MARCH 2011

MACROECONOMIC FRAMEWORK FOR THE 2011/12 – 2013/14 MEDIUM TERM EXPENDITURE FRAMEWORK

FOREWORD

The Macroeconomic Framework is a national policy document that reviews past and present economic developments and provides an outlook for the domestic, regional and world economies upon which recommendations for the future course of fiscal policy are made. Macroeconomic developments and projections are one of the key considerations for fiscal policy formulation and as such, the Macroeconomic Framework constitutes the primary basis for the Fiscal Policy Framework.

The ultimate objective of the Macroeconomic Framework is to guide policy makers in their pursuit of maintaining macroeconomic stability and fiscal prudence for the realisation of the development targets and objectives outlined in the NDP3 and Vision 2030.

It is within the above-mentioned context that this Macroeconomic Framework for the 2011/12-2013/14 MTEF has been prepared. By taking into account a variety of factors that present opportunities for growth as well as those that pose risks to sustainable growth in the global, regional and domestic economies, the Macroeconomic Framework aims to enable policy makers to devise and implement appropriate macroeconomic and fiscal policy intervention measures. The framework is presented against a backdrop of global economic recovery and growth at a regional and domestic level which is projected to continue over the MTEF period. However, this recovery should not be taken for granted as ultimately we can only improve the growth path for Namibia through hard work and innovation across all sectors of the economy to achieve the NDP3 and Vision 2030 objectives.

SAARA KUUGONGELWA-AMADHILA

MINISTER OF FINANCE

TABLE OF CONTENTS

GLOSSARY

BoN	Bank of Namibia
BoP	Balance of Payments
DBN	Development Bank of Namibia
DFI	Development Finance Institution
EPL	Exploration and Prospecting License
EPZ	Export Processing Zone
ETSIP	Education and Training Sector Improvement Programme
EU	European Union
FIMBILL	Financial Institutions and Markets
FISIM	Financial Services Indirectly Measured
FSC	Financial Services Charter
GDP	Gross Domestic Products
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria)
GNI	Gross National Income
HIV and AIDS	Human Immune Virus/ Acquired Immune Deficiency Syndrome
IIP	International Investment Position
IMF	International Monetary Fund
IPP	Independent Power Producers
LED	Local Economic Development
MoF	Ministry of Finance
MEF	Macroeconomic Framework
MTEF	Medium Term Expenditure Framework
NAMPORT	Namibia Ports Authority
NAMWATER	Namibia Water Corporation
NCPI	Namibia Consumer Price Index
NHRP	National Human Resources Plan

NPC	National Planning Commission
NDP3	National Development Plan 3
NWR	Namibia Wildlife Resorts
PER	Public Expenditure Review
PPP	Public Private Partnership
OPM	Office of the Prime Minister
R & D	Research and Development
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAPP	Southern Africa Power Pool
USA	United States of America
VAT	Value Added Tax
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Global and Regional Economic Outlook

The global economic recovery is proceeding better than expected, albeit at varying speeds. In many advanced economies the recovery has been slow, compared to more solid recovery in most emerging and developing economies.

The global economy recovered in 2010

According to IMF estimates[1], global economic growth expanded by an estimated 4.8 percent in 2010, following a contraction of 0.6 percent in 2009. Among the advanced economies, the United States and Japan are off to a better start than the Euro Zone. Among the emerging and developing economies, Asia is leading the recovery, which is underpinned by the high rates of growth in India and China. Many emerging European and some Commonwealth of Independent States economies are lagging behind. This global pattern of multispeed recovery is expected to continue over the medium term period.

Emerging economies are leading the recovery

In Sub-Saharan Africa, real GDP growth is estimated to have increased significantly to 5.0 percent in 2010, up from 2.6 percent in 2009. Angola's economy is estimated to grow strongly in 2010 on the back of higher oil price prospects. The IMF estimates that the South African economy will also recover with moderate growth in 2010 and 2011. Interest rate, exchange rate and inflation developments in South Africa are of key importance to Namibia, given the currency peg and Namibia's reliance on imports from South Africa.

Risks to the global economic recovery remain, as uncertainty surrounds the stability of the public and financial sectors in parts of the developed world. Many developed economies, particularly in the Euro Zone, are implementing systematic fiscal stimulus exit strategies and shifting the policy emphasis to the restoration of public finances and away from large fiscal stimulus. This is an important policy development that could have a knock-on impact on the Namibian economy through export demand.

The domestic economy did not escape the effects of the global recession

Review of Domestic Economic Performance

The domestic economy did not escape the effects of the global economic downturn during 2009. The Namibian economy slid into recession[2] in 2009, contracting by 0.7 percent

[1] IMF 'World Economic Outlook' October 2010.

[2] There is no single definition of recession although most analysts and institutions refer to a recession as two or more consecutive quarters of negative economic growth. Based on this definition, Namibia was in recession in 2009, with 2 consecutive quarters of negative growth.

compared to a positive growth rate of 4.3 percent in 2008 (in constant 2004 prices). This contraction is largely due to the decline experienced in the primary industries as a result of the global downturn and the subsequent fall in the demand for and price of commodities. Growth in the secondary and tertiary industries slowed but remained positive. The economy recovered in 2010, however, with an estimated GDP growth rate of 4.8 percent.

Namibia continues to be a net importer of goods and services such that the net external balance of goods and services has generally been negative over the last three years. Exports of goods and services recorded a large contraction in 2009 while growth in imports slowed.

Fiscal and monetary expansion was pursued to counter effects of the crisis

In line with global monetary developments, the Bank of Namibia pursued an accommodative monetary policy stance during 2009 and 2010 as the global economic crisis continued to intensify and spread. Foreign reserves increased in 2009, which is important for the maintenance of the currency peg to the South African Rand, the anchor for price stability in Namibia.

On the fiscal front, the budget balance recorded a deficit of 1.1 percent in 2009/10 in line with 2010/11 – 2012/13 fiscal policy and MTEF, following surpluses realized during the two previous financial years. Decline in SACU receipts and a slowdown in domestic tax revenues owing to the second-round effects of the global economic crisis accounted for subdued revenue performance. SACU receipts are projected to fall over the next few years which will pose challenges over the MTEF period.

Overall Government debt levels remained significantly below the 25-30 percent target band, despite significant downside risks.

Economic Outlook for the 2011 – 2014 MTEF

The economy is projected to grow by 5.3 percent on average during the MTEF

Domestic GDP is projected to grow by 4.3 percent in 2011, slightly down from the 4.8 percent growth estimated for 2010. The recovery is attributed to the revival in the primary industries, mainly on account of the upturn in the mining and quarrying industries. Expansionary fiscal policy has also aided the recovery, in addition to growth in primary, secondary and tertiary industries. The economic performance of the country is projected to continue improving during the period 2011-2014, with steady growth projected in primary, secondary and tertiary industries.

Conclusions and Challenges

There are several key challenges facing the Namibian economy over the MTEF period:

1. Maintaining a favourable fiscal position whilst pursuing expansionary policy poses a challenge as SACU revenues remain subdued. Exploring alternative government revenue schemes will be important if spending levels are to be maintained.

2. Structural factors remain the key long term challenge for Namibia. High unemployment and HIV/AIDS rates, the need for a more diversified business environment and high levels of inequality are some of the most significant issues.

1. REVIEW OF ECONOMIC DEVELOPMENTS

1.1 GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

Global recovery underway but progress uneven

1. The **global economy** is estimated to have returned to positive growth during 2010, after sliding into a recession in 2009. According to IMF estimates, the global economy contracted by 0.6 percent in 2009 but rebounded by 4.8 percent in 2010. The recovery is expected to continue into 2011, with growth of 4.2 percent. However, the recovery is likely to be uneven and proceed at varying speeds in different parts of the world. The slow recovery is on account of diminishing fiscal stimulus, rising public debt, low investor-risk appetite and, in some countries, low personal wealth.

Growth stronger in emerging and developing economies

2. Following a more than 3 percent decline in output in 2009, **advanced economies** are experiencing subdued recovery, with estimated growth of 2.7 percent in 2010. In 2011 growth is also projected to be slow at 2.2 percent. **Emerging and developing economies** are expected to lead the recovery, with growth in these economies estimated to be over 7 percent in 2010 following a modest 2.5 percent gain in 2009 (Table 1). This is projected to continue in 2011 with growth of 6.4 percent.

3. Recovery in employment still lags, with persistent high unemployment still remaining a major economic and social challenge globally.

4. Downside risks to sustained recovery still remain. A key risk is that low levels of growth will undermine financial sector upturn in advanced economies and amplify fiscal deficits and sovereign debt levels. Low investor confidence and associated risk aversion could also undercut accelerated recovery.

Table 1: World Output and Real GDP Outlook, Annual Percentage Changes

Region/Country	Actual		Projection	
	2008	2009	2010	2011
World Output	2.8	-0.6	4.8	4.2
Advanced Economies	0.2	-3.2	2.7	2.2
United States	0.0	-2.6	2.6	2.3
Euro area	0.5	-4.1	1.7	1.5
Japan	-1.2	-5.2	2.8	1.5
United Kingdom	-0.1	-4.9	1.7	2.0
Canada	0.5	-2.5	3.1	2.7
Other advanced economies	1.7	-1.2	5.4	3.7
Emerging markets and developing economies	6.0	2.5	7.1	6.4
Sub-Saharan Africa	5.5	2.6	5.0	5.5
Angola	13.3	0.7	5.9	7.1
Namibia	**4.3**	**-0.7**	**4.8**	**4.3**
South Africa	3.7	-1.8	3.0	3.5
Central and Eastern Europe	3.0	-3.6	3.7	3.1
Common wealth of Independent States	5.3	-6.5	4.3	4.6
Russia	5.2	-7.9	4.0	4.3
Developing Asia	7.7	6.9	9.4	8.4
China	9.6	9.1	10.5	9.6
India	6.4	5.7	9.7	8.4
Middle East and North Africa	5.0	2.0	4.1	5.1
Latin America and Caribbean	4.3	-1.7	5.7	4.0
Brazil	5.1	-0.2	7.5	4.1

Source: IMF – October 2010: World Economic Outlook Update; figures for Namibia based on National Accounts and Macroeconomic Working Group.

Developments in Key Trading Partners

5. The **United States (US)** economy is estimated to have grown at 2.6 percent in 2010, following a contraction of 2.6 percent in 2009. The US recovery can be attributed to the unprecedented macroeconomic policy stimulus as well as financial stabilization measures. However, consumers and financial institutions remain cautious as weak housing markets, high public debt, high unemployment and the sovereign debt risks in Europe remain matters of concern. The US market is an important trade destination for Namibian mineral products as well as a potential market for Namibian beef.

