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1. Introduction

The global economy maintained it's modest above 3.0 percent growth in the past two years, estimated to have registered 3.2 and 3.7 percent real growth in 2016 and 2017 respectively. Global output growth was driven by cyclical upswing which has continued strengthening since 2016, among others.

Regionally, sub-Saharan Africa (SSA) recorded 1.4 percent in 2016, its slowest growth since 2012, after which it is estimated to have rebounded to 2.7 percent in 2017. The improved growth performance were on the back of recovery in the region's largest economies Angola, Nigeria and South Africa.

The domestic economy registered a slow growth of just above 1.0 percent growth in 2016 attributable to declines in the primary and secondary industries as well as slow growth in the tertiary industry. During 2017, the economy is estimated to have contracted by 0.4 percent largely on the back of declines in key growth driving sectors i.e. construction, wholesale and retail trade, manufacturing and utility sectors, among others. Despite the sluggish growth, the country remains within sustainable levels in terms of fiscal developments. To this effect, expenditure and public debt to GDP ratios remain in line with the national cap and SADC convergence targets. Moreover, the country recorded an improvement in the budget balance to within the 5.0 percent threshold. On the external sector front, by the end of 2017, foreign reserves would cover 4.7 months of imports from 2.9 months in 2016 thereby exceeding the international benchmark of 3.0 months and on course for achievement of SADC convergence target of at least 6.0 months. On the external sector, exports are estimated to have grown faster than imports thereby leading to an improvement in the trade deficit.

Although Namibia posted a slow growth in 2016 which subsequently led to a reduction in GDP per capita, the country managed to register a decline in income inequality, albeit marginally. Despite the noted marginal decline in income inequality, the country was ranked the second most unequal country in the world after South Africa. Furthermore, between 2003 and 2010, inequality increased in seven of the thirteen regions namely, Khomas, Kunene, Ohangwena, Omusati, Zambezi, Karas and Otjozondjupa thereby indicating that the average economic growth of 4.2 percent experienced during this period benefited the population differently.

In terms of income levels, the average monthly wage has increased since 2014. However, despite great strides by women with regards to educational attainment and economic participation, data from the Namibia Labour Force Survey 2014 indicates that there is an observed gender pay gap. Females are lowly paid as compared to male counterparts in the same industry.

During 2016, unemployment rate worsened to 34.0 percent for which youth (aged 15-34) unemployment is 43.4 percent, which is an increase of 4.4 percent from 2014. This is despite the noted increase of 55 593 new entrants into the labour market. In terms of employment, noted decreases were observed for agriculture sector (which is the biggest employer), wholesale and retail trade as well as Public administration and defense among others. However, sectors such as Real estate activities, Professional, scientific and technical activities, Accommodation & food service activities and Water supply & related industries recorded employment increases in 2016.

Although the country has been able to significantly increase access to education, quality of education remains a challenge resulting from high dropout, repetition and survival rates by leaners. Moreover, education remains a challenge given that above 70.0 percent of the unemployed in Namibia have not gone past junior secondary education.

2. Section A: Economic Development

2.1 Global economy

According to IMF's World Economic Outlook update for January 2018, **World output** grew by 3.2 and 3.7 percent in 2016 and 2017 respectively, thereby maintaining above 3.0 percent growth which has historically become its benchmark average growth rate. Key drivers of world output growth includes stronger global household income, improved labour markets and overall demand among others. The ballot in favor of the Brexit threat has shaken international markets, putting pressure on the interest rates. Going forward, world output is estimated at 3.9 in both 2018 and 2019; this indicates that the growth forecast have been revised upward by 0.2 percent point from the October 2017 update. The revision reflects increased global growth momentum and expected impact of recently approved U.S. tax policy change. This expected improved performance is to be driven by activities in both advanced economies and emerging markets and developing economies which are projected to accelerate stronger growth.

Growth in commodity exporters is projected to pick up while growth in commodity importers is expected to remain strong. Downside risks to global economy continue to dominate as they are associated with policy uncertainty, financial market disruptions and sudden capital outflows which could be felt disproportionately more by emerging and developing economies with external vulnerabilities i.e. those with foreign-exchange-leveraged firms and high sovereign borrowing. In terms of commodity price developments, most mineral prices with the exception of uranium recorded price increases between 2016 and 2017 (table 1).

Table 1: Mineral commodity prices

Commodity	Units	Actuals		Year-On-Year (%change)	Projection
		2016	2017		2018
Copper	US$/MT	4,867.90	6,169.94	26.7%	5,957.1
Aluminium	US$/MT	1,604.18	1,967.65	22.7%	1,913.3
Iron Ore	US$/MT	58.42	71.76	22.8%	58.7
Tin	US$/MT	17,933.76	20,067.71	11.9 %	19,677.1
Nickel	US$/MT	9,595.18	10,409.64	8.5%	9,360.5
Zinc	US$/MT	2,089.98	2,890.87	38.3 %	2,798.4
Lead	US$/MT	1,866.65	2,314.67	24.0%	2,347.7
Uranium*	US$/lb	26.31	21.7	-17.5%	21.4
Gold+	US$/toz	1,250.80	1,257.15	0.5%	-1,331.6
Coal	$/MT	70.10	86.7	23.7%	78.77

Source: International Monetary Fund Near Term Commodity Price Baseline
+World Gold Council (2018 projections: average of first two months of the year)

Growth in **Advanced economies** stood at 1.7 percent in 2016, marginally weaker than the economies' historical growth levels of above 2.0 percent. Growth in 2016 is attributable to weaker trade and persisting low interest rates as well as decreasing investments. Accommodative monetary policies pursued have not been sufficient to upswing economic activities. Advanced economies continue to record low inflation as well as an increase in uncertainty about future policy direction. However, in 2017 output recovered to historical growth levels estimated at 2.3 percent attributed to growth pickup in United States, Europe and Japan. Going forward, output is estimated to maintain its historical levels at 2.3 and 2.2 percent in 2018 and 2019 respectively. However, policy uncertainty could dampen U.S and international growth prospects.

Emerging markets and developing economies (EMDE) recorded 4.4 and 4.7 percent growth in 2016 and 2017 respectively. China's growth remained strong, posting 6.8 percent in 2017, which reflects the economy's continued policy support. India, on the other hand, decelerated, albeit marginally, to 6.7 percent from 7.1 percent in 2016. Activity slowed in India due to the impact of the currency exchange initiative (demonetization - presented in Box 1 below), while Brazil has been mired in a deep recession. Notwithstanding these developments in China and India, going forward, growth in EDME is projected at 4.9 and 5.0 percent in 2018 and 2019 respectively. This projected growth is attributable to improved conditions in large commodity exporters[1] that experienced recession caused by declining commodity prices and stronger external demand. China's growth is projected at 6.6 and 6.4 percent in 2018 and 2019 respectively while India's is projected at 7.4 and 7.8 percent in 2018 and 2019 respectively. Regions with large numbers of commodity importing economies such as East Asia, the pacific and South Asia are estimated to experience solid growth. Growth in Latin America, the Caribbean, Europe and central Asia picked up in 2017 and is expected to be on a rise going forward.

