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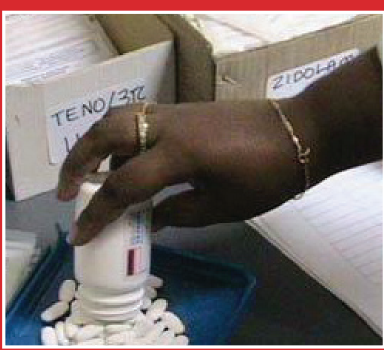
REPUBLIC OF NAMIBIA

# Macroeconomic Framework

2012/2013 to 2014/2015




**"Fiscal Sustainability and Job-Creating Growth - Doing More with Less"**

# FOREWORD

The purpose of the Macroeconomic Framework (MEF) is to review past trends and current economic developments and provide an outlook for the global, regional and domestic economy upon which recommendations for the future course of macroeconomic and fiscal policy are made. The analysis of macroeconomic developments and projections of economic variables for the future are of key importance for fiscal policy formulation. Thus, the MEF constitutes the basis for formulating the Fiscal Policy Framework for the Medium Term Expenditure Framework (MTEF) period. It also presents a macroeconomic outlook for the MTEF period.

By identifying the factors that present opportunities for economic growth as well as those that pose downside risks to sustainable growth in the global, regional and domestic economies, the MEF facilitates the work of policy makers in designing macroeconomic and fiscal policies. It guides policy makers in their pursuit of macroeconomic stability and fiscal prudence for the realisation of Namibia's development objectives that aim at high economic growth, enhanced job creation, poverty reduction and reduced inequality.

This MEF has been formulated at a time when the global economic recovery is expected to remain weak over the MTEF period, mainly the result of low and uncertain global economic growth. This primarily stems from difficulties being encountered in the US and the Euro Zone to reconcile sovereign debt reduction with economic growth imperatives. Other downside risks emanate from high and volatile international oil and food prices. Fortunately, the growth of the BRICS countries (Brazil, Russia, India, China and South Africa, in particular the economies of China and India) can offset, but to a limited extent only, low growth in other regions. Sub-Saharan Africa has also recorded relatively high growth rates over the past years. Growth in these two groups of countries is, of course, also susceptible to contagion from weaknesses in the global economy. Thus, in the light of these uncertainties the IMF is forecasting global economic growth to remain subdued at between 4.0 and 4.5 percent annually over the MTEF period.

In light of the downside risks emanating from the global economy, it is imperative that great caution should guide macroeconomic and fiscal policy in the years ahead to ensure that economic growth, employment generation and poverty reduction can be achieved under conditions of macroeconomic stability and external financial viability. Early identification of global economic deterioration and consequent corrective action will be the order of the day. More effective resource mobilization within the public sector and more efficiency in public sector spending will need to be pursued. It also points to the need for Namibia to realize strong efficiency gains in the private sector. These measures are essential to bring Namibia's growth rate above the 4.0 to 4.5 percent projected for the global economy, possibly to some 5.0 percent or above over the MTEF period.

The need for meeting the challenge of raising economic growth in Namibia in a period when global economic prospects are subdued is strong in the light of the aspirations of the Namibian people to see robust income and employment growth as well as progress with the reduction in poverty and inequality.

**SAARA KUUGONGELWA-AMADHILA, MP**
**MINISTER OF FINANCE**

## TABLE OF CONTENTS

# GLOSSARY

| | |
|---|---|
| BoN | Bank of Namibia |
| BoP | Balance of Payments |
| BRICS | Brazil, Russia, India, China and South Africa |
| CBS | Central Bureau of Statistics |
| CMA | Common Monetary Area |
| CRP | SACU Common Revenue Pool |
| GDP | Gross Domestic Products |
| GFCF | Gross Fixed Capital Formation |
| GNDI | Gross National Disposable Income |
| GNI | Gross National Income |
| HDI | Human Development Index |
| IMF | International Monetary Fund |
| MEF | Macroeconomic Framework |
| MEWG | Macroeconomic Working Group |
| MTEF | Medium Term Expenditure Framework |
| NA | National Accounts |
| NamPower | Namibia Power Corporation |
| NamWater | Namibia Water Corporation |
| NamPort | Namibia Ports Authority |
| NCA | Northern Communal Area |
| NCCI | Namibia Chamber of Commerce and Industry |
| NCPI | National Consumer Price Index |
| NDP | National Development Plan |
| NHIE | National Household Income and Expenditure Survey |
| NEF | Namibia Employers Federation |
| NMA | Namibia Manufacturers Association |
| NPC | National Planning Commission |
| NSX | Namibia Stock Exchange |
| PSCE | Private Sector Credit Extension |
| Repo rate | Repurchase rate (bank rate) |
| SA | South Africa |
| SACU | Southern Africa Customs Union |
| SADC | Southern Africa Development Community |
| SME | Small and Medium Enterprises |
| SOE | State-owned Enterprise |
| SSA | Sub-Saharan Africa |
| TAC | Total Allowable Catch |
| TIPEEG | Targeted Intervention Programme for Employment & Economic Growth |
| UN | United Nations |
| US | United States of America |
| WEO | World Economic Outlook |

## EXECUTIVE SUMMARY

### Macroeconomic Performance in 2010-2011

Benefitting from a recovery in the global economy, the Namibian economy was able to perform well in 2010 with economic growth reaching 6.6 percent. Robust growth came mostly from strong advances in mineral exports, manufacturing and construction. Fiscal stimulation and new investment also contributed to this positive result. However, in 2011 the US and Euro Zone encountered difficulties in resolving their conflict between sovereign debt reduction and economic growth, depressing their growth performance, for which high growth in the BRICS economies - in particular those of China and India – could not compensate.

As a small, open economy, Namibia's performance is inextricably linked to that of the global economy, so that 2011 brought contagion to Namibia, with a consequent slowdown in growth to an estimated 4.2 percent. Growth would have been even lower if Government had not adopted an expansionary fiscal and monetary policy to counter the negative impact of the global recession. Holding the Repo rate at 6.0 percent during 2011 complemented expansionary fiscal policy and helped to stimulate demand through higher public investment and Government consumption expenditure. Yet, Government ensured that outstanding debt and debt servicing remained within manageable levels. To illustrate, the debt/GDP ratio rose only slightly to 15.6 percent of GDP in 2010/11, from 14.9 percent in 2009/10. While falling somewhat, at three months' coverage of imports, external reserves remained sufficient to assure uninterrupted financing of imports, a coverage ratio that is considered adequate internationally. The downturn in the Euro Zone highlighted the importance of prudent fiscal, debt and balance-of-payments management.

Overall, the subdued prospects for the global economy constitute a threat of contagion to Namibia's open economy. Therefore, strong measures to raise public investment and stimulate private sector activity are needed to exceed global growth, as is reflected in the Domestic Growth Scenario which projects domestic annual growth to rise to an average level of 4.8 percent over the MTEF period.

### Employment and Poverty

According to the 2008 Labour Force Survey, employment fell in rural areas and stagnated in urban centres during the period 2000-2008. Thus, with economic growth failing to generate employment, the number of unemployed people looking for work rose to 199,570 in 2008, representing an unemployment rate of 37.6 percent.

Recognizing the difficulty in realising job creating growth, Government introduced the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) program which contains significant additional spending compared to the previous MTEF, with a focus on public works and infrastructure, in March 2011. TIPEEG aims to generate over 100,000 jobs between 2011 and 2015.

The economy remains handicapped by important skills gaps, particularly in manufacturing, construction, financial intermediation and trade. Under the MTEF, Government is pursuing education reform to address this problem, focusing importantly on the strengthening of technical, education and vocational training. This will help strengthen the competitiveness of Namibia, especially its export sector because Namibia's international competitiveness assessments reveal significant scope for improvement in this regard.

Namibia's Human Development Index 2011 (HDI) score has improved, placing Namibia about half way in the 'Medium Human Development' category. Namibia ranks nearly highest in Sub-Saharan Africa with only Botswana scoring better. The HDI Report also shows that education and health outcomes have improved in recent years and that life expectancy rose to 62 years in 2011 from 60 in 2007. Relative poverty also fell, from 38.0 percent in 1993/94 to 19.7 percent in 2009/10. The reduction of extreme poverty to only 2.0 percent in 2009/10 is in line with the MDG target of eliminating extreme poverty by 2015. Prospects are favourable for the attainment of the MDG targets for primary education and gender equality. Despite progress, the levels of poverty, unemployment and inequality are still unacceptable and remain key areas of concern to be addressed under the MTEF in several ways. To illustrate, close to 40 percent of spending under the MTEF is allocated towards poverty-oriented programs.

**Medium-Term Outlook for the MTEF Period**

The IMF cautions that middle-income countries (which are generally more integrated into the global economy than low income countries) need to prepare for cold winds that could blow from the advanced countries. To counter the effects of low (4.0 to 4.5 percent) global growth over the MTEF, Government will continue its expenditure plans which will result in fiscal space being exhausted towards the end of the MTEF.

The medium term outlook provides room for upside opportunities and downside risks which derive from potential global and regional developments. The MEF projects an average growth rate of 4.8 percent over the MTEF period with a confidence range of 1.3 percentage points down and 0.8 percentage points up (thus, 3.5 percent to 5.6 percent annual average growth over the MTEF). The downside risks to global growth are greater than the potential opportunities for a sustainable global recovery. Therefore, the confidence range shows more potential for a downward revision.

The primary industries are projected to post low growth over the MTEF period, averaging 1.2 percent annually. Important for employment generation, growth in the secondary industries could average 5.6 percent. Key to this projected favourable performance is the strong growth in the construction sector and manufacturing as well as in SOE activities. Tertiary industries are projected to grow at 5.1 percent on average, over the same period.

**Concluding Observations**

In order to realize sustainable economic growth, generate employment opportunities and reduce poverty levels, Government needs to, amongst others, (i) increase the effectiveness of public spending while accelerating the execution of public sector investment projects, and (ii) create an environment that is conducive for private sector growth. Furthermore, Namibia needs to diversify its export markets in order to gain from opportunities presented by emerging market economies with large markets and high rates of growth.