Growth in the Euro Area is weak and uneven

6. Economic recovery in the **Euro Area** is weak and uneven, with growth estimated at 1.7 percent in 2010 and 1.5 percent in 2011, following a 4.1 percent decline in 2009. The slow recovery is largely due to the sovereign debt turmoil and associated financial market risks triggered by the Greek and Irish sovereign debt

crises. The depreciation of the Euro is expected to bolster Euro-zone net export receipts in the early stage of the recovery. The Euro area remains Namibia's primary market for fishery products, beef and grapes. If demand and currency conditions deteriorate this would adversely affect Namibian exports.

7. Supported by fiscal stimulus and rising exports, **Japan's** economy recovered in 2010 with estimated growth of 2.8 percent, following a substantial decline of 5.2 percent in 2009. Going forward growth is projected to be moderate at 1.5 percent in 2011. The Japanese market has traditionally attracted Namibia's Rock Lobster and mariculture exports.

8. **Emerging economies**, especially in **Developing Asia**, dominate the global recovery. Developing Asia's GDP grew by an estimated 9.4 percent in 2010 and is projected to grow by a further 8.4 percent in 2011. Growth in **China** and **India** has been key to this recovery, but this brighter outlook is countered by fears of possible asset bubbles emanating from high capital inflows into the region. Advances have been made to promote increasing trade with the Asian region in mineral, seafood and beef products.

Developing Asia is leading the global recovery

9. Overall, **risks to the global economic recovery continue** as demand remains weak and uncertainty surrounds the stability of the public and financial sectors in parts of the developed world. If the global recovery continues to gather pace, the outlook for Namibia, and in particular the mining industries, looks positive. However, a further dip in the global economy would impact negatively on the overall Namibian economy, particularly through falling commodity prices. Many developed economies, particularly in the Eurozone, are beginning to implement systematic fiscal stimulus exit strategies by shifting the policy emphasis to the restoration of public finances and away from large fiscal stimulus. This is an important policy development that could have a knock-on impact on the Namibian economy through export demand.

Risks to the Global recovery Remain

1.2. SUB-SAHARAN AFRICA ECONOMIC DEVELOPMENTS AND OUTLOOK

10. **Sub-Saharan Africa** weathered the global economic crisis well and its recovery from the slowdown in 2009 is expected to be strong. Economic growth in the region was estimated to be 5.0 percent in 2010 and is projected to increase to 5.5 percent in 2011. The region's quick recovery reflects the relatively limited integration of the region's financial system into the global economy, limited impact on their terms of trade and the rapid normalization in global trade and

Outlook for Sub-Saharan Africa is positive commodity prices. However, the global economic crisis has rolled back progress toward reaching the Millennium Development Goals (MDGs).

11. More specifically, GDP growth in the **SADC region** slowed to 3.9 percent in 2009 from 7.6 percent in 2008. This deceleration in growth reflected both a marked slow-down in external trade and export earnings and a broader weakening of domestic demand that was reflected in lower taxes, higher budget deficits, and a weaker employment outlook. Given the global and regional recovery in 2010, the growth in the SADC region was estimated at 5.6 percent.

Growth in Angola expected to recover strongly

12. **Angola's** GDP growth decelerated from a robust rate of 13.3 percent in 2008 to 0.7 percent in 2009. Growth recovered in 2010 at an estimated rate of 5.9 percent. In 2011 growth is projected to accelerate further to 7.1 percent. The main reason for the decline and subsequent recovery in growth is the fall and rise of demand for the country's major export commodities, especially crude oil and diamonds. The Angolan market presents opportunities for increased investment and trade in goods and services for Namibia.

Moderate recovery in South Africa for 2010

13. The IMF estimates that the **South African** economy grew by 3.0 percent in 2010 and will grow by 3.5 percent in 2011, compared to a contraction of 1.8 percent recorded in 2009. This growth will be against a backdrop of high unemployment, tight credit conditions, and the recent strengthening of the Rand. Furthermore, the weakness of the Euro Zone poses considerable risks to the South African economy. South Africa is one of Namibia's most important trading partners and therefore these developments have significant implications for the domestic economy.

1.3 RECENT DOMESTIC ECONOMIC DEVELOPMENTS

1.3.1 Overall Economic Performance

Namibian economy contracted by 0.7% in 2009

14. Due to strong performance in the secondary and tertiary industries, Namibia recorded **GDP growth** of 5.4 percent in 2007 and 4.3 percent in 2008. This is above the SACU average for both years, but slightly below the Sub-Saharan Africa average. However, the domestic economy slid into recession in 2009, contracting by **0.7 percent** due to the impact of the global economic downturn. The contraction was mainly attributed to a decline of 26.9 percent in primary industries, which suffered as export demand and commodity prices fell in the wake of the global crisis. Growth in both the secondary and tertiary industries slowed in 2009 to 3.5 percent and 4.4 percent respectively from 4.8 and 5.8 recorded during 2008 (Table 2).

Domestic growth estimated to recover to 4.8% in 2010

15. Following the downturn in 2009, the Namibian economy is estimated to have recovered well in **2010, with an estimated GDP growth rate of 4.8 percent.** The recovery is attributed, in part, to the upturn in the primary industries and in particular the significant growth in diamond mining. Continued growth in secondary and tertiary industries has also been important, with strong growth in manufacturing, transport and financial intermediation. Expansionary fiscal policy adopted for the 2009/10 – 2011/12 MTEF also contributed to the recovery.

Real GDP per person also contracted in 2009

16. **National income** continued to grow, albeit at a slower pace, with a recorded **N$58,020 billion in 2009** compared to N$57,902 billion recorded in 2008. This represents a meagre growth rate of 0.2 percent in 2009 compared to 5.8 percent in 2008. Real Gross National Income (GNI) per capita contracted by 1.6 percent in 2009 compared to a growth rate of 3.9 percent in 2008. Similarly, real GDP per-capita contracted by 2.5 percent (to N$24,301) in 2009 as compared to an increase of 2.4 percent (to NS24,927) in 2008.

1.3.2 Real Sector Developments[3]

17. Output in the primary industries has been declining since 2007 whilst the secondary and tertiary industries have registered positive growth (Table 2).

Table 2: Contribution to GDP and Growth Rates of Major Industries, (at Constant, 2004 Prices) 2007 – 2009

Industry	2007	2008	2009	Average: 2007 – 2009	2007	2008	2009	Average: 2007-09
	Percentage Contribution to GDP: Current Prices				*Percentage Growth Rate: Constant Prices*			
Primary industries	19.6	24.5	18.6	20.9	-4.0	-1.5	-26.9	-10.8
Secondary industries	21.9	19.0	19.7	20.2	9.1	4.8	3.5	5.8
Tertiary industries	52.1	50.0	54.6	52.2	7.4	5.8	4.4	5.9
Less: FISIM	1.2	1.2	1.2	1.2	10.1	2.7	-0.6	4.1
All industries at basic prices	92.5	92.4	91.7	92.2	5.4	4.3	-1.2	2.8
Taxes less subsidies on products	7.5	7.6	8.3	7.8	4.8	4	4.3	4.4
GDP at market prices	**100**	**100**	**100**	**100.0**	**5.4**	**4.3**	**-0.7**	**3.0**

Source: 2009 National Accounts

[3] Based on the 2009 National Accounts unless stated otherwise

18. The **primary industries**[4] contracted by 26.9 percent in **2009**, a further deterioration from the negative rates of growth recorded in 2007 and 2008 (4.0 and 1.5 percent declines respectively). The contraction is attributed to the fall in the demand for mineral exports, particularly diamonds, and persistent contraction in fishing and fish processing on board. The downturn in mining (and the resulting impact on the overall domestic economy) highlights Namibia's vulnerability to commodity price shocks and the need for a more broad-based growth strategy. In terms of contribution to GDP, the share of primary industries averaged 20.9 percent during the last three years. Mining and quarrying remains the highest contributor to GDP in the primary sector.

Significant decline in primary industries in 2009

19. The primary industries are estimated to have recovered during **2010**, growing by 19.0 percent, mainly due to the recovery in mining and quarrying. In particular, diamond mining is estimated to have expanded significantly in 2010, with estimated growth of 54.3 percent, following a considerable decline of almost 50 percent in 2009. Uranium production maintained its momentum since the fourth quarter of 2009 on the back of soaring demand emanating mostly from China, India and South Korea.

20. Growth in the **secondary industries**[5] slowed to 3.5 percent in 2009 compared to 4.8 percent in the previous year and 9.1 percent in 2007. This slowdown is attributed to a decline of 7.2 percent in the construction sector during **2009**. The high cost of intermediate inputs, notably the costs of processing base metals, also affected the performance of the sector. On the whole, however, the manufacturing sub-sector displayed resilience and continued to post relatively good performance, both in real growth and in relative contribution to GDP.

Secondary and tertiary industries estimated to grow steadily in 2010

21. The secondary industries are estimated to have grown by 3.9 percent in **2010.** The steady growth in these industries can be attributed to manufacturing, in particular other manufacturing and other food products and beverages.

22. **Tertiary industries**[6] are by far the largest contributor to GDP. In **2009**, the industries' share of GDP increased to 54.6 percent. In real terms, the sector recorded a lower growth rate of 4.4 percent in 2009 compared to 5.8 percent in

[4] Consisting of agriculture and forestry, fishing and fish processing on board and mining and quarrying sub-sectors.
[5] Consisting of fish processing on shore, manufacturing, food and beverages, construction and electricity and water.
[6] Which comprise of wholesale and retail trade, transport and communications, financial intermediation, real estate, business services and government expenditure.

2008 and 7.4 percent in 2007. This was due to a slowdown in financial intermediation, public administration and defence, education, and health.

23. The tertiary industries continue to register steady growth although expansion is estimated to have slowed slightly to 3.5 percent in **2010**, mainly as a result of the slowing growth rates in real estates and other business services.

1.3.3 Demand Indicators

Table 3: Expenditure on GDP, percentage share and annual change from previous year

Expenditure Category	2007	2008	2009	Average: 2007 - 2009	2007	2008	2009	Average: 2007 - 2009
	Percent Contribution: Current Prices				*Percent year-on-year change: Constant Prices*			
Final consumption expenditure	78.1	75.8	83.1	79.0	7.7	6.0	6.9	6.9
Of which Private	57.4	55.3	58.7	57.2	6.1	5.3	5.8	5.7
Of which Government	20.7	20.5	24.4	21.8	12.6	8.2	9.8	10.2
Gross fixed capital formation	23.7	25.4	24.9	24.7	12.1	13.1	-1.6	7.9
Of which Private	16.1	17.7	17.3	17.0	2.9	15.2	-1.8	5.4
Of which Government	7.5	7.7	7.6	7.6	39.0	8.6	-1.2	15.5
Exports of goods and services	50.7	52.4	44.4	49.2	6.4	5.2	-14.9	-1.1
Imports of goods and services	52.0	52.8	53.3	52.7	31.8	6.9	4.1	14.3

Inventory changes and statistical discrepancy are negligible and excluded from this table.
Source: 2009 National Accounts

24. **Final consumption expenditure**, which is made up of private and government expenditure, is the main contributor to GDP, accounting for about 79 percent on average during the last three years (Table 3). The overall share of total consumption expenditure to GDP stood at 83.1 percent in **2009** representing a level of N$64.7 billion and 75.8 percent in 2008 corresponding to N$56.1 billion. After growth rates of 7.7 and 6.0 percent in 2007 and 2008 respectively, final consumption expenditure increased by 6.9 percent in 2009, partly due to the government's countercyclical fiscal policy. Total consumption expenditure is estimated to have grown at a moderate pace in **2010**, expanding by 3.8 percent.

