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Economy Watch Namibia – December 2016

The Namibia Statistics Agency has released **preliminary results of the Namibia Household Income & Expenditure Survey** (NHIES) 2015/16. The findings show a substantial drop in poverty rates over the past 13 years. In 2003/04, 21.9% of the Namibian population was considered as severely poor and 37.7% as poor. **Poverty rates have dropped** to 11.0% and 18.0% respectively. Since 2008, the Government uses the Cost of Basic Needs approach to calculate poverty rates, while previously the Food Consumption Ratio was used. The Food Consumption Ratio indicates the share a person spends on food compared to his/her overall consumption. The Cost of Basic Needs approach is more accurate in determining the extent of poverty.

The results also indicate that **inequality** as measured by the Gini-coefficient **has declined** from 59.7 to 57.2 on a scale of 0 to 100. 100 would imply complete inequality, while 0 implies complete equality. Despite the improvement, Namibia remains one of the most unequal countries.

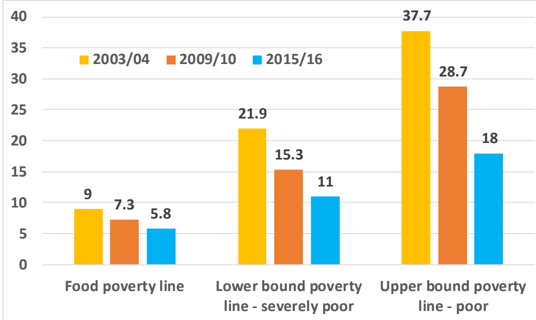
The improvements can be explained by two factors: **robust economic growth and the expansion of the social safety net**. The economy grew between 2010 and 2015 by on average 5.6% annually support by fiscal stimulus, low interest rates and a still buoyant global economy. The labour-intensive construction sector in particular showed very strong growth of 22.6% annually on average. Consequently, **employment in the sector increased** by 33% between 2012 and 2014 from 42,577 to 56,747 workers. Since the sector employs unskilled and semi-skilled workers, the additional jobs have certainly benefited low-income and poor households. Overall, employment increased by 13% from 630,094 to 712,710 persons over the same period.

The labour market and poverty data underline the **importance of creating employment opportunities** in order to reduce inequality and poverty. Therefore, policies supporting a conducive business environment and an attractive investment destination are vital in the fight against poverty. In addition, the expansion of the social safety net has played a crucial role in alleviating poverty.

The **number of children benefiting** from the various child-related grants (Foster Care Grant, Maintenance Grant, Special Maintenance Grant and Vulnerable Children Grant) has **almost doubled** since the 2009/10 NHIES from 111,624 to 221,087 in July 2016. However, the updated poverty lines indicate that the amount of the child-related grants is not sufficient to lift them out of poverty. Using an adult-equivalent rate of 0.75 for children between 6 and 16 years of age (meaning they need 75% of what adults would need) would set the severe poverty line at NAD292 per month for children compared to the grant of NAD250 per month. It is acknowledged that the current budgetary constraints leave the Government with a difficult choice - to either expand the coverage of child-related grants further or to increase the monthly grant amount substantially.

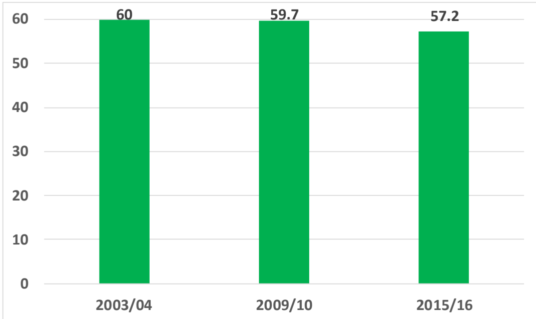
The **increase of the old-age grant** from NAD650 per month to NAD1,000 in 2015 and further to NAD1,100 per month has increased the standard of living of not only the recipients, but their dependants as well. Pensioners in rural areas often take care of their grandchildren and hence the grant increases.

