



Bank of Namibia

OUTLOOK FOR THE NAMIBIAN ECONOMY – 2003/04 - REVISED - January 2004

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global growth rate of 4.1 percent can be achieved in 2004, which would give an optimistic outlook for the ensuing year.

After a prolonged slowdown of GDP growth in the US, the end of major hostilities in Iraq proved to be the starting point of the recovery of the **US** economy. Growth is projected to equal 2.6 percent in 2003 and 3.9 percent in 2004. In the third quarter of 2003, the GDP grew impressively by 8.0 percent, thus exceeding the expectations by far.² Also the job market is reported to grow modestly.³ A more stimulative fiscal policy, eased monetary conditions, the depreciation of the US Dollar and decreased inflation contributed to the upswing. This recovery is nevertheless vulnerable to several risks. Primarily, the widening current account deficit and the equally large government deficit are matters of concern. The government deficit is projected to be 6.0 percent of GDP for 2003 (in contrast to a surplus of 1.0 percent in 2000). Although this is a considerable short-term support for the economy, it can cause severe problems for the longer term performance.

1 Global economy

After a disappointing first half of 2003, the global economy is estimated to grow moderately in 2003 but recover significantly during 2004. The projections for the growth of the **global** economy remain, however, unchanged from the growth rate forecasted in *April 2003* at 3.2 percent for 2003 (see Table 1)¹.

If the monetary policy in industrial countries remains to be accommodative, fiscal policies are concentrative on medium-term consolidation, necessary structural reforms are undertaken and geopolitical uncertainties can be reduced further, a

After a stagnant first half of 2003 in the **Euro Area**, where even a quarterly growth rate of -0.1 percent was reported⁴, a moderate recovery in economic activity is shown by the latest data for the remainder of 2003. The rather low pace of the upswing is reflected in the projection of only 0.5 percent for 2003, whereas the outlook for 2004 (1.9 percent) is more optimistic. The improved global conditions as well as the low level of interest rates are factors that point to a gradual upswing, but they could be set off by major challenges, such as the high level of un-

¹ *International Monetary Fund*, "World Economic Outlook", September 2003.

² "Business Day", October 31st, 2003.

³ *JPMorgan*, "Global Data Watch", October 3rd, 2003.

⁴ *European Central Bank*, "Monthly Bulletin", October 2003.

employment, low investment spending, and a high fiscal deficit, especially in Germany and France.

The growth rate of the **Japanese** economy for the second quarter of 2003 exceeded the expectations and also the outlook for 2003 and 2004 has been revised upwards. For 2003, real GDP is expected to grow by 2.0 percent. Despite this upward revision, the outlook for 2004 remains clouded, therefore growth is forecasted to be 1.4 percent. Despite this positive outlook, deflation continues to be a persistent problem, notwithstanding a policy of the Bank of Japan, which kept short-term interest rates at zero, thus helping to stabilize the financial system. Further risks, which have to be tackled in order to provide a sustainable growth, are the unresolved weaknesses in the corporate, financial and public sector.

Table 1: World GDP growth

	2001	2002	2003	2004
World	2.4	3.0	3.2	4.1
United States	0.3	2.4	2.6	3.9
Euro area	1.5	0.9	0.5	1.9
Japan	0.4	0.2	2.0	1.4
Emerging Asia	5.1	6.2	5.9	6.2
China	7.5	8.0	7.5	7.5
Developing countries	4.1	4.6	5.0	5.6
Africa	3.7	3.1	3.7	4.8
Sub-Sahara	3.5	3.0	3.1	5.0
SADC	2.9	2.7	3.0	6.8
Angola	3.2	15.3	4.4	11.4
Botswana	4.9	2.6	3.7	3.6
Mozambique	13.0	8.3	7.0	8.0
Namibia	2.4	3.3	3.1	3.8
South Africa	2.8	3.0	2.2	3.0

Source: IMF, "World Economic Outlook", September 2003 and April 2003; JPMorgan, "Global Data Watch", September 2003; Bank of Namibia.

Growth in **Emerging Asia**⁵ is expected to be 5.9 percent for 2003 and is projected to grow solidly (6.2 percent) in 2004. The outlook for GDP growth in China remains very high with 7.5 percent for 2003 and the following year. Although the Asian-Pacific countries remain to be the fastest growing region in the world in 2003, the recent weakness in domestic demand, which is responsible for the overall slowdown is of concern. Reasons for the decline in domestic demand are war-related uncertainties and to some extent the consequences of SARS. Structural

⁵ Emerging Asia includes developing Asia, newly industrialized Asian economies and Mongolia.

reforms have to be accelerated and more exchange rate flexibility is needed, but in most parts of the region the reactions to the recent weakness in growth are appropriate.

In summary, the world economy is expected to pick up in 2004 and the balance of risks has improved significantly. Developments, which can influence the growth path positively, are the end of the war in Iraq and the reduction of geopolitical uncertainties. Particularly the economies of the USA, Japan and some emerging countries, notably in Asia experienced a renewed recovery and low inflationary pressures. Further eased monetary policy in many industrial countries contributes as well to the more positive outlook. Additionally, oil prices have decreased⁶ after the war in Iraq and are projected to decline further in 2004, an increased spending on inventories and reduced interest rates in Europe, the US and other countries (e.g. South Africa) can be registered, all factors that can stimulate the recovery of the global economy.