# KEY MACROECONOMIC OVERVIEW

## 1. INTRODUCTION

1. The development of the Macroeconomic Framework (MEF) constitutes the initial stage in the budget formulation process. To this end, the MEF addresses three issues. **Firstly**, the MEF **reviews past trends and recent economic developments at the global, regional and domestic level**. Given the increasing importance of global and regional developments to the Namibian economy, this is of vital importance. At the domestic level, information is provided on developments in the real sector, demand, investment, monetary/capital market developments, inflation, the external sector and other indicators of Namibia's economic performance (such the Global Competitiveness Index), poverty (such as the Human Development Index), unemployment and inequality. This diagnostic helps to ascertain the health of the Namibian economy and identify strengths and weaknesses.

2. **Secondly,** the MEF contains **macroeconomic projections for the MTEF period** which are presented on the supply side and on the demand side of the economy. The Macroeconomic Working Group (MEWG)[1] uses macroeconomic modelling to generate projections for the domestic economy over the MTEF period. These projections are based on information obtained from both the public and private sector as well as IMF projections and the Annual Industrial Survey.

3. **Finally,** the MEF identifies the **key policy focus going forward**, based on the challenges and opportunities identified in the analysis.

4. In summary, the MEF sets the macroeconomic context for Government policy makers as part of the analysis for the national budget and the MTEF. It also provides the private sector and the general public an insight into the Government's economic assumptions underlying its policy proposals.

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[1] *Comprising membership of the Ministry of Finance, the National Planning Commission and the Bank of Namibia*.

# 2. RECENT ECONOMIC DEVELOPMENTS

## 2.1 GLOBAL ECONOMY

5. The global economic recovery in 2011 was weaker than expected, mainly due to difficulties in resolving the mutually exclusive conflicting objectives of sovereign debt reduction and economic growth in the US and Euro Zone (Table 1[2]). As a result, stock markets in developed regions endured falls of magnitudes not witnessed since the global economic crisis in 2008 and 2009. While the advanced economies continue to face severe challenges, the emerging economies of the BRICS countries, in particular China and India, continue to register high growth and are becoming increasingly more important to global economic prospects, picking up part of the slack from ailing developed regions. However, the danger of overheating is a matter of concern in these emerging regions which, once addressed, may dampen their growth prospects over the short term.

6. The global recovery has also been subjected to considerable risks emanating from other parts of the world, notably the social and political unrest in North Africa and the Middle East. The events in the oil producing regions have led to volatile oil prices over 2011.

7. The global imbalances that have emerged over recent years may not be alleviated as the advanced economies face political difficulties in carrying out fiscal consolidation programs needed to reduce their debt levels while retaining minimum economic growth levels. Emerging/developing economies may also engage in policy tightening and shift the focus away from foreign to domestic sources of demand. Early resolution of these policy challenges is unlikely and, therefore, the prospects for global economic recovery are not favourable. This calls for continued determined action by Government to raise efficiency in the public sector and induce the private sector to become more competitive, while ensuring that overall productivity rises further in the Namibian economy.

[2] *Table 1 below summarizes actual and projection growth for key countries and regions. Further detail on global and regional developments can be found in Annex A.*

**Table 1: World Output and Real GDP Estimates and Outlook - Annual Percentage Changes**

| Region/Country/Description | Actual | | Estimate | Projection |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 |
| **World Output** | -0.7 | 5.2 | 3.8 | 3.3 |
| **Advanced Economies** | -3.7 | 3.2 | 1.6 | 1.2 |
| United States | -3.5 | 3.0 | 1.8 | 1.8 |
| Euro Zone | -4.3 | 1.9 | 1.6 | -0.5 |
| Japan | -6.3 | 4.4 | -0.9 | 1.7 |
| United Kingdom | -4.9 | 2.1 | 0.9 | 0.6 |
| Canada | -2.8 | 3.2 | 2.3 | 1.7 |
| Other advanced economies | -1.1 | 5.8 | 3.3 | 2.6 |
| **Emerging markets & developing economies** | 2.8 | 7.3 | 6.2 | 5.4 |
| Sub-Saharan Africa | 2.8 | 5.3 | 4.9 | 5.5 |
| Angola[3] | 2.4 | 3.4 | 3.7 | 10.8 |
| Namibia | **-0.4** | **6.6** | **4.2** | **4.4** |
| South Africa | -1.7 | 2.9 | 3.1 | 2.5 |
| Central and Eastern Europe | -3.6 | 4.5 | 5.1 | 1.1 |
| Common wealth of Independent States | -6.4 | 4.6 | 4.5 | 3.7 |
| Russia | -7.8 | 4.0 | 4.1 | 3.3 |
| Developing Asia | 7.2 | 9.5 | 7.9 | 7.3 |
| China | 9.2 | 10.4 | 9.2 | 8.2 |
| India | 6.8 | 9.9 | 7.4 | 7.0 |
| Middle East and North Africa | 2.6 | 4.3 | 3.1 | 3.2 |
| Latin America and Caribbean | -1.7 | 6.1 | 4.6 | 3.6 |
| Brazil | -0.6 | 7.5 | 2.9 | 3.0 |

*Source: IMF January 2011: WEO Update and for Namibia - 2010 National Accounts data and the MEWG Projections 2011.*

## 2.2 SUB-SAHARAN AFRICA

8 Sub-Saharan Africa achieved relatively strong and stable growth rates over the past years and the region's economic recovery is progressing further, although there is variability in the speed of recovery among different country groups. Sub-Saharan African growth in 2011 was mainly driven by low-income countries such as Ghana (based on increased oil and non-oil production), Ethiopia and Kenya (agriculture and infrastructure developments) and the oil exporting countries such as Nigeria and Angola. In most of the region's low-income countries and among the seven oil exporters, growth is almost back at pre-crisis levels, a

[3] *Based on September IMF update as figures for Angola not included in January IMF update.*

favourable development for Namibia which sends over 10.0 percent of exports to economies in Sub-Saharan Africa (not including South Africa).

9 However, in the middle-income countries of Sub-Saharan Africa, including South Africa, economic recovery has been more gradual, due to a greater level of exposure to global markets compared to the low income countries. Growth in South Africa was below 3.0 percent in 2010 and is projected to rise only moderately to 3.1 percent for 2011 before falling again to 2.5 percent in 2012. Developments in South Africa have important implications for the Namibian economy, given the close economic relationship between the two countries, the importance of South Africa for Namibia's exports (20.0 percent of total exports) and imports (about 75.0 percent of imports) and the peg of the Namibia Dollar to the SA Rand.

## 2.3 DOMESTIC MACROECONOMIC PERFORMANCE

### 2.3.1 Overall Domestic Economic Performance[4]

10 The **Namibian economy** performed better than expected in 2010, with economic growth of 6.6 percent, up from a contraction of 0.4 percent in 2009. This robust growth came from 10.5 percent growth in **primary industries** (mainly mining) and 8.8 percent growth in **secondary industries** (with manufacturing rising by 9.1 percent and construction by 10.8 percent). The production of building products for the local market and adjacent SADC market is one of the fastest growing manufacturing activities in Namibia. **Tertiary industries** continue to post strong performance, with growth of 4.9 percent in 2010 (mainly transport, financial intermediation and trade sectors). The robust growth witnesses in 2010 is ascribed to the solidifying recovery from the global financial crisis in 2010 which led to increased demand for export commodities and the subsequent rebound in international commodity prices.

11 At the start of 2011 the domestic economy began to mirror the unfavourable developments in the global economy and a slowdown of activity emerged in several industries. The performance of **primary industries** was lacklustre in early 2011, reflecting a fall in mining production and continued low growth in the agricultural sector. Growth in the **secondary industries** is also expected to be lower in 2011, partly due to more subdued growth in mineral production for value addition. Growth in the **tertiary industries** is also weakening somewhat, due to a decline in wholesale and retail trade growth and in the transport sector.

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[4] *For more detailed analysis of supply-side and demand-side developments, please refer to Annex B.*

On the whole, **domestic growth** is estimated to slow to about 4.2 per cent in 2011 compared to a 6.6 per cent in 2010. **Table 2** below provides illustrations.

**Table 2: Growth Rates of Major Industries, (at Constant, 2004 Prices)**

| Industry | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| | Actual | | | Estimate |
| Primary industries | -7.8 | -24.1 | 10.5 | 0.2 |
| Secondary industries | 3.2 | 3.1 | 8.8 | 4.6 |
| Tertiary industries | 5.6 | 4.6 | 4.9 | 4.6 |
| Less: FISIM | 2.7 | -0.6 | 8.7 | - |
| All industries at basic prices | 2.6 | -0.4 | 6.4 | - |
| Taxes less subsidies on products | 11.8 | -1.1 | 8.6 | - |
| GDP at market prices | 3.4 | -0.4 | 6.6 | 4.2 |

*Source: 2010 National Accounts data*

12 From an **expenditure perspective**, the private sector exhibited a relatively slow growth in 2010, with private consumption growth dropping to just 1.4 percent, from 9.4 percent growth during 2009. However, general Government expenditure showed a strong growth. Furthermore, exports recovered to positive growth which, coupled with a decline in imports in 2010, led to an improvement in net exports and, hence, a boost to domestic economic growth. Total consumption expenditure as well as gross fixed capital formation and exports are expected to register growth in 2011 (Table 3).

