BANK OF NAMIBIA

OUTLOOK FOR THE NAMIBIAN ECONOMY – 2002/03

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1 Global economy

Economic growth prospects for the world are poised for an upturn in 2002 after the slowdown of 2001.

The turning point for the economy of the United States (US) emerged much earlier than most economists expected. Rapid and aggressive macro-economic policy together with resilient consumer spending in the United States has allowed its economy to recover after the terrorist attacks in September 2001. US economic growth soared to an annual revised rate of 5.6% during the first three months of 2002 attributed to increased military spending since US forces began action in Afghanistan. This high growth will not be sustained for the rest of the year, and subsequent quarters should record lower growth, causing US growth to improve to 2.3% and 3.4% in 2002 and 2003 respectively, as indicated in Table 1.

Economic growth in the Euro zone was decelerating in 2001, but should rebound in 2002 mainly stemming from improved export conditions, tax cuts and low inflation. It is expected to record a 1.4% growth in 2002, which should increase to 2.9% in 2003.

Japan's economy has been in decline for years, unemployment has reached record levels, consumer spending has plummeted and many Japanese businesses are on the verge of bankruptcy. The Japanese economy is expected to grow by -1.0% in 2002, and will record a growth of 0.8% in 2003.

Consequently world output growth will be approximately 2.8% in 2002 improving to 4.0% in 2003.

Oil prices reached US$ 25 a barrel for the first time in six months during March this year, as prospects for stronger demand hauled the market higher. Demand is further seen improving as the global economy picks up. Supply is seen threatened by US rhetoric towards a major crude exporter, Iraq, and the current Middle East conflict.

Risk factors such as the war on terrorism, a mistrust of corporate earnings following the Enron scandal, could shift investors' focus away from western markets towards emerging markets, which will benefit from these capital inflows.

Table 1 World GDP growth

	2001	2002	2003
World	2.5	2.8	4.0
United States	1.2	2.3	3.4
Eurozone	1.5	1.4	2.9
Japan	-0.4	-1.0	0.8
*Developing countries**	4.0	4.3	5.5
*East Asia and Pacific**	4.6	5.2	6.9
*Europe and Central Asia**	2.2	3.2	4.3
North Africa*	3.1	2.7	3.3
SADC	2.5	3.5	3.6

Source: International Monetary Fund

2 SADC

2.1 South Africa

Reuters' April monthly poll of economists' forecasts of the South African economy[1] shows average expectations for economic growth to remain subdued in 2002. On average, economists forecast real GDP growth of 2.2% in 2002, recovering to 3.0% in 2003.

Fragile domestic confidence after the rand's plunge in 2001, the South African Reserve Bank's shift to a tighter monetary policy stance is expected to take its toll on consumer and investment spending and economic growth during 2002.

The PPI reached levels of 14.1% in March and is expected to remain well above the 10% level for the remainder of this year. This will place additional pressure on the South African Reserve Bank's targeted measure, CPIX, which has continued to move further away from the targeted range of between 3% and 6% in 2002 and 2003. The CPIX is expected to average almost 9.0% this year, easing back to 6.2% by 2003. Good news is that the rand oil price had fallen and the petrol price reduced recently. This could help reduce inflationary pressures in the future.

2.2 Other SADC countries[2]

The slowdown in global trade in 2001 resulted in an economic slowdown in the SADC economies. The exceptions are **Angola, DRC, Mozambique, Tanzania** and **Zambia**, which recorded higher levels of growth in spite of the global economic slowdown. **Angola's** economy continues to benefit from high oil prices and gradual increases in oil production. Economic reform and mining sector investment in the **DRC** have halted the negative growth rates recorded in previous years. **Mozambique's** economy has recovered from the severe flooding in 2000, while significant investment has benefited economic output. Widespread investment in various sectors has resulted in growth in **Tanzania** remaining solid, while **Zambia's** economy benefited from higher mining output after the privatisation of the mines despite lower copper prices. Economic growth in other SADC member states was negatively affected by falling global demand and the repercussions of the events of 11 September. Economic activity in **Zimbabwe** deteriorated sharply due to political and socio-economic instability.

The outlook for most members of the SADC is expected to record an improvement in their growth during 2002 when compared to 2001, with **Angola, Mozambique, Mauritius** and **Tanzania** expected to outperform the other countries. Economic growth in **Tanzania** is supported by continued foreign direct investment in various economic sectors (most noticeably gold mining) while growth in agricultural output should remain solid. **Angola's** economy is forecasted to grow by about 10% this year on the back of higher oil output in spite of the lower oil price, while **Mozambique** should grow by about 9%. Growth will be assisted by foreign direct investment aimed at raising output from the aluminium smelter and the establishing of a gas pipeline to South Africa. The **Mauritian** economy should benefit from higher sugar and textile exports, and the government's investment programme.

Joining Zimbabwe at the lower end of the growth spectrum is the **Seychelles** whose growth was once ranked among the top in the region. Economic (government intervention in the economy and underdeveloped monetary policy instruments) and financial mismanagement (aggressive government spending which resulted in a growing budget deficit) are mostly to blame. The global tourism meltdown in reaction to 11 September has, however, compounded the country's economic woes because tourism is the mainstay of the economy.
The remaining SADC countries should record growth more or less in line with previous years except Botswana whose growth is losing momentum. In the five years before 2001, **Botswana** recorded average growth of more than 7% per annum. Growth slowed

[1] JP Morgan, Data Watch, 10 May 2002
[2] Standard Bank Economics Division

in 2001 and is expected to remain flat this year due to the decrease in global demand for diamonds.

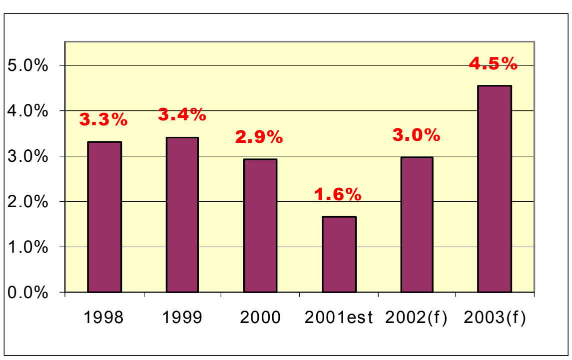
While the growth outlook for individual member states is mixed, the SADC as a group, should experience a higher growth rate in 2002 mainly due to higher growth countries offsetting the others. If the expected growth for the individual member states materialises, the SADC will experience average growth of 3.5% this year compared to 2.5% in 2001. This will be the highest growth rate in the region since 1997 when 4.2% was recorded on the back of strong growth in Mozambique, Botswana and Angola.