Nevertheless, there are downside risks, which have to be considered seriously. Despite the pacification of the geopolitical situation, related risks have not been completely eliminated, which has been demonstrated by recent tragic events. The global imbalances in the current accounts, which are paired with the ongoing dependence on the developments in the United States as well pose a major problem. Furthermore, the overall increased spending on inventories could turn out to be not enduring. Improved financing conditions in emerging markets might as well be mainly due to temporary factors, implying that they could be reversed, if interest rates in industrial countries rise rapidly.

2 SADC

2.1 South Africa

The slowdown of the South African economy, which has been experienced since the end of 2002, is expected to have been only of temporary nature, and the growth rate of GDP will recover from 2.2 percent in 2003 to 3.0 percent in 2004 (compared to 3.0 percent in 2002).

⁶ Before the war in Iraq the oil price amounted to US\$ 34/barrel. Directly after the war, a large decrease could be reported, which was partially reversed. Now, the oil price equals approximately US\$ 30/barrel (www.bloomberg.com/energy/, November 10th, 2003) and is projected to decline to US\$ 25.50 on average in 2004 due to the increased supply (IMF, "World Economic Outlook", September 2003).

The inflation rate (based on the CPIX) declined from 10.6 percent in September 2002 to 4.1 percent in November 2003 and is projected to stay within the target range of 3 to 6 percent in 2004.⁷ Due to that development, the South African Reserve Bank cut the repo rate subsequently from 13.5 at the end 2002 to the 8.0 percent in December 2003. The reduced interest rates have led to increased consumer demand and also an increase in gross fixed capital formation during 2003. The Rand continued to strengthen throughout the year. The nominal exchange rate to the US Dollar appreciated from 10.5 Rand in October 2002 to below 6.5 Rand in December 2003. This seems to be hurting exports and growth. Given the improved international outlook and the mildly expansionary fiscal policy, which will also stimulate the domestic demand, the projections for 2004 are promising.

2.2 Other SADC countries

Real GDP growth in the SADC countries is projected to be 3.0 percent in 2003 and to rise to 6.8 percent in 2004. Growth is positively affected by continuously improved macroeconomic policies, rising commodity prices and debt relief through the heavily indebted poor countries (HIPC) initiative for some SADC economies. However, the growth rate for the SADC countries has been below that of the sub-Saharan average from 2001 to 2003. Overall, growth in sub-Saharan Africa remains far too low to meet the Millennium Development Goals. To half poverty until 2015, a growth rate of 7.0 percent per year would be needed, which is not likely at this point of time.

Despite the improvements made, the SADC countries face severe challenges. Domestic political instabilities and conflicts, geopolitical uncertainties and adverse weather conditions can offset positive developments. Furthermore, the HIV/AIDS pandemic and tropical diseases constitute a serious threat to the growth prospects of the region.

The New Partnership for Africa's Development (NEPAD) has to play an important role in the further economic development of the African economies as it embodies objectives, such as political and macroeconomic stability as well as structural and institutional reform, which have been shown to be the driving forces of GDP growth. Besides the domestic efforts, financial assistance from the international community is needed.

⁷ South African Reserve Bank, "Monetary Policy Review", November 2003.

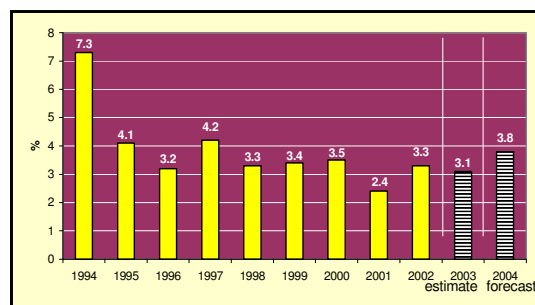
Progress can already be reported in many countries, where the inflation rate is relatively low and the budget deficit is under control. Exceptions are Angola and Zimbabwe. While in Zimbabwe the situation is unclear, the Angolan performance is expected to improve with a growth rate of 11.4 percent in 2004. For Mozambique and Botswana, where the mining output is expected to rise, the real GDP growth is projected to equal 8.0 and 3.6 percent respectively.

The regional food production is much better than during last year, less imports are needed to replenish national food security stocks⁸ and a normal rainfall season is expected.⁹ Still, emergency food aid is required for a number of countries in southern Africa, including Zimbabwe, Angola and Mozambique.¹⁰

3 Namibia

Available data shows that the Namibian economy is estimated to grow at 3.1 percent for 2003, which is a relative constant growth when compared to 2002 (see Chart 1). The estimate is also moderately higher when compared to the *Economic Outlook* published in *May 2003* of 2.9 percent. While for 2003, the projections for the total primary and secondary industries have been revised slightly downwards, higher than expected increased growth in fishing and zinc output as well as in the total tertiary industries, (especially the transport and communications, wholesale and retail trade, and government sectors), has contributed to an improved overall growth rate.

Chart 1: Real economic growth



Source: Central Bureau of Statistics, Bank of Namibia

⁸ Famine Early Warning Systems Network, "Southern Monthly Report", September 22nd, 2003.

⁹ SADC, "SADC Today", Vol. 6, No. 4, October 2003.

¹⁰ In southern Africa, food aid is needed for up to 5.5 million people in Zimbabwe, 1.4 million in Angola, almost 1 million in Mozambique, 1.9 million in Tanzania and as well for some parts of the population in Lesotho and Swaziland. (FAO, "Food outlook preview", No.5, November 2003)

Real GDP is projected to increase to 3.8 percent for 2004. This represents a slight upward revision of the forecast given in the *Economic Outlook* from *May 2003*, which has been 3.7 percent for 2004. Concerning 2004, the increased growth rate can be attributed to an increased value added of the tourism sector and a recovery of the mining sector due to the creation of a new diamond mining company as well as a continued increase of the production of zinc and recovery in other mining products such as silver, lead, gold, and copper (see Table 2).

