Bank of Namibia

OUTLOOK FOR THE NAMIBIAN ECONOMY – 2004/05

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Research Department, Macro Economic Modelling and Forecasting Division, P. O. Box 2882, Windhoek, Namibia

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Synopsis

*The growth of the **global economy** has been revised upwards for 2004 to 5.0 percent, while the projection for 2005 remained almost unchanged at 4.3 percent. The crucial downside risk remains the record high and volatile oil prices that are currently prevailing.*

*The **Namibian economy** is projected to grow by 4.4 percent in 2004 and is expected to stabilize at 3.8 for 2005. The forecasted growth for 2004 represents an upward revision from earlier predictions of about 3.8 percent, mainly due to a rebound in the primary sector (off-shore diamond mining and zinc) and sustained performance in manufacturing, electricity and water as well as construction activities.*

***Inflation** is expected to be subdued this year, but is projected to edge up in 2005, in part due to movements in oil prices. **Consumption and investment** levels are also forecasted to grow positively for both years whilst the **trade deficit** is expected to improve on account of improved exports due to higher diamond and zinc metal exports. Hence, the **current account balance** is forecasted to improve in 2004, but expected to fall in 2005 in line with levels in SACU receipts.*

1 Global economy

The growth rate of the **global economy** recovered during the second half of 2003. On average, the global GDP growth rate was close to 6 percent during that period, the highest rate since 1999.[1] For the whole of 2003, the growth rate was 3.9 percent (see Table 1), which constitutes a substantial increase compared to 3.0 percent in 2002. The projection for 2004 has been revised upward accordingly.[2] The more optimistic outlook of the global economy leads to projections of 5.0 and 4.3 percent for 2004 and 2005, respectively. The growth rate of 5.0 percent for 2004 is the highest projected rate for almost three decades.[3]

The **US economy** has recovered considerably during 2003, especially in the second half, achieving a growth rate of 3.0 percent. This trend is likely to continue as in the first three quarters of 2004 a year-on-year growth rate of 5.0, 4.8 and 4.0 percent was observed, respectively.[4] The overall growth of the year 2004 is projected to equal 4.3 percent, declining to 3.5 percent in 2005. The driving forces behind the recovery are increased private consumption, especially in the first quarter, fostered by tax cuts and low interest rates and rebounding business and private investment.

Against this background, the outlook for the US economy is favourable for 2004 and the following year. There are, nevertheless, downside risks to this optimistic outlook. They include a rather weak response of employment to the upswing and a potential rise in interest rates. Furthermore, the widening current account and a weak US Dollar as

[1] *International Monetary Fund*, "World Economic Outlook", April 2004.
[2] *International Monetary Fund,* "World Economic Outlook", September 2004. In the "World Economic Outlook" from April 2004, the growth rate for 2004 was projected to be 4.6 percent.
[3] *International Monetary Fund,* "World Economic Outlook", September 2004.
[4] *Bureau of Economic Analysis*, "News Release", 22/12/2004.

well as an increasing government deficit are causes of concern.[5]

The United States bid to solve its current account problems by keeping the US Dollar weak could affect the world economic growth negatively against the background of prevailing high oil and commodities prices. Rapid weakening of the US Dollar will thus dampen the global economy as most investors have stocked up on Dollar-denominated debt instruments. The US Dollar is also the key currency among international trading partners and countries with a large proportion of US Dollars in their international reserves are risking losses from a weakening US Dollar. Although the weakening US Dollar could lead to an increase in US exports, thereby boosting the US economy, it may entail rising inflation as a side-effect and, hence, would force the United States to lift its interest rates, which in the end could slow its economy and the global economy as a whole.

Therefore, the appropriate strategy for US may be to engage in saving or reducing spending which may entail a contractionary fiscal policy. This situation may assist in easing pressure on the US current account. Although the expansionary fiscal policy of the US authorities has contributed to the recovery of the economy in the past, it would be prudent for the US to engage in fiscal restraint as it would risk fiscal instability which might spill over to the global economy. Hence, the commitment by the US to halve the government deficit over the next five years can be seen as a first step into the right direction.

Growth in the **Euro Area** decreased to 0.5 percent in 2003, after already experiencing a rather low growth rate of 0.8 percent in 2002. The outlook for 2004 and 2005, however, is more optimistic with projected growth rates of 2.2 percent, respectively. This view is supported by year-on-year growth rates of 1.4, 2.1 and 1.8 percent in the first three quarters of 2004, respectively.[6] Stronger private consumption in some of the countries has been experienced during the first half of 2004, while in 2003 consumption growth had been weak.

An upswing in global economic growth is expected to contribute positively to consumption and investment growth as well as to further pronounced growth of exports in the area. Expansive exports have been a main contributor to the gradual recovery of the Euro Area economy.

Table 1: World GDP growth

	2002	2003	2004*	2005*
World	3.0	3.9	5.0	4.3
United States	1.9	3.0	4.3	3.5
Euro Area	0.8	0.5	2.2	2.2
Japan	-0.3	2.5	4.4	2.3
Emerging Asia	6.4	7.2	7.3	6.5
China	8.3	9.1	9.0	7.5
Developing countries	4.6	6.1	6.0	5.9
Africa	3.5	4.3	4.5	5.4
Sub-Sahara	3.6	3.7	4.6	5.8
Angola	14.4	3.4	11.2	15.5
Botswana	3.9	5.4	4.5	3.7
Mozambique	7.4	7.1	8.4	6.8
Namibia	2.5	3.7	4.4	3.8
South Africa	3.6	1.9	2.6	3.3

Source: *IMF*, "World Economic Outlook", *September 2004;*
* indicates forecast

Downside risks include continued high unemployment rates, which could have dampening effects on consumption growth, sustained high fiscal deficits, especially in Germany and France, and a further sharp appreciation of the Euro, which would be reflected in a decrease of exports.