Box 1: Currency Exchange Initiative ("Demonetization") in India

In November 2016, India undertook a currency exchange initiative, through which it sought to tighten the monetary conditions in view of addressing a plethora of challenges i.e. hoarding of cash (black money), tax evasion, tackle counterfeiting as well as curbing the financing of terrorism.

The initiative was done through the withdrawal of legal tender status of all existing Rs 500 and Rs 1 000 currency notes. At the time of the withdrawal, the country rolled out new series of Rs 500 and 2000 notes, however, the distribution of these new currency notes proceeded slowly thereby creating a currency shortage.

In India, payment transactions are predominantly cash-based with limited electronic payments infrastructure. In light of this, the initiative created a currency shortage of greater proportions which somehow affected currency notes with a total value of about Rs 15 trillion (approximately 86 percent of all cash in circulation).

The currency shortage corresponds to a substantial tightening of monetary conditions in the initial weeks of the initiative, which eases as currency is replaced. Consequently, the initiative is expected to negatively affect the country's GDP growth in the first half of 2017.

Source: IMF. (2017). Article IV Consultation for India

Growth in **sub-Saharan Africa** is estimated at 2.7 percent for 2017 from 1.4 percent in 2016. The growth pick up in 2017 was driven mainly by marginal improved growth performance in

[1] Commodity exporters refer to the following countries as classified by the IMF (2016):

- "Commodity-Dependent" Exporters: Nigeria Uzbekistan, Sudan, Yemen Bolivia Zambia, DRC
- "Diversified " Exporters: Bangladesh, Vietnam, Myanmar Ethiopia, Kenya, Tanzania, Ghana

the region's largest economies, Angola, South Africa and Nigeria, estimated at 1.5, 0.8 and 0.9 percent respectively.

Table 2: Growth rates

	Actuals		Projections	
	2016	**2017**	**2018**	**2019**
World Output	3.2	3.7	3.9	3.9
Advanced Economies	1.7	2.3	2.3	2.2
U.S.	1.5	2.3	2.7	2.5
Euro Area	1.8	2.4	2.2	2.0
Japan	1.0	1.8	1.2	0.9
Emerging markets & developing economies	4.3	4.7	4.9	5.0
China	6.7	6.8	6.6	6.4
India	7.1	6.7	7.4	7.8
Sub-Saharan Africa	1.4	2.7	3.3	3.5
Angola	-0.7	1.5	1.6	1.4
Namibia*	1.1	-0.4	1.2	2.3
Nigeria	-1.6	0.8	2.1	1.9
South Africa	0.3	0.9	0.9	0.9

Source: IMF World Economic Outlook, January 2018

** Annual National Accounts 2016 (NSA) and Macroeconomic Framework (MEF) projections*

2.2 Regional Economy

Sub Saharan Africa (SSA) posted a slower-than historical average growth of 1.4 percent in 2016, which was the weakest growth since 2012. This weak growth was driven mainly by weak performance in the region's largest economies, Nigeria and Angola contracted by 1.6 and 0.7 percent respectively, while South Africa recorded marginal growth of 0.3 percent. Moreover, the decline in the overall performance reflects insufficient policy adjustments, increase in public debt, declining international reserves, contractions in economic activities as most oil exporting countries experienced recession. Public debt is rising thus reliance on domestic financing has increased borrowing costs while foreign financing declines.

After posting growth of 1.4 percent in 2016, the slowest in the past decade, growth in the SSA economies is estimated at 2.7 percent in 2017 thereby improving gradually towards its historical growth levels averaging at least 3.0 percent in the medium term. As such, it is projected at 3.3 and 3.5 percent in 2018 and 2019 respectively. This estimated growth is to be driven by a recovery in oil production in Nigeria and higher public spending in Angola whereas South Africa's growth prospects remain subdued due to political uncertainty, weak consumer and business confidence.

Angola and Nigeria were the worst hit countries by low oil prices hit which resulted in revenue loss and balance of payments pressure in 2016. During 2017, Angola, Nigeria and South Africa recorded 1.5, 0.8 and 0.9 percent respectively. In the medium term, Nigeria is estimated at 2.1 percent in 2018 on the back of recovery in oil production. Growth in Angola is expected to recover in the medium term due to better terms of trade and recovery in crude oil prices. Despite having recorded a weak growth in 2016, **South Africa** is estimated at 0.9 percent in both 2017 and 2018 on the back of stabilization of commodity prices, favourable weather conditions and expansion in electricity supply. Given that South Africa has historically been Namibia's largest trading partner, the performance of the South African economy has both negative and positive impacts on the Namibian economy. **Botswana**'s economy recovered to 4.3 percent in 2016 after it suffered a contraction of 1.7 percent the previous year. The recovery is supported by a rebound in diamond exports which resulted from expansion of mining activities. Growth prospects for the medium term are promising as it is expected to rise moderately with continued expansion in construction activities. In turn, the Botswana economy is estimated to maintain growth of above 4.0 percent, estimated at 4.5 and 4.8 percent in the next two years.

Table 3: SSA Growth rates

Region & Country	**Actual**		**Projections**	
	2015	**2016**	**2017**	**2018**
Sub Saharan Africa	3.4	1.4	2.7	3.3
Angola	3.0	-0.7	1.5	1.6
Botswana	-1.7	4.3	4.5	4.8
Namibia*	6.1	1.1	-0.4	1.2
Nigeria	2.7	-1.5	0.8	2.1
South Africa	1.3	0.3	0.9	0.9

Source: IMF Regional Economic Outlook, January 2018

**source for Namibia: Annual National Accounts 2016 (NSA) and MEF projections (2018)*

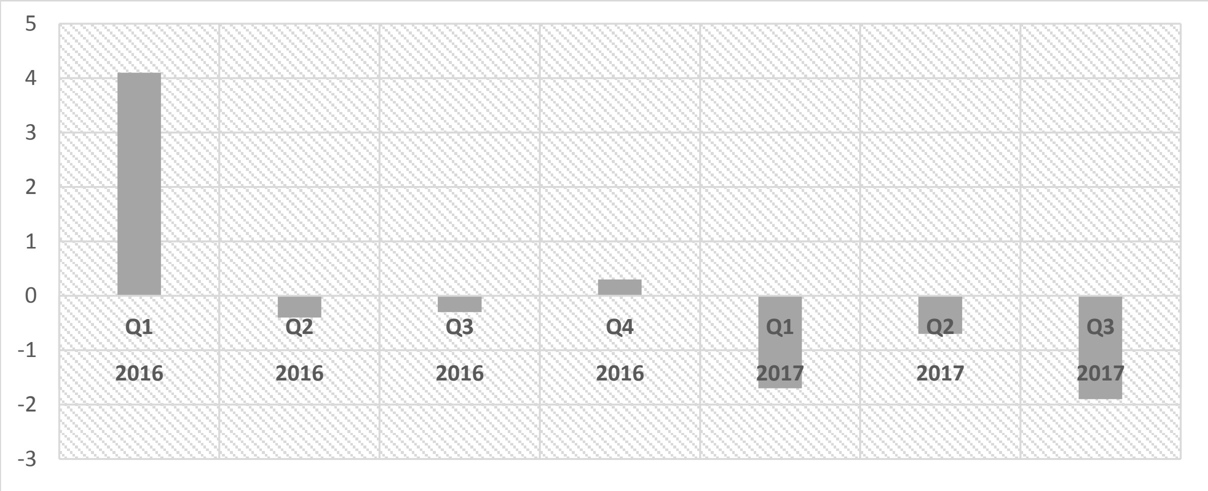
2.3 Domestic Economy

Namibia recorded its slowest growth in recent years, registering an estimated growth of 1.1 percent in 2016 due to weak performance by the secondary, tertiary and primary industries. The primary and secondary industries contracted by 2.0 and 7.8 percent respectively while tertiary industries recorded a slow growth of 3.9 percent. During 2016, the first, second and third quarters registered growth of 4.1 percent, a decline of 0.4 percent and 0.3 percent respectively. However, latest statistics indicates that the economy contracted by 1.7, 0.7 and 1.9 percent in the first, second and third quarters of 2017 respectively.

