Republic of Namibia

MACROECONOMIC FRAMEWORK

2014/15 - 2016/17

" Fiscal Sustainability and Job - Creating Growth - Doing More with Less "

ABBREVIATIONS

AML-CFT	Anti-Money Laundering and Combating Financing of Terrorism
BoN	Bank of Namibia
ESAAMLG	Southern Africa Anti-Money Laundering Group
FIM BILL	Financial Institutions and Markets Bill
GBP	Great British Pound
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HRDP	Human Resources Development Plan (MoE)
IP	Industrial Policy
IMF	International Monetary Fund
MEF	Macroeconomic Framework
MEWG	Macroeconomic Working Group
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NAD	Namibia Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NamPower	Namibia Power Corporation
NamPort	Namibia Ports Authority
NCPI	Namibia Consumer Price Index
NDP	National Development Plan
NFSS	Namibia Financial Sector Strategy
NHIES	National Household Income and Expenditure Survey
NHRP	National Human Resources Plan
NPC	National Planning Commission
NSA	National Statistics Agency
NSX	Namibia Stock Exchange
OPEC	Organisation of Petroleum Exporting Countries
PPP	Public-Private Partnership
PSCE	Private Sector Credit Extension
Repo rate	Repurchase rate
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SDMS	Sovereign Debt Management Strategy
SME	Small and medium-sized enterprise
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
TAC	Total Allowable Catch
TIPEEG	Targeted Intervention Programme for Employment & Economic Growth
US	United States of America
USD	US Dollar
WEO	World Economic Outlook

FOREWORD

Despite hopes that 2013 would see the seeds of expansionary and accommodative macroeconomic policies pursued globally finally begin to sprout, world economic activity remained subdued. This is a reflection of the weak recovery across all economic regions of the World amid fragile economic environment and disappointing growth prospects.

World growth slowed for a second consecutive year in 2012 as the global economy continued along its slow path to rehabilitation in the wake of the financial crisis, and is expected to slow further in 2013 as economic activity in both advanced economies and emerging market and developing economies remains lacklustre. While global growth prospects are projected to brighten over the Medium-Term Expenditure Framework (MTEF) period, world growth is nonetheless still expected to settle at a new, lower level than was witnessed prior to the global financial crisis.

Given that Namibia is a small, open economy, it is highly vulnerable to these external developments. Indeed, domestic real GDP growth is closely correlated to growth in world output. The current state of the world economy, therefore, poses a number of key challenges for the Namibian economy.

This reality underscores the importance of the MEF. The MEF reviews past and present macroeconomic developments and provides an outlook for the domestic, regional and world economies, which is then used as a key input in helping to set the national policy agenda. Perhaps most significantly, the MEF serves as a prelude to the annual fiscal policy and budget frameworks, which in turn guide the national budget ceiling and priorities and MTEF.

In view of the recent weakness in global economic activity, and Namibia's relatively high level of exposure to world economic events, the on-going challenging macroeconomic environment would be expected to influence both domestic growth and fiscal prospects. However, thanks to prudent macroeconomic management, real GDP growth in Namibia has remained well-supported, and is forecast to continue to do so over the 2014/15-2016/17 MTEF period. This once again emphasises the important role the MEF plays in helping to formulate the national policy agenda and hence address the core challenges of faster economic growth, job creation and narrowing income inequality.

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EXECUTIVE SUMMARY

Recovery from the recent financial crisis remains in low gear, with world growth slowing for a second consecutive year in 2012 to 3.2 percent, as economic activity in both advanced economies and emerging market and developing economies continued to stutter. While real GDP growth in Namibia remained fairly robust at 5.0 percent in 2012, the domestic economy nonetheless failed to evade this downward trend, as growth slowed from the 5.7 percent figure posted in 2011 – which itself represented a deceleration from 6.3 percent growth in the year before that.

Primary industries experienced robust growth of 12.8 percent in 2012 compared to 1.9 percent growth in 2011, as all sub-sectors posted strong gains. Similarly, tertiary industries witnessed acceleration in growth from 4.9 percent in 2011 to 6.4 percent growth in 2012, with the biggest boost provided by the *wholesale and retail* sub-sector. However, weaker growth in the *construction* sub-sector saw growth of secondary industries move in the opposite direction, slowing from 4.7 percent in 2011 to 3.9 percent in 2012, which dragged down overall GDP growth.

On the demand side, *gross domestic expenditure* grew by 11.2 percent in 2012, accelerating from growth of 5.3 percent experienced in 2011, on the back of strong growth of 19.7 percent in 2012 compared to 1.0 percent recorded in 2011 in *gross fixed capital formation* and acceleration in growth of *final consumption expenditure* from 5.4 percent in 2011 to 7.9 percent in 2012. This came despite a slowdown in *general government expenditure*, from 8.2 percent in 2011 to 7.9 percent in 2012, as growth of 8.0 percent in *private expenditure* compensated for this, growing by 8.0 in 2012, up from 4.5 in 2011. Meanwhile, despite *exports of goods and services* recording positive growth of 4.7 percent in 2012, compared to negative growth of 8.2 percent in 2011, this was insufficient to offset the stronger growth in *imports of goods and services*, which registered an expansion of 15.7 percent in 2012 compared to a decline of 0.4 percent in 2011. This meant that the deficit on the *net goods and service balance* continued to widen further from N$11 billion in 2011 to a record high of N$15 billion in 2012.

Looking forward, global economic activity is estimated to remain subdued in 2013, with world output growth forecast to decelerate once again, to 2.9 percent. Beyond 2013, however, global growth is forecast to stage a gradual recovery over the medium term, with growth projected to accelerate to 3.6 percent in 2014, and thereafter continue to gradually increase towards 4.1 percent by the end of the Medium-Term Expenditure Framework (MTEF) period. Nonetheless, while global growth prospects are projected to brighten over the medium term, world growth is nonetheless still expected to settle at a new, lower level than was witnessed prior to the global financial crisis.

Namibia is highly exposed to these external developments, and as such, the on-going challenging global macroeconomic environment would be expected to weigh heavily on economic activity. However, real GDP growth in Namibia has remained well supported by strong domestic demand, and is forecast to continue to do so over the 2014/15-2016/17 MTEF period.

Growth in primary industries is estimated to slow sharply in 2013, from the 12.6 percent recorded in 2012 to just 1.6 percent due to a combination of the adverse effects of the recent drought on *crop farming and forestry*, slower growth in *fishing and fish processing on board* and a weaker outturn in *mining and quarrying*. However, primary industries are projected to witness acceleration in growth over the remainder of the MTEF period as growth in *crop farming and forestry* returns to positive territory and the Swakop Uranium Mine comes on stream in 2015.

Secondary industries, meanwhile, are projected to experience robust growth over the whole of the MTEF period, supported by a boom in construction and the new SAB miller brewery beginning operations, while growth in tertiary industries will gradually slow over the same timeframe, as growth in *wholesale and retail trade* slows towards long-term trend levels after several years of very strong growth, and growth in *other services* also slows in line with stabilised expansion of government employment. With growth projected to slow from an estimated 5.0 percent in 2013 to 4.3 percent in 2017, economic activity in tertiary industries will nonetheless remain buoyant.

Driven by these factors, real output is consequently estimated to expand by 4.8 percent in 2013 before accelerating to 5.0 percent in 2014, after which growth is expected to moderate somewhat towards 4.6 percent by the end of the MTEF period. However, average growth over this timeframe is projected to remain relatively buoyant at 4.8 percent. However, it should be noted that downside risks to global growth still dominate. These include the threat of a loss of momentum or appetite in reforms in the Euro zone; the budget sequester in the US, which has prompted fears over excessive fiscal consolidation; rising oil prices, particularly in view of elevated geopolitical tensions in the Middle East and North Africa region; and commodity prices, which would trend lower should growth in major economies – and in particular, China – come in weaker than anticipated.

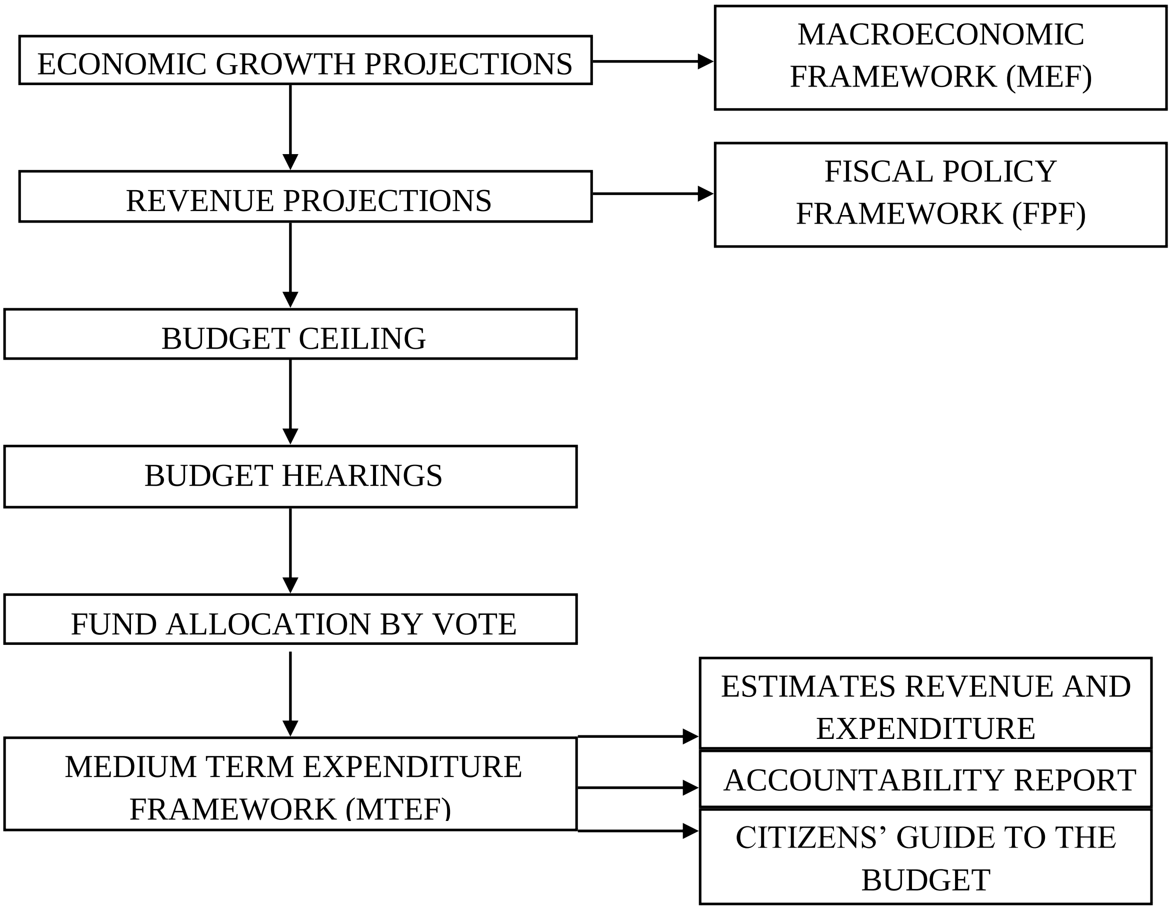
1. INTRODUCTION

The Macroeconomic Framework (MEF) serves as a prelude to the annual national budget formulation process and, therefore, focuses on the following important issues:

- Review of the past trends and recent economic developments at the global, regional and domestic level;
- Macroeconomic estimates and projections for the three-year Medium Term Expenditure Framework (MTEF) period. These estimates and projections are based on assumptions about the likely growth trajectory of the global, regional and domestic economies and constitute the primary basis for revenue forecasting; and
- Key strategic intervention areas which, going forward, are aimed at addressing challenges and structural weaknesses by optimising upside opportunities.

The review of past and present macroeconomic developments and the estimates and projections for the domestic, regional and world economies provide a key input in helping to develop the national policy agenda. Most significantly, the MEF serves as a prelude to the annual fiscal policy and budget frameworks, which in turn guide the national budget ceiling and priorities over the MTEF period. Diagram 1 highlights the MEF's role in the budget cycle.

Diagram 1: Budget Process Flowchart



The MEF also provides the private sector and the general public with an insight into the Government's economic assumptions that underlie its budget formulation and economic development proposals. With this in mind, the MEF is divided into the following sections:

- *Overview of recent global economic developments*

  Global economic developments have a significant impact on economic activity in Namibia, primarily via trade channels. Indeed, domestic real GDP growth is closely correlated to growth in world output. The MEF, therefore, provides an overview of recent global economic developments in order to better understand the current macroeconomic environment.

- *Overview of recent developments in commodity markets*

  Namibia's economy relies heavily on commodity exports, and thus developments in global commodity markets have a significant impact on domestic economic activity. The MEF, therefore, provides an overview of recent global economic developments in order to better understand the current macroeconomic environment.

- *Overview of recent domestic economic developments*

  The MEF provides an overview of recent domestic economic developments in order to better understand the current macroeconomic environment.

- *Projection of global and domestic economic growth over the next MTEF period*

  The MEF forms a key stage in the budget formulation process, since the real GDP growth projections contained in this document form the basis for the Government's revenue projections, which, in turn, form an input into determining the overall budget ceiling. The projections for global and domestic growth, therefore, are fundamental to the MEF, since they help to describe the anticipated macroeconomic environment over the upcoming MTEF period, which then determines the preferred fiscal policy stance and ultimately informs the rest of the budget formulation process.

- *Macroeconomic strategies, interventions and key strategic initiatives that will contribute to the national priorities of job creation, poverty reduction and alleviation of inequality through sustainable economic growth*

  The MEF also serves as a key document for guiding and formulating macroeconomic policy. The document, therefore, contains a section covering key policy issues which can serve as a basis for developing national policies.