3. Namibian economy

Namibia's economy is driven by the export of primary commodities, which makes it very volatile to changes in commodity prices. The effect of the current global economic slowdown, coupled with a local supply constraint of certain exports, influenced Namibia's real GDP growth to decline substantially to 1.6% in 2001.

Growth is expected to recover significantly to 3.0% and 4.5% in 2002 and 2003 respectively, as indicated in Chart 1 below. Such growth would be supported by increased output growth in mining and manufacturing. Possible risk factors that could compromise the base line forecast for 2002/2003 are: firstly, increasing interest rates by the South African Reserve bank and secondly, the strong possibility of an El Nino hitting Southern Africa, could exert downward pressure on both the Agriculture and the Fishing industry.

Chart 1 Namibian Economic growth



Source: National Accounts and Namex model

3.1 Real sector

3.1.1 Diamond Mining

Total carat production in the diamond industry fell by 4% to 1,495 carats in 2001 from to a level of 1,558 carats in 2000. This was mainly due to lost production from Namco, after an accident with their seabed crawler resulting in approximately 61% loss of production during 2001.

Namdeb carat production is expected to be fairly constant at 1,3 million carats during 2002 and 2003. In addition, total diamond production will be bolstered in 2002 and 2003 by new offshore diamond mining activities by a joint venture between Diamond Fields International (DFI) and the Transhex group using an additional vessel. Real growth in terms of diamonds for 2002 and 2003 is expected to be 5.1% and 4.5% respectively.

Table 2 below indicates growth patterns for the primary sector.

Table 2: Primary sector growth

	1998	1999	2000	2001	2002f	2003f
Agriculture	-1.8%	11.1%	4.4%	-11.4%	-3.0%	-5.8%
- Commercial	-5.8%	1.4%	30.9%	-10.5%	-3.0%	-5.0%
- Subsistence	3.2%	22.4%	-21.2%	-12.8%	-3.0%	-7.0%
Fishing	21.9%	-1.4%	2.9%	-7.7%	-4.8%	-2.0%
Mining and quarrying	-2.5%	8.4%	-1.7%	-6.1%	7.9%	27.6%
- Diamond mining	1.3%	14.5%	-6.7%	-5.2%	5.1%	4.5%
-Other mining	-10.8%	-6.5%	13.2%	-8.2%	14.9%	81.6%
Total Primary Industries	2.2%	7.2%	1.4%	-8.4%	1.3%	10.4%

Source: National Accounts, CBS

3.1.2 Other Mining

The construction of the N$ 3.2 billion Anglo-American investment in the Skorpion zinc mine and zinc refinery is on track and should start production towards the end of 2002, contributing slightly to other mining growth. However, its contribution will be notable in 2003, with zinc output expected to rise from the present level of 40,000 to about 150,000 tons per year by the end of 2003.

With the Ongopolo mine producing at near full capacity, copper production should stabilize during 2002 and 2003. Production increased from 5,082 tons during 2000 to 27,015 tons during 2001, almost reaching full capacity of 27,600 tons per year.

Gold production increased by 18% from 2, 417 kg in 2000 to 2,851 kg in 2001, with the Navachab gold mine achieving a growth of 12% in production. Ongopolo Processing produced a smaller amount of 157 kg of gold during 2001. Gold production is expected to maintain its good performance on the back of favourable gold prices.

Overall, the other mining sector recorded a negative growth of 8.2% in 2001, but is expected to improve during 2002 and 2003, benefiting significantly from increased zinc production.

3.1.3 Agriculture

Preliminary results for 2001 from the National Accounts indicate a decline of 11.4% in the Agricultural Sector. This could be mainly attributed to increased marketing of livestock, which has driven livestock numbers down

Meat production is one of the greatest contributors to total agricultural output. Marketing figures for both small stock and cattle are showing an improved trend during 2001 when compared to 2000, as shown in Table 3.

Marketing figures could further escalate during the 2002 as the stock rebuilding period comes to an end and farmers try to take advantage of the depreciation of the local currency.

Table 3 Livestock marketed

Marketing of Livestock ('000 head)						
	1996	1997	1998	1999	2000	2001
Cattle	**498**	**227**	**321**	**351**	**261**	**292**
Abattoirs	*171*	*89*	*127*	*160*	*141*	*143*
NCA	*20*	*14*	*19*	*19*	*19*	*16*
butchers	*28*	*32*	*27*	*20*	*22*	*28*
Live RSA	*279*	*93*	*149*	*152*	*79*	*105*
Small stock	**1,059**	**954**	**1,194**	**1,206**	**879**	**1,122**
MeatCo	*2*	*0*	*3*	*237*	*215*	*255*
Butchers	*129*	*88*	*105*	*61*	*20*	*49*
Live RSA	*929*	*866*	*1,086*	*908*	*644*	*918*
Pig	*32*	*27*	*9*	*15*	*7*	*1*
Total	**1,589**	**1,208**	**1,524**	**1,572**	**1,147**	**1,415**
Source: Meat Board of Namibia						

During the second half of 2001, a total of 14,502 ostrich birds were slaughtered as compared with 5,037 birds in 2000, and a projection of 30,000 birds in 2002. This number is expected to increase to around 60,000 birds by 2004/2005. The African development Fund will release US$ 704,000, which should further boost production of the communal ostrich farmers.

According to the South African Weather Service an *El Nino*[3] is expected to hit Southern Africa towards the end of this year, which could have detrimental consequences for crop production in Namibia during 2003. The high dependence of crops on weather makes it very volatile to make reliable estimates on **crop production.** The possibility of an El Nino could influence the sector significantly, which apart from poor harvests would require the country to import cereal substantially, thus having an effect on the balance of payments. Namibia is however, expected to continue to have a cereal deficit over the next few years, which necessitates additional imports.

