Economic Outlook Update

Bank of Namibia

- December 2012 -

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1.OVERVIEW

Since BoN's last release of the outlook in September 2012, the IMF has revised the 2012 global growth downward from 3.5 percent to 3.3 percent. Sub-Saharan Africa's growth has also been revised downward from 5.1 percent to 5.0 percent for 2012. On the domestic front, with the availability of actual data to date, we estimate the economy to grow by 4.6 percent for 2012, which is in line with the upper range estimated in September 2012. The projected growth is accredited to a better-than-expected increase in mining activities despite China's slowdown, supported by resilient international prices for raw diamonds and an upsurge in infrastructural investments. The projection for 2013 is estimated at round 4.4 percent. The risks to the outlook remain on the downside as it was at the time of the September Outlook release. The salient features of this outlook are stated below.

GLOBAL ECONOMY

- The global economy is projected to grow by 3.6 percent in 2013, from an estimated growth rate of about 3.3 percent in 2012 (IMF).
- Risks to the outlook remain large and tilted to the downside. These include: a protracted resolution of the Euro Area crisis resulting in depressed economic activity in advanced economies with negative spill overs onto emerging market economies, and uncertainties in the international oil market due to geopolitical tensions in the Middle East. Also, the continued uncertainty regarding US fiscal policy remains a risk.

REGIONAL ECONOMY

- For the Sub-Saharan Africa region, growth is estimated at around 5.0 percent in 2012, although downside risks for exports have increased in the recent past.
- South Africa's real GDP is estimated to decelerate from 3.1 percent in 2011 to 2.6 percent in 2012, on account of sluggish domestic and external demand growth.

DOMESTIC ECONOMY

- The Namibian economy is projected to grow by 4.4 percent in 2013 from estimated growth of 4.6 percent in 2012. As per cent of GDP, the external current account deficit would improve from 1.7 percent in 2011 to 0.7 percent in 2012 (see table 1). For 2013 it is projected to slightly deteriorate to 1.0 percent. For 2012, there are signs of moderation in emerging markets in particular China; however at this stage we do not foresee a marked deceleration as it had been assumed in the lower bound forecast of the September 2012 Outlook. Import reserve coverage is projected to decline to 3.0 months of imports of goods and services in 2012. An improvement to 3.4 months in 2013 is envisaged. The latter projection can however be less, if the downside risks entrenched in the assumed "errors and omissions" of zero included in the 2013 balance of payments projection are realised.

Table 1: Selected Economic and Financial Indicators, 2008-2013

					Baseline Scenario		September Outlook upper bound	
	2008	2009	2010	2011	2012	2013	2012	2013
Real Economy								
Real GDP growth	3.4%	-1.1%	6.6%	4.8%	4.6%	4.4%	4.6%	5.0%
Total change in GDP Deflator	13.7%	4.0%	1.4%	6.8%	8.5%	7.1%	6.4%	6.1%
Average CPI inflation	10.3%	8.8%	4.5%	5.1%	6.6%	6.4%	6.2%	6.4%
Saving-Investment Balance (% GDP)								
Investment	25.4%	22.3%	21.2%	19.8%	19.9%	20.0%	19.9%	20.0%
Savings								
External	-3.1%	2.7%	-0.2%	1.7%	0.7%	1.0%	0.6%	1.9%
Domestic	28.5%	19.6%	21.5%	18.2%	19.2%	19.0%	19.3%	18.1%
Private	18.9%	12.9%	20.2%	17.4%	17.1%	17.6%	16.8%	17.3%
Public	10%	7%	1%	1%	2.1%	1.4%	2.5%	0.8%
Fiscal indicators (% GDP; calendar year)								
Total revenue	31%	32%	29%	31%	31%	30%	-	-
Of which SACU	12%	11%	8%	7%	12%	10%	-	-
Total expenditure	26%	31%	33%	38%	36%	35%	-	-
Current	20%	24%	27%	30%	29%	28%	-	-
Capital	4%	6%	5%	7%	7%	7%	-	-
Overall balance	6%	1%	-4%	-7%	-4.8%	-5.4%	-	-
Stock of national debt								
Domestic debt	13%	14%	12%	18%	17%	20%	-	-
External debt	3%	4%	4%	8%	8%	8%	-	-
Total debt	16%	17%	16%	25.4%	25.2%	27.9%	-	-
Balance of Payments & other indicators (% GDP)								
Trade balance	-7.4%	-13.8%	-8.0%	-9.6%	-13.0%	-13.2%	-15.2%	-14.7%
Current account balance	3.1%	-2.7%	0.2%	-1.7%	-0.7%	-1.0%	-0.6%	-1.9%
Intl. Reserves import coverage 1/	3.5	4.6	3.3	3.4	3.0	3.4	3.4	3.3

Source: BoN estimates and projections.
1/ In months of imports of goods and services.

2. Global Outlook

The global economy has deteriorated further since the release of the July 2012 WEO Update. The IMF has lowered its economic growth forecast for 2012 to 3.3 percent from the July forecast of 3.5 (Table 2). The global economy is projected to grow by 3.6 percent in 2013. This is due to a protracted resolution of the Euro Area crisis resulting in depressed economic activity in advanced economies with negative spill overs onto emerging market economies. In addition, uncertainties in the international oil market due to geopolitical tensions in the Middle East and the continued uncertainty regarding US fiscal policy remain downside risks to the outlook.

During 2011, the **US economy** grew by 1.8 percent and is expected to grow by 2.2 and 2.1 percent in 2012 and 2013, respectively. The risks that continue to face the economy include the expected fiscal tightening in 2013 as a result of the potential "fiscal cliff", intensified geopolitical tensions in the Middle East that could boost oil prices, and debt crisis spill over effects from the Euro Area.

The **Euro Area** grew by 1.4 percent in 2011, but is expected to go into a recession in 2012, as a result of the high public deficits and debts, bank deleveraging, prolonged fiscal austerity, and escalating financial market difficulties evident in a sharp increase in sovereign rate spreads. However, a mild recovery is projected for 2013.

