Bank of Namibia

OUTLOOK FOR THE NAMIBIAN ECONOMY – 2005/06

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Synopsis

The growth of the ***global economy*** *is expected to stabilize at 4.3 percent in both 2005 and 2006. The crucial downside risk remains the record high and volatile oil prices that are currently prevailing.*

The ***Namibian economy*** *is projected to grow by 3.2 percent in 2005 and is expected to stabilize at 3.9 for 2006 compared to 5.9 percent in 2004. The decelerated growth forecast for 2005 is mainly due to slower growth in diamond production in 2005.*

Namibia's inflation *rate is expected to be subdued this year, but is projected to edge up in 2006, in part due to movements in oil prices.* ***Consumption and investment*** *levels are also forecasted to grow positively in 2005. The* ***trade surplus*** *of 2004 is expected to turn back into a* ***trade deficit*** *in both years (2005 and 2006). The* ***current account balance*** *is forecasted to improve in 2005 and 2006, but expected to fall beyond 2006 in line with levels in SACU receipts.*

1 Global economy

Following a temporary slowdown in output during mid 2004, the global economy recovered throughout the first half of 2005. The second half, however, has been marred by the persistence of high crude oil prices. These high oil prices are posing downside risks and could have an adverse effect on global growth. The increase in the prices of crude oil during the second quarter of 2005 had offset some growth prospects during this quarter.

Global output grew by 5.1 percent during 2004, and is expected to stabilize at 4.3 percent for both 2005 and 2006. The effects of the increasing oil prices on the global economy are expected to be partly offset by the relatively accommodative monetary policy stance worldwide.

The US and China remain the main drivers of global economic growth. Further, despite the US deterioration of current account and fiscal deficits, the US Dollar has been strengthening during 2005, contrary to expectations. This is due to China, which is experiencing surplus savings, channeling these excess funds to the US. Consequently, this has given rise to a global imbalance. This situation is of great concern because it reflects substantial gaps in growth performance between the regions of the world and it implies movements in capital that is not sustainable.[1]

The strong growth recorded in the **United States** during 2004 was sustained during the first half of 2005. However, the developments in the oil markets during the second half of 2005 continue to have a negative bearing on the business confidence and private consumption.

Therefore, output which grew by 4.2 percent in 2004, is expected to slow slightly to 3.5 percent in

[1] *International Monetary Fund,* "World Economic Outlook", September 2005.

2005. The adverse effect of these higher oil prices, which was to some extent caused by Hurricanes Katrina and Rita disrupting refinery capacity in the US, is also expected to be imparted to 2006. Consequently, output growth is expected to further weaken to 3.3 percent during 2006

The performance of the US Dollar during 2004 has been somewhat lackluster. By December 2004 it had fallen to new lows against major currencies, especially the Euro. The low level of the US Dollar exchange rate was expected due to a deteriorating current account balance. However, during 2005 the US Dollar has been on a rebound, defying expectations amidst the huge current account and fiscal deficits. The Fed has raised interest rates 11 times since June 2004, while rates in Europe have been constant for over two years.

Furthermore, the US deficits are being financed by surplus savings from Asia, or more specifically from China. This phenomenon of excess savings from China finding its way to the US which is experiencing a savings deficit, has been termed a "global imbalance". These imbalances among economies would pose serious risks to prosperity because they are likely to be unsustainable[2].

Despite the domestic demand slowing in the **Euro Area** during the second half of 2004, output grew by 2.0 percent during 2004. The projections for 2005 have been marked down considerably to 1.2 percent, but are expected to improve to 1.8 percent during 2006, reflecting a stronger contribution from exports. However, a number of country specific risks remain.

German output growth, for instance, is estimated to grow at only half the levels achieved during 2004, and similarly Italian growth prospects are extremely poor. Consumer spending in the Euro Area remains weak and the economy is susceptible to a stronger currency and external shocks, most recently, the increase in the oil price. Given the continued weakness of domestic demand, inflationary pressures in the area are easing.

Global economic growth is expected to contribute positively to consumption and investment growth as well as to further stimulate growth of exports in the area. Strong exports growth has been a main contributor to the gradual recovery of the Euro Area economy. The consistent overestimation of growth in the Euro area in recent years coupled with the risks that corporate profits are not invested signifies the risks for an extended period of weakness. The Euro area is particularly susceptible to external shocks, including higher oil prices, a renewed sharp appreciation of the Euro, or a rebound in global interest rates. Politically, the rejection of the European Union constitution by France and the Netherlands, and the failure to agree on the EU budget, have so far had a limited effect on confidence contrary to expectations, with the financial market impact limited to a small widening of spreads for high debt countries, and a moderate depreciation of the Euro.