Percentage of the Namibian population that lives below the Food Poverty Line and is regarded as being severely poor or poor



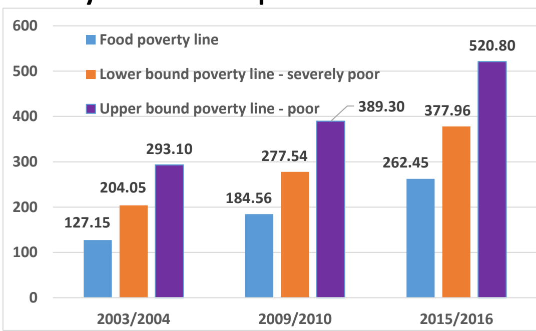
Source: Namibia Statistics Agency, 2016, NHIES 2015/16, Key Poverty Indicators (Preliminary Figures)

Gini-coefficient, 2003/04 to 2015/16



Source: NSA 2016

Poverty lines in NAD per month over time



Source: NSA 2016

The results are not only encouraging in terms of creating a more inclusive society, but they are also **supportive of domestic economic growth**. Increasing the purchasing power of the poor and low-income earners (through income from new job opportunities or through social transfers) will increase the demand for domestically-produced goods and services. Estimates based on the Social Accounting Matrix for 2013 (SAM) suggest that rural households accounting for the lowest 40% of total consumption spend some 27% of total consumption on imported goods and services, while the top 20% of households in terms of consumption spend almost 39% on imported items. The gap within urban households is narrower: 32% to 36%. Hence, closing the income gap between the rich and the poor will benefit domestic producers and can reduce pressure on Namibia's foreign exchange reserves, even though consumption patterns will shift over time in line with rising income.

The Harambee Prosperity Plan (HPP) was released in April 2016 and outlines Government's priorities for the President's current term. HPP consists of five pillars and 15 goals or sub-pillars. These goals are broken down into 44 desired outcomes that should be achieved through 163 activities during the first year of HPP. HPP thereby follows a similar approach as the Fourth National Development Plan (NDP4) that identified three priority areas subdivided into nine strategic areas and further into desired outcomes and strategic initiatives.

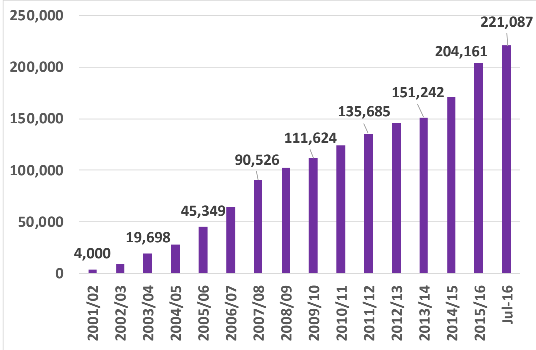
NDP4 envisaged that Offices, Ministries and Agencies submit Annual Sectoral Execution Plans and submit progress reports on the implementation's progress every three or six months to the National Planning Commission (NPC). While they reportedly submit reports to the NPC, these reports are only available on request, but not published on Government's website.

It is therefore, welcome that Government has chosen a different approach regarding the monitoring of the HPP. The President invited the media and analysts to the Harambee Review 2016 on 13 December 2016 that was attended by Cabinet. The **review covered the activities that were carried out during the first six months** from April to September 2016 of the first year of HPP. Government provided feedback on some 35 desired outcomes and some 66 activities planned for the first year. Based on the status of these outcomes and activities, **Government is confident that it will achieve 80% of the goals** set for the first year. Since HPP was released to the public in April this year only and since some teething problems can be assumed in the implementation of every new plan, much progress has been made. However, it is also acknowledged that some of these activities have come a long way, such as legislation like the Investment Promotion Act, and have not started with the beginning of the HPP period. Nevertheless, it is encouraging to note that HPP has brought new momentum to these initiatives that resulted in their finalisation or at least major progress towards finalisation. The fact that all Ministers and Permanent Secretaries have signed performance agreements has most likely supported the progress.

