Title: Namibia – Crisis Poverty and Social Impact Analysis (PSIA)

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No.3 - January 2010

This is a summary of the report "**Impact of the Global Financial Economic Crisis on the Namibian Economy**" funded through a contribution from the Government of Norway. This is part of a series of crisis response PSIA initiatives aimed at generating policy responses to protect human development gains and to stimulate a broader policy dialogue. The Poverty Group at UNDP manages the PSIA initiative and provides technical guidance to country teams conducting the analysis.

Context: The Namibian economy is characterized by heavy reliance on natural resource extraction for the export market and dependence on imports to meet domestic demand for goods and services. In 2009, Namibia's real GDP is estimated to have contracted 1.9% and may only register modest recovery to grow at projected rate of between 2 and 4% in 2010. During the first quarter of 2009 however, the real GDP is estimated to have contracted by a massive 5.8% compared to a growth of 1.1% recorded in the fourth quarter of 2008, with the critical sectors of mining and quarrying; manufacturing; fishing; and hotels and restaurants (proxy for tourism) contracting by 65.6%, 39.5%, 33.5%, 17.1%, respectively. And despite remarked improvement in macroeconomic policy implementation and thus being better placed to deal with an economic slump under ordinary circumstances, Namibia, like most African countries, is in a weak position to deal with the current global financial and economic crisis because of relatively high poverty levels and importantly, heavy reliance on commodity, principally diamond, exports. With relatively high poverty levels (i.e. proportion of households having monthly expenditure of less than N$ 262.45[1] per adult equivalent), estimated at 27.6%, with 13.8% being severely poor (proportion of households having monthly expenditures of less than N$ 184.56); a high income disparity, with a Gini Coefficient of 0.63; and a high rate of unemployment, estimated at 37% in 2004, the majority of the Namibian population remain particularly vulnerable to economic shocks.

As a response to the global financial and economic crisis (GFC), the Government in 2009 introduced a number of policy reforms and actions aimed at providing stimuli for consumer and investment demand expansion and lessening the burden of poverty and unequal distribution of wealth. These included, but were not limited to, increased development and operation budget over the MTEF period by 50%; lowering of corporate (excluding mining) tax from 35% to 34%; increasing tax exemption on retrenchment packages from N$ 100,000 to N$ 300,000; increasing tax free amount on pension payout from N$ 20,000 to N$ 50,000; lowering the personal income tax for lower earners while raising the threshold from N$ 36,000 to N$ 40,000; the introducing of a new, higher tax bracket for people earning more than N$ 750,000; and the zero rating of VAT on a basket of essential commodities. On the monetary policy front, the reforms included, but were not limited to, the reduction of the Repo rate by a further 200 basis points between 16th April 2009 and 17th June 2009 alone to stand at the current 7.0%.

PSIA Exercise: A study was commissioned to assess and quantify, on an ex ante basis, the likely/potential impact of the financial and economic crisis on the Namibian economy, in general, and the possible effect of the policy reforms that the government had introduced, in particular.

[1] 1USD = 7.5N$ at current exchange rates

A comprehensive report was produced which identified the crisis transmission channels that would have the strongest effect on the Namibian economy. The report identified possible transmission channels, assessed and quantified the impact by industry and sector, and proposed possible mitigation measures, with a focus on cushioning the poor from the adverse effects and enhancing their resilience in the short, medium and long terms.

Results: The channels through which the crisis was/is/could be transmitted to the Namibian economy include, but are not limited to, trade, investment, stock market prices and SACU (Southern African Customs Union) revenues.

Impact by sector

Mining sector: With an estimated contraction of 51% and more than 1900 jobs lost (2008-9), the mining sector was the hardest hit by the GFC. The most significant decline was in diamond mining, down by 62%, and the closing of the country's only copper mine. Uranium mining however, increased and most of those who had lot jobs in the diamond mines found employment in this growth area.

Manufacturing sector: Manufacturing contracted in 2008, but there have been no significant job losses and most companies in the sector have no plans to retrench workers despite running at lower capacity.

Service industry: There are reported declines in tourist arrivals, hotel bookings and receipts from the sector although there are no reported closures of lodges. The crisis also seems not to have had any significant impact on the financial sector as Namibian subsidiary banks and their South African parent banks had minimal exposure to the international banking system.

NSE index: NXS Stock Exchange decreased steadily and significantly in 2008 and early 2009.

Food prices: The food import bill has increased due to rising global food prices and loss of purchasing power due to the falling value of the South African Rand/Namibian Dollar. Food price inflation has been relatively high, varying between 18% in October 2008 and 10% in September 2009. This has adversely affected the local population, especially the poor, unemployed and other vulnerable groups.

Fiscal deficit: The budget deficit has increased to 5% in 2009/2010 from 1% the previous year. This was due in large part to reduced revenues from the mining sector, especially diamond, and reduced SACU (customs) receipts, which are expected to decline by N$ 1 billion, as well as increases in development expenditure. Early indications point to Namibia's debt to GDP ratio increasing [substantially] to 25% in the next fiscal year.

Other Effects: In the absence of corrective, redistributive measures being put in place to address inherent poverty and inequality in Namibia, the study found out that that growth in the past has tended to favor only the wealthy and did indeed perpetuate inequality. Secondly, the zero-rating of VAT for basic commodities introduced by the Government has disproportionately benefitted the wealthier segments of society at the expense of the poor.

Conclusions: The areas the hardest hit by the global financial and economic crisis are diamond and copper mining and tourism. A significant number of jobs were lost leading to higher unemployment This, compounded with the increasing food prices, greatly affected the nation's poor and vulnerable groups. Reduced tax revenue and increased development spending have led, and will continue to lead, to increasing budget deficit which, though still within acceptable levels, makes any additional spending on programs aimed at mitigating the effects of the crisis a difficult task indeed. The zero-rating of VAT on basic commodities, initially meant to favor the poor has indeed favored the wealthy disproportionately at the expense of the poor and vulnerable groups.