Table 1: World GDP growth

	2003	2004	2005*	2006*
World	3.9	5.1	4.3	4.3
United States	3.0	4.2	3.5	3.3
Euro Area	0.5	2.0	1.2	1.8
Japan	2.5	2.7	2.0	2.0
Emerging Asia	7.2	8.2	7.8	7.2
China	9.1	9.5	9.0	8.2
Developing countries	6.1	7.3	6.4	6.1
Africa	4.3	5.3	4.5	5.9
Sub-Sahara	3.7	5.4	4.8	5.9
Angola	3.4	11.1	14.7	27.6
Botswana	5.4	4.9	3.8	3.5
Mozambique	7.1	7.2	7.7	7.4
Namibia	3.5	5.9	3.2	3.9
South Africa	1.9	3.7	4.3	3.9

Source: *IMF, "World Economic Outlook", September 2005; Bank of Namibia in the case of Namibia.* * indicates forecast

Following a growth rate of 2.7 percent during 2004, the **Japanese economy** expanded significantly during the first half of 2005, mainly driven by improved domestic demand due to an improvement in employment. The economy, however, is expected to grow by only 2.0 percent during 2005 and 2006. This growth will be fueled by robust private consumption underpinned by the strengthening labour markets. Export growth is also expected to rebound as the global economic conditions remain supportive. Downside risks to the outlook for 2005 and 2006 include the increase in the oil price and the possibility of the strengthening Yen. Progress has been made in addressing the weaknesses in the banking and corporate sectors which should put the economy in a better position to sustain an expansion.

In **Emerging Asia**, growth is expected to slow slightly from 8.2 percent in 2004 to 7.8 percent in 2005. Downside risks are likely to slow this even further to 7.2 percent in 2006. Chinese growth,

[2] See September 2005 IMF'S World Economic Outlook for detailed discussion.

which is expected to record 9.0 percent in 2005 and 8.2 percent in 2006, is leading growth in emerging Asia. Growth in India, however, is moderately trailing at 7.1 and 6.3 percent in 2005 and 2006, respectively.

In summary, following strong growth in 2004, the world economy is expected to ease moderately during 2005 and 2006. This deceleration is mainly attributed to increasing oil prices, which is widely anticipated to dampen consumer demand although the impact on output was less considerable. Higher oil prices were partly driven by strong global demand, while the effect on oil importing countries has been offset by higher commodity prices.

Due to the relative modest global inflation, the accommodative monetary policy stance may somewhat offset the adverse effects of the higher oil prices. Expanding growth in the US and China will mainly drive global output. The rising global imbalance reflects that the debt in the US is financed by foreign investors, a situation which is unlikely to persist. Should investor's appetite for US assets decrease, it could cause the US Dollar to depreciate sharply, interest rates to rise and consequently pose significant risks to economic stability.

2 Sub-Sahara Africa

2.1 South Africa

The South African economic growth of 3.7 percent during 2004 is expected to improve to 4.3 percent during 2005. The improvement in growth will mainly be brought about by growth in manufacturing, which reflects rising final domestic demand and stronger export demand for certain categories of goods, amidst a somewhat more competitive level of the exchange rate. However, the growth is expected to slow moderately to 3.9 percent during 2006.

Despite the adverse developments in international oil markets, the South African CPIX is expected to remain within the South African Reserve Bank's target range of 3 to 6 percent. The expectation for average CPIX inflation in 2005 is 4.7 percent, rising to 5.2 percent in 2006[3]. This trend reflects the impact of higher oil prices on inflation.

The rand remained relatively strong against the US dollar in 2004 and 2005. The average ZAR/US Dollar exchange rates were 6.45 and 6.36 for 2004 and 2005, respectively. The Rand is expected to remain relatively strong against the US Dollar during 2006. A bout of US Dollar strength in 2005 could partly be attributed to the rebound of the US Dollar on international foreign exchange markets. However, the Rand has regained some ground since the start of the third quarter. Factors which might have contributed to this appreciation include, firstly, sizeable inflows of portfolio investment into the country, secondly, an upgrade of the country's credit rating by leading international rating agencies[4], finally, the continued high level of international commodity prices.

2.2 Other Sub-Sahara African countries

Following growth of 5.4 percent during 2004, sub-Saharan African growth is expected to slow to 4.8 percent in 2005. The growth in the region continues to be underpinned by the strength of global demand, improved domestic macroeconomic policies, progress with structural reforms and fewer armed conflicts. Further, the recent appreciation of the dollar against the Euro, if sustained, is expected to boost non-oil exports of some of the countries.

During 2006, growth is expected to accelerate to 5.9 percent, which would be the strongest growth in sub-Saharan Africa since the early 1970s. Growth is expected to be robust, although country specific developments are largely responsible for the improvement. In particular, the new oil production facilities in Angola and Mauritania are expected to substantially boost growth in these countries in 2006, while oil production is also expected to increase in Nigeria. However, the risks to these projections are tilted to the downside. While the recent commitment by the G-8 to boost aid and debt relief to the region could increase confidence, investment, and growth, an extended period of high oil prices, if combined with a sharp decline in non-oil commodity prices, would adversely affect many countries in the region. Further, with global imbalances widening, a renewed decline of the US Dollar against the Euro cannot be ruled out, which would adversely affect many African countries, particularly the CFA franc zone countries.

