



The World Economic Crisis and its Impact on Namibia

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Characteristics of the Namibian Economy

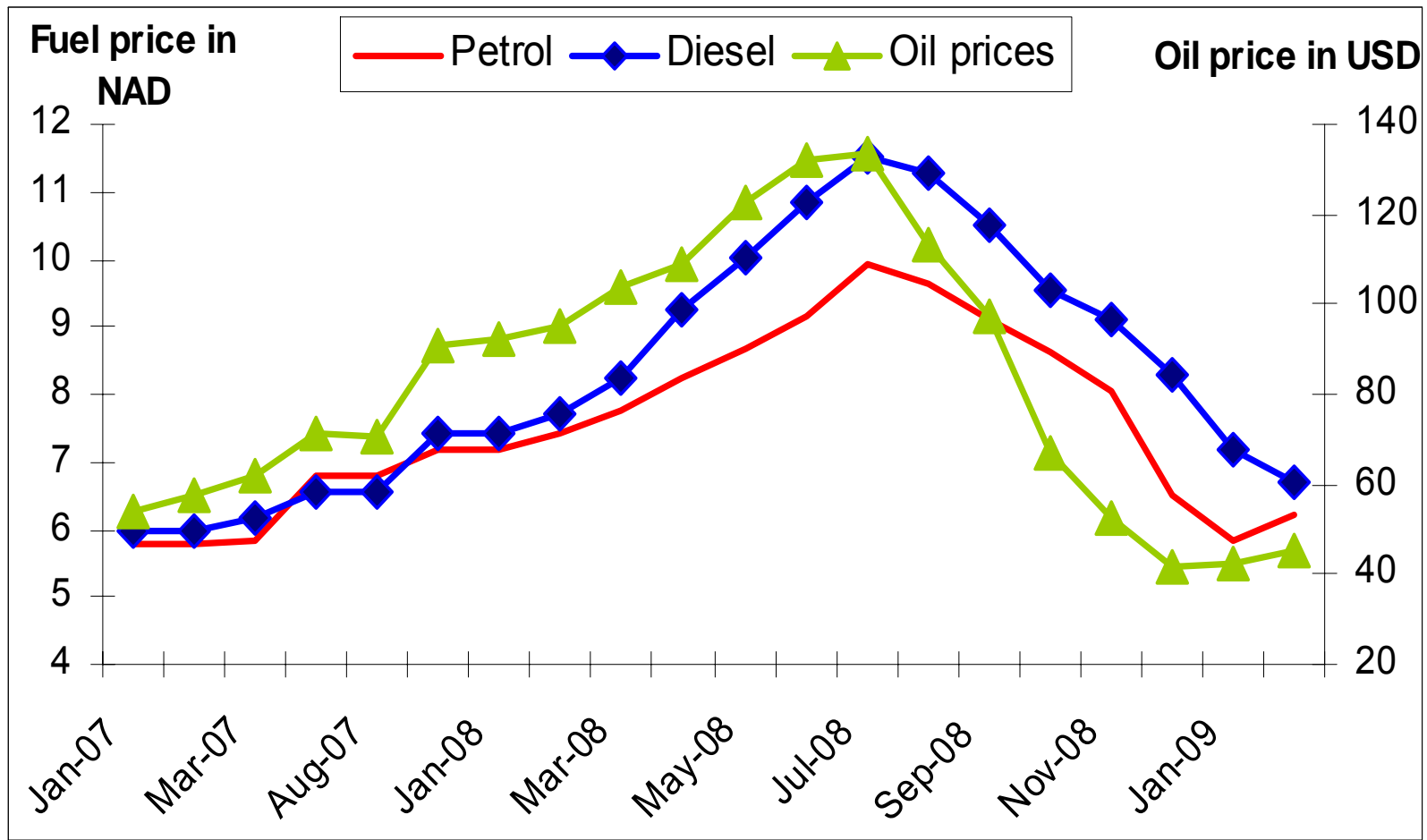
We produce what we do not consume; we consume what we do not produce