Steady growth in final consumption over 2007-09

25. Growth in **private consumption** is estimated to have slowed to 3.6 percent in 2010, following growth of 5.8 percent in 2009, 5.3 percent in 2008 and 6.1

percent in 2007. Low consumer confidence is a contributing factor to the subdued private consumption in 2010. However, the consumption index[7] showed signs of improvement over the year and business surveys[8] also suggest that activity was increasing towards the end of 2010.

Large growth in Government consumption over 2007-09

26. Growth in **government consumption** expenditure has been high over recent years, with growth rates of 12.6, 8.2 and 9.8 percent over 2007, 2008 and 2009 respectively. In 2009 total government expenditure reached N$12.1 billion. This increase over recent years was due to countercyclical spending, especially capital expenditure, in the wake of the global financial crisis. This expansionary fiscal policy has helped to partly compensate for the decline in domestic demand. Government expenditure is estimated to have grown by 4.5 percent in **2010**, reflecting the continued expansionary fiscal policy.

Investment fell in 2009 by 1.6% but recovered to 5.1% in 2010

27. Real **Gross Fixed Capital Formation** (investment expenditure) contracted by 1.6 percent in **2009**, from a growth rate of 13.1 percent recorded in 2008 and 12.1 in 2007. This decline came as business confidence fell in light of the downturn in the economy. In real terms, Gross Fixed Capital Formation marginally declined from N$13.5 billion in 2008 to N$13.3 billion in 2009 due to a contraction in investment in plants and equipment in agriculture and electricity and water subsectors as the economic contraction intensified during the year. As a share of GDP, investment expenditure fell from 25.4 percent in 2008 to 24.9 percent in 2009.

28. Given the economic improvements, investment is estimated to have increased by 5.1 percent in **2010**. This is due to an increase in both public and private investment**.** The investment index[9] rose towards the end of 2010 as banks reduced the average prime interest rate.

Exports fell sharply in 2009 while import growth slowed

29. Namibia continues to be a net importer of goods and services such that the **net external balance** of goods and services has been negative over the last 4 years. As a result of the global downturn the quantity and price of **exports** fell sharply, leading to a 14.9 percent contraction in exports in 2009, compared to a growth of 5.2 percent in 2008 and 6.4 percent in 2007. **Imports** of goods and services recorded a lower growth rate of 4.1 percent in **2009** compared to 6.9 percent in 2008 and 31.8 percent in 2007. This slower rate of growth was due to lower domestic demand growth and subdued business activity.

[7] See the Institute for Public Policy Research 'Business Climate Monitor' updates between January and October 2010.
[8] Institute for Public Policy Research. 'Business Climate Monitor for November 2010'. December 2010.
[9] Institute for Public Policy Research. 'Business Climate Monitor for November 2010'. December 2010.

Exports expected to have recovered strongly in 2010 with steady growth in imports

30. **Exports** are estimated to have recovered strongly in **2010**, with an estimated growth of 11.9 percent. Commodity exports, which are particularly responsive to global conditions, are expected to pick up as the global economic recovery strengthens.

31. **Imports** have also shown increased growth in **2010**, with growth estimated at 5.6 percent from 2009. This is due to increasing demand from consumers and business as the economy picks up pace.

1.3.4 Monetary and Financial Market Developments

Repo rate reduced from 10% to 7% in 2009

32. Along with other global monetary developments, the Bank of Namibia (BoN) pursued an expansionary monetary policy stance during 2009 as the effects of the contagion from the global economic crisis intensified. Thus, the **repo rate** was reduced from 10 percent in December 2008 to 7 percent in December 2009. In order to provide additional stimulus to the economy the BoN continued to pursue an expansionary monetary policy during **2010**, reducing the repo rate by 25 basis points to 6.75 percent in October 2010, and a further 75 basis points to 6.0 percent in December 2010. The policy stance is supported by a benign inflation environment and sufficient international reserves.

33. The more accommodative monetary policy stance led to improved household and corporate spending. This improvement was reflected in some demand indicators, such as new vehicle purchase, and more robust wholesales and retail. The firmer demand and supply indicators in 2010 could have partly been the consequence of the continued accommodative monetary policy stance pursued by the Bank of Namibia. It is important to highlight that this policy stance was pursued at a time when inflationary pressures subsided considerably. Moreover, the current policy stance did not weaken the balance of payments and therefore did not at any time endanger the currency peg.

Foreign reserves have decreased but remain sufficient

34. **Foreign reserves** increased by 8.8 percent to N$13.8 billion over **2009**, partly due to the allocation of Special Drawing Rights that helped to mitigate the impact of declining export earnings. This level of reserves provides for 3.9 months import cover. It also augurs well for the sustenance of the currency peg to the South African Rand, the anchor for price stability in Namibia.

35. At the end of September **2010** foreign reserves had declined by 21 percent on an annual basis, falling to N$11.6 billion. The reduction in reserves is due to the net purchase of Rand by commercial banks[10] as well as net government payments[11]. The reserve levels are sufficient to hold the currency peg to the South African[12] Rand, which is the anchor for price stability in Namibia.

36. **Net foreign assets of the banking sector** recovered significantly in 2010. The increase in net foreign assets is mainly on account of a rise in deposits by non-residents. The banking industry held excess liquidity and was well capitalized by the end of September 2010.

Credit extension to private sector subdued in 2009

37. Despite the reduction in interest rates, growth in **credit extended to the private sector** remained relatively subdued in 2009, due to the time lag between monetary policy expansion and credit growth. The deceleration in private sector credit growth was more pronounced in **credit extended to individuals**, which had slowed by 6.3 percent by the end of December 2009, while **credit extended to businesses** expanded by 17.4 per cent on an annual basis. The slow growth of credit extension to individuals was mostly reflected on mortgage advances, which typically account for about 40 per cent of total private sector credit.

38. Following the accomodative monetary policy of the BoN in 2009 and 2010, growth in the credit extended to individuals rose to 8.4 percent at the end of September **2010**. The rise in credit extension is due to improvements in the instalment credit and overdraft facilities.

39. Year on year growth in credit extended to businesses declined to 11.8 percent at the end of September **2010**. The deceleration is due to the repayment of short-term overdraft facilities, which in turn could be attributed to the recovery of the domestic economic activity.

Performance of the financial sector remains strong

40. The **financial sector**, comprising of both bank and non-bank financial industries is the hallmark for the realisation of economic opportunities and wealth creation. The financial sector has displayed steady performance during 2007-2009, averaging 9.5 percent growth. Its share of GDP remained steady at about 4 percent over the

[10] When commercial banks have excess funds, they mostly transfer such funds to their parent companies in SA. Although the SA Rand is legal tender in Namibia, the latter does not have such status in SA. Hence, when commercial banks want to transfer excess funds to SA, they need to sell their Namibian Dollars for SA Rand.

[11] Comprising of salaries of civil servants, VAT refunds to companies, payments to suppliers for services rendered foreign loan repayments, grants, etc.

[12] The Government needs to maintain a certain level of SA Rand reserves so that currency can be bought and sold to maintain the peg level.

same period. The stability of the financial sector was underpinned by the expansionary monetary policy stance, a low and table inflationary environment and sufficient international reserves.

1.3.5 Capital Market Developments

Increased activity in the bond market in 2009

41. The year 2009 witnessed increased activity in the **bond market** for both central government and business corporates. About N$1.66 billion in corporate bonds were traded on the NSX by December 2009, representing a turnover of 63 percent[13].

42. The **local market capitalization** rose from N$5.8 billion at the beginning of 2009 to N$7.1 billion by the end of the year following improvements in new listings during 2009. Similarly, the NSX overall market capitalization rose by 50%, reflecting the slight global economic recovery being predicted.

43. **Stock price indices** performed well for major advanced stock markets. When compared to the equity markets of advanced economies, the Namibian overall index recorded a significant growth of 38.8 per cent during 2009 compared to reduction of 40.1 per cent in 2008. On the other hand, the Namibian local index recorded a negative growth of 2 per cent in 2009.

1.3.6 External Sector and Exchange Rate Developments

Namibia's external sector deteriorated in 2009 but remained in surplus

44. Namibia's **external sector**, as measured by developments in the **balance of payments (BoP)**, recorded a lower surplus of N$1.1 billion in 2009 compared to a significant surplus of N$6.3 billion in the previous year. The deterioration in the balance of payments was mainly reflected in the current account due to a sharp widening of the merchandise trade deficit.

Capital and financial account remained in deficit in 2009

45. The **capital and financial account** recorded continued outflows, driven mainly by portfolio investments and other short-term investments. Despite these developments, Namibia's net international investment position (IIP) remained firm and in positive territory during 2009, largely on account of portfolio investment stocks abroad. The deficit on Namibia's capital and financial account remained almost unchanged at N$1.1 billion in 2009, although it slightly widened when compared to the

[13] Turnover is measured by the total value of bonds traded divided by the total of bonds outstanding.

previous year. The widening in the deficit was mainly due to the increase in other short term investments abroad.

46. On average, the **Namibia Dollar** marginally depreciated against the US Dollar by 2.3 per cent in 2009 compared with 2008. However, it appreciated against the Pound Sterling and the Euro by 15.5 per cent and 2.7 per cent respectively over the same period. The appreciation of the South African Rand against major currencies was partly supported by the fact that the interest rates in South Africa were higher than those of other countries. The rebound of commodity prices such as gold, diamond, platinum and other metals for which South Africa is a main exporter also boosted the strength of the Rand. The recent reduction in interest rates in South Africa could reverse this trend however.