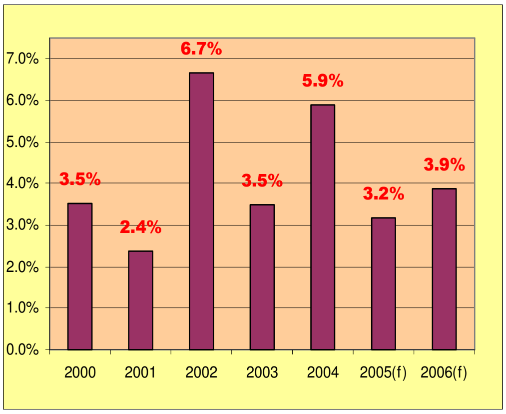
[3] Bureau of Economic Research (BER)

[4] After the upgrade by Moody's in January, Standard & Poor's upgraded South Africa's long-term foreign currency rating from BBB to BBB+ and the local currency rating from A to A+ in August. Later in August, Fitch rating agency also upgraded South Africa's foreign currency rating to BBB+ from BBB, short-term rating from F3 to F2, and raised the country's ceiling from BBB+ to A-.

3 Namibia

The Namibian economy grew by 4.4 percent on average over the last five years. It grew by 5.9 percent in 2004 compared to 3.5 percent in 2003 (see Chart 1). The major contributor to the increase in real GDP of 5.9 percent in 2004 was the increase in diamond production of about 39.1 percent in 2004 compared to a contraction of about 4.4 percent in 2003. Other mining and other manufacturing (which is mainly copper smelting and zinc refining) also contributed positively to the economic growth in 2004. Other mining grew by an impressive rate of about 31 percent, while other manufacturing grew by about 19 percent in 2004.

Chart 1: Real economic growth (in percent)



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

Positive but slower economic growth is projected for the next two years. Real GDP growth is projected to slow down to about 3.2 percent and 3.9 percent in 2005 and 2006, respectively. The deceleration in growth rate in 2005 can be mainly attributed to the slow down in mining production as witnessed by the available statistics up to the third quarter.

The envisaged increase in prices of other mining products, such as uranium and zinc would also contribute positively to the economic growth in the short to medium term (see Table 2).

3.1 Real Sector

Available statistics up to the third quarter show the following for 2005.

- Acceleration in agricultural production,
- Fishing industry's output remains very weak,
- Mining production remains at high levels but shows negative growth for 2005,
- Manufacturing sector is estimated to improve on the back of improved meat processing as well as smelting, refining, and polishing of mining products,
- Construction activity is estimated to improve after a slow growth rate in 2004, and
- The hotel and restaurants industry, a proxy for the tourist industry, shows positive growth rate for the first three quarters of 2005.

Assumption Box on Forecasting

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

- Actual diamond output production figures were obtained from the Ministry of Mines & Energy and forecasts were obtained from the individual diamond mining companies, which in total indicated a slightly lower production than last year's 2.042 million carats.
- Other mining's output is projected to be sustained on the back of full zinc production and increase in uranium. Other base metals such as gold, lead and silver are also assumed to contribute positively.
- The London Metal Exchange and other reliable sources indicate price increases in most base metals in 2005.
- Agricultural growth for 2005 rests upon the good rain that was received during the 2004/05 raining season. Available statistics also show an increase in livestock marketed in 2005.
- The fishing sector is assumed to improve slightly, but in 2005 and 2006 on the back of slightly improved but still depressed fish catches.
- Growth in manufacturing is assumed to be led by increased and processed copper and zinc, which have caused a significant positive growth in other manufacturing for the past five years, but at a much lower rate than in 2004 due to contraction of the fishing sector as well as slowdown in textiles' production. Meat processing is assumed to grow in line with livestock marketed in the short term.
- Construction sector's growth is assumed to grow positively on the back of government projects (i.e. railway and road constructions) as well as private sector activities as witnessed by building plans passed.
- Transport and communication sector will grow positively on the back of positive performance of the mobile telecommunications category of the communication sub-sector due to increased demand for cell phones because of decreasing prices.

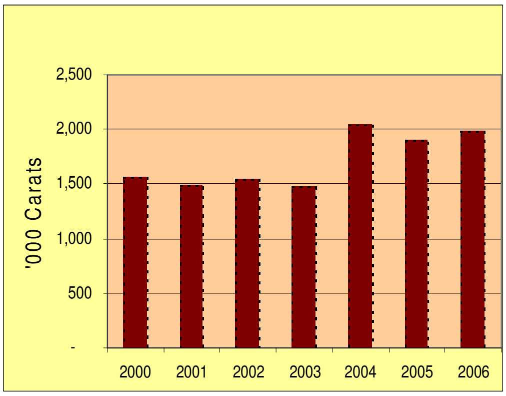
3.2 Mining

The mining industry showed a robust growth during 2004, registering a growth rate of 36.8 percent compared to 4.6 percent contraction in 2003. The strong positive performance was mainly due to the increase in production of diamond, uranium, zinc, and other minerals in 2004. However, the sector is expected to contract by 3.5 percent in 2005 before growing by 3.8 percent in 2006.

