
Promoting sustainable and inclusive growth in Namibia – Strategic considerations for advancing development policy under the COVID-19 pandemic



The Growth Lab at Harvard University

NPC Capacity Building Training

October 22nd, 2020

- **Namibia's core structural challenges**
- **Amplifier: The COVID-19 challenge**
- **Policy implications**

- **Namibia's core structural challenges**
 - **Amplifier: The COVID-19 challenge**
 - **Policy implications**

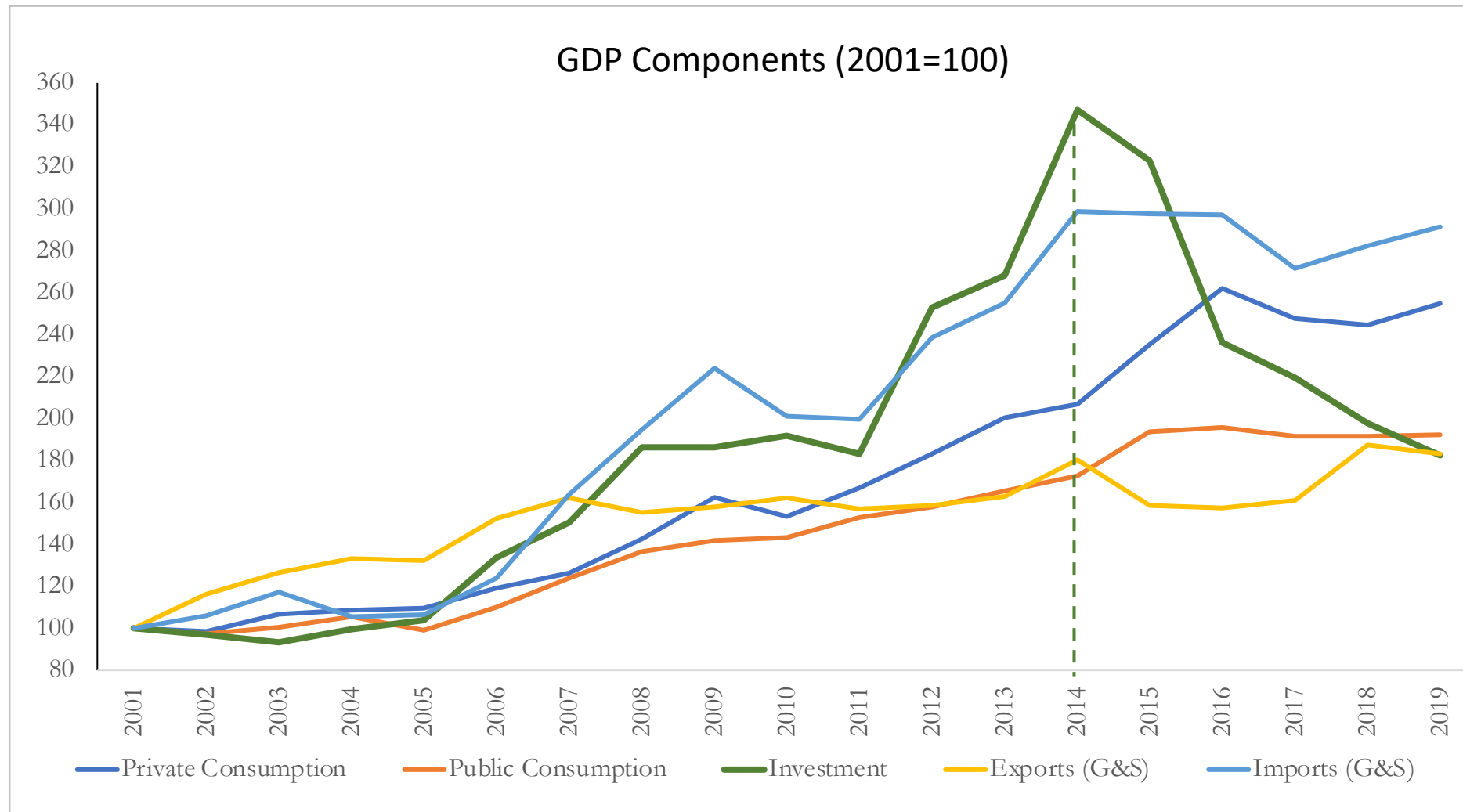
Namibia's recent past points to a set of self-reinforcing challenges that may significantly constrain the country's development path and in turn inform the strategic approach to policy design

Challenges

Underpinning Factors

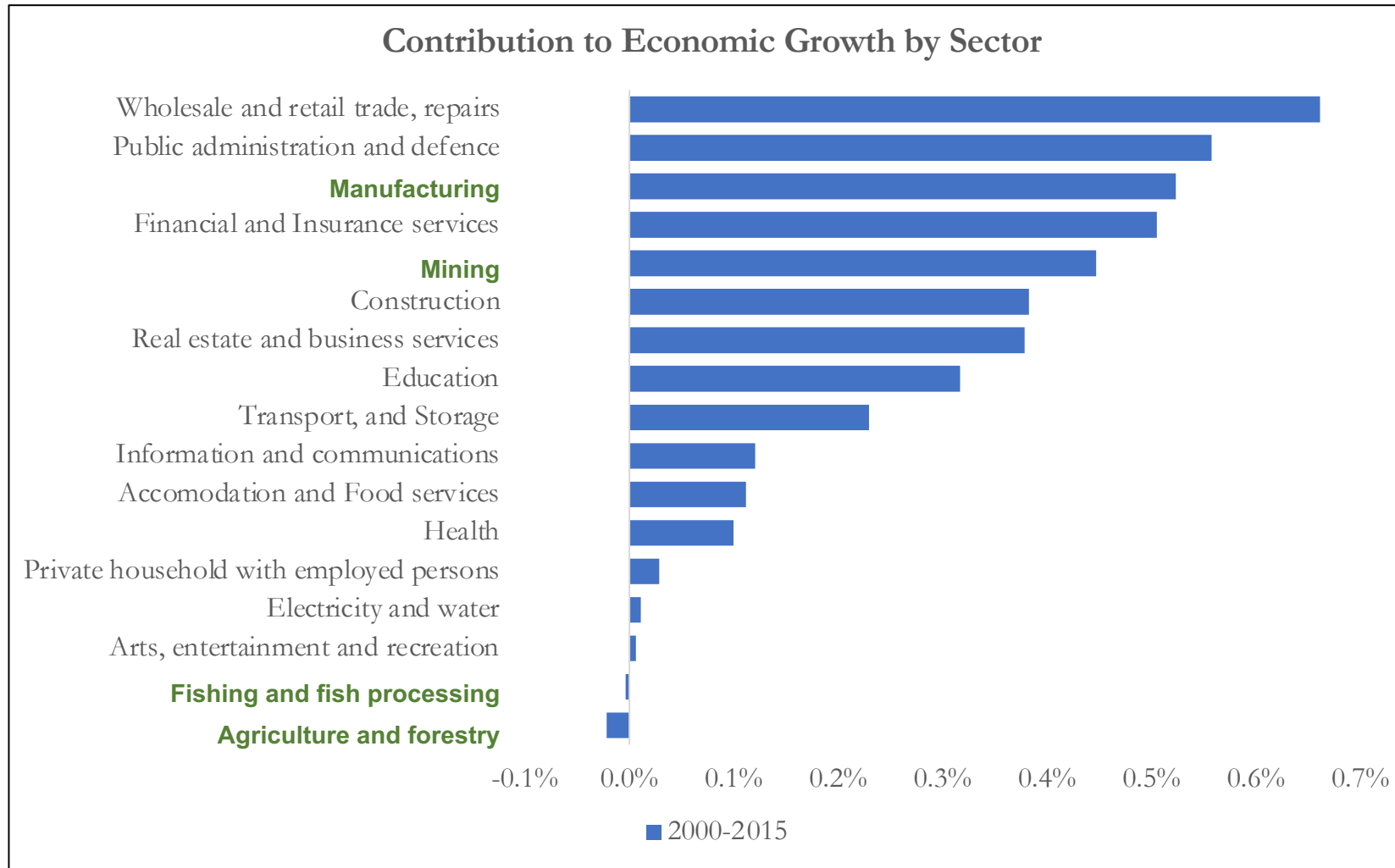
Strategic Implications

The first challenge is associated with the end of the investment boom that came with the commodity super cycle: Since then (2014), Namibia has struggled to grow



