Economic Outlook

Bank of Namibia

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Overview

GLOBAL ECONOMY

- According to the IMF's World Economic Outlook (WEO) for April 2017, the global economy is expected to grow by 3.5 percent and 3.6 percent during 2017 and 2018 respectively, from 3.1 percent in 2016.

- The higher global growth is driven by recovery in both the advanced economies and the Emerging Market and Developing Economies (EMDEs) during 2017 and 2018. Despite the slight upward revision of the growth rate for 2017 from the January 2017 projection, commodity exporters are expected to continue facing headwinds while long-term growth in advanced economies remains weak. Thus, overall global growth in the medium term is anticipated to remain lukewarm.

- Risks to global growth have tilted towards the downside, according to the WEO for April 2017. These risks include possible disruption of global trade, capital flows and migration, changes in the US fiscal policy stance, adjustments in the pace of financial deregulation, tighter financial conditions in emerging markets, weak demand and banks' balance sheet problems in some parts of Europe. Other factors that could curtail growth include economic and non-economic factors such as geopolitical tensions in Ukraine, Qatar and around North Korea as well as the rise in domestic strife and terrorism acts in different parts of the globe. Notable hotspots include the Middle East, particularly Syria, and some countries in Africa, fuelling migration, especially into Europe.

REGIONAL ECONOMY

- Growth in the Sub-Saharan African region is expected to improve to 2.6 percent and 3.5 percent in 2017 and 2018, respectively, from 1.4 percent in 2016. This improvement in growth will be driven by a recovery in commodity prices, normalisation in agriculture following earlier drought, and improved macroeconomic conditions in the region.

- The South African economy is expected to register a modest recovery in 2017 and 2018. This recovery is largely driven by somewhat firmer commodity prices, expansion in electricity supply and eased drought conditions. However, the outlook for the South African economy remains subdued over the forecast horizon.

- Growth in Angola is expected to increase to 1.3 percent and 1.5 percent in 2017 and 2018, respectively, from an estimate of 0.0 percent in 2016. This expected improvement is due to a projected expansion in the non-oil sectors and better terms of trade in favour of the Angolan economy.

DOMESTIC ECONOMY

- Namibia's real GDP growth is projected at 2.1 percent and 3.8 percent for 2017 and 2018, respectively. The projected growth for 2017 was revised downward from 2.9 percent that was projected in February 2017. The slower growth for 2017 was informed by the Preliminary National Accounts outcome for 2016, which indicated that the Namibian economy only grew by a meagre of 0.2 percent last year. While there is now more evidence of a strong recovery in agriculture and mining, earlier expectations about high growth in the uranium sub-sector have been lowered because of uncertainty around the pace of recovery in the uranium price and in uranium output volumes.

- Risks to domestic growth include a meagre recovery in the country's trading partners, slow recovery in international commodity prices, undue appreciation of the Namibia Dollar and uncertainty about weather conditions beyond 2017. The appreciation of the domestic currency has side effects on exports of primary industries that underpins the anticipated recovery for 2017. The economic contraction in Angola since 2016 has continued to reverberate in Namibian sectors such wholesale and retail trade, education and real estate and business services. Thus, a delay in the actual recovery in growth in Angola increases the possibility of contraction in these sectors. Furthermore, a slowdown in demand for minerals by China will also increase the risk to projected growth for primary industries. Similarly, political uncertainty in advanced economies including the European Union has the potential to reduce Namibia's exports to such economies.

2. Global Outlook

Global output growth is expected to firm moderately during 2017 and 2018. According to the April 2017 World Economic Outlook (WEO), growth is forecasted to rise from 3.1 percent in 2016 to 3.5 percent and 3.6 percent in 2017 and 2018, respectively (Table 1). Growth momentum will be supported by robust growth in some advanced economies, as well as major emerging markets such as India and China. Growth in the Euro area is expected to remain steady in 2017. In India, growth is projected to increase to 7.2 percent and 7.7 percent in 2017 and 2018 respectively. China is expected to grow by 6.6 percent and 6.2 percent in 2017 and 2018, respectively, reflecting the stronger-than-expected momentum of the Chinese economy in 2016 and the anticipation of continued policy stimulus. Similarly, major emerging markets such as Brazil and Russia are expected to recover moderately during 2017 and 2018.

Table 1: World Economic Output (Annual percentage change)

	Actual	Actual	Projections		Differences from January 2017 Update	
Regions	**2015**	**2016**	**2017**	**2018**	**2017**	**2018**
World Output	**3.4**	**3.1**	**3.5**	**3.6**	**0.1**	**0.0**
Advanced Economies	**2.1**	**1.7**	**2.0**	**2.0**	**0.1**	**0.0**
United States	2.6	1.6	2.3	2.5	**0.0**	**0.0**
Euro Area	2.0	1.7	1.7	1.6	**0.1**	**0.0**
Germany	1.5	1.8	1.6	1.5	**0.1**	**0.0**
France	1.3	1.2	1.4	1.6	**0.1**	**0.0**
Spain	3.2	3.2	2.6	2.1	**0.3**	**0.0**
United Kingdom	2.2	1.8	2.0	1.5	**0.5**	**0.1**
Japan	1.2	1.0	1.2	0.6	**0.4**	**0.1**
Emerging Markets and Developing economies	**4.1**	**4.1**	**4.5**	**4.8**	**0.0**	**0.0**
China	6.9	6.7	6.6	6.2	**0.1**	**0.2**
India	7.9	6.8	7.2	7.7	**0.0**	**0.0**
Russia	-2.8	-0.2	1.4	1.4	**0.3**	**0.2**
Brazil	-3.8	-3.6	0.2	1.7	**0.0**	**0.2**
Sub-Saharan Africa	**3.4**	**1.4**	**2.6**	**3.5**	**-0.2**	**-0.2**
South Africa	1.3	0.3	0.8	1.6	**0.0**	**0.0**
Angola	4.8	0.0	1.3	1.5	**1.3**	**0.0**
Nigeria	2.7	-1.5	0.8	1.9	**0.0**	**-0.4**
Middle East and North Africa	**2.7**	**3.9**	**2.6**	**3.4**	**-0.5**	**-0.1**

Source: IMF World Economic Outlook, April 2017

Overall, growth in Europe remain relatively steady with high unemployment rates and rising inflation. Furthermore, the planned elections in Germany coupled with the Brexit process will increase the degree of economic uncertainty during 2017 and 2018.