More analysis is certainly needed to establish the causes of the substantial progress – is there a new sense of urgency, were these activities low-hanging fruits, are the targets not ambitious enough, has the implementation of other policies, programmes and projects been abandoned in favour of achieving the HPP targets or are there other factors contributing to a seemingly speedier implementation process? The findings could guide the effective implementation of other existing and future policies and programmes.

Thinking outside the box could help in achieving some of the goals earlier and at lower costs. Constructing multi-storey flats closer to workplaces and creating mixed-use residential areas that accommodate offices, service centres and light manufacturing could reduce construction costs, reduce transport distances and

Number of recipients of child-related grants, 2001/02 to July 2016



Source: Ministry of Gender Equality and Child Welfare.

The five HPP Pillars

Pillar 1 – Effective Governance
Pillar 2 – Economic Advancement
Pillar 3 – Social progression
Pillar 4 – Infrastructure development
Pillar 5 – International relations & cooperation

Goals and targets within the Pillars (summary)

Accountability & Transparency
- **Increase the Mo Ibrahim sub index of accountability score**
- **Become the most transparent country in Africa**
- **Retain position as the freest press in Africa**

Improve Performance & Service Delivery
- **At least 80% of targets are met**
- **Citizen satisfaction rate of 70%**

Macro-Economic Stability
- **Public debt to GDP ratio of 30%**
- **Maintain import coverage of three months**
- **Maintain and improve international credit rating**

Economic Transformation
- **Create minimum 10,000 new jobs**
- **Increase volume of locally produced goods on shelves**
- **Minimum of ten investment projects**
- **Economic empowerment leading to inclusion of disadvantaged groups**

Youth Enterprise Development
- **Increase access to finance**
- **Introduce new financial instruments**
- **Establish 121 rural youth enterprises**

Economic Competitiveness
- **Namibia rated as most competitive economy in Africa by 2020**

hence the demand for transport services and make public transport systems more efficient. Strict demand side management not only for electricity, but also for water and other services could lower the demand for investment into new infrastructure. Providing schools and health facilities with solar panels, backed up by batteries, could help achieving the target of electrifying all schools and health facilities even earlier than connecting them to the national grid.

While the new momentum is appreciated, the review is obviously a quantitative exercise. The overall goals and targets will only be met, if the **quality of the outcome is ensured**. Furthermore, the implementation of the HPP should not end up in a box-ticking exercise, where activities are carried out in order to fulfil commitments entered into through performance contracts.

Some of the legislation recently tabled before Parliament had to be withdrawn, because it was not prepared properly, while other legislation was pushed through Parliament. This could be an indication that quality was compromised in order to meet deadlines. Anyhow, the real work actually starts and does not stop after a legislation has been passed by Parliament or a policy has been approved by Cabinet. The new act or policy has to be implemented, monitored, evaluated and adjusted if it does not result in the desired outcome. Likewise, ensuring the quality of infrastructure including housing investment, of training of health workers and VET students and of other activities will require a comprehensive monitoring system that will go beyond the mere numbers.

The current outcome of some of the activities might be in **conflict** with some of the targets. For instance, both the New Equitable Economic Empowerment Framework (NEEEF) and Bill and the Investment Promotion Act in their current form could result in Namibia's competitiveness dropping further, because of additional requirements investors will have to fulfil before they can start setting up business in Namibia. There are also indications that NEEEF will deter domestic and foreign investment in the country, consequently reducing the inflow of foreign exchange (in the case of foreign investment), putting further pressure on foreign exchange reserves as well as government revenue and eventually threatening the investment rating of the country. A downgrading will not only affect Government, but also State-owned Enterprises and private businesses since they cannot be rated better than the country. Hence, the empowerment framework could be adjusted in such a way that it incentivises private sector to invest and create jobs, which will provide new opportunities for the unemployed, increase Government's tax revenue and release pressure on the foreign exchange reserves either through increased exports or through import substitution.

