MACRO-FISCAL PROFILE

NAMIBIA

May 2016

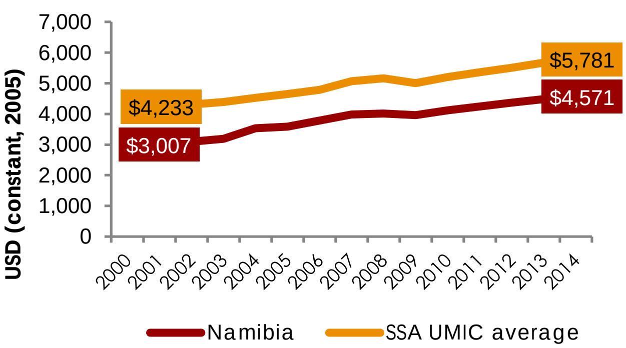
Key Indicators	
Population (2014)	2.4 million
Per capita GDP (constant 2005 USD, 2014)	$4,571
Average population growth rate (2010–2014)	2.2%
Government revenues as a % of GDP	35.6%
Country income classification	Upper-middle

Source: World Bank, 2016.

Macroeconomic Forecasts				
Indicator	2013	2014 (est.)	2015 (proj.)	2016 (proj.)
Real GDP growth (%)	5.1	5.3	5.6	6.4

Sources: IMF, 2015a; Phiri and Odhiambo, 2015.

Figure 1: GDP per Capita (2000–2015)



Source: World Bank, 2016.
UMIC = upper middle-income country.

Overview

Namibia has been successful in rebounding from the global financial crisis; its real gross domestic product (GDP) growth has been relatively stable, at more than 5% per year. Annual inflation, which was higher than 11% in 2012 and 2013, has been contained to approximately 6% per year, mainly due to low international prices of imported commodities, particularly fuel. Namibia is a resource-rich country, with natural resource exports comprising more than 25% of the value of its total exports. Still, resource rents account for just 2.4% of GDP. Namibia's economy is intertwined with South Africa's, including pegging the Namibia dollar to the South African rand, which caused issues such as the rand being devalued in the slow global economy. The country has been politically stable since its independence in 1990, and the government has pushed pro-growth policies. Business growth has not necessarily translated into job creation. Unemployment —static at about 28% since 1990—and income inequality remain the key social challenges for the country (IMF, 2015a).

The government budget maintains a healthy net positive balance. The largest revenue source is international trade tax; revenue from the South African Customs Union (SACU) accounted for an estimated 12.1% of GDP in fiscal year (FY) 2014/15. Policies that incentivize export and revenue diversification while strengthening resilience to international shocks are vital to ensure the country's continued economic growth and secure and grow the fiscal space for government-supported social programs (IMF, 2015a).

Political Economy

Namibia maintains a stable, multiparty parliamentary democracy. The economy has experienced healthy growth over the past two decades, led primarily by the mining industry. However, there remains a large income gap between the poor and the wealthy; Namibia scored 0.59 on income inequality in FY 2009/10, virtually unchanged from 0.60 in FY 2003/04—the third highest GINI index in the world (World Bank, 2016).

To address this income gap, the government's fiscal policy has focused on promoting economic growth and employment. To ensure the sustainable and stable growth of the economy, while reducing the income gap, the country must diversify its economic base beyond the extractives industry. This would protect the economy from external shocks. To facilitate this diversification, Namibia has consistently maintained low interest rates, following South Africa's monetary policy; this policy has boosted strong demand from both households and corporations, but also increased pressures on external account balances, lowering international reserves to 1.5 months of imports in May 2015. Namibia's financial system is relatively robust; however, although ease of credit has enabled infrastructure investments and job creation, the fast growth in real estate prices and high concentration of banks' mortgage lending pose some risks (IMF, 2015a). The government plans to address the employment issue through both demand- and supply-side interventions.

The economic stimulus is aimed at creating jobs through the growth of labor-intensive industries (e.g., manufacturing). At the same time, the country is planning free secondary education and expansion into vocational training to match training to the skills industry needs.