The observed contractions in the three quarters of 2017 were driven by significant declines in sectors such as construction, manufacturing, wholesale and retail and trade, utility, fishing and hotels and restaurants sectors among others, which have predominantly been key growth drivers. Overall, the economy is thus estimated to have contracted by 0.4 percent in 2017 attributable to weak performance in the construction, wholesale and retail, real estate and business activities sectors among others. Weak growth performance in construction include base effects resulting from completion of major mines and fiscal consolidation stance, while wholesale and retail suffered from weaker spending power of consumers and government and weaker growth in public sector credit extension (PSCE). The real estate sector was affected by slowdown in housing market, the Angolan effect and the reduction in overall housing transactions.

Going forward, the economy is expected to rebound in the medium term owing expected recovery in key sectors of the economy. In turn, it is projected at 1.2 and 2.1 percent in 2018 and 2019 respectively (MTEF projections, 2018).

Figure 1: Quarterly GDP growth rates



Source: NSA Quarterly GDP publications

Given the slow growth recorded in 2016, per capita income slightly declined from N$ 47 605 in 2015 to N$ 47 216 in 2016, thereby indicating a contraction of 0.8 percent. This regressing development in per capita income does not augur well with the currently high income inequality in the country if looked at in relation to Vision 2030 goals and aspirations.

2.3.1 Sector perfomance

Primary Industry

For Namibia to realize economic transformation, the primary sector is crucially important to both secondary and tertiary industries in terms of provision of input for further processing and value addition activities. The primary industry contributed 17.6 percent to GDP in 2016 with the largest contributor being mining and quarrying sector which contributed an overall 11.3 percent to GDP and 64.2 percent to gross primary industry contribution to GDP.

In terms of real growth, despite a significant growth of 7.7 percent in fishing and fish processing on board, primary industry contracted by 2.0 percent driven by a significant decline of 5.7 percent in mining and quarrying as well as slow growth of 0.8 percent in agriculture and forestry. The target for NDP5 is to have the share of value added mining in total mining exports to double from a baseline of 23 percent to 46.0 percent by the end of the plan. This is to be realised through the industrial policy's "Growth at Home" strategy which is premised on supporting value addition, upgrading and diversification among others.

For the mining sector, some positive developments were observed according to Fraser Institute's Investment Attractiveness Index which is informed by an annual survey of mining companies globally. To this end, the Namibian mining sector has improved its ranking in view of policy factors from its ninth[2] in 2016 to second in 2017 after Botswana. Growth in the agriculture sector, on the other hand, has been boosted by increase in rainfall which improved production especially for rain-fed crop farming.

Quarter-to-quarter analysis indicates that mining and quarrying sector recorded significant growth of 18.7, 25.8 and 11.3 percent in the first, second and third quarters of 2017 respectively compared with declines in both the first, second and third quarters of 2016. The stronger growth in the mining and quarrying sector during the three quarters of 2017 is

[2] According to Fraser Institute, the top ranked eight countries in Africa are: Ivory Coast, Botswana, Ghana, DRC, Zambia, Eritrea, Mali and Burkina Faso.

attributable to strong growth in most sub-sectors. Herein, strong growth in diamond and uranium sub-sectors is attributable to an increase in carats produced and overall increase in production respectively, among others. Growth in agriculture and forestry is estimated at 15.0, 20.3 and 5.3 percent in the first, second and third quarters of 2017 respectively. The significant growth in the first three quarters resulted from strong growth in crop farming subsector attributable to good rainfalls which boosted an increase in crop farming particularly for cereal production. However, growth in the third quarter slowed to 5.3 percent due to slow growth in the livestock subsectors, as small stock marketed to abattoirs and butchers stood at a total of 64, 451 indicating a decline of 40.4 percent compared to the same quarter of 2016.

Secondary Industry

Secondary industries contributed 17.4 percent to GDP in 2016 for which manufacturing sector's contribution to GDP and to total secondary industry contribution to GDP was 11.0 and 63.1 percent respectively. This clearly indicates that the manufacturing sector remains one of the major sectors of the economy.

On the growth front, the industry declined by 7.8 percent in 2016 driven by most notably a contraction in construction sector, one of the sectors which have been the economy's key growth drivers in recent years. Quarter-to-quarter statistics show that the construction sector has been on a contraction path in the last seven quarters, starting in the first quarter of 2016. To this end, it has continued performing dismally as it is estimated to have contracted by 44.8, 45.9 and 36.9 percent in the first, second and third quarters of 2017 respectively. Performance in the sector remains subdued, attributable to government expenditure cuts arising as a result of fiscal consolidation measure being pursued as well as 2016/17 expenditure arrears (unpaid invoices) of N$2.9 billion among others. Government capital projects which were to drive growth in the construction sector came to a halt in 2016 thereby straining the performance of the sector even more.

The utility (electricity and water) sector recorded a strong growth of 7.7 percent in the first quarter of 2017, after which it declined by 1.1 and 5.5 percent in the second and third quarters of 2017 on the back of poor performance by both electricity and water subsectors. The utility sector is expected to play a significant role in the country's industrialisation drive to support the achievement of NDP5 and Vision 2030 targets. Therefore, the noted weak growth performance of the sector as suggested by latest statistics does not bode well with national targets and aspirations. The weak growth especially in view of electricity sub-sector for which over 50.0 percent is imported from neighbouring countries will continue exerting pressure on the already low foreign reserves thereby affecting the import cover.

In 2017, the manufacturing sector recorded a contraction of 2.5 percent in the first before recording slow growth of 3.1 and 0.8 percent in the second and third quarters, respectively. During 2016, the sector registered contractions of 4.3 and 4.1 percent in the first and second quarters respectively, before accelerating to 11.9 percent in the third quarter. The sector's third quarter performance for 2017 is attributable to increases in real value added recorded for diamond cutting and polishing and fabricated metals which recorded 34.3 and 36.9 percent respectively. This was despite slower growths of 3.6 percent in beverages, 11.8 percent in non-metallic mineral products. The manufacturing sector contributed N$17.7 billion (11.0 percent) to GDP in 2016. The manufacturing sector contribution to GDP target under NDP5 is to contribute N$20.6 billion by 2021/22. However, the latest growth statistics suggests that the country appears to be some distance towards achieving that target. Therefore, the country should continue boosting manufacturing and industrialisation through the "Growth at Home" strategy if the "Growth at Home and NDP5 targets are to be realised. The achievement of these targets will place the country on course towards the achievement of industrialised country status as articulated in Vision 2030.