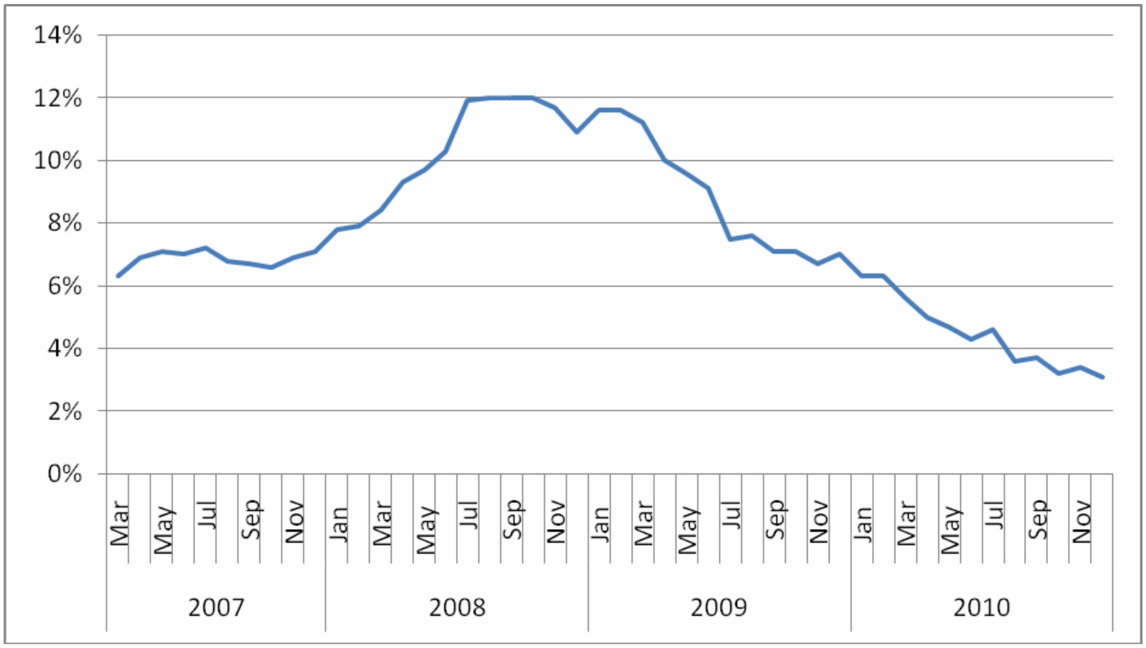
Namibia Dollar emerged strong against major currencies

1.3.7 Price Developments

47. The average **inflation rate** in Namibia was 10.3 percent in 2008 but decreased to 8.8 percent in 2009 on the back of downward spiral in the prices of international crude oil, energy and food. The overall inflation trend in 2009 was characterized by declining price pressures (see Fig 8.2). This downward trend continued into 2010, with an average inflation rate of 4.5 percent. This continued decrease in inflation is mainly attributed to slow growth in food, clothing, communications and recreation prices. In general, the domestic inflation outlook is expected to remain favourable although as domestic demand continues to increase inflation is expected to pick up. This stable inflation environment will allow for a continuation of accommodative monetary policy.

Average Inflation fell to 8.8% in 2009 and 4.5% in 2010

Fig 1: NCPI – Annual Percentage Change



Source: Central Bureau of Statistics (CBS) 2010, Namibia.

1.3.8 Recent Fiscal Developments

Revenue

Growth in revenue collection slowed significantly in 2009/10

48. **Total revenue and grants** for **2009/10** marginally exceeded budget estimates by 1.9 percent, amounting to N$24.0 billion (only 2.6 percent higher than N$23.4 billion achieved during 2008/09). The year-on-year growth in revenue performance is significantly below the average revenue growth of 11.3 percent recorded during the last three years as the global economic downturn took a toll on the real sector economy. The effect of the contagion from the global downturn affected almost all tax categories, save personal income tax and value-added tax (VAT). The severity was especially pronounced on taxes on international trade under the ambit of the Southern African Customs Union (SACU) as well as company tax for which diamond mining sector was hard-hit.

49. A revenue outturn of N$22.7 billion is estimated for **2010/11**, which is in line with expectations but represents a reduction in revenue relative to the preceding year, mainly due to falling SACU receipts incurred in 2008/09.

50. **Tax revenue** constituted the mainstay of total revenue and grants, standing at 92.6 percent of total revenue in 2009/10, up from 90.5 percent in 2008/09. Current estimates place tax revenue at 92.8 percent of total revenue in 2010/11.

SACU receipts fell in 2009/10 and are likely to decline further in the future

51. **SACU receipts** remain the largest single contributor to revenue, averaging 39.3 percent of total tax revenue during 2008/09 to 2009/10. However, significant reductions have been incurred in 2009/10 as a result of the global economic crisis and downstream risks remain for 2010/11 and 2011/12. Of the 2009/10 Common Revenue Pool (CRP) deficit, Namibia's share is estimated at N$2.4 billion. This has to be repaid in 2011/12 in accordance with the SACU Agreement, resulting in a net share for Namibia of N$7.1 billion for 2011/12, which is a significant reduction from historical levels. This is the second consecutive deficit liability for Namibia, after the first CRP deficit was incurred during 2008/09 for which Namibia fully settled its deficit share amounting to N$2.0 billion.

Expenditure

52. **Expenditure outturn** for 2007/8 – 2009/10 averaged N$21.4 billion, or 29.0 percent of GDP, which was within the public expenditure limit of 30 percent of GDP over the MTEF. Expenditure outlay for 2009/10 amounted to N$24.9 billion. The expenditure-to-GDP ratio increased from 29.3 percent in 2008/09 to 31.1 percent in 2009/10. The Government adopted this expansionary fiscal policy since 2008/09 in response to the economic crisis. The significant fiscal expansion helped to maintain domestic demand. In 2010/11 expenditure is estimated to increase to N$28.9 billion, representing 32.4 percent of GDP.

Fiscal expansion adopted in 2009/10 with expenditure of N$24.9bn

53. The **Development budget** amounted to N$4.5 billion in 2009/10, corresponding to 17.6 percent of the budget. This was a substantial increase from the N$2.9 billion budgeted for in 2008/9, representing a 55.5 percent annual increase. Out of the N$4.5 billion allocated in 2009/10, N$3.8 billion was spent, indicating an execution rate of 84.4 percent, which is lower than the 89.7 percent achieved in 2008/09.

Budget Balance

54. The global economic crisis has brought to a halt consecutive budget surpluses achieved in recent years. Due to a combination of fiscal expansion and only moderate increases in revenue a **budget deficit** amounting to N$ 868 million, or

1.1 percent of GDP, was incurred in 2009/10. This was in line with expenditure projections in the 2009/10 – 2011/12 MTEF. This outturn is slightly better than the deficit of 1.6 percent projected in the budget due to better-than-expected revenue performance for individual income tax and value-added tax. The deficit is estimated to increase to 7.0 percent of GDP in 2010/11.

Budget fell into deficit for 2009/10

Table 4 - Total Revenue, Expenditure and Budget Balance (N$ 000), 2007/08 to 2009/10

ITEM	2007/08	2008/09	2009/10	Average over 2007/08–2009/10 MTEF period
Revenue	20,688,683	23,446,820	24,046,564	22,770,096
% of GDP	31.8%	31.3%	30.0%	31.1%
Expenditure	17,382,385	21,944,848	24,914,219	21,335,853
% of GDP	26.7%	29.3%	31.1%	28.9%
Budget Balance	3,306,298	1,501,972	-867,655	1,434,243
% of GDP	5.1%	2.0%	-1.1%	2.2%
Total Debt	11,693,340	13,389,143	11,925,869	12,319,161
% of GDP	18.0%	17.9%	14.9%	16.9%
GDP	65,060,086	74,953,292	80,065,127	73,359,459

Source: Ministry of Finance

Public Debt Outturn

55. **Debt levels** remained significantly below the 30 percent target band, despite the expansionary fiscal policy. The debt-to-GDP ratio recorded 18 percent in 2007/08 and recorded 17.9 percent in 2008/09 and decreased further to 14.9 percent in 2009/10. In absolute terms total debt increased from N$11.7 billion in 2007/08 to N$13.4 billion in 2008/09. In 2009/10 total debt decreased to N$11.9 billion (14.9 percent of GDP) and for 2010/11 debt is estimated to increase to N$17.9 billion (20.1 percent of GDP).

Public Debt to GDP ratio fell in 2009/10

Loan Guarantees

56. Between 2007/08 and 2008/09 total **loan guarantees** fell by 11.8 percent from N$3.4 billion to N$3 billion. In 2009/10 loan guarantees decreased by a further 6.7 percent to N$2.8 billion.

2. MEDIUM TERM OUTLOOK (2011/12-2013/14 MTEF)

57. GDP growth is projected under three scenarios, namely, the Most Likely Scenario, the Pessimistic Scenario and the Optimistic Scenario. However, for planning purposes, the Most Likely Scenario will be adopted. The assumptions for each of these scenarios are presented in the Annex.

58. The **Most Likely Scenario Projections** (Annex - Box 1) are based on the premise that the current and envisaged policy and key intervention programmes will continue to be implemented unabatedly during the MTEF.

59. The **Pessimistic Scenario Projections** (Annex - Box 2) are based on the premise that the *downside risks* to the most likely scenario will materialise, with the consequent impact on economic performance having dampening effects on growth.

60. The **Optimistic Scenario Projections** (Annex - Box 3) are based on the premise that the *upside opportunities* to the most likely scenario would materialise, with the consequent impact on economic performance resulting in positive effects on growth.

2.1 DOMESTIC ECONOMIC PROJECTIONS FOR THE 2011 TO 2014 PERIOD

2.1.1 Demand Side Projections

61. The economy is projected to grow moderately during the period 2010-2014, with average growth of 5.3% over the period (Table 5).

Table 5: GDP projections, expenditure approach – A MOST LIKELY SCENARIO

Constant 2004 prices (% change)	2009	2010	2011	2012	2013	2014	2011-2014
	Actual	Estimate	Projections				Average
1. Final Consumption Expenditure	6.9%	3.8%	4.0%	4.8%	5.5%	5.4%	4.9%
Private consumption	5.8%	3.6%	3.5%	3.8%	4.9%	4.9%	4.3%
Government consumption	9.8%	4.5%	5.5%	7.5%	7.1%	6.7%	6.7%
2. Investment	-1.6%	5.1%	4.4%	4.4%	4.5%	4.3%	4.4%
Public investment	-1.2%	4.0%	4.1%	3.6%	3.3%	3.1%	3.5%
Private investments	-1.8%	6.1%	4.7%	4.9%	5.4%	5.3%	5.1%
3. Exports of goods and services	-14.9%	11.9%	9.6%	10.6%	11.2%	10.7%	10.5%
4. Imports of goods and services	4.1%	5.6%	6.8%	7.3%	7.8%	7.3%	7.3%
GDP in constant prices 2004	**-0.7%**	**4.8%**	**4.3%**	**5.1%**	**5.9%**	**6.0%**	**5.3%**

Source: National Accounts 2009 and Macroeconomic working group

62. **Total Consumption** is projected to improve, reflecting improvements in the pace of economic activity. **Private consumption** is projected to grow by 4.3 percent on average over the MTEF due to improving consumer and business confidence as the economic recovery strengthens. **Government expenditure** will support growth over the medium-term with steady growth of 6.7 percent over the remainder of the MTEF period.