The **Japanese** economy recovered considerably during 2003, exceeding the expectations. After a negative growth rate of 0.3 percent in 2002, the economy grew by 2.5 percent in 2003 and is even expected to recover further to 4.4 percent in 2004, before slowing down to 2.3 percent in 2005. The projections for 2004 are underpinned by year-on-year growth rates of 4.3, 3.0 and 2.6 percent in the first three quarters, respectively.[7]

The main driving forces behind the accelerated growth are exports, mainly to Asia, which increased despite the appreciation of the Japanese Yen. Private investment also picked up again, while private consumption experienced only moderate growth. Several problems, such as the corporate and banking sector performance, were addressed and improved and the deflationary pressure was eased as well. Despite this positive outlook, downside risks remain, with a further appreciation of the Yen as one of them. Moreover, the structural reforms of the financial and the corporate sectors have to be promoted further to

[5] The US budget deficit has deteriorated by 7 percentage points of GDP during the last four years, which constitutes the largest and fastest deterioration since World War II. (*IMF*, "IMF Survey", May 17, 2004).
[6] *European Central Bank*, "Monthly Bulletin", December 2004.
[7] *Bank of Japan*, "Key statistics: Real economy", November 2004.

achieve and maintain sustainable high growth rates.

GDP in **Emerging Asia**[8] is expected to grow solidly (7.3 and 6.5 percent) in 2004 and 2005, respectively. In 2003, growth in that region was 7.2 percent, thereby accounting for about 50 percent of the global growth. China is projected to experience continued high growth rates, reaching 9.0 and 7.5 percent in 2004 and 2005. Growth in the region increased due to a recovery of the tourism industry and domestic demand, which were aided by accommodative monetary policies, including low interest rates and highly competitive exchange rates. As a reaction to the strengthening of world growth, exports picked up significantly, while imports remained robust. Many countries intervened in the exchange market to avoid negative effects of an appreciation against the US Dollar.

Nevertheless, fiscal discipline must be preserved and monetary policies tightened in some countries in the coming year. Furthermore, more exchange rate flexibility would support a sustained growth. Especially China has to introduce measures to ensure a soft landing of the economy. First steps have been taken during 2004, such as an increase in the reserve requirements, a tightening of lending standards in some sectors and a raise of interest rates. However, these measures did not prove to be as effective as necessary so far, which calls for further tightening of monetary conditions.

In summary, the world economy experienced a strong recovery during 2003 with strengthened growth, which extended across regions and sectors. This recovery is expected to continue solidly in 2004 and 2005. A strongly rebounding US economy, buoyant growth in Asia, especially China, a rise in global trade, supported partly by favourable financing conditions and expansionary economic policies, contributed to the positive developments over the past year. Continued price stability and a rebound of the European economy could further contribute to an optimistic outlook. Certainly, the recent recovery should be used to address medium-term weak points, such as fiscal pressures resulting from an aging population, to assure sustainable robust long-term growth.

Downside risks to this positive outlook are perpetual geopolitical risks, including terrorist attacks, demonstrated recently e.g. by the bombings in Europe and Asia and ongoing fighting in Iraq. Furthermore, the development of oil prices is a matter of concern. The depreciation of the US Dollar, a higher than expected demand, rather low inventories and the delayed restoration of the oil production in Iraq were the main factors that led to a considerable increase in oil prices over the past months.[9] This might have a negative impact on inflation and growth. Further challenges are increasing global imbalances with a large current account, weak US Dollar and fiscal deficit of the USA and surpluses elsewhere and a possible substantial rise of global interest rates.

2 SADC

2.1 South Africa

The South African economy experienced rather low growth rate of 1.9 percent in 2003. However, growth is expected to recover moderately to 2.6 percent in 2004 and 3.3 percent in 2005. During the first, second and third quarter of 2004, quarter-on-quarter growth rates of 3.8, 4.5 and 5.6 percent, respectively, were recorded, supporting a more optimistic outlook, which will necessitate the upward revision of the forecasted growth rate.[10]

The inflation rate (CPIX)[11] declined further in 2003, averaging 6.4 percent for that period. Since September 2003 the inflation rate stayed continuously within the target range of 3 to 6 percent, averaging 4.3 percent for January to September 2004. It is projected to remain within this target range for 2004.[12] The decline of inflation enabled the South African Reserve Bank to cut the repo rate subsequently during 2003 from 13.5 at the end 2002 to 8.0 percent in December 2003. In August 2004, the repo rate was reduced further to 7.50 percent.

The low interest rate environment has been favourable for domestic demand, which also benefited from a mildly expansionary fiscal policy. The Rand strengthened during 2003 and continued its strong performance throughout 2004. The nominal exchange rate against the US Dollar

[8] Emerging Asia includes developing Asia, newly industrialized Asian economies and Mongolia.

[9] In September 2003, a barrel cost US$ 26.5, but increased to a record high of over US$ 50 per barrel in October, before declining again to around US$40 per barrel at the end of the year. It is projected to average US$ 37.25 per barrel in 2005 (*IMF*, "World Economic Outlook", September 2004).

[10] *South African Reserve Bank*, Quarterly Bulletin, December 2004; quarter-on-quarter growth based on seasonally adjusted data.

[11] The CPIX measures the consumer price inflation excluding mortgage interest cost for metropolitan and urban areas.

[12] *South African Reserve Bank*, "Monetary Policy Review", May 2004.

ranged between 5 and 7 Rand during January to September 2004. The strong currency can be a serious challenge for South Africa by negatively influencing exports and consequently economic growth. However, this could be partly offset by a stronger global economy and higher commodity prices.

2.2 Other SADC countries

Growth in sub-Saharan Africa was 3.6 and 3.7 percent for 2002 and 2003, respectively, and, thus, remained too low to achieve the targeted poverty reduction given in the Millennium Development Goals as that would require an average growth rate of 7 percent per year.[13] Although the outlook for 2004 and 2005 with growth rates of 4.6 and 5.8 percent, respectively, appears more favourable, it is still well below the required growth rate. Further economic reforms and diversification is needed to strengthen the economic performance of the respective countries.

Positively affecting growth of the SADC economies is the increasing economic stability, fostered by improved management of macroeconomic policies, a peaceful environment in most of the countries and increased oil output.[14] Good economic developments are expected especially for Angola, driven by increased oil production, and Mozambique mainly due to the recovery of the agricultural sector and a sharp increase in construction.