Germany, the biggest economy in the Euro Area, is projected to expand marginally by 0.9 percent in both 2012 and 2013. This is backed up by the continuation of the sovereign debt crisis in the Euro Area and signs of a global slowdown within the monetary area.

Table:2 World Economic Output (annual percentage change)	Actual		Projections		Difference from July 2012 WEO Update	
Regions	2010	2011	2012	2013	2012	2013
World Output	**5.1**	**3.8**	**3.3**	**3.6**	**-0.2**	**-0.3**
Advanced economies	**3.0**	**1.6**	**1.3**	**1.5**	**-0.1**	**-0.3**
United States	2.4	1.8	2.2	2.1	0.1	-0.1
Euro Area	2.0	1.4	-0.4	0.2	-0.1	-0.5
Germany	4.0	3.1	0.9	0.9	0.0	-0.5
Spain	-0.3	0.4	-1.5	-1.3	-0.1	-0.7
United Kingdom	1.8	0.8	-0.4	1.1	-0.6	-0.3
Japan	4.5	-0.8	2.2	1.2	-0.2	-0.3
Emerging and developing economies	**7.4**	**6.2**	**5.3**	**5.6**	**-0.3**	**-0.2**
China	10.4	9.2	7.8	8.2	-0.2	-0.2
India	10.1	6.8	4.9	6.0	-1.3	-0.6
Russia	4.3	4.3	3.7	3.8	-0.3	-0.1
Brazil	7.5	2.7	1.5	4.0	-1.0	-0.7
Sub-saharan Africa	**5.3**	**5.1**	**5.0**	**5.7**	**-0.1**	**0.0**
South Africa	2.9	3.1	2.6	3.0	0.0	-0.3
Angola*	3.4	3.9	6.8	5.5	-2.9	-1.3
Middle East and North Africa	5.0	3.3	5.3	3.6	-0.2	0.0

Source: IMF World Economic Outlook, October 2012

* Difference from April 2012 WEO Outlook

Spain's economy, which is the main importer of Namibian fish products, grew by 0.4 percent in 2011. However, the economy is expected to go into a somewhat severe recession in 2012 and 2013, along the on-going fiscal consolidation, problems in the domestic banking sector, and deleveraging in the households sector. The economy continues to experience financial markets' volatility and increasing spreads in bond prices.

The **United Kingdom** economy is projected to go into recession of 0.4 percent in 2012 and recover in 2013 by 1.1 percent. Contagion risk from the Euro Area remains a concern from the British authorities.

The Japanese economy is projected to expand by 2.2 percent in 2012, from the 0.8 percent decline in 2011. The decline in 2011 was as a result of output losses stemming from last year's earthquake and tsunami. The pace of growth will diminish noticeable as post-earthquake reconstruction winds down, however, and growth is projected to moderate to 1.2 percent in 2013. Weak external demand, especially from Europe, continues to be the main downside risk to the growth of the economy.

Economic growth in **China** is projected to slow to 7.8 percent in 2012 from 9.2 percent in 2011, before recovering to 8.2 percent in 2013. The expected growth deceleration is linked to weak global demand, particularly from the Euro Area.

India's GDP growth is projected to slow to 4.9 percent in 2012, from 6.8 percent in 2011, before rising to 6.0 percent in 2013. The slowdown in growth is linked to weak external demand, amongst others.

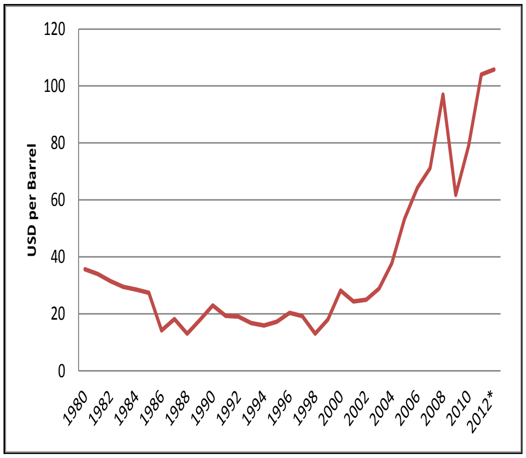
With weakened activities in Europe, growth in **Russia** is likely to slowdown to 3.7 percent in 2012 (from 4.3 percent in 2011) and slightly improves to 3.8 percent during 2013. Downside risks to growth include spill over effects from Europe resulting in weaker exports, a slowdown in domestic industrial production, and volatility in international oil prices.

3. Regional Outlook

According to the October 2012 latest available IMF projections, **the Sub-Saharan Africa's economic performance remains somewhat resilient to the global economic crisis**. Economic growth is projected to moderate to 5.0 percent in 2012 from 5.3 percent registered in 2011, before increasing to 5.7 percent in 2013. This is due to the modest financial spill-overs from Europe to the region. Export diversification has reduced exposure to weak demand from advanced economies. Also, high commodity prices have supported the region's commodity exporters and boosted investment in resource extraction.

Downside risks to growth include, amongst others, global economic uncertainty, spill over effects through trade links and higher international oil prices.

Chart 1: Average Historic Oil Price



*2012 data is up to October

Source: IMF

Angola's GDP growth is expected to increase to 6.8 percent in 2012 from 3.9 percent in 2011, before slowing down to 5.5 percent in 2013. Primary contributions to growth stemmed from the coming on stream of new oil fields and the prevailing relatively high oil prices.

The **South African** economy is expected to slow to 2.6 percent growth in 2012, before picking up to 3.0 percent growth in 2013. The South African economy appears to be the most exposed economy in Sub Saharan Africa to Euro Area's spill overs through significant direct trade and financial links with Europe. The weaker growth is likely to be transmitted to other states in the region, especially, the SACU states, through common revenue pool receipts. However, the effect will not be immediate due to the time lag in SACU revenue sharing formula.

In the meantime, other domestically induced risks have emerged in South Africa. These risks include the widespread labor market instability and work stoppages that have reduced output and export volumes. Risks to the inflation outlook have been increased by a further depreciation of the rand exchange rate, partly in response to these developments, as well as by a possible higher trend in wage settlements and the impact of the reweighting and rebasing of the CPI basket by Statistics South Africa. All in all, tthese risks have prompted the South African Reserve Bank to lower its economic growth forecast for 2012 to 2.7 percent from forecast of 2.9 percent (SARB MPC Report, 2012).