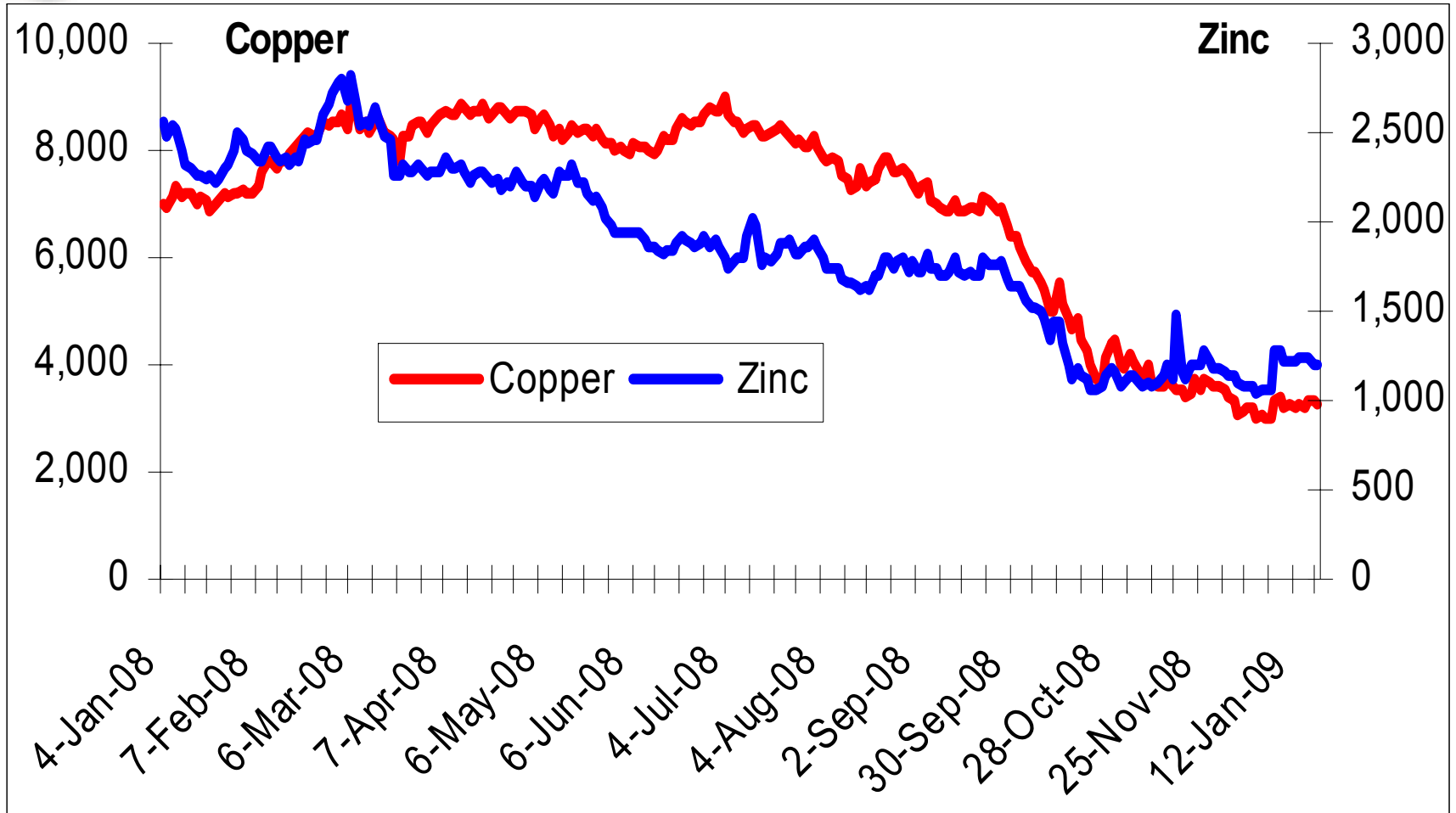
- Small population – and even smaller market
- Export-oriented, natural resource extraction
- Economy not strongly diversified
- High rate of unemployment (37%)
- High income disparities (Gini-coefficient 0.6; reducing potential demand for local products)



Macroeconomic impact

- GDP growth forecast downward adjusted – between 1 and 2%
- Weaker currency (benefits exporters and local companies competing with imports)
- Foreign exchange reserves healthy: Import cover of about 20 weeks cushions against drop in export volume and prices
- Drop in commodity prices (food, oil) -> lower inflation
- Further interest rate downward adjustment expected
- ▶ Disposable income increases (demand and/or savings increase)







Impact on economic sectors

Substantial drop in commodity prices

- Copper mine closed (for the time being)
- Production holiday at diamond mine
- But uranium mines still doing relatively well

Agriculture

- Lower growth in South Africa can impact on demand for Namibian meat

Manufacturing sector

- Diamond cutting and polishing suffering from drop in demand
- Copper smelter not yet affected
- Beverage industry likely to feel the pinch