Macroeconomic Working Group

The Macroeconomic Working Group (MEWG) – comprising membership of the Ministry of Finance, National Planning Commission, Bank of Namibia and Namibia Statistics Agency - is responsible for the production of the MEF for the MTEF period. Thus, the MEF essentially sets the foundation for revenue estimates and projections over the MTEF period. The MEWG uses an integrated macroeconomic modelling framework for its simulations, estimates and projections of Gross Domestic Product (GDP) figures that are used for revenue estimates and forecasts.

The MEWG provides a useful public forum for the generation and dissemination of macroeconomic data and sharing of knowledge and expertise among the member institutions. Furthermore, the MEWG is responsible for the publication of the Mid-Year Review of the MEF.

2. OVERVIEW OF RECENT ECONOMIC DEVELOPMENTS

A) GLOBAL ECONOMY

1. **World growth** slowed for a second consecutive year in 2012 as the global economy continued along its slow path to rehabilitation in the wake of the financial crisis. Global growth slowed to 3.2 percent in 2012 from the 3.9 percent recorded in the previous year and a rate of 5.2 percent in 2010 as both advanced and emerging market and developing economies experienced a slowdown in economic activity.

Table 1: Real GDP Growth (%) - Global

	2010	2011	2012
World	**5.2**	**3.9**	**3.2**
Advanced economies	**3.0**	**1.7**	**1.5**
Euro area	2.0	1.5	-0.6
United States	2.5	1.8	2.8
Japan	4.7	-0.6	2.0
Emerging market & developing economies	**7.5**	**6.2**	**4.9**
China	10.4	9.3	7.7
Brazil	7.5	2.7	0.9
Russia	4.5	4.3	3.4
India	10.5	6.3	3.2

Source: IMF WEO October 2013

2. Growth in **advanced economies** slowed in 2012 to 1.5 percent, from 1.7 percent in the previous year, despite the fact that both the US and Japan posted better outturns in 2012 compared to 2011 as the Euro zone slipped back into recession. Growth in the US accelerated from the 1.8 percent recorded in 2011 to 2.8 percent in 2012, while Japan registered an expansion of 2.0 percent having witnessed a decline of 0.6 percent in the previous year. However, this was not enough to compensate for the weakness witnessed in the Euro zone, where the positive growth of 1.5 percent recorded in 2011 was reversed as economic activity contracted by 0.6 percent.

3. Growth in **emerging market** and developing economies also slowed in 2012, to 4.9 percent from 6.2 percent in 2011. This came largely on the back of a slowdown in China, where growth decelerated from the 9.3 percent recorded in 2011 to 7.7 percent to mark the weakest rate of expansion since 1999. Weaker growth in other BRIC countries, however, also contributed to the slowdown experienced by emerging market and developing countries, with Brazil posting growth of just 0.9 percent (down from 2.7 percent in 2011), Russia expanding by 3.4 percent (down from 4.3 percent) and India growing by just 3.2 percent (down from 6.3 percent).

Commodity Price Developments

(a) Oil prices

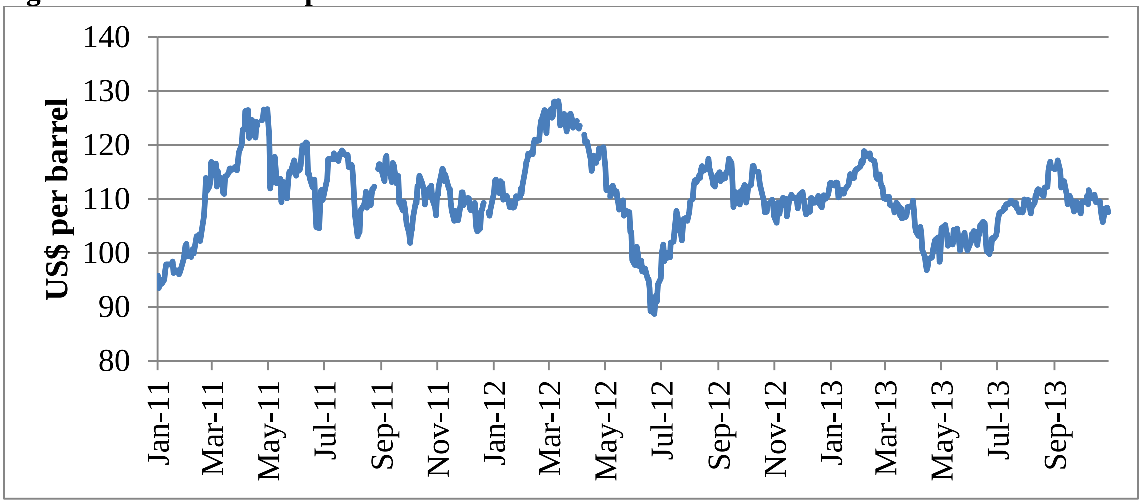
4. Although the average price of US$111.65 per barrel for Brent crude in 2012 almost matched the average price of US$111.26 per barrel recorded in the previous year, the spot price of Brent crude was highly volatile during 2012. Having risen to a 56-month high of US$128.14 per barrel in March, the price subsequently fell by 30 percent to a two-and-a-half-year low of U$88.68 per barrel just three months later. This was the

result of weaker aggregate demand on the back of slowing global economic activity combined with a positive oil supply response to previously high prices.

5. However, a return of geopolitical tensions in the Middle-East and Africa and decreased supply from Organisation of Petroleum Exporting Countries (OPEC) members in response to falling prices resulted in a sharp reversal in the downward trend in price, with Brent crude once again rebounding above the US$100 per barrel level before the end of July. The final five months of 2012, however, saw greater stability in prices, with Brent crude trading within the US$105-120 per barrel range.

6. The first eight months of 2013 have once again seen oil prices fluctuate widely. Since rising as high as US$118.48 per barrel in February, Brent crude witnessed a steady decline to a nine-month low of US$96.84 per barrel in April, after which the spot price gradually recovered to around the US$115.00 per barrel mark by the end of August – due to alleged airstrikes by the US on Syria and the jittery political situation in Egypt – before once again heading lower throughout September and October.

Figure 1: Brent Crude Spot Price



Source: US Energy Information Administration

(b) International food price developments

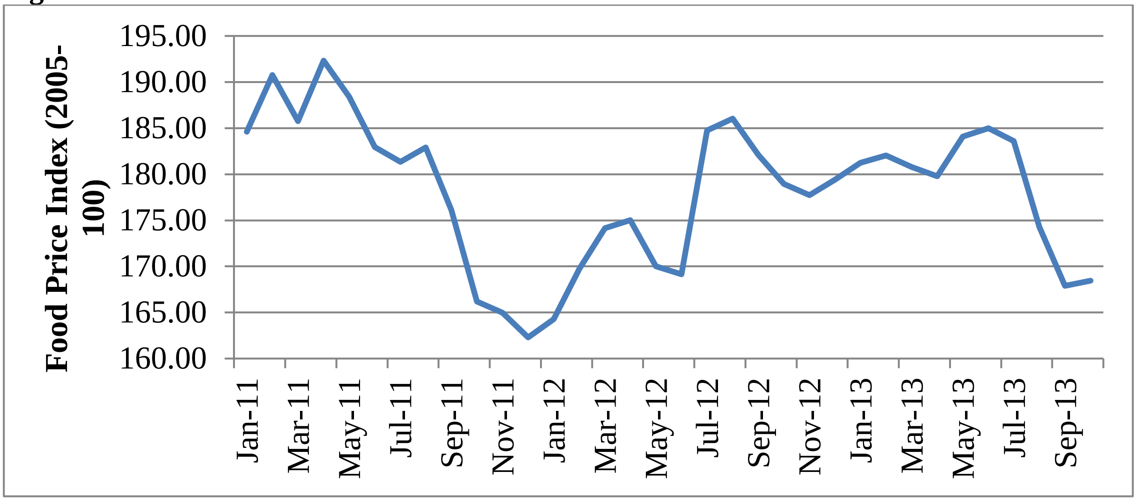
7. After witnessing a sharp decline in the second half of 2011, international food prices trended higher throughout the first eight months of 2012 before once again moderating towards the end of the year. This saw the IMF's Food Price Index close the year 2.2 percent lower than it ended 2011, despite *cereals* gaining 2.9 percent and *vegetable oils and protein meals* rising 4.4 percent, as *meat*, *seafood* and *sugar* all witnessed declines. While *meat* fell only marginally, by 0.9 percent, *seafood* and *sugar* posted dramatic losses, the former falling by 18.7 percent and the latter by 16.9 percent. (Fig. 2)

8. Food prices posted strong y-o-y gains in the first half of 2013 as a result of base effects[1], but the IMF's Food Price Index remained relatively stable over this period, hovering

[1] *Base effects relate to growth in the corresponding period of the previous year. If the growth rate was high in the corresponding period of the previous year, a similar absolute increase now will result in a lower growth rate in this period. Equally, if the growth rate was low in the corresponding period of the previous year, even a small increase will arithmetically give a high rate of growth now.*

between the 180 and 185 marks. However, the second half of the year has seen food prices plummet, with the IMF's Food Price Index losing 9.0 percent between June and October as supply vastly improved.

Figure 2: Food Price Index



Source: IMF Primary Commodity Prices

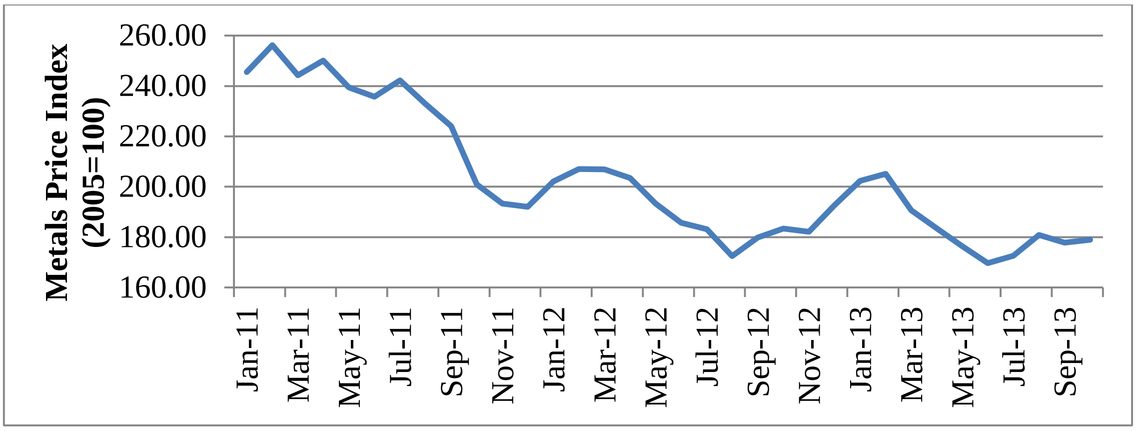
(c) Metals prices

9. Despite experiencing a general pick up in the second half of the year, metal prices declined across the board in 2012 on the back of slowing consumption and weak import demand in China.

10. Prices of *lead*, *uranium* and *zinc* posted double-digit declines, with *uranium* spot price falling by 13.0 percent (from US$56.24 per pound to US$48.90 per pound), and *zinc* prices decreasing by 11.2 percent (from US$2,195.33 per tonne to US$1,950.02 per tonne). C*opper* prices declined by 9.8 percent in 2012, from US$8,823.45 per tonne to US$7,958.92 per tonne.

11. Metals prices continued to trend lower over the first half of 2013, with the IMF's Metals Price Index falling to its lowest level since November 2009 in June 2013. However, since then metals prices have once again begun to pick up on the back of improved economic data in many key countries, in particular in China.

Figure 3: Metals Price Index



Source: IMF Primary Commodity Prices

B) REGIONAL ECONOMY

12. Growth in Sub-Saharan Africa (SSA) remained fairly robust in 2012 at 4.9 percent, but this nonetheless represented a slowdown from the 5.5 percent recorded in 2011. This weakening in growth came despite acceleration in growth in Angola, where real output expanded by 5.2 percent, up from 3.9 percent in 2011, due to weaker-than-anticipated performances in South Africa and Nigeria, the region's two largest economies.

13. Growth in South Africa slowed to 2.5 percent in 2012 from 3.5 percent in 2011, largely on the back of labour unrest in the mining sector and the spill over of the on-going problems in Europe, the country's most important export destination. Meanwhile, although growth remained strong at 6.6 percent in Nigeria, flooding curtailed both oil and non-oil output in 2012, leading to a deceleration from the 7.4 percent expansion recorded in 2011.

C) DOMESTIC ECONOMY

14. Namibia is a small, open economy. This means that it actively participates in international trade, but that its policies do not alter world prices, interest rates, or incomes. It is, however, affected by developments in large, open economies, such as the US, the Euro zone or Japan.

15. Weak growth in the likes of the US, the Euro zone or Japan has a negative impact on economic activity in Namibia, primarily through reduced demand for Namibian exports (i.e. weaker trade volumes) but also, to a lesser extent, via financial channels, such as the exchange rate. Similarly, since as a small open economy Namibia is said to be a 'price taker', the prices of commodities such as oil, food and metals also impact upon domestic economic activity. Namibia must import all of its oil needs, meaning that high oil prices increases the country's import bill; high world food prices feed through into high domestic food prices, which pushes up domestic prices; and since Namibia is a net exporter of metals, low world metals prices have a negative impact on Namibia's exports.

16. Against the backdrop presented in Section A above, therefore, real GDP growth slowed in 2012, to 5.0 percent from 5.7 percent in the previous year. Secondary industries registered lower of growth of 3.9 percent in 2012 compared to growth of 4.7 percent in 2011 – mainly due to slower growth in the construction sub-sector – while primary

industries recorded robust growth of 12.8 percent in 2012, up sharply from 1.9 percent in the previous year. Tertiary industries also registered higher growth of 6.4 percent in 2012, compared to 4.9 percent in 2011. (Table 4).