4. Summary of Domestic Economic Outlook

Since our last release of the Economic outlook in September, the released data to date are pointing to the growth rate of 4.6 percent for 2012, the upper range of the forecasts released in September 2012 (Table 3).

Overall growth of the domestic economyover the forecast period is expected to be underpinned by the strong expansion primary industry on the back of robust growth in the other mining and quarrying sub sector follow by the secondary sector. The main drivers of growth in secondary industries will be the construction sector.

Inflation in 2012 will be higher than projected in the September Economic Outlook. The surge in inflation reflects elevated inflation rates for food and energy, as well as looming spill over effects from the recent depreciation of the Namibian dollar against the U.S. dollar. Inflation is expected to level off to 6.4 percent in 2013 and beyond.

There are some noticeable changes in trends expected. The positive investment-savings gap is expected to change as the private sector is envisaged to dis-save in the wake of persistent current account deficits forecasted for both 2012 and 2013.

The ratio of investment to GDP averaged 22.2 percent during the period 2008 - 2011, while the ratio of gross savings to GDP averaged 22.7 percent of GDP. This implied a positive savings-investment gap, as the external current account registered an average overall surplus of about 0.5 percent of GDP during 2008-2011.

The key driver of domestic investment was capital investments, mainly in the mining sector. Private sector savings average 18.1 percent of GDP between 2008 and 2011. Savings by the general government were generally low at about 5.0 percent of GDP over the same period, determined mostly by relatively large receipts from the SACU revenue pool.

Looking ahead, **domestic investment is expected to be around 19.9 percent and 20.0 percent of GDP during 2012 and 2013, respectively from 19.8 percent of GDP in 2011.** As stated in the September 2012 outlook, the projected domestic investment is attributed to a slight increase in private and public sector investment outlays, particularly those of State Owned Enterprises investing in infrastructures.

The contribution of external savings to the financing of domestic investment however, will increase in 2012 and 2013, as the economy registers persistent external current account deficits

4.1 Output trends & outlook[1]

The economy is estimated to expand by 4.6 percent in 2012 and is expected to grow further by 4.4 percent in 2013. The projected growth is accredited to an expected increase in mining activities, mainly diamond and uranium supported by an upsurge in infrastructural investments.

Table 2 shows the current as well as our September projections. The current growth projections are along our September upper bound for 2012 and along lower bound for 2013.

Table 3. Output Growth & Inflation
(In percent)

	2011	2012	2013
I. September 2012 Econ. Outlook			
Upper bound			
Real GDP growth	4.9	4,6	5.0
Average CPI inflation	5.1	6.2	6.4
Lower bound			
Real GDP growth	4.9	4.0	4.3
Average CPI inflation	5.1	6.2	6.4
II. December 2012 Econ. Outlook			
Real GDP growth	4.8	4.6	4.4
Average CPI inflation	5.1	6.6	6.4

Source: BoN Estimates

For 2013, the economy is forecasted to retreat mildly to 4.4 percent, due to slowing in global demand as the US economy is further projected to go down. It is expected the demand for minerals particularly diamond will slow down.

4.2. Fiscal position & debt levels

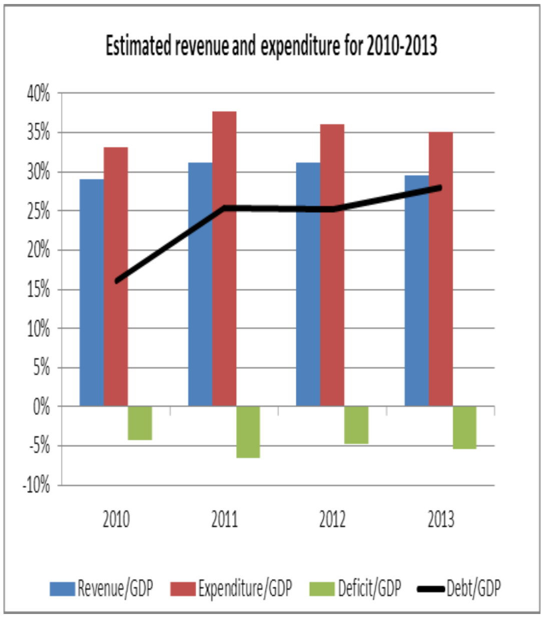
Government revenue as percentage of GDP is estimated to increase slightly to 31.0 percent in 2012 before decreasing moderately to about 30.0 percent in 2013, from 31.0 percent in 2011 (see chart 2). This expansion (2012) is a result of the projected increase in taxes on income, which is inline with forecasted GDP growth, and profits and taxes on international trade (SACU revenue).

Total expenditure as percentage of GDP is estimated to decrease to 36.0 percent and 35.0 percent in 2012 and 2013, respectively. Consequently, the budget deficit is estimated to decrease to 4.8 percent and 5.4 percent in 2012 and 2013, respectively from about 11.1 percent in 2011.

Consequently, debt to GDP is estimated to decrease from 25.4 percent in 2011 to 25.2 percent in 2012 before increasing to 27.9 percent in 2013. This increase in debt is partly due to the exchange rate depreciation.

[1] The sectoral projections are discussed in detailed below in section 5.

Chart 2: Government estimates



Source: Ministry of Finance (MoF)

4.3 Balance of Payments

Current account deficit as percentage of GDP is projected to improve slightly to -0.7 percent in 2012 from -1.7 percent in 2011. This is due to sizeable SACU inflows and less investment outflows projected for 2012. The large increase in SACU revenue resulted from improved economic performances for key variables included in the SACU Revenue Sharing Formula. On the other hand, reduced investment income outflows are expected, due to reported losses in a number of multinational companies that led to a slowdown in dividend payments abroad.