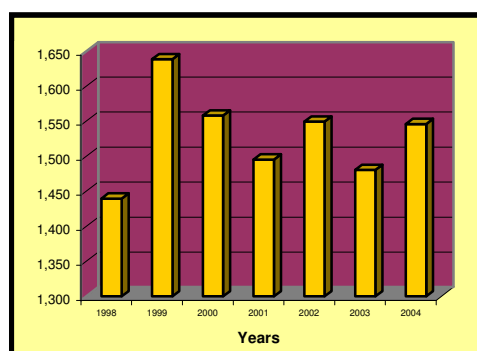
The general upswing of the global economy in the second half of 2003, as well as the low inflation rate and the subsequent interest rate cuts, which are expected to foster consumption and investment spending, also contributed to a more positive outlook.

3.1 Real Sector

3.1.1 Diamond mining

Preliminary results are showing that the diamond production is estimated to be lower in 2003 (see Chart 2), mainly due to one of the diamond mining companies ceasing its exploration and operation activities. This contraction is also caused by the weak world demand for diamonds.

Chart 2: Total Diamond Production (*000 Carats)



Source: *Ministry of Mines and Energy*

The company that ceased production contributed approximately 15 percent to total diamond production during 2002, but has ended its production due to a lack of funding.¹¹ However, another mining company was created out of the liquidated company and is to begin operations by the end of 2003 with the first diamond to be

¹¹ There are confirmed reports that the company's assets and vessel have been bought by another leading diamond company.

mined in January 2004. In the view of the developments mentioned above, diamond output is estimated to contract by 10.9 percent in 2003, while recovering to a growth rate of about 4.7 percent in 2004.

3.1.2 Other Mining

Real growth in the other mining sector is estimated to grow moderately at 2.7 percent in 2003. This is largely due to increased zinc output targeted at 57 000 tons. The international zinc price is also expected to recover to US\$840/mt in 2003 from US\$778/mt in 2002, after experiencing a decrease prices since 1997 (see Table 2).

Other mining growth is expected to be sustained in 2004, mainly due to improved zinc prices and a targeted zinc production of 80 000 tons. Other base metals such as gold, copper, silver and lead are estimated to perform positively as the global economic recovery gains momentum, accompanied by increasing commodity prices (see Table 2). Growth in this sector is therefore projected to be 3.8 percent in 2004.

Table 2: Average Annual Metal Prices

METALS	QUOTED AS ¹²	2001	2002	2003	2004
Copper	US\$/mt	1578	1559	1750	2390
Gold	US\$/to	271	310	360	424
Lead	US\$/mt	476	453	503	739
Silver	US\$/to	4.37	4.60	4.79	6.28
Uranium oxide	US\$/pd - spot	9.25	9.94	10.2	15.00
	US\$/pd -LT	10.3	10.6	10.8	15.65
Zinc	US\$/mt	885	778	840	1007

Source: *Namibia Chambers of Mines; London Metal Exchange*

3.1.3 Agriculture

The agricultural sector is estimated to contract by 4.8 percent in 2003. This can be mainly attributed to the occurrence of drought in the southern African region, falling beef prices (see Chart 3) and the appreciation of the local currency.

Available statistics up to the third quarter of 2003 show that the total stock marketed (cattle, small stock and pigs) has decreased by 7.8 percent compared to the same period last year.¹³ It is expected that the number of stock marketed will

¹² The abbreviations refer to the following: mt = metric ton, to = troy ounce, pd-Spot (LT) = pound-Spot (pound-long-term).

¹³ The marketed stock has been converted from livestock numbers to kilograms. The cattle marketed for the first three quarters declined by 10.2 percent compared to the first three quarters in 2002, while small stock and pigs marketed increased by 0.02 and 133.8 percent, respectively.

increase during the last quarter of 2003 due to a government scheme, introduced because of the drought, according to which an additional amount is paid for each livestock sold. However, farmers may opt for re-stocking of livestock, but the overall number of livestock marketed will still be lower than last year.

The strong local currency and general unfavourable market conditions also influenced the Ostrich industry negatively, which is considered to be unprofitable at the moment and remains to be subsidized by the government.

The agricultural sector is projected to recover in 2004, but yet a negative growth rate of 1.0 percent is expected, which may have to be adjusted downward if the strengthening of the Namibia Dollar continues. However, worldwide evidence shows that there would be a short-term recovery in prices in 2004 in part due to increased meat trade but with tightened supplies of beef¹⁴.

3.1.4 Fishing

The output growth in the fishing sector is estimated to be around 10.3 percent in 2003, compared to a growth rate of 3.2 percent in 2002. Considering the preliminary results of the first three quarters of 2003, the fishing sector grew by 11.5 percent compared to the same period of 2002. A slight decline during the last quarter will result in the likely overall growth rate of 10.3 percent.

