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ECONOMIC OUTLOOK - August 2021

THE NAMIBIAN ECONOMY IS EXPECTED TO GROW MODERATELY BY 1.4 PERCENT IN 2021

1. Introduction

The Bank of Namibia released the Economic Outlook 2021 with the domestic economy expected to grow by 1.4 percent in 2021, and to improve further in 2022.

2. Global and Regional Outlook

Based on the IMF's World Economic Outlook (WEO) for July 2021, the global economy is expected to expand in 2021 and in 2022, following a contraction in 2020. The global growth is projected to rebound to 6.0 percent in 2021 before moderating to 4.9 percent in 2022, from an estimated contraction of 3.2 percent in 2020. The latest projection for 2021 represents an upward revision when compared to the WEO of April 2021, when the global economy was expected to grow by 5.5 percent in 2021. The expected recovery in global growth during 2021 and 2022 is buoyed by higher-than-expected growth outturns during the second half of 2020 for most regions as lockdowns were eased and economies adapted new ways of working.

Economic growth in all groups of economies is projected to rebound during 2021 and 2022. Growth in Sub-Saharan Africa is expected to recover to 3.4 percent in 2021 before accelerating to 4.0 percent during 2022, from a contraction of 1.9 percent in 2020. The 2021 growth projection is 0.2 percentage points higher relative to the WEO of April 2021. Similarly, Emerging Market and Developing Economies are projected to recover to a growth of 6.3 percent in 2021 before moderating to 5.2 percent in 2022. Advanced economies are projected to expand by 5.6 percent in 2021 before moderating to 4.4 percent in 2022, compared to a contraction of 4.6 percent in 2020. The expected recovery amongst advanced economies will be supported by wide vaccine coverage and fiscal support in most countries.

Risks to global growth include vaccine resistant variants of Covid-19, natural disasters, possible tightening of financial conditions and geo-political tensions. The main risks to global growth include the resurgence of the pandemic in the form of vaccine-resistant strains that could lead to more restrictions on movements of people and may dampen productivity. Moreover, an increased frequency of natural disasters may pose a downside risk to the Outlook as these could contribute to financial stress, particularly in the insurance sector. There is an increase in natural disasters such as floods in Europe, Asia, China and United States. Other key downside risks include possible tightening in financial conditions if current inflationary pressures are to persist. Finally, the pre-Covid-19 factors such as geopolitical, trade, and technology risks continue to be relevant. In this regard, tensions between the United States and China remain elevated on numerous fronts, including international trade, intellectual property and cybersecurity.

3. Domestic Economic Outlook

Domestic growth is expected to recover moderately during 2021, before accelerating in 2022, from a contraction in 2020. Domestic growth is projected to increase to 1.4 percent and 3.4 percent in 2021 and 2022, respectively, from a contraction of 8.0 percent in 2020. These improvements are mainly on account of base effects, better growth prospects in the mining industry and recovery for some industries in the tertiary sector. The latest estimate of 1.4 percent growth in 2021 represent a downward revision from the 2.7 percent that was published in the February 2021 Economic Outlook update. A significant downward revision was made on growth for diamond mining based on revised output targets by the industry. Other major downward revisions to growth between February 2021 and August 2021 were made for all secondary industries. In general, the revised lower economic growth is largely attributed to new variants of the Coronavirus, vaccination hesitancy and slow vaccination rates in Namibia that were not expected during the February 2021 update.

Risks to domestic growth includes new waves of the COVID-19 pandemic, the pace of vaccination roll-outs in Namibia, low international prices for uranium and the potential effects of the recent political unrests in South Africa. Risks to domestic growth are dominated by new waves of the COVID-19 pandemic, which culminated in travel restrictions that are still in place for many countries, vaccine hesitancy and the pace of vaccinations in Namibia. Other risks include persistently low international prices for uranium, which have already squeezed margins of local mines as their long-term supply contracts started to run

out. Water supply interruptions that affected mining production at the coast have become less severe but remain a significant risk going forward. The appreciation of the Namibia Dollar is likely to put a further strain on the profitability of exporting companies by reducing their earnings. The impact of the recent political unrest in South Africa could also put a further strain on the economic recovery.

The Economic Outlook for August 2021 is accessible online at
<http://www.bon.com.na/Publications/Economic-Outlook.aspx>

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