Consumption projected to improve

63. After a dip in **investment** activity in 2009, total investment is projected to grow steadily, with average growth of 4.4 percent over the MTEF period. This is due to factors such as the opening and expansion of Uranium mines; new hydroelectric ventures by the electricity and mining sector; the opening of a new cement factory; the expansion of the Walvis Bay port; investments in tourism, agriculture and education; and the commencement of the Desert Star resort.

Following a dip in 2009, Investment projected to improve

64. As economic growth in the global economy is expected to remain strong, **export** growth for Namibia is projected to improve over the period, averaging 10.5 percent. More specifically, commodity exports such as uranium are expected to increase significantly. The Namibia dollar, after a spell of appreciation during 2010 and the first quarter of 2011, is expected to depreciate over the MTEF period which will contribute to export growth. As domestic economic activity and demand improve, **import** demand is also projected to increase, averaging 7.3 percent growth over the MTEF period. Although total imports are still substantially higher than exports, exports are expected to increase at a faster rate than imports over the MTEF.

Exports projected to grow at a higher rate than imports

2.1.2 Supply Side Projections

Table 6 – GDP Growth Rates by Industry, 2004 Prices – A MOST LIKELY SCENARIO

	2009	2010	2011	2012	2013	2014	2011-14
	Actual	Estimated	Projected				Average
Primary Industries	-26.9%	19.0%	0.8%	-5.6%	0.9%	5.8%	0.5%
Secondary Industries	3.5%	3.9%	5.5%	6.3%	7.2%	7.3%	6.6%
Tertiary industries	4.4%	3.5%	4.9%	5.5%	6.0%	6.1%	5.7%
GDP at market prices	**-0.7%**	**4.8%**	**4.3%**	**5.1%**	**5.9%**	**6.0%**	**5.3%**

Source: 2009 National Accounts; Macroeconomic Working Group 2010

65. Growth in the **primary industries** is volatile over the MTEF period, averaging 0.5 percent between 2011 and 2014. This volatility is largely due to diamond mining, where output is projected to fall after the large increase estimated for 2010. However, other sub-sectors are projected to perform well. Commodity prices are projected to pick up over the MTEF period and several new uranium mines are due to open in 2013. Furthermore, the expansion plans of the Langer Heinrich Uranium mine will contribute to growth over the MTEF. The policy to enrich Uranium locally and pursue nuclear power generation will also boost the sector.

Average growth of 0.5% in primary industries

66. Growth in the **secondary industries** is expected to be steady during the MTEF, averaging 6.6 percent during 2011-2014. Key to this projected growth is the strong rebound in the construction sector, due to increased approval of building plans. In 2011, production at the Ohorongo cement factory will commence which will boost output in the other manufacturing sub-sector as well as induce positive spillovers into the construction sector. Fish processing on shore is also projected to grow over the MTEF period. Boosted by the commissioning of the Raucana fourth turbine, the electricity and water sub-sector is projected to grow strongly towards the end of the MTEF period. This will also help the expansion of mining activities, where electricity has been a key concern in recent years.

Average growth of 6.6% in secondary industries

67. The **tertiary industries** are projected to grow in line with overall GDP growth, with average growth estimated at 5.7 percent between 2011 and 2014. More specifically, transport is expected to grow strongly due to the expansion of the Walvis Bay harbour port to support increased trade and regional integration in Southern Africa. Tourism is also a strong contributor to growth in tertiary industries over the MTEF. Wholesale and retail trade is projected to grow moderately over the MTEF period, in line with private consumption projections. Post and Telecommunication is projected to grow strongly due to increased internet usage, both by households and businesses, and continued competition in the sector.

Average growth of 5.7% in tertiary industries

3. CHALLENGES AND RISKS

68. The 2011/12 - 2013/14 MTEF is coming into operation at the time when the **global and domestic economy** is rebounding from the **downturn of 2009**. However, recovery remains fragile with lingering downside risks, especially in the Euro Zone. Given Namibia's reliance on export demand, the risk of slowing global demand poses a threat for domestic industries, particularly for mining and tourism.

GDP contraction has led to a negative output gap in Namibia

69. A recent economic assessment for Namibia established that the **GDP contraction** in 2009 has led to a negative output gap in the economy, estimated at 2.5 percent of GDP[14]. This suggests that in the short term there is scope to use demand side policies such as continued monetary and fiscal expansion to increase economic growth.

Structural challenges remain

70. The numerous **economic and social challenges** which faced Namibia during the pre-crisis period still remain. These challenges are structural in nature and have been highlighted in successive national development plans. Improving the business climate and competitiveness of domestic firms remains a challenge for increased private sector growth during the MTEF. More specifically, labour skills shortages and some aspects of the business operating environment remain a hindrance to private sector growth. Progress on the MDGs also remains relatively weak with high HIV/AIDS prevalence and income equality persisting. Given Namibia's middle income status, obtaining access to GFATM (Global Fund to fight AIDS, Tuberculosis and Malaria) is a formidable challenge.

Unemployment is the key challenge facing Namibia

71. At a rate of 51.2 percent, **unemployment** is stubbornly high and aggravates poverty and inequality. A national job creation summit was held during September 2010 to identify priority sectors and measures to contain joblessness. The causes of, and indeed the solutions to, the high unemployment rate are multifaceted and will require deliberate and coordinated action from the government and the private sector over the medium and long term. Namibia is also heavily reliant on the mining sector, a sector that is vulnerable to external shocks. One of the challenges is broadening Namibia's industrial base to improve economic stability and employment generation prospects.

72. **Skills shortage** and mismatch in the labour market predominantly hinder Namibia's competitiveness and socio-economic progress. The policy challenge is to

[14] IMF 2010 Article IV Consolation Report for Namibia, September 2010

tailor the national human resources development plan to the labour market demand, improve the quality of educational and training outcomes and invest substantively in research and development (R&D).

73. On the fiscal side, a particular risk is the **projected declines in the SACU Common Revenue Pool (CRP)** and, thus, falling revenues at the onset of the 2011/12 – 2013/14 MTEF. This will result in lower government revenue and, hence, tighter spending. Reduced government spending affects not only overall demand in the short term, but also the provision of social services and long term growth through key government spending on education, health, safety and security and social safety nets. A challenge will be ensuring alternative sources of revenue to maintain fiscal stability.

Falling SACU receipts pose a challenge to fiscal policy

74. Namibia, to a large extent, relies on **energy imports**, although commendable progress has been made to expand investment in domestic energy generation, transmission and distribution. The potential for solar power production for households and businesses, even for exports, still remains to be optimized.

There is potential for increased use of renewable energy

75. Global **food prices** are approaching record highs. Although the inflation environment in Namibia remains favourable over the medium term, hikes in food prices will have a disproportionate affect on the poor, worsening inequality. Furthermore, rising **fuel prices** will also increase the cost of imported food into Namibia through increased transportation costs.

4. INTERVENTIONS AND CONCLUSIONS

76. A suite of policy intervention measures are needed to sustain economic recovery and address persistent socio-economic challenges. The following section highlights key economic interventions that the government has implemented/will implement.

4.1 POLICY DEVELOPMENTS AND KEY INTERVENTION AREAS

4.1.1 Fiscal Measures and Public Finance Management

77. In the light of the slowdown in revenue performance, fiscal expansion will continue to be informed by revenue performance and fiscal benchmarks. ***In this connection, measures to strengthen revenue collection and raise alternative revenue flows will come into operation during the MTEF.***

Measures to strengthen revenue collection should be adopted

78. **Government procurement** is a key lever in stimulating socio-economic growth. There are numerous opportunities to use these levers for greater effect over the MTEF period. The Fiscal Policy Framework provides more detail on fiscal measures over the coming MTEF.

79. The **State Finance Amendment Bill (2009)** has been finalised to help improve Public Financial Management (PFM) in Namibia. The PFM programme was adopted to improve the effectiveness and efficiency of public finance management by strengthening the revenue collection and expenditure control functions in order to enhance transparency and accountability. Remarkable progress has been made since the introduction of PFM reform although a lot still needs to be done in order to optimize outcomes.

4.1.2 Key Economic Sectors

Strategic sectoral Interventions are needed to spur growth and employment

80. Successive international assessments commended Namibia's achievements on **macroeconomic stability**. However, Government recognizes that this in itself does not translate into higher, broad-based economic growth rates commensurate with sustainable employment creation, equitable distribution of wealth and sizeable reduction in income inequalities. Hence, strategic interventions that will spur economic growth and employment need to be implemented in different sectors. This section highlights key sector interventions to date and policy recommendations going forward:

81. In the **agricultural** sector, the Green Scheme is designed to maximise irrigation potential for crop production along the maize triangle (Grootfontein, Tsumeb, Otavi) as well as the north-central, north-eastern and the southern regions optimising the potential of the perennial rivers and Naute and Hardap Dams. The objective is to increase agriculture productivity and enhance the development of the local communities. Furthermore, the dry land crop production subsidy programme for small-scale farmers is being pursued vigorously alongside targeted measures to improve value-addition in agronomy.

82. In recent years, policy in the **fishing industry** emphasised stock rebuilding and land-based processing with accompanying investment in research and surveillance programmes. However, the industry is characterized by mixed operational efficiency outcomes. Improvements could be made in the industry by adjusting fisheries fees and levies to reflect the value of resources. Although the development of the aquaculture industry has gained momentum, returns on investment, particularly in freshwater aquaculture, remains minimal. ***Since the level of local value addition is low, there will be increased effort to capture this niche market in order to optimise the subsequent economic benefits.***

There is scope for greater value addition in fishing and mining

83. The **mining industry** is very important to the economy in terms of its contribution to GDP growth, export earnings, government revenue and job creation. Local beneficiation and semi-processing is increasingly gaining centre-stage, mainly in diamond and copper mining operations. For example, Namibia Diamond Trading Company (NDTC) was created to sell rough diamonds to local cutting and polishing factories.

84. Uranium production maintained its momentum since the fourth quarter of 2009 on the back of soaring demand emanating mostly from emerging economies. Furthermore, a policy is being formulated to pursue uranium enrichment locally and build nuclear power capacity within Namibia. However, significant production output from the sector still reaches export markets in an unprocessed form, with associated foregone jobs and other benefits. ***More needs to be done to increase local value addition in the mining sector. In addition to the above development in large scale mining, the Government will focus on access to technical/scientific and business training as well as the necessary equipment for the small-scale mining operations in order to enhance and consolidate their performance.***

85. **Energy** needs have been elevated by increased investment in the mining sector and growing household and business demand. Commendable investment in local energy production and rural electrification has been made, but significant demand as well as the potential to tap into solar energy supply still remains.