For 2004, growth is expected to be around 3.4 percent, but more favourable oceanic conditions and improvement in the fishing resource, factors which are likely to lead to an increase in the fishing sector, may be offset by the continued appreciation of the Namibia Dollar.¹⁵

3.1.5 Manufacturing

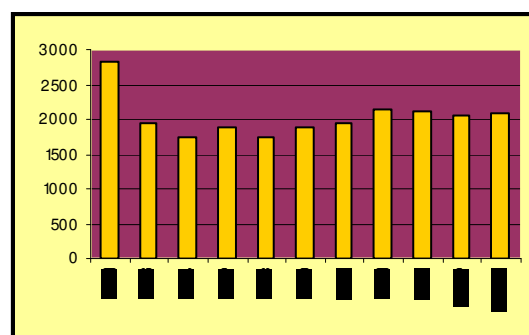
The noticeable good performance witnessed during the past two years of 5.5 percent and 7.4 percent in 2001 and 2002, respectively, is expected to continue over the next two years. Value added

growth in the manufacturing sector is estimated to be 5.8 percent in 2003. This growth rate would also be sustained as well in 2004. This sustained growth would mainly be realised from a recovery in fish processing and other manufacturing, on account of increased textile production and the processed copper and zinc.

Meat processing is envisaged to increase also due to an expected moderate increase in the number of cattle marketed during the next two years. The increased output in meat processing could however be faced with reduced international prices on beef during 2003 (see Chart 3), due to the oversupply of meat on European and South African markets, in part compounded by large supplies from South American and Australian producers.¹⁶

Other sub-sectors such as food and beverages are also expected to show a steady growth in 2003 and 2004. The improved access of the Angolan market holds good prospects for increased export of beer and soft drinks, but it is faced with high tariffs on the Angolan side. The sector could also be affected negatively by the appreciation of the local currency.

Chart 3: FAO indicative international beef prices (US\$/ton)



Source: FAO, "Food outlook", November 2003 (* 01-09/2003), ** Assumed.

3.1.6 Construction

According to preliminary data up to the third quarter of 2003, growth in the construction sector is estimated to increase by 4.5 percent in 2003. This is on account of continual government spending on infrastructure development (i.e. construction of the new State House, the Northern Railway Extension, the N\$40 million Asis Far West Appraisal Shaft, and a number of

¹⁴ Food Outlook, overall meat trade is expected to grow by 3 percent.
¹⁵ The Total Allowable Catch (TAC) for hake has been set to 180000mt for the 2003/2004 fishing season, which is a reduction of 150000mt compared to the last season as there had been concerns about the hake stock. The monk quota has been increased by 500mt to 125000mt and the TAC for orange roughy has been set to 26500mt, which is 250mt higher than last season. The fishing season for those three species is 1/5/2003-30/4/2004. The horse mackerel quota stayed at 350000mt for the year 2004, while the TAC for crab and rock lobster is 22000mt (2000 in 2003) and 4200mt (400 in 2003), respectively. The TAC for pilchard this year was 20000mt and has not been announced for 2004 yet. ("The Namibian", various issues)

¹⁶ Meat Board of Namibia, "Market Outlook", December 2002.

road constructions). The easing of interest rates during the second half of 2003 may also aid in sustaining positive growth for the construction sector.

For 2004, the projected growth rate is 4.0 percent, as there are not many new projects planned for next year, which may lead to a slight reduction compared to 2003.¹⁷

3.1.7 Tourism

Although the preliminary data for the tourism sector indicate that there has been a negative growth rate for 2003, this has to be seen in the light of the very positive year 2002, where due to the depreciation of the Namibia Dollar far more tourists came to Namibia than in the preceding years.¹⁸ Compared to the performance over the years preceding 2002, there still has been an overall increase due to a steady number of tourist arrivals, especially from South Africa, Germany and also from Angola. The war in Iraq has not been an adverse factor, but rather had a positive impact as Namibia is considered a safe country. Overall, a negative growth rate of about 5.1 percent is estimated for 2003 largely due to the strong domestic currency.

The tourism sector is expected to grow by around 4.5 percent in 2004, but that growth rate could be lower if the Namibia Dollar continues to be very strong against the Euro and the US Dollar.

3.1.8 Transport and communication

The strengthening and the stabilization of the local currency should hold relief in the form of lower fuel prices for this sector during the year. Estimated and projected growth rates for this sub-sector (Transport & Storage) are 6.1 percent and 5.3 percent for 2003 and 2004, respectively, which indicates a decelerating growth trend when compared to around 8.0 percent recorded during the preceding two years. The reduced growth pattern could be due to adverse growth in the international airline industry, which is severely affected by the global terrorist threats and the impact of the SARS virus. The post and telecommunications sub-sector has recorded an impressive increase of 22.1 percent in 2002, which is estimated and projected at 15.5 and 15.1 percent

¹⁷ "Namibia Economist", September 5th-11th, 2003.

¹⁸ The decline is consistent with the latest data concerning the value added of hostels and restaurants, a proxy for tourism, for which a decrease of about 10 percent has been recorded for the first three quarters compared to the first three quarters of 2002.

for 2003 and 2004, respectively, mainly due to the expansion of the cell phone and internet sector.

The overall sector is therefore expected to grow by 10.8 and 9.1 percent, respectively.

3.1.9 Electricity and Water

This sector is set for constant growth of 4.5 percent in 2003 and 3.5 percent in 2004 on the back of demand from existing projects such as the Ramatex textile factory and the Skorpion zinc mine.