Tertiary Industry

Tertiary industry still emerges as the main contributor to GDP accounting for 57.9 percent in 2016, significantly higher than both primary and secondary industries' combined contribution. Wholesale and retail trade contributed 11.7 and 20.1 percent to GDP and overall tertiary industry contribution respectively, thereby making it the largest sector in the industry.

In terms of growth, after posting a strong growth of 7.4 percent in 2015, it registered a slow growth of 3.4 percent in 2016 on the back of slower growth in most sectors including wholesale and retail trade repairs which has historically been one of the industry's key drivers. Latest quarterly growth estimates shows that wholesale and retail trade sector registered declines of 7.5, 8.2 and 4.4 percent in the first, second and third quarters of 2017 respectively. These declines are attributable to a contraction in the total revenues of wholesale and retail trade due to low demand. Moreover, slower growth was notable in the sales of vehicles and supermarkets particularly in the third quarter of 2017.

The tourism (hotels and restaurant) recorded above 5.0 percent growth in the last two years; the sector recorded 5.6 and 5.1 growth in 2015 and 2016 respectively. The subsector hotels recorded a strong growth of 5.5 percent in 2015 before registering a decline in real value added of 0.2 percent in 2016 which drove the low performance in the sector. This is notwithstanding strong growth in the restaurants subsector from 5.9 percent in 2015 to 16.4 percent in 2016. Attributable to hotel subsector's decline is the strengthening of the Namibia dollar (NAD)/South African Rand (ZAR) and saturation of hotels among others while the restaurants subsector growth key drivers were increases in local demand and private consumption. Quarter-to-quarter estimates indicate that hotels and restaurants sector contracted by 6.5 and 0.4 percent in the first and second quarters of 2017. This is reflected in the decline in tourism activities in which resulted from low tourist arrivals as well as due to poor performance in the number of rooms and beds nights sold as they registered a slow growth. Despite the contractions in the first and second quarters, a slow growth of 0.1 percent was recorded in the third quarter of 2017.

The transport and communication sector registered 6.9 and 6.1 percent growth in 2015 and 2016 respectively. The key growth drivers in the sector include subsectors such as post and courier services and freight transport by road which realised slow growths of 4.0 and 6.3 percent in 2016 compared to 11.3 and 12.3 percent recorded in 2015 respectively. Overall, the performance in the subsectors is on the back of increase in the cargo handled. Latest data estimates that the transport sector registered growth of 1.2, 3.5 and1.3 percent in the first, second and third quarters of 2017 compared to strong growth of 6.7, 5.1and 7.4 percent in 2016. For as long as performance of the construction sector remains subdued, slow performance will be reflected in the transport sector due to a decrease in roads construction among others. Activities in the transport sector decreased in the third quarter of 2017 attributable to decline in total cargo volumes resulting from lower export volumes of major mineral products such as uranium, zinc and copper.

Financial Intermediation sector is estimated to have realised constant 3.7 percent growth in both 2015 and 2016. The banking and insurance subsectors registered a slower growth of 4.5 and 2.3 percent in 2016 respectively while the subsectors recorded 6.7 and a decline of 0.9 percent in 2015 respectively. The sector recorded slow growths of 0.2, 0.9 and 0.8 percent in the first, second and third quarters of 2017 compared to strong growth of 4.1, 4.6 and 3.9 percent in the first, second and third quarters of 2016. The slow growth performance in the first three quarters of 2017 is attributed to among others, the banking sector that registered a slow growth of 1.1 percent in addition to the slow growth in total claims and deposit in nominal terms.

Figure 2: Industry average growth rates (Quarterly)

	2015	2016	2016Q1	2016Q2	2016Q3	2017Q1	2017Q2	2017Q3
Primary	-5.2	-2	-0.8	-2.2	2.6	10.3	11	5.1
secondary	7.2	-7.8	0.8	-11.2	-9.6	-13.3	-17	-13.9
Tertiary	7.6	3.9	7.6	2.2	3.6	-0.4	-0.8	-0.5

Primary secondary Tertiary

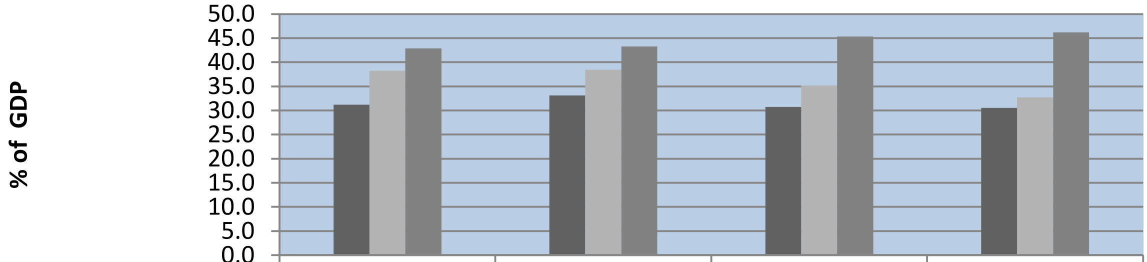
Source: NSA Quarterly GDP publications (2016 and 2017) and Annual National Accounts 2016

2.3.2 Fiscal developments

Revenue and expenditure interventions can be used to achieve the macroeconomic and national development objectives in an economy. During 2017, government continued with the fiscal consolidation policy, through aligning expenditure closer to revenue, with the main goal being to reduce growth in public debt to within sustainable levels. However it is important to note that the budget continues to support service delivery by realigning public expenditure to key national development priorities. It is therefore a challenge when you are faced with issues related to the reduction of debt through cutting expenditure while simultaneously trying to execute Government's mandate towards socio-economic development. However, tough choices/decisions have to be made by the government in view of striking a favourable balance on these which will yield optimal results.

Total revenue comprise of both tax and non-tax revenue with tax revenue being the largest and most significant revenue source. Total revenue for 2017/18 is estimated to increase to 33.1 percent of GDP from 31.2 percent in 2016/17 attributed to better SACU receipts. Going forward, it is estimated at 30.7 and 31.5 percent in 2018/19 and 2019/20, respectively. The medium-term SACU revenue outlook is a priori as decided by the SACU Council in line with SACU revenue sharing formula.