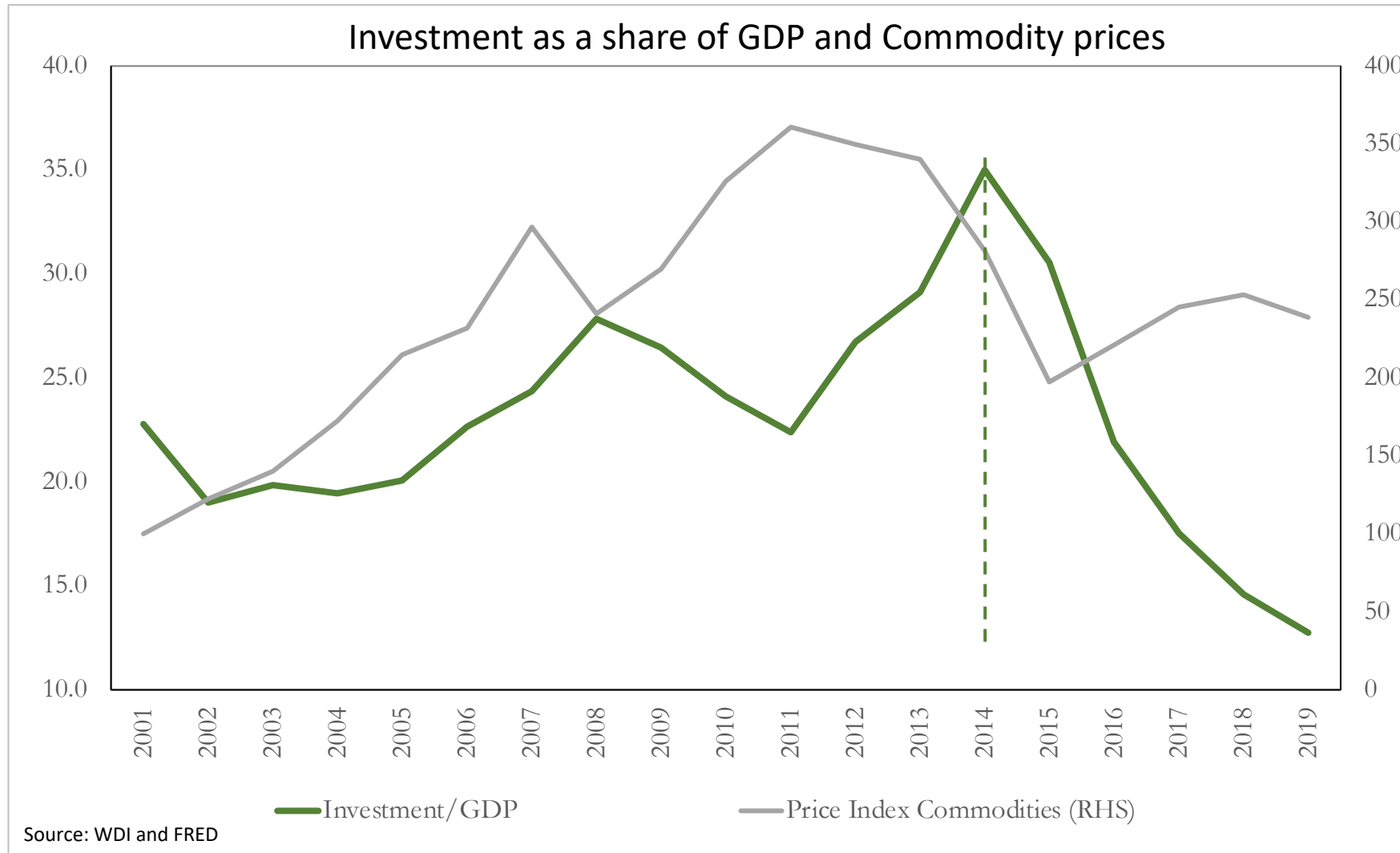
Source: NSA

Large multiplier effects of investment – coupled with expansionary fiscal policy – led to a growth acceleration (4.8%) delivered by non-tradable sectors (accounted for 80%)

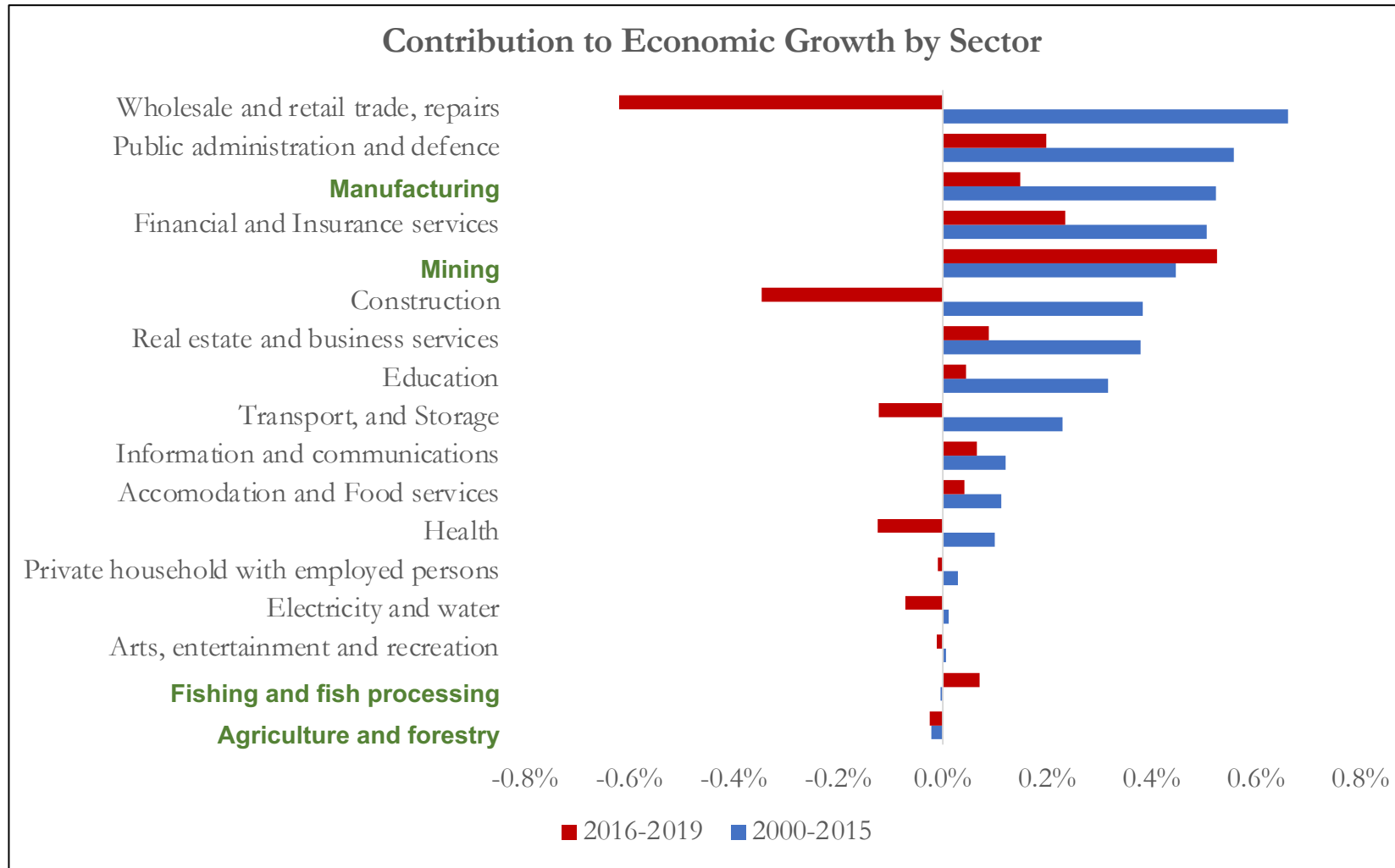


Source: NSA

When the investment boom ended...



... output in the mining sector went up, but the non-tradable sector went into a recession



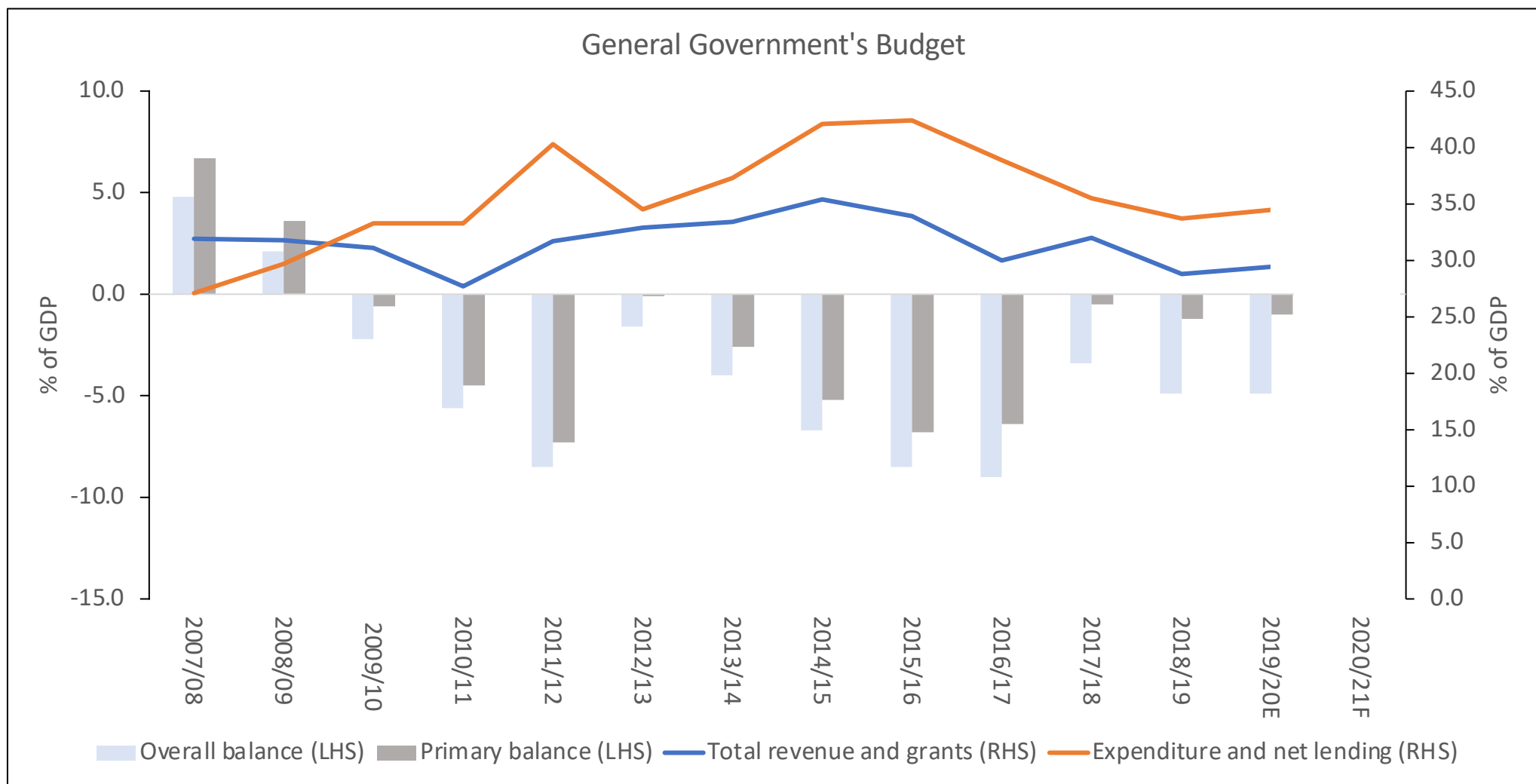
Source: NSA

Namibia's recent past points to a set of self-reinforcing challenges that may significantly constrain the country's development path and in turn inform the strategic approach to policy design

Challenges	Underpinning Factors	Strategic Implications
------------	----------------------	------------------------

**Growth
Challenge**

Between 2008-15, Namibia's record of fiscal prudence was relaxed and fiscal expenditure expanded rapidly; between 2015/2019 Namibia managed to achieve some significant fiscal consolidation