2.1. Advanced Economies

In Advanced Economies, growth is projected to improve in 2017 and 2018. Growth is expected to increase to 2.0 percent during 2017 and remain flat at that level in 2018. Meanwhile, the United States is expected to register robust growth in 2017 and 2018. The medium term growth for major advanced economies such as Germany, Japan and the United Kingdom will remain low, clouded by uncertainty over the forecast horizon.

Amongst advanced economies, real GDP in the United States is expected to expand at faster pace and support global growth during 2017 and 2018. The US economy is projected to grow by 2.3 percent and 2.5 percent in 2017 and 2018, respectively, compared to a lower growth rate of 1.6 percent in 2016. During 2017, the growth rate in the US is likely to be supported by fiscal stimulus, solid growth in consumption expenditure and the buoyant business confidence in the domestic economy. The Trump administration has ambitious fiscal plans to boost growth and trade over the medium term. The envisaged plan has led to higher bond yields based on expectations of faster economic growth ahead. On the downside, inflation is creeping up in response to robust domestic consumption expenditure.

The Euro Area economy showed remarkable resilient and steady growth, but the medium term outlook remains relatively weak. The Euro area is projected to grow by 1.7 percent in 2017 and 1.6 percent in 2018. Growth seems likely to be sustained by mild fiscal expansion in some Euro area member countries, accommodative monetary policy, a weaker euro currency, improved financial market conditions and positive spillovers from the US economy. Notably, growth had so far held up in the Euro Area despite the Brexit shock and weak balance sheets of banks in Italy. Going forward, the medium term outlook for the Euro area, however, remains weak due to political risks[1] and uncertainty around election outcomes in German and France. The degree of economic uncertainty is reinforced by the Brexit divorce negotiations between the European Union and the United Kingdom. Therefore, it is anticipated that various economic and non-economic factors will continue to undermine corporate investment and weigh down economic activity in the Euro Area.

In the United Kingdom, growth is projected to increase, despite the cloud of uncertainty from Brexit negotiations. Economic growth is projected to increase to 2.0 percent and 1.6 percent in 2017 and 2018, respectively, from 1.8 percent in 2016. UK growth for 2017 was revised upward due to a better than expected growth performance after the Brexit vote in June 2016. The downward revision in 2018 is due to reduced confidence in the UK, a depreciating

[1] Political risks and uncertainty in the Euro Area is comprised of subset of outcome of elections in elections in Netherlands, German and the Italian constitutional referendum. This set also include the high of debt in Greece, Ukraine crisis and vulnerability of banks in Italy.

pound, increased uncertainty around private investment and slowdown from trade barriers, migration and reduction in financial activity.

Growth is expected to pick up moderately in Japan during 2017. Japan's growth is projected at 1.2 percent in 2017, better than expected at the beginning of the year, before slowing to 0.6 percent in 2018. The stronger growth forecast is mainly due to upward revision in expectations for net exports. However, the pace of this expansion is expected to weaken in 2018 to 0.6 percent growth mainly because of anticipated withdrawal of fiscal stimulus. Over the medium term, shrinking labour force and other demographic factors will have a detrimental effect on Japans' growth.

2.2. Emerging Market and Developing Economies

Emerging markets and developing economies are expected to drive global growth during 2017 and 2018 with strong recovery in exports underpinned by trade growth in China and India. China and India, the fastest growing economies in the world, are projected to post annual growth rates that is above 6.0 percent over the next two years. Meanwhile, the Brazilian and Russian economies are expected to emerge out of recession during 2017 and 2018.

Economic growth in China is expected to moderate. Growth in China is projected to soften to 6.6 percent and 6.2 percent in 2017 and 2018, respectively. The slowdown in growth is partly due to softening of global demand for Chinese exports, domestic price corrections in the housing market and high labour costs relative to other countries. Nevertheless, China's growth remains high and this is underpinned by domestic credit extension and public investment. Going forward, the medium term outlook remains clouded by uncertainty because of domestic currency concerns, resources misallocation and vulnerabilities from over-reliance on domestic credit extension to finance investment.

India's economic growth rate is projected to increase. India's economic growth is forecasted at 7.2 percent and 7.7 percent in 2017 and 2018, respectively. Despite the recent experience of cash shortages and payment disruptions due to currency exchange, growth in India is expected to remain resilient. The upward momentum in growth is largely influenced by removal of supply side bottlenecks, digitization of the economy, appropriate monetary and fiscal policies to support the economy. Nevertheless, the demonetization of currency is likely to affect the private consumption (e.g. auto sales) and the government spending which are key drivers of the Indian economy.

Russia's economy is poised to exit recession. Growth for Russia is forecasted to reach 1.4 percent in both 2017 and 2018. The expected modest recovery is mainly attributed to firming of oil prices, easing domestic financial market conditions and improved business confidence in Russia. Going forward, medium term growth is projected to remain subdued due to a slow pace of economic reforms.

Likewise, **Brazil** is expected to register positive growth of 0.2 percent and 1.7 percent in 2017 and 2018 respectively. Growth will largely be supported by a recovery in commodity prices, improved macroeconomic conditions, reduced political uncertainty and easing monetary policy, coupled with a progressive economic reform agenda.

Risks to the global economic outlook remain tilted to the downside. According to WEO April 2017, there are major areas of uncertainty that may affect the baseline scenario for 2017 and 2018. Firstly, there is a rise in anti-globalisation views that could affect global trade and capital flows. There is a probability that anti-globalisation views could trigger protectionist policies and lead to increased tariff barriers or other trade barriers that would emerge as retaliatory response from other countries. Secondly, another source of uncertainty pertains to the direction of the US policy agenda, particularly the likely impact from the planned fiscal policy expansion. Currently, US fiscal policy lacks clarity on how it may influence global exports to the US, and ultimately the exchange rates between the US Dollar and emerging market currencies. Thirdly, the shift toward protectionism could also trigger tightening of financial conditions in large emerging market economies; because, China, India and Russia are expected to employ capital control measures as a response to protect their capital accounts. Furthermore, possible risk could emanate from the anticipated election outcomes in major advanced economies, the process of Brexit negotiations with the EU and the bilateral agreements between UK and various countries in the world. There are fears that election outcomes in favour of anti-establishment parties will increase the chances of fragmentation of the Euro area and European Union.