Figure 3: Total revenue and Expenditure



	2016/17	2017/18	2018/19	2019/20
Revenue (% of GDP)	31.2	33.1	30.7	30.5
Expenditure (% of GDP)	38.2	38.4	35.2	32.7
Debt Stock (% of GDP)	42.9	43.3	45.3	46.2

■ Revenue (% of GDP) ■ Expenditure (% of GDP) ■ Debt Stock (% of GDP)

Source: Mid-term Budget Review Revenue, Income and Expenditure 2017/2018 – 2019/2010

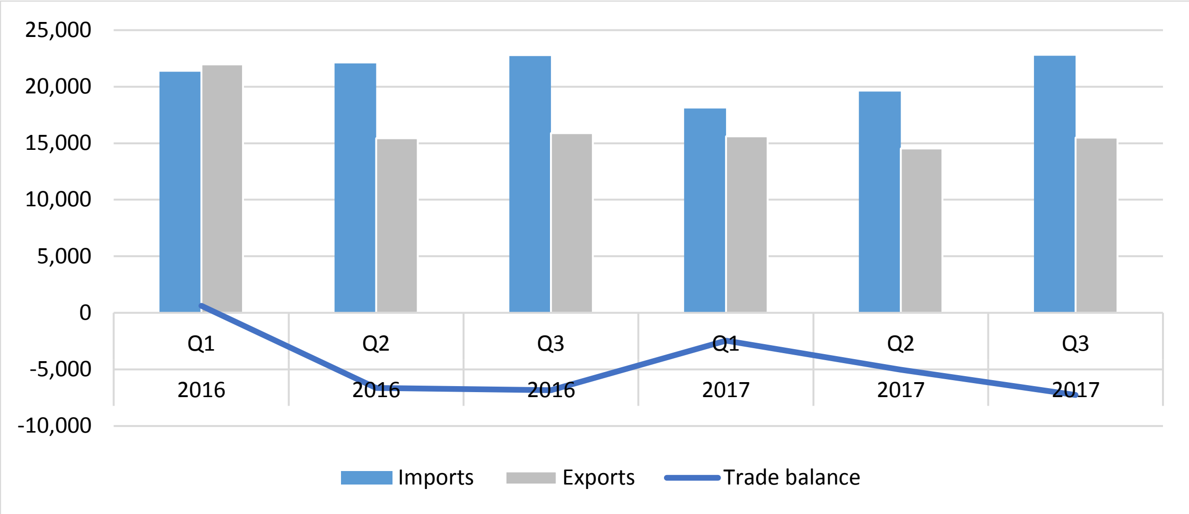
On the expenditure side, total expenditure for 2017/18 is estimated at 38.4 percent of GDP, of which operational expenditure alone accounts for over 90 percent of total expenditure. Total expenditure as a ratio of GDP is expected to decline to 35.2 percent and further to 32.7 percent in 2018/19 and 2019/20 respectively. These projected declines will place the country within sustainable levels as per the national benchmark of expenditure to GDP ratio of below 40.0 percent which the country seeks to maintain through its prudent macroeconomic stance. Moreover, the developments in respect of expenditure and revenue performance led to an improvement of the budget balance as a ratio of GDP which improved from -6.9 percent in 2016/17 to -5.4 percent in 2017/18. It is worth noting that had it not been for unforeseen spending arrears amounting to N$2.1 billion which were carried forward from the previous financial year, the budget balance to GDP would have been at -3.6 percent and within the threshold of 5.0 percent. However, at -5.4 percent to GDP level, the budget deficit to GDP ratio remains close to the threshold of 5.0 percent which is deemed sustainable.

Public debt stock to GDP is also estimated to increase, albeit marginally, over the MTEF from 42.9 percent in 2016/17 to 46.2 percent in 2019/20 thereby indicating above 10.0 percent increase above the Sovereign Debt Management Strategy's debt-to-GDP ratio of 35.0 percent national cap. However, at the current level, the country's public debt to GDP ratio is within SADC's convergence target of less than 60.0 percent and on par with the average for Emerging markets and developing economies.

2.3.3 External sector developments

Trade statistics for 2016 show that exports grew faster by 20.9 percent in 2016 while imports grew by 2.5 percent. Overall, this led to an improvement in the trade deficit. Figure 4 below shows an improvement, albeit marginally, in trade deficit in the second quarter of 2017 as compared to the second quarter of 2016. The second quarter of 2017 trade deficit has improved by 29.3 percent reflected a larger decrease in imports as compared to exports. The third quarter of 2017 recorded an increase in the trade deficit as compared to the same quarter in 2016 mainly due to an increase in imports while exports remained almost the same in the same quarter. The key market is South Africa in terms of both exports and imports. The main exported products which mainly go to South Africa are Diamonds and live animals while top imported goods are vehicles, mineral fuel and oil. Due to low demand for goods, imports from South Africa declined by 23.6 percent in the third quarter of 2017.

Figure 4: Exports and Imports (N$ M)

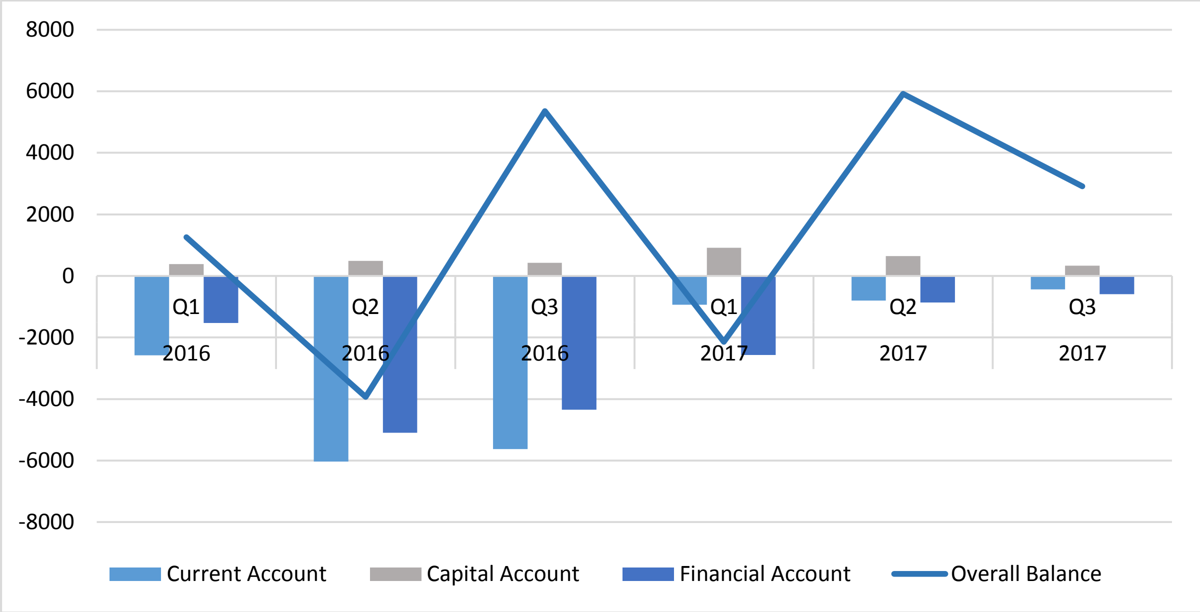


Source: Namibia Statistics Agency, *quarterly trade statistics 2016 & 2017*

Balance of payment recorded a reduced surplus of N$906 million in 2016 as compared to N$10 billion in 2015. The current account continues to worsen annually as imports of goods increases. The deficit on the current account is also affected by a decline in current transfer and increase in service outflow. The financial account continues showing a net outflow on yearly and quarterly basis due to low inflows of foreign direct investment. The capital account maintained a net inflow which kept the overall balance of payment in a positive state in 2016. The third quarter of 2017 recorded overall balance of payment deficit due to a persistent deficit on both current account and financial account.

