



THE ECONOMIC OUTLOOK MID-YEAR REVISION

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Produced by the Research Department of the Bank of Namibia

- At the Forefront of Economic Intelligence -

HIGHLIGHTS

- *Bank of Namibia has revised its 2009 economic growth forecast further down to account for impact of the deeper than anticipated global economic crisis that continues to strain real economic activities in Namibia.*
- *BoN now expects an economic contraction of **0.6** percent this year compared to its April forecast of **0.4** percent and February forecast of **1.0** percent.*
- *Major revisions were done on four sectors, namely mining, hotels and restaurants/tourism, government and construction sectors.*
- *On the global front, the world economy is estimated to contract by **1.3** percent by the IMF, a downward revision from its earlier forecast of **0.5** percent.*
- *Similar to the global economy, a recovery is possible for 2010, however the balance of risks remain tilted to the downside.*

SOURCES

IMF World Economic Outlook (WEO)

Central Bureau of Statistics (CBS)

Ministry of Mines and Energy (MME)

Individual companies, umbrella bodies and institutions

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THE GLOBAL ECONOMY

The **World** economy remains in a severe recession. However, the latest indicators signal a decline in the rate of contraction, but not yet a recovery. IMF projects that the global economy will shrink by 1.3 percent in 2009, compared to its earlier forecast of a 0.5 percent growth. It further predicts a slow recovery that is to take hold next year. This will be manifested in the projected growth rates of zero percent in 2010 specifically for the US and other advanced economies. It has however warned that things would be even worse without the various banking bailouts and economic stimulus programs that governments have enacted around the world.

The IMF mentioned that despite some encouraging signs of improving sentiment since the Group of 20 (G-20) meeting in early April, confidence in financial markets is still low, weighing against the prospects for an early economic recovery. In general, the **advanced economies** are forecast to contract by 3.8 percent in 2009, with the **U.S.** economy shrinking by 2.8 percent. **Emerging and developing economies** will have positive growth of 1.6 percent during 2009 and are expected to expand by 4.0 percent in 2010. **Sub-Saharan Africa** will remain in positive territory at 1.7 percent in 2009, before recovering to 3.9 percent in 2010.

The balance of risks around this overall economic scenario, however, still remain tilted to the downsides. With low inflation, consumers could regain confidence earlier, but continued weak global demand could lengthen and deepen the recession. The measures taken to counteract the deep recession in most economies have provided a good base for a gradual recovery, but further actions by policy makers, particularly in the financial sector, are needed to restore market trust and confidence, and accelerate the recovery.

The leaders of the **G-8 economies** have indicated their committed in addressing the ongoing global economic and financial crisis. They will continue taking the necessary steps to put the global economy on a strong, stable and sustainable growth path, including continuing to provide macroeconomic stimulus consistent with price stability and medium-term fiscal sustainability and restore lending. Despite the signs of stabilization in the advanced economies, the situation remains uncertain and significant risks remain to economic and financial stability.

“The global economy is predicted to rebound next year as the measures taken by the various economies take effect”