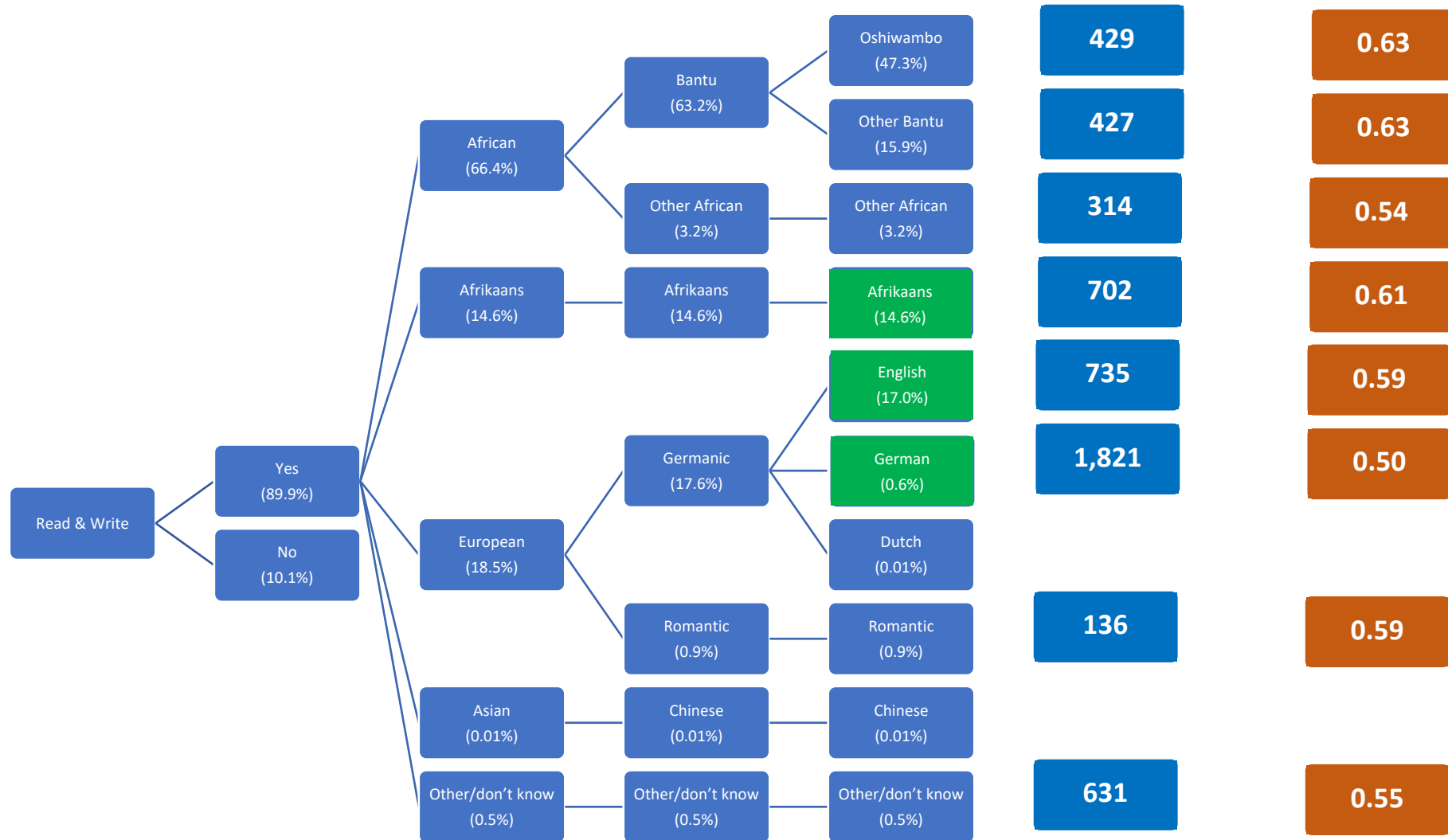
Source: Ministry of Finance

Namibia's recent past points to a set of self-reinforcing challenges that may significantly constrain the country's development path and in turn inform the strategic approach to policy design

Challenges	Underpinning Factors	Strategic Implications
<p>Growth Challenge</p>	<ul style="list-style-type: none"> • Reliance on external demand for natural resources • Low productivity of sectors with high labor absorption • Constrained opportunities for rapid-diversification 	<ul style="list-style-type: none"> (i) Maximize the social and economic benefits of its vast natural wealth in a manner that is prudent from a fiscal and environmental standpoint (ii) Promote growth in the non-mining sector by enhancing productivity and reach of existing activities (intensive margin), and facilitating the development of new engines of job creation, investment attraction and export diversification (extensive margin)

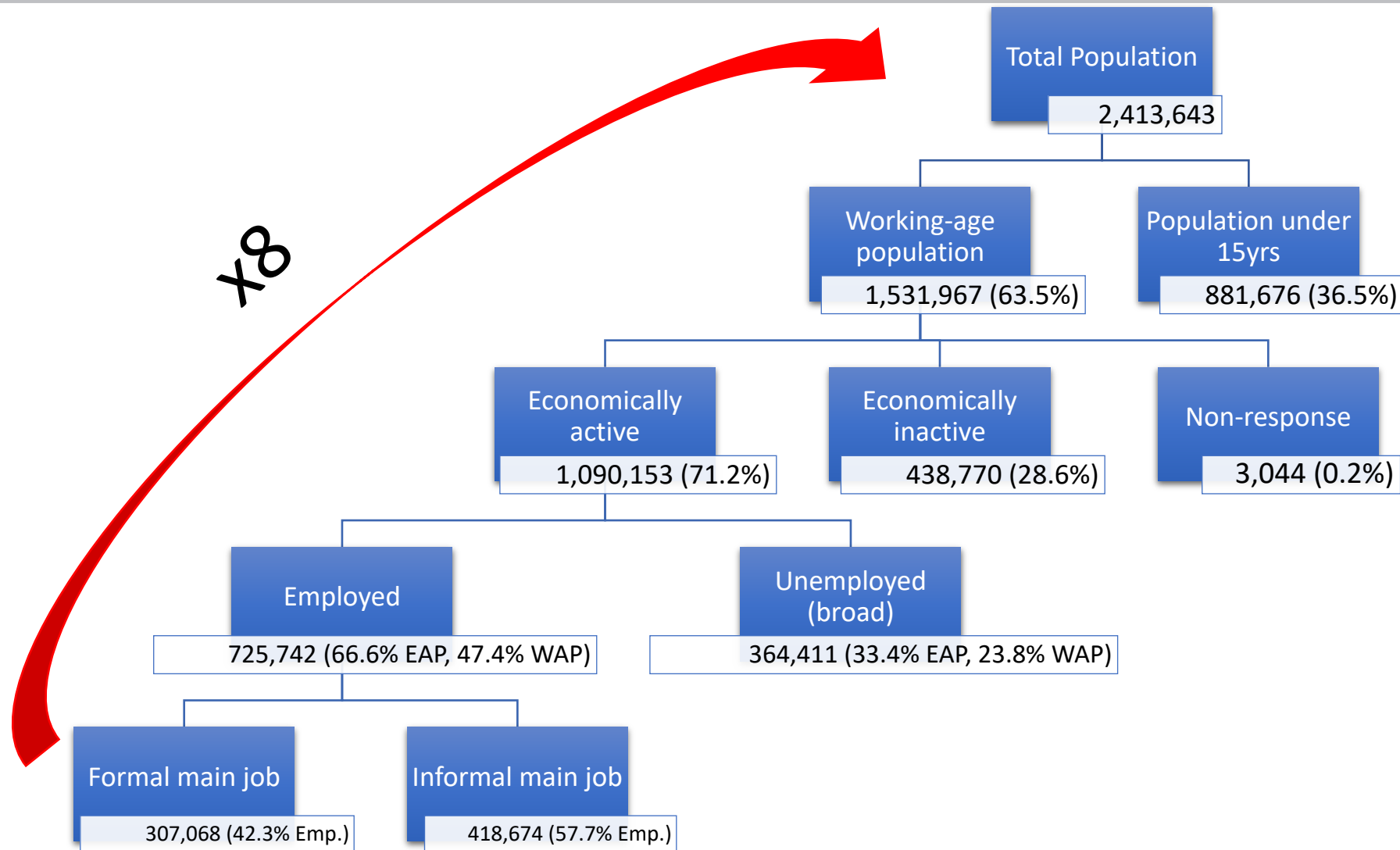
Fiscal Challenge

Namibia is one of the most unequal countries in the world, income inequality exists across levels – as a fractal between and within groups