3. Regional Outlook

In Sub-Saharan Africa (SSA) growth is projected to increase in 2017 and 2018, mainly due to a moderate commodity price recovery. Economic growth in Sub-Sahara Africa is expected to rise to 2.6 percent and 3.5 percent in 2017 and 2018, from a slowdown of 1.4 percent in 2016. The expected recovery in 2017 is mainly due to uptick in commodity prices and modest growth in the two largest economies in the region. During 2016, the Nigerian and South African economies came under pressure due to slowing global demand, declining commodity prices and limited fiscal space to support the much needed growth. There is, however, an expected moderate recovery during 2017 on the basis that minerals and oil prices will increase and thus sustain growth in SSA.

In South Africa, a modest economic recovery is expected. The South African economy is projected to grow by 0.8 percent and 1.6 percent in 2017 and 2018, respectively. The slight recovery is largely due to commodity prices rebound, eased drought conditions, expansion in electricity capacity and improved demand from trading partners such as the EU and US. Going forward, the South African economy remains tepid and stifled by weaker external demand, low business confidence, labour market challenges and political uncertainty. Further, the credit rating downgrade has raised the cost of borrowing, putting upward pressure on longer-term domestic interest rates. Weak growth and tight economic policy in SA makes a difficult scenario to navigate the economy to a stable path of robust growth.

Similarly, Angola is project to recover modestly. The Angolan economy is expected to recover with growth forecasted at 1.3 percent and 1.5 percent in 2017 and 2018, respectively. According to the IMF's WEO for April 2017, growth in Angola will be driven by an expansion in the non-oil sectors, better terms of trade and recovery in crude oil price. Nevertheless, Angola's medium term outlook remains fragile, because domestic economy has not full structurally adjusted to lower revenues and slow pace of global demand from major consumers such as China.

Risks to the regional outlook remain due to uncertainty in the global economy. Firstly, a faster-than-expected pace of normalisation of US monetary policy may result in contractionary monetary policy stances in the region in order to stem possible outflows of capital and domestic currency depreciations. Generally, rising interest rates in the United States and other major economies might lead to capital outflows from emerging markets and exchange rate volatility, with ultimate inflation-raising effects. Further, the lack of fiscal space and presence of high debt levels remain challenges to growth in the region. Higher levels of political contestation and turmoil in some SADC countries may also inhibit confidence and growth in the region.

4. Domestic Economic Outlook

Developments since the last Economic Outlook update

The Namibian economy is expected to recover from near-zero growth in 2016, supported by improved growth prospects in the primary industries and electricity and water sector. The domestic economy is projected to grow by 2.1 percent and 3.8 percent during 2017 and 2018, respectively. The projected growth for 2017 remains below potential growth of 4.0 percent, but nevertheless represents a considerable improvement from the 0.2 percent recorded in 2016. Further, a projected return to positive growth in the agriculture and diamond mining sectors, as well as better growth in the electricity and water sector are expected to drive the recovery in overall GDP growth during 2017.

Since the Economic Outlook update in February 2017, the Namibia Statistics Agency (NSA) published the Preliminary National Accounts for 2016 showing lower growth for 2016. The actual growth rate for 2016 was 0.2 percent, which is 0.8 percentage points lower than the Bank's estimate in February 2017. In the Preliminary National Accounts for 2016, GDP growth rates for 2014 and 2015 were revised upwards, creating a high base for 2016 growth. At the same time, the growth rate for construction in 2016 was a sharper contraction of 29.5 percent compared to a contraction of 9.8 percent in the Bank's February projections.

4.1 Primary Industries

Growth for primary industries is projected to increase during 2017, mainly due to the expected robust recoveries in agriculture and mining. After successive contractions in the last four years, the primary industries are projected to grow by 9.4 percent and 8.2 percent in 2017 and 2018, respectively (Figure 1). The agriculture and forestry sector is projected to grow by 5.1 percent and 4.6 percent in 2017 and 2018, respectively, following a minor contraction of 0.4 percent in 2016. Similarly, the mining sector is projected to expand by 13.3 percent and 11.3 percent in 2017 and 2018, respectively, after contracting by 6.0 percent in 2016.

After two successive years of contraction, the agriculture and forestry sector is expected to recover during 2017, because of better rainfall in the 2016/17 rain season. The agriculture and forestry sector is projected to grow by 5.1 percent and 4.6 percent in 2017 and 2018, respectively. This recovery marks a significant improvement in the subsector from successive contractions of 10.4 percent and 0.4 percent during 2015 and 2016 – both drought years (appendix II). The recovery in agriculture and forestry during 2017 will emanate from the crop farming and forestry subsector, which is projected to grow by 6.6 percent in 2017 from a contraction of 1.2 percent in 2016. This growth recovery is mainly due to better rainfall received in 2017. As result of improved rainfall, the maize grain harvest is projected at 69 344 tonnes in 2017 compared to 42 406 tonnes harvested in 2016. The losses to the maize grain harvest due to the emergence of armyworms in the 2016/17 rain season, is currently estimated at around 965 tonnes. This will translate into approximately 1.2 percent of the total tonnage. In the medium-term, crop farming is expected to remain positive, but the performance of this sector is dependent on the amount of rainfall received. Similarly, livestock farming is expected to increase by 4.0 percent and 4.6 percent in 2017 and 2018, respectively. The expected improved growth is mainly due to increased stock and some base effects.

Diamond mining is projected to expand in 2017 and 2018 after successive contractions in 2015 and 2016. Diamond mining is projected to grow by 19.2 percent in 2017, following a contraction of 9.6 percent in the previous year. Robust growth in diamond mining is attributed to an increased production from mining activity due to a vessel that has resumed operation and the expected high-grade carats to be mined from the offshore operation. Going forward, growth in diamond mining is expected to rise by 5.3 percent in 2018. Further, the anticipated better performance of diamond mining will be supported by resounding consumer demand that is expected to remain upbeat in the global markets such as US and India. Although, better growth is expected in 2017, the continued strengthening of the Namibia Dollar against the US Dollar is expected to weigh down the value addition and ultimately growth contribution from the diamond mining subsector.