**Table 3: Growth Rates of Expenditure Aggregates (at Constant, 2004 Prices)**

| Industry | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| | Actual | | | Estimate |
| Final consumption expenditure | 8.2 | 8.6 | 2.4 | 2.9 |
| Private | 9.0 | 9.4 | 1.4 | 1.9 |
| General government | 6.1 | 6.2 | 5.6 | 6.0 |
| Gross fixed capital formation | 7.2 | -4.2 | 0.6 | 4.4 |
| Exports of goods and services | 5.2 | -8.7 | 0.8 | 3.2 |
| Imports of goods and services | 9.6 | 3.7 | -4.7 | 2.9 |
| **Gross domestic product at market prices** | **3.4** | **-0.4** | **6.6** | **4.2** |

*Source: 2010 National Accounts*

### 2.3.2 Recent Fiscal Developments

13 The Government adopted an **expansionary monetary policy** over 2009 and 2010 to counter the negative impact of the global recession. The Repo rate was held at the record low level of 6.0 percent during 2011. This low interest rate has complemented expansionary fiscal policy which started in 2009/10 and which helped to stimulate demand through higher public investment and Government consumption expenditure in 2010.

**Table 4: Fiscal Developments (N$ million)**

| ITEM | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|
| ***GDP*** | **73 629** | **77 137** | **83 568** |
| Revenue | 23 447 | 24 047 | 23 251 |
| *% of GDP* | 31.8% | 31.2% | 27.8% |
| Expenditure | 21 946 | 24 914 | 27 435 |
| *% of GDP* | 29.8% | 32.3% | 32.8% |
| Budget Balance | 1 501 | -868 | -4 184 |
| *% of GDP* | 2.0% | -1.1% | -5.0% |
| Total Debt | 13 389 | 11 923 | 13 893 |
| *% of GDP* | 18.2% | 15.5% | 16.6% |
| Total Guarantees | 3 029 | 2 635 | 2 007 |
| *% of GDP* | 4.1% | 3.4% | 2.4% |

*Source: Ministry of Finance, 2011*

14 Table 4 illustrates the evolving **expansionary fiscal policy** over the past few years. In particular, it brings out the expansion in public spending (up from N$ 24.9 billion in 2009/10 to N$ 27.4 billion in 2010/11) which occurred at the time when revenue fell (from N$ 24.0 billion in 2009/10 to N$ 23.3 billion in 20/11), bringing about a strong increase in the budget deficit which rose from 1.1 percent of GDP in 2009/10 to 5.0 percent in 2010/11.

15 The positive effect of the counter-cyclical measures taken by Government emerges clearly from Table 2 which brings out how the growth in General Government consumption in 2010, while falling, made up for the steep decline in private consumption and helped to raise economic growth in 2010 to 6.6 percent.

16 The total **debt/GDP ratio** rose slightly to 16.6 percent of GDP in 2010/11, but has overall been stable and low over the last three financial years. The downturn in the Euro Zone has further highlighted the importance of prudent fiscal and debt management. Therefore, the Government continues to ensure that it remains within its fiscal targets for the MTEF as well as the targets outlined in the borrowing policy.

### 2.3.3 External Sector and Exchange Rate Developments

17 Despite strong increases in the nominal value of exports and the inflow of foreign direct investment, the **external sector** deteriorated during 2010 when the overall **balance of payments** deficit reached N$3.8 billion, compared to a surplus of N$1.1 billion in 2009. This deterioration was the result of a decrease in the current account surplus (mainly due to reduced current transfer receipts from the SACU Common Revenue Pool (CRP), as well as an increase in imports, especially machinery and equipment to support investments in mining) and a widening of the capital and financial account deficit (reflecting a large outflows in portfolio and other long-term investments).

18 At 27.0 percent, the Euro Zone constitutes the most important **export destination** for Namibia, followed by South Africa at 20.4 percent (Table 5). Statistics illustrate that, over the medium term, the growth in some of the BRICS countries (largely China and India) will not compensate for the adverse effects of slow growth in the advanced economies. This is due to the fact that the share of exports to high-growth BRICS countries (other than South Africa) has, so far, not exceeded 5-6 percent of total exports. The percentage contribution of each of these countries to global GDP highlights that even though emerging regions are becoming increasingly important to global prospects, Namibia exports most of its goods and services to advanced regions (some 60 percent) where prospects for growth are not favourable.

**Table 5: Export destinations, percentage of total exports and their share in global GDP**

| Region/country | Percentage of Exports | Destination's share of global GDP (%) |
|---|---|---|
| BRICS countries | 25.0 | 14.9 |
| South Africa | 20.4 | 0.6 |
| China | 3.7 | 9.3 |
| India | <1.0 | 2.6 |
| Russia | <1.0 | 2.4 |
| Euro Zone | 27.0 | 25.8 |
| European Union Countries (excluding Euro Zone) | 18.1 | 6.5 |
| Sub-Saharan Africa (excluding SA) | 11.2 | 1.1 |
| Japan | 1.2 | 8.7 |
| Canada | 4.9 | 2.5 |
| US | 4.6 | 23.1 |
| Other countries | 8.0 | 2.6 |
| **Total** | **100.0** | **100.0** |

*Source: CBS, IMF and Staff estimates*

19 The **composition of exports** has been changing over the last three years, as can be seen in Table 6. The share of ores and metals in total exports fell from 40.0 percent in 2008 to 34.0 percent in 2010. Manufactured products continue to account for a large proportion of exports, rising from 44.0 percent in 2008 to 46.0 percent in 2010. The fact that a relatively large and rising proportion of exports are manufactured products, suggests that Namibia is becoming less reliant on primary exports. In addition, the share of services has increased to 15.6 percent of exports in 2010, and there is potential to expand it further. These positive developments towards exports diversification will contribute towards reduced volatility. Agriculture continues to account for a small proportion of exports, at 4.2 percent of the total in 2010.

**Table 6: Composition of Exports, current prices (Percentage share)**

| Product group | 2008 | 2009 | 2010 |
|---|---|---|---|
| Agriculture and Fishing | 4.5 | 3.7 | 4.2 |
| Ores and minerals | 40.3 | 30.9 | 34.3 |
| Manufactures, o/w | 43.7 | 49.9 | 45.7 |
| Processed Fish & Meat Products | 15.9 | 18.0 | 15.7 |
| Copper | 2.3 | 2.8 | 3.3 |
| Zinc refined | 5.9 | 5.1 | 7.8 |
| Other Manufactures | 19.1 | 23.4 | 18.6 |
| Total exports of goods, fob | 88.5 | 84.7 | 84.4 |
| Services | 3.0 | 5.4 | 6.3 |
| Direct purchases in Namibia by non-residents | 8.4 | 9.9 | 9.2 |
| Total exports of services | 11.5 | 15.3 | 15.6 |
| **Total exports of goods and services** | **100.0** | **100.0** | **100.0** |

*Source: National Accounts 2010*

20 The level of **foreign reserves** held by the Bank of Namibia (BoN) has fallen since the third quarter of 2009. At the start of 2011, the reserve levels fell again, by almost 30.0 percent compared to the corresponding quarter of 2010, and reached $9.2 billion. However, at three months' coverage of imports the reserves are sufficient to assure uninterrupted financing of imports, a coverage ratio that is considered adequate internationally.

21 The SA Rand (and, therefore the **Namibia,** which is pegged to the Rand) strengthened against most major currencies from early 2009 to mid-2011, *inter alia,* as the result of the Euro Zone and the US having embarked on large scale quantitative easing measures since the global economic downturn in 2008 in order to improve business confidence and reduce

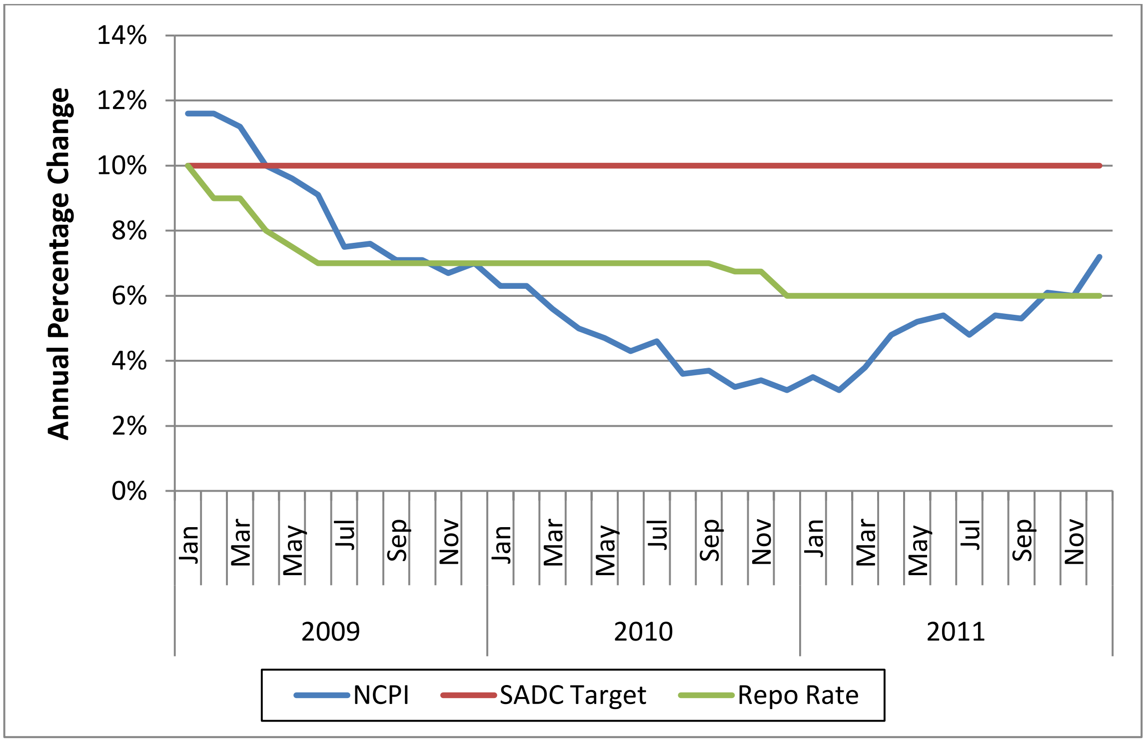
risks in the advanced economies. However, such injection of money also resulted in large capital flows from advanced economies to emerging economies, including the Common Monetary Area (CMA). This caused the strengthening of the SA Rand which, subsequently, reduced the competitiveness of Namibian exports. However, in the third quarter of 2011, the SA Rand started to weaken and this trend is likely to continue into early 2012. Currency developments thereafter are difficult to predict and could remain volatile due to global economic and financial uncertainties.