17. On the demand side, gross domestic expenditure grew by 11.2 percent in 2012, compared to 5.3 percent in 2011, mainly due to strong growth recorded in gross fixed capital formation (of 19.7 percent up from a mere 1.0 percent in 2011) as well as high growth in final consumption expenditure (of 7.4 percent up from 5.4 percent in 2011). However, although exports of goods and services recorded positive growth of 4.7 percent in 2012, compared to negative growth of 8.2 percent in 2011, this relatively strong rebound was insufficient to offset the stronger growth in imports of goods and services, which registered strong growth of 15.7 percent in 2012 compared to a decline of 0.4 percent in 2011. (Table 5)

I. Supply Side Developments

18. **Primary industries** experienced robust growth of 12.8 percent in 2012 compared to 1.9 percent growth in 2011, as all sectors posted strong gains. Although *agriculture and forestry* saw a deceleration in growth from the 15.5 percent recorded in 2011 as growth in both *livestock farming* and *crop farming and forestry* slowed, it nonetheless remained strong at 11.8 percent in 2012. *Fishing* and *fish processing on board* meanwhile recorded strong positive growth of 16.9 percent in 2012 compared to 8.5 percent in 2011.

19. *Mining and quarrying* experienced positive growth of 12.0 percent in 2012 having contracted by 7.9 percent in 2011 as both *diamond mining* and *other mining and quarrying* reversed declines witnessed in 2011 to post strong growth in 2012. Overall in 2012, primary industries contributed 1.5 percentage points to overall real GDP growth, up from 0.2 percentage points in 2011.

Table 4: Real GDP Growth (%) – Domestic, Supply Side

	2010	**2011**	**2012**
Primary industries	14.2	1.9	12.8
Secondary industries	6.4	4.7	3.9
Tertiary industries	4.7	4.9	6.4
GDP at market prices	**6.3**	**5.7**	**5.0**

Source: Namibia Statistics Agency National Accounts 2013

20. **Secondary industries** experienced a slowdown in growth in 2012 from 4.7 percent in 2011 to 3.9 percent in 2012. This was mainly due to the slower growth experienced in the *construction* sector which decelerated from 19.3 percent in 2011 to 12.5 percent in 2012 due to both a decline in construction activities as well as high base effects. Although *electricity and water* experienced acceleration in growth from 4.8 percent in 2011 to 5.8 percent in 2012, its contribution to overall growth remained minimal, while growth in *manufacturing* remained unchanged from the 1.2 percent recorded in 2011.

21. This came despite a massive 27.2 percent decline in *fish processing on shore*, as *meat processing* and *other food and beverages* rebounded from contractions recorded in 2011 to post positive growth of 2.8 percent and 6.5 percent, respectively, and growth

in *other manufacturing* accelerated from 3.3 percent to 4.7 percent. Overall in 2012, secondary industries contributed 0.8 percentage points to overall real GDP growth, down from 0.9 percentage points in 2011. (Table 3)

22. **Tertiary industries** saw an acceleration in growth from 4.9 percent in 2011 to 6.4 percent growth in 2012, with the biggest boost provided by the *wholesale and retail* sub-sector, which recorded a big increase from 3.3 percent growth in 2011 to 12.1 percent in 2012.Meanwhile, despite growth in the sub-sector slowing from 6.3 percent in 2011 to 4.5 percent in 2012, Other services also contributed strongly to the overall growth in tertiary industries. This was due to strong growth in *public administration and defence*, which grew by 6.2 percent, up from 3.3 percent in 2011, and *education*, which accelerated from the 3.8 percent recorded in 2011 to grow by 11.8 percent. Robust growth in *financial intermediation* also helped to boost growth in tertiary industries, as the sub-sector expanded by 6.6 percent, up from 4.2 percent in 2011.

23. *Other services* also contributed strongly to the overall growth in tertiary industries. This was due to strong growth in *public administration and defence*, which grew by 6.2 percent, up from 3.3 percent in 2011, and *education*, which accelerated from the 3.8 percent recorded in 2011 to grow by 11.8 percent. Robust growth in *financial intermediation* also helped to boost growth in tertiary industries, as the sector expanded by 6.6 percent, up from 4.2 percent in 2011. Overall in 2012, tertiary industries contributed 3.8 percentage points to overall real GDP growth, up from 3.0 percentage points in 2011[2].

II. Demand Side Developments

24. ***Gross domestic expenditure* grew** by 11.2 percent in 2012, accelerating from growth of 5.3 percent experienced in 2011, on the back of strong growth recorded in *gross fixed capital formation* and acceleration in growth of *final consumption expenditure*. *Gross fixed capital formation* grew by 19.7 percent in 2012, up from a mere 1.0 percent growth in 2011, backed by strong growth in the construction sector, while growth in *final consumption expenditure* accelerated from 5.4 percent in 2011 to 7.9 percent in 2012. This came despite *general government expenditure* experiencing slower growth of 7.9 percent, compared to 8.2 percent in 2011, as growth in *private expenditure* compensated for this, growing by 8.0 in 2012, up from 4.5 in 2011. (Table 5)

25. While ***exports** of goods and services* recorded positive growth of 4.7 percent in 2012, compared to negative growth of 8.2 percent in 2011, this relatively strong rebound was insufficient to offset the stronger growth in ***imports** of goods and services*, which registered strong growth of 15.7 percent in 2012 compared to a decline of 0.4 percent in 2011. This meant that the deficit on the *net goods and service balance* continued to widen further from N$11 billion in 2011 to a record high of N$15 billion in 2012.

Table 5: Real GDP Growth (%) – Domestic, Demand Side

	2010	2011	2012
Final consumption expenditure	4.8	5.4	7.9
Private	4.4	4.5	8.0

2 *Contributions to real GDP growth from primary, secondary and tertiary industries does not total to equal real GDP growth since financial intermediation services indirectly measured (FISIM) and Taxes less subsidies on products account also contribute to growth. These two items account for the residual.*

General government	6.0	8.2	7.9
Gross fixed capital formation	8.3	1.0	19.7
Changes in inventories[3]	-0.1	0.8	1.2
Gross domestic expenditure	**5.4**	**5.3**	**11.2**
Exports of goods and services	16.7	-8.2	4.7
Imports of goods and services	2.2	-0.4	15.7
Net Exports	**-22.0**	**19.0**	**36.9**
GDP at market prices	**6.3**	**5.7**	**5.0**

Source: Namibia Statistics Agency National Accounts 2013. Change in inventories are expressed as a % of GDP of the previous year, in line with the presentation of the National Accounts

III. Fiscal Developments

26. Having expanded by 34.1 percent in fiscal year 2011/12, government expenditure in nominal terms rose by just 4.1 percent in 2012/13 to N$38 billion. In 2012/13 Namibia's budget deficit is estimated at -0.1 percent, marking a vast improvement from the N$6.7 billion deficit (equal to 7.0 percent of GDP) recorded in 2011/12. The low deficit was due to improved revenue collection and partly under-spending, especially on the development budget. (Table 6)

Table 6: Fiscal Developments

ITEM	2009/10	2010-11	2011-12	2012-13
Revenue (bn)	24.0	23.4 bn	29.9	38.0
% of GDP	*31.4%*	*27.9%*	*31.3%*	*34.3%*
Expenditure (bn)	24.9	27.3	36.6	38.1
% of GDP	*32.5%*	*32.6%*	*38.3%*	*34.4%*
Budget Balance	-0.9	-3.9	-6.7	-0.15
% of GDP	*-1.2%*	*-4.6%*	*-7.0%*	*-0.1%*
Debt	11.9	13.9	24.7	27.6
% of GDP	*15.6%*	*16.6%*	*25.9%*	*24.9%*
Interest payments	1.2	0.97	1.8	2.2
% of Revenue	*1.6%*	*4.1%*	*6.2%*	*5.8%*
Guarantees	2.6	2.5	2.8	2.6
% of GDP	*3.4%*	*2.9%*	*2.9%*	*2.4%*

Source: Ministry of Finance

27. Central government debt grew by 11.3 percent from N$24.7 billion in 2011/12 to N$27.6 billion in 2012/13, although this marked a considerable slowdown from the massive 77.7 percent expansion recorded in 2011/12. Meanwhile, interest payments grew to N$2.6 billion in 2012/13, in line with the rapid expansion of debt incurred in 2011/12, but this still only accounted for 2.5 percent of GDP. Guarantees, on the other hand, fell in both nominal terms (by 7.1 percent, from N$2.8 billion to N$2.6 billion) and as a percentage of GDP (from 2.9 percent to 2.4 percent).

IV. Central Government Debt Developments

3 Inventories are calculated as the difference between goods produced (production) and goods sold (sales) in a given year

28. Although the Government pursued an expansionary fiscal policy aimed at countering the harsh effects of the recent global financial crisis, the total debt has remained at sustainable levels. While debt levels remain low by international standards, the pro-growth fiscal policy stance has, nonetheless, seen debt levels approaching the domestically-established benchmarks set out in the country's Sovereign Debt Management Strategy (SDMS), published in 2005.

Table 7: Central Government Debt (%)

	Benchmark	2009/10	2010/11	2011/12	2012/13
Domestic Debt					
Domestic debt to GDP	20.0	11.6	12.7	18.0	15.8
Domestic debt to Revenue	70.0	36.9	45.3	57.6	39.8
External Debt					
External debt to GDP	5.0	4.3	3.9	7.8	8.2
External debt to Exports	10.0	9.2	8.5	18.9	19.2
Guarantees					
Outstanding guarantees to GDP	10.0	3.4	2.4	2.7	2.1
Total Debt					
Total debt to GDP	35.0[4]	15.9	16.5	25.9	24.9
Total debt service to Revenue	10.0	5.0	4.1	3.8	3.9
Debt falling due within 12 months	30.0	36.4	39.8	50.3	47.3
Average Time to Maturity	5 years	4.3	4.7	3.8	3.6

Source: Ministry of Finance

29. Between 2008/09 and 2012/13, ***total debt*** as a proportion of GDP averaged 20.1 percent, a level that is well below the 25.0 percent threshold outlined in the SDMS. However, a 78.8 percent increase in total debt in 2011/12 – to N$24.7bn, up from N$13.8bn in 2010/11 – saw this benchmark level exceeded, with the total debt to GDP ratio rising to 25.9 percent. This has since dipped back below 25.0 percent, but in any case, this benchmark was in fact revised up in 2012/13 to 35.0 percent in light of the Government's expansionary fiscal stance.

30. The increase in total debt in 2011/12 was due the launch of Namibia's first Eurobond, – to the tune of US$500mn – and even thought this did push total debt as a proportion of GDP above the 25 percent level, the slip beyond the benchmark established in the SDMS was only marginal and temporary. The slight shift above the 25 percent threshold was only temporary, with total debt as a proportion of GDP falling back below the 25 percent level in 2012/13, to 24.9 percent.

31. ***Domestic debt*** as a proportion of GDP averaged 14.3 percent over the 2008/09 to 2011/12 period, but just as for total debt, 2011/12 saw this metric spike to skew this figure higher. The launch of Namibia's Eurobond in October 2011 saw ***external debt*** to GDP rise to 7.3 percent in 2011/12, thus exceeding the 5 percent threshold set out in the SDMS. Moreover, the ratio of external debt to GDP rose further in 2012/13, to 8.3 percent, as Namibia launched a SA Rand-denominated offering on the Johannesburg

[4] *This was revised upwards from 25% in 2012/13*

Stock Exchange. These two international offerings dragged the average external debt to GDP ratio to 5.9 percent over the 2008/09 to 2012/13 period.

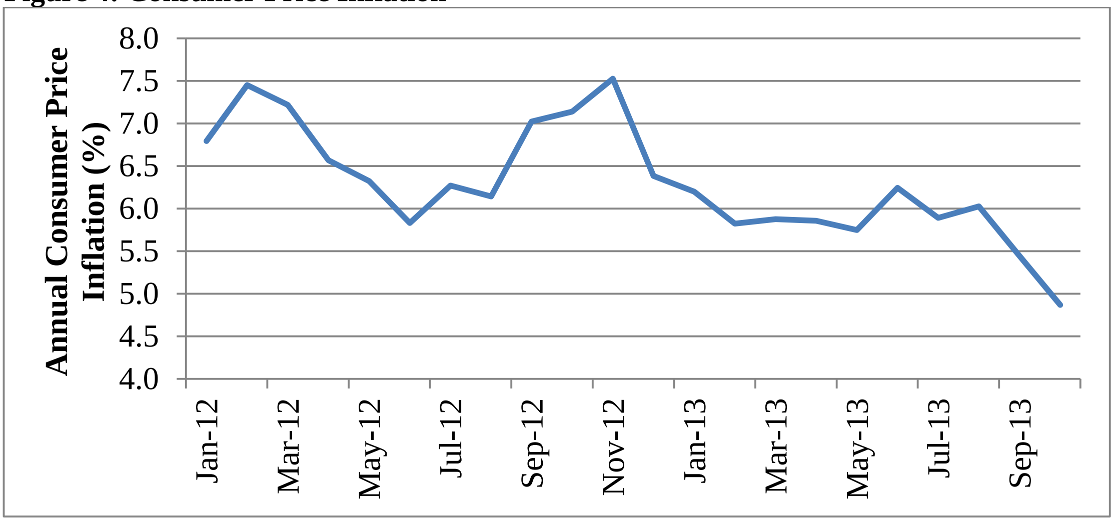
32. The value of ***guarantees*** issued by the Namibian Government as a proportion of GDP have remained well below the 10 percent benchmark established in the SDMS and have, in fact, declined since 2008/09, falling from 4.1 percent to 2.1 percent in 2012/13 (although 2011/12 saw this metric increase slightly, to 2.7 percent from 2.4 percent in the previous year).