The import coverage of gross international reserves is projected to decrease slightly to around 3.0 months of imports of goods and services, by end of 2012 from 3.4 months in 2011. These developments mirrored a high import bill, which more than compensated for a robust growth in mineral exports during 2012. Fuel remained the leading imported commodity in terms of value, followed by motor vehicles. **The trade deficit as percentage of GDP is estimated to deteriorate from -9.6 percent in 2011 to -13.0 percent in 2012.** Exports and imports values in US dollars are projected to increase by 4.8 percent and 11.4 percent in 2012, respectively.

Looking further ahead to 2013, the **current account deficit as percentage of GDP** is projected to decline to -1.0 percent for 2013 on account of a marginal deterioration of the trade deficit as import growth will continue to outpace the expected growth in exports.

With regard to the **import coverage of gross international reserves** the projection points at an improvement of 3.4 months of imports of goods and services for 2013. The latter projection can however be less, if the downside risks entrenched in the assumed "errors and omissions" of zero included in the 2013 balance of payments projection are realised.

In conclusion, **Namibia's real GDP growth rate is projected to decelerate from 4.8 percent in 2011 to 4.6 percent and 4.3 percent in 2012 and 2013, respectively.** There are, however, downside risks to the outlook mainly owing to the deceleration in growth of advanced economies. These may pull commodity prices further down resulting in a lower mining output and decreases in export earnings.

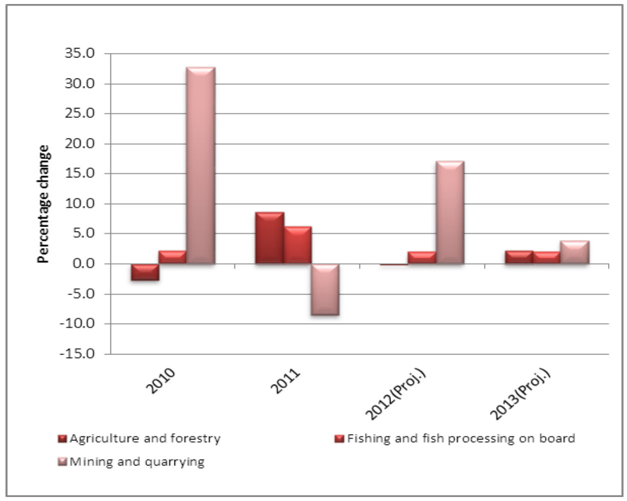
5. Domestic Sectoral Outlook

This section provides detailed forecast of industries.

5.1. Primary Industries

Growth in primary industries is expected to accelerate to 8.7 per cent in 2012 on account of brisk economic activity in the mineral sector, before slowing down to about 3 percent in 2013 (Chart 3).

Chart 3: Primary Industries Performance



Source: NSA (2010-2011), Bank of Namibia (2012-2013)

No growth is expected for **agricultural** sector in 2012. This is as a result of the anticipated slowdown in live stock marketed due to restocking that has lowered the number of cattle marketed. The latter is due to the fall in weaner prices, as a result of increases in yellow maize prices, cheaper meat substitution, and low spending by South African consumers. Further, contributing to the decline in meat prices is the entrance of Botswana beef into South Africa, leading to oversupply of beef.

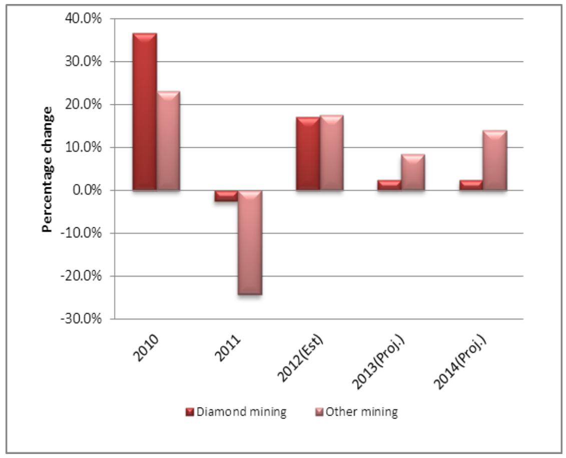
Livestock farming is estimated to decline by 5.0 percent in 2012 from 7.8 percent in 2011. It is however expected to grow by 0.8 percent percent in 2013 due to rigid small stock export regulations, restocking and small stock theft..

Crop production is projected to grow by 3.0 percent in 2012 and 2013. This is driven by assumed improved rainfall and favourable harvest conditions.

The **fishing and fish processing on board** activities recorded a growth of 6.2 percent, owing to good fisheries management. Going forward, the outlook is driven by the expected increase in landings as a result of the increased Total Allowable Catches (TAC) for the 2012/2013 fishing season. However, fluctuating exchange rates and elevated international oil prices remain major challenges for the industry. Also, the ongoing output contraction in the Euro Area, particularly in Spain, is expected to affect the sector negatively as Spanish consumers may resort to substituting Namibian hake with cheaper substitutes from other suppliers. As a result of all these uncertainties, the sector is therefore projected to grow by 2.0 percent in the short- to medium-term.

Output in the **mining and quarrying** industry is expected to increase by 17.1 per cent in 2012. The double-digit growth in mining activities is the driving force behind the overall performance of the primary industries. The mining sector is projected to growth further in 2013, but at a decelerating rate (Chart 3). The estimated increase in 2012 is driven by a recovery in both diamond and other mining sectors. Increased copper output and mine expansion at the uranium mines are expected to increase overall mineral production in the short to medium term.

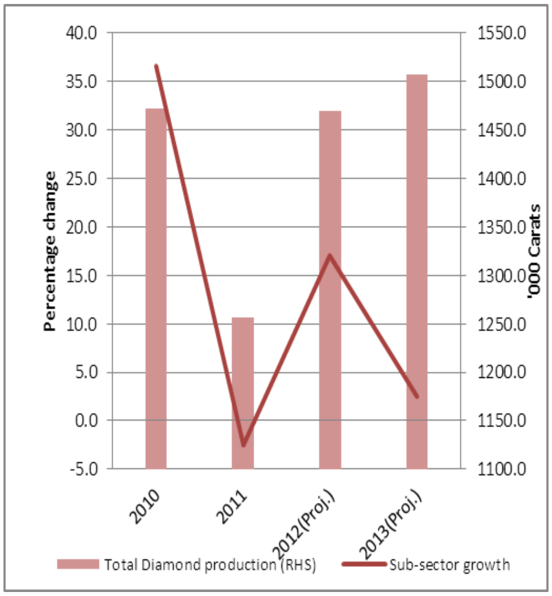
Chart 4: Mining and Quarrying Performance



Source: NSA (2010-2011), Bank of Namibia (2012-2013)

After the decline in 2011, **diamond mining production** is estimated to increase by 17.0 percent to 1.47 million carats in 2012 before a slowdown by 2.5 percent in 2013 (Chart 4). The expected growth is supported by an increase in production from onshore mining as well as offshore mining. Onshore mining production is expected to improve due to the reopening of an old mine, while offshore operations are expected to improve due to the reinstatement of an offshore mining vessel. Looking ahead, uncertainties in the global economic recovery remain a risk to demand and in particular, international diamond prices.