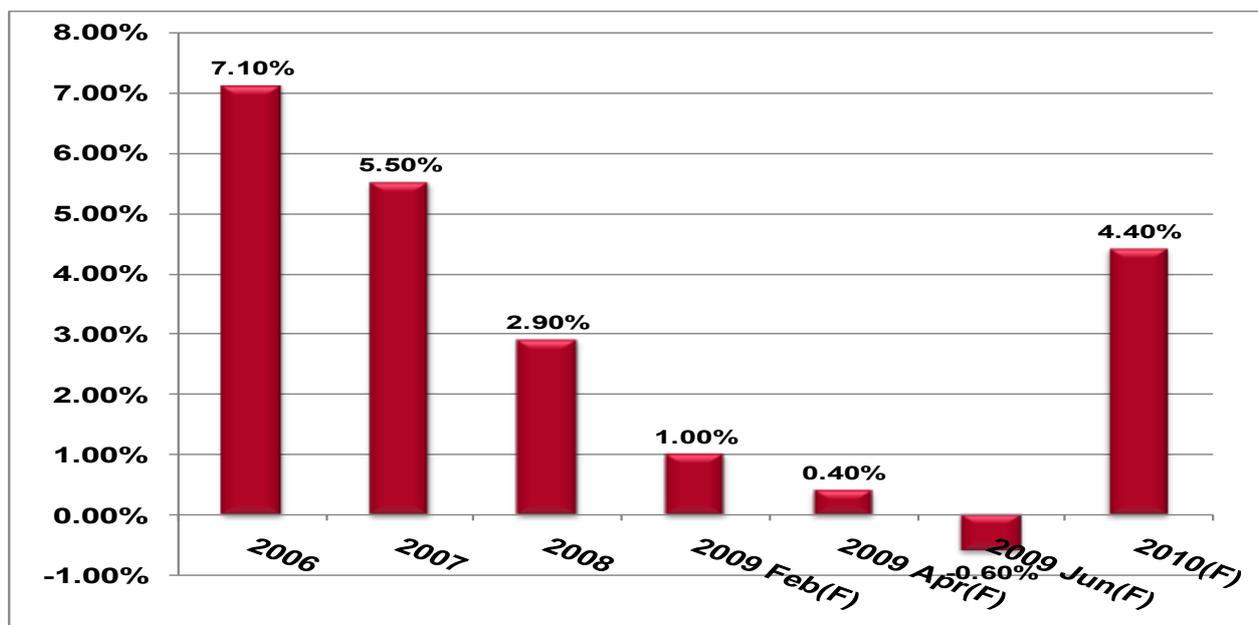
“All major advanced economies are forecast to contract in 2009”

“Risks to the economic recovery remain, despite signs of stabilization”

THE NAMIBIAN ECONOMY

The economy is estimated to contract by **0.6** percent, a downward revision from an April forecast of 0.4 percent and a February forecast of 1.0 percent (see Chart 1 below). The revision was necessitated by the effects of the continued global economic crisis on real economic activities in Namibia.

Chart 1: Real GDP Growth Rates



Source: Central Bureau of Statistics; 2009-2010 Bank of Namibia Projections

FORECASTING ASSUMPTIONS

The revised projections are based on the following assumptions:

- Diamond production is estimated at just below 800 000 carats from 2.1 million carats recorded in 2008. This represents a contraction in output of close to 63 percent compared to declines of 48 percent and 60 percent projected in February and April, respectively.
- The other manufacturing subsector is expected to slowdown on account of decreased production, and thus value addition in the diamond sector.
- The tourism industry has been experiencing increased booking cancellations and it is expected that tourist arrivals will decline by about 20 percent during 2009.
- Government spending is expected to increase during the 2009/10 as per budget allocation and growth in the construction sector is estimated to continue growing at a robust pace.

PRIMARY INDUSTRIES

The primary industries are expected to contract by 27.0 percent in 2009, a downward revision from declines of 22.0 percent and 17.7 percent for April and February forecasts, respectively. This is mainly on account of declines in the diamond production.

DIAMOND MINING

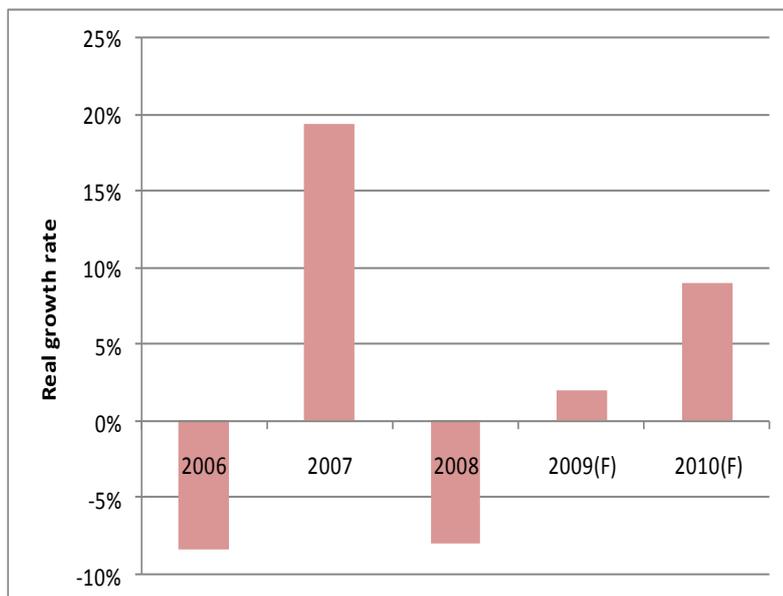
The sector has been hard hit by the global economic crisis. Diamond production in 2009 is forecasted to decline to just under 800 000 carats, which is 40 percent of 2008 production. In 2009 and 2010 more diamonds are expected to come from offshore mining, as opposed to onshore mining.