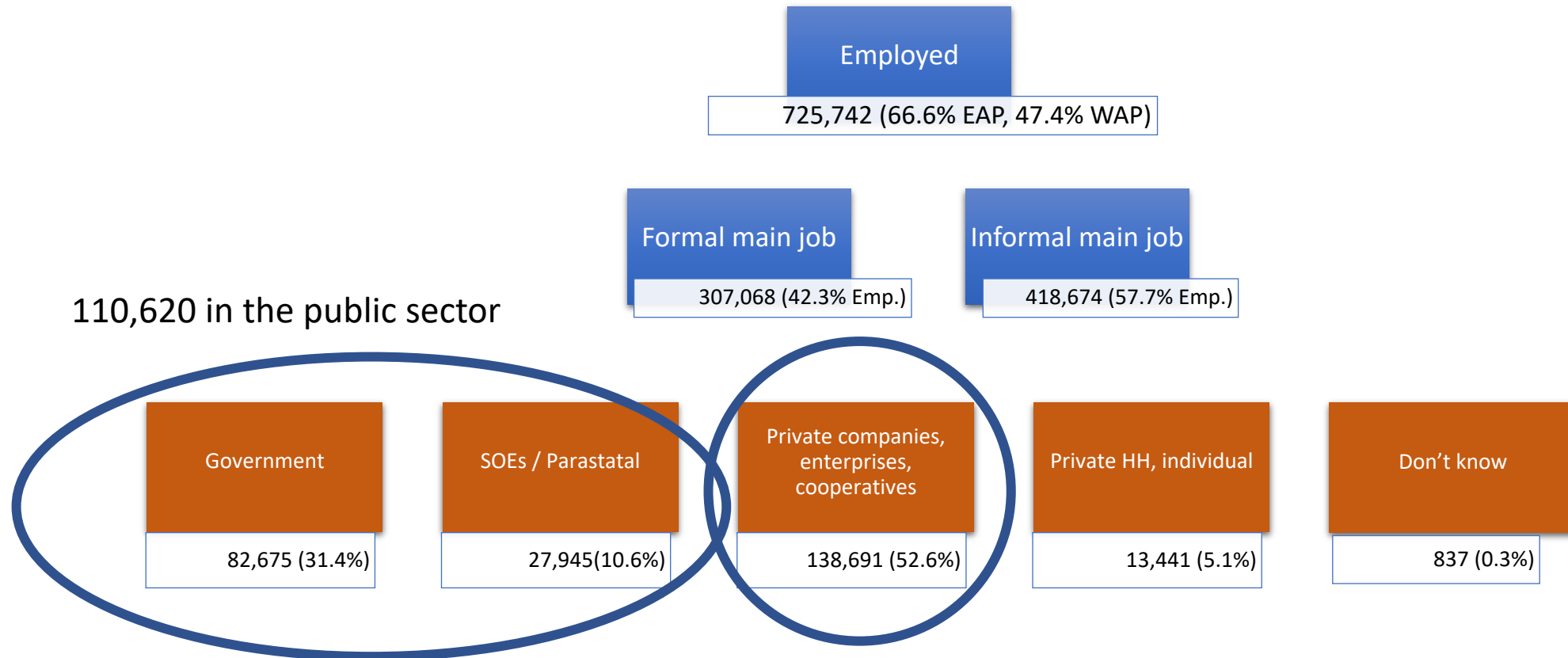
Source: LFS, 2018

Relative to its population, the size of Namibia's formal sector is very small



Source: LFS, 2018

Within the formal sector, the private sector is minuscule: one job per every 17.4 Namibians



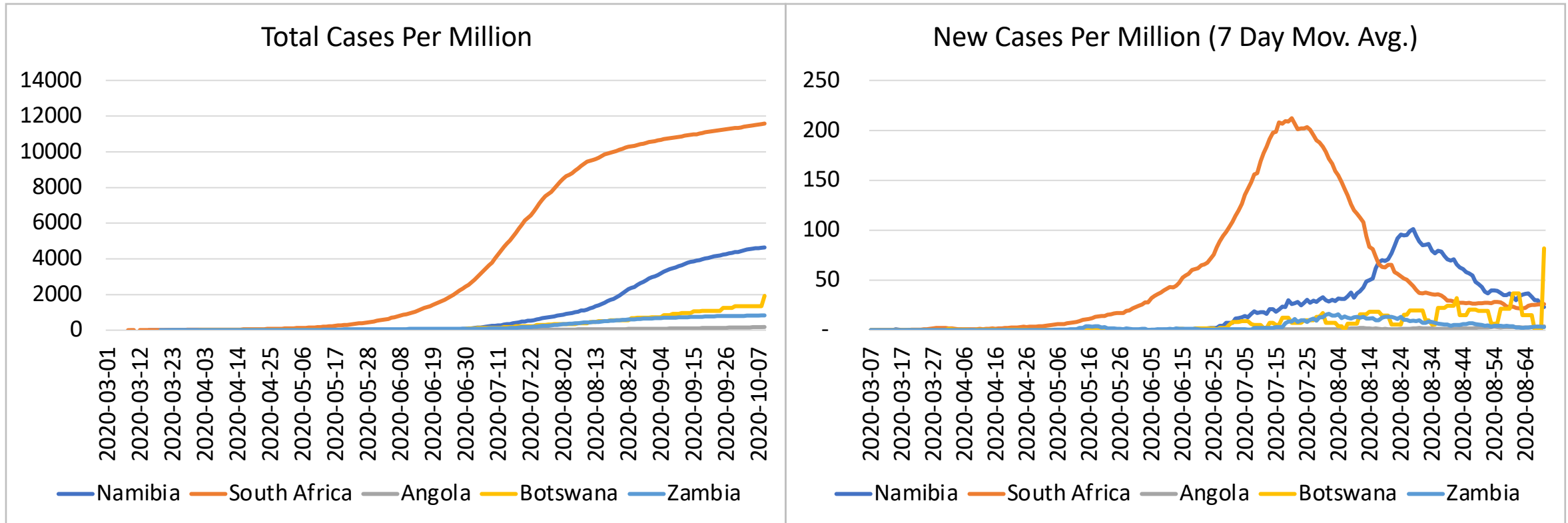
Source: LFS, 2018

Namibia's recent past points to a set of self-reinforcing challenges that may significantly constrain the country's development path and in turn inform the strategic approach to policy design

Challenges	Underpinning Factors	Strategic Implications
Growth Challenge	<ul style="list-style-type: none"> • Reliance on external demand for natural resources • Low productivity of sectors with high labor absorption • Constrained opportunities for rapid-diversification 	<ul style="list-style-type: none"> (i) Maximize the social and economic benefits of its vast natural wealth in a manner that is prudent from a fiscal and environmental standpoint (ii) Promote growth in the non-mining sector by enhancing productivity and reach of existing activities (intensive margin), and facilitating the development of new engines of job creation, investment attraction and export diversification (extensive margin)
Fiscal Challenge	<ul style="list-style-type: none"> • Relatively small and weakening domestic revenue sources • Sub-optimal composition of public expenditure • Sticky elements of public expenditure 	<ul style="list-style-type: none"> (i) Strengthen the revenue base (ii) Promote a growth friendly restructuring of public expenditure (iii) Efforts to expand the revenue base should go beyond more effective taxation of the current tax base and include initiatives to promote the productivity and scale of formal private sector to expand the domestic revenue base.
Inclusion Challenge		

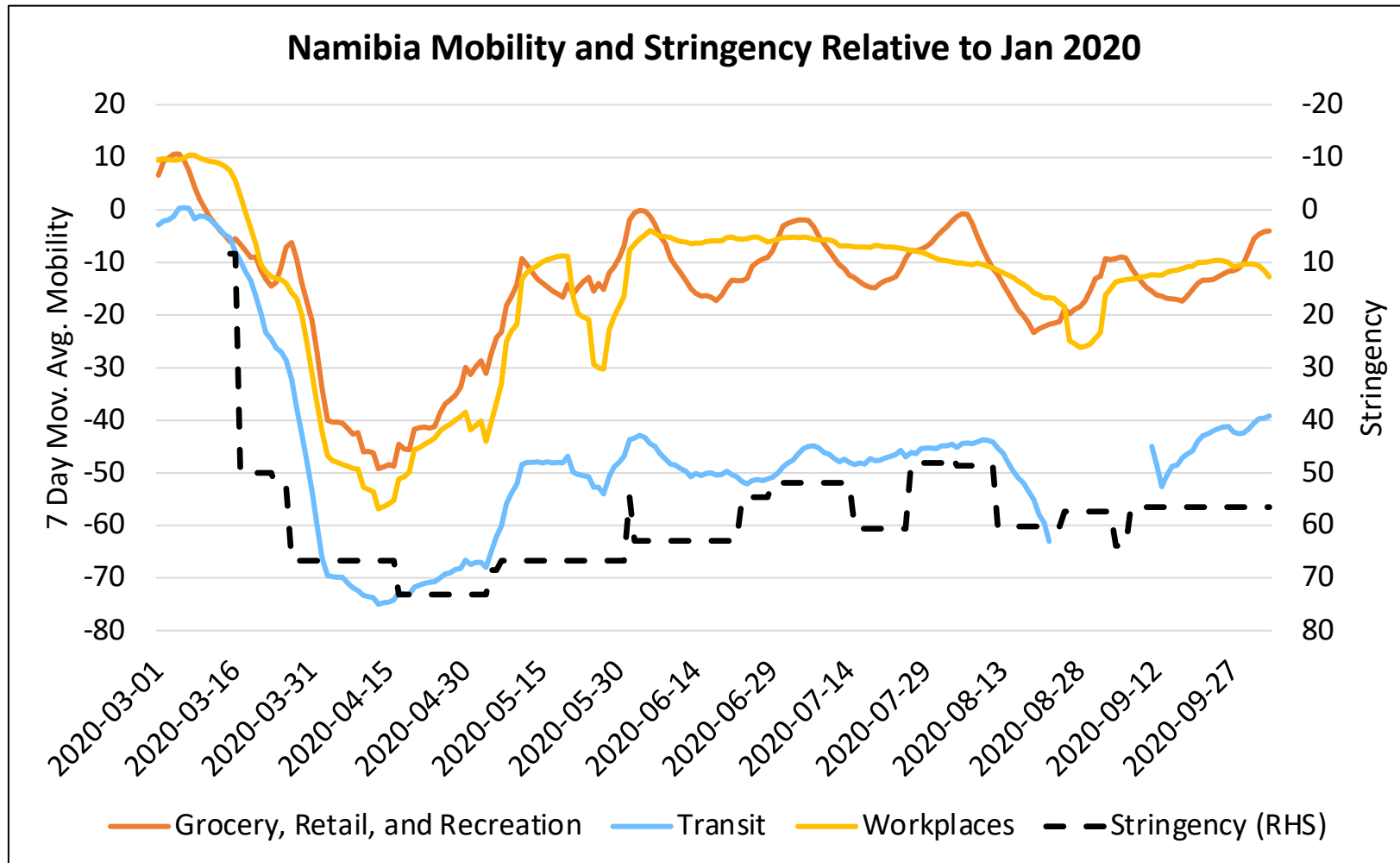
- **Namibia's core structural challenges**
- **Amplifier: The COVID-19 challenge**
- **Policy implications**

Namibia dealt with COVID-19 through strict lockdowns, that allowed the country to avoid the infection and death peaks seen in Europe and North America