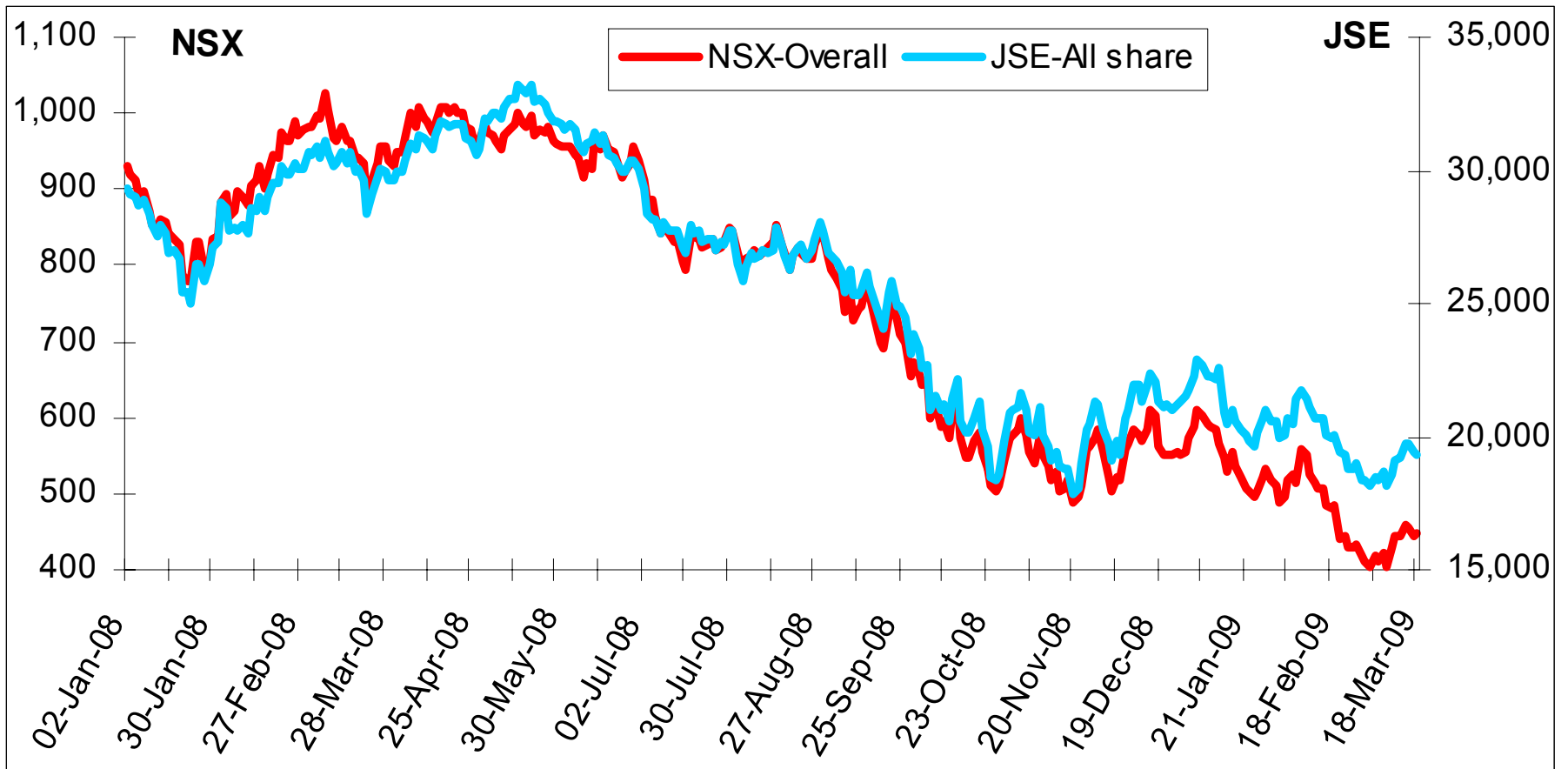
Economic sectors cont'd

Service sector

- Tourism (but benefiting from currency depreciation)
- Less demand for business services incl. financial sector
- Financial institutions not directly affected, but banking sector exposed to consumer and housing loans. Share prices dropped
- Wholesale and retail trade affected by drop in consumer demand

Informal sector

- Declining demand in particular in northern areas



Fiscal impact

Drop in revenue:

- Mining royalties
- Corporate taxes
- Income taxes (due to job losses)
- VAT (due to declining consumer demand)
- SACU revenue (declining investment/ consumption - declining imports)
- Grants (no indication for cut back)

Expenditure

- Additional investment in infrastructure

Fiscal impact cont'd

- Increased social grants (for War Veterans)
- Tax reduction

Deficit - debt

- Deficit expected to be around 5% over next three years (Above SADC Convergence criteria, but below neighbouring countries' deficits)
- Debt to GDP ratio about 30% (Still below SADC Convergence criteria)
- ▶ Increasing statutory expenditure (but benefiting from lower interest rate levels)
- ▶ Namibia benefits from budget surpluses in previous years

Social impacts

- Increase in unemployment (mining alone expected to shed about 1,500 jobs)
- Drop in transfers to rural households from migrant workers
- Vulnerability, poverty and income disparities could increase depending on duration of the crisis – and government interventions
- Drop in grants can have impact on specific social programmes

What to do

Counter-cyclical fiscal policy could cushion downturn if spend wisely

- Target bottlenecks for private sector development
- Identify projects with a high potential of crowding in private investment – public-private partnerships
- Encourage (subsidise) investment in innovative technologies (e.g. energy efficiency, renewable energy) in order to strengthen competitiveness
- Targeted intervention in order to mitigate vulnerability of affected employees (training programmes, unemployment benefits)
- Implement programmes speedily but carefully

Address income disparity in order to increase local market

Think not only locally but regionally - coordinate efforts on regional level such as SACU and SADC



Thank you