3.1.10 Other Sectors

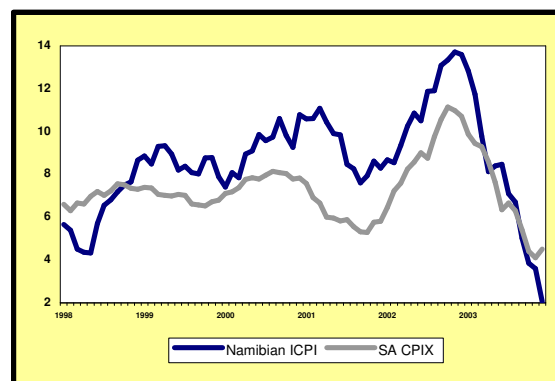
Other sectors such as the real estate and business services are expected to grow moderately over the next two years. This moderate growth would be influenced by satisfactory increases in the output of the real estate and retail sectors as well as of the financial services sectors. This is due to low interest rates and low inflation. The government sector is also expected to grow moderately in 2003 and 2004.

3.2 Monetary and Price Developments

3.2.1 Inflation and Interest Rates

The annual inflation rate based on the Namibian interim consumer price index (ICPI) has recorded an average level of 7.3 percent for the year 2003 (see Chart 4). This constitutes a noticeable decrease compared to the average year-on-year inflation rate of 11.3 percent during 2002. The average rate for the year 2004 is projected to decline further to 6.5 percent in 2004.

Chart 4: Inflation



Source: Central Bureau of Statistics, National Planning Commission; South African Reserve Bank

The decrease can be attributed to a significant decline in food prices, lower oil prices, stronger exchange rates and global deflationary pressure. Downside risks to that development could be a rise in food prices due to adverse weather conditions and an increase in global commodity prices. Wage rises and an increase in administered prices could also contribute to a higher inflation rate than projected.

South African CPIX also decreased significantly during 2003, leading to an average annual inflation rate of 8.5 percent considering the first half of 2003 (compared to an average rate of 9.1 percent in 2002). For November the year-on-year inflation rate was even reported to be 4.1 percent and therefore falling within the 3 to 6 percent target range for the first time in almost two years. The development of the last months has led to major cuts of the repo rate. The South African inflation rate is estimated to be 6.9 percent on average for 2003 and projected to stay within the target range during 2004, averaging a rate of 5.7 percent.

Following the interest rate cuts of the South African Reserve Bank, the Bank of Namibia subsequently lowered the Bank rate from 12.75 percent at the beginning of the year to 7.75 percent in December 2003. Accordingly, the weighted average lending rate of the commercial banks was reduced from 15.63 percent in January to 14.04 in September 2003 and is expected to react analogously to further possible cuts of the Bank rate.

3.3 Consumption and Investment

In real terms, consumption is expected to improve to 4.0 percent in 2004, compared to an estimated 3.5 and actual growth of 2.8 percent in 2003 and 2002 respectively (see table 7.3). The expected improvement is due to an increased consumer confidence that is in tandem with lower interest and inflation rates. In addition, the civil service salary adjustments would continue to have a multiplier impact on the disposable income of government employee's and that could aid in stimulating the consumption expenditure.

The real growth rate of investment is projected to moderate to 4.5 percent in 2004 from 5.0 percent in 2003 and -0.2 percent in 2002. The overall growth in real investment is due to continued investment in infrastructure and government projects (roads, state house, railway construction etc).

3.4 External Sector

3.4.1 Balance of Payments

Preliminary data suggest that the returns on export are suffering from the exchange rate appreciation during 2003. The data also suggest that the export volume of diamonds this year is suffering from the ceasing of exploration and production by one company towards the end of 2002. Impressive growth in **exports** witnessed in 2002 is therefore not expected to be sustained in 2003. Exports are estimated to contract by a negative of 4.8 percent in 2003 in real terms from 6.4 percent growth in the preceding year. The low growth in exports come mainly from reduced export volume of diamonds and other base metals (copper, uranium, lead and silver), food and live animals (beef and mutton), and fisheries products. Exports are, however, projected to recover in the ensuing year to a positive growth rate of 4.2 percent on the backdrop of favourable international prices on zinc and copper and increase world demand as a result of global recovery. As a percentage of GDP, it is therefore projected to decrease from 45.4 in 2002 to 40.8 percent in 2003 before picking up to a level of about 41.2 percent in 2004.

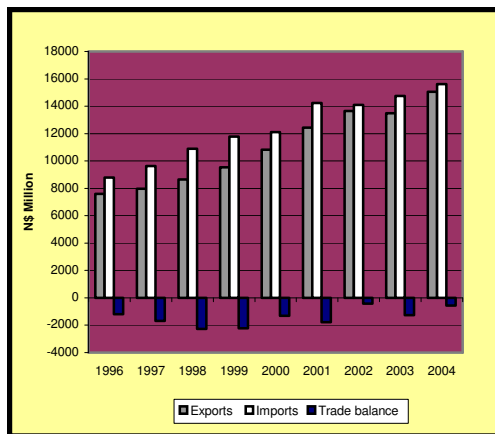
In real terms, **imports** are projected to increase moderately from -2.4 percent in 2002 to -1.5 and 2.3 percent in 2003 and 2004 respectively, largely due to an improvement in domestic demand. As a percentage of GDP, it is projected to decrease slightly from 46.8 in 2002 to 44.6 percent in 2003, and remaining constant at 42.8 percent in 2004 and beyond.

