Euler Hermes Economic Research

Country Report

Namibia

A relatively stable mining-based economy

General Information

GDP	USD12.807bn (World ranking 123, World Bank 2012)
Population	2.26 million (World ranking 141, World Bank 2012)
Form of state	Republic
Head of government	Hifikepunye POHAMBA
Next elections	2014, presidential and legislative

Strengths

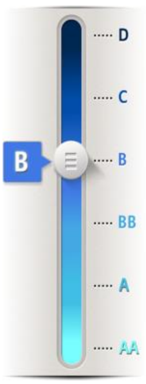
- Stable democracy since independence in 1990, with successful transitions following elections.
- Close association with South Africa through customs and monetary unions.
- Natural resource base includes substantial diamonds (including offshore).
- Manageable external debt ratios.

Weaknesses

- Land reform programme is a policy priority and there are lingering concerns that it may yet develop into a Zimbabwe-style land –grab.
- Diversification of economy is relatively limited.
- Small population (with high proportion of HIV/AIDS infections) and limited arable land area.
- Poverty and unemployment remain high.
- Volatile fiscal and current accounts.
- Foreign reserves provide limited import cover.

Country Rating B1

Country Grade

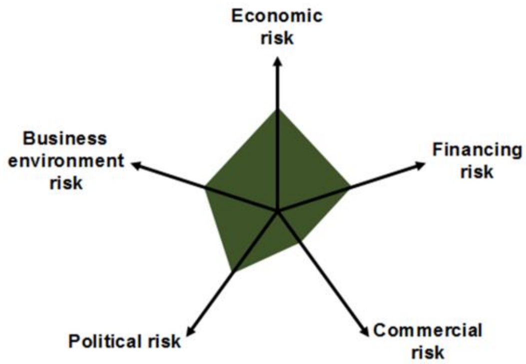


High risk

Low risk

Country Risk Level

Risk Dimensions



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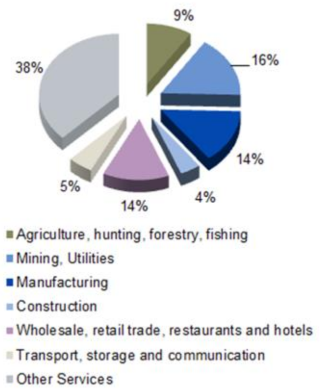
Economic Structure

GDP breakdown (2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
South Africa	16%	1	16%	China
United Kingdom	12%	2	13%	Peru
Angola	11%	3	12%	Germany
Spain	8%	4	12%	Bulgaria
United States	8%	5	8%	United States

By product

Exports		Rank		Imports
Fish, crustaceans, molluscs and preparations thereof	15%	1	28%	Metalliferous ores and metal scrap
Non metallic mineral manufactures, n.e.s.	14%	2	6%	Inorganic chemicals
Non-ferrous metals	14%	3	6%	Road vehicles
Metalliferous ores and metal scrap	11%	4	6%	Textile yarn and related products
Inorganic chemicals	9%	5	4.8%	Specialised machinery

Economic Forecast

	2010	2011	2012	2013	2014f	2015f
GDP growth (% change)	6.0	4.9	5.0	3.7	4.0	4.5
Inflation (%, end-year)	3.1	7.2	6.4	4.9	7.7	6.3
Fiscal balance (% of GDP)	-4.6	-6.6	-1.3	-4.0	-4.2	-4.1
Public debt (% of GDP)	15.7	22.9	24.4	24.3	21.9	20.3
Current account (% of GDP)	-2.2	-4.7	0.8	-3.8	-0.7	1.4
External debt (% of GDP)	21.2	23.8	25.9	27.9	28.4	26.5

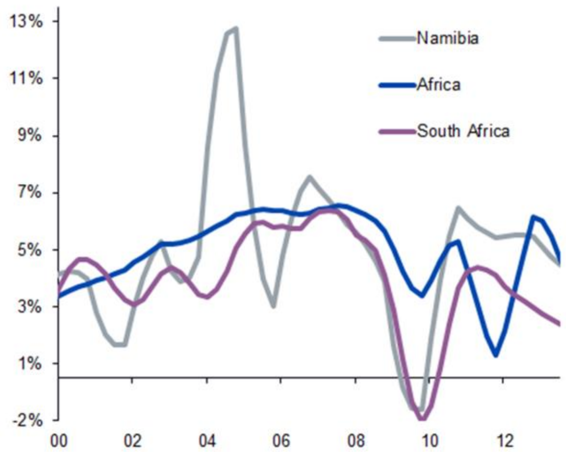
Sources: IHS Global Insight, national sources, Euler Hermes

Economic Overview

GDP growth largely mirrors developments in the South African economy

The overall trend in Namibia's GDP growth is closely correlated to that of South Africa (see chart). Following relatively robust annual average real GDP growth of +5% in 2000-08, the economy slipped into recession in 2009 (-0.7%) in the wake of the global financial crisis. A strong rebound in 2010 (+6.6%) has been followed by steady annual average growth of around +4%. EH expects GDP will increase by +4% in 2014 and +4.5% in 2015, largely driven by growth in diamond and uranium output but also by implementation of the government's Targeted Intervention Program for Employment and Economic Growth (TIPEEG), which emphasises job creation by the state and government spending on roads, water supply and port developments. Accordingly, the construction sector should register strong growth in 2014-15.