Growth in uranium mining is projected to slow down in 2017 before accelerating during 2018 underpinned by increased output from Husab mine. Uranium mining is projected to grow by 9.2 percent and 47.7 percent in 2017 and 2018, respectively, compared to 13.6 percent in 2016. The slower growth in 2017 is attributed to a reduction in production at some existing mines in response to the low and stagnant uranium price coupled with operational challenges experienced so far in 2017. Going forward, the uranium sector is expected to yield robust growth as Husab mine increases production to reach its full production capacity in 2019. According to IMF projections, however, the uranium price is expected to decrease by 19.7 percent in 2017.

Growth in the metal ores sector is expected to recover with a marginal increase in output during 2017 and robust growth thereafter. The metal ores industry is projected to grow by 0.8 percent in 2017 from a contraction of 1.2 percent recorded in 2016. This marginal recovery is mainly attributed to exceptional growth in gold production, which is projected to increase by 9.1 percent in 2017. Meanwhile, the zinc and lead subsector, which accounts for roughly 61 percent of the metal ores industry output, registered a decline year-on-year during the first quarter of 2017. Going forward, the sector is expected to perform very well as zinc production stabilizes and gold maintains it growth trajectory. Growth in output of the metal ores sector is expected to accelerate further from 0.8 percent in 2017 to 4.4 percent in 2018.

4.2 Secondary Industries

Overall growth in the secondary industries is projected to remain negative during the entire forecast period, mainly due to a contraction in the construction sector. Following a contraction of 10.4 percent in 2016, output for secondary industries is projected to shrink further by 3.7 percent and 1.0 percent in 2017 and 2018, respectively, (Figure 1). A major contribution to this slowdown comes from the construction sector that is expected to decline by 18.6 percent in response to a decline in private investment in the mining sector as well as to fiscal consolidation measures.

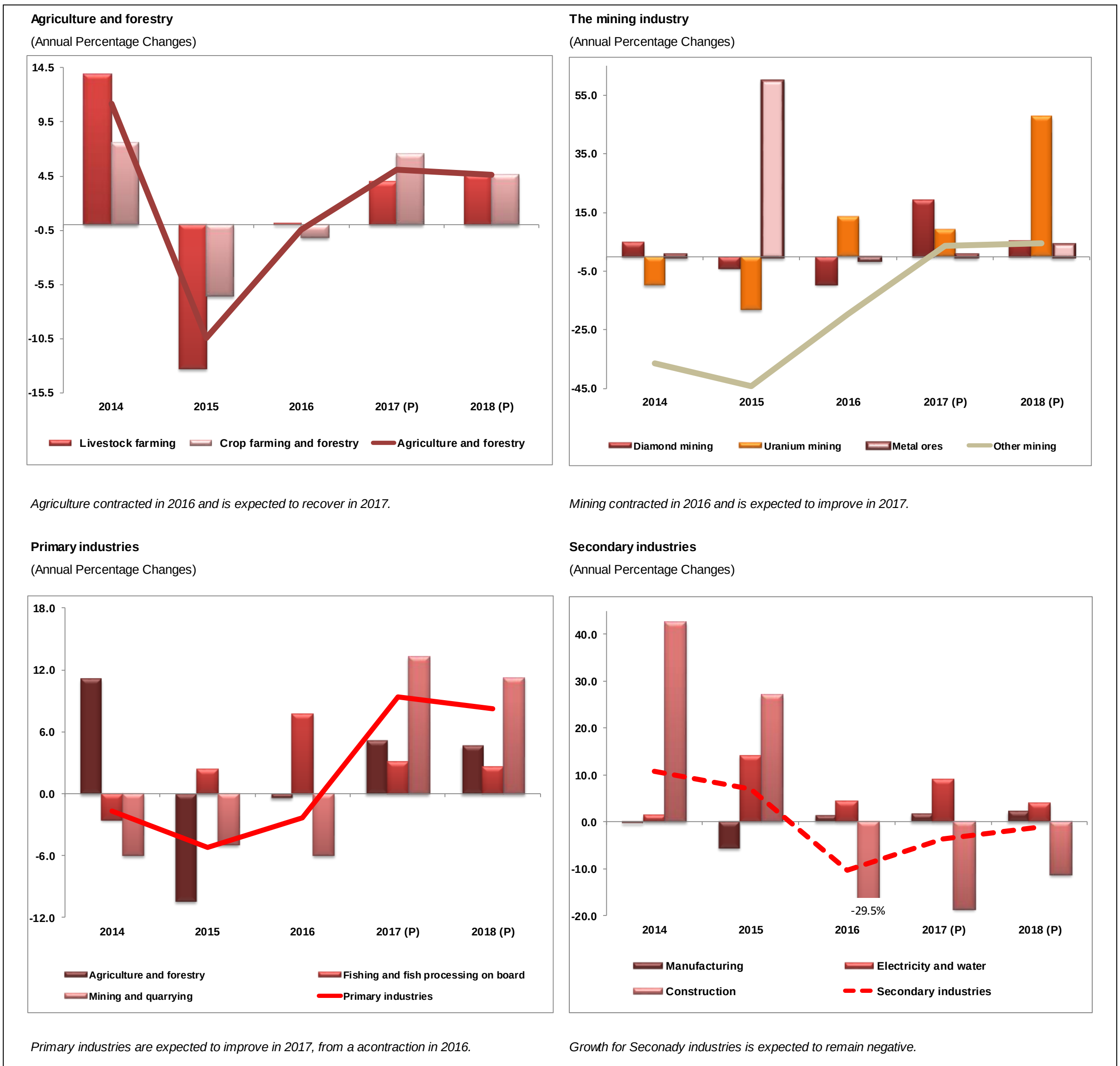
The manufacturing sector is projected to improve slightly both 2017 and 2018, mainly supported by strong growth in the other food products and diamond processing subsectors. Growth in the manufacturing sector is expected to increase to 1.7 percent in 2017 from 1.2 percent in 2016. The diamond processing subsector is predicted to post robust growth of 17.9 percent and 4.6 percent in 2017 and 2018, respectively. Despite a slowdown in growth comparing to 2016, the estimated growth in diamond processing is likely to be sustained by increased supply of rough diamonds to processors and improved international markets for processed diamonds. Meat processing is projected to continue declining with an