Recent surge in Covid19 cases, with death toll at 127 as of mid-October 2020

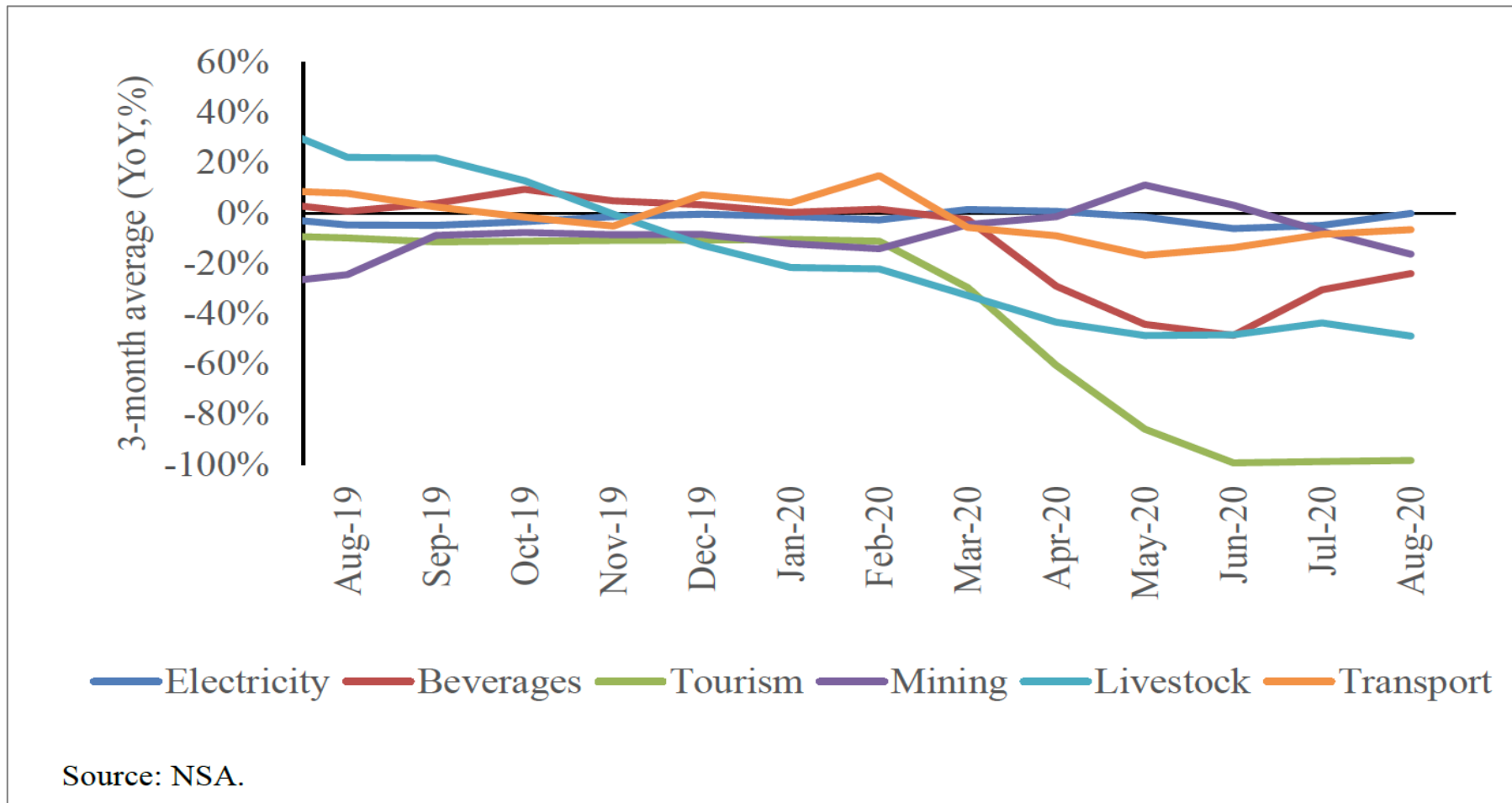
Strict lockdowns and other precautionary social distancing measures have had, by design, a significant impact in terms of mobility...



Source: Google Mobility Data, OurWorldInData

Which in turn has translated into large negative impact on economic activity

Leading Indicators for Sector Growth (3-month average, y-o-y)



These type of measures will likely be required until the population is vaccinated

- Precautionary measures that limit mobility may be inevitable until a vaccine is widely available
- Understanding the potential impacts on relevant sectors of the economy is essential in order to mitigate their burden and to prevent this temporary shock from translating into permanent adverse consequences that outlive the duration of the pandemic
- Any approach requires:
 - Up-to-the-minute understanding of the epidemiological management of the virus
 - Intensive and constant collaboration between thought leaders and policymakers in the fields of health and development

COVID-19 Challenge: How to strike the right balance between preventing the spread of the virus while at the same time setting the basis for a strong economic recovery?

COVID-19 has amplified the existing core challenges already faced by Namibia

COVID-19 Challenge
Striking the right balance between preventing the spread of the virus while at the same time setting the basis for a strong economic recovery.



Growth Challenge



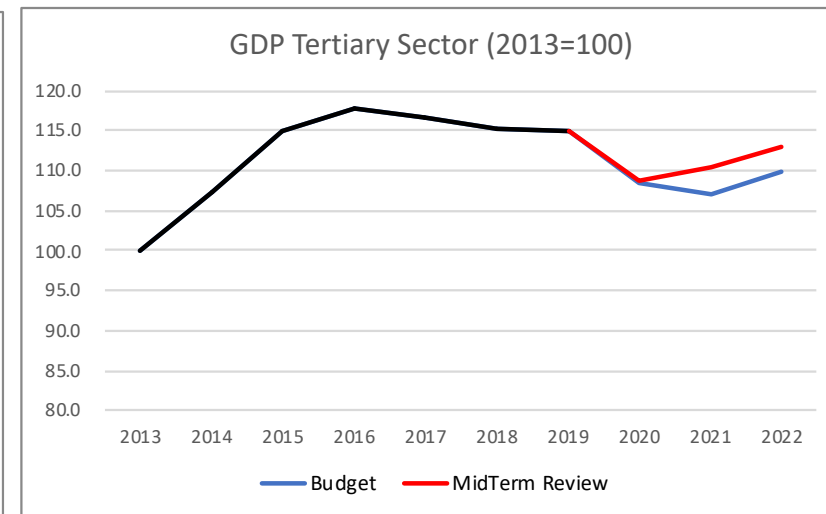
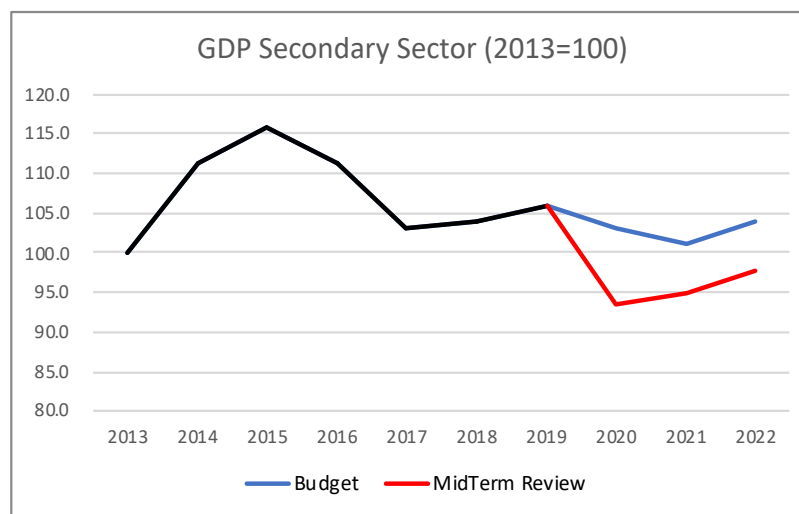
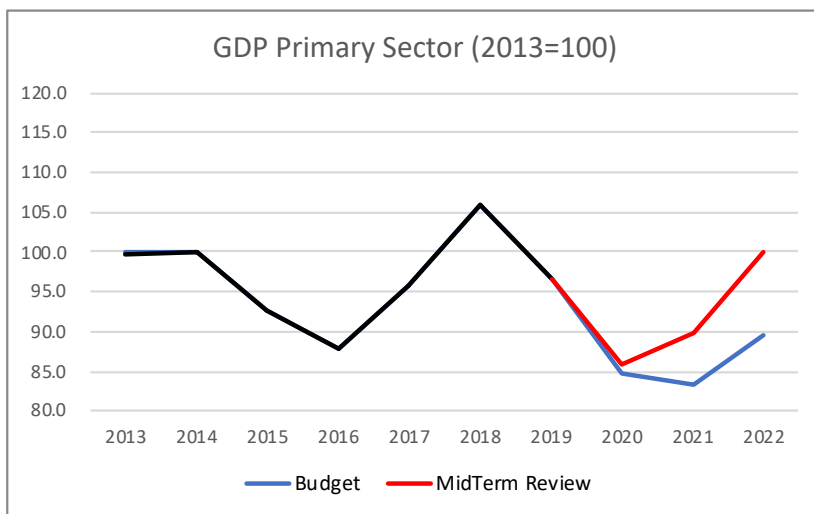
Fiscal Challenge