V. Price Developments

33. The National Statistic Agency (NSA) rebased the consumer price index in October 2013 to provide a better representation of the spending patterns of Namibians. The new CPI weights are derived from the NSA's 2009/10 Namibia Household Income and Expenditure Survey (NHIES). However, despite significant changes to the weighting of various sub-components within the CPI basket, the overall impact on inflation has not been significant.

34. According to the rebased data series, (where December 2012=100), consumer price inflation averaged 6.7 percent in 2012 (compared to 6.5 percent under the old weightings, where 2005=100). Inflation slowed during the first half of 2012 as the price growth of *food and non-alcoholic beverages* and *housing, water, electricity, gas and other fuels* decelerated, but picked up once again in the second half of the year as the downward trend for both these items was reversed.

Figure 4: Consumer Price Inflation



Source: Namibia Statistics Agency Consumer Price Index October 2013

35. Consumer price inflation has, however, once again trended lower over the first ten months of 2013. Despite a sharp acceleration in the price growth of *transport* in the second half of the year, overall inflation dipped below the five percent mark in October 2013 (down from 6.4 percent at the end of 2012) on the back of slower price growth of *food and non-alcoholic beverages*; *alcoholic beverages and tobacco*; and *housing, water, electricity, gas and other fuels* (Figure 4). This saw average inflation for the first ten months of the year come in at 5.8 percent, down from 6.7 percent over the corresponding period in 2012.

VI. Interest Rate Developments

36. The key policy rate of the Bank of Namibia – the repo rate – remained unchanged in the first seven months of 2012. However, in view of heightened uncertainty surrounding global economic activity and to further bolster economic activity, the repo rate was lowered by 50 basis points in August 2012, from 6.00 percent to 5.50 percent. To date, this policy stance has been sustained to further support domestic economic activity.

37. Average mortgage, lending and deposit rates all fell slightly in 2012, although by less than the 50 basis point cut in the repo rate. The average mortgage rate fell to 10.51 percent in 2012, from 10.63 percent in 2011, while the average lending rate fell to 8.65 percent, from 8.72 percent. The average deposit rate, meanwhile, fell to 4.21 percent, from 4.28 percent. These interest rates have all continued to trend gradually lower over the first eight months of 2013, with the average mortgage rate falling to 10.25 percent during this period, the average lending rate dropping to 8.28 percent and the average deposit rate decreasing to 4.03 percent.

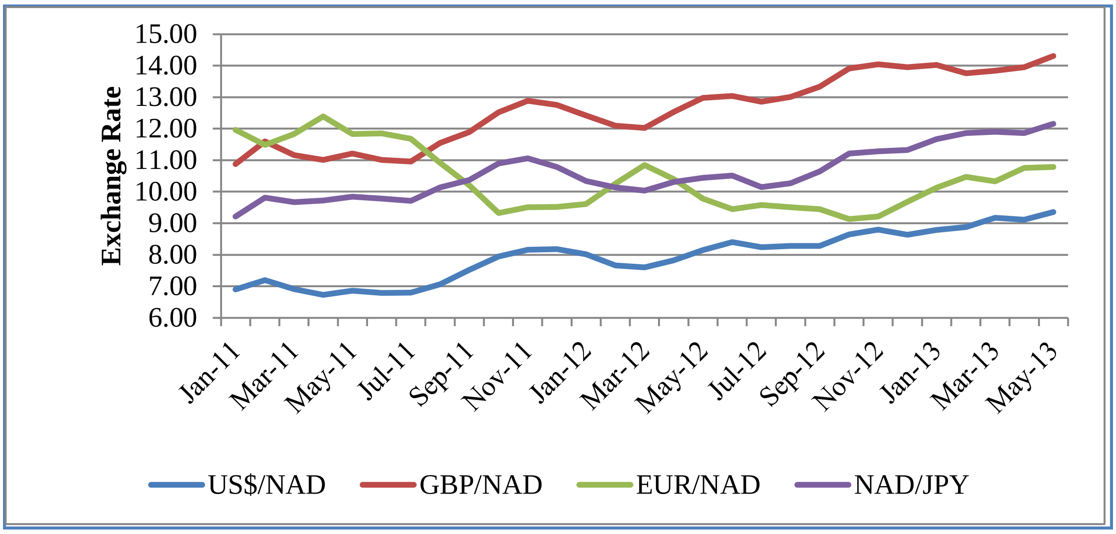
VII. Exchange Rate Developments

38. Having appreciated by 1.1 percent against the US Dollar in 2011, 2012 saw the Namibia Dollar weaken significantly. The Namibian Dollar depreciated by 13.2 percent against its US counterpart this was the result of a combination of soft economic activity in South Africa, compounded by industrial action-related disturbances to mining output, and a number of positive economic developments in the US – including the passage of the Tax Payer Relief Act and an upturn in the housing market and credit conditions. (Figure 5)

39. The Namibia Dollar also lost ground against the Euro in 2012, falling by 4.7 percent to compound the 3.8 percent depreciation witnessed in 2011. This relatively better performance against the Euro viz-a-viz the US Dollar was largely ascribed to the fact that the Euro has remained weak due to the on-going recession in the Euro zone. Against other key currencies, the Namibia Dollar depreciated by 12.0 percent against the British Pound (compared to 2.7 percent depreciation in 2011) and by 11.8 percent versus the Japanese Yen (compared to 7.9 percent in 2011). While the depreciation of the Namibia Dollar has seen the country's exports gain some external competitiveness competitive, it has also made imported goods and Namibia's foreign debt obligations more expensive.

40. The nominal effective exchange rate (NEER) depreciated 5.3 percent in 2012, having fallen by 13.9 percent in 2011, and the real effective exchange rate (REER) lost 1.5 percent, compounding the 9.7 percent decline witnessed in 2011. This suggests that Namibian export products became relatively cheaper on the international market thus gaining in competitiveness. On the other hand, imported commodities became more expensive thus putting pressure on producer and consumer prices.

Figure 5: Bilateral Exchange Rates



Source: Bank of Namibia

VIII. External Sector

41. Despite the country's trade deficit widening in 2012, Namibia's **current account deficit** narrowed from N$3.3 billion in 2011 to N$1.8 billion. Merchandise exports grew by 7.0 percent in 2012, from N$31.9 billion to N$34.2 billion, boosted by a 29.0 percent rise in diamond exports, but this was overshadowed by rapid growth in imports, which rose by 13.4 percent to N$46.3 billion, from N$40.8 billion in 2011. However, a massive 55.6 percent rise in current transfers more than offset this decline in the country's trade position. Current transfers were boosted by an 82.8 percent increase in SACU receipts, which rose from N$6.6 billion in 2011 to N$12.1 billion in 2012.

42. Although the capital and financial account remained in surplus at N$2.5 billion in 2012, this represented a significant decline from the N$7.8 billion surplus recorded in 2011. This came as a result of a fall in net direct investment in Namibia and in portfolio investment, largely due to reduced inflows in debt securities. Other long-term investment also witnessed a sharp decline, although an increase in other short-term investment did help to compensate for this.

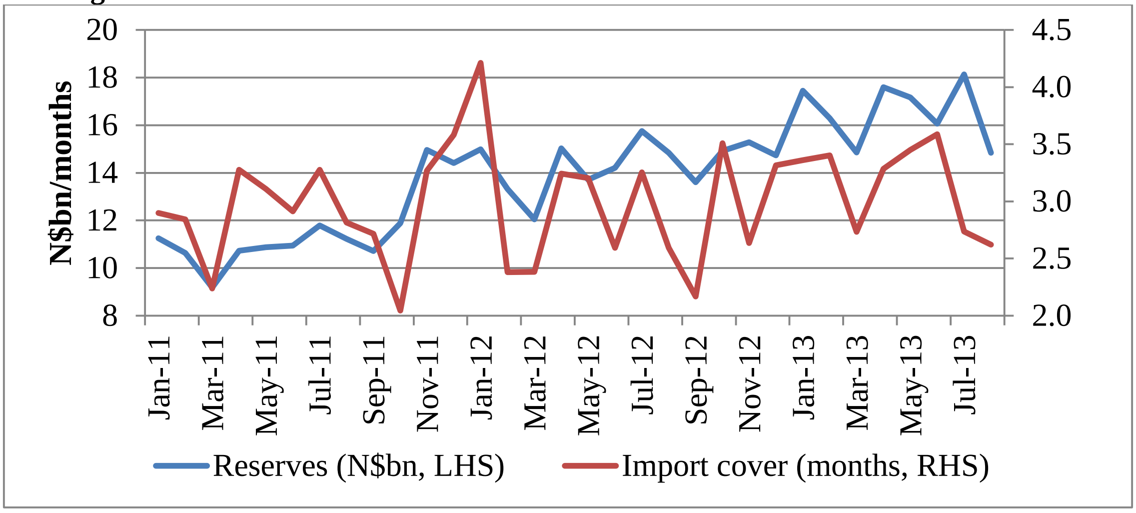
Namibia's Major Trading Partners

43. South Africa, the Euro zone and the UK were Namibia's top three export destinations in 2012. South Africa absorbed commodities such as beverages, beef, live cattle and small stock and fish, while the Euro zone and the UK absorbed mostly diamonds, beef and fish products. Exports to Angola, the US and the Democratic Republic of Congo were also significant. Meanwhile, South Africa remained the leading source of imports, from where vehicles, fuel, pharmaceuticals, cigarettes, beverages and various household items were imported. The Euro zone, China, the UK and Zambia were the other important sources of imports.

IX. Foreign Reserves

44. Foreign reserves have steadily been improving since 2011, averaging N$14.4 billion in 2012, up 24.4 percent on the N$11.5 billion average recorded in 2011. Foreign reserves have been boosted in recent times by healthy SACU transfers and the issuance of key foreign debt instruments such as the Eurobond and the JSE-listed bonds. However, foreign reserves did close 2012 only slightly higher than they closed 2011, increasing by just 2.2 percent from N$14.4 billion to N$14.7 billion. The upward trend has persisted in 2013, with foreign reserves averaging N$16.6 billion in the first eight months of the year, compared to N$14.2 billion in the same period of 2011. However, import cover has shown negligible improvement since 2011, with average months of import cover increasing only marginally from 2.9 months in 2011 to 3.0 months in 2012, and to 3.1 months for the first eight months of 2013. This is hovering around the internationally accepted minimum threshold of 3.0 months of import cover. (Figure 6)

Figure 6: International Reserves



Source: Bank of Namibia, National Statistics Agency

X. Capital Market Developments

(a) Government bond yields

45. In 2012, the yields on government debt instruments followed a downward trend – compared to the mixed outcomes observed in 2011 – in line with the general decline in the repo rates during 2012, in both Namibia and South Africa. The influx of offshore funds in search for higher yields in the South African bond market also contributed to the observed rally in the bond prices. The rates on short to medium-term bonds (GC14 and GC15) all fell by over 110 basis points. The yield on the GC14 (the shortest-dated bond) eased from 6.98 percent in January to 6.07 percent in June, before falling further to 5.88 percent in December 2012. Bonds at the longer end of the yield curve registered slight moderation in yields during the year under review. In this regard, the yields on the GC27 and GC30 fell by 109 and 93 basis points, respectively.

46. In terms of Namibia's foreign debt, the Euro bond yield has been hovering around the 5.0 percent mark, experiencing a sharp increase of around 100 basis points in May 2013. This spike in the yield saw the spread over the equivalent US instrument initially widen from around 200 basis points to almost 300, but has since narrowed again to settle recently around the 220 basis points mark.

(b) Namibian Stock Exchange

47. The Namibian Stock Exchange (NSX) Overall Index performed well in 2012 and accelerated to close at 983.79 at the end of December 2012, representing a rise of 17.4 percent over the close of 2011. Meanwhile, the NSX Local Index rose by 23.7 percent in 2012 from 221.19 at the end of 2011to 273.56.

48. The performance of the Overall Index of the NSX was weak during the second quarter of 2013, compared to the preceding quarter, while the Local Index remained resilient. The local index was cushioned by limited exposure to the effects of the global financial markets developments and, therefore, closed higher at 301.40 points at the end of the third quarter compared to 286.99 points at the end of the second quarter.

3. REVIEW OF RECENT STRATEGIC INTERVENTIONS AND INITIATIVES

(a) Targeted Intervention Programme for Employment and Economic Growth

49. The Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) was introduced during 2011/2012- 2013/2014 MTEF period following the Employment Summit held in September 2010. The objective of the programme is to create employment opportunities and to put in place the required infrastructures for economic growth. The total estimated expenditure for the TIPEEG Programme was N$14.7 billion and an overall execution rate of 66 percent was recorded at the end of September 2013. A total number of 80,280 jobs (65,725 temporary and 14,555 permanent) have been created until the end of September 2013, representing 77.2 percent of the 104,000 jobs expected under the programme. TIPEEG would come to an end on 31 March 2014.

(b) Industrial Policy

50. The Industrial Policy (IP) entails a targeted approach towards industrial development by focusing on the diversification of the economy, extension of the value chain of natural resources, development of the manufacturing and services sectors as well as growth of the small and medium enterprises. In 2012, Cabinet approved the Industrial Policy for Namibia. The strategic framework, which outlines the milestones along with specific strategies and implementation plan for the next five years, is being developed.

(c) Public-Private Partnership Policy

51. The Government is undertaking a broad based initiative for operationalizing the PPP policy in Namibia'. This initiative consist of six core activities: (i) Legislative review and law creation; (ii) Developing a 'review and approval process' for annuity PPP projects to ensure fiscal soundness; (iii) Preparation of guidance material for all stages

of PPP process; (iv) Creation of PPP unit; (v) Capacity building and creating awareness with respect to PPPs among line Ministries/State-owned enterprises; and (vi) Identification of 2 pilot PPP projects.

52. The notable progress has been made in the following area: the structure and staffing for a PPP Unit at the Ministry of Finance has been approved by the Public Service Commission, a draft of the PPP Bill has also been developed, and will shortly be circulated for stakeholder considerations. Other activities under the on-going initiative for operationalizing the PPP policy are either concluded or are near completion. It is expected that the PPP Act will be finalised in 2014 and piloting of 1to 2 projects will be made.