Namibia's foreign exchange reserves were N$24.7 billion at end of December 2016 from N$23.6 billion in 2015. Increase in foreign reserves was supported by high foreign exchange inflows. In 2016 foreign reserves would cover 2.9 months of imports in 2016 as compared to 2.8 months in 2015. Latest data indicates that the first quarter of 2017 shows an improvement in the foreign reserves, which was able to cover 15.3 weeks (3.8 months) from 14.4 weeks (3.6 months) in the first quarter of 2016. By the end of December 2017, international reserves improved to N$30.2 billion on account of higher SACU receipts, African Development Bank loan and debt repayments from the central bank of Angola. This level of reserves is estimated to cover 4.7 months of import cover and remains sufficient to sustain and maintain the one-to-one peg with the South African Rand. Of significance is to note that, Namibia has consistently maintained the international benchmark of 3 months of import cover for sometime now. These positive developments in view of import cover suggest that Namibia appears likely to achieve the SADC convergence target of more than 6 months' import cover, set from 2012.

Figure 5: Balance of Payment (N$ M)



Source: Bank of Namibia, *Quarterly bulletin 2016 & 2017*

Namibia's international investment position which records foreign assets and liabilities recorded an increased net liability in third quarter of 2017 due to a rise in foreign liability. In the third quarter of 2017 foreign liabilities rose to N$163 billion from N$130 billion in the second quarter of 2016. Foreign assets has increased by 11.6 percent while foreign liabilities has increased by 25.7 percent .Foreign liabilities rose due to an increase in direct and other investments (BoN, 2017).

2.3.4 Gross Fixed Capital Formation (GFCF) – Investment

Gross fixed capital formation (GFCF contributed 34.1 and 24.3 percent to GDP in 2015 and 2016 respectively. GFCF as a percent to GDP is an important indicator indicating a country's future development potential at a particular point in time. After posting a significant 8.6 percent growth in 2015, it declined by 25.3 percent in 2016 attributable to declines in most industries, with the most significant being mining and quarrying which declined in real terms from N$16.0 billion in 2015 to N$7.8 billion in 2016 thereby indicating a contraction of 51.4 percent.

The mining sector realised noteworthy investments in 2015 which include N$ 2.9 billion Dundee Precious Metals Tsumeb's sulphuric acid plant and N$150 million Ohorongo Cement new plant expansion among others. The contraction in GFCF in respect of mining and quarrying resulted from the completion of these investments as well as new mines which were under construction.

Table 4: Gross Fixed Capital Formation by activity – N$ millions (real terms)

Industry	2015	2016	Growth rates
Agriculture	2,060	1,779	-13.6%
Fishing	1,107	599	-45.9%
Mining and quarrying	15,998	7,775	-51.4%
Manufacturing	4,257	3,517	-17.4%
Electricity and water	514	1,170	127.6%
Construction	531	424	-20.2%
Wholesale and hotels	1,377	716	-48.0%
Transport	4,875	4,396	-9.8%
Finance; real estate	3,317	2,869	-13.5%
Community	233	201	-13.7%
Government services	8,905	8,795	-1.2%
Total	**43,174**	**32,241**	**-25.3%**

Source: Namibia Statistics Agency, Annual National Accounts 2016

2.3.5 Price developments

During 2017, average inflation decreased, albeit marginally, to 6.2 percent from 6.7 percent in 2016 on account of decline in inflation for food and non-alcoholic beverages whereas inflation for the housing and transport categories increased. However, despite this low inflation, the SADC convergence target for 2018 which member states seek to achieve is 3.0 percent. These developments in annual inflation suggest that Namibia appear less likely to achieve the SADC target. It is also important to note that inflation for January 2018 is some 3.6 percent down, when compared to January of 2017, which recorded a staggering 8.2 average inflation rate.

2.3.6 Exchange rates

Between 2015 and 2016, the Namibia Dollar/South African Rand traded favourably against major currencies such as the US Dollar, British Pound and the Euro. This is evidenced by the year-to-year appreciation of 5.7, 22.7 and 9.9 percent against the US dollar, the British pound and the Euro respectively. The appreciation is attributed to base effects and moderate increase in commodity prices. In 2017, The Namibian dollar traded on average N$13.3, N$17.2 and N$15.1 with the US dollar, British Pound and the Euro, respectively. The appreciation of the Namibia Dollar makes imports into Namibia (i.e. machinery, food products etc.) cheaper while exports of Namibian products (i.e. meat products, mineral products etc.) expensive.

2.3.7 Private sector credit extension (PSCE)

Private sector credit includes loans extended to both businesses (corporates) and individuals (households). Growth in PSCE slowed during the first quarter of 2017 while the annual growth rate stood at 8.5 percent on average lower than the 12.5 percent recorded over the same period in 2016. The slow growth is attributed to reduced growth in credit advanced to both household and corporate sectors in the form of mortgage and instalment credit. Growth in private sector credit extended slowed at the end of the first quarter of 2017 whereby mortgage loans constituted more than half of total PSCE. Growth in credit extended to businesses slowed to 8.4 percent at the end of first quarter in 2017. The slow growth is attributed to a contraction in instalment credit, slower growth in mortgage credit and other loans. At the end of 2017, PSCE stood at 6.6 per cent, lower than the recorded 11.4 PSCE in 2016. This is due to continued reduced growth in credit advanced for mortgages and instalments credit.

2.3.8 Interest Rates

The average repo rate was 7.0 percent in 2016 after which it was reduced to 6.75 percent in 2017. The level of the repo rate is deemed appropriate in view of supporting domestic economic growth and maintaining the one-to-one peg with the South African Rand. Similarly, the prime lending rate which averaged 10.75 in 2016 was reduced to 10.50 percent in the third quarter of 2017. These developments which stem from the Bank of Namibia's Monetary Policy Statements bode well with stimulating the much needed growth in the Namibian economy.

3. Section B: Social Development

3.1 Employment

Namibia's labour market looks more vulnerable with unemployment increasing over the years and employment decreasing. Latest data for 2016 show that the number of people in employment declined over the past year, with the employment level now stands at 676,885 from 708,895 in 2014. The country recorded the highest unemployment rate of 34 percent in 2016 comparing to the past years, which is a 6.6 percent increase from that of 2014 with Kunene and Zambezi region having the highest unemployment rate of 62.8 percent and 58.3 percent respectively. Unemployment is estimated to increase further to 37.3 percent in 2017 before it starts declining to 35.9 percent in 2018.

The working age population has increased by 55 593 new entrants into the labour market. A significant share of the youth population is unemployed at 43.4 percent (aged 15-34 years), which is an increase of 4.4 percent from 2014, and almost twelve percentage point difference between males and females. More than 70 percent of the unemployed in Namibia have not gone past junior secondary education. These variances are also significant between urban and rural areas, with urban areas having low unemployment rates. High rates of youth unemployment represent both widespread personal misfortune for individuals and a lost opportunity for critical national and global economic development. High numbers of economically frustrated youth may contribute to social instability.

The decrease in employed persons for 2016 is heavily affected by the decrease in the employment in the agriculture sector, which is the biggest employer in the country and recorded a slowdown in employment of 9.4 percent. Another significant decline is observed in the Wholesale & retail trade as well as Public administration, defense, compulsory social Security with -3.9 percent and -1.4 percent respectively (Table 1). In contrast, sectors such as Real estate activities, Professional, scientific and technical activities, Accommodation & food service activities and Water supply & related industries doubled their employment in 2016.