As a result of these developments, the Namibian **trade deficit** is projected to deteriorate to -3.8 percent of GDP in 2003 from -1.4 percent of GDP in 2002 (see Chart 5). It is however forecasted to improve to -1.6 percent of GDP in 2004 as the world demand for the Namibian exports improves. Despite the trade deficit worsening, the **current account** surplus as a percentage of GDP is set to increase to 6.8 percent in 2003 and 6.2 percent in 2004 from 3.1 percent. This is mainly due to the increases in SACU revenue¹⁹ and partly due to an increase in development assistance, and the compensation for the use of the Rand. As a percentage of GDP, it is

¹⁹ The New SACU agreement has not yet been ratified by Parliament in South Africa. Hence, its actual implementation is delayed. As a result, the SACU revenue share for Namibia is still based on the old 1969 agreement, which may entail increases in SACU revenue for next year, but compromised by effects of trade liberalisation.

projected to decrease slightly from 46.8 in 2002 to 44.6 percent in 2003 in 2002.

Chart 5: International trade



Source: Central Bureau of Statistics, National Accounts

3.5 Fiscal Sector

The budget statement for the financial year 2003/04 sets out some of the policies, programmes, and projects to be implemented to help achieving growth and prosperity for all. These include among others, tax relief measures, new initiatives on poverty alleviation and employment creation, and policies to stimulate growth.

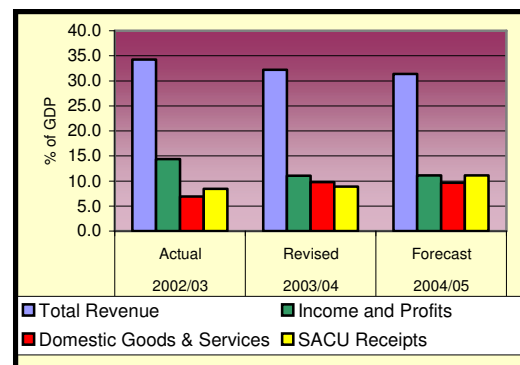
3.5.1 Government Revenue

In nominal terms, the total revenue is projected to increase by 2.6 percent in 2003/04 compared to an estimated 6.9 percent of the MTEF. The total revenue is projected to grow by 18.7 percent in 2004/05. For the period 2003/04 – 2005/06, the total revenue is projected to grow by 6.6 percent, compared with the 6.1 percent of MTEF, which is below the average nominal GDP growth rate of about 10.9 percent over the same period. The low growth rate in 2003/04 is mainly as the result of a fall in revenue of more than 50 percent from the diamond companies. The increase in the total revenue of about 18.7 percent in 2004/05 is as a result of a increases in SACU revenue due to the relatively strong import growth between 2001/02 and 2002/03 coupled with some adjustments because of the lagged effect of the 1969 formula.

As a share of GDP, revenue is therefore projected decrease from 34.2 percent in 2002/03 to around 31.9 percent in 2003/04 before increasing to the previous level of around 34.3 percent in 2004/05

as the result of the above mentioned developments (see table 5.3).

Chart 6: Government Revenue



Source: Ministry of Finance; Bank of Namibia

Chart 6 shows that SACU revenue as a percentage of GDP is projected to increase slightly from 8.4 in 2002/03 to 8.9 percent and 11.1 percent in 2003/04 and 2004/05. This increase in SACU revenue is mainly due to two reasons. Firstly, it is due to relatively strong import growth between 2001/02 and 2002/03 and secondly it is due to large adjustment because of the lagged effect of the 1969 formula.

As a share of GDP, total revenues are therefore projected to decrease from 34.2 percent in 2002/03 to around 31.8 percent in 2003/04 and to decline thereafter to 31.3 percent in 2004/05.

3.5.2 Government Expenditure

The total government expenditure is projected to grow by 9.9 percent in 2004/05 compared with the 9.5 percent increase in 2003/04. As percentage of GDP however, the government expenditure is projected to decrease slightly from 36.1 percent in 2003/04 to approximately 35.9 percent in 2004/05.

Total expenditure is estimated to grow by about 8.0 percent on average between 2003/04 and 2004/05. As a percentage of GDP, it is projected to remain at 35.0 percent on average, which is well above the recommended 30.0 percent of the Medium Term Expenditure Framework 2002/03 – 2004/05. There may therefore, still be a need to engage in further expenditure restraint and measures to keep the total expenditure within manageable limits. These measures could involve a wage restraint through moderation in the hiring of new employees and the restructuring of State Owned Enterprises (SOE's).

Table 3: Government Expenditure (% of GDP)

	2002/03 Actual	2003/04 Estimate	2004/05 Forecast
Total Expenditure	36.9	36.1	35.9
Personnel	15.3	15.3	15.0
Goods & Services	6.5	6.0	5.8
Subsidies & Transfers	6.1	6.7	6.5
Capital Expenditure	6.1	5.5	4.1
Interest Payments	2.9	2.6	2.8

Source: Ministry of Finance; Bank of Namibia

3.5.3 Budget Deficit and Debt

Table 4 gives a medium-term outlook of the fiscal sector. Namibia's budget deficit is projected to be approximately 1.6 percent of the GDP in 2004/05, a decrease from 4.1 percent of the GDP in 2003/04. Namibia's central government debt as a percentage of GDP is projected to decrease slightly from 30.8 percent in 2003/04 to 30.5 percent in 2004/05.

Table 4: Government Financial Operations

% of GDP	2002/03 Actual	2003/04 Budget	2004/05 Forecast
Total Revenue	34.2	31.9	34.3
Total Expenditure	36.9	36.1	35.9
Budget Deficit	2.7	4.1	1.6
Debt	28.6	30.8	30.5

Source: Ministry of Finance; Bank of Namibia

4 Conclusion

The economy is projected to recover to an average growth rate of above 4.0 percent between 2004 and 2005. The recovery is mainly attributed to an increased growth rate of the fishing and tourism sector and a recovery of the mining sector due to the creation of a new diamond mining company as well as an increase of the production of other mining products. The actual growth rates may even exceed the projections if the inflation rate and interest rates continue to be at a low level, commodity prices improve and climatic conditions are favourable.