(d) National Human Resources Plan

53. The National Human Resources Plan (NHRP) is designed to provide an overview of the human resource situation, policy parameters and the strategic directions for appropriate interventions. It features implementation, monitoring and evaluation frameworks for sustainable human resources planning and development. This plan was approved by Cabinet in 2012 to guide the Government, private sector, civic organisations and training institutions on strategies to invest in industries with high growth and employment potential. It also focuses on the development of critical skills that are required by the industries.

(e) National Employment Policy

54. The National Employment Policy (NEP) provides an analysis of the employment situation and highlights priority sectors and industries with high potential for the creation of sustainable and decent employment opportunities. Furthermore, the NEP features monitoring and evaluation mechanisms as well as an implementation plan with role players whose contributions are critical for the successful implementation of the Policy. It was launched in October 2013 and spans over the period 2013-2017.

(f) Capital and Financial Markets Developments

55. Namibia's stable financial system, liquid capital markets and institutional framework are an added pillar of strength that supports the economy. During the MTEF, domestic policy priority was given to achieving expanded financial inclusion for underserved segments of the economy, development of the domestic capital markets and improving the regulatory environment. These interventions have the objective of elevating the role of the financial sector in the economy and enhancing the sector contribution to accelerate economic growth and wealth creation for Namibians as espoused in NDP4. During the previous MTEF, the following key policy interventions and results were realized:

(i) **The Namibia Financial Sector Strategy (NFSS):** Pursuant to the launch of the ten-year NFSS and Action Plan during 2012, a Monitoring and Evaluation Framework has been developed and to form the basis for annual assessment of progress on the targets set out in the Strategy. The NFSS is a long-term development strategy for the Namibian financial sector. It is expected that the strategy will guide the achievement of the financial sector objectives as set out in the various national development plans (NDPs and Vision 2030), especially those relating to capital and financial markets developments, ownership of financial institutions, access to finance, consumer protection and financial literacy.

(ii) **Financial inclusion and access** is one of the priority outcome areas for the NFSS. Numerous interventions have been initiated to further this goal. In this regard, the Financial Inclusion Council under the Chairmanship of the Prime Minister and Advisory Board are established and regularly monitor progress made on the financial inclusion agenda.

(iii) The **FinScope Survey** undertaken in 2011 revealed that commendable progress has been recorded in pushing back the frontiers of financial exclusion. Financial inclusion is estimated to have increased from 48.3 percent recorded in 2007 to about 69 percent by 2011. Alongside the development of the Financial Sector Strategy, a National *Financial Literacy Initiative* was launched in 2012 to provide financial education to the population and promote financial inclusion.

(iv) **A baseline financial literacy** survey undertaken in 2013 put the national financial literacy level at 42.8 percent of the adult population. The findings of the survey will aid the design of targeted interventions. To date, the financial education campaign has been rolled out to various regions of the country.

(v) **Financial product innovation and conducive regulatory environment:** On the supply-side, a noted progress in furtherance of the financial inclusion agenda has been the introduction of innovative financial products that are specially tailored to address the needs of the low-income and SMEs. The Smart card technology and expansive branch network of Nampost Savings Bank has taken basic banking services to the rural and peri-urban communities across the country. In addition, commercial banks introduced products targeting low income earners, namely a Basic Bank Account and e-Wallet products, allowing for low-income earners great latitude of access to basic banking services without being subjected to the prohibitive fees and charges.

(vi) The banking industry has adopted a **Code of Banking Practice** in Namibia, while the Bank of Namibia issued Guidelines for Lodging Consumer Complaints. Moreover, the Bank issued standards for cash deposit fees in 2013. Under these standards, all banking institutions will provide free cash deposits for the first N$2,000 deposited per month on all savings and investment accounts, while businesses with an annual turnover of N$1 million or less will not be changed any cash deposit fees for the first N$10,000 deposited per month. In addition, the regulatory regime has been modernized to ensure that technology-driven product innovation adheres to best international standards and support financial stability. Seen together, these interventions operate to support expanded access to finance and promote financial inclusion for all.

(vii) **Anti-Money Laundering and Combating Financing of Terrorism (AML-CFT) regulatory regime:** Namibia's primary legislation which criminalizes money laundering is provided for in the Prevention of Organized Crime Act, 2004 (Act No.29 of 2004) and its subsidiary regulations. Namibia has since strengthened its institutional capacity and legislative prowess to deter and eliminate money laundering and the financing of terrorism opportunities. The Financial Intelligence

Act (Act No. 3 of 2007) was replaced with a new Act in 2012 to domesticate international best practices and confer greater operational autonomy to the Financial Intelligence Centre at the Bank of Namibia.

(viii) The enactment of the **Prevention and Combating of Terrorist Activities Act**, 2012 (Act No. 13 of 2012) with accompanying Regulations added to the adequacy of the national legislative framework, thereby placing Namibia on par with best international standards. In addition, the national evaluation and review undertaken in 2012 provided impetus to the modernisation of the national policy and enhanced the potency of the AML-CFT national strategy. Namibia plays an active role in the affairs of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and has assumed ESMLAAG presidency in mid-2013.

(ix) **The Financial Institutions and Markets Bill (FIM BILL) and related subsidiary regulations:** In the non-bank financial sector, the drafting of the FIM Bill under the ambit of Namibia Financial Institutions Supervisory Authority (Namfisa), together with the new Namfisa Bill, has been finalized. The Bills are currently undergoing legal scrutiny before tabling in Parliament. The regulatory overhaul is aimed at improving regulatory oversight and compliance through a risk-based supervisory regime.

The amended Regulations 28 (under the Pension Funds Act, 1956) and Regulation 15 (under the Long-term Insurance Act, 1998) relating to domestic asset requirements have been gazetted in 2013, after a protracted review and amendment process. The regulations provide for minimum thresholds for institutional investors to invest in unlisted securities in the local economy, while the permitted investment exposure by institutional investors in unlisted securities has also been reduced. The gazetting of the amended rules marks a milestone on the Namibian financial landscape. The amended rules will release private savings for investment in the domestic economy and form part of the domestic resource mobilization strategy to narrow the savings-investment gap and help stem domestic capital outflow.

(x) **Capital markets development:** About 70 percent of Government borrowing needs are sourced from the domestic market through issuance of Government debt papers to support the development of the domestic capital market. Namibia has also taken steps to diversify its bond market by issuing two sovereign bonds in 2012, namely the US-dollar denominated Eurobond to the tune of US$500 million and the R850 million South African Rand-denominated bond on the Johannesburg Stock Exchange on the back of better sovereign credit rating for Namibia by Fitch and Moody’s Investor Services. To further encourage market activity, Government initiated a study on State-Owned Enterprise (SOE) financing solutions, with the view to encourage SOEs to raise own funds from the market.

4. MEDIUM TERM ECONOMIC OUTLOOK[5]

(i) GLOBAL ECONOMIC OUTLOOK

56. Global economic activity is expected to remain subdued in 2013, with world output growth forecast to decelerate to 2.9 percent, from the 3.2 percent recorded in 2012,

[5] *Based on information and assumptions as outlined in Annex A*

primarily on the back of weaker growth prospects in emerging market and developing economies. Beyond 2013, however, global growth is forecast to recover to 3.6 percent in 2014, and thereafter continue to accelerate towards 4.1 percent by the end of the MTEF period as economic activity in both advanced economies and emerging market and developing economies gathers momentum. (Table 7)

Table 7: Real GDP Growth Forecasts (%) - Global

	2012	2013e	2014p	2015p	2016p	2017p
World	**3.2**	**2.9**	**3.6**	**4.0**	**4.1**	**4.1**
Advanced economies	**1.5**	**1.2**	**2.0**	**2.5**	**2.6**	**2.6**
Euro area	-0.6	-0.4	1.0	1.4	1.5	1.6
United States	2.8	1.6	2.6	3.4	3.5	3.4
Japan	2.0	2.0	1.2	1.1	1.2	1.1
Emerging market & dev. econ.	**4.9**	**4.5**	**5.1**	**5.3**	**5.4**	**5.5**
China	7.7	7.6	7.3	7.0	7.0	7.0
Brazil	0.9	2.5	2.5	3.2	3.3	3.5
Russia	3.4	1.5	3.0	3.5	3.5	3.5
India	3.2	3.8	5.1	6.3	6.5	6.7

Source: IMF WEO October 2013e=estimate, p=projection

57. Although economic activity in the Euro zone is forecast to gather pace in 2013, with growth improving slightly from the 0.6 percent contraction registered in 2012, the monetary union is nonetheless projected to remain in recession, with real output forecast to decline by 0.4 percent.

58. Growth in Japan is forecast to remain unchanged at 2.0 percent in 2013, while growth in the US is projected to slow to 1.6 percent. Against this background, therefore, growth in **advanced economies** is expected to slow to 1.2 percent in 2013. Beyond 2013, however, growth in advanced economies is expected to pick up, accelerating to 2.0 percent in 2014 on the back of a return to positive growth in the Euro zone and stronger activity in the US, before gradually rising towards 2.6 percent by the end of the MTEF period.

59. Growth in **emerging market and developing economies** is also projected to register a slowdown in 2013, from 4.9 percent to 4.5 percent, largely as a result of a slowdown in economic activity in China. While other major emerging market and developing economies are forecast to post more solid gains in 2013 – growth in Brazil is forecast to accelerate from 0.9 percent in 2012 to 2.5 percent while growth in India is projected to increase from 3.2 percent to 3.8 percent – China is expected to see growth slow to 7.6 percent. Growth in Russia, meanwhile, is forecast to slow sharply, from 3.4 percent to just 1.5 percent.

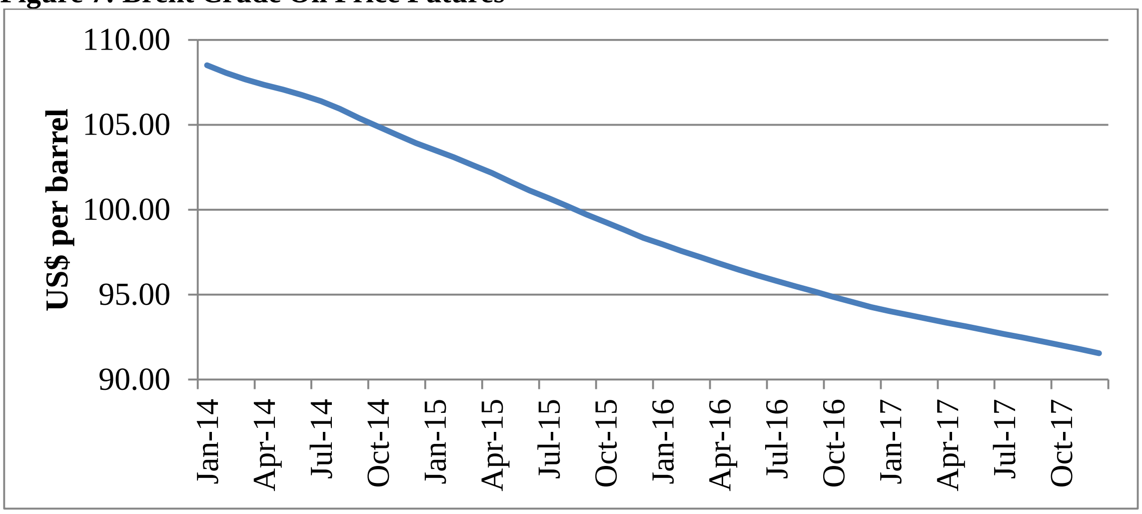
60. Going forward, growth in emerging market and developing economies is projected to rebound to 5.1 percent in 2014 before trending higher over the remainder of the MTEF period to reach 5.5 percent by 2017. This comes despite growth in China slowing to anticipated rate of 7.3 percent in 2014 and to 7.0 percent in each of the remaining years of the MTEF period, as stronger growth in the other BRIC members helps to compensate for this.

Commodity Price Outlook

(a) Oil prices

61. Using futures contracts as a guide, Brent crude is set to end 2013 around US$110.00 per barrel, implying a full-year average price of approximately US$109.00 per barrel, which would represent a 2.4 percent fall from 2012. This downward trend is set to remain in place out to the end of the MTEF period, due to a combination of an improved outlook for supply – as oil supply recovers from last year's outages and non-OPEC production increases – and sluggish demand. Against this backdrop, the price of Brent crude is set to gradually decline towards the US$90.00 per barrel mark by the end of 2017. This trend is not without upside risks, mainly due to geopolitical tensions and the fragile political conditions in the middle-eastern regions.