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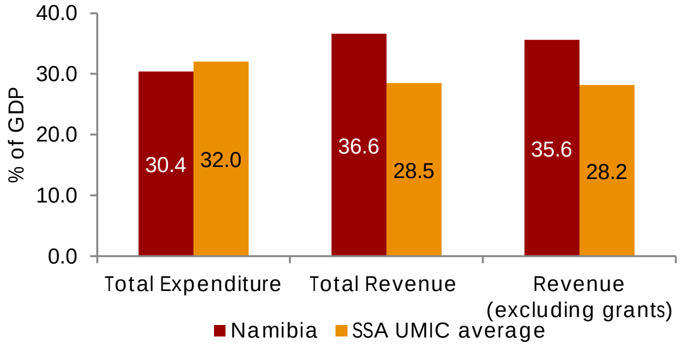
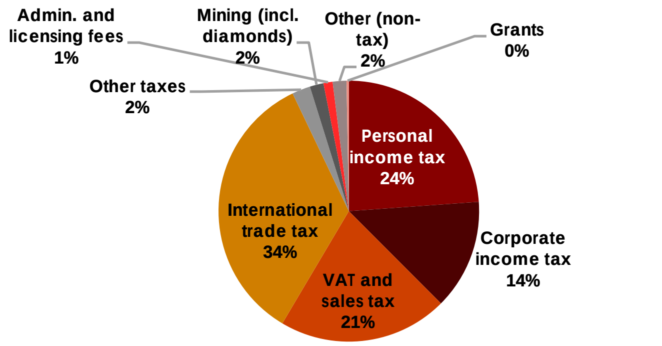
Figure 2: Government Revenue and Expenditures (2015)



Source: Phiri and Odhiambo, 2015; IMF, 2015a.

Figure 3: Government Revenue (2015)



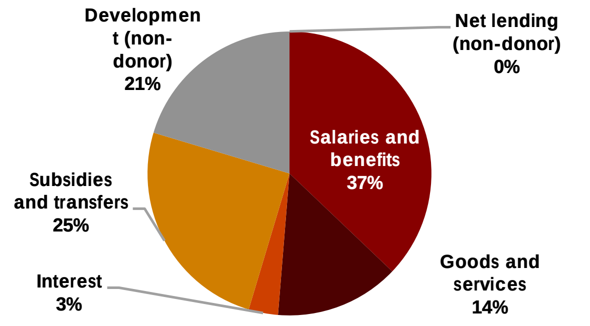
Sources: IMF, 2015a.

GDP and Economic Growth

Real GDP growth is expected to top 6% by 2016. Real GDP growth for 2014 and 2015, although healthy, was lower than expected due to the decline in export commodity prices. Nominal GDP per capita for Namibia is still lower than the sub-Saharan Africa (SSA) regional average. In the last decade and a half, the gap between the regional average and Namibia's nominal GDP per capita has remained static, with Namibia's households earning approximately US$1,200 less than the regional average (Figure 1).

Still, Namibia's economy has grown primarily due to the country's strong ties to South Africa: SACU and domestic revenues have increased. The main near-term risks in economic growth are that the SACU revenue is highly volatile, the extractive industry-reliant economy tends to be sensitive to external environments, and rapid growth of home prices may squeeze household finances domestically (IMF, 2015a).

Figure 4: Government Expenditure (2015)



Sources: IMF, 2015a.

Government Revenue and Expenditure

The government has achieved a healthy balance between raising revenue and keeping costs low and targeted. Manufacturing as a share of GDP has declined since 2011, while service sectors, such as communications and construction, have expanded. In 2015, Namibia raised revenue, excluding grants, amounting to 35.6% of the GDP, but kept expenditures at 30.4% (Figure 2). More than one-third of this revenue was raised through international trade tax (including SACU), highlighting the importance of the international market to the government's budget and economy; it also shows the extent to which the government is at risk due to external environments (see Figure 3). It is crucial to strengthen the country's resilience to exogenous market shocks by identifying alternative sources of revenue.

Salaries and benefits make up more than one-third of government expenditures; the second largest cost category is subsidies and transfers to state-owned enterprises (Figure 4). The government must ensure that recurrent personnel costs do not grow significantly larger and strategize to achieve more through improving its structural and operational efficiency. As a first step, the governmemt plans to reduce travel expenses. Concurrently, as Namibia's economy grows, it must assess when support for state-owned enterprises is strategic and effective in promoting growth. By increasing revenue and improving public financial management to achieve cost savings, Namibia can secure and increase its fiscal space for critical social and development programs.

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