3.2.1 Diamond mining

Diamond production grew by 39.1 percent in 2004. However, diamond production is expected to contract by about 6.8 percent in 2005. The contraction is expected to be followed by a growth rate of about 4.3 percent in 2006, mainly due to increase in offshore mining activity as well as the extension of the Elizabeth Bay mine[5]. The world consumer demand for diamonds is expected to grow in line with world GDP in the next few years and could contribute positively to diamond output[6].

Chart 2: Total Diamond Production



Source: *Ministry of Mines and Energy*

3.2.2 Other Mining

Like diamond mining, other mining also recorded a good performance of 30.5 percent growth in 2004 after a contraction of about 7.5 percent in 2003. The sub-sector is projected to continue to grow by about 6.2 and 2.5 percent in 2005 and 2006, respectively. The slower growth rate in 2006 is largely due to leveling-off in zinc production as one of the zinc producers is reaching full production capacity. Other base metals, such as uranium, gold, silver and lead, are estimated to perform positively due to the estimated global economic recovery. Increasing commodity prices can also contribute positively to growth in the sector (see Table 2).

Table 2: Average Annual Metal Prices

Metals	QUOTED AS[7]	2003	2004	2005	2006
Copper	US$/t	1779	2866	3565	4234
Gold	US$/toz	364	406	445	549
Lead	US$/t	515	886	959	1212
Silver	US$/to	4.86	7.00	7.31	9.18
Uranium oxide	US$/pd - spot	11.93	25.00	30.00	33.50
	US$/pd - LT	10.50	18.55	30.65	34.15
Zinc	US$/t	828	1050	1388	1588

Source: *Namibia Chambers of Mines; London Metal Exchange; 2005 and 2006 are projected prices*

3.3 Agriculture

The agricultural sector is sensitive to climatic conditions and this can be seen by the high degree of volatility in its activity especially communal agricultural activity. The agriculture sector grew by 1.5 percent in 2004 compared to 3.6 percent in 2003. This can be mainly attributed to the significant growth in the subsistence agriculture of about 32.9 percent due to a good rain season in 2004.

Available statistics for the first eight months of 2005 show that the total cattle and small stock marketed increased by 26.8 percent and 12.0 percent, respectively, when compared to the same period of the preceding year.

The outlook for maize crop production as well as grapes production looks promising. The agricultural sector is projected to grow by 3.2 percent in 2005, owing to an increase in number of cattle marketed and positive production of cereals, and grapes. This growth is expected be sustained at a growth rate of about 2.9 percent in 2006.

3.4 Fishing

The fishing industry experienced difficult operating conditions over the last few years, especially in 2004 due to decrease in landings and

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[5] The plant was inaugurated in August 2005 and expected to extend Elizabeth Bay's life by some eight years by extracting diamonds from previously untreatable wet, cemented and clay-based material The mine is expected to produce some 400,000 carats per year over the next three years which is three times the mine's previous capacity.

[6] Demand for diamonds has grown in with world GDP since 1998.

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

low market prices coupled with the strong but relatively stable Namibia Dollar against the major trading currencies. The fishing sub-sector contracted by 9.1 percent in 2004, mainly due to a substantial decrease in landings by about 10.0 percent. The sector is expected to continue to contract by 6.5 percent and 0.8 percent in 2005 and 2006, respectively.

3.5 Manufacturing

The manufacturing sub-sector grew by 6.0 percent on average over the past five years. This good performance is expected to continue in the medium term at about 5.8 percent growth on average, on the back of processed copper and zinc, polished diamonds as well as increased textile production.

After it registered a high growth of 51.4 percent in 2003, mainly due to improved processed demersal and pelagic fish, the fish processing sub-sector 's value added declined by 2.2 percent in 2004 due to decrease in landings, low market prices and strong but relatively stable Namibia dollar. However, the situation is expected to improve slightly in 2005 and 2006 due to expected improvement in fish landings.

Meat processing is envisaged to increase in 2005 due to an expected increase in the number of cattle marketed during the year. The situation is expected to be sustained in 2006. Meat processing is therefore expected to grow by 2.3 percent and 3.8 percent in 2005 and 2006, respectively.

3.6 Construction

The construction industry grew by 1.7 percent in real terms in 2004, compared to an impressive growth of about 23.0 percent in 2003. Available statistics for the three quarters of 2005 show a positive and robust growth rate of more than 20.0 percent in the sector's value added. The sector is, therefore, projected to grow by about 20.0 percent in 2005. The growth is expected to be sustained in 2006 but at a much lower rate of about 7.2 percent on the back drop of slowdown in construction. The 7.2 percent growth is underpinned by the construction activities such as the new uranium mine and government projects (Greenscheme, the upgrading of airports, road and rail construction etc). Currently prevailing low interest rates and low cement prices could also contribute positively to growth in this sector.