Figure 7: Brent Crude Oil Price Futures



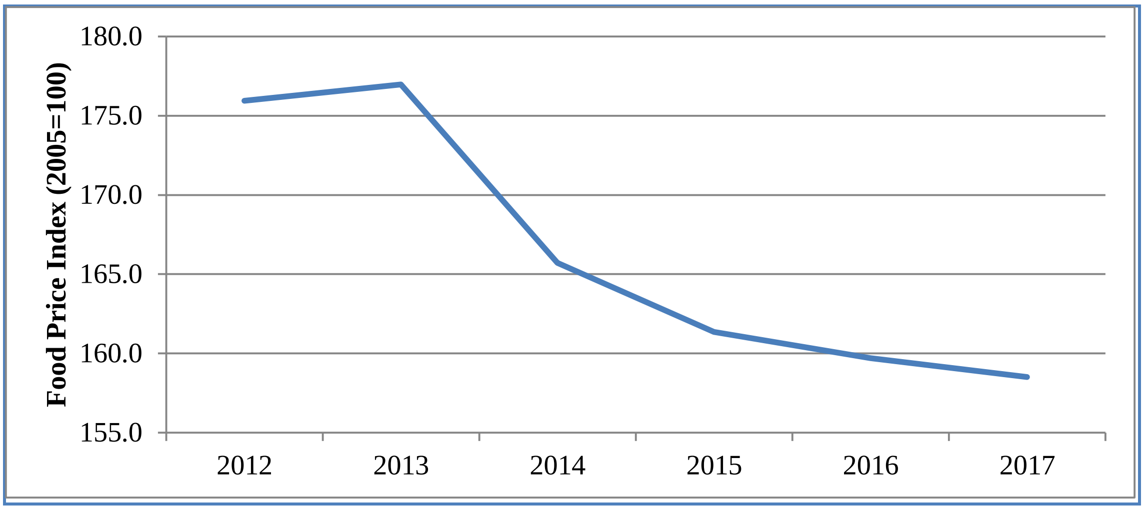
Source: CME Group

(b) Food prices

62. Food prices are estimated to increase slightly in 2013, but only by 0.6 percent, as a significant increase in the price of *seafood* is offset by sharp declines in the price of *cereals* and *sugar*. *Meat* prices are also forecast to reverse the decline of 0.9 percent posted in 2012 to grow by 3.8 percent in 2013, but these positive developments will be all but cancelled out by falls in the prices of *cereals*, *sugar*, and *vegetable oils and protein meals*. (Figure 8)

63. Beyond 2013, food prices are expected to gradually trend lower as prices steadily return to historical trend levels on the back of improving supply. Food prices are projected to decline on average by 2.7 percent a year between 2014 and 2017 as all sub-sectors experience negative growth. The greatest price falls are expected to be witnessed in *seafood*, closely followed by *vegetable oils and protein meals*.

Figure 8: Food Price Index Forecasts



Source: IMF Primary Commodity Prices

(c) Metal prices

64. Metal prices are estimated to continue to trend lower over 2013 and 2014 as demand from China moderates as a result of a more subdued rate of economic growth and greater efforts to reposition growth towards services. The IMF Metals Price Index is forecast to fall by 3.9 percent in 2013 to compound the 16.8 percent decline recorded in 2012, and to subsequently fall by 4.6 percent in 2014. Beyond 2014, however, the outlook for metals becomes brighter, with a return to positive growth of 0.4 percent projected in 2015, after which growth is forecast to accelerate to 1.2 percent by the end of the MTEF period.

65. However, there is very little consistency across individual metal prices over the MTEF period. While the prices of *lead*, *tin* and *zinc* are all expected to increase in 2013 – by 6.1 percent, 4.7 percent and 0.2 percent, respectively – these gains are set to be cancelled out by declines in the prices of *uranium*, *nickel*, *copper* and *aluminium*. *Uranium* spot prices are forecast to drop by a massive 18.7 percent in 2013, with *nickel* prices projected to decline by 12.7 percent.

66. *Copper* prices are poised to fall by 6.4 percent and *aluminium* by 6.2 percent. Similarly, in 2014, increases in the prices of *zinc*, *aluminium* and *lead* (of 4.3 percent, 3.9 percent and 2.4 percent, respectively) will be offset by declines in the prices of *uranium* (by 7.5 percent), *nickel* (by 4.5 percent), *tin* (by 1.5 percent) and *copper* (by 0.6 percent). And while the prices of all other major metals are set to have recovered their losses by the end of the MTEF period, and indeed end 2017 higher than they finished 2012, *uranium* and *tin* prove to be the exception to this rule.

(ii) REGIONAL ECONOMIC OUTLOOK

67. Growth in **Sub-Saharan Africa (SSA)** during 2013 is forecast to remain generally well supported by on-going investment in infrastructure, robust consumption, and the activation of new capacity in extractive sectors – in addition to the continuation of generally prudent macroeconomic management. However, these positive factors will be largely offset by a weaker external environment and a number of home-grown

challenges such as supply bottlenecks and political unrests in some member states, resulting in only a marginal increase in real output growth from the 4.9 percent recorded in 2012, to 5.0 percent. (Table 8)

68. The on-going strong domestic demand and improvements in the external environment are, however, expected to see growth accelerate sharply in 2014, to 6.0 percent. Yet, following this, growth in SSA is forecast to gradually slow over the remainder of the MTEF period, to 5.5 percent in 2017.

69. Economic activity in ***South Africa,*** Sub-Saharan Africa's largest economy, is expected to remain muted throughout 2013, with growth estimated to decelerate to 2.0 percent from the 2.5 percent recorded in 2012, owing largely to sluggish mining production and on-going weakness in the Euro zone, its main export market. However, growth is expected to rebound to 2.9 percent in 2014 on the back of positive growth in the Euro zone, and gradually accelerate further over the remainder of the MTEF period, to 3.5 percent by 2017.

(iii) DOMESTIC ECONOMIC OUTLOOK

70. With global economic activity expected to remain subdued in 2013, growth in Namibia would be expected to suffer in line with weaker trade volumes. Similarly, projected lower metals prices also bodes ill for the country's exports prospects, while forecasts for continued high food prices would be expected to feed through into consumer price inflation, and subsequently into private consumption. On the other hand, however, lower oil prices would be expected to contribute to a lower import bill. Against this backdrop, therefore, domestic growth is forecast to slow to 4.8 percent in 2013, from the 5.0 percent expansion recorded in 2012

71. Beyond 2013, however, as world output growth gathers momentum, the growth prospects for Namibia would be expected to brighten. Similarly, lower oil prices, lower food prices, and an improvement in metals prices would be expected to provide a boost to the domestic economy. Domestic growth is, as a result, forecast to rebound to 5.0 percent in 2014, and is projected to average 4.8 percent over the entire MTEF period.

(iv) Supply Side Projections[6]

72. Growth in **primary industries** is forecast to slow sharply in 2013, from 12.6 percent recorded in 2012 to just 1.6 percent due to a combination of the adverse effects of the recent drought on *crop farming and forestry*, slower growth in *fishing and fish processing on board* and a weaker outturn in *mining and quarrying* as a result of low uranium prices and diamond mining approaching full capacity. (Table 9)

73. Primary industries are, however, projected to witness a mild acceleration in growth in 2014 to 1.9 percent as growth in *crop farming and forestry* returns to positive growth, and are similarly expected to post stronger growth in both 2015 (2.4 percent) and 2016 (4.5 percent) as the Swakop Uranium Mine comes on stream. As this growth boost from increased uranium mining capacity dissipates, however, growth in primary industries is forecast to remain flat in the final year at 4.5 percent.

[6] *More detailed explanations of supply side projections are provided in Annex B*

Table 9: Namibia: Real GDP Growth Forecasts (%) – Domestic, Supply Side

	2012	2013e	2014p	2015p	2016p	2017p
Primary industries	12.8	1.6	1.9	2.4	4.5	4.5
Secondary industries	3.9	6.5	9.2	6.5	5.3	4.6
Tertiary industries	6.4	5.0	4.6	4.4	4.4	4.3
GDP at market prices	**5.0**	**4.8**	**5.0**	**4.8**	**4.6**	**4.6**

Source: Macroeconomic Working Group; e=estimate, p=projection.

74. **Secondary industries** are projected to experience robust growth over the MTEF period, supported by a boom in construction and the new SAB miller brewery beginning operations. Secondary industries are estimated to expand by 6.5 percent in 2013, up from 3.9 percent in 2012, a figure which is set to rise to 9.2 percent in 2014 as growth in *construction* remains in double-digit territory and indeed accelerates on the back of several large-scale projects like the Kudu Gas, Swakop Uranium Mine, B2Gold mine, Dundee Metals sulphuric acid plant, Walvis Bay port expansion, Neckertal Dam, etc.

75. Despite the lifetime of some projects (e.g. Kudu Gas project) spreading over the entirety of the MTEF period, a number of other projects are projected to end in 2015 leading to the construction boom slowing. This will see growth of secondary industries slow to 6.5 percent in 2015 and then to 5.3 percent in 2016 and 4.6 percent in 2017. However, the *other food and beverages* sub-sector is expected to help pick up the slack from slower growth in *construction* in the latter years of the MTEF period.

76. Although growth in the *financial intermediation*, *transport and communication*, *real estate and business services* and *hotels and restaurants* sub-sectors are all forecast to witness a gradual acceleration over the MTEF period, overall growth in **tertiary industries** will gradually slow over the same timeframe, as growth in *wholesale and retail trade* slows towards long-term trend levels after several years of very strong growth, and growth in *other services* also slows in line with lower government spending.

77. That said, with growth projected to slow from an estimated 5.0 percent in 2013 (which in itself marks a slowdown from the 6.4 percent posted in 2012) to 4.3 percent in 2017, economic activity in tertiary industries will nonetheless remain well supported.

(v) Demand Side Projections

78. Growth in *gross domestic expenditure* is estimated to decelerate in 2013 from the 11.2 percent figure recorded in 2012, but nonetheless remain strong at 10.3 percent. This slowdown is set to take place despite faster growth of both *private consumption expenditure* (which is expected to accelerate from 8.0 percent to 9.5 percent) and *government consumption expenditure* (which is expected to accelerate from 7.9 percent to 9.0 percent). Growth in *gross fixed capital formation* moderates somewhat, slowing from the 19.7 percent posted in 2012 to 17.3 percent, largely as a result of base effects. (Table 10)

79. However, the year 2014 is projected to see growth in *gross domestic expenditure* accelerate as growth in *gross fixed capital formation* increases to 25.3 percent in 2014 on the back of strong construction activity. Growth in both *private and government consumption expenditure* will, however, move in the opposite direction, with the former slowing to 9.4 percent and the latter – due to on-going fiscal consolidation efforts which will reduce current expenditure – slowing to 6.8 percent, resulting in final consumption expenditure slowing to 8.8 percent. Over the remainder of the MTEF period, growth in private and government consumption expenditure – and hence final consumption expenditure – is expected to continue to slow, while *gross fixed capital formation* will follow suit as the construction boom comes to an end.

Table 10: Namibia: Real GDP Growth Forecasts (%) – Domestic, Demand Side

	2012	2013e	2014p	2015p	2016p	2017p
Final consumption expenditure	7.9	9.3	8.8	7.4	6.5	4.4
Private	8.0	9.5	9.4	8.4	7.6	5.2
General government	7.9	9.0	6.8	4.4	2.7	1.7
Gross fixed capital formation	19.7	17.3	25.3	7.2	7.9	8.5
Changes in inventories	-569.4	-7.4	-8.5	8.4	-8.3	-21.1
Gross domestic expenditure	**11.2**	**10.9**	**12.3**	**7.4**	**6.7**	**5.3**
Exports of goods and services	4.7	4.4	5.5	9.2	12.7	13.9
Imports of goods and services	15.7	11.7	13.2	12.3	11.2	10.0
Net Exports	**36.9**	**22.4**	**22.9**	**15.7**	**9.6**	**5.9**
GDP **at market prices**	**5.0**	**4.8**	**5.0**	**4.8**	**4.6**	**4.6**

Source: Macroeconomic Working Group; e=estimate, p=projection.

80. Following two years of relatively modest growth in 2013 and 2014 (of 4.4 percent and 5.5 percent, respectively), growth of ***exports*** of goods and services is forecast to accelerate towards 13.9 percent by the end of the MTEF period as global demand picks up in line with a recovery in world output. Over this same timeframe, however, despite growth of ***imports*** of goods and services slowing, from 11.7 percent in 2013 to 10.0 percent by 2017, net exports are forecast to continue widening, making a negative (albeit declining) negative contribution to overall growth.

(vi) Risks to Outlook

81. Downside risks to global growth still dominate. The **downside risks** in the near term include the following issues:

a) The threat of a loss of momentum or appetite in reforms in the Euro zone;

b) The budget sequester[7] in the US, which has prompted fears over excessive fiscal consolidation.

[7] *The budget sequester refers to the postponement of automatic spending cuts in the US. These were originally scheduled to take effect on 1 January 2013, but have since been delayed due to concerns surrounding their negative effects on growth.*

c) Rising oil prices, particularly in view of elevated geopolitical tensions in the Middle East and North Africa region; and

d) Commodity prices, which would trend lower should growth in major economies – and in particular, China – come in weaker than anticipated.

82. In the wake of recent policy actions in the Euro zone, however, there are also **upside risks** (opportunities) to consider, centred on the following issues:

a) The possibility of more rapid progress toward a comprehensive banking union in the Euro zone;

b) Recent improvements in financial market conditions having a larger impact than currently anticipated, which could result in a greater rebound in investment and consumption, especially in the US;

c) An improvement in commodity prices, which could be brought about by growth in major economies – particularly China – surprising on the upside; etc.

83. Over the medium term, a number of **other threats to global growth** exist, including the following:

a) Should the putative recovery in Europe be stalled by a lack of – or even reversal of – policy action, either through a loss of appetite or due to adverse fiscal and political conditions, this could trigger a prolonged period of low growth or stagnation;

b) Without firm medium-term strategies to bring down fiscal deficits – and indeed debt burdens – in the US and Japan, the risk of drastic fiscal adjustment in both countries remains a concern;

c) Previous monetary policy actions pose a risk to medium-term growth prospects, either due to a bout of rapid inflation created by an excessively easy monetary policy environment, or due to the unwinding of unconventional monetary policy actions, such as quantitative easing. Quantitative easing additionally poses a risk to further exchange rate weakness; and

d) Structural problems in a number of key emerging market and developing economies threaten to prompt weaker investment and/or capital flows unless they are adequately addressed.