Stability of regional energy supply (generation, transmission and distribution) is being pursued in the context of the SAPP. Downstream energy supply processes are being consolidated through the encouragement of the emergence of Independent Power Producers (IPPs). Furthermore, NamPower is pursuing negotiations with various stakeholders for the development of a **wind farm** at the coast and has also made significant progress regarding the implementation of the Tsumkwe-based hybrid mini-grid **solar energy** system.

Progress has been made in energy production but high demand still remains

86. In light of the projected growth in civil engineering works and related services in mining and quarrying, transport, storage and infrastructure projects, the level of growth and reinvestment in the **construction** industry ought to improve concomitantly. Specific amendments to the national procurement rules which grant tender awards to local entrepreneurs have been initiated to support local enterprise development, especially SMEs.

87. **Tourism** offers vast opportunities for development in many parts of the country, particularly where few other economic opportunities exist. It can be a key vehicle for both job creation and poverty alleviation. The government continues to invest substantially into the redevelopment strategy of Namibia Wildlife Resorts (NWR) to improve tourism infrastructure and facilities as well as the promotion of public private partnerships (PPPs). At a local level, initiatives such as community-based tourism and natural resource management programmes are helping to create jobs and empower local communities.

Opportunities exist in tourism for job creation and poverty alleviation

4.1.3 Capital Projects

88. Growth enabling infrastructure is key to the development of the economy. For example, **Namibia Water Corporation** (NamWater) is in the process of developing a Water Master Plan (WMP) for the whole country and intends to roll-out an investment N$3.5 billion over the next five-year period for the development of water infrastructure. This has, amongst others, been necessitated by the fact that the central coastal area of the Erongo Region is running out of water due to the needs of the increasing mining operations in the region.

Key capital projects are being developed during the MEF

89. Furthermore, the **Namibia Ports Authority** (Namport) and **Namibia Power Corporation** (NamPower) made massive investments in the expansion of the port of Walvis Bay and the generation, transmission and distribution of electricity, respectively.

4.1.4 Research and Development

90. Research and Development (R&D) expenditure as a proportion of GDP has grown very little over recent years. Promotion of investment in R&D is indispensable for technological, scientific and business innovation and, thus, sustainable economic growth and development. To this end, the government has established a Research and Development Council to manage the R&D. ***The Research and Development Council will devise a R&D Programme for adoption and implementation.***

Research and Development should be increased

4.1.5 Human Resource Development

91. While significant advancement has been made to improve access to education, the recently conducted Public Expenditure Review (PER) in the education sector indicated that the amount of money spent per learner does not necessarily yield success in the quality of outcomes. ***Thus, the focus will be on quality-based outcomes***. The **Education Sector Improvement Plan (ETSIP)** and the **National Human Resource Plan (NHRP)** focus on the quality of outcomes to ensure relevance of skills, especially vocational and/or technical skills. ***The government will also work to ensure that skills development is in line with the labour demand to avoid miss-match and skills shortages.***

Focus will be placed on educational outcomes and skills relevance

92. In the **health sector**, access to public health and provision of primary health facilities has been expanded. HIV/AIDS prevalence has been decreasing gradually and is anticipated to decline further in the coming years due to intensified increased anti-retroviral treatment coverage over the MTEF period. Successful interventions over recent years have led to a significant decline in incidents of malaria, tuberculoses and other preventable diseases. ***The government will focus on areas where there are still significant opportunities for improvement, such as achieving universal vector control for malaria, increased levels of skilled health workers and increased access to transportation to improve primary health-care.***

Health access has been increased but challenges remain

4.1.6 Promoting Private Sector Growth and Access to Financing

93. **Legislative amendments** aimed at the modernization of the Foreign Investment Act, manufacturers' incentives, Export Processing Zones (EPZ), status/incentives for mining companies, corporate tax laws, Exploration and Prospecting Licenses (EPLs), fishing rights, mining concessions, etc. are currently underway. Furthermore,

the processes for obtaining business licences and work permits for foreign skilled personnel are being simplified.

Legislative amendments have been implemented to improve the business environment

94. In terms of **business infrastructure**, the Government has developed industrial parks and country-wide in order to support business growth and development, that is, with a special focus on the SMEs.

95. The Government is the largest procurer of goods and services in the country. Hence, public procurement is a vital instrument for economic empowerment. The new Tender Board Amendment Bill that is to be finalised in 2011 will make provision for **government procurement** to be directed towards companies that comply with Affirmative Action policies.

96. **Development Finance Institutions (DFIs)** require capitalisation to facilitate access to development finance for SMEs and other business enterprises. Lack of collateral is a hindrance for access to affordable finance for SMEs and, therefore, the DBN has rolled out a tailor-made facility which allows for SMEs to cede contract income as collateral for business loans. An SME Bank has also been established (2010) to provide microfinance to SMEs and micro entrepreneurs across a range of economic activities.

DFIs require increased capitalisation

97. Major players in the economy often behave anti-competitively by colluding in prices or creating cartels to drive smaller and financially weaker players out of the market. To address this matter, government has established the **Namibian Competition Commission**.

The Competition Commission will help to reduce anti-competitive behaviour

98. **Public Private Partnerships (PPPs)** have the potential to improve and expand the cost effective delivery of public services. Hence, government is in the process of formulating a draft PPP Framework in consultation with stakeholders for implementation during the current MTEF.

99. ***As well as encouraging value addition to spur industrialization and development, the Government will promote access to markets for downstream products.***

4.1.7 Financial Sector Legislation

100. The financial sector escaped the impact of the global financial meltdown relatively unscathed because of the low levels of international linkages, in addition to the fact it is a well-regulated sector. Furthermore, a broad range of legislative/policy measures have been devised in order to further strengthen the sector:

- **Financial Intelligence Act (2009)** provides for the regulation of money laundering. The Financial Intelligence Centre was establishment in 2009.

A range of legislation has been devised to strengthen the financial sector

- **Financial Services Charter (FSC, 2009)** encompasses a framework for monitoring participating companies' performance against set targets. A FSC Council has been established to oversee, monitor, and report on the financial sector's compliance to the Charter.

- **Financial Institutions and Markets Bill (FIMBILL, 2011)** makes provision for the strengthening of the role of the Namibia Financial Institutions Supervisory Authority (NAMFISA) regarding long and short insurance, capital markets, micro-lending, pension funds and medical aid and the enforcement of compliance with financial service laws.

- **The Banking Institutions Amendment Act (2010)** provides for the regulation of controlling companies in banking institutions and for the enhancement of local ownership of banking institutions and their controlling companies.

- **CMA Payments Integration**: To facilitate trade in the region by improving the regional payments infrastructure.

4.1.8 Employment Generation Policies

101. **Employment Creation Policy framework**: The Government is working on several policies/bills to prioritize employment creation, improvement of the operation of employment agencies and promote investment in education, training and youth development (National Employment Bill, Employment Services Bill and the Employment Creation Commission Bill).

Employment creation initiatives are being established and implemented

102. The **Employment Creation Task Force** has been established under the auspices of the office of the Prime Minister (OPM) to develop the legal framework for employment creation initiatives.

103. The Government convened a **National Employment Creation Summit** in September 2010 to engage all stakeholders for the development of holistic and all-encompassing strategic response to the unemployment problem. The Summit identified infrastructure development, agriculture, tourism and housing as the priority sectors. These areas will form the focus of additional resource allocation under the MTEF.

104. Building the capacity of local authorities to develop and consolidate the **Local Economic Development (LED)** strategies and programmes is indispensable because invariably all business ventures are located under the jurisdiction of local government authorities.

4.1.9 Climate Change Policy

105. As climate change is becoming an increasingly important policy area for long term and sustainable economic growth and development, the Ministry of Environment and Tourism has drafting a **National Climate Change Policy** that provides the required legal framework for the overarching national strategy for the development, implementation, monitoring and evaluation of climate change mitigation and adaptation activities.

ANNEX

Box 1: Assumptions for the MOST LIKELY SCENARIO

International and Regional Assumptions

- Global output is projected to grow at a healthy rate of 4.8 percent in 2010 and 4.2 in 2011. Global growth is forecast to remain above 4 percent to 2015.
- Advanced economies are projected to grow at a collective rate of 2.7 percent and 2.2 percent in 2010 and 2011 respectively.
- International inflation is projected to be 3.7 percent and 3.1 percent in 2010 and 2011 respectively.
- World trade volume is estimated to grow by 11.4 percent in 2010 and 7.0 in 2011.
- In general, volatility in commodity prices remains elevated. Following large falls in 2009, non-fuel commodity prices are projected to show a significant increase in 2010 but remain stable thereafter. However, Uranium prices are expected to show an increase over the MTEF period.
- Oil prices are expected to average at US$ 76.20 per barrel in 2010; US$ 78.75 in 2011 and assumed to remain unchanged in real terms over the Medium Term.
- The Namibia Dollar strengthened in 2010, mostly due to the weakened US dollar and excess flows of funds to the emerging and developing economies. Going forward, it is expected to depreciate as the economic recovery in the advanced and developed economies gain momentum. It is expected to range between N$7.23 to N$8.09 to the US dollar over the 2010 – 2012 period[15].

Domestic Assumptions

Demand Side

- Annual **inflation** is expected to average 5 percent in 2010 and around 6 percent for 2011 - 2013.
- The total **population** is projected to grow at 1.9 percent per annum as per the 2001 – 2031 population projections report.
- The **labour force** is projected to grow at an average of 2.6 percent per annum over the MTEF period, as per the NDP3 projections.
- **Private consumption** is expected to increase due to low inflation, low interest rates and the availability of credit.
- After several years of significant growth in spending, growth in **Government consumption** is expected to remain relatively stable as per the MTEF.
- **Private investment** is expected to increase, boosted by the opening/re-commissioning of mines.
- **Government investment** is expected to increase in line with the MTEF.
- **Exports** are projected to recover due to improving global economic conditions,

[15] Source: Reuters Consensus Poll of Economists – September 2010.

particularly for mineral commodities.

- **Imports** are also expected to increase due to an increase in economic activity as well as increased consumption.

Supply Side

Primary Industries

- **Primary Industries** are expected to rebound in 2010 and to moderate from 2011 onwards, mainly due to better performance of the mining industry.
- **Livestock farming** is expected to continue growing moderately over the medium term due to good rainfall prospects; government intervention programmes to increase the production capacity of the industry and investments in veterinary services in underserved areas.
- Good harvests are expected in the **crop farming** sector, mainly due to expected good weather conditions; the expansion of land for crop production; the government's Green Scheme programme; investments to increase crop production and improve business capacity. However, flooding remains a risk to crop production.
- In the **fishing** sector a decrease was recorded in output in the first half of 2010, which, coupled with strong exchange rate, is assumed to have contributed to the subdued performance of the sector. Going forward, improved signs of fish stocks and sizes are expected to bolster fish landings, supported by the expected recovery in the global economy. The TACs for some commercial marine species are expected to increase moderately during 2011/12 and remain flat thereafter.
- **Diamond mining** is estimated to recover in 2010 but is expected to slowdown going forward due to declining output from both onshore and off-shore mining.
- **Other mining** is expected to intensify due to on-going expansion plans at existing uranium mines, proposed opening of new uranium mines and the resumption of the two copper mines after the 2008 closure.