The direct cost of the slump in global demand for diamonds has resulted in the loss of over 1900 jobs and the scaling back of operations, which has meant no sea operations for January, July, August and September; and no land operations for January April, May and June. The above actions have also resulted in loss in tax revenue for the government. NDTC sight holders have stopped adding value to their diamonds and as a result have also let workers go. In addition, the indirect effect of the slump in diamond demand has expressed itself in the loss of jobs for contractors in the sectors. It is not foreseen that a noticeable change in demand will be observed before the end of 2010.

OTHER MINING

Other Mining is estimated to grow by 2.0 percent in 2009, compared to a decline of 8.1 percent in 2008 (Chart 2). In 2010 the sector is forecasted to grow by 9.0 percent. This performance is mainly attributed to **uranium**

Chart 2: Real growth rate of Other Mining and Quarrying



Sources: MME, individual companies, Namibia Chamber of Mines

2008 being 48 percent of that of the preceding year (annual averages). Towards the end of 2010, the price for zinc is expected to pick up in line with an anticipated global recovery.

production (See Box Article) and the growth of the nuclear energy sector is foreseen to continue to grow positively in the medium term, with the spot price of uranium expected to reach US\$70/lb by end 2009.

The demand for copper and zinc depend primarily on the performance of the global market, as the two commodities are input materials in many industrial processes.

After aluminum, iron and copper, **zinc** is the most common metal in use. The demand, and thus production, of zinc has also been negatively affected as a result of the global economic crisis, which resulted in the price of zinc for

Box Article: The Outlook for Nuclear Fuels

According to the International Atomic Energy Agency (IAEA), most of the 30 countries already using nuclear energy plan to expand their output. Additionally, more than 60 countries have informed the IAEA that they might be interested in launching nuclear power programmes and of these, 12 are actively considering nuclear power.

The global economic crisis has affected plans for nuclear energy in that the implementation or expansion of nuclear power programmes in some countries has been delayed. This does not discount the fact that in the medium to long term global demand for energy will continue to increase significantly as countries seek to improve living standards and demand cleaner energy.

There are 436 nuclear power reactors in operation in 30 countries. Asia remains the focus of growth in nuclear power — in 2008 construction started on 10 new reactors, of which 6 were in China. In the United States, the Nuclear Regulator received license application for 26 new reactors. In Europe, Italy plans to restart its nuclear power programme and the Swedish government has proposed *dropping* plans to phase out nuclear power.

The above clearly demonstrates that the outlook for uranium mining in Namibia is quite positive. Currently, there are two uranium mines in Namibia. Despite the negative effect the global economic crisis has had on the commodities market, the two mines are not slowing production, but in fact stepping it up, on the face of a positive growth outlook.

In line with this positive outlook, Forsys Metal's Valencia was awarded a nuclear mining licence in August 2008 and has stepped up its budget for exploration from approximately N\$ 26 million in 2008 to an estimated N\$ 40 million in 2009.

Additionally, in 2011 Areva Resources Namibia is expected to start production at Trekkopje mine. The mine aspires to become one of the top ten uranium producing mine in the world.

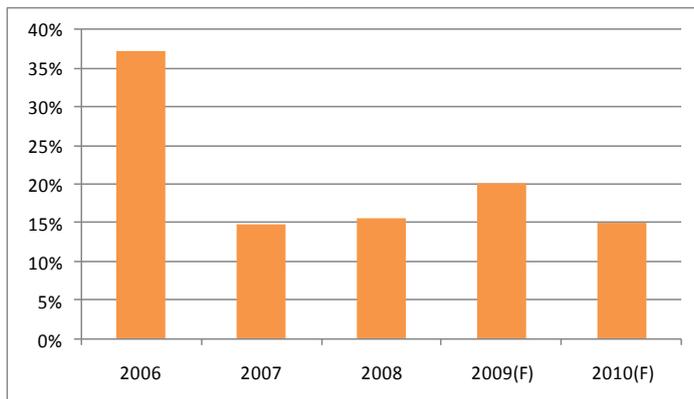
Sources: Namibia Chamber of Mines, New Era, International Atomic Energy Agency

SECONDARY INDUSTRIES

The secondary industries are expected to grow by 6.1 percent in 2009, an upward revision from 5.7 percent forecasted for both April and February. This growth will be driven by the construction.