3.7 Hotels and Restaurants

The hotel and restaurants, a proxy for the tourism industry, performed poorly and contracted by 3.2 percent in 2004. However, the sub-sector is expected to grow by around 2.5 percent and 3.0 percent in 2005 and 2006, respectively.

3.8 Transport and communication

The transport and communication industry grew by 9.2 percent on average during the last five years. The sub-industry Transport and Storage grew by 6.1 percent on average over the last five years, while Post and Telecommunications grew by 14.9 percent over the same period. Both, sub-industries, Transport and Storage and Post and telecommunications recorded good growth rates of 10.7 and 7.6 percent in 2004, respectively.

Available statistics for the first nine months of 2005 show positive developments in the industry's value added. The data show industry's value added growing at about 5.6 percent during the first nine months of 2005 when compared to the same period of 2004.

The overall growth for the transport and communications sector is projected at 7.2 percent and 9.1 percent for 2005 and 2006, respectively. This growth will mainly come from the expansion of cellphone sales which is currently boosted by high demand due to decreasing cell phone prices.

3.9 Electricity and Water

The electricity and water sector grew by 2.6 percent in 2004 compared to a growth of 15.6 percent in 2003. The slow growth can be attributed to high imports of electricity due to an increase in demand from electricity intensive projects such as zinc refinery. Available statistics for the first three quarters of 2005 show good performance of above 5.0 percent when compared to the same period of 2004. Growth is therefore expected to be around 5.9 percent and 7.5 percent in 2005 and 2006, respectively. These growth rates could, however, be affected by high input costs as well as the levels of river water at the Ruacana.[8]

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

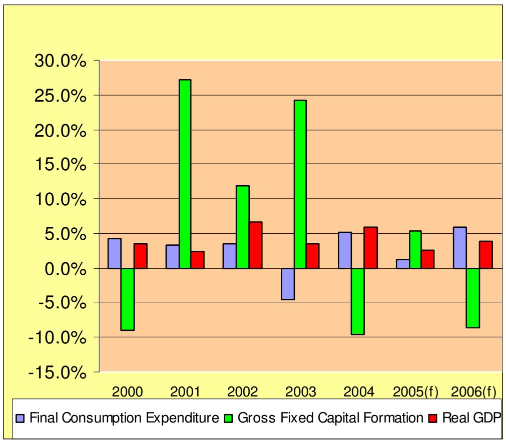
3.10 Other Sectors

The real estate and business services sector grew by 4.1 percent over last five years. The growth is expected to be sustained at around 4.0 and 3.0 percent in 2005 and 2006, respectively on the back of the current prevailing low interest rates and low inflation. The producers of government services grew by 4.9 percent in 2004. It is expected to grow by 1.6 percent and 2.3 percent in 2005 and 2006, respectively.

3.11 Consumption and Investment

Real final consumption expenditure expanded only by 0.6 percent in 2004 after contracting by 4.6 percent in 2003, reflecting the volatile base of Namibia's overall domestic demand. Real final consumption expenditure is however expected to grow by 1.2 percent and 5.8 percent in 2005 and 2006, respectively. This real growth would be mainly due to increased private consumption expenditure, which is forecasted to grow at a sustained rate of 6.4 percent on average in the medium term.

Chart 5: Domestic Demand (Growth Rate)



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

The other subcomponent of final consumption expenditure, general government consumption, is also forecasted to grow in real terms by 2.2 percent and 6.8 percent in 2005 and 2006, respectively.

Real investment contracted by 9.6 percent in 2004 which does not compare well with the 24.2 percent expansion in the previous year. For 2005 and 2006, growth rates of 5.3 percent and -8.7 percent are projected. This growth in real investment reflects the historical cyclical pattern as evident in Chart 5[9].

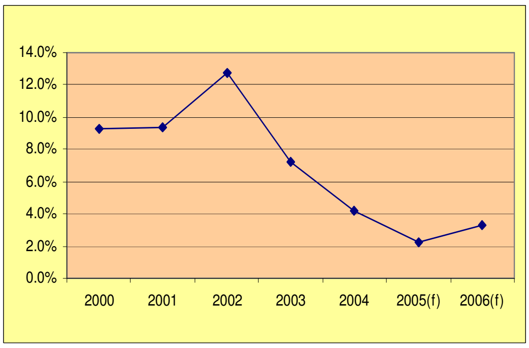
3.12 Price Developments

3.12.1 Inflation

The annual inflation rate is now based on the Namibian consumer price index (NCPI) which covers the whole of Namibia. NCPI replaced the Interim Consumer Price Index (ICPI) which used to cover only Windhoek. The average inflation rate (year-on-year) for 2004 equalled 4.2 percent (see Chart 4).

Annual inflation rate continued to decline during the first half of 2005. Inflation bottomed out at an all time low of 0.9 percent in May 2005. However, since then, the effects of food and transport prices have resulted in an increase in inflation during the second half of 2005 and an annual average inflation rate of 2.2 percent in 2005. A weakening exchange rate and still relatively high oil prices are expected to result in a slight increase in the inflation rate for 2006. The average annual Namibian inflation rate is therefore projected to be around 3.3 percent in 2006.