8.7 percent contraction expected in 2017. Generally, performance in the manufacturing sector is linked to performance in primary activities such as mining, fishing and agriculture. Thus, subdued activities in livestock farming and efforts by farmers to replenish the livestock is expected to negatively affect the value addition in the meat-processing sub-sector. Despite the good rain season in 2017, the number of livestock available for slaughter will remain low in 2017, because of the two consecutive droughts that left farmers with low livestock numbers. Furthermore, there are doubts about whether the recent increase in the average price of beef by 14.5 percent to N$31.85 per kg will attract farmers to avail more cattle to local abattoirs. Secondly, the expected decline in the overall manufacturing is attributed to the production challenges in zinc refinery and copper blister. The year-to-date information shows that the production of copper blister has decreased both year-on-year and quarter-on-quarter in during the first quarter of 2017. In addition, cement production decreased by 7.5 percent during the first quarter of 2017 when compared to the same period in 2016. In this regard, the manufacturing sector will struggle in the near future due to weak demand for cement in the construction sector and the subdued activities in the meat processing sub-sector. Despite these setbacks, the beverages subsector is expected to grow by 2.0 percent in 2017 from a contraction of 1.6 percent in 2016. The projected growth is in line with the year-to-date information that shows that beer production rose quarter-on-quarter during the first quarter of 2017.

Growth in the electricity and water sector is expected to remain strong during 2017 and 2018. The electricity and water sector is projected to expand by 9.1 percent in 2017, which is an improvement from the 4.4 percent registered in 2016, before slowing to 4.0 percent in 2018. The higher growth in 2017 is likely to come from increased local electricity generation combined with the infusion of further generation from solar energy sources. In addition, the water subsector is expected to support growth as input costs associated with the provision of water has considerably improved in 2017; and furthermore, the water capacity has been increased through the City of Windhoek boreholes and the anticipated additional water supply from the Areva plant. On electricity, year-to-date information shows that locally generated electricity increased by 20.9 percent on a yearly basis, which led to a reduction in imports of electricity by 22.8 percent during first quarter of 2017.

The construction sector is expected to contract during 2017 and 2018 as both private and public construction activities face headwinds. The construction sector is projected to contract by 18.6 percent and 11.2 percent in 2017 and 2018, respectively. Although these are less negative than the steep decline of 29.5 percent in 2016, the sector is expected to remain in recession over the forecast period. The past growth rates in the construction sector were largely driven by the high volume of construction activities at various mines, which have now concluded in 2016. Moreover, the prevailing low commodity prices are expected to dampen new investment in the mining industry. Furthermore, it is worth to note that the water shortage has eased in 2017. The fiscal consolidation measures will reduce the public construction activities as government continues to employ strict measures to improve fiscal space and restore fiscal buffers[2].

Figure 1: Growth in Primary and Secondary industries



Agriculture contracted in 2016 and is expected to recover in 2017.

Mining contracted in 2016 and is expected to improve in 2017.

Primary industries are expected to improve in 2017, from a acontraction in 2016.

Growth for Seconady industries is expected to remain negative.

[2] Fiscal buffers refer to the need for Government to create enough space so that it is able to increase spending in the future without creating unsustainable debt levels

4.3 Tertiary Industries

During 2017, growth in the tertiary industries is expected to slow down because of a contraction in the wholesale and retail sector. Tertiary industries are projected to grow by 1.4 percent in 2017 and 3.5 percent in 2018, after expanding by 3.4 percent in 2016 (Figure 2). Although, there is moderate growth from social sectors such health and education, growth in transport and communication and contraction in wholesale and retail are expected to dampen the performance of tertiary industries during 2017.

The wholesale and retail trade sector is expected to contract in 2017 before recovering in 2018. The wholesale and retail trade is projected to decline by 3.0 percent during 2017. In the last two years, wholesale and retail sector has been under pressure from slowing domestic consumption, weak demand from Angola and significant slowdown in government spending coupled with the impact of the amendment to the Credit Agreement Act that was implemented in 2016. Quarter-on-quarter data indicates that wholesale and retail sales declined by 2.3 percent during the first quarter of 2017. Amongst others, the retail sales and total vehicle sales declined by 3.8 percent and 17.6 percent during the first four months of 2017, respectively, when compared to the corresponding period of 2016. Further, the supermarkets category, which roughly constitutes 55 percent of this sector, declined by 3.1 percent in the first quarter of 2017. Meanwhile, year–to-date growth rate in real terms showed that wholesale and retail sector contracted by 9.0 percent during the first four months of 2017. Going forward, growth in this sector will remain weak because of the slow economic recovery in Angola. At the same time, the drawn out effects from credit agreement amendment on wholesale and retail is likely in 2017 and going forward.

The transport and communication sector is projected to slow down marginally during 2017 before improving moderately in 2018. Growth in the transport and communication is projected to slow down to 4.0 percent in 2017 from 6.0 percent estimated in 2016. Growth in the sector is expected to emanate from storage, postal and communication subsectors that are projected to grow by 3.1 percent and 5.5 percent while transport will slow down to 2.9 percent during 2017. In the medium term, transport and communication is expected to maintain a robust growth reflecting a global recovery that will raise further demand for services in the global economy. Further, steady growth in this sector will be sustained by predicted recovery in the primary sectors such as mining and quarrying.