Chart 5: Total Diamond Production



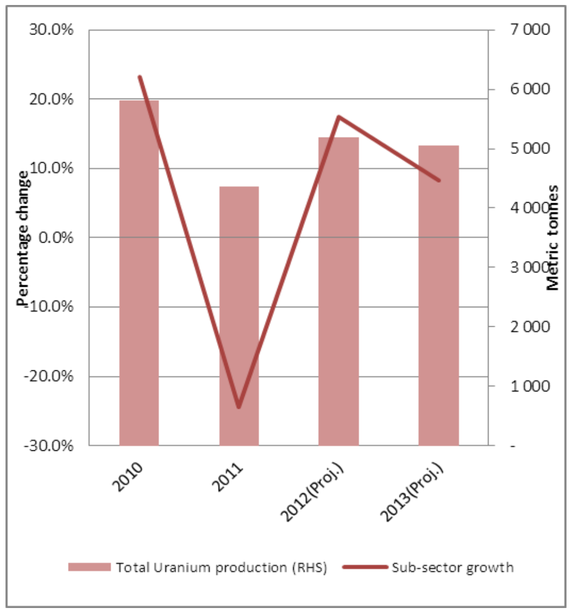
Source: NSA (2010-2011), Bank of Namibia (2012-2013)

After the decline of 24.4 percent recorded in 2011, o**ther mining** activities are projected to grow by 17.4 percent and 8.3 percent during 2012, respectively. Heavy rainfalls and industrial action during 2011 depressed production in 2011. However, during 2012, uranium production is improving on the back of expansions at the mines and the resuming of exports under long-term export contracts (see Chart 5). Uranium prices are still depressed following the Fukushima disaster, coupled with the uncertainty in the recovery of the global economy.

Downside risks to uranium production exist however, particularly due to the availability of water due to water shortages in the coastal area arising from water level shortfalls at the Omdel dam.

Zinc production is expected to remain stable on the next three to four years. One of the zinc mines' lifespan is coming to an end in 2016/17 and the mine plans to maintain production at capacity until closure.

Chart 6: Total Uranium Production and Growth

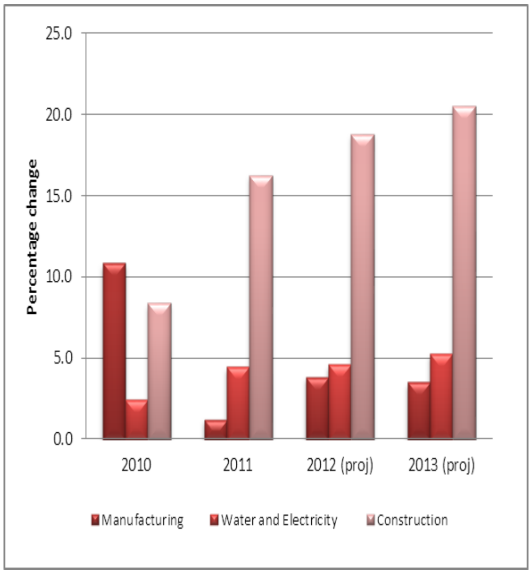


Source: NSA (2010-2011), Bank of Namibia (2012-2013)

5.2 Secondary Industries

Economic activity in the secondary industries is estimated to expand by 6.7 per cent in 2012 following an estimated 4.1 percent growth in 2011 (Chart 6). Growth is expected to be supported by construction on the backdrop of increase in investment in infrastructure.

Chart 7: Real growth of Secondary Industries



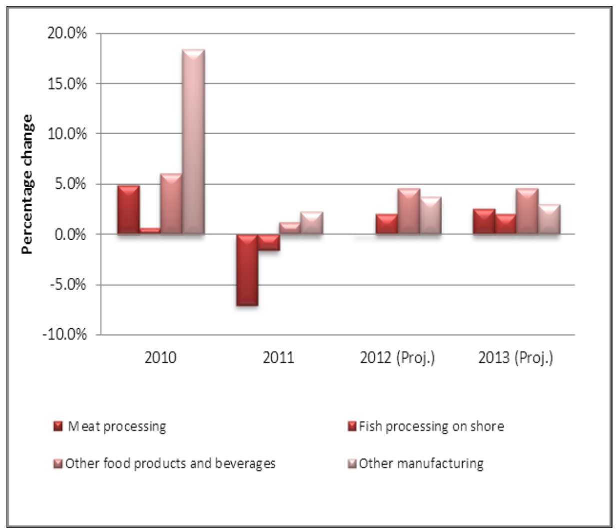
Source: NSA (2010-2011), Bank of Namibia (2012-2013)

The **manufacturing** sector is projected to grow by 3.7 percent in 2013 from an estimated growth of 3.8 percent in 2012. The growth in this sector will be mainly driven by the other food products and beverages and other manufacturing sub-sectors which are expected to grow by 4.6 percent and 3.4 percent on average, respectively.

The other food products and beverages subsector is estimated to expand by 4.6 percent in 2012, when compared to 1.2 percent during 2011 (Chart 8). The expected growth is due to increased production of beverages, which is a result of extensions, as well as a growing export market. Dairy production is expected to rise due to investment outlays in new machinery that will support volume and market growth.