Chart 4: Inflation rate



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

3.13 Balance of Payments

Real exports contracted by 6.8 percent in 2004 after registering an impressive growth of about 23.0 percent in 2003. The contraction in real exports in 2004 resulted mainly from a decline in both fish and live animal exports.

Real exports are, however, projected to recover slightly and to record a minor contraction of about

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Kudu Gas and Epupa hydro electronic projects to supplement supply of domestic electrical energy.

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

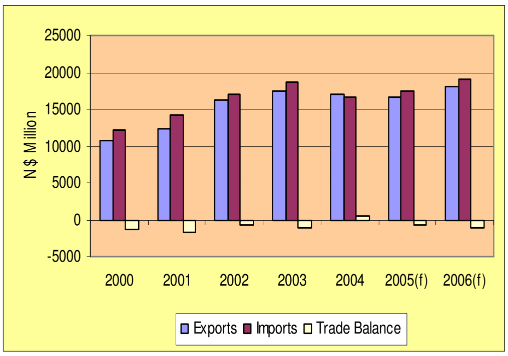
-1.5 percent in 2005 and a growth of 1.6 percent in 2006. The estimated contraction in 2005 is mainly as a result of decrease in diamond production. Favourable international prices on zinc and uranium, and the expected increase in world diamond demand as a result of the global recovery could contribute positively to Namibia's exports. As a percentage of GDP, exports are projected to decrease from 46.3 percent in 2004 to 43.4 percent in 2005 before improving slightly to 44.0 percent in 2006.

In real terms, **imports** contracted by 10.9 percent in 2004. Real imports are projected to grow by 3.5 percent and 11.0 percent in 2005 and 2006, respectively, largely due to an improvement in domestic demand. As a percentage of GDP, it is projected to decrease slightly from 45.0 percent in 2004 to 44.8 percent in 2005 before stabilizing at about 45.7 percent in 2006.

As a result of these developments, the Namibian **trade deficit** is projected to worsen to around –1.8 percent and -2.3 percent of GDP in 2005 and 2006, respectively, from a surplus of about 1.2 percent of GDP in 2004 (see Chart 6).

The **current account** surplus as a percentage of GDP increased to 10.9 percent in 2004 from 8.9 percent in 2003. This is mainly due to the increases in SACU revenue.[10] The current account surplus is expected to increase to 11.4 percent and 11.8 percent in 2005 and 2006, respectively. The increase is mainly due to increases in SACU receipts.

Chart 6: International trade



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

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

4 Conclusion

The economy is projected to decelerate to an average growth rate of about 3.6 percent in 2005 and 2006, compared to an average growth rate of about 4.4 percent registered during the last 5 years. The deceleration in growth is mainly as a result of slower expected growth in diamond output in 2005. Other sectors such as manufacturing and construction expected to contribute positively to economic growth over the next two years.

The Namibian economy, being vulnerable to external shocks, faces downside risks to the above forecasts. These include the world demand for Namibia's exports (diamond, fish and meat products), high oil prices as well as the appreciation of the local currency against major currencies.