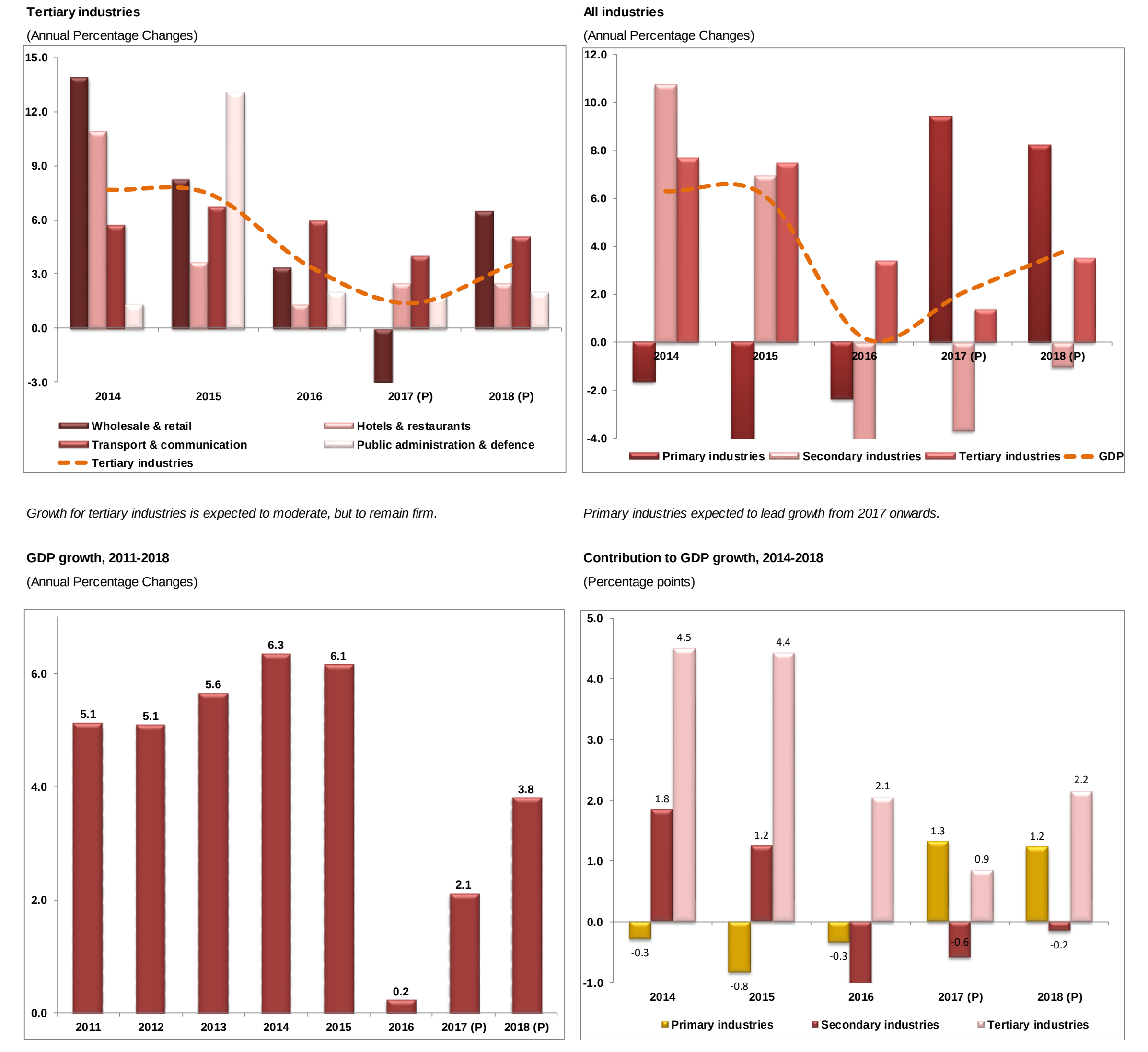
Growth in the hotels & restaurants sub-sector is projected to increase in 2017 but to remain low over the medium term. The hotels and restaurants sub-sector is projected to expand by 2.5 percent in both 2017 and 2018, which is an improvement from 1.4 percent in

2016. During the first quarter of 2017, both international and regional tourist arrival numbers, which proxies hotel and restaurant sector, increased by 13.3 percent on year-on-year basis. Going forward, this sector is expected to remain steady due to the expected recovery in advanced economies.

During 2017, growth in the financial intermediation sector is expected to slow and remain moderate over the medium term. Financial intermediation is projected at 2.2 percent in 2017 and 2.9 percent in 2018. This growth forecast represents a slowdown from 3.4 percent growth rate for 2016. Growth in this sector is expected to gravitate around the 2.8 percent on average with sustained increased earnings from interest-bearing activities[3]. However, there are indications that domestic demand for financial intermediation is slowing, and this is reflected in slower growth in private sector credit extension. In this regard, annual growth in private sector credit declined to 8.6 percent during the first four months of 2017 compared to 13.0 percent in the corresponding period of 2016.

[3] Growth in Financial intermediation depends on performance of financial institutions such as Bank of Namibia, the Development Bank of Namibia, Agribank, commercial banks and insurance companies. Within the banking industry, high interest rates are associated with high interest margins and hence, higher earnings.

Figure 2: Growth in Tertiary industries and in overall GDP



Growth for tertiary industries is expected to moderate, but to remain firm.

Primary industries expected to lead growth from 2017 onwards.

Overall growth is expected to recover in 2017 before accelerating further.

Tertiary industries to remain the leading contributor to overall growth.

Risks to domestic growth include meagre recoveries in the country's trading partners, slow recovery in international commodity prices, undue appreciation of the Namibia Dollar and uncertainty about weather conditions. The sluggish economic growth in South Africa, Angola and other emerging markets coupled with the slow recovery in prices for commodities of export interest to Namibia poses main risks to projected growth for 2017 and 2018. The economic contraction in Angola since 2016 has continued to reverberate in sectors such as wholesale and retail trade, education and real estate and business services; thus, a delay of the actual growth recovery in Angola increases the possibility of contractions in these sectors. In addition, a slowdown in the demand for minerals from China will also pose a challenge to projected growth rates for the primary industries. Similarly, political uncertainty in advanced economies (e.g. the European Union), has the potential to reduce Namibia's exports.

5. Conclusions

Global output is expected to improve in 2017 and 2018. The improvement in 2017 is largely because of better growth performance predicted in some advanced economies and large emerging market economies. Robust growth in India, China and the United States is expected to drive global growth in both 2017 and 2018. Despite the upward revision of the growth rate for 2017 that was projected during January 2017, commodity exporters are expected to continue facing headwinds while long-term growth in advanced economies remains weak. Thus, overall global growth in the medium term is anticipated to remain pedestrian. However, Brazil and Russia are expected to exit recession during 2017, with modest growth rates projected for 2017.