### 2.3.4 Price Developments

22 The annual **national consumer price index** (NCPI) inflation stood at 7.0 percent at the end of 2009, but fell to 3.1 percent in December 2010 due to declining price pressures (Fig. 1). In 2011, inflation started to pick up, mainly due to the cost push factors of rising oil and food prices. Oil prices impact not only on fuel prices, but also the price of most goods through increased transport and input costs. Housing; water, electricity, gas and other fuels; alcoholic beverages and tobacco; health; and hotels, cafes and restaurants have also shown relatively high price increases over 2011.

23 Inflation has increased in 2011 but has remained at 5.1 percent on average over the year. The relatively subdued inflationary pressures, uncertainty in the global economy, and the relatively weak domestic economic indicators kept the repo rate unchanged during 2011. Moreover, the stock of foreign reserves remained above the required level in supporting the currency peg. Going forward, given the relatively weak economic conditions globally and domestically, it is expected that inflation will be within a manageable range and not pose a significant threat to the outlook.

**Figure 1: NCPI (Annual Percentage Change) and Repo Rate**




*Source: Central Bureau of Statistics (CBS) 2011, Namibia.*

### 2.3.5 Employment, Poverty and Inequality

24 In 2010, Government undertook to boost efforts towards addressing the unemployment problem in the country through the **Targeted Intervention Program for Employment and Economic Growth (TIPEEG).** TIPEEG seeks to promote job creation through expanded public works programmes and by addressing supply-side constraints. The impact of TIPEEG is monitored through the TIPEEG Implementation Committee. While TIPEEG implementation will result in immediate job creation under the public works execution, long term private sector jobs will only materialise over the medium to long term period.

25 Even though NDP2 and NDP3 targeted employment to grow at 2.6 percent per annum, in fact, over the 2000-2008 period, employment fell by over 100,000 in rural areas and stagnated in urban areas at some 200,000 jobs. Over the same period, economic growth averaged over 5.0 percent. Thus, economic growth failed to generate employment and, in

fact, saw employment go down by some 25 percent - the number of "strict[5]" unemployed people rose by some 100,000, up to the level of 199,570 in 2008, translating into a "strict" unemployment rate of 37.6 percent of the labour force. When accepting the definition of "broad[6]" unemployment, the number of unemployed people was estimated at 259 000 in 2008, equivalent to 51.2 percent of the labour force.

26 It should be noted that the latest 2009/10 **Namibia Household Income and Expenditure Survey (NHIES)** shows that the unemployment rate (as measure using the broad definition) has fallen to 33.8 percent in 2009/10[7]. The sex disaggregated data in the NHIES shows that the unemployment rate among females was higher than that among males, recording 38.5 percent as compared to 28.8 percent for males.

27 With regards to labour absorption, there is high prevalence of important skills gaps, particularly in the urban sub-sectors of manufacturing, construction, financial intermediation and trade. A large number of Namibians seeking jobs in the formal sector are held back due to a lack of necessary skills or training. Under the MTEF, Government is pursuing education reform to address this problem, focusing importantly on the strengthening of technical, education and vocational training.

28 As part of the preparations of the **Fourth National Development Plan (NDP4),** Government plans to draw lessons of the past and develop proposals for the future to ensure that employment issues are further brought to the fore, by mainstreaming employment issues in NDP4. In addition, an Employment Policy is being prepared. Particular attention will also be given to the informal sector which has capacity to generate employment but where low productivity continues to be a problem. Skills gaps in the formal sector are also causing wage costs per unit of output to rise, thereby reducing the competitiveness of Namibia's exports.

29 Namibia's **Human Development Index 2011 (HDI)[8]** score has improved over the last five years, placing Namibia's rank globally at 120 out of 187 countries included, about mid-way in the 'Medium Human Development' category. Namibia's HDI rank is nearly the highest in the Sub-Saharan African region (only Botswana scores slightly better), but this does not

*5 The standard international definition of unemployment is based on this "strict" definition and requires a person to be out of work, available for work and looking for work.*

*6 "Broad" unemployment also includes people who are not seeking work but who would be available for work*

*7 It should be noted that the rate calculated in the NHIES and the Labour Force Survey are not directly comparable because the former is based on employment that is calculated throughout the year and which takes into account consideration seasonal effects.*

*8 The HDI is based on health, education and per capita income statistics. See the UN Human Development Report 2011 for more detail.*

mean that there is no scope for significant improvement. The HDI Report shows that social poverty (as measured by education and health outcomes) has improved in recent years, with life expectancy rising from 60 years in 2007 to 62 in 2011 and literacy rates also showing improvement.

30 The NHIES of 2009/2010 shows that the incidence of relative poverty and extreme poverty in Namibia has been declining. It should be kept in mind that Namibia is using two methods to compute the incidence of poverty, i.e. through the Food Consumption Approach (FCA) and the Cost of Basic Need Approach (CBNA). Based on the former, the incidence of both relative and extreme poverty has been decreasing since independence. Relative poverty fell by close to one-half over the past 7 years, i.e. from 38 percent in 1993/94 to 21.7 percent in 2009/10 (Table 7). Extreme poverty also fell very significantly, from 9.0 percent in 1993/94 to 4.0 percent in 2003/04 and only 2.0 percent in 2009/10. This progress on extreme poverty is in line with MDGs objective to eliminate extreme poverty by 2015. These results indicate that Government's policies and programs are showing to have a positive result.

**Table 7: Poverty Status in Namibia**

| Indicators | Baseline (1993/94) | 2003/04 | 2009/10 | MDG Target (2015) | Target / Goal Achievable? |
|---|---|---|---|---|---|
| Poor HH[9] (including severely poor HH), as a % of all HH | 38 | 27.8 | 21.7 | 19 | Possible |
| Severely poor HH, as a % of all HH | 9 | 4.0 | 2.0 | 6.9 | Likely |

*Source: Namibia MDG Report, 2008 and NHIES 2009/10*

31 Government recognizes that Namibia has very high income inequality and has, therefore, made the reduction of inequality a high priority task. This is beginning to have some success, as brought out in Table 8 below, which is based on the latest NHIES[10]. There are two important trends worth highlighting from this table. Firstly, overall GDP has almost doubled since 1993/94, as can be seen by the increase in total GDP as well as GDP per capita in all income brackets. This means that the size of the 'economic pie' has been increasing. Secondly, the distribution of the pie has become fairer over the last 16 years,

[9] *Household Heads*
[10] *Conducted during the 2009/10 financial year.*

with an improvement in the Gini[11] coefficient which has fallen from 0.7 just after independence to 0.63 in 2003/04 and further to 0.58 in 2009/10[12].

**Table 8: Data on Monetary Poverty Based on the National Household Income and Expenditure Survey**

| | 1993/94 | 2003/04 | 2009/10 |
|---|---|---|---|
| Total GDP US$ (million) | 3,945 | 5,763 | 7,357 |
| Poorest 20% per capita income US$ | 167 | 413 | 1,012 |
| Second poorest 20% per capita income US$ | 359 | 783 | 1,508 |
| Middle 20% per capita income US$ | 646 | 1,242 | 2,023 |
| Second richest 20% per capita income US$ | 1,374 | 2,299 | 3,329 |
| Richest 20% per capita income US$ | 9,396 | 10,411 | 10,557 |
| **Gini Coefficient** | **0.70** | **0.63** | **0.58** |

32 The bubble charts in Figure 2 below give a graphical representation of the data from Table 8. The size of blue circle represents total GDP, with the green circle representing the amount of income received by the richest 20 percent of the population, the yellow representing the amount received by the second richest 20 percent and so on, down to red, representing the amount of income received by the poorest 20 percent of the population. As can be seen, the size of the blue circle has been increasing substantially, showing an increase in total GDP. However, the size of the green circle has only increased marginally, showing that the income of the richest 20 percent of people has been broadly constant. The other income groups, especially the poorest 20 percent represented by the inner red circle, have all seen a more marked improvement in income (the poorest 20 percent have witnessed a 6-fold increase in income). The charts below also highlight that there is still a big gap between the richest and poorest in society and, therefore, the Government should not reduce its efforts in addressing inequality.

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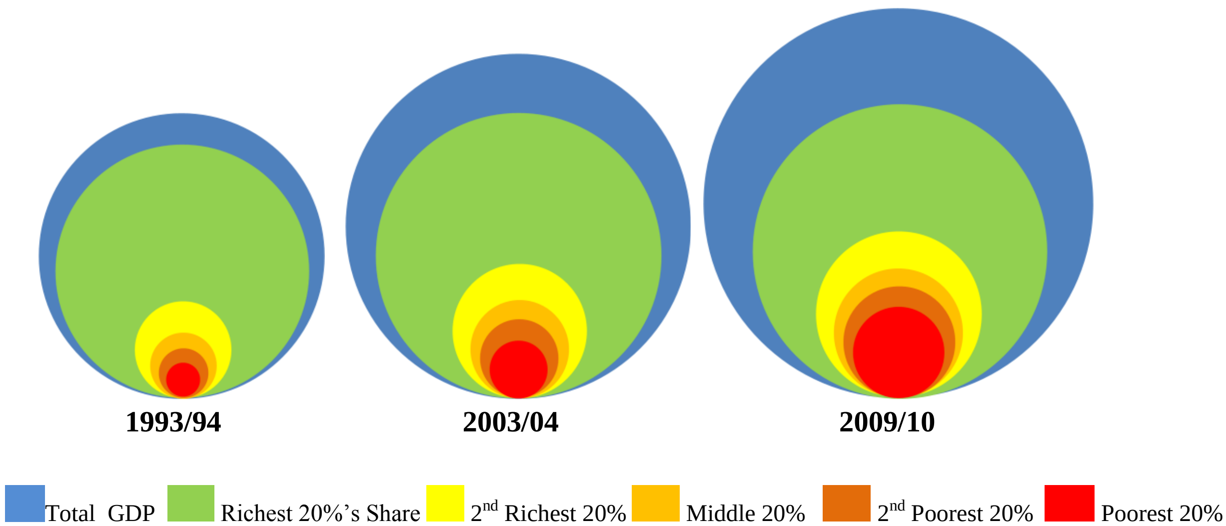
*[11] The Gini coefficient is a measure of overall monetary inequality within an economy; a Gini coefficient of 0 represents a situation where everyone in an economy has the same amount of income (no country in the world has a coefficient this low). The higher the coefficient, the higher the proportion of the nation's income is earned by a small number of people, or in other words a more unequal society.*

*[12] The data on unemployment and inequality is somewhat surprising in the sense that unemployment has increased over recent years whereas inequality seems to be improving. Further analysis of the figures will be conducted to investigate the underlying reasons for these contrasting trends.*

**Figure 2: Income Bubble Charts[13]**




### 2.3.6 Measures of Namibia's Business Competitiveness

33 Concerning Namibia's position internationally, the country's rank in the World Bank's 2011 **Ease of Doing Business** index remained virtually unchanged at 69th out of 183 countries in 2011 (down from 68th in 2010). More specifically, Namibia performed relatively well in terms of dealing with construction permits, accessing credit, enforcing contracts and closing a business. However, improvements were suggested in areas such as starting a business, registering property and trading across borders.