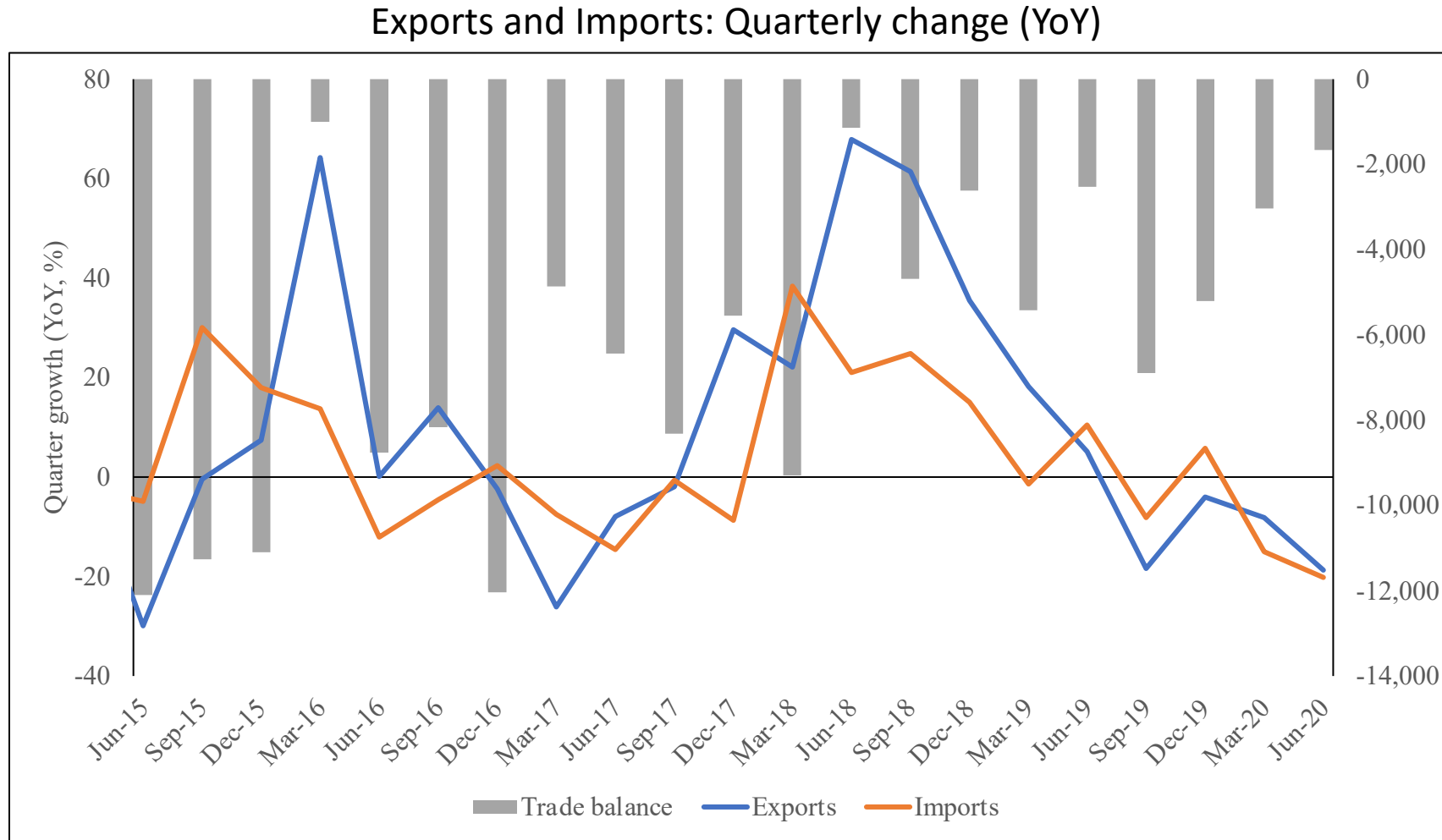
Inclusion Challenge

Covid19 is expected to have a large negative impact on tradable and non-tradable sectors alike - mostly focus on 2020/2021

	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2020/2021	2021/2022	2022/2023
Primary sector	10.5%	-8.9%	-12.1%	-1.9%	7.6%	-11.1%	4.7%	11.4%
Secondary sector	1.0%	-1.7%	-2.6%	-1.9%	2.7%	-11.7%	1.7%	2.7%
Tertiary sector	-1.2%	-0.1%	-5.7%	-1.4%	2.7%	-5.7%	1.6%	2.3%
Total	1.1%	-1.6%	-6.6%	-1.1%	3.6%	-7.9%	2.2%	3.9%

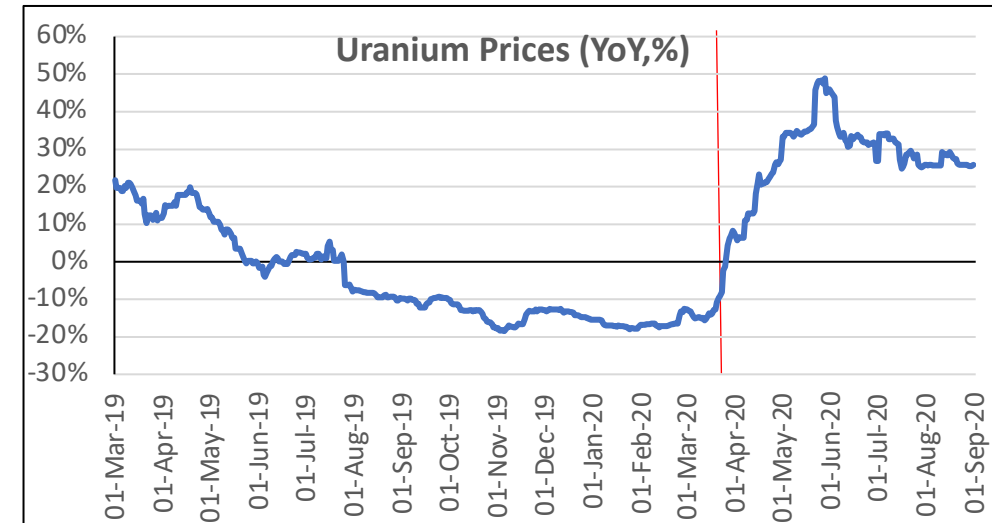
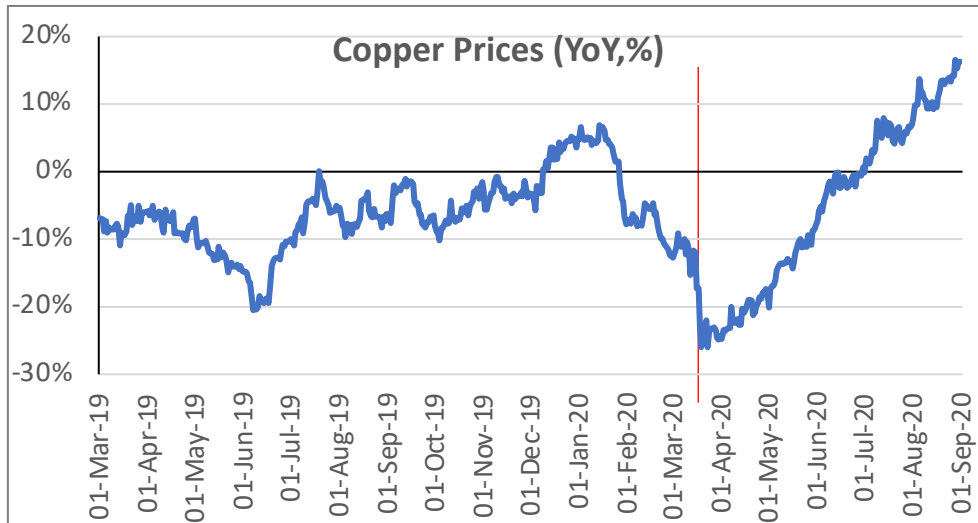
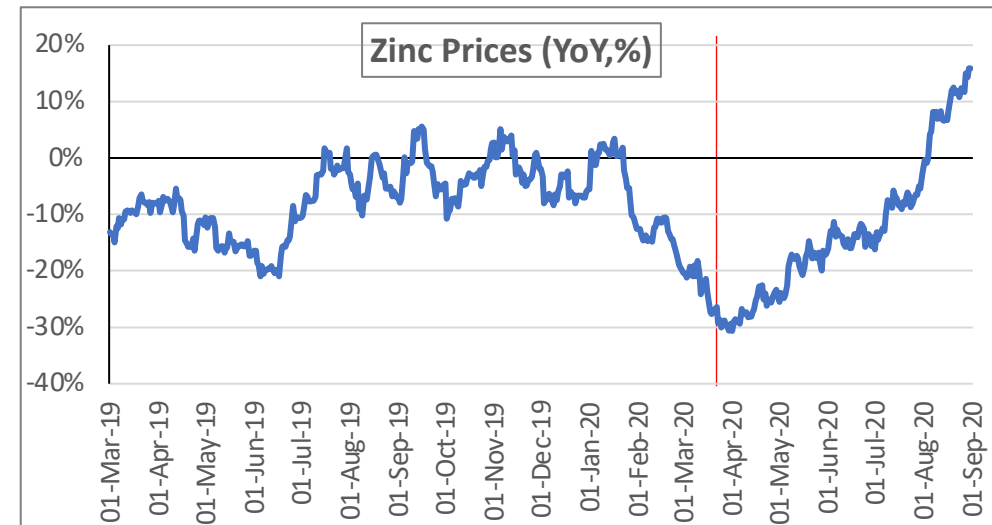
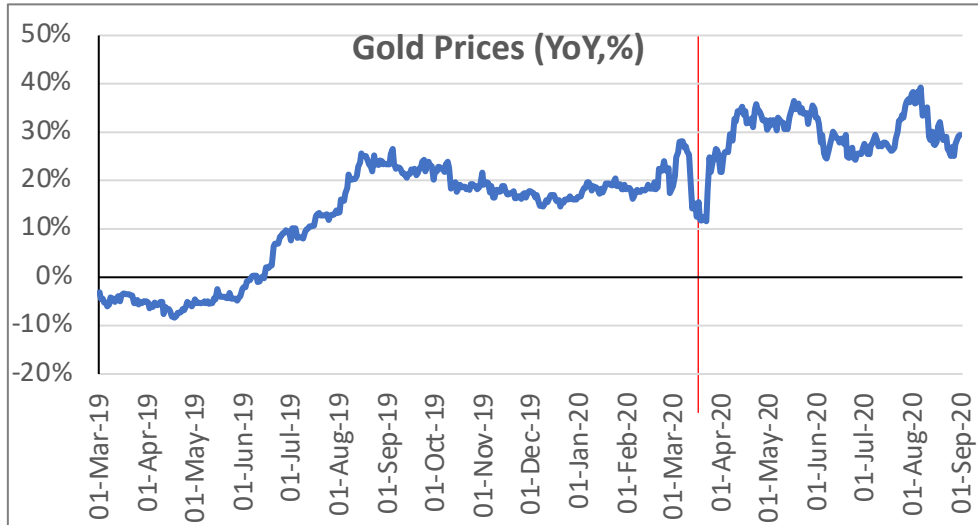


The pandemic has weakened world demand and is having a significant impact on Namibian exports