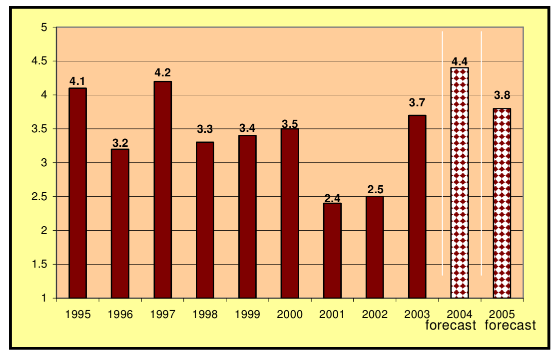
However, the SADC countries face severe challenges over the next years. The SADC region continues to be one of the regions, which is most affected by the HIV/AIDS pandemic. In half of the member states more than 20 percent of the population has been estimated to live with HIV and AIDS in 2001, which will impose serious problems for the concerned countries in the near future.[15]

Prospects for the regional food production have improved for 2004, following more favourable rainfall throughout southern Africa. However, excessive rainfalls have also caused the flooding of rivers and the subsequent damage of crops. Although Namibia was also affected by flooding, normal to above-normal outcome from the agricultural sector can be expected. This also applies to Botswana and Zambia, whereas crop prospects in South Africa, Lesotho, Swaziland and to some extent in Mozambique, Malawi, Zimbabwe and Angola are less favourable.[16]

3 Namibia

The Namibian economy grew by 3.7 percent in 2003, which is the highest growth rate recorded in the last six years (see Chart 1). The major contributors to the increase in real GDP of 3.7 percent in 2003 were the construction sector and fish-processing sub-sector, which recorded a growth of 46.4 percent and 51.5 percent in 2003 after both contracted by 29.2 percent and 10.0 percent in 2002, respectively.

Chart 1: Real economic growth (in percent)



Source: *Central Bureau o f Statistics, Bank of Namibia*

Real GDP is projected to increase by about 4.4 percent in 2004. This increased growth rate can be mainly attributed to a recovery of the mining sector due to higher offshore diamond output production as well as increased zinc and copper production. The resumption of activities by a new diamond mining company created out of the liquidated one could also contributed positively to diamond production in 2004 and 2005.

The envisaged increase in prices of other mining products, such as silver, lead, gold, zinc, and copper, would also contribute positively to the growth in 2004 (see Table 2).

3.1 Real Sector

3.1.1 Diamond mining

Diamond production decreased by 4.6 percent in 2003 (see Chart 2), mainly due to one of the diamond mining companies ceasing its exploration and operation activities. However, if the

[13] The target is to halve extreme poverty by the year 2015.
[14] *SADC*, "Annual Report, 2002-2003".
[15] *SADC*, "Annual Report, 2002-2003".
[16] *FAO*, "Food Supply Situation and Crop Prospects in Sub-Saharan Africa", April 2004.

company's contribution in 2002 is subtracted, the diamond production reflects an increase of about 12 percent.

Assumption Box on Forecasting

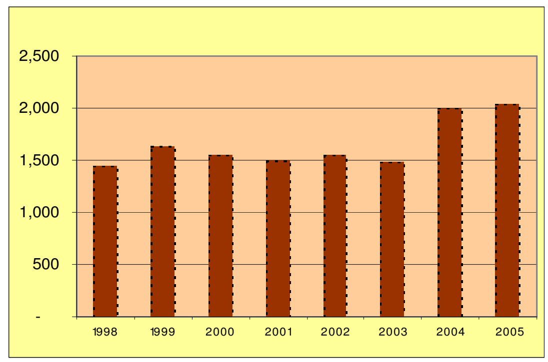
The following assumptions and information were arrived at in terms of forecasting key sectoral growth rates for the Namibian economy.

- Actual diamond output production figures were obtained from the Ministry of Mines & Energy and forecasts were obtained from the individual diamond mining companies, which in total indicated about 1.996 million carats of diamond production in 2004, representing an increase from over 1.4 million carats in 2003.
- Total Zinc output (including both Scorpion zinc and Rosh Pinah) is projected to be 157 000 tons, an increase of about 48 percent when compared to 2003). The full zinc output production for Skorpion Zinc will occur only in 2005/6 at 150 000 tons per year (current produces ranges between 75% - 85% of full production capacity).
- The London Metal Exchange and other reliable sources show price recovery for most of the base metals for 2004 and 2005, which was used as price indicators for the leading Namibian base metals (copper, uranium, zinc, gold).
- Agricultural growth for 2004 rests upon the good rain that was received during the raining season, which entails that drought may still be evident in 2004, but not as severe in 2003. This would hold good growth for cereal and crop production. Available statistics show a decrease in livestock marketed due to re-stocking because of good rain received during the raining season.
- There is an assumption that the fishing sector will grow negatively in 2004 on the back of a decrease in landings due to unfavourable oceanic conditions, but the situation is expected to improve in 2005. An implicit assumption is made that the exchange rate may weaken moderately in 2005, which would hold good prospects for the fishing industry.
- Growth in manufacturing is assumed to be led by increased textiles production, and processed copper and zinc, which have led to significant positive growth in other manufacturing for the past five years, but at much lower rate in 2004 due to contraction of the fishing sector. Meat processing is also to grow in line with livestock marketed, especially in 2004.
- Construction growth is assumed to be depending on government projects as well as activities related to civil engineering work and related services, whereby the mining and electricity sectors make a significant contribution to these activities.
- In terms of transport and communication, available data on volumes of output for the cell phone and internet sector was obtained from *MTC* and *I-net*. Data show a phenomenal increase for 2003 and such a positive increase was assumed for 2004 and 2005, but to a lesser extent.
- Hotels and Restaurants as a proxy of tourism growth in the Namibian economy are assumed to be affected by exchange rate movements, high prices on tourist facilities, and world income levels.

Another mining company was created out of the liquidated company and started its operations by the end of 2003, which implies good prospects for the diamond mining sub-sector for 2004 and beyond. The aforementioned prospect coupled with the two new vessels bought by one of the biggest companies in diamond mining is to increase offshore diamond production in 2004.