34 Points for praise in the G**lobal Competitiveness Report,** carried out for the World Economic Forum, included the institutional environment (ranked 43rd best globally) with well protected property rights, an independent judiciary, and strong public trust of politicians. Development of *financial markets* (36th) also performed relatively well and the labour market was said to function fairly well (ranked 57th). Points for concern were the *health and primary education pillar* (114th) and higher education and training (113th). Adaption to new *technology* such as internet and mobile technology also revealed scope for improvement to increase productivity (technological readiness was ranked 99th, innovation 92nd and business sophistication 95th).

*13 Data from the NHIE, analysis from Capricorn Investment Holdings*

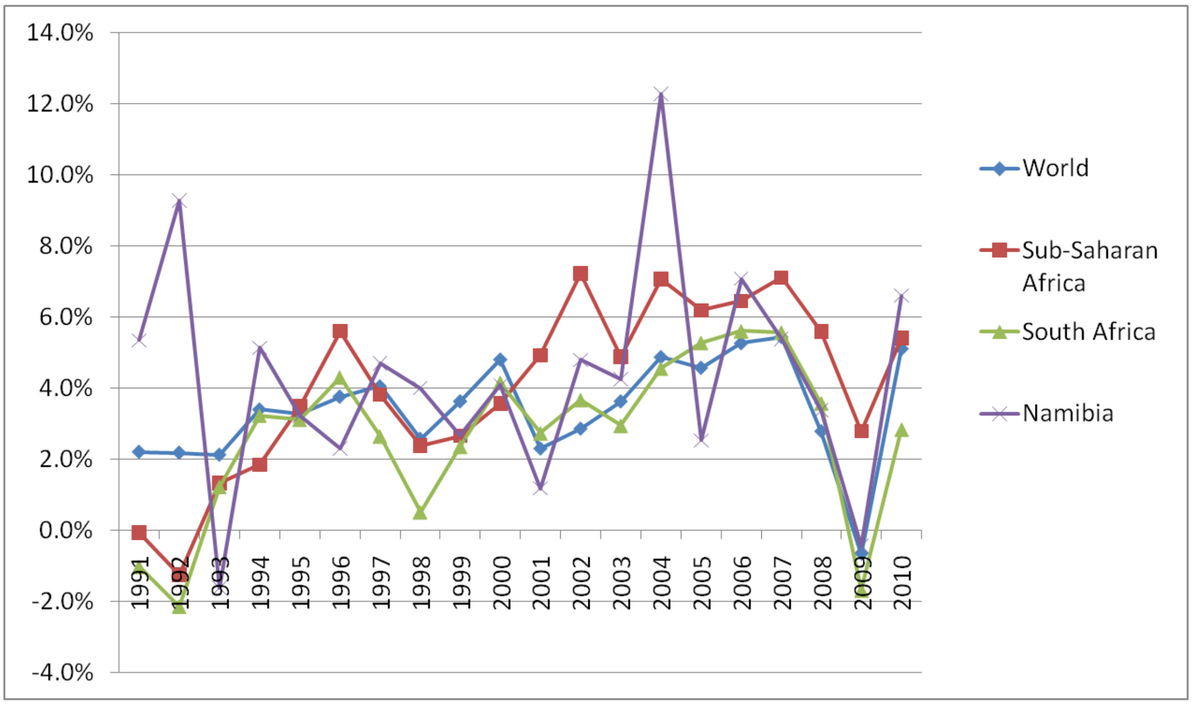
35 The business survey component of the Global Competitiveness Report also identified **problematic factors** for doing business, including an inadequately educated workforce, low productivity on the factory floor and restrictive labour regulations. These results are in line with the findings of the Annual Industrial Survey that was carried out by the MEWG.

## 3. ECONOMIC OUTLOOK FOR THE MTEF (2012/13-2014/15)

### 3.1 GLOBAL ECONOMIC OUTLOOK

36 As a small, open economy, **Namibia's economic performance** is inextricably linked to that of the global economy. This is depicted in Figure 3 below which shows Namibia's GDP growth rates in relation to those of South Africa, Sub-Sahara Africa and the global growth rate, from 1991 to 2010. With the exception of the exceptionally high growth achieved in 2004[14], Namibia's GDP growth has mirrored that of the global economy, particularly over the last 5 years.

**Figure 3: Gross Domestic Product, Constant Prices, Percentage Change**




*Note: Graph based on September 2011 IMF data*

37 A credible path to recovery of growth and financial viability in the Euro Zone has not as yet been forthcoming, leaving a very uncertain global economic outlook over the medium term. The IMF also cautions that for the several years ahead both middle-income and low-income income countries need to prepare for potential cold winds that blow from the advanced countries. To counter these negative effects emanating from the global economy, the Government of Namibia will continue carrying out its expenditure policy as set out for the

[14] *Due to the rebasing of the National Accounts in that year.*

MTEF. However, with the planned expansion over the MTEF, space for further fiscal accommodation will have been exhausted.

38 Looking ahead, the world economy will continue to struggle with the debt crisis that is gripping Europe and the US, and the expectation is that there will be a mild recession in the Euro zone in 2012. World trade has already started to decline and international commodity prices are falling sharply – a sensitive indicator of the state of the world economy. Fiscal austerity measures are expected across the Euro Area in response to market pressures aimed at reducing Government spending.

39 Investment spending will be hit by the slowdown in global trade, the tightening in credit conditions and the increase in uncertainty about the economic recovery. Namibia, as a small open export-oriented economy will be significantly influenced by the state of the global economy. Exports remain the main channel through which the economy can be affected by the global economic conditions. The economy is highly dependent on foreign trade, with exports accounting for 44.6 percent of GDP in 2010. Sharp declines in exports could trigger other internal difficulties including rising unemployment and declines in domestic demand.

40 The impact of the slow growth globally can also be felt through reduced or cancelled investment activities, declines in tourism and reduced revenue collection due to slower domestic economic growth. On the other hand, the financial sector in Namibia is expected to be resilient to external shocks and this may be reflected by the limited exposure of banks to the global market and liquidity risks experienced in advanced economies.

## 3.2 DOMESTIC ECONOMIC OUTLOOK

41 **Macroeconomic projections for Namibia under the medium term outlook are a key part of the budget process**. The projected GDP growth rate over the MTEF affects the overall level of tax revenue that the Ministry of Finance estimates to collect. The amount of tax revenue then affects the level of allocation to O/M/As for spending on programmes and projects. Projected domestic economic performance also gives an indication of the appropriate fiscal stance of the Government (i.e. if the economy is projected to perform poorly the Government may adopt an expansionary stance; conversely a more positive outlook would signal that a contractionary stance is appropriate).

42 Given the myriad of variable factors that can affect domestic growth, GDP projections should always be taken with a measure of caution. For example, few economists predicted the depth and severity of the global economic crisis leading up the downturn. That said, the MEWG aims to estimate growth as accurately as possible by taking into account global,

regional and domestic outlook. The foregoing analysis highlights the impact of the global economy on domestic economic performance and, therefore, it is an important consideration for the projections. The MEWG also analyses information obtained from major local companies regarding their projected performance over the MTEF, through the Annual Industrial Survey.

### 3.2.1 Overall Economic Projections

43 The central supply and demand side growth projections presented in the MEF are based on a range of assumptions concerning domestic, regional and international developments (see Annex A for a list of assumptions). Whilst the **Domestic Growth Scenario** is based on the most likely developments, it is also important to consider upside opportunities and downside risks. Therefore, upper and lower estimates for overall GDP growth are also presented, that is, based on potential external risks and opportunities (see Annex C for more detail).

44 A central estimate of 4.8 percent average annual GDP growth has been projected over the MTEF. At the lower end, average growth is estimated at 3.5 percent over the MTEF whereas 5.6 percent is estimated at the upper end (Table 9). The confidence interval is wider at the lower end due to the fact that the downside risks are greater than the upside risks, in particular due to growing risks in the Euro Zone. The confidence interval is illustrated in Figure 4.

45 The downside impact of low prospective growth in the world's advanced economies – which are Namibia's main trading partners – will reduce expected annual growth of the global economy to some 4.0 - 4.5 percent on average over the MTEF. This will, in turn, depress Namibia's economic growth prospects (as highlighted in Figure 3). However, it is possible for the domestic economy to grow beyond this rate as a result of efforts which Government intends to make to stimulate demand, speed up the implementation of economic infrastructure projects, facilitate both domestic and foreign private sector investment and enhance public and private sector efficiencies. Under these circumstances, achievement of annual economic growth of 4.8 percent over the MTEF period in Namibia, while being a challenge, will be a possibility. Nonetheless, the downside scenario could still materialise if exogenous factors (particularly in Europe) continue to deteriorate.