Secondary Industries

- **Secondary industries** are expected to perform well against a backdrop of good performance in the manufacturing sector.
- **Meat processing** is expected to grow moderately on the premise that levies imposed on small stocks and expected high prices will increase meat processing activities as well as the anticipated growth in cattle production from the northern communal farming area. The recent penetration of the Danish market and the current negotiations to penetrate the US, Chinese and Japanese markets will lead to increased demand.
- **Other food and beverage** is expected to perform better over the projection period due to increased milk production, expansion of the Namibia Breweries into new African markets and the anticipated commissioning of the new Namib Mills pasta plant.
- **Other manufacturing** is expected to be boosted by the increasing processing of minerals and the commencement of cement production at Ohorongo cement factory.
- **The electricity and water** sector is expected to perform well over the medium term due to increased economic activities such as increased demand from mining.
- **Construction** is expected to expand in the medium term due to planned construction activities, both in the public and private sectors.

Tertiary Industries

- The good performance of the **tertiary industries** over the past few years is expected to continue.
- The **wholesale and retail sector** is expected to maintain its growth due to the favourable fiscal and monetary conditions which have helped to boost consumer demand and resulted in increase private consumption.
- The **tourism industry** is expected to expand slightly due to the overall global recovery. However this will be moderated by the strength of the Namibia Dollar in the short term. Investments to improve infrastructure and develop eco-tourism will help to foster growth in the medium term. In t**he telecommunications sector** increased competition amongst the service providers is assumed to lead to improved services and subsequently increased demand and improved sector performance.
- **Transport and storage** is expected to grow as trade continues to expand over the medium term especially due to the expansion of Walvis Bay harbour and increased trade with neighbouring countries.
- **The financial intermediation** industry is expected to grow, supported by economic growth and favourable monetary conditions.

Box 2: Assumptions for the PESSIMISTIC SCENARIO

International and Regional

- Policies to foster both internal and external rebalancing in the world's largest economies are not sufficient and the global recovery slows.
- Underlying sovereign and banking vulnerabilities in advanced economies also remain a significant risk to the global recovery.
- The Namibia Dollar remains strong, affecting the demand for exports and worsening the balance of trade. Based on the lower end of the Reuters estimate, this would mean an exchange rate of N$7.23 to the US dollar[16].
- Climate conditions impacts unfavourably on the output of the livestock, crop farming, water and fisheries sectors.
- The loss of tariff revenue as a result of international trade agreements (SADC-EU EPAs, SACU-India, etc.) will outweigh the economic benefits of increased trade.
- Subdued and/or slower than expected economic growth for the SADC region as a result of the transmission global economic contagion, emanating primarily from the Eurozone. This will result in lower regional trade and investment flows.
- Global Food and fuel prices continue to rise causing higher inflation and increasing the costs of production (therefore leading to lower output).

Domestic

Primary Industries

- Demand for exports from advanced economies fails to pick up, leading to depressed demand for mining and fishing exports.
- Shortages (and the resulting higher prices) of water and fuel may pose a constraint to production in mining, fish and agriculture.
- The adverse effects of climate change lead to a decline in the fisheries, livestock and crop farming sectors.
- Uranium prices don't increase as expected, leading to reduced profitability in the sector and the stalling of new uranium mine projects.
- Namibia's industrial development concerns in the EPA negotiation process with EU are not fully addressed, leading to Namibia losing out on advances made to develop some key national industries.

Secondary Industries

- The construction industry doesn't expand as expected.

Tertiary Industries

- The Namibia dollar remains strong, negatively affecting the growth prospects in the tourism sector.
- Government revenue may decline further due to reduced SACU receipts from the revenue pool. This could lead to a tightening of fiscal policy which would reduce consumer demand and affect the wholesale and retail sector.

[16] Source: Reuters Consensus Poll of Economists – September 2010.

Box 3: Assumptions for the OPTIMISTIC SCENARIO

International and Regional

- The global economic recovery proceeds faster than expected and the Euro Zone stabilizes to ensure steady global growth.
- Lower interest rates in South Africa and Namibia cause the Namibia Dollar to depreciate, leading to increased demand for exports. Based on the upper end of the Reuters estimate, this would mean an exchange rate of N$8.09 to the US dollar[17].
- The conclusion of international trade agreements (SADC-EU EPAs, SACU-India, etc.) will lead to the expansion and diversification of trade opportunities, increased foreign investment in Namibia, technology/knowledge transfer and ultimately increased economic growth.
- Better than expected economic growth for the SADC region as a result of the expanded growth opportunities derived from the various international trade agreements. This will result in improved trade and investment within the region, helping to foster higher growth and employment.

Domestic

Primary Industries

- Demand for exports from advanced economies picks up, leading to increased demand for mining, fishing and agricultural exports.
- Climate conditions favour output in the livestock, crop farming, water and fisheries sectors.
- Uranium prices increase by more than expected, leading to increased profitability in the sector and the realisation of new Uranium mine projects.
- Trade agreements, particularly regarding the EPA negotiation process, proceed well and favour terms of trade for Namibia exports.

Secondary Industries

- Due to increased business confidence and cheaper raw materials (as a result of the new Ohorongo cement factory) the construction industry performs strongly over the MTEF.

Tertiary Industries

- The Namibia dollar depreciates, boosting growth prospects in the tourism sector.
- Government policies to foster growth and employment have a beneficial impact on key sectors of the economy.

[17] Source: Reuters Consensus Poll of Economists – September 2010.

Table 7 - GDP Growth by Sector in 2004 prices based the MOST LIKELY SCENARIO

	2008	2009	2010	2011	2012	2013	2014	2011-14
	Actual		Estimated	Projected				Average
Agriculture and Forestry	2.8%	-0.2%	2.5%	2.7%	2.8%	3.2%	3.4%	3.0%
Livestock farming	6.7%	0.2%	4.0%	4.3%	3.9%	4.3%	4.1%	4.2%
Crops farming and forestry	-1.0%	-0.7%	1.0%	1.0%	1.5%	2.0%	2.5%	1.8%
Fishing and fish processing on board	-5.3%	-14.1%	0.3%	0.5%	0.3%	-0.3%	0.4%	0.2%
Mining and quarrying	-2.9%	-45.0%	42.5%	-0.6%	-13.5%	-0.9%	9.7%	-1.3%
Diamond mining	-0.6%	-49.7%	54.3%	-1.9%	-18.3%	-5.3%	10.0%	-3.9%
Other mining and quarrying	-12.3%	-22.5%	5.5%	5.6%	7.0%	13.5%	9.0%	8.8%
Primary Industries	**-1.5%**	**-26.9%**	**19.0%**	**0.8%**	**-5.6%**	**0.9%**	**5.8%**	**0.5%**
Manufacturing	2.1%	6.5%	6.2%	6.3%	6.1%	6.6%	7.0%	6.5%
Meat processing	-8.4%	3.8%	2.5%	1.8%	1.6%	2.0%	2.5%	2.0%
Fish processing on shore	-3.6%	12.6%	9.7%	6.4%	5.5%	5.8%	5.7%	5.9%
Manufacture of other food products and beverages	10.0%	7.5%	6.5%	6.0%	5.0%	6.0%	6.5%	5.9%
Other Manufacturing	-2.1%	4.6%	5.4%	6.8%	7.3%	7.4%	7.8%	7.3%
Electricity and water	3.2%	6.0%	2.7%	3.2%	6.5%	8.0%	6.9%	6.2%
Construction	15.1%	-7.2%	-3.7%	4.0%	7.0%	9.0%	9.0%	7.3%
Secondary Industries	**4.8%**	**3.5%**	**3.9%**	**5.5%**	**6.3%**	**7.2%**	**7.3%**	**6.6%**
Wholesale and retail trade, repairs	2.9%	3.1%	2.5%	3.0%	4.2%	5.0%	5.5%	4.4%
Hotels and restaurants	2.7%	5.0%	4.0%	7.2%	7.0%	7.4%	7.0%	7.2%
Transport and communication	2.7%	5.4%	5.5%	8.3%	10.4%	10.2%	9.2%	9.5%
Transport and storage	12.8%	6.9%	7.0%	9.5%	13.5%	12.5%	10.4%	11.5%
Post and telecommunications	-4.5%	4.0%	4.2%	7.2%	7.5%	7.9%	8.0%	7.7%
Financial intermediation	9.8%	6.6%	5.2%	8.3%	8.3%	8.5%	8.9%	8.5%
Real estate and business services	4.4%	6.0%	2.1%	2.9%	2.8%	4.0%	4.4%	3.5%
Real estate activities	4.8%	4.6%	2.0%	1.9%	1.6%	2.5%	3.0%	2.3%
Other business services	3.2%	10.0%	2.4%	5.5%	6.0%	7.7%	7.7%	6.7%
Community, social and personal services	0.3%	2.0%	1.3%	0.2%	1.0%	2.0%	2.0%	1.3%
Producers of government services	9.8%	4.0%	4.0%	5.6%	5.8%	6.0%	6.0%	5.9%
Private household with employed persons	5.2%	4.4%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Tertiary industries	**5.8%**	**4.4%**	**3.5%**	**4.9%**	**5.5%**	**6.0%**	**6.1%**	**5.7%**
Less: FISIM	2.7%	-0.6%	17.0%	10.0%	-5.0%	-2.0%	-2.0%	0.3%
GDP at Basic prices	**4.3%**	**-1.2%**	**5.4%**	**4.4%**	**4.3%**	**5.8%**	**6.5%**	**5.2%**
Taxes on Production and Imports less Subsidies	4.0%	4.3%	-2.0%	4.2%	14.0%	7.0%	1.5%	6.7%
GDP at market prices	**4.3%**	**-0.7%**	**4.8%**	**4.3%**	**5.1%**	**5.9%**	**6.0%**	**5.3%**