In view of the positive developments coupled with improved world economic growth, which is expected to increase the demand for diamonds, diamond production is projected to increase by 34.7 percent in 2004 and to stabilize at around 2.1 percent in 2005.

Chart 2: Total Diamond Production ('000 Carats)



Source: *Ministry of Mines and Energy*

3.1.2 Other Mining

After a real contraction of about 4.5 percent in 2003, the other mining sub-sector is projected to grow by about 25.8 percent in 2004 in real terms. This is largely due to increased zinc output targeted at about 157 000 tons as well as an expected increase in the production of other minerals, such as uranium, of more than 20.0 percent.[17] The growth in other mining is expected to be sustained in 2005 as one of the zinc producers reaches its full production capacity. Other base metals, such as gold, copper, silver and lead, are estimated to perform positively as the global economic recovery gains momentum, accompanied by increasing commodity prices (see Table 2).

[17] The 157 000 tons production is the total production estimate for both Zinc producing companies.

Table 2: Average Annual Metal Prices

Metals	QUOTED AS[18]	2002	2003	2004	2005
Copper	US$/mt	1559	1750	2390	2725
Gold	US$/to	310	360	424	431
Lead	US$/mt	453	503	739	580
Silver	US$/to	4.60	4.79	6.28	6.15
Uranium oxide	US$/pd - spot	9.94	10.2	15.00	30.00
	US$/pd - LT	10.6	10.8	15.65	30.65
Zinc	US$/mt	778	840	1007	1150

Source: *Namibia Chambers of Mines; London Metal Exchange; 2004 and 2005 are projected prices*

3.1.3 Agriculture

The agricultural sector grew moderately by 2.8 percent in 2003 after a 4.8 percent contraction in 2002. This can be mainly attributed to the poor rainfall, falling beef prices and the appreciation of the local currency (see chart 3).

Available statistics up to the second quarter of 2004 show that the total cattle and small stock marketed has decreased by 11.0 percent and 19.0 percent, respectively, when compared to the same period last year. This could be due to re-stocking by farmers because of good rain received this year during the raining season. The number of pigs marketed, on the other hand, increased by over 400 percent over the same period mainly due the new pig farm that started the slaughtering of pig in mid 2003. The overall number of livestock marketed for 2004 will still be lower than last year. The big share of Namibia's meat is exported to South Africa and with the strong Rand, South Africa might find it cheaper to import from other countries such as New Zealand and Australia leaving Namibia's meat producers to compete against these countries.

The outlook for maize crop production is positive after a good raining season and good weather. The ostrich industry is in a breeding process and could contribute more positively to agricultural output towards the end of 2004 and beyond. The production in the grape industry looks positive apart for the strong Namibia Dollar, which has affected all exporters negatively by reducing their profit levels.

The agricultural sector is projected to grow moderately by 1.8 percent and 3.0 percent in 2004 and 2005, respectively. However, the strong Namibia Dollar could affect the sector negatively.

3.1.4 Fishing

The fishing sector grew by 3.8 percent in 2003, mainly due to substantial increases in demersal and pelagic landings. The sector is expected to contract by 9.6 percent in 2004, due to unfavorable oceanic conditions. However, the oceanic conditions are expected to improve and the sector is expected to grow by 6.8 percent in 2005. Nevertheless, these growth rates could be negatively affected by the strong Namibia Dollar.[19]

3.1.5 Manufacturing

The good performance of about 5.0 percent real growth on average during the past three years is expected to continue over the medium term but at a lower rate of 2.4 percent and 5.1 percent in 2004 and 2005, respectively. The sustained growth would mainly be realized from other manufacturing, on account of the processed copper and zinc as well as increased textile production.

After it registered a high growth of 51.5 percent in 2003, mainly due to improved processed demersal and pelagic fish, the growth in fish processing sub-sector is expected to decline by 7.3 percent in 2004 due to decrease in landings caused by unfavorable oceanic conditions. However, the sector is expected to grow by 3.5 percent in 2005 due to expected improved oceanic conditions.

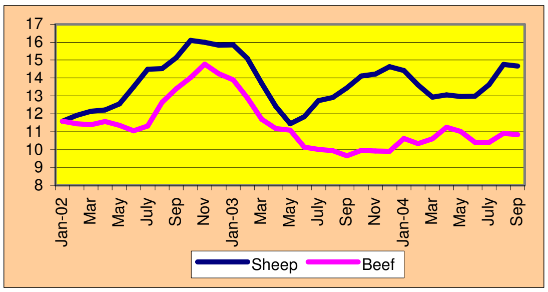
Meat processing is envisaged to decrease slightly due to an expected decrease in the number of cattle marketed during 2004 as farmers opted for re-stocking of livestock after a good raining season. After a subdued decline in international meat prices during the earlier part of 2004, they are starting to edge up in late 2004, as a result of animal disease outbreaks in major meat exporting countries. This caused considerable uncertainty about consumer demand for meat products. The domestic price of meat responded to the surging international prices, but started to show a stable

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

[19] The Total Allowable Catch (TAC) for hake has been set to 195000mt for the 2004/2005 fishing season, which is an increase of 15000mt compared to the last. The monk quota has been decreased by 500mt to 12000mt and the TAC for orange roughy has been set to 2600mt, which is 250mt lower than last season. The fishing season for those species is 1/5/2004-30/4/2005. The horse mackerel quota stayed at 350000mt for the year 2004, while the TAC for crab and rock lobster is 2200mt (2000 in 2003) and 420mt (400 in 2003), respectively. The TAC for pilchard was 20000mt for 2003/2004. The quota for horse mackerel, crab and rock lobster for 2005 has not been decided yet. (*Source:* Ministry of Fisheries and Marine Resources)

recovery since July 2004, which could lead an increase in cattle marked (see Chart 3). Meat processing is therefore expected to improve slightly in 2005.

Chart 3: Average Producer Prices of Meat



Source: *Meat Board of Namibia*

3.1.6 Construction

The construction industry grew by 46.4 percent in real terms in 2003, compared to a decline of 29.2 percent in 2002. This growth was mainly due to an increase in activities related to civil engineering work and related services, whereby the mining and electricity sectors made a significant contribution to these activities. This growth is to be sustained at a lower rate of about 4.0 percent and 5.7 percent in 2004 and 2005, respectively, on account of the aforementioned activities coupled with continual government spending on infrastructure development (i.e. construction of roads and the northern railway extension).[20]

The low interest rate that is currently prevailing may also continue to aid in sustaining positive growth for the construction sector.