Grape production is a growing industry, comprising about 1% of the GDP. Approximately 705,000 cartons in 4.5 kg of grapes were produced during 2001, whilst a million cartons are expected in 2002. The number of cartons is projected to increase to around 3 million by 2004/2005. Grape exports have a comparative advantage during the month of December, when Namibian grapes fetch a superior price in the UK markets.

The Ramatex textile factory could have a positive impact on local **cotton production** in the medium and long term. Current cotton contribution is small relative to the other agricultural industries. Ramatex will require 20,000 tonnes of cotton lint annually while currently only about 4,000 tonnes of raw cotton are produced locally. This shortfall will be met by imports from West Africa in the short run. Local farmers are likely to be offered better rates than by their main export market, South Africa, and the incentive could cause more farmers to diversify into cotton growing once there is a ready local market.

Namibia currently consumes **fruit and vegetables** to the value of around 300 million dollars, of which 250 million are imported. A new initiative taken up by various partners is towards import substitution. Levies on certain agricultural products could benefit the local production capacity. In this regard, initial estimates are to substitute about 150 million of the imports within the next five years.

Overall, the agricultural sector is poised for recovery during 2002 and 2003. However, indications of a lurking El Nino effect accompanied by drought could compromise agricultural growth for the foreseeable future.

3.1.4 Fishing

Growth in the fishing sector for 2001 is estimated to have contracted by 7.7%. This can be explained by the reduction in the pilchard Total Allowable Catch (TAC) from 25,000 tonnes in the year 2000 to 10,000 tonnes in 2001. The negative growth trend is expected to continue into 2002 and 2003 due to the reduction in the hake quota from 200,000 tonnes to 195,000 tonnes. To further aggravate the situation, a zero pilchard TAC was announced for 2002 whilst

[3] El Nino is an abnormal warming of waters in the Pacific and its recurrence roughly each three years can cause drought in some countries and floods in others.

the horse mackerel TAC has been set at 350,000 tonnes, also down from 410,000 tonnes in 2001. The TAC for crab showed a slight increase from 2,000 tonnes to 2,200 tonnes in 2002.

Real growth in the fishing sector is expected to be under pressure for 2002 and 2003 aggravated by the El Nino effect and unfavourable oceanic conditions.

3.1.5 Manufacturing

Value-added in real terms of the meat processing industry is projected to increase for 2002 and 2003 due to an expected increase in the marketing of livestock.
Fish processing contracted significantly during 2001, which was mainly due to a decline in fish landings and oceanic conditions. However, fish prices on the world markets are favourable and demand for white fish remains strong. This should, therefore, positively influence the marketability of Namibia's fish resources, in particular the hake industry. Given the worldwide trend away from beef towards fish, the prospects for the fish-processing sector indicate good development in the years ahead. However, the overall decline in the TAC for 2002 will see fish processing contract during 2002 and 2003. This sector is mainly dependent on TAC allocations and oceanic conditions, and the growth pattern might possibly be volatile.

Nambrew experienced a volume decline of 2.6% in the local beer market during 2001, mainly due to the weakening of the currency affecting cost of production and overheads. In addition, significant expansion and market investment in South Africa placed notable pressure on the company's cost structure. Value added for the beer and beverages sector is expected to recover slightly during 2002 and 2003 due to improved cost efficiency and increased market share.

The introduction of the Ramatex textile factory in 2002 is bound to boost the manufacturing sector significantly during 2002. Export of textiles is expected to constitute less than 1% of total exports. It is expected to induce investments in support industries to the textile and garments sectors such as chemicals, plastics and packaging industries.
A Russian company launched a N$24 million diamond cutting and polishing factory at Walvis Bay's Export Processing Zone, which will benefit the other manufacturing sector. The diamonds cut and polished at Walvis Bay comes from all over the world, but no output figures are available as yet.

Table 4 Secondary sector growth

	1998	1999	2000	2001	2002f	2003f
Manufacturing	8.9%	-3.7%	3.6%	6.1%	6.2%	3.8%
-Meat processing	8.0%	12.6%	-9.0%	5.0%	5.8%	5.6%
-Fish processing	35.7%	-21.1%	-14.6%	-15.4%	-4.7%	-2.1%
-Food & beverages	10.9%	4.7%	2.0%	4.4%	3.0%	4.0%
- Other Manufacturing	-10.0%	-7.5%	25.0%	20.4%	15.0%	5.0%
Electric, Gas , water	4.3%	20.2%	11.6%	3.3%	2.5%	3.5%
Construction	15.3%	-13.9%	-4.4%	49.4%	5.5%	3.1%
Total Sec Industries	9.6%	-3.2%	3.3%	12.5%	5.6%	3.6%

Source: National Accounts, CBS

3.1.6 Construction

Preliminary estimates from the Central Bureau of Statistics (CBS) indicate a marked recovery in the construction sector after the last few years of negative growth. The construction sector exceeded expectations for 2001 after it recorded almost 50% growth. Growth was primarily derived from capital-intensive projects such as Ramatex and the Scorpion zinc mine.
The recent interest rate hikes might possibly dampen prospects for this sector slightly due to higher mortgage rates, but this should be offset by major construction projects by the government on the new State house, Heroes Acre and the Northern Railway. Constructions surrounding capital-intensive projects like Scorpion zinc mine is still ongoing. For the period 2002-2003 the construction sector is expected to continue its good performance.

3.1.7 Tourism

According to the Hospitality Association of Namibia (HAN), the average national bed occupancy rate for January 2002 was just over 34%. This suggests a possible downturn in the tourism industry. However, it must be noted that statistics are collected on a voluntary basis and do not constitute a representative sample. To this end, the Namibia Tourism Board will introduce a compulsory bed levy that will ensure the availability of more reliable statistics for the tourism industry.

Expectations for 2002 and 2003 are twofold: some anticipate the industry to suffer because of political uncertainty in Zimbabwe coupled with the fear of flying after the September 11 attacks in the US. On the other hand, although the rand has been appreciating recently, Namibia is still one of the cheapest destinations to visit. The current developments in Angola are expected to ease tension along the northern border of Namibia, which is a major tourist destination. Based on these arguments and a stable political situation in Angola, the tourism sector is expected to perform well in 2002 and 2003.

3.1.8 Transport

The establishment of Ramatex textile company is expected to boost this sector. Raw materials will be imported via Walvis Bay to Windhoek and the processed textiles and garments will be transported back to the harbour town. This will create more business for Namport, Namrail as well as road transport firms that service Namibia. Due to the amount of processed goods to be transported from Ramatex, investments in road transport are expected.

