Development Finance Working Paper Series[1]

Savings, Investment and Economic Growth in Namibia

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No. DEFWPS180009

July 2018

[1] **Note:** The findings from this working paper does not in any way reflect the views of the Development Finance Centre (DEFIC). The views are only representative of the authors.

Published by:
The Development Finance Centre (DEFIC),
Graduation School of Business, University of Cape Town,
9 Portswood Rd, V & A Waterfront, Cape Town, 8002
Centre webpage: http://www.gsb.uct.ac.za/s.asp?p=791

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Abstract

The study examined the interaction between saving, investment and economic growth in Namibia. The relationship between these variables is central to Namibia's guiding macroeconomic framework. However, empirical evidence has shown that the relationship between saving, investment and economic growth depends on country context which makes it important to understand the policy implications of the interaction between these variables in Namibia.

The diagnostic testing using the Johansen cointegration test revealed a long-run relationship between the study variables with one cointegrating equation. The long run analysis was followed by Granger causality tests to understand short-run causal relationships between the variables. Impulse response functions and variance decompositions were also estimated to examine the interaction between the variables. The results from the Vector Error Correction Model showed that there was a positive long-run relationship between economic growth and investment and saving and investment in Namibia. The Granger causality test revealed a causal relationship between saving and investment consistent with the long-run analysis. The study implications are that a pro-saving policy can achieve increased investment. However, the long run relationship between investment and economic growth implies that investment should be made on a longer term for it to impact on economic growth. It is therefore recommended that Namibia implements policies to encourage long term investments. This can be achieved through waiving duty on capital goods and offering tax incentives to investors in strategic sectors of the economy.

Keywords: Savings | Investments | Economic Growth |Namibia | Africa |