Overall, executing the HPP activities, while at the same time reducing the public debt to GDP ratio through expenditure cuts and more efficient revenue collection will be a **formidable challenge** and will require a clear prioritisation of strategies within the HPP.

The Namibia Statistics Agency released the Quarterly Gross Domestic Product (GDP) figures for the third quarter on 15 December 2016. After positive growth of 3.5% in the first quarter of 2016 mainly due to growth in the sectors of Public Administration, Education, Mining and Manufacturing, **Namibia has technically entered into a recession** with two consecutive quarters of economic contractions. GDP declined by 1.5% and 1.0% in the second and third quarter 2016. Not surprisingly, the **construction sector suffered the steepest declines** of 19.4% and 12.3% after three years of exceptional growth between 29% and 43%. The mining, manufacturing, public administration and education sectors also recorded negative growth rates in both quarters. The tourism sector was the only sector that stood out with a double-digit growth of 10.3% benefitting from a

Hunger, Poverty
- **Zero deaths as a result of hunger**

Residential Land Delivery, Housing & Sanitation
- **26,000 residential plots serviced**
- **20,000 new housing units constructed**
- **50,000 rural toilets constructed**
- **Bucket system eliminated by end of 2017**

Infant & Maternal Mortality
- **Significant reduction in mortality rates**

Vocational Education & Training
- **Increase number of VET trainees to 25,000**
- **Significantly improve quality of VET training**

Energy Infrastructure
- **Zero national load shedding**
- **Local electricity generation capacity increase to 600MW**
- **All schools and health facilities have access to electricity**

Water Infrastructure
- **Increase access to safe water to 100%**
- **Ensure sufficient water supply**

Transport Infrastructure
- **Complete deepening of WB harbour**
- **Expand bitumen road network**
- **Upgrade railway infrastructure to SADC standards**

ICT Infrastructure
- **80% covered by broadband services**
- **100% broadband coverage in public sector**

Respected & Trusted International Community member
- **Remain trusted and respected**

International Support for Economic Independence
- **Contribute to and benefit from AU Agenda 2063**

weaker Namibia dollar. Declining economic activity in these sectors will result in job losses, in particular in the construction sector that created a substantial number of jobs in previous years, and will have ripple effects on other economic sectors such as the wholesale and retail trade, although the sector is expected to benefit from the usual festive season boom in the fourth quarter. Eventually, Government will feel the pinch from declining tax revenue.

Quarterly GDP figures are often revised owing to additional data collected later on. However, the third quarter GDP figures underscore the precarious situation of the Namibian economy. The budget cuts are also going to suppress economic growth in the next year, 2017. It is therefore vital to support private sector investment and growth with forward-looking policies that encourage investment and job creation.

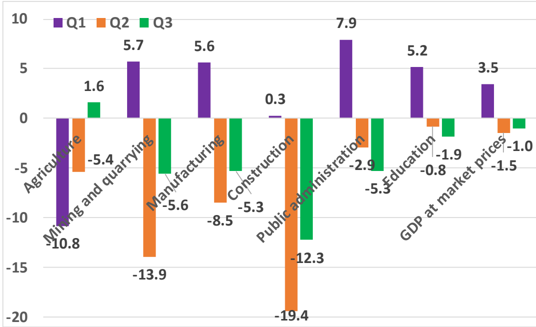
As markets expected, the **US Federal Reserve Bank raised its interest rate** on 14 December 2016 by 25 basis points to a range of 0.50% to 0,75%. It was the first hike since the Bank raised the interest rate a year ago by the same margin. The decision was based on robust labour market data (number of new jobs, wage increases) and economic growth. It is now anticipated that the Federal Reserve Bank will increase interest rates three instead of two times during 2017, because of expected tax cuts, increases in spending and de-regulation by the new US administration. These measures could raise economic growth, but also inflationary pressure.