More than N$230m has been spent on developing new infrastructure for the ports of Walvis Bay and Luderitz. It is anticipated that the first zinc exports from the Skorpion mine will be shipped directly from Luderitz to the US in April 2003, and this is expected to increase it's existing annual tonnage by about 50%. Since this sector is sensitive to fuel prices, these positive developments could be slightly deterred by volatile fuel prices.

3.1.9 Electricity and Water

In their latest annual report for 2001, Nampower reports that the demand for electricity grew by 5,5% in the previous financial year and rural areas jumped 12% in their consumption. Despite having had to import 36% more electricity from Eskom than the previous year at a cost substantially exceeding that of domestic power generation at the Ruacana hydroelectric plant, NamPower's charge per unit of electricity sold to customers declined in real terms. This sector will further be augmented from activities at the Ramatex factory and the Skorpion zinc mine.

3.1.10 Other Sectors

The recent interest hike has caused concern in the retail sector resulting in dampened prospects for the retail industry for the foreseeable future. Real growth in producers of **government services** is projected to increase slightly from 1.8% during 2001 to 2.2% in 2002. Producers of government services are driven by employment growth in the government, and are expected to remain fairly constant during the period under review. The **real estate** sector has been booming the last few years while house prices escalated on increasing demand for property. The increasing demand could be attributed to centralization towards Windhoek and a lower interest rate environment. This sector could come under pressure as higher interest rates set in this year.

Table 5 Tertiary Sector Growth

	1998	1999	2000	2001	2002f	2003f
Wholesale and retail	7.1%	3.3%	5.2%	1.9%	3.5%	3.8%
Hotels and restaurants	11.9%	-11.7%	7.2%	9.3%	2.5%	3.5%
Transport , communication	-10.3%	13.3%	6.3%	3.8%	4.5%	4.5%
- Transport and storage	-20.8%	18.4%	2.5%	3.1%	5.0%	5.2%
- Post and telecom	14.0%	5.0%	13.3%	5.1%	3.9%	3.8%
Financial intermediation	6.5%	2.4%	6.1%	1.8%	3.2%	3.0%
Real estate, bus services	2.4%	3.7%	1.5%	1.8%	3.4%	3.2%
Owner-occupied dwellings	2.5%	2.5%	2.5%	2.4%	2.5%	2.5%
Other	2.2%	4.9%	0.5%	1.1%	4.2%	3.8%
Community, soc, pers, services	0.0%	0.3%	9.0%	0.0%	2.6%	2.8%
Prod of government services	2.7%	3.3%	2.4%	1.8%	2.2%	2.8%
Other producers	2.0%	2.0%	2.1%	2.1%	2.0%	2.0%
Total Tertiary industries	2.1%	3.8%	3.7%	2.3%	3.0%	3.3%

Source: National Accounts, Namex model

3.2 Price Developments

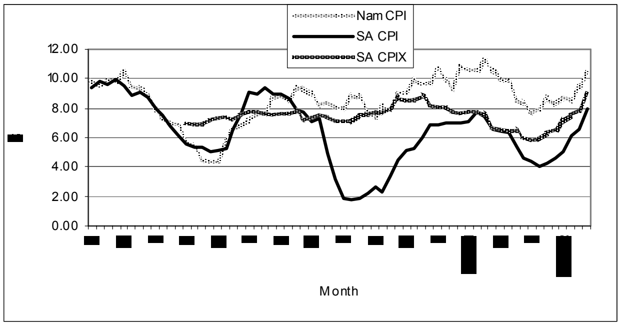
3.2.1 Inflation

The *inflation rate* recorded 9.3% on average for the whole of 2001. Generally, the inflation rate has been on a decline since January 2001, from a double digit of 10.6% to 8.3% by the end of the year. Since Namibia’s imports originate mainly from South Africa, the slowdown in the inflation rate during 2001 was attributed to the lower imported inflation. However, the depreciation of the South African currency last year accelerated the rate of imported inflation.

This is evident from the inflation rate that started to edge upwards as from September 2001, recording 7.6% and rising steadily to 8.5% by the end of December 2001. The CPI further edged up in April 2002 to 10.25%. Namibia’s inflation rate is expected to reach levels in excess of 10% on average in 2002, as South Africa is certain to miss inflation target of between 3% and 6% for 2002. SA CPIX is projected to reach levels of almost 9% for 2002, easing back to 6.2% in 2003. However, imported prices should gradually cease increasing following the current 'stabilisation' of the rand.

The strengthening of the currency during 2002 could result in a lower inflation environment for 2003.

Chart 2 Inflation



Source: Various

3.2.2 Interest rates

Given close economic ties between the Namibian economy and that of South Africa, *interest rate* trends in Namibia follow those in South Africa. The depreciation of the local currency in the last year has resulted in inflationary pressures causing interest rates to be raised by 300 basis points so far this year.

These hikes are mainly aimed towards the South African Reserve Bank reaching its inflation target, although the consensus is that this will be missed this year, and also possibly in 2003, interest rate cuts could only be expected if and when SA inflation targets are achieved.

The Namibian dollar *exchange rate* has recovered by 22% from a record low of 13.85 touched in December 2001 to 9.50 currently. The exchange rate is projected to strengthen to levels around N$9.00 on average to the US$ for 2002.

Table 6 Prices, exchange and interest rates

	1998	1999	2000	2001	2002f	2003f
Consumer price index (1995=1)	126.1	136.9	149.6	163.5	180.7	197.8
CPI, Annual average %	6.2	8.6	9.3	9.3	10.5	9.5
Interest rate Prime	21.8	19.4	15.9	14.0	15.5	14.8
Average N$/US$ Exchange rate	5.5	6.1	7.0	8.6	9.5	10.8
GDP deflator (1995=100)	133.1	141.8	154.9	174.8	193.2	211.5

Source: Namex model and various South African commercial banks

3.3 Monetary Sector

3.3.1 Money Supply

Money supply is determined as a function of the CPI and real growth[3]. The peak of real GDP growth in 2003 corresponds to a higher level of growth in money supply, where after the growth rate stabilizes.