Source: Macroeconomic Working Group

Table 8 - GDP Growth by Sector in 2004 prices under the OPTIMISTIC SCENARIO

	2008	2009	2010	2011	2012	2013	2014	2011-14
	Actual		Estimated	Projected				Average
Agriculture and Forestry	2.8%	-0.2%	2.5%	3.2%	3.3%	3.8%	4.1%	3.6%
Livestock farming	6.7%	0.2%	4.0%	4.8%	4.5%	4.8%	5.0%	4.8%
Crops farming and forestry	-1.0%	-0.7%	1.0%	1.5%	2.0%	2.6%	3.0%	2.3%
Fishing and fish processing on board	-5.3%	-14.1%	0.3%	1.0%	1.3%	1.0%	1.0%	1.1%
Mining and quarrying	-2.9%	-45.0%	42.5%	0.3%	-11.5%	0.5%	11.9%	0.3%
Diamond mining	-0.6%	-49.7%	54.3%	-1.0%	-16.0%	-3.5%	10.5%	-2.5%
Other mining and quarrying	-12.3%	-22.5%	5.5%	6.5%	7.5%	14.0%	16.0%	11.0%
Primary Industries	**-1.5%**	**-26.9%**	**19.0%**	**1.5%**	**-4.3%**	**1.9%**	**7.3%**	**1.6%**
Manufacturing	2.1%	6.5%	6.2%	6.6%	6.6%	7.2%	7.6%	7.0%
Meat processing	-8.4%	3.8%	2.5%	2.3%	2.6%	3.0%	3.5%	2.9%
Fish processing on shore	-3.6%	12.6%	9.7%	6.8%	6.5%	6.7%	7.0%	6.8%
Manufacture of other food products and beverages	10.0%	7.5%	6.5%	6.4%	5.5%	6.5%	6.8%	6.3%
Other Manufacturing	-2.1%	4.6%	5.4%	7.0%	7.8%	8.2%	8.5%	7.9%
Electricity and water	3.2%	6.0%	2.7%	3.6%	7.0%	8.5%	8.8%	7.0%
Construction	15.1%	-7.2%	-3.7%	5.0%	7.5%	9.5%	10.0%	8.0%
Secondary Industries	**4.8%**	**3.5%**	**3.9%**	**5.9%**	**6.8%**	**7.8%**	**8.2%**	**7.2%**
Wholesale and retail trade, repairs	2.9%	3.1%	2.5%	3.5%	4.8%	5.5%	6.0%	5.0%
Hotels and restaurants	2.7%	5.0%	4.0%	7.8%	7.5%	7.8%	8.0%	7.8%
Transport and communication	2.7%	5.4%	5.5%	8.9%	11.1%	11.7%	11.0%	10.7%
Transport and storage	12.8%	6.9%	7.0%	10.0%	14.0%	14.5%	12.5%	12.8%
Post and telecommunications	-4.5%	4.0%	4.2%	8.0%	8.5%	9.0%	9.5%	8.8%
Financial intermediation	9.8%	6.6%	5.2%	8.7%	9.0%	9.5%	10.0%	9.3%
Real estate and business services	4.4%	6.0%	2.1%	3.4%	3.7%	4.4%	5.0%	4.1%
Real estate activities	4.8%	4.6%	2.0%	2.5%	2.7%	3.0%	3.5%	2.9%
Other business services	3.2%	10.0%	2.4%	6.0%	6.5%	8.0%	8.5%	7.3%
Community, social and personal services	0.3%	2.0%	1.3%	1.0%	1.5%	2.5%	3.0%	2.0%
Producers of government services	9.8%	4.0%	4.0%	6.5%	7.0%	7.5%	8.0%	7.3%
Private household with employed persons	5.2%	4.4%	3.8%	4.0%	4.5%	5.0%	5.5%	4.8%
Tertiary industries	**5.8%**	**4.4%**	**3.5%**	**5.6%**	**6.4%**	**7.0%**	**7.5%**	**6.6%**
Less: FISIM	2.7%	-0.6%	17.0%	4.0%	-8.0%	-2.0%	-2.0%	-2.0%
GDP at Basic prices	**4.3%**	**-1.2%**	**5.4%**	**5.1%**	**5.2%**	**6.7%**	**7.7%**	**6.2%**
Taxes on Production and Imports less Subsidies	4.0%	4.3%	-2.0%	10.0%	17.0%	7.0%	1.5%	8.9%
GDP at market prices	**4.3%**	**-0.7%**	**4.8%**	**5.5%**	**6.2%**	**6.7%**	**7.1%**	**6.4%**

Source: Macroeconomic Working Group

Table 9 - GDP Growth in 2004 prices, expenditure approach under the OPTIMISTIC SCENARIO

Constant 2004 prices – percentage change	2009	2010	2011	2012	2013	2014	2011-14
	Actual	Estimate	Projections				Average
1. Final Consumption Expenditure	6.9%	3.8%	5.6%	6.4%	6.6%	6.4%	6.3%
Private consumption	5.8%	3.6%	3.9%	5.5%	6.0%	5.9%	5.3%
Government consumption	9.8%	4.5%	10.3%	8.8%	8.2%	7.7%	8.8%
2. Investment	-1.6%	5.1%	7.4%	7.7%	5.4%	4.5%	6.3%
public investment	-1.2%	4.0%	4.1%	3.6%	3.2%	2.9%	3.5%
private investments	-1.8%	6.1%	9.9%	10.8%	7.0%	5.6%	8.3%
3. Exports of goods and services	-14.9%	11.9%	10.1%	11.1%	12.3%	11.0%	11.1%
4. Imports of goods and services	4.1%	5.6%	8.8%	9.5%	9.1%	7.1%	8.6%
GDP in constant prices 2004	**-0.7%**	**4.8%**	**5.5%**	**6.2%**	**6.7%**	**7.1%**	**6.4%**

Source: Macroeconomic Working Group

Table 10 - GDP Growth by Sector in 2004 prices under the PESSIMISTIC SCENARIO

	2008	2009	2010	2011	2012	2013	2014	2011-14
	Actual		Estimated	Projected				Average
Agriculture and Forestry	2.8%	-0.2%	2.5%	1.3%	1.5%	1.6%	1.9%	1.6%
Livestock farming	6.7%	0.2%	4.0%	2.1%	2.0%	2.1%	2.1%	2.1%
Crops farming and forestry	-1.0%	-0.7%	1.0%	0.5%	0.9%	1.0%	1.7%	1.0%
Fishing and fish processing on board	-5.3%	-14.1%	0.3%	0.3%	0.2%	-0.6%	0.2%	0.0%
Mining and quarrying	-2.9%	-45.0%	42.5%	-2.6%	-29.0%	-5.8%	4.8%	-8.2%
Diamond mining	-0.6%	-49.7%	54.3%	-3.8%	-36.6%	-10.6%	5.0%	-11.5%
Other mining and quarrying	-12.3%	-22.5%	5.5%	2.8%	3.5%	6.7%	4.5%	4.4%
Primary Industries	**-1.5%**	**-26.9%**	**19.0%**	**-0.8%**	**-13.7%**	**-1.7%**	**2.8%**	**-3.4%**
Manufacturing	2.1%	6.5%	6.2%	3.2%	3.0%	3.3%	3.5%	3.2%
Meat processing	-8.4%	3.8%	2.5%	0.9%	0.9%	1.0%	1.7%	1.1%
Fish processing on shore	-3.6%	12.6%	9.7%	3.2%	2.7%	2.9%	2.8%	2.9%
Manufacture of other food products and beverages	10.0%	7.5%	6.5%	3.0%	2.5%	3.0%	3.3%	3.0%
Other Manufacturing	-2.1%	4.6%	5.4%	3.4%	3.6%	3.7%	3.9%	3.7%
Electricity and water	3.2%	6.0%	2.7%	1.6%	3.2%	4.0%	3.5%	3.1%
Construction	15.1%	-7.2%	-3.7%	2.0%	3.5%	4.5%	4.5%	3.6%
Secondary Industries	**4.8%**	**3.5%**	**3.9%**	**2.8%**	**3.1%**	**3.6%**	**3.7%**	**3.3%**
Wholesale and retail trade, repairs	2.9%	3.1%	2.5%	1.5%	2.1%	2.5%	2.7%	2.2%
Hotels and restaurants	2.7%	5.0%	4.0%	3.6%	3.5%	3.7%	3.5%	3.6%
Transport and communication	2.7%	5.4%	5.5%	4.1%	5.3%	5.1%	4.6%	4.8%
Transport and storage	12.8%	6.9%	7.0%	4.7%	7.0%	6.3%	5.2%	5.8%
Post and telecommunications	-4.5%	4.0%	4.2%	3.6%	3.7%	3.9%	4.0%	3.8%
Financial intermediation	9.8%	6.6%	5.2%	4.1%	4.1%	4.3%	4.5%	4.3%
Real estate and business services	4.4%	6.0%	2.1%	1.5%	1.4%	2.0%	2.1%	1.7%
Real estate activities	4.8%	4.6%	2.0%	1.0%	0.8%	1.3%	1.5%	1.2%
Other business services	3.2%	10.0%	2.4%	2.7%	3.0%	3.8%	3.8%	3.3%
Community, social and personal services	0.3%	2.0%	1.3%	0.1%	0.5%	1.0%	1.0%	0.7%
Producers of government services	9.8%	4.0%	4.0%	2.8%	2.9%	3.0%	3.0%	2.9%
Private household with employed persons	5.2%	4.4%	3.8%	1.9%	1.9%	1.9%	1.9%	1.9%
Tertiary industries	**5.8%**	**4.4%**	**3.5%**	**2.4%**	**2.8%**	**3.0%**	**3.0%**	**2.8%**
Less: FISIM	2.7%	-0.6%	17.0%	10.0%	11.0%	-7.0%	-5.0%	2.3%
GDP at Basic prices	**4.3%**	**-1.2%**	**5.4%**	**1.9%**	**0.4%**	**2.7%**	**3.3%**	**2.1%**
Taxes on Production and Imports less Subsidies	4.0%	4.3%	-2.0%	8.0%	11.0%	15.0%	11.0%	11.3%
GDP at market prices	**4.3%**	**-0.7%**	**4.8%**	**2.4%**	**1.3%**	**3.9%**	**4.1%**	**2.9%**

Source: Macroeconomic Working Group

Table 11 - GDP Growth in 2004 prices, expenditure approach under the PESSIMISTIC SCENARIO

Constant 2004 prices – percentage change	2009	2010	2011	2012	2013	2014	2011-14
	Actual	Estimate	Projections				Average
1. Final Consumption Expenditure	6.9%	3.8%	1.5%	2.7%	4.2%	3.8%	3.1%
Private consumption	5.8%	3.6%	1.6%	2.7%	4.1%	3.5%	3.0%
Government consumption	9.8%	4.5%	1.4%	3.0%	4.7%	4.6%	3.4%
2. Investment	-1.6%	5.1%	3.2%	3.4%	3.1%	2.9%	3.1%
public investment	-1.2%	4.0%	4.1%	3.7%	3.4%	3.3%	3.6%
private investments	-1.8%	6.1%	2.4%	3.1%	2.8%	2.6%	2.7%
3. Exports of goods and services	-14.9%	11.9%	6.3%	7.0%	5.0%	7.7%	6.5%
4. Imports of goods and services	4.1%	5.6%	3.6%	4.4%	4.5%	5.4%	4.5%
GDP in constant prices 2004	**-0.7%**	**4.8%**	**2.4%**	**3.4%**	**3.8%**	**4.0%**	**3.4%**

Source: Macroeconomic Working Group