3.1.7 Hotels and Restaurants

Although the report on the tourism industry compiled by the Ministry of Environment and Tourism indicates that there has been a negative growth rate of about 8.2 percent in tourist arrivals for 2003,[21] this has to be seen in the light of the very positive year 2002, where due to the depreciation of the Namibia Dollar among other reasons far more tourists came to Namibia than in the preceding years. The sector is expected to grow by around 3.1 percent and 4.3 percent in 2004 and 2005, respectively, but those growth rates could be lower if the Namibia Dollar continues to be very strong against the Euro and the US Dollar.

3.1.8 Transport and communication

The transport and communications sector's value added increased by 5.3 percent in 2003. The data show a decline of about 5.7 percent for the sub-sector (Transport and Storage) in 2003. The reduced growth for the sub-sector could be due to adverse growth in the international airline industry, which is severely affected by the global terrorist threats. The post and telecommunications sub-sector on the other hand, has recorded an impressive increase of 23.8 percent in 2003 mainly due to the expansion of the cell phone and Internet communication.

Available statistics for the first half of 2004 show positive developments in the sector's value added. The overall growth for the transport and communications sector is projected at 7.5 percent and 7.2 percent for 2004 and 2005, respectively. This growth will mainly come from the positive developments in the following sub-sectors: postal services, rail, port, aviation and the mobile telecommunication sub-sectors.

3.1.9 Electricity and Water

The electricity and water sector grew by 10.7 percent in 2003, mainly due the demand from projects such as the Ramatex textile factory and the Skorpion zinc mine. This growth is to be sustained at a lower rate of about 9.2 percent and 8.2 percent in 2004 and 2005, respectively, on the back of demand from existing projects mentioned above. The increase in electricity demand may entail increased amount of electricity to be imported, especially if there is no diversification effort coming forward in terms of finding alternative sources of energy to meet the increasing demand of electrical energy.[22]

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[20] The growth to be sustained on the back of new and old projects such as Pocket Beaches Site 2, Elizabeth Bay (both are Namdeb projects), Katutura Soccer Stadium, Swakopmund Waterfront, Maerua Mall extension, etc.

[21] The contraction of 8.2 percent might seem to contradict the figure from the National Accounts given in Table 3, but the proxy 'Hotels and Restaurants', used in the National Accounts for the tourism sector does not necessarily reflect the developments accurately.

[22] The import of electricity from South Africa and Zambia accounted for an annual average of 47.4 percent and 0.6 percent, respectively, to the total volume of electricity consumed in Namibia. The portion of the electricity to be imported in a given year depends partly on the levels of river water at Ruacana and domestic demand for electricity. If the water level is low, more electricity needs to be imported to supplement the domestic generation of electricity. Nampower has recognized this situation and has embarked upon a number of initiatives such as the Kudu Gas and Epupa hydro electronic projects to supplement supply of domestic electrical energy.

3.1.10 Other Sectors

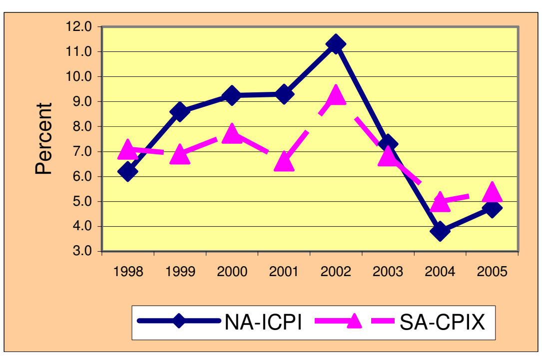
Other sectors such as the real estate and business services are expected to grow moderately over the next two years. This moderate growth would be influenced by satisfactory increases in the output of the real estate and retail sectors as well as of the financial services sectors. This is due to low interest rates and low inflation. The government sector is expected to grow less in 2004 by 1.5 percent on account of freeze on civil service recruitments (apart from "essential posts") but is expected to moderate to a historical level of 2.0 percent in 2005.

3.2 Monetary and Price Developments

3.2.1 Inflation and Interest Rates

The annual inflation rate based on the Namibian interim consumer price index (ICPI) declined to an average level of 7.3 percent in 2003 (see Chart 4), compared to the average rate of 11.3 percent in 2002. The average inflation rate (year-on-year) for 2004 equalled 3.9 percent, which is significantly lower than the average rate of 9.1 percent during the same period of the preceding year. A decrease in food prices and the strong exchange rate contributed to the ongoing decline of the overall inflation rate. The stability of global prices provides favourable conditions to maintain the low level of inflation. The average annual Namibian inflation rate is projected to be around 4.7 percent in 2005.

Chart 4: Inflation rate



Source: *Central Bureau of Statistics; South African Reserve Bank; Bank of Namibia*

Concerning the South African CPIX, a similar development has been observed. For 2003, the average annual inflation rate was 6.4 percent, decreasing further to 4.3 percent in the period January to November 2004. Considering the recent development, the average annual inflation rate for 2004 and 2005 is projected to be 4.5 percent and 5.5 percent, respectively.[23] These projections are within the target range of between 3 and 6 percent, close to the upper end, but remaining higher than the Namibian rate.

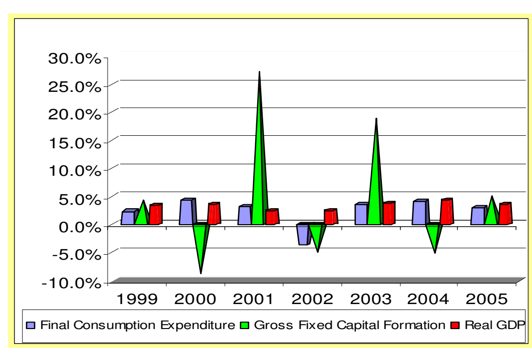
The Namibian bank rate decreased to 7.50 percent in August 2004 after remained unchanged at 7.75 percent since December 2003, following several interest rate cuts during 2003. Accordingly, the average prime-lending rate of the commercial banks decreased slightly from 12.50 percent to 12.25 percent.