The entrance of a new poultry producer, which is expected to be granted infant industry protection, is expected to support an increase in manufacturing activities. The growth in the other manufacturing subsector is expected to be reinforced by the processing of minerals including diamond beneficiation.

Chart 8: Real Growth by Manufacturing Subsectors



Source: NSA (2010-2011), Bank of Namibia (2012-2013)

Electricity and water sector is forecasted to grow by 4.6 percent and 5.3 percent in 2012 and 2013, respectively. This is an improvement when compared to 3.5 percent and 4.5 percent forecast for the same years, respectively in the September Outlook. The better-than-expected growth is largely due to additional power generation from the existing power stations. Further, the power and water utility companies have embarked on projects that are expected to guarantee new power and water supply in the near-term.

Construction is amongst the sectors expected to lead domestic growth. The sector is anticipated to grow by 18.8 percent and 20.5 percent in 2012 and 2013, respectively. The sector's projections were significantly increased from the projections in the September Economic Outlook especially in 2013. The strong growth is underpinned by increased investments in real estate development, road, water supply and airport and port development. This expectation is also partly supported by the increased government spending on public works projects, through the Targeted Intervention Programme for Economic and Empowerment Growth (TIPEEG).

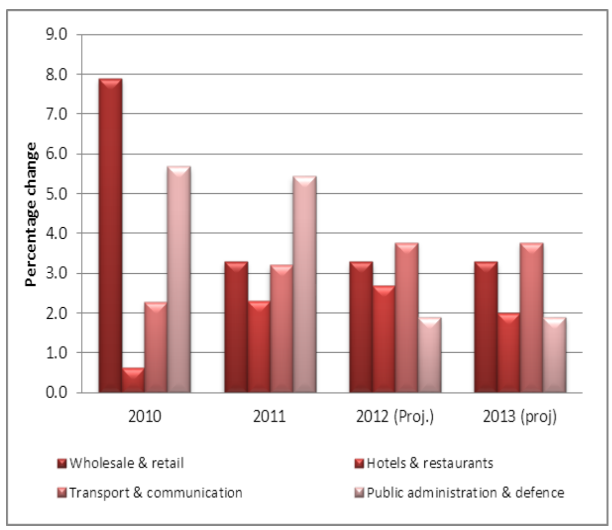
5.3 Tertiary Industries

Growth in the tertiary industries is projected to level off to 3.1 percent in 2012-2013, from an average estimated growth of about 4.4 percent in 2010-2011. The expected deceleration is on the back of less dynamic growth across-the-board in the industry, barring for resilient growth in trade activities that would mirror the expected growth in the primary and secondary sectors of the economy.

The wholesale and retail trade sector is forecasted to continue to grow by 3.3 percent in 2012 and 2013. As noted, economic activity in the sector will trail the growth dynamics in the primary and secondary industries. Also, the low interest rates observed in recent years continue to benefit the domestic economy by improving consumer appetite and spending.

After registering growth of 2.2 percent in 2011, **the hotels and restaurants sector** is estimated to increase by 2.7 percent in 2012 due to the increase in tourism registered in the first nine months of 2012. This projection is backed up by advanced bookings made so far, as well as increasing local and regional tourism.

Chart 9: Tertiary Industries Performance



Source: NSA (2010-2011), Bank of Namibia (2012-2013)

Uncertainties in the Euro Area economy led to preference of cheaper accommodation due to lower spending power for Euro Area tourists.

Going forward, the sector is not expected to fare as well as it did before the global financial crisis of 2008/09, but efforts to attract visitors from North America and Asian markets continue.

The **transport and communication** sector is expected to increase to 3.8 percent in 2012 and 2013 from 3.2 percent in 2011. The increase in growth is on the backdrop of increased economic activities, most notably in the mining and manufacturing sectors coupled with the Commissioning of the West Africa Cable System (WACS).

Public Administration and Defence is estimated to expand by 1.9 per cent in 2012 and 2013, compared to 5.4 per cent in 2011. Real value added growth in the Government services is supported by the expected containment in public employment as per the medium-term fiscal expenditure framework.

6. Conclusion

The current economic growth and balance of payments scenarios were developed in the context of depressed global economic activities. Central to the analysis has been the moderate deceleration of economic activity in advanced economies that is likely to put pressure on Namibia's export volumes and prices. Therefore, Namibia's real GDP growth rate is projected to decelerate from 4.8 percent in 2011 to 4.6 percent and 4.4 percent in 2012 and 2013, respectively.

In terms of Balance of Payments, Namibia is expected to register an external current account deficit of about 0.7 percent of GDP in 2012 and 1.0 percent in 2013. The import coverage of gross international reserves is projected to decrease slightly to an average of 3.0 months and 3.4 months of imports of goods and services, by end of 2012 and 2013, respectively, from 3.4 months of imports of goods and services by the end 2011.

Risks to the outlook remain balanced. Downside risks include the protracted resolution of the European crisis and the fiscal policy uncertainties affecting the US. Oil prices also remain high, affecting energy dependent countries like Namibia. On the positive front, however, there are emerging indications that rough diamond production/output in 2012 would be marginally higher than those included in the end of 2012 projections. Also, preliminary available information suggest that Namibia may benefit from SACU revenue windfall that may help boost the 2013 international reserve position included in the outlook.

7. Appendices

Appendix I: Forecasting Assumptions

The revised domestic projections are based on the assumptions listed below.

Primary Industries

- Diamond output is expected to increase on the backdrop of the reopening of the Elizabeth Bay mine in 2012 and the return to production of a vessel that was discontinued in 2009.
- Uranium mining is expected to increase production, owing mostly to the expansion by the mines in 2012.
- Increased production expected from the copper mines.
- Livestock output is expected to decrease due to rigid small stock export regulations, restocking and small stock theft.
- Crop farming production is expected to grow due to favourable harvest conditions and improved rainfall.
- Increased quotas are expected to bolster fishing sector performance.

Secondary Industries

- Manufacturing industries are expected to grow in 2012 and 2013, due to new investments and increased exports in beverages and dairy produce. Additionally, increased manufacturing activities are expected from the newly established poultry sector and from the processing of minerals.
- Electricity generation is expected to increase due to the upgrading of two power stations that will boost generation capacity in the near term.
- Expansion is expected in the construction industry, including amongst others; construction of airport infrastructure, roads, railway and bridges, shopping malls, development of hotels and other apartment complexes, and public projects attached to TIPEEG.