Table 5: Employed persons by industry

Industry	people employed (%)2014	people employed(%) 2016	difference
Agriculture forestry & fishing	29.5	20.1	-9.4
Mining & quarrying	2.0	2.2	0.2
Manufacturing	4.0	6.6	2.6
Electricity & related industries	0.4	0.7	0.3
Water supply & related industries	0.3	0.7	0.4
Construction	8.0	9.3	1.3
Wholesale & retail trade	13.6	9.7	-3.9
Transport & storage	3.7	3.3	-0.4
Accommodation & food service activities	4.1	7.1	3.0
Information & communication	0.6	0.9	0.3
Financial and insurance activities	1.9	2.3	0.4
Real estate activities	0.1	0.2	0.1
Professional, scientific and technical activities	0.9	1.8	0.9
Administrative & support service activities	4.4	6.0	1.6
Public administration ,defense, compulsory social Security	5.9	4.5	-1.4
Education	5.8	6.1	0.3
Human health & social work activities	3.0	2.8	-0.2
Art, entertainment & recreation	0.3	0.6	0.3
Other services activities	1.8	6.4	4.6
Private households	9.4	8.7	-0.7
Extraterritorial organization & bodies	*	0.2	*
Not Recorded	0.1	*	*

Source: Authors calculations using NLFS 2014 & 2016 data

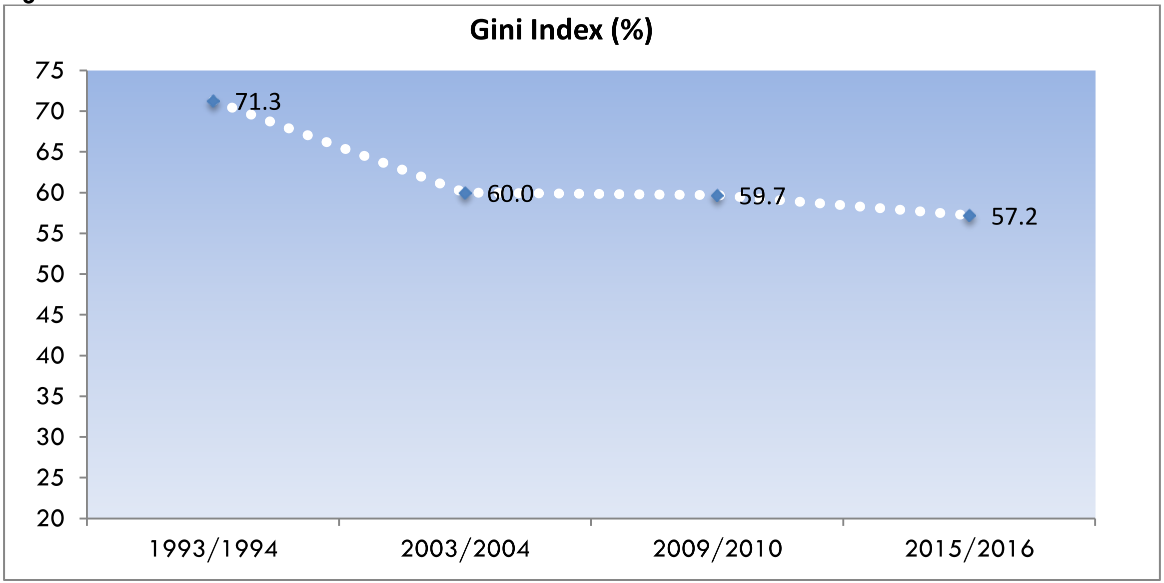
In terms of income levels, the average monthly wage has increased with N$133 since 2014 at a national level from N$6 626 to N$6 759, but there is a significant difference between sex, professions and industries. Females are lowly paid as compared to male counterparts in the same industry. With the professionals mean monthly wage of N$19 907 being the highest, while people employed in private households earn the lowest at N$1 334.

The position of labour in the current economy is actually worrying; the trends over the last years (reported above) indicate that the economic activities in the Labour market did not favour most participants in the labour market, as characterized by low employment figures.

3.2 Inequality

While poverty analyses the situation of individuals at the bottom of the income distribution, inequality looks at the income distribution of the entire population. Thus inequality looks at the homogeneity with regards to income of various groups within the population which is crucial for policy intervention. Namibia has been ranked the second most unequal country in the world after South Africa (UNDP 2016). This is despite the observed declining trend in inequality over the last twenty three years of about 14.1 percentage points (Figure 6).

Figure 6: Gini Coefficient



Source: Namibia Statistical Agency, Namibia Household Income and Expenditure survey, 1993-2016

What is crucial is whether the observed declining trend have been the same for the different groups of the population. Inequality increased in seven of the thirteen regions namely, Khomas, Kunene, Ohangwena, Omusati, Zambezi, Karas and Otjozondjupa between 2003 and 2010 indicating that the economic growth of 4.2 percent experienced during this period benefited the population differently. Further, despite great strides by women with regards to educational attainment and economic participation, data from the Namibia Labour Force Survey 2014 indicates that there is an observed gender pay gap, the amount by which women's salaries falls below or exceeds men's salaries. Table 5 indicates that on average men earns marginally higher per hour than women, with women earning 1.7 percent less per hour on average than men. To address inequality in the country, policy intervention needs to be devised aimed at addressing the observed wage differences.

Table 6: Gender pay gap in Namibia

	Women	Men	Gender Pay Gap (%)
Hourly earnings (N$)	36.0	36.6	1.7
Monthly earnings (N$)	6 164	6 962	11.4

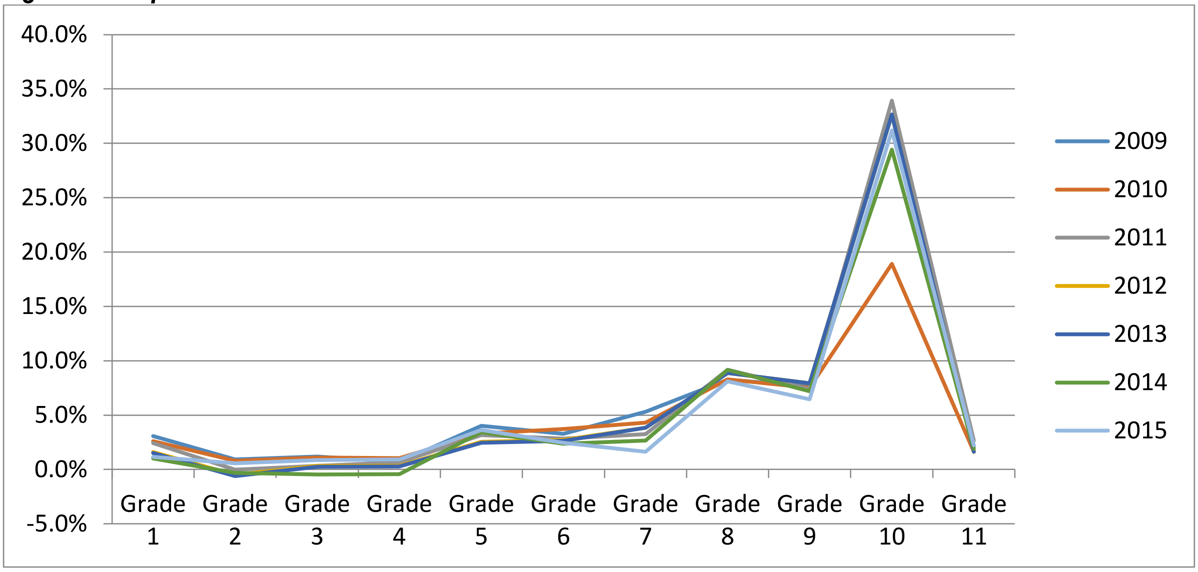
Source: Namibia Statistical Agency, Namibia Labour Force Survey, 2014

The NDP5 target is to reduce the gini-coefficient which is a measure of inequality from 0.572 in 2016 to 0.500 in 2022. This is a 7.0 percentage point reduction in a period of five years translating to an annual reduction of 1.4 percent. This is a challenge when compared to the current inequality reduction trend. Therefore, this means that the NDP5 implementation, monitoring and evaluation need to be enhanced to achieve our inequality targets.