5 Appendixes

Appendix 1: Real GDP growth forecast

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture and forestry	**4.7%**	**-14.9%**	**8.5%**	**3.6%**	**1.5%**	**3.2%**	**2.9%**	**3.2%**
- Commercial	31.1%	-9.2%	22.7%	4.5%	-9.1%	2.5%	3.3%	3.5%
- Subsistence	-20.7%	-24.0%	-18.6%	0.9%	32.9%	4.6%	2.2%	2.6%
Fishing	**14.5%**	**-1.5%**	**11.4%**	**4.2%**	**-9.1%**	**-6.5%**	**-0.8%**	**1.4%**
Mining and quarrying	**-1.7%**	**-6.1%**	**16.0%**	**-4.6%**	**36.8%**	**-3.5%**	**3.8%**	**2.9%**
- Diamond mining	-6.7%	-5.1%	17.3%	-3.5%	39.1%	-6.8%	4.3%	3.3%
- Other mining and quarrying	13.3%	-8.5%	12.9%	-7.5%	30.5%	6.2%	2.5%	1.8%
Total Primary Industries	**3.9%**	**-8.3%**	**12.4%**	**0.2%**	**13.6%**	**-2.1%**	**2.7%**	**2.7%**
Manufacturing	**3.6%**	**5.5%**	**9.6%**	**5.2%**	**5.9%**	**5.3%**	**6.2%**	**6.0%**
- Meat processing	-9.7%	5.9%	2.1%	-11.6%	-10.5%	2.3%	3.8%	3.9%
- Fish processing	-14.2%	-15.3%	-10.1%	51.1%	-2.2%	1.2%	4.2%	4.4%
- Other food products and beverages	1.9%	4.4%	8.3%	-0.3%	0..2%	4.3%	3.6%	3.7%
- Other Manufacturing	24.9%	18.3%	20.5%	2.6%	19.1%	8.2%	10.0%	9.1%
Electricity and water	***11.5%***	***-23.8%***	***1.1%***	***15.6%***	***2.6%***	***5.9%***	***7.5%***	***3.7%***
Construction	**-5.4%**	**53.1%**	**-13.1%**	**23.0%**	**1.7%**	**20.0%**	**7.2%**	**22.3%**
Total Secondary Industries	**3.1%**	**9.0%**	**3.8%**	**9.4%**	**4.7%**	**8.3%**	**6.6%**	**9.4%**
Wholesale and retail trade, repairs	**5.4%**	**2.8%**	**7.4%**	**4.1%**	**0.7%**	**2.4%**	**3.0%**	**2.4%**
Hotels and restaurants	**7.2%**	**8.4%**	**8.4%**	**4.9%**	**-3.2%**	**2.5%**	**3.0%**	**3.1%**
Transport and communication	**8.4%**	**13.9%**	**11.4%**	**3.1%**	**9.3%**	**7.2%**	**9.1%**	**3.6%**
- Transport and storage	6.3%	8.1%	15.5%	-10.0%	10.7%	5.4%	4.2%	4.6%
- Post and telecommunications	12.4%	24.3%	5.0%	25.2%	7.5%	9.0%	14.0%	8.2%
Financial intermediation	**6.2%**	**1.7%**	**3.3%**	**9.4%**	**13.0%**	**7.1%**	**3.1%**	**3.5%**
Real estate and business services	**1.5%**	**4.1%**	**7.2%**	**5.2%**	**2.4%**	**4.0%**	**3.0%**	**3.6%**
- Owner-occupied dwellings	2.5%	2.5%	4.1%	2.5%	2.5%	2.8%	2.5%	2.5%
- Other real estate and business services	0.4%	5.8%	10.5%	7.9%	2.2%	5.1%	3.5%	4.7%
Community, social and personal services	**8.7%**	**-0.2%**	**2.9%**	**5.6%**	**0.9%**	**3.3%**	**4.0%**	**3.7%**
Producers of government services	**2.3%**	**1.4%**	**3.9%**	**2.0%**	**4.9%**	1.6%	**2.3%**	**2.7%**
Other producers	**2.0%**	**2.2%**	**2.8%**	**1.2%**	**1.3%**	**1.8%**	**2.4%**	**2.5%**
Total Tertiary industries	**3.9%**	**3.9%**	**6.2%**	**3.6%**	**4.4%**	**3.4%**	**3.6%**	**3.5%**
Less: Financial services indirectly measured	-0.8%	4.5%	-1.9%	15.1%	15.8%	8.7%	13.1%	12.5%
GDP at Basic prices	**3.8%**	**2.1%**	**7.1%**	**3.8%**	**6.1%**	**3.0%**	**3.9%**	**4.3%**
Taxes less subsidies on products	1.2%	4.5%	4.1%	1.4%	4.7%	4.2%	3.8%	1.8%
GDP at constant prices	**3.5%**	**2.4%**	**6.7%**	**3.5%**	**5.9%**	**3.2%**	**3.9%**	**4.0%**

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

Appendix 2: GDP at constant prices (N$ Million)

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture and forestry	**1,056**	**899**	**975**	**1,010**	**1,025**	**1,058**	**1,089**	**1,124**
- Commercial	648	589	723	755	687	704	727	753
- Subsistence	408	310	252	255	338	354	361	371
Fishing	**641**	**631**	**703**	**732**	**666**	**623**	**618**	**626**
Mining and quarrying	**1,190**	**1,117**	**1,297**	**1,237**	**1,692**	**1,633**	**1,694**	**1,743**
- Diamond mining	847	803	942	909	1,264	1,178	1,229	1,269
- Other mining and quarrying	343	314	355	328	428	454	466	474
Total Primary Industries	**2,887**	**2,647**	**2,975**	**2,979**	**3,383**	**3,313**	**3,401**	**3,493**
Manufacturing	**1,571**	**1,657**	**1,815**	**1,911**	**2,023**	**2,131**	**2,264**	**2,401**
- Meat processing	101	107	109	97	86	88	91	95
- Fish processing	241	204	183	277	271	274	286	298
- Food products and beverages	774	808	875	872	874	912	944	979
- Other Manufacturing	455	538	648	665	792	857	942	1,028
Electricity and water	**299**	**228**	**230**	**266**	**273**	**289**	**311**	**322**
Construction	**344**	**527**	**459**	**564**	**573**	**688**	**737**	**901**
Total Secondary Industries	**2,214**	**2,412**	**2,504**	**2,741**	**2,869**	**3,107**	**3,312**	**3,624**
Wholesale and retail trade, repairs	**1,455**	**1,496**	**1,607**	**1,674**	**1,685**	**1,725**	**1,777**	**1,820**
Hotels and restaurants	**269**	**292**	**316**	**332**	**321**	**329**	**339**	**349**
Transport and communication	**1,049**	**1,196**	**1,331**	**1,372**	**1,500**	**1,605**	**1,743**	**1,853**
- Transport and storage	671	725	837	753	834	879	916	958
- Post and telecommunications	379	471	494	619	666	726	827	895
Financial intermediation	**489**	**498**	**514**	**563**	**636**	**681**	**702**	**727**
Real estate and business services	**1,339**	**1,393**	**1,494**	**1,572**	**1,610**	**1,674**	**1,724**	**1,787**
- Owner-occupied dwellings	694	711	740	759	778	800	820	840
- Other real estate and business services	645	682	754	813	832	874	905	947
Community, social and personal services	**133**	**133**	**137**	**144**	**146**	**151**	**157**	**163**
Producers of government services	**3,236**	**3,281**	**3,408**	**3,475**	**3,644**	**3,702**	**3,787**	**3,889**
Other producers	**292**	**298**	**307**	**310**	**314**	**320**	**327**	**336**
Total Tertiary industries	**8,262**	**8,586**	**9,114**	**9,442**	**9,856**	**10,187**	**10,558**	**10,924**
Less: Financial services indirectly measured	151	158	155	178	206	224	253	285
GDP at Basic prices	**13,212**	**13,487**	**14,438**	**14,984**	**15,902**	**16,384**	**17,017**	**17,756**
Taxes less subsidies on products	1,889	1,974	2,055	2,083	2,181	2,273	2,359	2,401
GDP at constant prices	**15,101**	**15,461**	**16,493**	**17,067**	**18,083**	**18,656**	**19,376**	**20,158**