3.3 Consumption and Investment

The positive growth of real final consumption expenditure in 2003 of 3.5 percent is further sustained in the ensuing years, where it is expected to grow by 4.2 and 3.0 percent in 2004 and 2005, respectively. This continued real growth would be mainly due to increased private consumption expenditure, which is forecasted to grow at a sustained rate of 4.6 percent in 2004 (same rate as 2003) and stabilizing at 2.4 percent in 2005. The positive growth rate gives an indication that consumers are taking advantage of the lower interest and inflation rate environment by taking up additional debt to buy e.g. new motor vehicles and property.[24]

Households in Namibia are also enjoying real increases in their disposable income of around 3 percent for the past year and indications show that this will persist for the forecasted periods. In addition, there is statistical evidence that the additional income is being utilized to increased purchases of items such as food, furniture, clothing and appliances.[25]

Chart 5: Domestic Demand



Source: *Central Bureau of Statistics, Bank of Namibia*

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[23] *South African Reserve Bank*, "Monetary Policy Review", May 2004.
[24] *Bank of Namibia*, "Quarterly Bulletin", March, June, September 2004.
[25] *Bank of Namibia*, "Annual Report", 2003.

The other subcomponent of final consumption expenditure, general government consumption, is also forecasted to grow in real terms from 1.4 percent in 2003 to 3.4 and 4.3 percent in 2004 and 2005. This forecasted growth pattern is consistent with the current government expenditure on individual and collective services as well as on goods and services, which is growing at 4.5 and 8.3 percent for the 2004/05 fiscal year in real and nominal terms, respectively.[26]

Real investment declined by 5.1 percent in 2002 and grew by 18.6 percent in 2003 mainly due to investments in residential buildings and structures. For 2004 and 2005, growth rates of -5.3 and 4.9 percent are projected. This growth in real investment reflects the historical cyclical pattern as evident in Chart 5.[27]

3.4 External Sector

3.4.1 Balance of Payments

Real exports contracted by 4.6 percent in 2003 after registering an impressive growth of about 20.1 percent in 2002. The low growth in real exports in 2003 resulted mainly from a reduced export volume of diamonds as well as live animals.

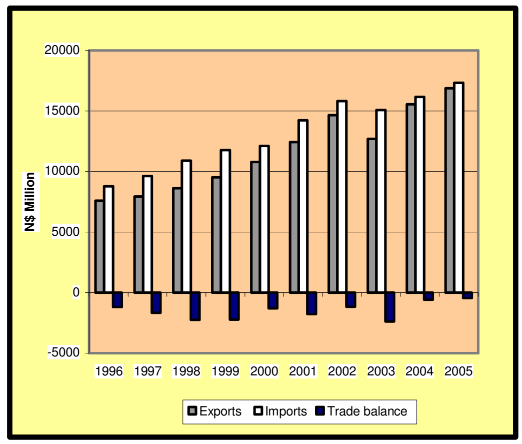
Exports are, however, projected to recover in the ensuing year to a positive growth rate of 7.4 percent in 2004 and stabilizing at 3.7 percent in 2005 on the backdrop of increased production of minerals and metals such as diamond and zinc. Favourable international prices on zinc and copper and an increase in world diamond demand as a result of the global recovery could contribute positively to the export of goods and services. As a percentage of GDP, it is therefore projected to increase from 39.4 percent in 2003 to 42.3 percent and 44.0 percent in 2004 and 2005, respectively.

In real terms, **imports** contracted by 5.8 percent in 2003. Real imports are projected to increase by 6.3 percent and 2.4 percent in 2004 and 2005, respectively, largely due to an improvement in domestic demand. As a percentage of GDP, it is projected to decrease slightly to 46.2 percent in 2004 from 46.7 percent in 2003 and stabilizing at about 45.6 percent in 2005.

As a result of these developments, the Namibian **trade deficit** is projected to improve to –1.6 percent of GDP in 2004 from –7.3 percent of GDP in 2003 (see Chart 6). It is forecasted to improve further to –1.2 percent of GDP in 2005 as the world demand for the Namibian exports improves.

The **current account** surplus as a percentage of GDP is set to increase to 10.1 percent in 2004 from 8.0 percent in 2003. This is mainly due to the increases in SACU revenue.[28] However, it is expected to drop to 2003 levels at 8.65 percent of GDP in 2005 due to reduced SACU receipts.

Chart 6: International trade



Source: *Central Bureau of Statistics; Bank of Namibia*

4 Conclusion

The economy is projected to recover to an average growth rate of about 4.1 percent in 2004 and 2005. The recovery is mainly attributed to an increase in the mining sector due to increased offshore diamond production as well as increased zinc and copper output. Diamond production could also be boosted by the resumption of activities by a new diamond mining company created out of a liquidated one.

Other sectors such as manufacturing, construction, electricity and water are contributing positively to growth over the next two years. The actual growth rates may even exceed the projections if the inflation rate and interest rates continue to be at a

[26] *Ministry of Finance*, "Sovereign Debt and Cash Flow Development Reports, 1st and 2nd Quarter", October 2004. Also in the "Fiscal Position Paper", *Bank of Namibia*, December 2004.

[27] There is no clear reason as to the cyclical pattern of real investment in the Namibian economy. One plausible explanation is that heavy real investments in one year do not ensure a sustainable pattern for the next year, in part due to the low returns realized on such investment projects during the ensuing year.

[28] The New SACU agreement has been ratified in April by the Parliament in South Africa. Hence, its actual implementation is delayed to late this year or some time next year. As a result, the SACU revenue share for Namibia is still based on the old 1969 agreement, which may entail increases in SACU revenue for this year.

low level, commodity prices continue to improve and climatic conditions are favourable.