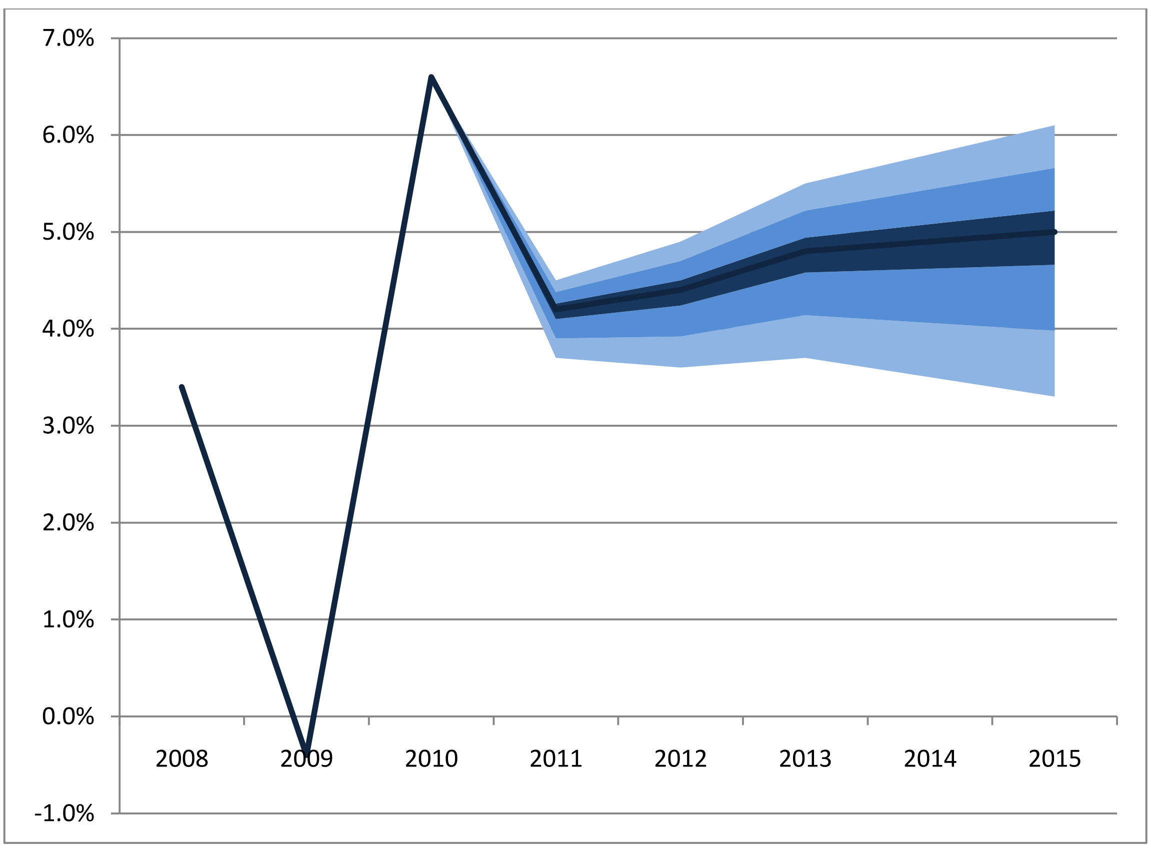
**Table 9: Outlook for overall GDP growth with central, upper and lower estimate, 2004 prices, percentage change**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Average 2012-15 |
|---|---|---|---|---|---|---|---|
| | Actual | Estimate | Projection | | | | |
| Upper Estimate | 6.6 | 4.5 | 4.9 | 5.5 | 5.8 | 6.1 | 5.6 |
| Central Estimate | **6.6** | **4.2** | **4.4** | **4.8** | **4.9** | **5.0** | **4.8** |
| Lower Estimate | 6.6 | 3.7 | 3.6 | 3.7 | 3.5 | 3.3 | 3.5 |

*Source: MEWG MTEF Projections 2011*

The evolution of the three possible growth scenarios is illustrated in Figure 4 below.

**Figure 4: Overall GDP growth estimate, constant 2004 prices (bold line indicates the central estimate)**




*Source: MEWG MTEF Projections 2011*

### 3.2.2 Supply-Side Projections

46 Growth in the **primary industries** is projected to be low over the MTEF period, averaging 1.2 percent annually, mainly due to reduced carat production of onshore mining diamonds (Table 10 below). However, the increase in production of uranium could add momentum to the performance of the primary industries, and compensate for the downturn in diamond output. The projected increase of the uranium[15] price will also help the mining sector's performance. Other primary sectors are also projected to perform well, including improved agriculture performance, stimulated by government support programmes such as the Green Scheme and TIPEEG, as well as moderate growth in fishing.

**Table 10: Central estimate for GDP Growth by Sector in 2004 prices (%)**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Av. 2012-15 |
|---|---|---|---|---|---|---|---|
| | Actual | Estimate | Projection | | | | |
| Primary Industries | 10.5 | 0.2 | 2.1 | 1.0 | 1.0 | 0.7 | 1.2 |
| Secondary Industries | 8.8 | 4.6 | 5.8 | 5.3 | 5.7 | 5.7 | 5.6 |
| Tertiary industries | 4.9 | 4.6 | 4.7 | 5.3 | 5.3 | 5.3 | 5.1 |
| **GDP** | **6.6** | **4.2** | **4.4** | **4.8** | **4.9** | **5.0** | **4.8** |

*Source: MEWG Projections 2011*

47 Growth in the **secondary industries** is expected to be high over the MTEF period, and could average 5.6 percent. Key to this projected favourable performance is the strong growth in the construction sector, reflecting increases in both Government and SOE construction activities (also stimulated by TIPEEG), including the extension of the port of Walvis Bay by NamPort, NamWater's desalination plant, several of NamPower energy projects, construction of the Neckertal Dam, etc. However, the appropriate financing plans have not as yet been firmed up for several of these projects and, reflecting financing constraints, may not materialize as planned. The lack of fiscal space, as highlighted above, points to the need for efforts to finance large projects independent of the Government's budget. In addition, several large scale private sector construction activities such as the construction of AREVA and Husab Uranium Mines are expected to be initiated.

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[15] *According to the uranium price projections published by the IMF, September 2011.*

48 The **tertiary industries** are projected to grow steadily at an average of 5.1 percent over the MTEF, mainly due to strong growth in transport as a result of the potential expansion of the Walvis Bay port that will increase cargo and support trade and regional integration in Southern Africa. The port is in a prime position to take advantage of challenges faced by competing ports in the region, such as the congestions experienced at Durban harbour. Producers of Government services are also projected to grow strongly, in line with increased Government spending.

### 3.2.3 Demand-Side Projections

49 Following low growth in investment activity in 2010, **gross fixed capital formation (total investment)** is projected to grow strongly, averaging 8.2 percent per annum over the MTEF period, primarily due to Government and SOE investment as well as some large-scale private sector projects. **Exports** are expected to grow moderately at the start of the MTEF, with positive but low growth in 2011 and 2012 and improved prospects from 2013 onwards, averaging 5.0 percent over the MTEF period. Table 11 below provides illustrations.

**Table 11: Outlook for GDP Growth in 2004 prices, expenditure approach**

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Average 2012-15 |
|---|---|---|---|---|---|---|---|
| | **Actual** | **Estimate** | **Projections** | | | | |
| Final Consumption Expenditure | 2.4 | 2.9 | 4.0 | 4.4 | 4.8 | 4.7 | 4.4 |
| Of which Private | 1.4 | 1.9 | 2.1 | 3.3 | 4.4 | 4.9 | 3.7 |
| Of which Public | 5.6 | 6.0 | 9.5 | 7.1 | 5.8 | 4.2 | 6.6 |
| Gross fixed capital formation | 0.6 | 4.4 | 9.4 | 11.0 | 7.5 | 5.0 | 8.2 |
| Of which Private | -1.9 | 2.8 | 11.1 | 9.2 | 6.8 | 5.9 | 8.2 |
| Of which Public | 3.8 | 6.4 | 7.4 | 13.3 | 8.4 | 4.0 | 8.3 |
| Exports of goods and services | 0.8 | 3.2 | 3.7 | 4.3 | 6.0 | 5.9 | 5.0 |
| Imports of goods and services | -4.7 | 2.9 | 4.7 | 5.8 | 5.9 | 4.5 | 5.2 |
| **GDP in constant prices 2004** | **6.6** | **4.2** | **4.4** | **4.8** | **4.9** | **5.0** | **4.8** |

*Source: MEWG Projections 2011*

50 Both public and private investment are expected to drive growth in the MTEF years (with an average annual growth of over 8 percent projected for both private and public investment), followed by exports (5.0 percent) and consumption (4.4 percent), much of which is from the public sector.

## 4. POLICY DEVELOPMENTS

51 For the MTEF period, Government aims at striking an appropriate balance in fiscal and monetary policy to maintain macroeconomic stability and promote broad-based growth. As to the latter, the structural policy and programs which will boost productivity, competitiveness and employment generation have been prioritized. **Broad-based and inclusive growth** is emphasized in order to reduce inequality and poverty.

52 In addition **to the TIPEEG program** – which, up to 2015, aims at creating over 100,000 jobs in two phases and is being implemented in the four sectors of agriculture, Tourism, Transport Infrastructure and Housing and Sanitation - the MTEF provides significantly increased allocations for financing of programs in the social sector, in particular towards education and health, as well as for the infrastructure and economic sectors.

53 Table 12 below illustrates the importance which Government attaches to accelerating poverty reduction and employment generation by planning to allocate some 40.0 percent of global Government expenditures under the MTEF towards poverty-oriented and employment generating programs.