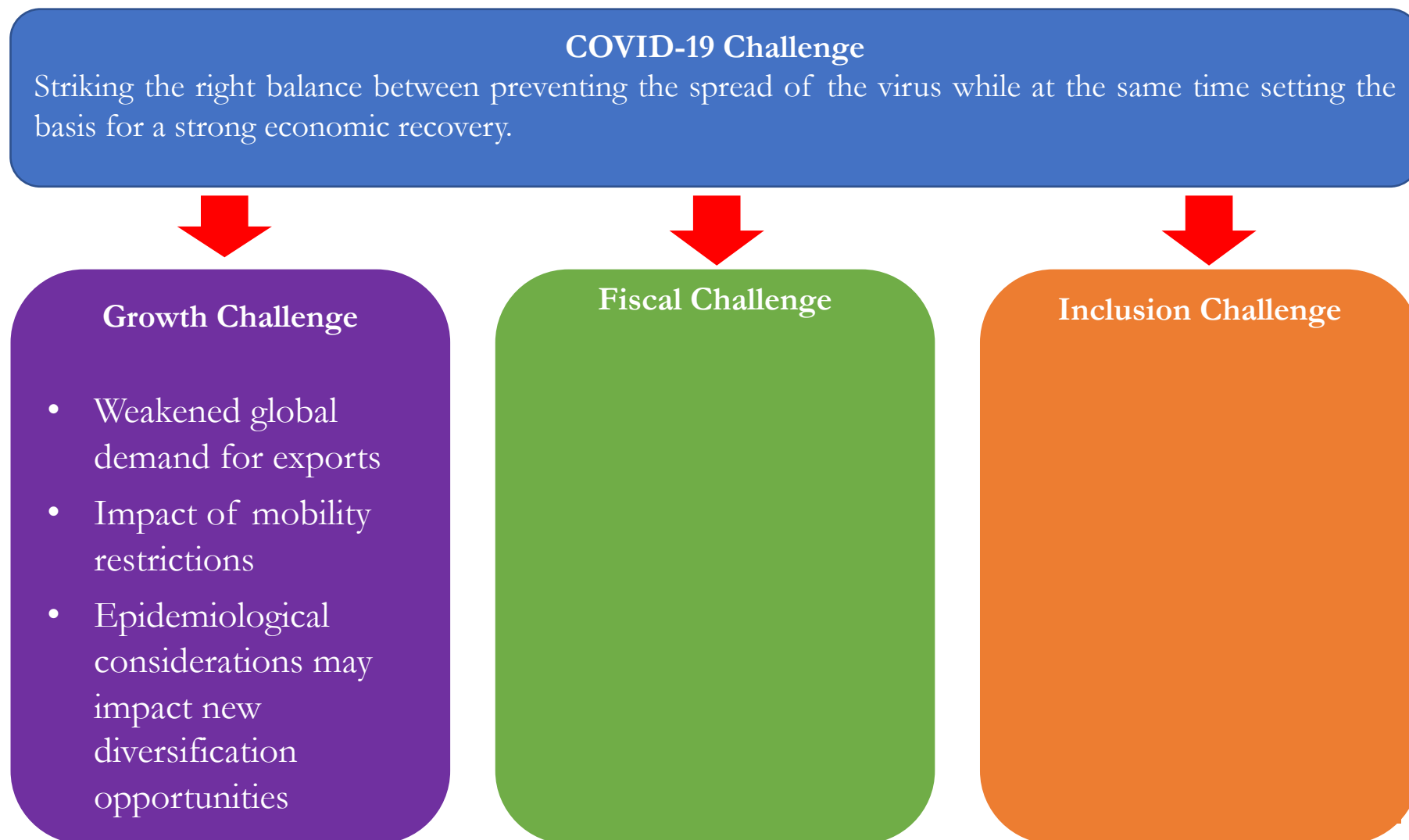
Source: NSA

Commodity prices plummeted in March - but have recovered somewhat since

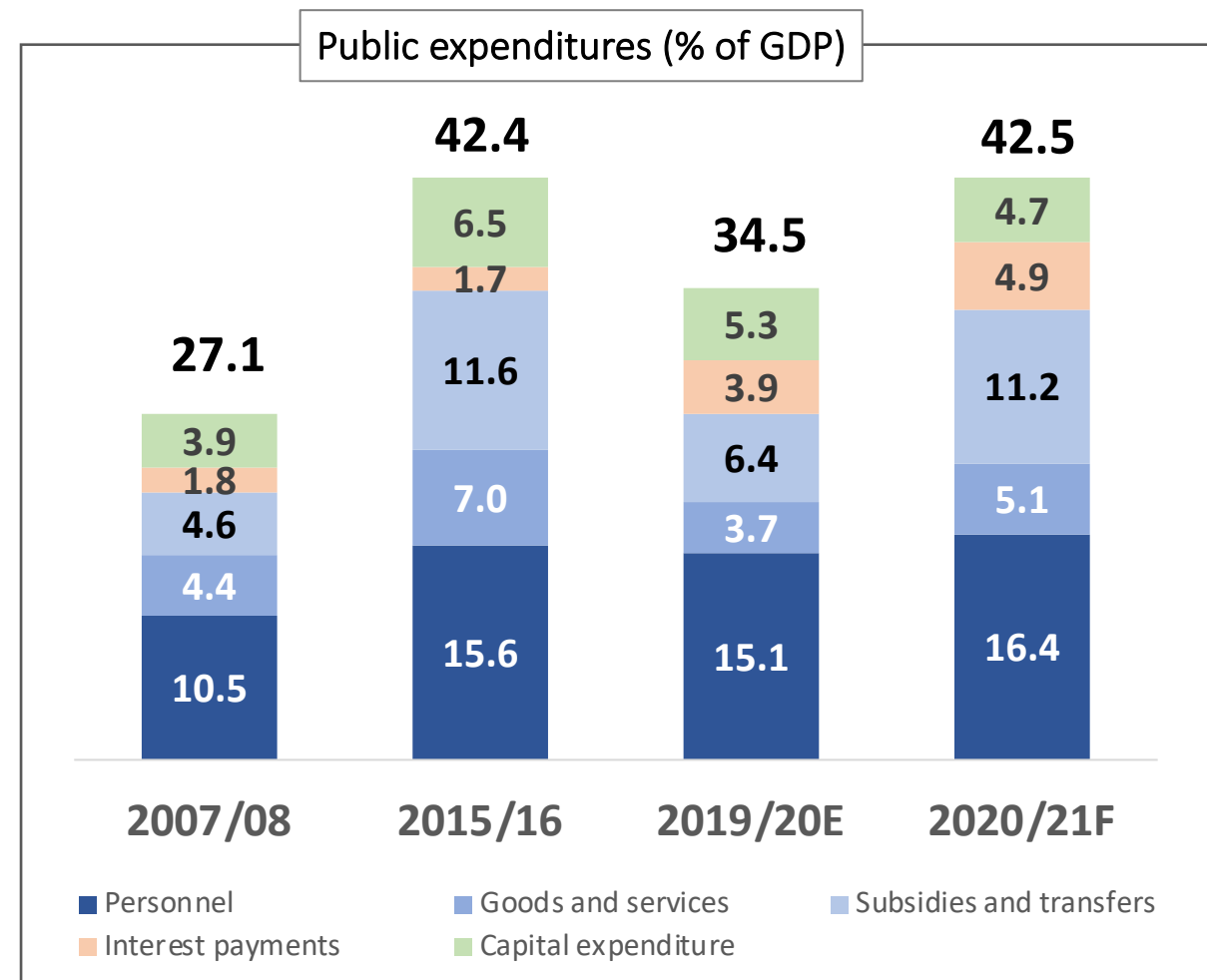
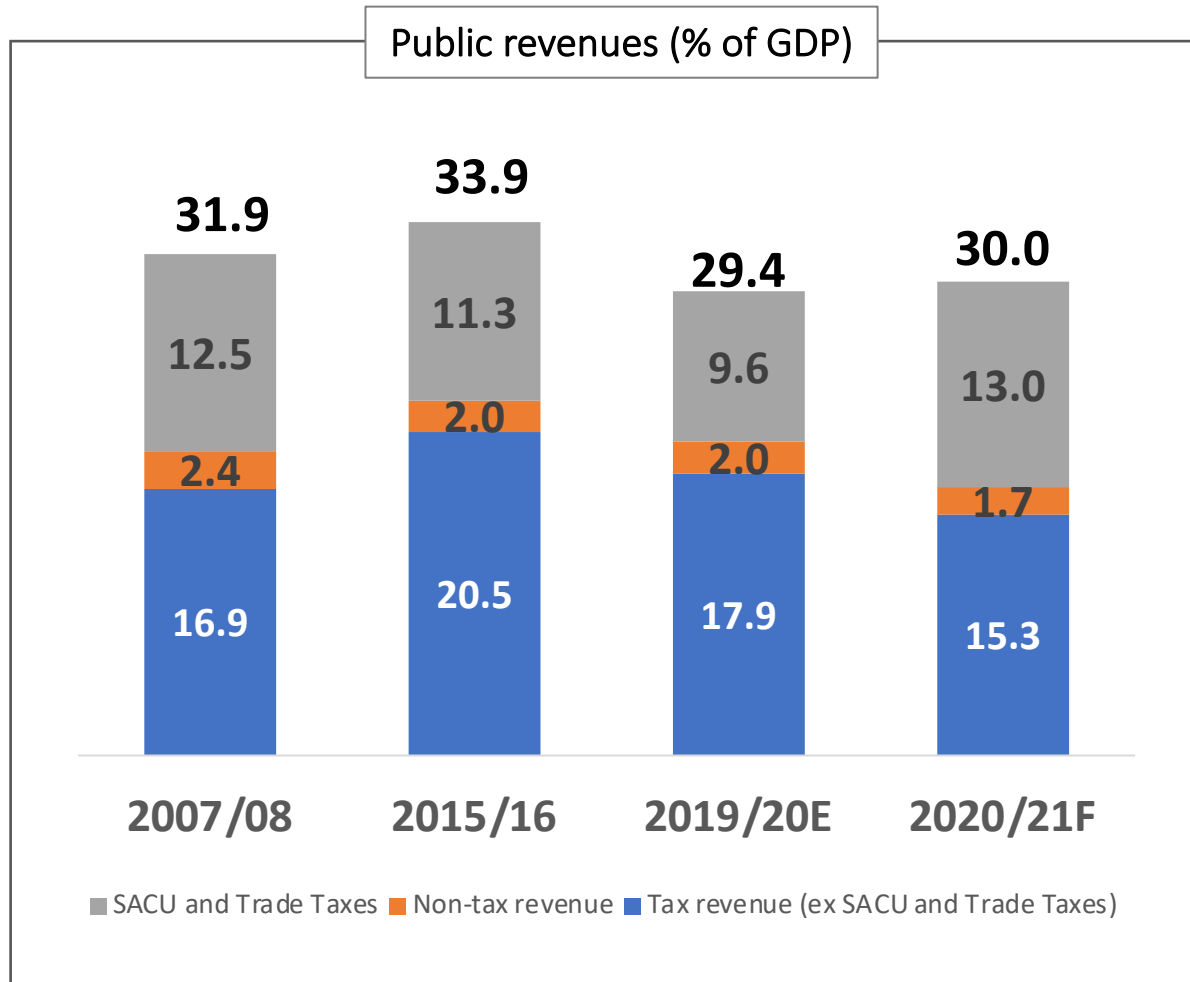