Tertiary Industries

- The on-going European debt crisis may continue to affect tourism. Although, non-European streams of tourism are continuously increasing, these inflows are small in comparison to the tourist numbers from Europe.

Balance of Payments

The main assumptions under this scenario include:

- Sizeable SACU receipts (i.e., current transfers) consistent with the 2002 revenue sharing formula
- Key assumptions about the behaviour of the capital and financial accounts includes:
- the placement of about US$100 million of government paper through the Johannesburg Stock Exchange (JSC) per year over the next three years,
- capital outflow of about US$100 million, as commercial banks further increase their net foreign asset positions in 2012 and 2013, and
- Outflows by the non-financial intermediaries (pension funds, insurance companies, etc.) that add to the capital outflows by commercial banks.
- The average USD-NAD exchange rate is expected to fluctuate around the 8.2 mark over the forecasting period.
- The average NCPI Inflation is estimated to average 6.7 percent in 2012.

Appendix II: Real GDP Growth

Industry	2009	2010	2011	2012	2013
Agriculture and forestry	0.6%	-2.7%	8.5%	0.0%	2.2%
Livestock farming	4.4%	-6.0%	7.8%	-5.0%	0.8%
Crop farming and forestry	-1.7%	-0.5%	9.0%	3.0%	3.0%
Fishing and fish processing on board	4.4%	2.1%	6.2%	2.0%	2.0%
Mining and quarrying	-42.2%	32.7%	-8.5%	17.1%	3.8%
Diamond mining	-50.8%	36.6%	-2.6%	17.0%	2.5%
Other mining and quarrying	-0.6%	23.2%	-24.4%	17.4%	8.3%
Primary industries	**-24%**	**14.3%**	**-0.9%**	**8.7%**	**3.0%**
Manufacturing	5.9%	10.8%	1.2%	3.8%	3.5%
Meat processing	4.9%	5.1%	-6.9%	0.0%	2.5%
Fish processing on shore	33.1%	0.6%	-1.6%	2.0%	2.0%
Other food products and beverages	8.4%	6.1%	1.2%	4.6%	4.6%
Other manufacturing	-1.7%	18.4%	2.3%	3.8%	3.0%
Electricity and water	0.6%	2.5%	4.5%	4.6%	5.3%
Construction	-18%	8.5%	16.2%	18.8%	20.5%
Secondary industries	**0.2%**	**9.4%**	**4.1%**	**6.7%**	**7.2%**
Wholesale and retail trade, repairs	3.1%	7.9%	3.3%	3.3%	3.3%
Hotels and restaurants	-2.0%	0.7%	2.2%	2.7%	2.0%
Transport, and communication	5.3%	2.3%	3.2%	3.8%	3.8%
Transport and storage	7.7%	4.2%	3.5%	3.0%	3.0%
Post and telecommunications	3.3%	0.5%	2.9%	4.5%	4.5%
Financial intermediation	12.3%	5.3%	5.0%	5.0%	5.0%
Real estate and business services	6.0%	1.7%	3.1%	3.2%	3.2%
Real estate activities	4.6%	3.4%	3.1%	3.1%	3.1%
Other business services	10.0%	-2.8%	3.3%	3.3%	3.3%
Community, social and personal service activities	2.6%	-3.6%	5.1%	1.7%	1.7%
Public administration and defence	5.0%	5.7%	5.4%	1.9%	1.9%
Education	4.1%	5.3%	8.6%	4.0%	4.0%
Health	2.9%	2.4%	0.6%	1.0%	1.0%
Private household with employed persons	4.4%	2.3%	2.5%	2.5%	2.5%
Tertiary industries	**4.8%**	**4.1%**	**4.3%**	**3.1%**	**3.1%**
Less: FISIM	-0.6%	8.7%	5.8%	5.8%	5.8%
All industries at basic prices	**-0.9%**	**6.5%**	**3.5%**	**4.6%**	**4.0%**
Taxes less subsidies on products	-2.7%	7.8%	18.5%	5.0%	8.6%
GDP at market prices	**-1.1%**	**6.6%**	**4.8%**	**4.6%**	**4.4%**

Source: CBS (2010-2011), Bank of Namibia (2012-2014)

Appendix III: GDP at Current 2004 Prices (N$ millions)

Industry	2009	2010	2011	2012	2013
Agriculture and forestry	2,989	3,360	3,770	4,033	4,473
Livestock farming	1,527	1,805	2,164	2,359	2,729
Crop farming and forestry	1,462	1,555	1,607	1,674	1,745
Fishing and fish processing on board	2,428	2,539	2,709	3,067	3,471
Mining and quarrying	8,002	6,882	8,659	11,905	13,355
Diamond mining	2,749	4,042	6,567	9,572	10,954
Other mining and quarrying	5,254	2,840	2,092	2,333	2,401
Primary industries	**13,420**	**12,781**	**15,139**	**19,005**	**21,300**
Manufacturing	10,142	10,582	11,034	12,305	13,680
Meat processing	229	181	189	204	227
Fish processing on shore	951	60	548	615	690
Other food products and beverages	4,211	4,410	4,790	5,394	6,074
Other manufacturing	4,751	5,930	5,506	6,091	6,690
Electricity and water	1,850	2,077	2,509	2,938	3,462
Construction	2,465	2,712	3,229	4,132	5,363
Secondary industries	**14,456**	**15,370**	**16,772**	**19,374**	**22,505**
Wholesale and retail trade, repairs	8,610	9,711	10,538	11,597	12,763
Hotels and restaurants	1,399	1,467	1,593	1,757	1,925
Transport, and communication	3,800	4,526	4,533	4,972	5,454
Transport and storage	1,671	2,261	1,952	2,138	2,342
Post and telecommunications	2,129	2,265	2,581	2,834	3,113
Financial intermediation	3,648	4,262	4,717	5,191	5,712
Real estate and business services	5,987	6,363	7,164	7,756	8,397
Real estate activities	4,166	4,468	5,161	5,563	5,997
Other business services	1,820	1,895	2,004	2,193	2,400
Community, social and personal service activities	2,446	2,503	2,740	2,971	3,221
Public administration and defence	7,100	8,182	9,268	10,081	10,967
Education	5,948	6,826	7,297	8,211	9,239
Health	2,437	2,721	2,853	3,073	3,310
Private household with employed persons	559	597	643	703	768
Tertiary industries	**41,933**	**47,158**	**51,347**	**56,313**	**61,756**
Less: FISIM	1,014	1,180	1,261	1,391	1,535
All industries at basic prices	**68,795**	**74,130**	**81,996**	**93,300**	**104,026**
Taxes less subsidies on products	6,275	7,006	8,846	9,857	11,361
GDP at market prices	**75,070**	**81,136**	**90,842**	**103,158**	**115,386**