Table 7 Money supply

	2001	2002	2003
Money supply	9,561	10,555	11,794
Growth	10.34%	10.40%	11.74%

Source: Namex model

3.3.2 Credit developments and prospects

Credit figures from Bank of Namibia indicate that commercial banks' credit to the private sector declined during 2002. This decline can be attributed to the increase in the commercial banks' lending rates in January, following the increase in the Bank rate, which took effect during the same month. The decline is particularly reflected in the category credit to business sector.

The decline in credit growth will be further exacerbated by the interest rate hikes during January and March this year, and is expected to continue this trend into 2003 on the back of recent interest rate hike.

3.4 Investment

Gross fixed capital formation (GFCF) grew by 24% during 2001. Once again most of this growth is attributed to capital projects already mentioned. Investment is anticipated to slow slightly into 2002 on the back of higher funding costs and increased costs of imported machinery and equipment.

Table 8 Investment and consumption growth

	1998	1999	2000	2001	2002f	2003f
GDP *current Prices* (N$ mills)	18,789	20,695	23,266	25,811	29,283	33,397
GDP *constant* prices (N$ mills)	14,115	14,597	15,023	15,269	15,720	16,435
Real economic growth (%)	3.3	3.4	3.3	1.6	3.0	4.5
Consumption (%)	3.1	1.1	1.5	2.2	2.8	3
GFCF Growth (%)	24%	4%	-9%	24%	12%	10%

Source: CBS and Namex model

However, increased investment is expected from sizeable projects such as the Skorpion zinc mine and the Ramatex factories. These huge projects should boost capital investment and negate the effect of the higher interest rate on investment during 2002 and 2003.

Gross fixed capital formation is projected to grow by 12% and 10% during 2002 and 2003 respectively.

[3] Although this is a simple money supply function, work is ongoing to estimate a reliable econometric money supply equation.

3.5 Consumption

Consumption grew by 2.2% during 2001 in the midst of a global recession and an exchange rate depreciation, that saw import prices rise significantly. Higher expected interest rate environment for 2002 may change the trend of consumption significantly with the demand for the new vehicles being the hardest hit[4]. However, an appreciating currency can see more favourable import prices and in turn stimulate consumption growth through import demand. Consumption is expected to improve slightly to 2.8% and 3% for 2002 and 2003 respectively.

3.6 External Sector

3.6.1 Balance of Payments (BOP)

Real export growth was hit hard by the weaker world demand during 2001. Real exports of goods and services contracted by 7.1% during 2001. The result was a slump in real GDP growth from 2.9% in 2000 to 1.6% in 2001, which is the lowest growth figure recorded during last decade. Although the Christmas season retail sales of diamond jewelry were above expectations in the American market, in real terms, growth in diamond exports for 2001 were depressed due to slower world demand. In addition, lower demand for diamond jewelry had a negative impact on the rough diamond market in the form of downward pressure on prices.

However, improved global demand due to the anticipated world economic recovery during the later half of 2002 should bring the export sector back on track in the medium term.

On the other hand, it is noteworthy to note that *nominal exports* grew by 10% better than expected during 2001, mostly attributed to the depreciation of the currency. In 2002, moderate increases in prices and volumes of gold, copper, diamonds, processed beef are expected which would boost production and export growth. Textile exports are also expected to commence in 2002. These are envisaged to become a major export item, as well as an impetus for economic growth in the medium term. According to the *African Growth and Opportunity Act (AGOA)*, Namibia will enjoy duty free and quota free market access into the US market, which could hold positive growth opportunities for Namibian exports. Nominal exports are projected to increase by 10.8% and 14.6% in 2002 and 2003 respectively.

Real imports increased by 7.1% in 2001. Real import growth mainly stems from the imports of machinery and equipment required for the construction of some proposed capital projects such as the Skorpion Mine and Ramatex despite the higher level of import prices. Ramatex will also be importing about 20,000 tons of cotton annually, mainly from West Africa. Real imports are expected to continue to grow positively during 2002/2003 on the back of a strengthening currency and increased capital investment in the mining and manufacturing industry.

Nominal imports are projected to grow by 8.8% and 11.6% in 2002 and 2003 respectively and will be supported by the appreciating local currency. Subsequently, the trade deficit as a percentage of GDP is projected to narrow from 9.5% in 2001 to 8.3% in 2002.

Table 8 External sector

	1998	1999	2000	2001	2002f	2003f
Exports of goods and services	9,637	9,548	10,680	11,729	13,000	14,900
% Nominal Growth	7.9%	-0.9%	11.9%	9.8%	10.8%	14.6%
% Real Growth	-0.7%	4.4%	-3.9%	-7.1%	3.4%	6.0%
% GDP	51%	46%	46%	45%	44%	45%
Imports goods and services	10,900	11,773	12,354	14,243	15,500	17,300
% Nominal Growth	5.0%	8.0%	4.9%	15.3%	8.8%	11.6%
% Real growth	7.7%	1.4%	-5.6%	7.1%	7.2%	7.5%
% GDP	58.0%	56.9%	53.1%	55.2%	52.9%	51.8%
Trade balance	-1,263	-2,225	-1,674	-2,514	-2,500	-2,400
% GDP	-6.7%	-10.8%	-7.2%	-9.7%	-8.5%	-7.2%

Source: National accounts and Namex

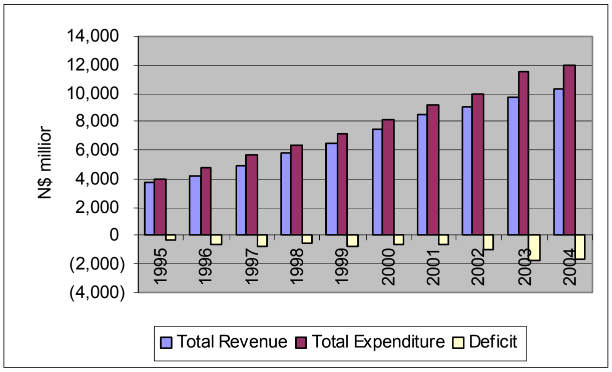
3.7 Fiscal Sector

3.7.1 Government Revenue

Total revenue and grants are expected to grow by 6.9% between 2002 and 2004 on average, which is lower than 12% average growth rate of the previous three years (See Chart 3). The reasons for these cautious revenue projections related to uncertainties with respect to diamond tax and SACU revenue. It is therefore projected to decrease slightly as a percentage of GDP from around 32.1% in 2001 to around 29.5% in 2003. This projection of 28.6% on average is comparable to the projection outlined in the *Medium Term Expenditure Framework (MTEF)* 2002/03 – 2004/05 where tax revenue and grants as percentage of GDP is projected to be on an average and calendar basis of 32.7%.