**Table 12: Poverty-oriented Expenditures in MTEF Period (N$ Million)**

| Sector | 2010/11 | 2011/12 | 2012/13 | 2013/14 | Total | % of Total Expenditure |
|---|---|---|---|---|---|---|
| Education | 6 476 | 8305 | 8 657 | 9 241 | 26 203 | 23 |
| Health and Social Services | 2 593 | 3 333 | 3 537 | 3 231 | 10 101 | 9 |
| Labour and Social Welfare | 1 140 | 1 196 | 1 265 | 1 412 | 3 873 | 3 |
| Gender Equality and Children Welfare | 522 | 550 | 541 | 733 | 1 824 | 2 |
| Agriculture, Water and Forestry | 1 519 | 2 269 | 1971 | 2 722 | 6 962 | 6 |
| Total Poverty-oriented Expenditure | 12 250 | 15 653 | 15 971 | 14 108 | 45 732 | 41 |
| Total Government Expenditure | 27 575 | 35 869 | 35 013 | 41 657 | 112 539 | 100 |
| Poverty-oriented expenditure as % of Total Expenditure | 44 | 44 | 46 | 34 | 41 | |

*Source: Ministry of Finance: Medium-Term Expenditure Framework for 2011/2012-2013/2014*

54 The following are some of the measures put in place by Government to reduce extreme poverty in Namibia:

- Investment in agriculture, especially at household level by providing free seeds, fertilizers and subsidized ploughing services to local farmers;
- Relief measures to assist sections of society affected by natural disasters such as drought and floods through relocation and provision of basic services;
- Zero-rating of some basic food items;
- Provision of social grants to pensioners, people with disabilities, war veterans and orphans and vulnerable children;
- Increase of the minimum tax bracket (threshold);
- Enhancement of financial inclusion and financial literacy through the new Financial Literacy Initiative, initiated by the Ministry of Finance (which will be launched in March 2012);
- Increasing the availability of serviced land.

55 As poverty and inequality are closely linked and correlated with social, demographic, geographic and economic features of households, the following measures have been put in place to reduce inequalities in Namibia:

- Increased access to productive assets such as land and capital;
- Effective implementation of land reform and increase incomes of resettled farmers;
- Proclaim more new towns to promote more local and foreign investment and expand employment opportunities;
- Effective implementation of formula-based resource allocations to Regions;
- Increased investments in education and human resource development;
- Implementation of progressive taxation, including land tax; etc.

56 Of key importance is the need to address bottlenecks to the implementation of intervention programmes and, hence, achievement of the Government's objectives. The recent analysis of the effectiveness of Government spending in the education sector reveals considerable scope for improving its effectiveness. Government is acting on the recommendations presented in the Public Expenditure Review (PER) for the education sector and also plans to extend PER analysis to other sectors of the economy, including agriculture, health, water and sanitation and tourism.

57 **As regards to economic growth stimulation**, improvements to productivity in the private sector remain of importance to support Namibia's continued competitiveness in world markets for its products. Programs to achieve this objective include the provision of economic infrastructure, those for strengthening vocational training and technical education, facilitating the growth of both foreign and domestic private investment through

strengthening the financial system, as well as by improving the business environment, for which there is scope and need.

## 5. THE WAY FORWARD

58 The need for meeting the challenge of raising economic growth in Namibia is strong in the light of the aspirations of the Namibian people to see high income and employment growth as well as continued progress with non-monetary poverty reduction. The MEF analysis indicates that the following policy approaches are to be considered at this time to ensure progress towards the realization of these important objectives.

i. The expansionary policy adopted by the Government since 2008/09 was successful in mitigating the worst effects of the global economic crisis of 2008 and 2009 on the domestic economy, and helping a strong rebound in growth in 2010. **Expenditure plans under the current MTEF should continue** in light of global economic uncertainty.

ii. With these spending plans in place **fiscal space will be exhausted over the MTEF** and therefore no further expansion should be implemented. Furthermore, the Government should pursue fiscal consolidation at the end of the MTEF.

iii. The economic growth witnessed in recent years has not translated into job growth; therefore the Government has implemented TIPEEG to spur job creation in the short term. Focus should now shift to counter **other key challenges to job growth** such as skills mismatch and employability; efforts to remain competitive and attract foreign and domestic investment; and improvements in productivity and innovation.

iv. The Government cash injection in several **State Owned Enterprises (SOEs)** over recent years has resulted in little improvement in efficiency and performance. SOEs should establish clear business and financial plans in order to turn around performance. This will also help to determine a clear picture of where financial support may be required and improve accountability.

v. Through the ongoing tax review, Namibia should **broaden and expand the tax base** through capacity enhancement/development and exploration of new/alternative sources of revenue. This will help to reduce dependence on SACU receipts and improve fiscal sustainability.

vi. Whilst SADC regional integration is deepening, **Namibia needs to improve supply-side constraints** in order to ensure that the domestic economy will reap the benefits of more open regional trade. Competitiveness and supply side factors are covered in detail in the new Industrial Policy and Strategy, due to be finalised in 2012. Improved domestic competitiveness will also help to **curb the trend of capital flight**.

vii. Namibia should **diversify exports markets** in order to gain from opportunities presented by emerging economies with large markets and high rates of growth.

viii. Poverty and inequality has been improving over recent years, with the gap between the rich and the poor reducing and improvements being observed in key health and educational outcomes such as life expectancy and literacy rates. The Government should maintain its programmes at addressing poverty and **continue to focus on the most vulnerable in society.**

ix. Government should continue the momentum built on the **Public Expenditure Review** (PER) for the education sector and expedite the implementation of the outcome**s** of the review. Following this, reviews should be carried out in other sectors to assess expenditure performance across other areas of Government.

x. Namibia's transport infrastructure should be maintained and expanded. In particular, Namibia should continue to develop itself as one of the **key transport hubs in Southern Africa,** with the development of Walvis Bay harbour.

xi. There should be a drive towards **energy self-sufficiency**. This is important for both business growth (particularly mining) and private consumption demands.

xii. Demand for **water** is likely to increase over the MTEF, from industry (both large as small) as well as domestic households. Water availability should be prioritised to ensure that growth is not compromised.

# ANNEX A: GLOBAL AND REGIONAL DEVELOPMENTS

## Global Picture

68 Although the **global economy** re-gained positive growth in **2010,** risks to full recovery remain and new risks have emerged. **2011** was a turbulent year for the global economy, with rising commodity prices, continued sovereign debt risks in the Euro Zone and a recession in Japan due, in part, to the earthquake and associated tsunami.

69 Stock prices in **advanced economies** recently experienced their largest fall since the global economic crisis took hold in 2008 and 2009. Advanced economies face the challenge of regaining fiscal and financial stability and sustainability in the face of low economic growth. Given these challenges, growth in advanced economies is likely to be low over the MTEF period.

70 Overall, **emerging market economies** have been experiencing sustained periods of relatively high growth. However, the danger of overheating is increasingly becoming a concern. Restrictive monetary policy has been pursued in the majority of **BRICS** countries to counter inflationary concerns. In some cases, this has led to a reduced growth in emerging markets, although for some BRICS countries rates remain high.

71 Over recent years, a **dualistic pattern of growth** has emerged in the global economy, with relatively high levels of growth in emerging market economies and low growth in advanced economies (particularly the US and Euro Zone). The financial crisis has accelerated the trend of economic power and influence moving from West (Europe/US) to East (Asia and other emerging regions). This could mean reduced levels of trade with the US and Europe for Namibia, but potentially increased trade with emerging economies, in particular the BRICS countries.

72 **Global imbalances** have emerged over recent years. In the advanced economies, a rebalancing of demand from fiscal stimulus to private demand is needed. Whilst some efforts have been made towards fiscal consolidation, the private sector has not been picking up to the extent required. Foreign demand in the advanced economies could be increased to compensate for slow domestic activity but again, this has not been forthcoming. Conversely, emerging/developing economies could engage in monetary tightening and rebalancing of demand (from foreign to domestic sources of demand). Such a rebalancing is important for global stability and growth over the medium to long term but the signs of such a rebalancing are yet to be seen.

73 The IMF estimates that **global growth** has slowed to 3.8 percent in **2011**, from 5.2 percent in **2010**. In **advanced economies,** growth in 2011 is very low at an estimated 1.6 percent, down from 3.2 percent in 2010. **Emerging and developing economies** are also expected to experience a slowdown in growth from 7.3 percent in **2010** to an estimated 6.2 percent in **2011**. Of concern is that a credible path to recovery in the Euro Zone has not been forthcoming, leaving a very uncertain economic outlook.

74 One of the main challenges that the global economy has faced in 2011 is the **high price of oil**. Oil prices rose dramatically in early **2011**, mainly due to supply side constraints in the wake of unrests in North Africa and the Middle East. In the second and third quarters of **2011**, prices have fallen slightly due to lower than expected global demand and continuing risks in the global economy; however prices are still at a high level and are unlikely to drop significantly. They may well remain volatile as well.

75 **Food prices** have risen significantly in **2010** and **2011**, having a particularly damaging impact on the world's poorest people. Increasing food prices have mainly been due to adverse weather conditions and poor harvests. Supply conditions are expected to improve going forward, which will ease the pressure on global food prices. However, the UN[16] warns that volatility in food prices is unlikely to go away. It is also important to recognise that even short term price swings can have long-term developmental impacts, especially when price swings result in insufficient nutrition for children.

76 Other commodity prices have shown a mixed picture over 2011, with gold and diamond prices increasing and Uranium, Copper and Zinc witnessing a contraction in price. Uranium price movements are particularly important for Namibia and the Fukushima tragedy led to a fall in prices which may stall investment and exploration activity in Namibia.

## Developments in the Key Trading Partners

77 The **United States' (US)** economy achieved positive growth in **2010** but is still in a weak position and dominant post-recovery risks remain. The main challenge facing the US economy is the high sovereign debt and the need to address fiscal imbalances without jeopardising the weak economic recovery. After a modest rate of 3.0 percent in **2010**, growth is estimated at 1.8 percent for **2011**. Over the medium term, there are worries over the uncertain prospects for adoption of a credible fiscal consolidation and reform plan. In addition, the credit rating for the US was downgraded by one ratings agency for the first

[16] *According to the recently published 'State of Food Insecurity in the World' report by the UN,*

time ever amid concerns over the budget deficit. A further challenge is the housing market, which remains particularly weak. Developments in the US economy are important to note, not simply because of their impact on the overall global economy but also because the US accounts for around 5 percent of Namibian export demand[17].

