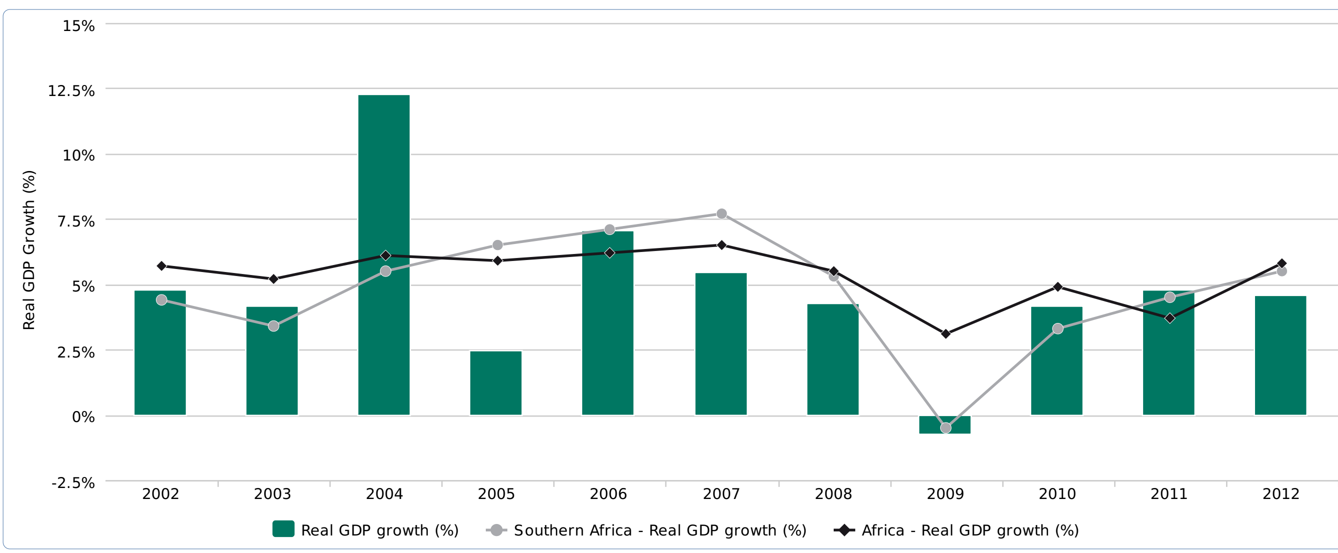
Figure 1: Real GDP growth (S)



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

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

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