There are however downside risks to the above growth forecast, which include the following:

- *The world economic recovery is still proceeding at a lower pace although there are positive signs of a definite recovery. If the world economy does not recover as expected, it would have negative implications for export of commodities such as the mineral products, which may not bode well for realizing a growth rate of 3.8 percent in 2004.*
- *The possibility of a prolonged drought in the SADC region, which could have severe consequences for the agricultural sector, food imports and inflation. However, the recent rainfall witnessed during the first month of 2004 give an optimistic view that the drought maybe be coming to an end.*

Real GDP growth forecast

	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture and forestry	10.9%	4.7%	-14.9%	0.7%	-4.8%	-1.0%	0.3%	4.1%
- Commercial	1.1%	31.1%	-9.2%	1.3%	-3.5%	-0.2%	1.4%	3.8%
- Subsistence	22.4%	-20.7%	-24.0%	-0.5%	-7.3%	-2.5%	-2.0%	4.6%
Fishing	-1.4%	14.5%	-1.8%	3.1%	10.3%	3.4%	6.9%	6.2%
Mining and quarrying	8.4%	-1.7%	-6.1%	3.9%	-7.1%	4.4%	4.7%	7.5%
- Diamond mining	14.5%	-6.7%	-5.1%	4.4%	-10.9%	4.7%	3.5%	8.7%
- Other mining and quarrying	-6.5%	13.3%	-8.5%	2.6%	2.7%	3.8%	7.5%	5.0%
Total Primary Industries	7.2%	3.9%	-8.4%	2.6%	-2.2%	2.4%	3.9%	6.1%
Manufacturing	-3.7%	3.6%	5.5%	7.4%	5.8%	5.7%	6.6%	5.2%
- Meat processing	12.6%	-9.7%	6.4%	2.4%	2.7%	2.8%	2.7%	3.8%
- Fish processing	-21.1%	-14.2%	-15.3%	-10.1%	3.4%	3.7%	3.9%	4.2%
- Other food products and beverages	4.7%	1.9%	4.4%	8.1%	3.5%	3.0%	3.7%	3.6%
- Other Manufacturing	-7.5%	24.9%	18.3%	13.8%	10.4%	10.5%	11.6%	7.6%
Electricity and water	20.2%	11.5%	-23.8%	9.7%	4.5%	3.5%	4.2%	3.2%
Construction	-13.9%	-5.4%	50.6%	-22.5%	4.5%	4.0%	3.8%	3.5%
Total Secondary Industries	-3.2%	3.1%	8.6%	1.1%	5.5%	5.2%	5.9%	4.8%
Wholesale and retail trade, repairs	3.3%	5.4%	2.8%	4.6%	5.7%	5.4%	5.2%	4.4%
Hotels and restaurants	-11.7%	7.2%	8.4%	6.2%	-5.1%	4.5%	5.9%	4.5%
Transport and communication	12.3%	8.4%	13.8%	14.1%	10.8%	9.1%	11.3%	8.3%
- Transport and storage	18.4%	6.3%	8.1%	8.8%	6.1%	5.3%	5.7%	5.6%
- Post and telecommunications	2.3%	12.4%	24.0%	22.2%	15.5%	12.9%	16.8%	7.5%
Financial intermediation	2.4%	6.2%	1.7%	1.1%	1.4%	1.9%	1.4%	3.7%
Real estate and business services	3.7%	1.5%	4.1%	-1.7%	2.4%	2.4%	2.2%	3.0%
- Owner-occupied dwellings	2.5%	2.5%	2.5%	-2.1%	2.2%	1.8%	1.6%	2.5%
- Other real estate and business services	4.9%	0.4%	5.8%	-1.3%	2.5%	3.0%	2.8%	3.5%
Community, social and personal services	0.3%	8.7%	-0.2%	3.4%	0.1%	1.0%	1.5%	1.6%
Producers of government services	3.4%	2.3%	1.6%	3.2%	2.9%	2.4%	2.4%	2.3%
Other producers	2.0%	2.0%	2.2%	2.3%	2.2%	2.2%	2.3%	2.4%
Total Tertiary industries	3.7%	3.9%	4.0%	4.1%	4.0%	4.0%	4.3%	3.7%
Less: Financial services indirectly measured	5.5%	-0.8%	4.5%	-1.9%	2.5%	2.0%	0.9%	3.8%
GDP at Basic prices	3.1%	3.8%	2.1%	3.3%	3.1%	4.4%	3.7%	3.7%
Taxes less subsidies on products	4.9%	1.2%	4.5%	3.1%	3.2%	3.0%	3.1%	2.9%
GDP at constant prices	3.4%	3.5%	2.4%	3.3%	3.1%	3.8%	4.4%	4.1%

Source: National Planning Commission; Bank of Namibia. 1999-2001: official figures; 2002: preliminary figures; 2003: estimates; 2004-2006: projections.