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

- *The projected world economic recovery could be affected by an increase in oil prices and this would have implications on Namibia's projected growth and inflation.*

- *An appreciation of the local currency against the major currencies like the US Dollar and the Euro could have negative effects on Namibia's export market and this could have spill over effects on production and job creation.*

Table 3: Real GDP growth forecast

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture and forestry	**4.7%**	**-14.9%**	**-4.8%**	**2.8%**	**1.8%**	**3.0%**	**3.3%**	**3.5%**
- Commercial	31.1%	-9.2%	2.1%	3.6%	2.3%	3.7%	3.8%	3.8%
- Subsistence	-20.7%	-24.0%	-17.9%	0.9%	0.8%	1.5%	2.2%	2.6%
Fishing	**14.5%**	**-1.5%**	**11.4%**	**3.8%**	**-9.6%**	**6.8%**	**4.5%**	**4.1%**
Mining and quarrying	**-1.7%**	**-6.1%**	**3.9%**	**-4.6%**	**32.3%**	**2.4%**	**2.8%**	**3.2%**
- Diamond mining	-6.7%	-5.1%	4.4%	-4.6%	34.7%	2.1%	2.0%	2.5%
- Other mining and quarrying	13.3%	-8.5%	2.6%	-4.5%	25.8%	3.4%	5.0%	5.0%
Total Primary Industries	**3.9%**	**-8.3%**	**2.7%**	**-0.1%**	**11.2%**	**3.6%**	**3.3%**	**3.5%**
Manufacturing	**3.6%**	**5.5%**	**5.0%**	**5.3%**	**2.4%**	**5.1%**	**5.1%**	**5.3%**
- Meat processing	-9.7%	6.4%	2.1%	-7.3%	-2.7%	2.3%	3.8%	3.9%
- Fish processing	-14.2%	-15.3%	-10.1%	51.5%	-7.3%	3.5%	4.2%	4.4%
- Other food products and beverages	1.9%	4.4%	8.3%	-3.6%	3.0%	3.5%	3.6%	3.6%
- Other Manufacturing	24.9%	18.3%	6.2%	6.4%	6.8%	8.2%	7.5%	7.9%
Electricity and water	**11.5%**	**-23.8%**	**1.1%**	**10.7%**	**9.2%**	**8.2%**	**7.5%**	**3.1%**
Construction	**-5.4%**	**53.1%**	**-29.2%**	**46.4%**	**4.0%**	**5.7%**	**3.5%**	**3.4%**
Total Secondary Industries	**3.1%**	**9.0%**	**-2.9%**	**12.4%**	**3.4%**	**5.5%**	**5.0%**	**4.7%**
Wholesale and retail trade, repairs	**5.4%**	**2.8%**	**3.0%**	**2.5%**	**5.4%**	**5.2%**	**4.4%**	**4.4%**
Hotels and restaurants	**7.2%**	**8.4%**	**8.4%**	**4.9%**	**3.1%**	**4.3%**	**4.5%**	**4.6%**
Transport and communication	**8.4%**	**13.9%**	**10.0%**	**5.3%**	**7.5%**	**7.2%**	**3.6%**	**3.6%**
- Transport and storage	6.3%	8.1%	13.6%	-5.7%	5.3%	5.4%	4.2%	4.2%
- Post and telecommunications	12.4%	24.3%	4.4%	23.8%	9.6%	9.0%	7.5%	6.3%
Financial intermediation	**6.2%**	**1.7%**	**3.3%**	**1.6%**	**1.9%**	**2.2%**	**2.5%**	**3.7%**
Real estate and business services	**1.5%**	**4.1%**	**-0.9%**	**5.2%**	**3.8%**	**4.5%**	**3.0%**	**3.0%**
- Owner-occupied dwellings	2.5%	2.5%	2.5%	2.5%	2.7%	2.5%	2.5%	2.5%
- Other real estate and business services	0.4%	5.8%	-4.4%	8.3%	4.9%	6.6%	3.5%	3.5%
Community, social and personal services	**8.7%**	**0.2%**	**2.9%**	**6.5%**	**3.2%**	**4.4%**	**4.0%**	**3.7%**
Producers of government services	**2.3%**	**1.4%**	**3.0%**	**2.3%**	**1.5%**	**2.0%**	**2.5%**	**3.2%**
Other producers	**2.0%**	**2.2%**	**2.2%**	**2.2%**	**2.1%**	**2.2%**	**2.4%**	**2.5%**
Total Tertiary industries	**3.9%**	**3.9%**	**3.5%**	**3.3%**	**3.5%**	**3.9%**	**3.5%**	**3.8%**
Less: Financial services indirectly measured	-0.8%	4.5%	-1.9%	8.5%	6.5%	4.3%	6.4%	5.7%
GDP at Basic prices	**3.8%**	**2.1%**	**2.3%**	**4.1%**	**4.9%**	**4.1%**	**3.7%**	**3.9%**
Taxes less subsidies on products	1.2%	4.5%	3.9%	1.0%	1.3%	1.5%	1.8%	1.8%
GDP at constant prices	**3.5%**	**2.4%**	**2.5%**	**3.7%**	**4.4%**	**3.8%**	**3.5%**	**3.6%**

Source: *National Planning Commission; Bank of Namibia. 2000-2003: official figures; 2004-2007: projections.*

Table 4: GDP at constant prices (N$ Million)