Construction sector, which is estimated to grow by 18.0 percent during 2009, from a preliminary 15.9 percent recorded in 2008. This sub-sector is further projected to expand by 15.0 percent during 2010. The construction forecasts are underpinned by the expected increased private and public project activities. The government capital spending

Chart 3: Construction real growth rate



Sources: CBS 2006—2008, Bank of Namibia 2009-2010

and or renovation of the government infrastructure.

Private construction activities that are expected to contribute to the sector include those that are planned and approved and those that have already started. These include among others, the construction of the Ohorongo cement manufacturing factory, Caprivi Connector, Areva desalination plant, Namundjebo Plaza Hotel, Trekkopje uranium mine, Ruacana 4th turbine.

Most of the above planned activities are a big once-off with incremental demand for the sake of maintenance. The staple of the construction sector comes from the building of residential units, and the housing market has been suffering as a result of the current economic climate. In the short-to-medium term, however, the situation is expected to improve on the back of aggressive rate cuts which the Bank of Namibia had undertaken during the first half of 2009.

In contrast to the construction sector the growth in the **other manufacturing** sub-sector is revised downward to 2.6 percent from April forecast of 4.9 percent. This revision is on account of decreased value addition to diamonds and copper. This decline is however expected to be offset by the service output resulting from increased processing of copper for foreign clients.

for this financial year, 2009/10 has increased by 21.0 percent to N\$3.9 billion when compared to last financial year, and a further 1 percent increase during 2010/11 period. These projects involve mainly the construction, upgrading

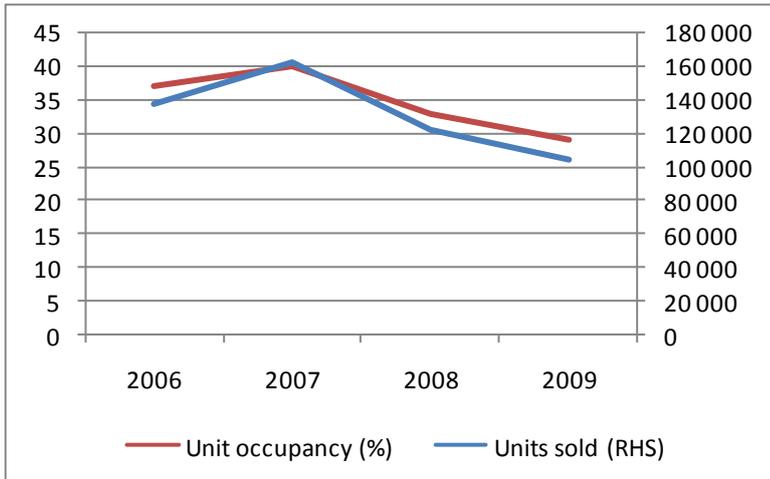
“Growth in the construction industry will be mainly driven by public and ongoing private investment activities”

TERTIARY INDUSTRIES

The tertiary industries are expected to grow by 4.1 percent in 2009, a downward revision from 4.7 percent projected for both April and February.

The **hotel and restaurant** category, which is used as a proxy for the tourism industry, is expected to contract by 20.0 percent during 2009. A decline of 5.0 percent is projected for 2010. The global economic crisis has started to have an impact on the

Chart 4: Rooms Occupancy



Sources: *National Wildlife Resorts (largest single institution with regards to beds)*

industry which has seen a decline in the tourist arrivals (comparing 2007 to preliminary 2008 figures) and increased booking cancellations. Additionally, the closure of the Air Namibia route to London is expected to have a negative impact on the industry as most tourists don't like to connect flights, resulting in them changing their destination to elsewhere. The bookings are down by 15-20 percent and there has been an increase in booking cancellations. The hunting season, which has already started (on 01 May 2009), has also recorded a decline in bookings. The loss in profits for the industry is estimated to range between 0 to 5 percent for 2008 and projected at 20 percent in 2009.