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

Appendix 3: GDP at current prices (N$ Million)

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture and forestry	**1,299**	**1,136**	**1,687**	**1,814**	**1,847**	**1,946**	**2,060**	**2,198**
- Commercial	792	711	1,309	1,353	1,258	1,317	1,399	1,497
- Subsistence	507	425	378	461	589	629	661	701
Fishing and fish processing on board	**1044**	**1,445**	**1,608**	**1,757**	**1,470**	1,404	1,432	1,501
Mining and quarrying	**2,611**	**3,663**	**4,565**	**2,975**	**3,837**	**3,704**	**3,965**	**4,226**
- Diamond mining	1934	2,854	3,427	2,630	3,444	3,278	3,516	3,753
- Other mining and quarrying	677	809	1,138	345	393	426	449	473
Total Primary Industries	**4,954**	**6,244**	**7,860**	**6,546**	**7,154**	**7,054**	**7,458**	**7,926**
Manufacturing	**2,371**	**2,604**	**3,305**	**3,870**	**4,520**	**4,855**	**5,310**	**5,825**
- Meat processing	121	142	143	139	125	131	139	150
- Fish processing on shore	548	494	703	876	920	951	1,019	1,100
- Other food products and beverages	1090	1,215	1,515	1,650	1,670	1,779	1,895	2,032
- Other Manufacturing	612	753	944	1,205	1,805	1,995	2,256	2,544
Electricity and water	**605**	**620**	**854**	**1,003**	**1,166**	1,261	1,394	1,495
Construction	**473**	**789**	**725**	**1,029**	**1,124**	1,377	1,899	2,401
Total Secondary Industries	**3,449**	**4,013**	**4,884**	**5,902**	**6,810**	**7,493**	**8,603**	**9,720**
Wholesale and retail trade, repairs	**2682**	**3,004**	3,428	3,987	4,147	4,337	4,594	4,863
Hotels and restaurants	**403**	**477**	576	648	651	681	722	769
Transport and communication	**1,383**	**1,533**	**2,083**	**2,382**	**2,516**	**2,749**	**3,068**	**3,371**
- Transport and storage	877	975	1,289	1,409	1,418	1,526	1,636	1,769
- Post and telecommunications	506	558	794	973	1,098	1,222	1,433	1,602
Financial intermediation	**833**	**964**	1,088	1,246	1,236	1,352	1,434	1,534
Real estate and business services	**2,235**	**2,497**	**2,831**	**3,156**	**3,406**	**3,614**	**3,829**	**4,100**
- Owner-occupied dwellings	1194	1,317	1,449	1,593	1,734	1,820	1,919	2,033
- Other real estate and business services	1041	1,180	1,382	1,563	1,672	1,794	1,910	2,067
Community, social and personal Services	**201**	**216**	244	281	301	317	340	364
Producers of government services	**5071**	**5,810**	6,553	6,863	7,107	7,374	7,759	8,236
Other producers	**437**	**487**	558	606	637	662	698	739
Total Tertiary industries	**13,245**	**14,988**	**17,361**	**19,169**	**20,001**	**21,087**	**22,443**	**23,977**
Less: Financial services indirectly measured	273	330	359	431	413	458	533	620
GDP at Basic prices	**21,375**	**24,915**	**29,746**	**31,186**	**33,552**	**35,176**	**37,970**	**41,003**
Taxes less subsidies on products	2318	2,771	3,161	2,655	3,353	3,568	3,809	4,009
GDP at current prices	**23,693**	**27,686**	**32,907**	**33,841**	**36,905**	**38,744**	**41,779**	**45,011**

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