In Sub-Saharan Africa (SSA), growth is projected to increase in 2017 and 2018, due to a slight improvement in commodity prices over the forecast horizon. Economic growth in Sub-Sahara Africa is expected to rise to 2.6 percent and 3.5 percent in 2017 and 2018, respectively, from slow growth of 1.4 percent in 2016. The expected recovery in 2017 is because of the uptick in oil and other commodity prices and modest growth recovery in the two largest economies in the region: Nigeria and South Africa. Last year, the Nigerian and South African economies came under pressure due to slowing global demand, declining commodity prices and limited fiscal space to support much needed growth. There is, however, an expected moderate recovery during 2017 on the basis that minerals and oil prices and agricultural output will increase and thus help to sustain growth in SSA.

Growth in Angola is predicted to rise because of the recovery in the oil price from its early 2016 lows and currency depreciation. Growth in Angola is likely to pick up, driven by an expansion in the non-oil sectors, better terms of trade and recovery in crude oil price Nevertheless, Angola’s medium term outlook remains fragile, because domestic economy has not full structurally adjusted to lower revenues and slow pace of global demand from major consumers such as China.

The outlook for Namibia’s growth is somewhat weaker than anticipated in February 2017. The domestic economy is projected to grow by 2.1 percent during 2017, which is an increase from a 0.2 percent recorded in 2016. The increase is attributed to better growth rates in agriculture and forestry, diamond mining and electricity and water sectors. Furthermore, domestic growth is in line with expectations in the emerging markets and advanced economies. Meanwhile, secondary industries will remain in recession during 2017 – 2018, and the tertiary industries will slow down reflecting a fragile growth in medium term.

Risks to domestic growth include a slow recovery in Namibia's trading partners and low uranium prices. Slow growth in advanced and leading emerging market economies remains a risk to a resource based country like Namibia. Furthermore, weak global demand and slow recovery of international commodity prices if persist longer may slow production at some of the mines in Namibia, especially uranium mines.

Appendices

Appendix I: Forecasting Assumptions

Real Sector

- Growth in the agricultural industry is expected to recover in 2017 following better rains experienced this year. The recovery is expected to come from improved growth for both livestock farming and crop farming sub-sectors.

- Diamond production is expected to increase during 2017, compared to 2016 when DebMarine had its main mining vessel gone for maintenance and also had to mine in a lower grade mining area.

- The Uranium mining industry is expected to remain under pressure due to low international prices for uranium. Uranium production is therefore expected to decrease in 2017 when compared to 2016, mainly due to reduced production at some of the existing mines. Swakop Uranium's Husab mine has commenced with commercial production, but it is only expected to reach around 15.0 percent of its design capacity during 2017. Growth in uranium production is projected to increase from 2018 onwards, as the Husab mine increases its output towards its capacity of 6810 tons per year.

- Growth in Metal ores is expected to remain subdued in 2017 owing to restructuring and anticipated low grade ore at some zinc mines. Increased production is anticipated in gold and copper sub-sectors during 2017 and these could help to overall growth for Metal Ores above zero.

- The performance of the fishing industry is expected to remain subdued, in line with insufficient fish stocks and hence, total allowable catches (TACs) and fish landings are expected to be similar to those of previous years. Furthermore, international oil prices are higher during 2017 when compared to 2016 and that means higher input costs for the fishing industry.

- Construction is expected to contract in 2017 but at a lower rate when compared to 2016. The successive contractions for the construction sector is expected as a normalisation from a high base set in recent years especially by high value construction in the mining sector and Government supported construction activities. Most of mining construction has come to an end, the government is consolidating its fiscal position and new projects are not big enough to sustain growth in this sector.

Appendix II: Real GDP Growth (percent)

Industry	2013	2014	2015	2016	2017	2018	2019
Agriculture and forestry	-19.3	11.1	-10.4	-0.4	5.1	4.6	3.9
Livestock farming	-25.6	13.9	-13.3	0.2	4.0	4.6	5.1
Crop farming and forestry	-9.7	7.6	-6.6	-1.2	6.6	4.6	2.3
Fishing and fish processing on board	3.0	-2.5	2.3	7.7	3.1	2.7	4.0
Mining and quarrying	1.7	-6.0	-4.9	-6.0	13.3	11.3	9.1
Diamond mining	10.0	4.9	-4.1	-9.6	19.2	5.3	0.6
Uranium	-6.9	-9.9	-18.1	13.6	9.2	47.7	40.2
Metal ores	-25.8	0.6	60.0	-1.2	0.8	4.1	4.4
Other mining and quarrying	6.4	-36.4	-44.1	-19.9	3.5	4.4	3.0
Primary industries	**-3.7**	**-1.6**	**-5.2**	**-2.4**	**9.4**	**8.2**	**7.0**
Manufacturing	4.4	-0.4	-5.6	1.2	1.6	2.2	1.5
Meat processing	30.4	-17.2	-3.0	-2.1	-8.7	3.3	3.3
Grain mill products	12.8	13.7	14.1	-4.3	1.4	1.9	-0.4
Other food products	3.3	11.7	-12.3	4.9	6.0	3.5	2.8
Beverages	13.7	-16.5	-2.1	-1.6	2.0	0.2	1.1
Textile and wearing apparel	8.2	-2.9	-8.9	3.7	1.2	0.3	1.7
Leather and related products	-7.3	10.7	-1.8	-3.4	1.8	1.0	2.1
Wood and wood products	3.1	1.7	-2.6	3.5	0.8	0.6	1.6
Publishing and printing	6.8	10.6	6.3	-1.5	5.2	3.4	2.3
Chemical and related products	4.3	1.2	-3.3	-2.6	-1.6	-2.5	-2.3
Rubber and plastics products	5.6	5.4	26.2	3.2	3.8	3.5	3.6
Non-metallic minerals products	3.8	5.6	8.1	-0.1	4.5	4.1	2.8
Basic non-ferrous metals	-4.0	-3.2	-13.7	-8.0	-6.3	3.7	1.5
Fabricated metals	5.6	3.7	-11.7	0.1	1.7	1.5	1.1
Diamond processing	-11.6	19.0	-20.6	65.9	17.9	4.6	3.2
Other manufacturing	8.9	-2.9	-8.1	-14.8	-3.1	3.0	-0.1
Electricity and water	-4.4	1.5	14.2	4.4	9.1	4.0	3.2
Construction	28.7	42.6	27.0	-29.5	-18.6	-11.2	-7.1
Secondary industries	**8.6**	**10.7**	**6.9**	**-10.4**	**-3.7**	**-1.0**	**-0.2**
Wholesale and retail trade, repairs	14.8	13.9	8.2	3.4	-3.0	6.5	4.1
Hotels and restaurants	9.0	10.8	3.6	1.4	2.5	2.5	2.1
Transport, and communication	6.4	5.7	6.7	6.0	4.0	5.1	5.2
Transport	12.8	3.3	7.6	4.4	2.9	4.5	3.7
Storage	3.7	5.7	-0.6	1.2	3.1	2.2	2.6
Post and telecommunications	0.8	8.6	8.9	9.5	5.5	6.6	7.6
Financial intermediation	17.9	10.9	3.1	3.4	2.2	2.9	2.8
Real estate and business services	4.6	2.7	3.4	2.8	3.1	3.1	3.0
Real estate activities	4.9	3.0	3.6	2.5	3.1	3.1	2.9
Other business services	4.0	1.7	2.7	3.6	3.1	3.4	3.2
Community, social and personal service activities	-9.9	3.0	12.6	2.1	2.0	1.6	1.8
Public administration and defence	3.8	1.4	13.0	2.0	1.8	2.0	2.5
Education	3.3	10.3	3.9	1.8	2.8	1.4	2.3
Health	8.9	10.2	16.7	10.5	2.4	3.0	2.7
Private household with employed persons	-6.7	5.5	1.7	3.4	3.5	2.9	3.2
Tertiary industries	**7.3**	**7.7**	**7.4**	**3.4**	**1.4**	**3.5**	**3.2**
Less: FISIM	18.8	5.3	0.1	0.6	2.0	0.9	1.1
All industries at basic prices	**5.1**	**6.5**	**5.3**	**-0.2**	**1.7**	**3.5**	**3.3**
Taxes less subsidies on products	11.5	4.1	16.0	4.1	5.8	5.9	5.5
GDP at market prices	**5.6**	**6.3**	**6.1**	**0.2**	**2.1**	**3.8**	**3.5**