84. In addition, there are also a number of **domestic risks** and opportunities, amongst others the following, to consider:

a) Bottlenecks relating to structural inadequacies are increasingly becoming a barrier to achieving higher growth. Should these be addressed in a timely fashion, real GDP growth could be expected to receive a boost. On the other hand, if they worsen, economic activity could be stifled;

b) The baseline scenario for domestic growth is largely based on the assumption that 2013 and beyond will witness a return to normal rains. Should this fail to happen (i.e. should Namibia experience a prolonged period of drought), growth would be expected to be impacted negatively;

c) The baseline scenario also assumes that all of the planned construction projects are completed in a timely manner. However, should some of these projects – particularly mega-projects such as Swakopmund Uranium mine, Kudu Gas, etc. – be delayed or fail to materialise, that would significantly weaken growth;

d) Given Namibia's on-going reliance on South Africa, adverse developments – such as strikes, electricity supply constraints, etc. – in that country, could significantly dent growth prospects, especially if they were to spill over into Namibia. On the other hand, should South Africa perform better than forecast, Namibia would likely be set to benefit.

(vii) Alternative growth scenarios

85. In light of the above-mentioned risks to global growth – both to the downside and to the upside – the following alternative growth scenarios have been calculated: (Table 11)

Table 11: Real GDP Growth Forecasts (%) – Lower, Central and Upper Estimates

	2013	2014	2015	2016	2017
Lower Estimate	4.8	3.3	3.6	3.5	3.5
Central Estimate	4.8	5.0	4.8	4.6	4.6
Upper Estimate	4.8	6.7	6.0	5.7	5.6

Source: Macroeconomic Working Group 2013

86. In the context of the above table the growth figures in the central estimate scenario (baseline) is based on the assumption that the current challenges and downside risks to global economy will persist unabatedly over the medium term. Figures in the upper estimate band are mostly based on the assumption that economic developments will be positive and upside opportunities will prevail over the medium term, whereas growth figures in the lower estimate band is derived based mainly on the assumption that the down side risks will prevail over the medium term (see 'Risks to Outlook' on page 28).

5. CONCLUSIONS

87. Global growth slowed to 3.2 percent in 2012 from the 3.9 percent recorded in the previous year and a rate of 5.2 percent in 2010 as both advanced and emerging market and developing economies experienced a slowdown in economic activity. Growth in advanced economies slowed in 2012 to 1.5 percent, from 1.7 percent in the previous year, while growth in emerging market and developing economies slowed to 4.9 percent, from 6.2 percent in 2011. Meanwhile, although growth in SSA remained fairly robust in 2012 at 4.9 percent, this too represented a slowdown from the 5.5 percent recorded in 2011.

88. Since Namibia is a small, open economy, weak global growth has a negative impact on economic activity in Namibia, primarily through reduced demand for Namibian exports (i.e. weaker trade volumes) but also via financial channels. Against this background, therefore, real GDP growth slowed in 2012, to 5.0 percent from 5.7 percent in the previous year. Secondary industries registered lower of growth of 3.9 percent in 2012 compared to growth of 4.7 percent in 2011 – mainly due to slower growth in the construction sub-sector – while primary industries recorded robust growth of 12.8 percent in 2012, up sharply from 1.9 percent in the previous year. Tertiary industries also registered higher growth of 6.4 percent in 2012, compared to 4.9 percent in 2011.

89. On the demand side, gross domestic expenditure grew by 11.2 percent in 2012, compared to 5.3 percent in 2011, mainly due to strong growth recorded in gross fixed capital formation (of 19.7 percent up from a mere 1.0 percent in 2011) as well as high growth in final consumption expenditure (of 7.4 percent up from 5.4 percent in 2011). However, although exports of goods and services recorded positive growth of 4.7 percent in 2012, compared to negative growth of 8.2 percent in 2011, this relatively strong rebound was insufficient to offset the stronger growth in imports of goods and services, which registered strong growth of 15.7 percent in 2012 compared to a decline of 0.4 percent in 2011.

90. Although the budget deficit was benchmarked at 7.0 percent of GDP, the country posted close to a balanced budget due to prudent fiscal policy management and better-than-expected revenue (following the introduction of a sizeable fiscal stimulus package aimed at bolstering economic growth). Similarly, central government debt has largely remained within the benchmarks established in the 2005 SDMS, and despite a notable increase in recent years, in line with the government's expansionary fiscal policy, debt levels remain within sustainable limits.

91. Consumer price inflation too has been manageable in recent years, following a generally downward trend since the beginning of 2012. However, reserves remain at very low levels, hovering just above internationally accepted minimum levels, despite efforts to shore up the country's reserve position.

92. Going forward, global economic activity is expected to remain subdued in 2013, with world output growth forecast to decelerate to 2.9 percent, from the 3.2 percent recorded in 2012. In line with this projection, growth in Namibia is expected to suffer in line with weaker trade volumes, with growth forecast to slow to 4.8 percent in 2013, from the 5.0 percent expansion recorded in 2012.

93. Beyond 2013, however, global growth is estimated to recover to 3.6 percent in 2014, and thereafter continue to accelerate towards 4.1 percent by the end of the MTEF period. Subsequently, as world output growth gathers momentum, growth prospects for Namibia are expected to brighten. Domestic growth is forecast to rebound to 5.0 percent in 2014, and is projected to average 4.8 percent over the entire MTEF period.

94. While domestic economic activity is projected to remain well-supported over the MTEF period by robust domestic demand – led by a boom in construction – domestic growth is nonetheless expected to remain below pre-crisis levels. Since the MEF serves as a prelude to the annual national budget formulation process – and most significantly as a prelude to the annual fiscal policy and budget frameworks – the relatively subdued growth outlook will most likely have a negative impact on Government revenues, and

consequently on the Government's ability to pursue an expansionary fiscal policy. These issues are explored in further detail in the Fiscal Policy Framework. Against this backdrop, therefore, the key strategic interventions/initiatives discussed in this policy document take on greater significance as key tools to promote and support the economic health of the country.

6. THE WAY FORWARD

Going forward, the government should focus on, *inter alia*, the following key strategic interventions to defuse global headwinds, mitigate domestic risks (as per sub-section VI above) and enhance competitiveness in order to steer the economy to a high and sustainable growth trajectory that would contribute towards the attainment of the goals and objectives of NDP IV:

1. Industrial and Business Development

95. The drive to improve the competitiveness of the economy focuses on the diversification of the economic base, development of commodity-based value chains, review of the incentives regime, improvement of the ease to do business, support to SMEs and pursuance of deeper economic integration. In this regards, full implementation of the Industrial Policy that was approved by Cabinet in 2012 becomes critical.

The strategic framework, which outlines the milestones along with specific strategies and implementation plan for the next five years, is being developed. It is expected that the implementation of this policy will lead to growth and development as well as increased involvement of development finance institutions and venture capital providers.

2. Public Private Partnership Policy Implementation

Infrastructure delivery options that optimise the use of both the public and private sector resources provide superior solutions and outcomes. Hence, private sector participation through Public Private Partnerships (PPPs) is critical to address the existing infrastructure and service needs. The aim of PPP is to deliver improved services and better value for money primarily through appropriate risk transfer, innovation, optimal asset utilisation and integrated project-life management, underpinned by private financing and capabilities. The PPP Policy was approved Cabinet in 2012. Once operational, the PPP framework will be used to harness private sector capacity and resources to fund key infrastructure projects.

3. Public Sector Capacity Development

96. Public sector capacity development focuses on the enhancement of macroeconomic management, modelling and statistical capacities as well as improved environmental and natural resource management. It is expected that such interventions would enhance capacity in macroeconomic planning, statistical capacity and natural resource management.

4. Implementation of the Mass Housing Development Programme

97. The mass housing development programme entails the construction of 185 000 housing units until the year 2030 at an estimated total investment of N$45 billion.

The programme has been officially launched by His Excellency, the President of the Republic of Namibia. However, the Ministry of Regional and Local Government, Housing and Rural Development continue to refine the implementation programme. It is expected that the first phase is expected to start in 2014/2015.

The programme would not only have significant multiplier effects in the construction, manufacturing, transport and water sectors but would have a significant catalytic impact on the application of renewable energy to lessen the pressure on the conventional electricity grid. There is a need to integrate the economic multiplier effects emanating from the implementation of the mass housing development project into the national industrial development strategy.

5. Implementation of the National Employment Policy

98. The policy was launched in October 2013 and spans over the period 2013-2017. It is expected that the implementation of the NEP will provide a policy framework that is conducive for the creation of sustainable and decent job opportunities. Furthermore, the NEP features monitoring and evaluation mechanisms as well as features an implementation plans with role players whose contributions are critical for the successful implementation of the Policy.

6. Implementation of the National Human Resources Plan

99. The National Human Resources Plan (NHRP) is designed to provide an overview of the human resource situation, policy parameters and the strategic directions for appropriate interventions. It features implementation, monitoring and evaluation frameworks for sustainable human resources planning and development. This plan was approved by Cabinet in 2012 to guide the Government, private sector, civic organisations and training institutions on strategies to invest in industries with high growth and employment potential. It also focuses on the development of critical skills that are required by the industries.

7. Implementation of an Integrated National Multi-modal Transport System

100. The Integrated Transport Master Plan for Namibia focuses on the development of an integrated national multi-modal transport system that would, ultimately, consolidate and streamline the position of Namibia as an efficient transport hub in the Southern African region. It is expected that the expansion of the port of Walvis Bay, construction and rehabilitation of railway lines and roads, upgrading of airport facilities and the establishment of one-stop border posts, would enhance the development of the integrated national multi-modal transport system. The latter would, in turn, improve the competitiveness of the domestic economy.

ANNEX A: DOMESTIC ASSUMPTIONS

Domestic assumptions made in the MEF are based on and informed by, amongst others, the following sources:

- industry consultations that were aided by the industrial surveys conducted by the MEWG;
- consultations with sector experts from the different MEWG institutions and the private sector;
- information published in the IMF, World Bank, BoN and NSA reports, as well as MoF economic data.

Global and regional assumptions are based on economic reports published by the IMF, World Bank and other relevant global reporting institutions. Additional sources were also used to collect information on the global, regional and domestic economy.

1. **Supply side assumptions**

Primary Industries

- Cattle marketed (which forms the basis for calculating **livestock production** in the National Accounts) in 2013 has seen very strong growth in the first half of 2013. And despite an anticipated slowdown in the growth of cattle marketed in the second half of 2013, the strong growth witnessed in the first half of the year is expected to translate into strong full-year growth for the sub-sector. This will partly be driven by a sell-off of cattle as a result of the recent drought. However, once rainfall normalises in 2014 and beyond, growth in livestock production is predicted to contract – by 2.2% in 2014 as a result of restocking – before gradually returning to its long-term trend level of around 4.2% by the end of the MTEF period.

- **Crop farming** is expected to be badly impacted by the recent drought in 2013, which has prompted us to significantly revise down our growth forecast for the sub-sector from the 1.5% figure quoted in the Mid-Year Review. Although the use of irrigation should help to mitigate the impacts of the adverse weather conditions to a certain extent, the majority of crop farming is still classified as dry land, and as such crop farming is now projected to decline by 15.0% in 2013. Assuming that Namibia experiences at least normal rains over the remainder of the MTEF period, crop farming is expected to rebound in 2014 to grow by 8.0%, and remain relatively strong at 6.3% in the following year due to the lagged effect of crop farming output associated with a return to normal rains as well as greater efforts to increase irrigation. After this, growth is expected to trend towards its long-term average growth rate of around 2.9% by the end of the MTEF period.

- Fishing output is dependent on Total Allowable Catches (TACs). TACs have steadily been increasing in recent years, but there appears to be growing concern surrounding the sustainability of existing stocks. Therefore, it seems unlikely that TACs will continue to rise much further going forward, and are instead projected to fluctuate around recent levels. For 2013, TACs have in fact declined, and as a result, as well as due to high base effects, growth in **fishing and fish processing on board** is forecast to slow sharply, to 1.0% from 16.9% in 2012. Going forward, however, growth in the sub-sector will be supported over the MTEF period by a gradual recovery in key European export markets. With this in mind, therefore, growth in fishing is forecast to accelerate over the MTEF period, but only at a very gradual pace.

- **Diamond production** has witnessed strong growth in the first half of 2013, which has prompted us to raise our growth forecast for 2013 since the Mid-Year Review. However, since the industry is already operating at close to full capacity, it is felt that there is little room for too much further expansion, and as such, the growth forecast for 2013 has been revised up by only 0.5 percentage points, from 0.5% to 1.0%. The projection for 2014 has similarly been revised up to 1.0%, but growth is now expected to trend lower towards growth of just 0.1% by the end of the MTEF period as the industry continues to approach full capacity.

- **Other mining and quarrying** has been revised down since the Mid-Year Review for both 2013 and 2014, from 6.7% to 2.4% in the case of the former, and from 14.0% to 3.5% in the case of the latter. This has been done on the back of continued weakness in uranium prices, which will have a negative impact on both existing mines and anticipated new mines and mine expansions. However, with the Swakopmund Uranium mine coming on stream in 2016 – in addition to the potential for new mines and mine expansions should uranium prices rebound – other mining and quarrying is forecast to expand strongly in the outer years of the MTEF period as production capacity expands sharply.

<u>Secondary Industries</u>

- The volume of **animals slaughtered** in the first half of 2013 has increased sharply, and in line with trends witnessed in previous years, is not expected to significantly pick up in the second half of 2013. With this in mind, growth in meat processing is forecast to slow to 1.4% in 2013. This appears to be the result of farmers opting to sell live animals rather than slaughtered animals as this fetches a higher price. **Meat processing** is expected to rebound in 2014, however, and is projected to grow by 2.5%. After this, growth in meat processing is expected to gradually slow towards long-term trend growth of 0.8% by the end of the MTEF period.

- Having shrunk by 27.2% in 2012, **fish processing on shore** is forecast to stage a recovery in 2013 to grow by 5.0%, despite slower growth in fishing, largely as a result of base effects. Fish processing is expected to grow at a more modest rate of 2.0% in 2014 once these have base effects have been eliminated, after which growth is projected to gradually rise – in line with a gradual rise in fishing output as key European exports markets recover – towards its long-term trend rate of 3.3%.