The **transport and storage** sub-category is estimated to slowdown to 4.0 percent bringing down the **transport and communication** sector to 3.2 percent. The downward revision is due to the close linkages between the sector and the tourism and the mining industries which are estimated to contract during 2009.

The expenditure by the public sector is expected to increase especially in the community and social services as per budget allocation and thus contribute positively to the tertiary industries.

To conclude, the outlook in the medium term is positive with a recovery, provided that the global economic activities have improved.

“The global economic slowdown will continue to adversely affect the number of travelers in 2009”

“Transport and storage sub-sector will adversely affected by the slow down in the tourism and mining industries”

APPENDICES

Appendix 1: Real GDP Growth Forecast

REVISED ECONOMIC OUTLOOK JUNE 2009				FEBRUARY		APRIL		JUNE	
REAL GDP GROWTH FORECASTS	2006	2007	2008(P)	2009(F)	2010(F)	2009(F)	2010(F)	2009(E)	2010(F)
Agriculture and forestry	3.8%	-0.6%	3.0%	3.8%	3.4%	3.8%	3.4%	3.8%	3.4%
Fishing and fish processing on board	-8.8%	-19.0%	-12.3%	2.5%	3.0%	2.5%	3.0%	2.5%	3.0%
Mining and quarrying	27.6%	0.5%	-1.7%	-35.7%	3.5%	-44.4%	7.8%	-51.0%	7.5%
- Diamond mining	38.0%	-3.1%	-0.3%	-47.9%	0.0%	-60.2%	6.6%	-62.5%	6.6%
- Other mining and quarrying	-8.5%	19.4%	-8.1%	1.8%	9.1%	1.8%	9.1%	2.0%	9.0%
Primary industries	12.8%	-2.8%	-1.6%	-17.7%	3.4%	-22.0%	5.0%	-27.0%	4.9%
Manufacturing	2.7%	8.4%	-2.6%	4.9%	3.4%	4.9%	3.4%	2.6%	3.4%
Electricity and water	5.7%	3.9%	5.8%	3.5%	3.0%	3.5%	3.0%	3.5%	3.0%
Construction	37.2%	14.7%	15.6%	10.0%	4.5%	10.0%	4.5%	18.0%	15.0%
Secondary industries	8.1%	9.0%	2.0%	5.7%	3.6%	5.7%	3.6%	6.1%	6.2%
Wholesale and retail trade, repairs	7.6%	7.9%	2.8%	6.5%	3.6%	6.5%	3.6%	6.5%	3.6%
Hotels and restaurants	7.4%	10.6%	1.0%	3.7%	1.5%	3.7%	1.5%	-20.0%	-5.0%
Transport, and communication	14.2%	5.3%	5.8%	5.0%	4.4%	5.0%	4.4%	2.3%	3.8%
Financial intermediation	4.3%	11.9%	10.1%	5.0%	5.0%	5.0%	5.0%	6.5%	6.0%
Real estate and business services	3.6%	8.6%	4.3%	4.6%	3.2%	4.6%	3.2%	4.6%	3.2%
Community, social and personal service activities	2.6%	1.1%	-0.9%	2.5%	1.1%	2.5%	1.1%	2.5%	1.1%
Public administration and defence	3.9%	7.7%	7.9%	5.2%	2.0%	5.2%	2.0%	7.5%	8.0%
Education	3.5%	6.1%	5.4%	2.7%	1.9%	2.7%	1.9%	3.0%	1.9%
Health	1.0%	5.7%	11.2%	2.6%	1.5%	2.6%	1.5%	3.2%	1.5%
Private household with employed persons	2.2%	3.4%	5.1%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Tertiary industries	5.5%	7.2%	5.2%	4.7%	3.0%	4.7%	3.0%	4.1%	3.5%
GDP at market prices	7.1%	5.5%	2.9%	1.0%	3.2%	0.4%	3.4%	-0.6%	4.2%

Source: Central Bureau of Statistics 2006-2008; Bank of Namibia 2009-2010 projections.