Source: S&P Capital IQ

COVID-19 has also served to amplify the existing core challenges already faced by Namibia

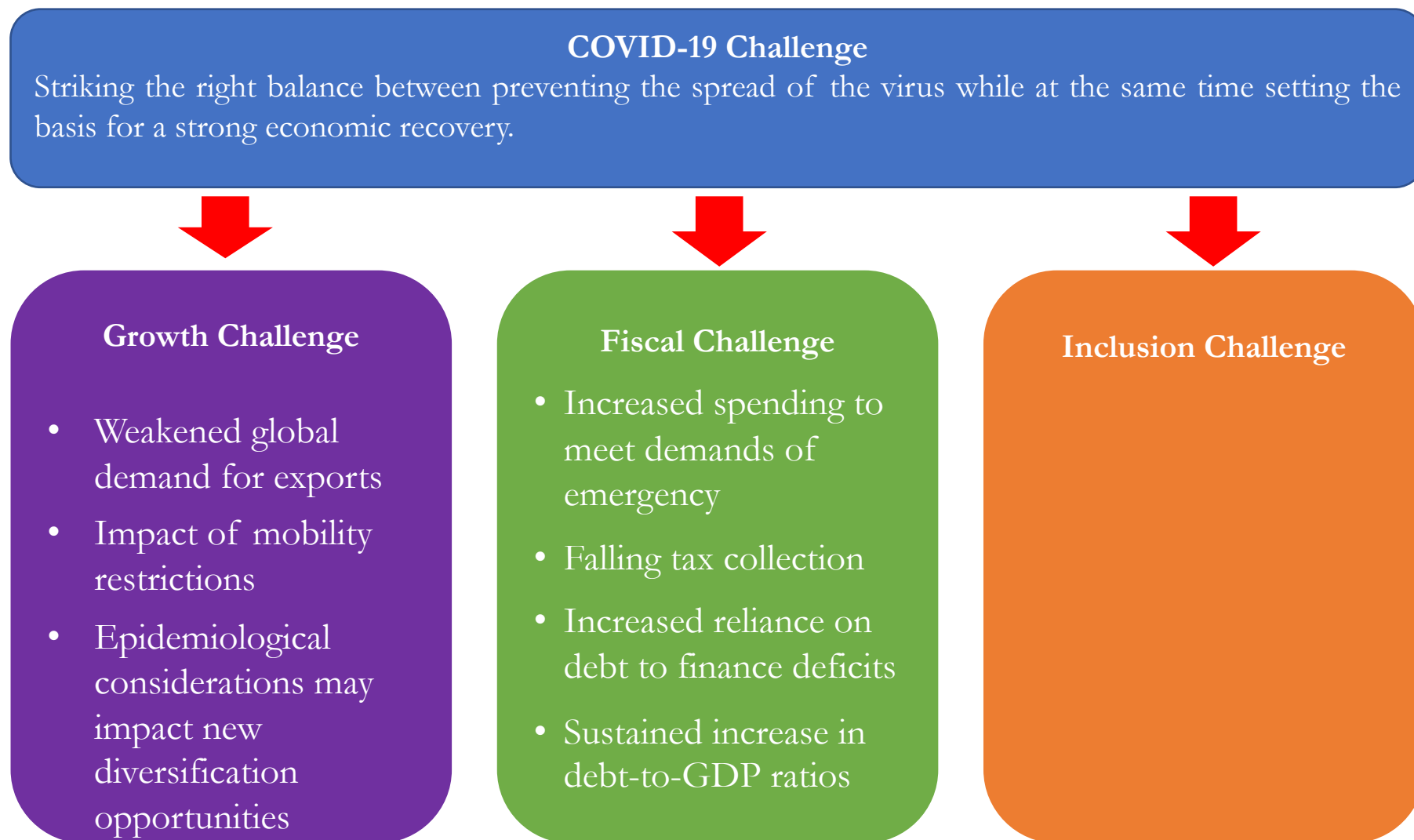


The policy response necessary to cope with the social impacts of the pandemic has brought public expenditure back to its 2015 levels and undone much of the consolidation achieved since 2015

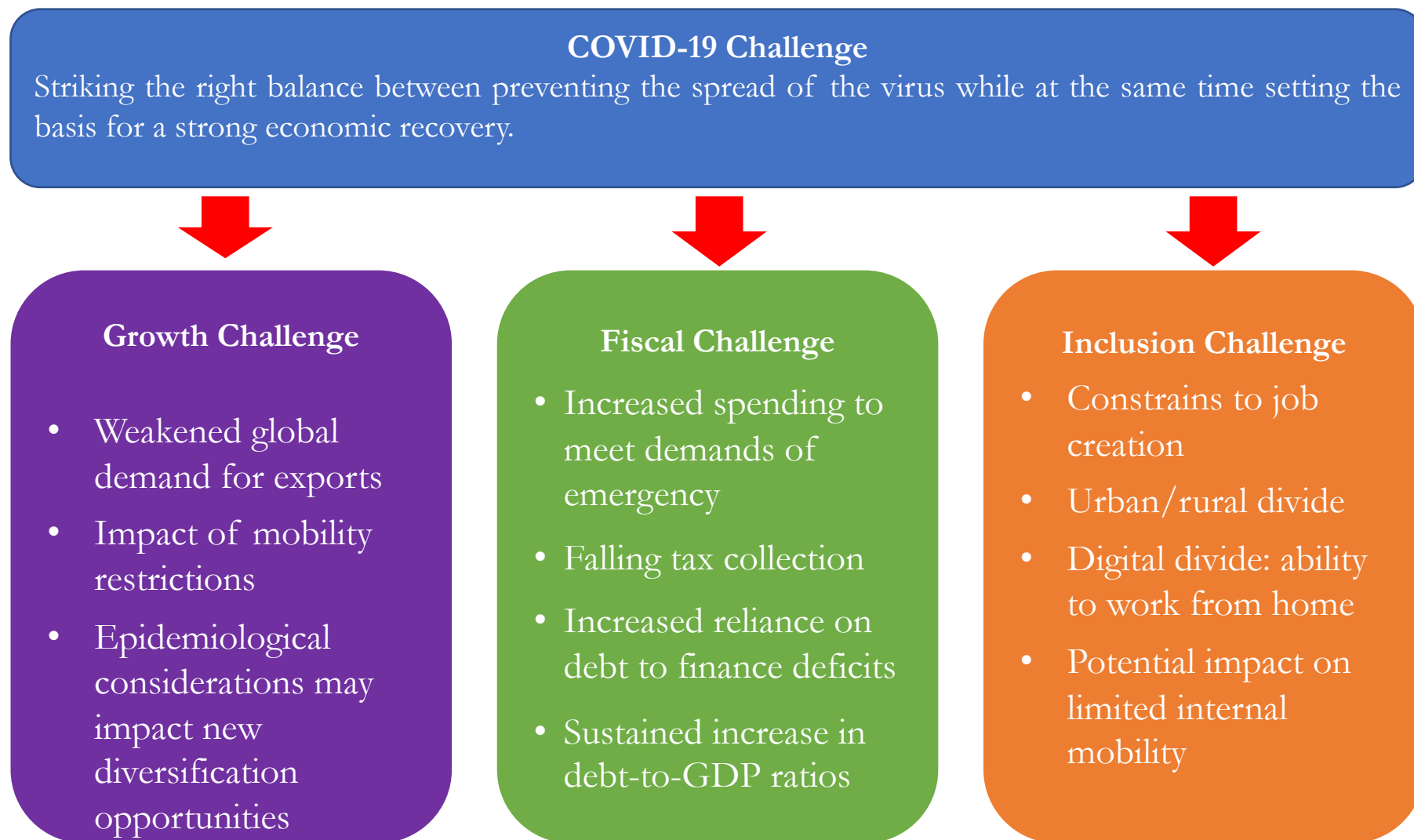


Source: Ministry of Finance

COVID-19 has also served to amplify the existing core challenges already faced by Namibia



COVID-19 has also served to amplify the existing core challenges already faced by Namibia



- **Namibia's core structural challenges**
- **Amplifier: The COVID-19 challenge**
- **Policy implications**

“Standard” macroeconomic approach to COVID-19

- **Create as much fiscal space as possible:** (i) borrow all you can at home and abroad, (ii) strategically introduce taxes directed to those that capture the upside of the emergency (i.e. oil importers), (iii) use your foreign assets, (iv) consider avenues for debt reprofiling
- **Maximize the reach of that fiscal space:** (i) restructure your budget composition, (ii) leverage support from the Central Bank (i.e. lines of credit with public guarantees), (iii) leverage the multiplier effect of the financial system (i.e. promoting temporary regulatory forbearance)
- **Use fiscal space as effectively as possible:** (i) support infrastructure required to manage the treatment of the disease, (ii) support infrastructure required to test and monitor the disease, (iii) support the most vulnerable households – so that temporary shocks don’t translate into permanent effects, (iv) seek to avoid bankruptcies
 - It may not be possible to pursue all these alternatives
 - The type of support that may be provided to households and firms is highly context specific
 - Different economy sectors face highly specific liquidity and solvency constraints
- **Plan for potential subsequent peaks in infection (until a vaccine arrives)**

Strategies to address the COVID-19 emergency cannot be considered in a vacuum

- In the mitigation phase, steps taken to address this emergency shouldn't be disassociated from the overarching strategy to promote Namibia's development
- In the recovery phase, certain strategies to address the core challenges may prove useful:
 - **Promoting new engines of growth** will increase economic resiliency, particularly in the face of weak short-term demand for traditional commodities, and help insert Namibia into new global value chains
 - **Restructuring the focus of public expenditure** away from inefficient assets or regressive line items, towards investments in the provision of public goods required in the post-pandemic economy to enable the appearance and development of new sector – new investments, more formal jobs, enhanced tax collections and improved fiscal sustainability
 - **Addressing the systematic inequities that prevent access to labor opportunities in higher-productivity economic activities** will contribute to a more inclusive and sustainable recovery

Thanks!