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture and forestry	**1,056**	**899**	**856**	**880**	**896**	**923**	**954**	**987**
- Commercial	648	589	601	623	637	660	685	711
- Subsistence	408	310	254	257	259	263	269	276
Fishing	**641**	**631**	**703**	**729**	**659**	**704**	**736**	**766**
Mining and quarrying	**1,190**	**1,117**	**1,160**	**1,107**	**1,464**	**1,500**	**1,541**	**1,590**
- Diamond mining	847	803	838	800	1,078	1,100	1,122	1,150
- Other mining and quarrying	343	314	322	308	386	399	419	440
Total Primary Industries	**2,887**	**2,647**	**2,719**	**2,716**	**3,019**	**3,127**	**3,231**	**3,343**
Manufacturing	**1,570**	**1,657**	**1,739**	**1,831**	**1,875**	**1,970**	**2,070**	**2,179**
- Meat processing	101	107	109	101	98	100	104	108
- Fish processing	241	204	183	278	258	267	278	290
- Food products and beverages	774	808	875	844	869	900	932	966
- Other Manufacturing	455	538	571	608	649	703	755	815
Electricity and water	**299**	**228**	**230**	**255**	**278**	**301**	**324**	**334**
Construction	**344**	**527**	**373**	**547**	**569**	**601**	**622**	**644**
Total Secondary Industries	**2,214**	**2,412**	**2,343**	**2,633**	**2,722**	**2,872**	**3,016**	**3,156**
Wholesale and retail trade, repairs	**1,455**	**1,496**	**1,541**	**1,580**	**1,665**	**1,752**	**1,829**	**1,909**
Hotels and restaurants	**269**	**292**	**316**	**332**	**342**	**357**	**373**	**390**
Transport and communication	**1,049**	**1,196**	**1,315**	**1,385**	**1,485**	**1,589**	**1,679**	**1,766**
- Transport and storage	671	725	824	777	818	862	899	936
- Post and telecommunications	379	471	491	608	666	726	781	830
Financial intermediation	**489**	**498**	**514**	**522**	**532**	**544**	**557**	**578**
Real estate and business services	**1,338**	**1,393**	**1,381**	**1,453**	**1,508**	**1,576**	**1,623**	**1,672**
- Owner-occupied dwellings	694	711	729	747	767	787	806	826
- Other real estate and business services	645	682	652	706	741	789	817	846
Community, social and personal services	**133**	**133**	**137**	**146**	**151**	**157**	**164**	**170**
Producers of government services	**3,236**	**3,281**	**3,380**	**3,456**	**3,508**	**3,578**	**3,667**	**3,785**
Other producers	**292**	**298**	**305**	**311**	**318**	**325**	**332**	**341**
Total Tertiary industries	**8,262**	**8,586**	**8,890**	**9,186**	**9,508**	**9,877**	**10,226**	**10,611**
Less: Financial services indirectly measured	151	158	155	168	179	187	199	210
GDP at Basic prices	**13,211**	**13,488**	**13,797**	**14,368**	**15,070**	**15,689**	**16,274**	**16,901**
Taxes less subsidies on products	1,889	1,974	2,052	2,073	2,100	2,131	2,170	2,209
GDP at constant prices	**15,100**	**15,462**	**15,849**	**16,441**	**17,170**	**17,821**	**18,443**	**19,109**

Source: *National Planning Commission; Bank of Namibia. 2000-2003: official figures; 2004-2007: projections.*

Table 5: GDP at current prices (N$ Million)

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture and forestry	**1,299**	**1,137**	**1,402**	**1,496**	**1,582**	**1,705**	**1,866**	**2,048**
- Commercial	792	711	1,021	1,032	1,096	1,189	1,307	1,440
- Subsistence	507	425	381	464	486	516	559	608
Fishing and fish processing on board	**1044**	**1,445**	**1,608**	**1,627**	**1,528**	**1,708**	**1,890**	**2,088**
Mining and quarrying	**2,610**	**3,663**	**3,945**	**2,184**	**3,023**	**3,235**	**3,511**	**3,834**
- Diamond mining	1934	2,854	2,887	1,807	2,530	2,702	2,918	3,173
- Other mining and quarrying	677	809	1,058	377	493	533	593	661
Total Primary Industries	**4,953**	**6,244**	**6,955**	**5,307**	**6,133**	**6,649**	**7,267**	**7,969**
Manufacturing	**2,371**	**2,604**	**3,187**	**3,537**	**3,716**	**4,071**	**4,519**	**5,034**
- Meat processing	121	142	143	147	149	159	175	193
- Fish processing on shore	548	494	703	899	866	938	1,035	1,146
- Other food products and beverages	1090	1,215	1,515	1,599	1,711	1,853	2,033	2,235
- Other Manufacturing	612	753	826	892	990	1,121	1,276	1,460
Electricity and water	**605**	**620**	**854**	**766**	**869**	**984**	**1,120**	**1,225**
Construction	**473**	**789**	**588**	**880**	**951**	**1,052**	**1,153**	**1,265**
Total Secondary Industries	**3,448**	**4,013**	**4,629**	**5,183**	**5,536**	**6,107**	**6,792**	**7,524**
Wholesale and retail trade, repairs	**2682**	**3,004**	**3,330**	**3,691**	**4,042**	**4,450**	**4,920**	**5,450**
Hotels and restaurants	**403**	**477**	**576**	**648**	**694**	**758**	**838**	**931**
Transport and communication	**1,383**	**1,533**	**2,055**	**2,301**	**2,559**	**2,862**	**3,200**	**3,568**
- Transport and storage	877	975	1,266	1,379	1,509	1,664	1,836	2,030
- Post and telecommunications	506	558	789	922	1,050	1,198	1,363	1,538
Financial intermediation	**833**	**964**	**1,088**	**1,194**	**1,264**	**1,352**	**1,468**	**1,615**
Real estate and business services	**2,235**	**2,497**	**2,639**	**2,944**	**3,172**	**3,467**	**3,781**	**4,132**
- Owner-occupied dwellings	1194	1,317	1,427	1,568	1,673	1,795	1,949	2,119
- Other real estate and business services	1041	1,180	1,212	1,375	1,499	1,672	1,832	2,012
Community, social and personal services	**201**	**216**	**244**	**267**	**286**	**313**	**344**	**379**
Producers of government services	**5071**	**5,810**	**6,494**	**7,104**	**7,492**	**7,997**	**8,680**	**9,505**
Other producers	**437**	**487**	**555**	**608**	**645**	**690**	**748**	**814**
Total Tertiary industries	**13,244**	**14,989**	**16,981**	**18,756**	**20,156**	**21,888**	**23,980**	**26,392**
Less: Financial services indirectly measured	273	330	359	419	464	506	570	640
GDP at Basic prices	**21,372**	**24,916**	**28,206**	**28,828**	**31,362**	**34,137**	**37,468**	**41,246**
Taxes less subsidies on products	2318	2,771	3,344	3,481	3,664	3,892	4,195	4,531
GDP at current prices	**23,690**	**27,686**	**31,550**	**32,309**	**35,026**	**38,029**	**41,663**	**45,777**

Source: *National Planning Commission; Bank of Namibia. 2000-2003: official figures; 2004-2007: projections.*