Source: CBS (2010-2011), Bank of Namibia (2012-2014)

Appendix IV: GDP at Constant 2004 Prices (N$ millions)

Industry	**2010**	**2011**	**2012**	**2013**
Agriculture and forestry	2,058	2,233	2,232	2,282
Livestock farming	788	849	807	813
Crop farming and forestry	1,269	1,384	1,426	1,468
Fishing and fish processing on board	1,069	1,135	1,158	1,181
Mining and quarrying	3,533	3,231	3,784	3,929
Diamond mining	2,564	2,499	2,925	2,998
Other mining and quarrying	968	732	860	931
Primary industries	**6,659**	**6,600**	**7,175**	**7,391**
Manufacturing	7,670	7,764	8,061	8,346
Meat processing	171	159	159	163
Fish processing on shore	826	813	829	846
Other food products and beverages	3,052	3,089	3,231	3,380
Other manufacturing	3,621	3,703	3,842	3,957
Electricity and water	1,251	1,307	1,367	1,439
Construction	1,783	2,072	2,462	2,967
Secondary industries	**10,705**	**11,144**	**11,890**	**12,752**
Wholesale and retail trade, repairs	6,754	6,977	7,207	7,445
Hotels and restaurants	947	969	995	1,015
Transport, and communication	3,493	3,605	3,741	3,883
Transport and storage	1,682	1,741	1,793	1,847
Post and telecommunications	1,811	1,864	1,948	2,036
Financial intermediation	2,943	3,089	3,244	3,406
Real estate and business services	5,254	5,418	5,589	5,765
Real estate activities	3,907	4,026	4,151	4,280
Other business services	1,347	1,392	1,438	1,485
Community, social and personal service activities	1,707	1,794	1,825	1,856
Public administration and defence	5,180	5,462	5,566	5,671
Education	3,901	4,235	4,404	4,581
Health	1,820	1,830	1,849	1,867
Private household with employed persons	415	426	437	448
Tertiary industries	**32,414**	**33,805**	**34,856**	**35,936**
Less: FISIM	724	766	810	857
All industries at basic prices	**49,054**	**50,782**	**53,111**	**55,222**
Taxes less subsidies on products	4,748	5,624	5,906	6,413
GDP at market prices	**53,802**	**56,407**	**59,016**	**61,636**

Source: CBS (2010-2011), Bank of Namibia (2012-2014)

Appendix V: Namibia: Balance of Payments, 2009–13 (Upper Bound)

	Actuals			Projections	
in millions of U.S.dollars	2009	2010	2011	2012	2013
Current account	**-241.2**	**24.9**	**-207.5**	**-89.4**	**-136.4**
Goods	-1 225.6	-888.1	-1 200.8	-1 628.2	-1 821.4
Exports, f.o.b.	3 114.1	4 005.8	4 404.1	4 615.1	4 823.9
Of which:					
Diamonds	540.2	826.2	881.9	1 135.5	1 198.8
Other minerals	728.2	937.5	927.2	1 136.6	1 294.1
Fish	339.9	408.4	449.4	410.3	401.0
Imports, f.o.b. (excluding duty)	-4 339.6	-4 894.0	-5 604.9	-6 243.3	-6 645.3
Services	50.8	193.8	230.9	209.5	199.8
Transportation	-79.1	-82.1	-124.8	-118.4	-130.3
Travel	281.7	293.9	311.5	330.4	349.3
Other services	-151.7	-18.0	33.6	-2.5	-19.3
Income	-134.2	-511.7	-560.3	-174.3	-219.3
Compensation of employees	-4.0	-19.0	-32.1	-18.4	-23.2
Investment income	-130.2	-492.7	-528.2	-156.0	-196.2
Current transfers	1 067.7	1 230.9	1 322.8	1 503.6	1 704.5
Of which: SACU receipts 1/	1 015.0	936.0	915.2	1 251.9	1 386.4
Capital and financial account	**-606.9**	**651.4**	**645.4**	**580.0**	**136.4**
Capital account	66.3	110.4	186.5	121.1	139.3
Financial account (Excluding reserve assets)	-105.0	189.4	738.8	369.0	409.4
Direct investment	557.1	706.9	1 053.3	1 057.6	1 109.8
Portfolio investment	-590.7	-710.8	-198.1	-549.9	-558.1
Other investment	-71.4	193.3	-116.4	-138.7	-142.2
Reserve assets (net; - accumulation) 2/	-568.1	351.6	-280.0	90.0	-412.3
Net errors and omissions	**848.1**	**-676.3**	**-437.9**	**-490.6**	**0.0**
Memorandum items:					
Trade balance/GDP	12.0	-8.0	-9.6	-13.0	-13.2
Current account/GDP					
Including transfers	-2.7	0.2	-1.7	-0.7	-1.0
Gross International reserves (end of period) 2/	1 890.2	1 535.0	1 805.5	1 715.5	2 127.9
Months of imports of goods and services	4.6	3.3	3.4	3.0	3.4
GDP at market prices (US$ millions)	8 897.6	11 068.6	12 524.7	12 563.5	13 845.1

Sources: Namibian authorities; and IMF staff estimates and projections.
1/ Southern African Customs Union.
2/ Includes SDR allocations in 2009.
3/ International investment position.