[4] **The *IJG* Business Climate Monitor for May 2002**

Chart 3 Government Revenue, Expenditure and Deficit



Tax revenue is expected to grow by about 6% on average between 2002 and 2004 compared to an average growth of 11.5% of the previous 3 years. This is mainly due to decline in SACU revenue as mentioned earlier. Tax revenue as percentage of GDP is therefore projected to decrease from around 29% in 2001 to around 25% in 2004. Tax Revenue as a proportion of Total Revenue and Grants is expected to be stable at around 88%.

Non-tax revenue is expected to grow by about 16% on average between 2002 and 2004. It is projected to be stable at around 3.5% of GDP between 2001 and 2004. Non-tax Revenue as a proportion of Total Revenue and Grants is expected to increase slightly from 10% in 2002 to around 11% in 2004. This is mainly due to an envisaged increase in diamond royalties, dividends from profit making parastatals and interest receipts from loans extended to municipalities and regional authorities.

3.7.2 Government expenditure

Total government expenditure is projected to grow by 9.2% on average between 2002 and 2004. As a percentage of GDP, total government expenditure is expected to decrease from 33.3% in 2002 to around 31% in 2004, which is still above the acceptable limit of 30% of GDP. Government expenditure projections of on average of 32.7%, is above that of the MTEF projections of 31.2%. This is due to an envisaged increase of N$704 million to personnel expenditure, which were not considered in the recent national budget. The budget called for an expenditure restraint and drastic measures to keep total expenditure within the manageable limit. However, the proposed salary increases seem to compromise this commitment of bringing down expenditure levels to 30% of GDP, thereby to ensure a budget deficit of 3.2% of GDP.

The theme of the recent budget is to strengthen economic growth and development and to address vigorously social challenges, such as poverty, unemployment and the HIV/AIDS pandemic. It was against this background that government embarked on projects such as the Namibia Development Bank, Northern Railway extension, and the construction of the new State House as well as the Heroes Acre. Although such initiatives are welcome from a development point of view, the viability of some of this projects in terms of a sustainable economic growth and development is questionable and it's resultant economic benefits remain to be seen for the years ahead.

3.7.3 Budget Deficit and Debt

As a result of increased expenditure, the budget deficit as percentage of GDP is projected to be 5.2% in 2003. However, it is estimated to decline to around 3.9% of GDP in 2004. On average, for 2002-04 period, the budget deficit is projected to be 4.0%, which is still above the recommended limit of 3.2% Budget deficit as indicated in the MTEF.

Government debt stood at around 26.0% of GDP in 2001, but it is estimated to increase to around 29.0% of GDP by 2003 due to high estimated budget deficit of more than 5.0% of GDP. It should also be noted that the debt stock is expected to increase further to 32.5% of GDP when the government takes over Air Namibia's debt of about N$1.4 billion by July 2002. On average for the 2002-2004 period, debt to GDP ratio is projected to be 30.8% (above that of 28.8% in the MTEF). A continuation of an upward trend in government debt is not sustainable, as borrowing and interest payments will increase and economic stability will be threatened.

4 Conclusion

Namibia is well poised for a steady growth recovery in 2002 and 2003 on the expected recovery in the primary industries, which recorded negative growth during 2001. The improvement in primary sector growth will come about from the Skorpion zinc assuming production towards the end of year 2002 as well as improved conditions for diamond mining following the slump of 2001. Prospects for the secondary sector growth should in addition be boosted by textile exports from Ramatex.

Possible risk factors that could compromise the growth path over the next 2 years will include, amongst others, the stability of crude oil prices, escalating interest rates, unfavourable weather conditions and imprudent fiscal policy.

Table 9: Government financial operations

	2000	2001	2002	2003	2004
Total Revenue & Grants	**7,510.4**	**8,472.9**	**9,047.5**	**9,770.5**	**10,341.0**
Tax Revenue	**6,840.4**	**7,660.8**	**7,985.9**	**8,563.2**	**9,094.0**
Direct taxes	2,391.4	2,750.2	3,088.9	3,549.5	3,757.7
Indirect Taxes	4,449.0	4,910.6	4,897.0	5,013.7	5,336.3
Total Non-Tax Revenue	**670.0**	**812.1**	**1,061.6**	**1,207.3**	**1,247.1**
Non-tax revenue	602.2	698.4	913.4	1,051.4	1,094.9
Other non-tax revenue	20.3	20.1	98.7	98.7	98.7
Grants	47.5	93.7	49.5	57.3	53.5
Total Expenditure & Net Lending	**8,126.9**	**9,109.2**	**9,954.6**	**11,538.5**	**11,933.8**
Current Expenditure	**7,059.1**	**7,864.9**	**8,657.0**	**10,209.4**	**10,577.1**
Personnel Expenditure	3,706.0	4,107.1	4,389.9	5,358.8	5,633.2
Goods and Other Services	1,597.1	1,685.1	***1,757.6***	***1,760.2***	***1,811.8***
Subsidies and transfers	1,244.0	1,519.0	1,818.4	2,251.6	2,156.3
Domestic Interest Payments	497.5	535.9	651.3	795.4	930.5
Foreign Interest Payments	14.5	17.8	32.3	33.5	35.3
Other	0.0	0.0	7.5	10.0	10.0
Capital Expenditure	918.6	1,007.7	1,164.8	1,151.2	1,174.6
Lending & Equity Participation	149.2	236.6	132.8	177.9	182.1
Overall Deficit	**(616.5)**	**(636.2)**	**(907.1)**	**(1,768.0)**	**(1,592.8)**
GDP at market prices (N$ million)	**20,691.0**	**26,390.3**	**29,940.9**	**34,146.3**	**38,511.8**
Percentage of GDP at market prices					
	2000	**2001**	**2002**	**2003**	**2004**
Total Revenue & Grants	36.30%	32.11%	30.22%	28.61%	26.85%
Tax Revenue	33.06%	29.03%	26.67%	25.08%	23.61%
Direct taxes	11.56%	10.42%	10.32%	10.39%	9.76%
Indirect Taxes	21.50%	18.61%	16.36%	14.68%	13.86%
Total Non-Tax Revenue	3.24%	3.08%	3.55%	3.54%	3.24%
Non-tax revenue	2.91%	2.65%	3.05%	3.08%	2.84%
Other non-tax revenue	0.10%	0.08%	0.33%	0.29%	0.26%
Grants	0.23%	0.36%	0.17%	0.17%	0.14%
Total Expenditure & Net Lending	39.28%	34.52%	33.25%	33.79%	30.99%
Current Expenditure	34.12%	29.80%	28.91%	29.90%	27.46%
Personnel Expenditure	17.91%	15.56%	14.66%	15.69%	14.63%
Goods and Other Services	7.72%	6.39%	5.87%	5.15%	4.70%
Subsidies and transfers	6.01%	5.76%	6.07%	6.59%	5.60%
Domestic Interest Payments	2.40%	2.03%	2.18%	2.33%	2.42%
Foreign Interest Payments	0.07%	0.07%	0.11%	0.10%	0.09%
Other	0.00%	0.00%	0.03%	0.03%	0.03%
Capital Expenditure	4.44%	3.82%	3.89%	3.37%	3.05%
Lending & Equity Participation	0.72%	0.90%	0.44%	0.52%	0.47%
Overall Deficit	**-3.0%**	**-2.4%**	**-3.0%**	**-5.2%**	**-4.1%**