GDP at constant prices (N\$ Million)

	1999	2000	2000	2002	2003	2004	2005	2006
Agriculture and forestry	1,009	1,056	899	905	862	853	856	891
- Commercial	495	648	589	597	576	575	583	605
- Subsistence	514	408	310	308	286	278	273	285
Fishing	559	641	629	649	716	741	792	841
Mining and quarrying	1,211	1,190	1,117	1,160	1,077	1,125	1,178	1,267
- Diamond mining	908	847	803	838	747	782	809	879
- Other mining and quarrying	303	343	314	322	331	343	369	388
Total Primary Industries	2,779	2,887	2,645	2,714	2,655	2,719	2,825	2,998
Manufacturing	1,515	1,571	1,657	1,779	1,882	1,991	2,122	2,233
- Meat processing	111	101	107	110	113	116	119	124
- Fish processing	281	241	204	183	189	196	204	212
- Food products and beverages	759	774	808	874	905	932	966	1,001
- Other Manufacturing	364	455	538	612	676	747	833	896
Electricity and water	268	299	228	250	261	270	282	291
Construction	364	344	519	392	410	426	442	458
Total Secondary Industries	2,147	2,214	2,404	2,421	2,553	2,687	2,846	2,982
Wholesale and retail trade, repairs	1380	1455	1,496	1,565	1,654	1,744	1,834	1,915
Hotels and restaurants	251	269	292	310	294	307	326	340
Transport and communication	968	1,049	1,195	1,363	1,500	1,630	1,807	1,924
- Transport and storage	631	671	725	789	837	881	932	984
- Post and telecommunications	337	379	470	574	663	749	875	940
Financial intermediation	461	489	498	503	510	520	527	547
Real estate and business services	1,319	1,339	1,393	1,369	1,401	1,435	1,465	1,509
- Owner-occupied dwellings	677	694	711	696	711	724	735	754
- Other real estate and business services	642	645	682	673	690	711	730	756
Community, social and personal services	122	133	133	137	137	139	141	143
Producers of government services	3160	3236	3,287	3,391	3,489	3,573	3,659	3,743
Other producers	286	292	298	305	312	318	326	334
Total Tertiary industries	7,947	8,262	8,591	8,943	9,298	9,666	10,084	10,455
Less: Financial services indirectly measured	152	151	158	155	159	162	164	170
GDP at Basic prices	12,721	13,212	13,482	13,923	14,347	14,910	15,592	16,265
Taxes less subsidies on products	1866	1889	1,974	2,036	2,100	2,163	2,231	2,295
GDP at constant prices	14,587	15,101	15,456	15,959	16,448	17,073	17,823	18,560

Source: National Planning Commission; Bank of Namibia. 1999-2001: official figures; 2002: preliminary figures; 2003: estimates; 2004-2006: projections.

GDP at current prices (N\$ Million)

	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture and forestry	1,101	1,299	1,136	1,507	1,540	1,624	1,728	1,900
- Commercial	532	792	711	982	1,017	1,081	1,163	1,276
- Subsistence	569	507	425	526	523	543	565	625
Fishing and fish processing on board	971	1044	1,445	1,597	1,891	2,082	2,361	2,651
Mining and quarrying	1,950	2,611	3,663	3,945	3,926	4,367	4,849	5,514
- Diamond mining	1697	1934	2,854	2,887	2,760	3,078	3,378	3,881
- Other mining and quarrying	253	677	809	1,058	1,166	1,289	1,471	1,632
Total Primary Industries	4,022	4,954	6,244	7,049	7,357	8,073	8,938	10,065
Manufacturing	2,074	2,371	2,604	2,960	3,346	3,754	4,225	4,690
- Meat processing	139	121	142	133	147	160	175	192
- Fish processing on shore	451	548	494	697	773	854	942	1,037
- Other food products and beverages	1014	1090	1,215	1,310	1,455	1,596	1,756	1,923
- Other Manufacturing	470	612	753	820	971	1,143	1,353	1,539
Electricity and water	541	605	620	867	972	1,072	1,185	1,292
Construction	483	473	776	617	692	766	844	923
Total Secondary Industries	3,098	3,449	4,000	4,444	5,010	5,591	6,254	6,906
Wholesale and retail trade, repairs	1857	2682	3,004	3,510	3,981	4,469	4,988	5,504
Hotels and restaurants	344	403	477	564	574	639	718	793
Transport and communication	1,226	1,383	1,531	1,885	2,222	2,567	3,012	3,390
- Transport and storage	787	877	975	1,133	1,290	1,447	1,622	1,811
- Post and telecommunications	439	506	556	752	932	1,121	1,390	1,579
Financial intermediation	739	833	964	1,048	1,140	1,238	1,332	1,460
Real estate and business services	2,023	2,235	2,497	2,600	2,855	3,113	3,373	3,672
- Owner-occupied dwellings	1070	1194	1,317	1,363	1,495	1,620	1,746	1,892
- Other real estate and business services	953	1041	1,180	1,237	1,360	1,492	1,627	1,780
Community, social and personal services	171	201	216	242	260	280	301	323
Producers of government services	4617	5071	5,520	5,736	6,333	6,907	7,504	8,114
Other producers	392	437	487	555	608	662	719	778
Total Tertiary industries	11,369	13,245	14,696	16,140	17,974	19,874	21,947	24,034
Less: Financial services indirectly measured	259	273	330	349	384	417	447	490
GDP at Basic prices	18,230	21,375	24,610	27,284	29,957	33,122	36,692	40,515
Taxes less subsidies on products	2453	2318	2,722	2,816	3,117	3,419	3,741	4,068
GDP at current prices	20,683	23,693	27,332	30,100	33,074	36,541	40,433	44,584

Source: National Planning Commission; Bank of Namibia. 1999-2001: official figures; 2002: preliminary figures; 2003: estimates; 2004-2006: projections.