- Growth in **other food and beverages** is forecast to slow slightly in 2013 from the 6.5% expansion recorded in 2012, to 6.0%, as drought impacts the dairy industry. That said, efforts from the local brewing industry to expand across regional markets as well as the boost to the industry provided by rising disposable incomes will go some way towards offsetting this. Other food and beverages is, however, expected to register faster growth in 2014 as the dairy industry recovers and the brewing industry continues to post robust growth, and is expected to trend even higher in 2015 to reach 10.0% as SAB Miller is projected to begin production. This trend will, however, be reversed in the final two years of the MTEF period as growth in other food and beverages moderates in line with an anticipated dissipation of the SAB Miller growth spike.

- Despite slow growth in diamond production, diamond processing – which makes up the major component of **other manufacturing** – is forecast to remain relatively well supported in 2013, as external demand is buoyed by the on-going economic recovery in the US. However, this will not be sufficient to prevent a slowdown in other manufacturing to 2.5% from the 4.7% expansion posted in 2012 as the processing of other minerals registers only meagre growth and output of other sub-sectors of manufacturing remain sluggish. Beyond 2013, growth in diamond processing is forecast to slow in line with slower diamond production, while the processing of other minerals is set to fluctuate, resulting in growth of other manufacturing hovering between 2-3% over the remainder of the MTEF period.

- Growth in **electricity and water** is forecast to slow from the 5.8% growth posted in 2012 to actually contract by 2.0% in 2013 as activity at the Ruacana hydroelectric plant is interrupted by the recent drought. While the drought is forecast to continue to impact upon Ruacana in 2014, the replacement of turbine runners at the facility will help to mitigate this, and with the recently renovated Van Eck coal-powered plant due to come on line, a slight acceleration in growth of the sub-sector is anticipated. Beyond this, growth is expected to gradually return to its long-term average growth rate of 5.4% by the end of the MTEF period.

- The **construction** boom witnessed in the past two years – where growth in the sub-sector topped 10% – is projected to continue over 2013 and 2014 and indeed accelerate, from the 12.5% recorded in 2012 to 19.6% in 2013 and to 26.6% in 2014, as major projects such as Swakopmund Uranium mine, B2Gold mine, Dundee sulphuric acid plant, Walvis Bay port expansion, Neckertal Dam, etc. Growth in construction is, however, forecast to slow drastically in 2015 as a number of projects are expected to be completed, after which growth in the sub-sector is anticipated to gradually decelerate over the remainder of the MTEF period to 5.8% by 2017. Growth in the sub-sector will, however, continue to be supported by other on-going construction projects such as Kudu Gas-to-Power and the SADC Gateway[8].

Tertiary Industries

- 2012 saw unprecedented growth in wholesale and retail trade of 12.1% which despite the recent tax cuts, is unlikely to be repeated in 2013, simply because of high base effects. Indeed, **wholesale and retail trade** has witnessed consistently strong growth over the past decade, with the sub-sector averaging growth of 6.8% per year. It is felt that this rate of expansion is unsustainable, and while the sub-sector will continue to post robust positive growth, activity in the wholesale and retail trade is forecast to slow to 6.0% in 2013, and to gradually slow to around half the long-term average growth rate by the end of the MTEF period.

- Following a decline of 1.2% in 2012, **hotels and restaurants** is forecast to witness a mild recovery in 2013 as the global economic recovery continues to gather pace, helping to boost tourist numbers. That said, given the current uncertainty surrounding the nascent recovery – particularly in Europe where the majority of tourists to Namibia originate from – hotels and restaurants are likely to continue to suffer, and for this reason a meagre growth rate of just 0.3% is anticipated. Beyond 2013, however, the hotels and restaurants sub-sector is expected to continue to gather pace in line with the improved outlook for global growth, and is projected to gradually trend towards the sub-sector’s long-term average growth rate of 3.8% by the end of the MTEF period.

- With global growth forecast to remain flat at 3.1% in 2013, we expect growth in **transport and storage** – which is closely linked to overall economic health – to follow suit, and remain unchanged in 2013. However, growth in **post and telecommunications** is forecast to accelerate slightly in 2013, helping to push overall

[8] In July 2013 it was announced that the construction of the additional port, which is earmarked to be the gateway port to the Southern Africa Development Community (SADC) land-locked countries was to be constructed on 1 330 hectares of port land between Bird Island and Kuisebmond in Walvis Bay.

growth in the transport and communication sub-sector slightly higher to 4.3%, from 4.2% in 2012. Beyond 2013, growth in transport and communication is expected to accelerate towards its long-term average growth rate of 8.0% by the end of the MTEF period as efforts to make Namibia into a logistics hub (including such projects as the Walvis Bay port expansion, etc) come online and growth potential in the telecommunications industry is realised on the back of an expansion in data services.

- Although the **real estate and business services industry** remains robust, growth is forecast to slow slightly from the 6.4% figure recorded in 2012 towards its long-term average growth rate of 5.5% in 2013 as the housing market cools somewhat. Indeed, growth in both values and volumes of housing has slowed sharply on a y-o-y basis – and has actually fallen on a m-o-m basis – in the first quarter of 2013. Beyond this, however, a gradual acceleration in growth of the sub-sector is anticipated as the housing market continues to steadily head north, buoyed by robust demand.

- Growth in **other services** – which include **community, social and personal service activities**, **public administration and defence**, **education**, **health** and **private household with employed persons** – is forecast to record a very slight deceleration in 2013 to 4.4% down from 4.5% in 2012 on the back of slower growth in government expenditure. This is a trend which is projected to remain in place over the entire MTEF period, with growth in other services gradually trending towards 2.2% by 2017.

2. DEMAND SIDE ASSUMPTIONS

- **Growth in private consumption** is expected to accelerate in 2013 to 9.5% from 8.0% in 2012 driven largely by the government’s recent tax cuts. The impact of this policy action is also likely to spill over in 2014, keeping growth in private expenditure buoyant at 9.4%, but as the effect of the tax cuts dissipates beyond 2014, growth in private expenditure is expected to slow to 5.2% by the end of the MTEF period.

- **Government expenditure** is expected to witness faster growth in 2013 than the 7.9% expansion recorded in 2012 as the last of the fiscal stimulus package is delivered and recent public sector salary re-grading and increases take effect. Growth in government expenditure in 2014 is similarly expected to remain robust at 6.8% due to planned salary adjustments, but beginning in 2015, the government’s more austere approach to fiscal policy becomes evident as growth in government expenditure slows sharply, decelerating to just 1.7% by 2017.

- Growth in **gross fixed capital formation** in 2013 is forecast to slow somewhat as a result of base effects, but nonetheless remain very strong at 17.3%, and is projected to accelerate to 25.3% in 2014 on the back of a boom in the construction industry driven by projects such as Swakopmund Uranium, SADC gateway, Namport expansion, B2Gold, Dundee Metals Smelter and Neckertal Dam. With a number of these projects forecast to be completed by the end of 2014, however, gross fixed capital formation growth is expected to slow sharply in the latter years of the MTEF. That said, other on-going construction projects such as Kudu and the SADC Gateway will ensure that gross fixed capital growth remains relatively robust throughout the MTEF period, consistently posting growth in excess of 5%.

- **Export growth** is forecast to slow slightly in 2013 to 4.4% from the 4.7% posted in 2012 as diamond and uranium exports experience only meagre growth due to domestic capacity constraints in the case of the former and weak global demand in the case of the latter. Exports are, however, projected to pick up going forward as production capacity in gold and uranium in the form of the new B2Gold and Swakopmund Uranium mines expands and external demand recovers in line with the unfolding global economic recovery. This will see growth in exports steadily rise over the MTEF period, to 13.9% by 2017.

- Robust growth in consumption expenditure and construction will keep **import growth** in double-digit territory in 2013, although imports are nonetheless forecast to witness a slight slowdown (from 15.7% to 13.0%) largely as a result of base effects. Rapid growth in construction will compensate for a slowing rate of expansion in consumption expenditure in 2014, leading to a slight acceleration in growth to 13.8%. Beyond this, import growth is forecast to remain in double digits throughout the MTEF period, supported by strong growth in construction, but growth is nonetheless expected to decelerate out to 2017 as consumption expenditure slows and the construction boom gradually fades out.

ANNEX B: REAL GDP GROWTH FORECASTS (%) DOMESTIC – SUPPLY SIDE

	Estimated	**Projected**			
Industry	**2013**	**2014**	**2015**	**2016**	**2017**
Agriculture and forestry	2.1	2.5	4.1	3.8	3.5
Livestock farming	23.0	-2.2	2.1	3.1	4.2
Crop farming and forestry	-15.0	8.0	6.3	4.6	2.9
Fishing and fish processing on board	1.0	1.2	1.3	1.5	1.6
Mining and quarrying	1.4	1.6	5.9	7.5	6.9
Diamond mining	1.0	1.0	0.5	0.3	0.1
Other mining and quarrying	2.4	3.5	4.3	22.5	19.8
Primary industries	**1.6**	**1.9**	**2.4**	**4.5**	**4.5**

Manufacturing	4.0	4.2	5.5	4.5	3.9
Meat processing	1.4	2.5	1.9	1.4	0.8
Fish processing on shore	5.0	2.0	2.4	2.9	3.3
Other food products and beverages	6.0	7.0	10.0	8.0	6.0
Other manufacturing	2.5	2.6	2.8	2.1	2.2
Electricity and water	-2.0	2.9	3.7	4.6	5.4
Construction	19.6	26.6	9.9	7.4	5.8
Secondary industries	6.5	9.2	6.5	5.3	4.6
Wholesale and retail trade, repairs	6.0	5.4	4.7	4.1	3.4
Hotels and restaurants	0.3	1.4	2.2	3.0	3.8
Transport, and communication	4.3	5.2	6.1	7.0	8.0
Transport and storage	3.5	4.9	6.3	7.6	9.0
Post and telecommunications	5.0	5.5	6.0	6.5	7.0
Financial intermediation	6.8	7.0	7.2	7.4	7.6
Real estate and business services	5.5	5.6	5.7	5.8	6.0
Other services[9]	4.4	3.0	2.9	2.5	2.2
Community, social and personal service activities	2.5	2.3	1.4	0.8	0.6
Public administration and defence	4.5	3.2	2.8	2.7	2.6
Education	4.5	3.0	3.7	3.1	2.8
Health	5.8	3.3	2.5	1.9	1.3
Private household with employed persons	3.5	3.7	3.3	3.1	3.0
Tertiary industries	**5.0**	**4.6**	**4.4**	**4.4**	**4.3**
Less: FISIM	5.4	5.9	7.2	6.9	7.2
All industries at basic prices	**4.8**	**5.1**	**4.6**	**4.5**	**4.4**
Taxes less subsidies on products	5.0	3.7	7.3	5.3	6.3
GDP at market prices	**4.8**	**5.0**	**4.8**	**4.6**	**4.6**

ANNEX C: REVISION OF REAL GDP GROWTH FIGURES FROM MID-YEAR REVIEW

Table C1: Supply Side Developments

	2011			2012		
	Mid-Year Review	Revised	Difference	Mid-Year Review	Revised	Difference
Primary	0.1	1.9	1.8	6.5	12.8	6.3
Secondary	3.3	4.7	1.4	5.9	3.9	-2.0
Tertiary	4.5	4.9	0.4	6.9	6.4	-0.5
GDP	4.9	5.7	0.8	5.0	5.0	0.0

Table C2: Demand Side Developments

[9] *Other services comprise of Community, social and personal services; Public administration and defence; Education; Health; and Private household with employed person. This is a category that does not feature in the National Statistics, but has been created here for ease of analysis. However, each of the sub-components included under Other services are featured in the National Accounts.*

	2011			2012		
	Mid-Year Review	**Revised**	**Difference**	**Mid-Year Review**	**Revised**	**Difference**
Final Consumption Expenditure	6.3	5.4	-0.9	6.8	7.9	1.1
Private	5.7	4.5	-1.2	6.3	8.0	1.7
General government	8.1	8.2	0.1	8.2	7.9	-0.3
Gross Fixed Capital Formation	2.2	1.0	-1.2	11.6	79.7	68.1
Gross Domestic Expenditure	6.0	5.3	-0.7	8.1	11.2	3.1
Exports of goods and services	0.6	-8.2	-8.8	-7.0	4.7	11.7
Imports of goods and services	2.0	-0.4	-2.4	6.8	15.7	8.9
Net Exports	5.5	19.0	13.5	39.7	36.9	-2.8
GDP	4.9	5.7	0.8	5.0	5.0	0.0

Table C3: Supply Side Forecasts

	2013			**2014**		
	Mid-Year Review	**Revised**	**Difference**	**Mid-Year Review**	**Revised**	**Difference**
Primary	1.8	1.6	-0.2	3.2	2.5	-0.7
Secondary	7.1	6.2	-0.9	6.2	8.4	2.2
Tertiary	4.0	5.0	1.0	4.1	4.6	0.4
GDP	4.5	4.8	0.3	4.5	5.0	0.5

Table C4: Demand Side Forecasts

	2013			**2014**		
	Mid-Year Review	**Revised**	**Difference**	**Mid-Year Review**	**Revised**	**Difference**
Final Consumption Expenditure	6.7	9.3	2.6	4.0	8.8	4.8
Private	5.5	9.5	4.0	5.8	9.4	3.6
General government	10.3	9.0	-1.3	-1.2	6.8	8.0
Gross Fixed Capital Formation	8.2	17.3	9.1	0.1	25.3	25.2
Gross Domestic Expenditure	7.0	10.9	3.9	3.2	12.3	9.1
Exports of goods and services	3.6	4.4	0.8	4.3	5.5	1.2
Imports of goods and services	6.0	11.7	5.7	6.3	13.2	6.9

Net Exports	9.9	22.4	12.5	9.3	22.9	13.6
GDP	4.5	4.8	0.3	4.5	5.0	0.5

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