Table 10: Central Government Debt

Category of Central Government Debt	2000	2001	2002f	2003f	2004f
A. 1. External Debt	**921.6**	**1,529.4**	**1,846.6**	**1,921.6**	**1,874.3**
2. Bilateral Loans	577.8	946.7	1,146.7	1,206.3	1,195.3
3. Multilateral Loans	343.8	582.7	699.9	715.3	679.0
4. Financial Institutions	0.0	0.0	0.0	0.0	0.0
5. Other	0.0	0.0	0.0	0.0	0.0
B. 6. Domestic Debt	**4,808.7**	**5,494.8**	**6,791.2**	**8,051.2**	**9,560.5**
7. T-Bills	2,640.0	2,799.70	3,557.7	4,054.9	4,621.6
8. I.R.S.	2,168.7	2,695.10	3,233.5	3,996.2	4,938.9
9. BON	0.0	0.0	0.0	0.0	0.0
10. Other	0.0	0.0	0.0	0.0	0.0
C. Total Debt (1+ 6)	**5,730.3**	**7,024.2**	**8,637.8**	**9,972.8**	**11,434.8**
D. Total debt as % of GDP	*22.80%*	26.3%	28.8%	29.2%	29.7%
Source: MOF& BoN, f=forecast					

Real GDP Growth forecast

	1998	1999	2000	2001*	2002	2003
Agriculture and forestry	**-1.8%**	**11.1%**	**4.4%**	**-11.4%**	**-3.0%**	**-5.8%**
- Commercial	-5.8%	1.4%	30.9%	-10.5%	-3.0%	-5.0%
- Subsistence	3.2%	22.4%	-21.2%	-12.8%	-3.0%	-7.0%
Fishing	**21.9%**	**-1.4%**	**2.9%**	**-7.7%**	**-4.8%**	**-2.0%**
Mining and quarrying	**-2.5%**	**8.4%**	**-1.7%**	**-6.1%**	**7.9%**	**27.6%**
- Diamond mining	1.3%	14.5%	-6.7%	-5.2%	5.1%	4.5%
- Other mining and quarrying	-10.8%	-6.5%	13.2%	-8.2%	14.9%	81.6%
Total Primary Industries	**2.2%**	**7.2%**	**1.4%**	**-8.4%**	**1.3%**	**10.4%**
Manufacturing	**8.9%**	**-3.7%**	**3.6%**	**6.1%**	**6.2%**	**3.8%**
-Meat processing	8.0%	12.6%	-9.0%	5.0%	5.8%	5.6%
-Fish processing	35.7%	-21.1%	-14.6%	-15.4%	-4.7%	-2.1%
-Other food products and beverages	10.9%	4.7%	2.0%	4.4%	3.0%	4.0%
- Other Manufacturing	-10.0%	-7.5%	25.0%	20.4%	15.0%	5.0%
Electricity, Gas and water	**4.3%**	**20.2%**	**11.6%**	**3.3%**	**2.5%**	**3.5%**
Construction	**15.3%**	**-13.9%**	**-4.4%**	**49.4%**	**5.5%**	**3.1%**
Total Secondary Industries	**9.6%**	**-3.2%**	**3.3%**	**12.5%**	**5.6%**	**3.6%**
Wholesale and retail trade, repairs	**7.1%**	**3.3%**	**5.2%**	**1.9%**	**3.5%**	**3.8%**
Hotels and restaurants	**11.9%**	**-11.7%**	**7.2%**	**9.3%**	**2.5%**	**3.5%**
Transport and communication	**-10.3%**	**13.3%**	**6.3%**	**3.9%**	**4.6%**	**4.7%**
- Transport and storage	-20.8%	18.4%	2.5%	3.1%	5.0%	5.2%
- Post and telecommunications	14.0%	5.0%	13.3%	5.3%	3.9%	3.8%
Financial intermediation	**6.5%**	**2.4%**	**6.1%**	**1.8%**	**3.2%**	**3.0%**
Real estate and business services	**2.4%**	**3.7%**	**1.5%**	**1.8%**	**3.4%**	**3.2%**
Owner-occupied dwellings	2.5%	2.5%	2.5%	2.4%	2.5%	2.5%
Other real estate and business services	2.2%	4.9%	0.5%	1.0%	4.2%	3.8%
Community, social and personal services	**0.0%**	**0.3%**	**9.0%**	**-0.3%**	**2.6%**	**2.8%**
Producers of government services	**2.7%**	**3.3%**	**2.4%**	**1.8%**	**2.2%**	**2.8%**
Other producers	**2.0%**	**2.0%**	**2.1%**	**1.9%**	**2.0%**	**2.0%**
Total Tertiary industries	**2.1%**	**3.8%**	**3.7%**	**2.3%**	**3.0%**	**3.3%**
Less: Financial services indirectly measured	5.1%	5.5%	-0.7%	6.0%	2.0%	2.9%
GDP at Basic prices	**3.6%**	**3.2%**	**3.2%**	**1.7%**	**3.2%**	**4.7%**
Taxes less subsidies on products	2.0%	4.9%	1.3%	1.3%	1.5%	3.5%
GDP at market prices	**3.3%**	**3.4%**	**2.9%**	**1.6%**	**3.0%**	**4.5%**