GDP growth (%, q/q)



Sources: IHS Global Insight, Euler Hermes

The policy framework

In its latest Article IV consultation document (February 2014), the IMF noted the persistency of both high unemployment and wide income inequalities. However, the Fund indicates that broad agreement exists between itself and the local authorities in relation to macro-economic policies and structural reform priorities.

Inflationary pressures

Inflationary pressures are likely to remain high, partly reflecting weaknesses in the South African economy. The NAD is pegged to the ZAR and weakness in the latter results from mounting concerns over the macro-economic fundamentals in the region's largest economy.

Fiscal concerns

The government's TIPEEG programme involves fiscal expansion and the budget deficit, which averaged an annual -0.8% of GDP in 2000-08, will remain over -4% in 2014-15 (-4.02% in 2013). Public debt, at around 22% of GDP is sustainable in the short term but reliance on revenues from SACU (see below) to support budget deficits suggests that, in the absence of fiscal discipline, debt levels will become challenging in the medium term.

External accounts reflect links with South Africa and the regional customs union

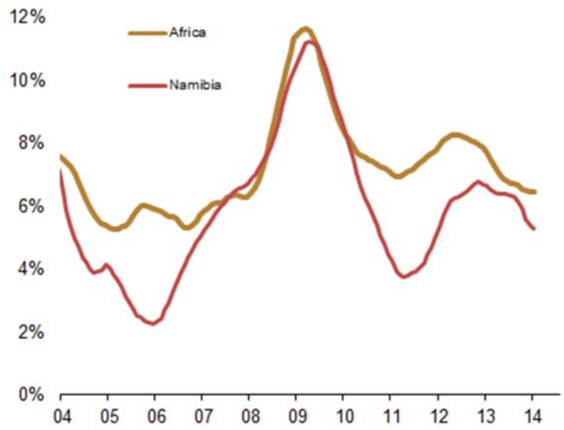
Principal exports are diamonds, gold and uranium. As with most aspects of the economy, developments in the external sector are closely associated with links between Namibia and South Africa. The latter is Namibia's largest export market and revenue allocations from the Southern African Customs Union (SACU) account for a large share of government income. In FY2013/14, SACU receipts increased to a record NAD18 billion (over 12% of GDP).

In the period 2000-08, the current account registered annual average surpluses of 4.4% of GDP but deficits have been recorded periodically since then. The deficit in 2013 was -3.8% of GDP, following a small surplus the year before and EH expects only a small deficit in 2014 (-0.7%) and a surplus in 2015 (+1.4%) as SACU receipts improve and mine output and exports increase. Foreign exchange reserves at the end of 2013 were USD1.5 billion, equivalent to an import cover of 2.7 months, reflecting strong import growth. In 2014-15, import cover is unlikely to increase substantially but external liquidity is not forecast to cause problems, particularly given membership of the monetary and customs unions.

External debt is low

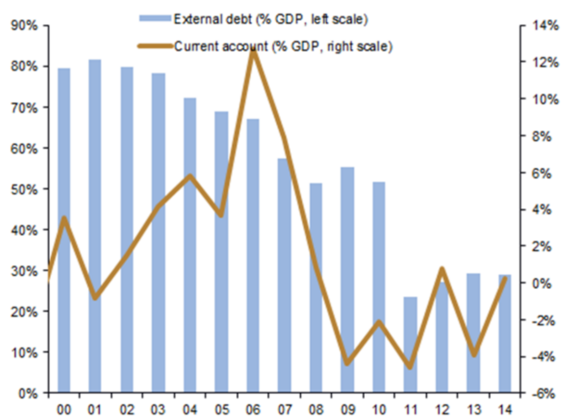
External debt is relatively low (debt/GDP and debt/export earnings were 28% and 49% in 2013, respectively) and debt servicing requirements of 3-4% of export earnings are comfortable.

Inflation (%)



Sources: IHS Global Insight, Euler Hermes

External debt & current account balance as % of GDP



Sources: IHS Global Insight, Euler Hermes

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