Source: NSA (2013-2016), BoN (2017-2019)

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

Industry	2013	2014	2015	2016	2017	2018	2019
Agriculture and forestry	4,131	5,445	4,946	5,510	5,997	6,558	6,908
Livestock farming	2,350	3,262	2,859	3,197	3,432	3,767	4,015
Crop farming and forestry	1,781	2,183	2,087	2,312	2,565	2,792	2,892
Fishing and fish processing on board	3,659	3,837	3,888	4,486	4,857	5,377	5,710
Mining and quarrying	16,218	16,939	16,872	17,708	20,523	23,400	25,167
Diamond mining	10,683	12,434	11,733	10,708	13,134	14,567	14,880
Uranium	1,900	1,459	1,384	1,474	1,660	2,594	3,698
Metal ores	1,387	1,529	2,818	4,696	4,874	5,357	5,680
Other mining and quarrying	2,247	1,517	936	831	855	883	909
Primary industries	**24,009**	**26,221**	**25,705**	**27,704**	**31,376**	**35,335**	**37,785**
Manufacturing	13,509	13,911	14,328	17,847	18,768	20,100	20,615
Meat processing	680	563	629	655	616	672	705
Grain mill products	871	1,212	1,301	1,195	1,246	1,337	1,352
Other food products	2,172	2,234	2,479	3,334	3,631	3,946	4,114
Beverages	2,178	2,374	2,598	2,536	2,667	2,827	2,906
Textile and wearing apparel	386	237	139	175	165	145	143
Leather and related products	128	154	98	101	105	112	116
Wood and wood products	314	350	361	389	404	429	444
Publishing and printing	219	235	290	304	328	357	370
Chemical and related products	1,131	1,281	1,294	1,330	1,349	1,389	1,380
Rubber and plastics products	360	424	519	585	625	683	719
Non-metallic minerals products	472	604	664	698	745	807	840
Basic non-ferrous metals	2,725	1,982	1,904	3,493	3,411	3,622	3,611
Fabricated metals	623	693	610	640	665	704	721
Diamond processing	699	987	907	1,918	2,318	2,539	2,657
Other manufacturing	551	580	535	496	492	531	538
Electricity and water	2,332	2,691	2,305	2,714	3,140	3,442	3,609
Construction	4,747	6,999	8,495	6,268	5,255	4,906	4,628
Secondary industries	**20,588**	**23,601**	**25,129**	**26,829**	**27,162**	**28,449**	**28,852**
Wholesale and retail trade, repairs	14,212	17,263	17,283	18,792	18,755	21,047	22,253
Hotels and restaurants	1,929	2,505	2,987	3,412	3,598	3,885	4,029
Transport, and communication	5,765	6,717	7,049	7,184	7,698	8,513	9,102
Transport	2,438	2,730	3,062	3,342	3,528	3,867	4,067
Storage	969	934	782	754	799	859	895
Post and telecommunications	2,358	3,054	3,205	3,087	3,370	3,787	4,139
Financial intermediation	7,611	7,964	8,387	9,030	9,494	10,291	10,746
Real estate and business services	9,469	9,995	10,587	11,452	12,136	13,172	13,770
Real estate activities	7,048	7,396	7,785	8,544	9,048	9,806	10,240
Other business services	2,422	2,599	2,802	2,909	3,088	3,366	3,530
Community, social and personal service activities	2,153	2,498	2,915	3,126	3,273	3,489	3,601
Public administration and defence	13,974	15,440	17,370	18,061	18,872	20,199	21,001
Education	10,523	12,757	14,206	15,673	16,478	17,418	18,037
Health	3,571	3,957	4,477	4,728	4,964	5,354	5,575
Private household with employed persons	1,110	1,234	1,298	1,432	1,525	1,652	1,732
Tertiary industries	**70,317**	**80,331**	**86,560**	**92,888**	**96,791**	**105,020**	**109,845**
Less: FISIM	1,525	1,774	1,931	1,908	2,000	2,121	2,177
All industries at basic prices	**113,389**	**128,380**	**135,463**	**145,513**	**153,330**	**166,684**	**174,305**
Taxes less subsidies on products	9,403	10,361	12,016	13,592	14,956	16,563	17,713
GDP at market prices	**122,791**	**138,741**	**147,479**	**159,105**	**168,286**	**183,247**	**192,018**

Source: NSA (2013-2016), BoN (2017-2019)