Gross Domestic Product--Constant 1995 Prices

	1998	1999	2000	2001	2002	2003
Agriculture and forestry	**909**	**1,009**	**1,053**	**933**	**905**	**853**
- Commercial	489	495	648	580	563	534
- Subsistence	420	514	405	353	342	318
Fishing	**567**	**559**	**575**	**531**	**506**	**495**
Mining and quarrying	**1,117**	**1,211**	**1,190**	**1,118**	**1,206**	**1,539**
- Diamond mining	793	908	847	803	844	882
- Other mining and quarrying	324	303	343	315	362	658
Total Primary Industries	**2,593**	**2,779**	**2,818**	**2,582**	**2,617**	**2,888**
Manufacturing	**1,574**	**1,515**	**1,570**	**1,665**	**1,768**	**1,835**
-Meat processing	99	111	101	106	112	118
-Fish processing	356	281	240	203	193	189
Food products and beverages	725	759	774	808	832	866
- Other Manufacturing	394	364	455	548	630	662
Electricity and water	**223**	**268**	**299**	**309**	**317**	**328**
Construction	**423**	**364**	**348**	**520**	**549**	**566**
Total Secondary Industries	**2,220**	**2,147**	**2,217**	**2,494**	**2,633**	**2,728**
Wholesale and retail trade, repairs	**1336**	**1380**	**1452**	**1,480**	**1,532**	**1,590**
Hotels and restaurants	**285**	**251**	**269**	**294**	**301**	**312**
Transport and communication	**862**	**978**	**1,040**	**1,081**	**1,130**	**1,183**
- Transport and storage	533	631	647	667	700	737
- Post and telecommunications	329	347	393	414	430	446
Financial intermediation	**450**	**461**	**489**	**498**	**514**	**529**
Real estate and business services	**1,272**	**1,319**	**1,339**	**1,363**	**1,408**	**1,452**
Owner-occupied dwellings	660	677	694	711	729	747
Other real estate and business services	612	642	645	652	679	705
Community, social and personal services	**122**	**122**	**133**	**133**	**136**	**140**
Producers of government services	**3059**	**3160**	**3235**	**3,293**	**3,365**	**3,459**
Other producers	**281**	**286**	**292**	**298**	**303**	**310**
Total Tertiary industries	**7,667**	**7,957**	**8,249**	**8,438**	**8,690**	**8,975**
Less: Financial services indirectly measured	144	152	151	160	163	168
GDP at Basic prices	**12,336**	**12,731**	**13,133**	**13,354**	**13,776**	**14,423**
Taxes less subsidies on products	1779	1866	1890	1,915	1,944	2,011
GDP at market prices	**14,115**	**14,597**	**15,023**	**15,269**	**15,720**	**16,435**

Gross Domestic Product by activity --Current prices						
Activities	1998	1999	2000	2001	2002	2003
Agriculture and forestry	**906**	**1,101**	**1,293**	**1,263**	**1,354**	**1,397**
- Commercial	459	532	792	780.0	836.0	869.7
- Subsistence	447	569	501	483.0	517.7	527.2
Fishing and fish processing on board	**933**	**971**	**1044**	**1,148.0**	1,207.7	1,295.9
Mining and quarrying	**1,835**	**1,950**	**2,441**	**3,459**	**4,067**	**5,131**
- Diamond mining	1358	1697	1934	3,012.0	3,499.1	4,002.1
- Other mining and quarrying	477	253	507	447.0	567.7	1,129.0
Total Primary Industries	**3,674**	**4,022**	**4,778**	**5,870**	**6,628**	**7,824**
Manufacturing	**2,041**	**2,074**	**2,370**	**2,439**	**2,855**	**3,243**
-Meat processing	131	139	121	139.0	162.5	187.9
-Fish processing on shore	543	451	547	317.0	333.8	357.9
-Other food products and beverages	912	1014	1090	1,215.0	1,382.9	1,574.8
- Other Manufacturing	455	470	612	768.0	975.9	1,122.1
Electricity and water	**451**	**541**	**605**	**652.0**	738.5	836.9
Construction	**528**	**483**	**481**	**772.0**	900.0	1,016.0
Total Secondary Industries	**3,020**	**3,098**	**3,456**	**3,863**	**4,494**	**5,096**
Wholesale and retail trade, repairs	**1727**	**1857**	**2058**	**2,285.0**	2,613.3	2,970.3
Hotels and restaurants	**359**	**344**	**403**	**481.0**	544.8	617.4
Transport and communication	**1,111**	**1,238**	**1,409**	**1,563**	**1,807**	**2,072**
- Transport and storage	698	787	871	1,024.0	1,188.1	1,368.6
- Post and telecommunications	413	451	538	539.0	618.8	703.4
Financial intermediation	**641**	**739**	**833**	**979.0**	1,116.1	1,259.3
Real estate and business services	**1,798**	**2,023**	**2,235**	**2,453**	**2,800**	**3,162**
Owner-occupied dwellings	956	1070	1194	1,317.0	1,491.7	1,674.2
Other real estate and business services	841	953	1041	1,136.0	1,308.1	1,487.3
Community, social and personal services	**155**	**171**	**201**	**219.0**	248.3	279.5
Producers of government services	**4129**	**4617**	**5064**	**5,671.0**	6,404.3	7,209.1
Other producers	**354**	**392**	**437**	**486.0**	547.8	611.8
Total Tertiary industries	**10,274**	**11,381**	**12,640**	**14,137**	**16,081**	**18,181**
Less: Financial services indirectly measured	216	259	273	339.0	382.1	430.4
GDP at Basic prices	**16,752**	**18,242**	**20,601**	**23,531**	**26,821**	**30,670**
Taxes less subsidies on products	2037	2453	2665	3,159.0	3,543.1	4,014.9
GDP at market prices	**18,789**	**20,695**	**23,266**	**26,690**	**30,364**	**34,685**