3.3 Education

Namibia has increased access to education with almost all children (about 98.6 percent enrolment rate) accessing education in 2015. While access has improved, the same cannot be said about the quality of education with dropouts, repetition, and survival rates remaining persistently high. Dropout rates is a major challenge for Junior Secondary education averaging between 7 percent and 9 percent over the last five years while about one third (32 percent) of learners are dropping out in grade 10 annually. Of a major concern is that about 2 percent of all learners in grade one are dropping out every year. In 2016, this represents about 1600 children dropping out in grade one. While dropout is relatively low for grade 2-4 it increased to 3 percent in grade 5. Namibia experienced these high rates of dropouts despite education being free for the last five years for primary education and the last two years for secondary education.

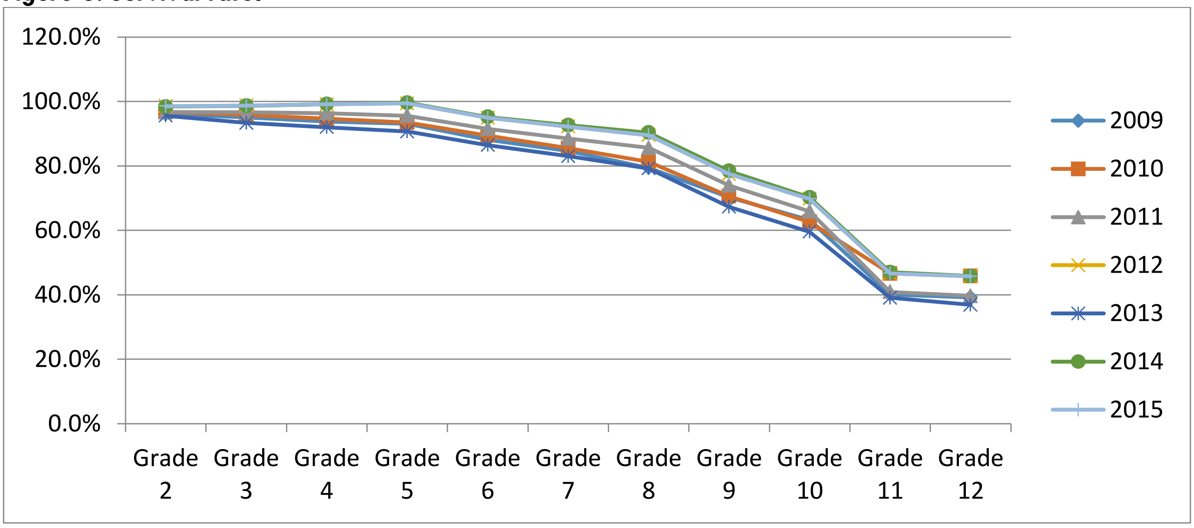
Figure 7: Dropout rates



Source: Education Management Information System, 2015

Over the last five years average repetition rates has been above 10 percent for all grades except grade 11, reaching 20 percent for grade one, five and nine and 30 percent for grade eight. These high rates of repetition discourage learners and could fuel dropping out of school thereby affecting the survival rates.

Figure 8: Survival rates



Source: Education Management Information System, 2015

Survival rates over the last five years are estimated at 90 percent and above for primary education. However, only 87 percent of the leaners over the last five years have survived to grade eight dropping further to 75 percent for grade nine and 67 percent for grade ten while less than half (43 percent) of the learners survived to grade twelve.

4. Conclusion and Policy Implications

Despite the global economy recording above 3.0 percent growth in the past two years, sub-Saharan Africa (SSA) recorded its slowest growth of 1.4 percent in 2016 before accelerating to 2.7 percent in 2017. This noted improved growth performance in SSA has been driven by improved growth performance, albeit marginally, in the region's largest economies, Angola, Nigeria and South Africa.

The domestic economy recorded a slow growth of just above 1.0 percent growth in 2016 attributable to declines in the primary and secondary industries as well as slow growth in the tertiary industry. Although a slow growth was registered in 2016, the country managed to record some notable achievements. These include a decline in income inequality, albeit marginally, improvement in expenditure and public debt to GDP ratios as per the national cap and SADC convergence targets which places the country on sustainable path. During 2017, the economy is estimated to have contracted on the back of weak performance in construction, wholesale and retail and retail sectors, among others. However, gradual recovery is estimated in the medium term.

In terms of fiscal developments, the country recorded an improvement in the budget balance to within the 5.0 percent threshold. During 2016, foreign reserves would cover 2.9 months of imports from 2.8 months in 2015. Inflation remained single digit in 2017; however, the SADC convergence target for 2018 which Namibia as a member state seek to achieve is 3.0 percent which the country appears less likely to achieve. The Namibia Dollar traded favourably against major currencies such as the US Dollar, British Pound and the Euro during 2017.

Namibia realised improvement in respect of investment attractiveness according to the Fraser Institute's Annual Survey of Mining Companies. In this context, Namibia was ranked second in Africa after Botswana during 2017. This is an improvement in ranking from fourth and ninth in 2015 and 2016 respectively, towards top spot it occupied in 2014. The improved ranking is attributable to policy factors.

On the social front, given the slow growth in 2016, unemployment increased while GDP per capita declined. In 2016, Namibia was ranked by UNDP as the second most unequal country in the world after South Africa. Moreover, in terms of income levels, the average monthly wage has increased since 2014. However, females are generally lowly paid as compared to their male counterparts in the same industry. In view of addressing the noted inequalities in the country, policy interventions need to be devised aimed at addressing the observed wage differences.

Unemployment remains one of the country's biggest challenges given that it recorded 34.0 percent in 2016 which is 6.6 percentage points increase over the 2014 rate. Unemployment rate is highest in Kunene and Zambezi Regions, which recorded 62.8 and 58.3 percent respectively. It is expected to remain above 34.0 percent in the next two years, with estimations placing it at 37.3 and 35.9 percent in 2017 and 2018.

Namibia has significantly managed to increase access to education evidenced by 98.6 percent enrolment rate achieved in light of children accessing education in 2015. However, quality of education remains a challenge stemming from persistently high dropout, repetition, and survival rates in almost all school phases (primary, junior and secondary education). The high dropout rates are notwithstanding primary and secondary education being free in the last five and two years respectively. The education sector also experienced high rates of repetition in almost all grades which has the potential of discouraging learners and could ultimately fuel dropping out of school thereby affecting learners" survival rates.

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