The prospects of further interest rate hikes in 2017 are expected to cement the US dollar's position as a preferred investment destination further and hence put pressure on other currencies, in particular emerging markets currencies. The **Namibia dollar** (NAD) lost 3% of its value against the USD after the interest rate decision compared to 1.9% and 1.8% against the GBP and EUR. However, the NAD has strengthened this year by 10% and 14% against the USD and EUR and by almost a quarter (24%) against the GBP. The GBP is the worst performing major currency this year because of the Brexit decision.

2016 has been a **good year for most commodities**. Prices for zinc (71%), oil (47%) and copper (22%) have recovered strongly. **Gold** played its role as a safe haven in turbulent times during the year - climbing to almost USD1,370 per ounce in July, but lost some of the gains once economic data from the US made the interest rate hike inevitable. Gold was selling at USD1,163.60 per ounce on 9 Dec. **Zinc and copper** recovered due to speculation and the expectation that the incoming US administration is going to invest strongly in infrastructure. Copper prices rose from USD4,645 to USD5,734 per tonne, while zinc prices increased from USD1,552 to USD2,736 per tonne. After OPEC and major non-OPEC oil-producing countries reached an agreement on oil output cuts early December, **oil prices climbed** above USD50 for the first time since July 2015. Markets expect oil prices to fluctuate between USD55 and USD70 per barrel in 2017 depending amongst others on adherence to the agreed output cuts and the response by US shale oil producers. The **Uranium price dropped** to USD18.00 per pound losing almost half of its value since January 2016. Production costs of Namibian uranium mines are said to be in the range of USD40 to USD50 per pound, indicating continuing tough times for the sector.

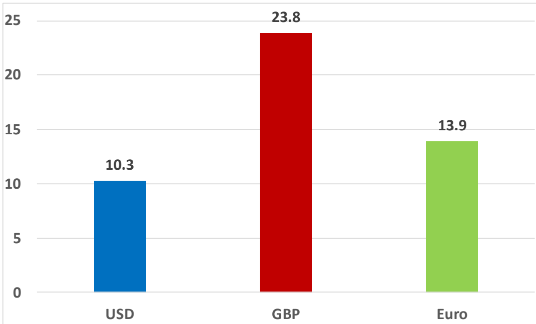
White maize and wheat prices have declined by 12.3% and 20.8% respectively since January 2016 to NAD4,090 and NAD3,900 per tonne. Futures prices indicate lower prices for maize during the first months 2017, but increasing prices for wheat. Still, prices for bread and cereals increased by 14.2% in November

Quarterly GDP growth in percent for Q1 to Q3 2016



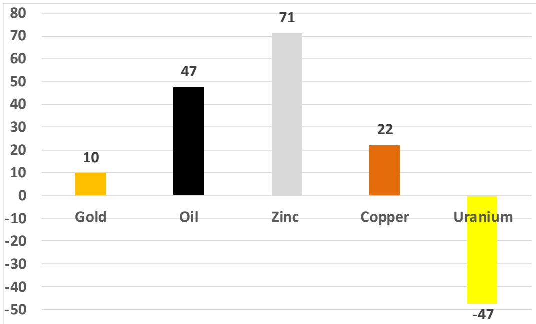
Source: Namibia Statistics Agency

Appreciation of the Namibia dollar vis-à-vis the US dollar, British pound and Euro in 2016, in percent



Source: Authors' calculation based on SARB daily data

Price movements for major commodities compared to 1 January 2016, in percent



Source: Authors' calculation based on World Gold Council (gold), EIA (oil), LME (zinc, copper, UX Company (uranium)

Hanns Seidel Foundation

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