78 Growth in the **Euro Zone** was also weak in **2010** at 1.9 percent. This downcast picture continued in 2011 with growth of 1.6 percent and the IMF project that the Euro zone will fall into recession in 2012, with a contraction of 0.5 percent. The main challenge for the Euro Zone is the high levels of sovereign debt, which have already resulted in bail-outs for Greece and could spread to larger Euro Zone economies. Over the medium term, fiscal deficits and debts need to be reduced without compromising the economic recovery. Consequently, there will be a period of low growth in the Euro Zone. However, growth in some larger economies in the Euro Zone was above expectations, with high levels of investment in Germany and France. The Euro Zone remains one of Namibia's key export markets, with over 26 percent of Namibia's exports having gone to the Euro Zone in 2010.

79 In **Japan**, the main development over the last year has been the earthquake and the resulting negative impact that translated into major supply-side constraints. This unexpected event caused a reduction in industrial production and consumer spending. Besides that, growth in Japan recovered well in **2010** at 4.0 percent but the economy fell into recession in **2011** as the country rebuilds its production base.

80 The real impact of the shaky growth in advanced economies will depend on how well the **US and Euro Zone** economies perform in the coming months, that is, whether fears about a double-dip recession in Europe and US prove realistic and whether both regions can handle their unfolding sovereign debt problems without defaulting.

81 **Emerging and developing economies** continued to grow strongly, with growth of 7.3 percent in 2010 which is estimated to moderate to 6.2 percent in 2011 and a projected 5.4 percent in 2012. China and India continue to grow at very high rates and these economies represent significant opportunities for trade with Namibia. However, on the downside, there are risks that some emerging economies could overheat due to high asset prices and increasing inflation. In response, some of the larger emerging market economies have tightened their monetary policies in 2011. This will dampen growth slightly but help to ward off the risks of overheating. Currently, only a small percentage of Namibian exports are destined for emerging economies other than South Africa (around 4.0 percent to China and less than 1.0 percent to India and Russia).

[17] *All export destination statistics are from the CBS (October 2011).*

82 Economic recovery in **Sub-Saharan Africa** is generally progressing well, although there is variation in the speed of recovery between different countries. Overall, the region grew by 5.3% in **2010** and is estimated to have grown by 4.9% in **2011**, reflecting robust domestic demand and high commodity prices that benefit exporters. However, Sub-Saharan Africa is not immune to the growing risks in the global economy as weak global growth affects the region through trade and investment flows, development aid and remittances.

83 In most of Sub-Sahara Africa's low-income and oil exporting countries, growth is almost as high as it was at the pre-crisis levels. Hence, policy adjustments in these economies could be diverted from the supportive stance of the past few years to the need to alleviate the impact of rising food prices on poor households. The region's middle-income countries have experienced more gradual recoveries with below-optimal potential output, which present policy space to continue pursuing expansionary policies.

84 **Angola** is expected to be one of the main pillars of Sub-Saharan Africa's growth in the next few years. Angola's GDP is projected to grow by 3.7 percent in **2011** and 10.8 percent in **2012**, primarily on the back of high international oil prices as well as the revival and diversification of the agricultural sector. Foreign direct investment into the oil-extraction industry has been very high over recent years. The oil-dominated economy strives to diversify its base by focusing on the agriculture sector. Angola pumps about 1.9 million barrels of oil a day and is the third largest oil producer on the continent, after Nigeria and Algeria. The Angolan Kwanza experienced depreciation between mid-2010 and early 2011, which helped to boost economic growth in all sectors.

85 Angola is an important destination for Namibia's exports, representing around 8.0 percent of total exports in 2010. While there is scope for increased trade with Angola (both commodity and non-commodity), barriers to entry, like the import ban of certain commodities, remain.

86 **South Africa's** (SA) real GDP growth rate was recorded at 2.9 percent in **2010** and is expected to increase to 3.1 percent in **2011** before falling back to 2.5 percent **2012**. GDP growth for 2010 was driven primarily by a steady recovery in consumer spending, partially attributed to the Football World Cup.

87 SA is one of Namibia's major export markets and accounted for over 20 percent of total exports in 2010. SA's inflation rate was 3.5 percent by the end of 2010, averaged 4.3 percent in the same year and is expected to reach 5.3 percent in 2011. This is important because Namibia's inflation is heavily influenced by inflation developments in SA, given

that over 70 percent of Namibian imports (both commodity and non-commodity) originate from South Africa[18].

88 In **summary**, the prospects for the global economy have become even more uncertain since last year's MEF. The US and the Euro Zone are not only key trading partners, but their performance also impacts on growth in other regions and on commodity price developments. It is, however, encouraging to note the more positive developments in the Sub-Saharan African region and BRICS countries. Furthermore, Namibia could tap into high growth markets in case the traditional trading partners falter.

[18] *Source - CBS, October 2011.*

## ANNEX B: DOMESTIC ECONOMIC DEVELOPMENTS

### Overall Economic Performance

89 **GDP growth** in Namibia has been strong in **2010** at 6.6 percent, compared to a 0.4 percent contraction recorded in **2009**. This robust growth is attributed to a high growth rate of 10.5 percent observed in primary industries as well as to growth of 8.8 percent and 4.9 percent recorded in secondary and tertiary industries, respectively. This robustness is ascribed to the solidifying recovery from the global financial crisis in 2010 which led to increased demand for export commodities and the subsequent rebound in international commodity prices.

90 However, initial signals are that the Namibian economy has been more sluggish in **2011**, once again emanating from challenges posed by the global economy, namely, the high price of crude oil, the fragile state of the US and Euro Zone economies and the strength of the Namibia Dollar at the start of the year. Moreover, inflationary pressures have started to build up due to rising international food and crude oil prices, although headline inflation remains within the target band. Growth is estimated to be 4.2 percent in **2011**.

91 **National income** resumed growth in 2010, albeit at a slow pace, and reached N $58.9 billion in **2010.** This compared to N$57.5 billion in **2009**, representing a growth rate of 2.4 percent which, in turn, compares to a fall of 0.1 percent in 2009. The growth rate of real **GDP per capita** recovered to 4.6 percent in 2010 which compares to negative growth rate of 2.2 percent in 2009 and which resulted in N$24,164 per capita GDP in 2010.

92 Going forward, the downside risks from **high oil and food prices** as well as from high levels of sovereign debt and uncertainty in the US and Euro Zone will adversely affect the demand for exports over the MTEF. However, the depreciation of the Namibia Dollar in late 2011 will enhance export competitiveness and could mitigate the negative impact of adverse global developments.

### Real Sector Developments

93 The real sector consists of the primary, secondary and tertiary industries. Table 13 shows the annual percentage growth rates of the various industries. It highlights the sources of economic growth/contraction in the economy.

94 **Primary industries**[19] rebounded strongly in **2010**, with growth of 10.5 percent, following a contraction of 24.1 percent in **2009** and of 7.8 percent in **2008.** The primary industries are particularly responsive to global developments as commodity and diamond prices are sensitive to global market conditions. Their strong growth is attributed to the recovering world demand for minerals, particularly diamonds. The agriculture and forestry sector recorded slower growth of 0.4 percent in 2010 from 0.6 percent in the previous year, while fishing and fish processing onboard contracted by 5.5 percent following a 4.4 percent growth rate recorded in 2009.

**Table 13: Contribution to GDP (current prices) and Growth Rates of Major Industries (constant, 2004 prices)**

| Industry | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| | Percentage contribution to GDP | | | Growth Rates | | | Estimates |
| Primary industries | 23.5 | 17.9 | 15.6 | -7.8 | -24.1 | 10.5 | 0.2 |
| Secondary Industries | 19.0 | 19.8 | 20.9 | 3.2 | 3.1 | 8.8 | 4.6 |
| Tertiary industries | 50.6 | 55.2 | 56.1 | 5.6 | 4.6 | 4.9 | 4.6 |
| Less: FISIM | 1.2 | 1.3 | 1.4 | 2.7 | -0.6 | 8.7 | - |
| All industries | 91.9 | 91.6 | 91.2 | 2.6 | -0.4 | 6.4 | - |
| Taxes less subsidies | 8.1 | 8.4 | 8.8 | 11.8 | -1.1 | 8.6 | - |
| GDP | 100 | 100 | 100 | 3.4 | -0.4 | 6.6 | 4.2 |

*Source: 2010 National Accounts data*

95 In **2011** growth in the primary industries is estimated to fall to 0.2 percent. This is mainly due to two physical factors, namely reduced output in uranium mining (due to rainfall and industrial action) and reduced diamond output (due to the Namdeb strikes and the continued depletion of onshore diamonds). The slowdown in global growth in 2011 is also likely to affect the industries.

96 **Secondary industries**[20] recorded strong growth of 8.8 percent in **2010,** up from 3.1 percent in **2009** and 3.2 percent in **2008**. Welcome acceleration of growth in 2010 came from both manufacturing and construction sub-sectors. Strong growth of the manufacturing sub-sector and in its contribution to GDP can have a favourable impact on employment.

97 In **2011**, the secondary industries are estimated to grow, but by a lower rate of 4.6 percent, tempered by moderate growth in construction in the public and private sector.

[19] *Consisting of agriculture and forestry, fishing and fish processing on board and mining and quarrying sub-sectors*
[20] *Consist of manufacturing, electricity and water and construction.*

98 The **tertiary industries**[21] are expected to perform steadily in **2011**, with growth estimated at 4.6 percent in that year, down from 4.9 percent in 2010**.** This is driven by strong performance in financial intermediation and high growth in the provision of Government services made possible by the Governments expansionary fiscal policy. Growth in 2010 was mainly due to increased activity in wholesale, retail trade and repairs; transport and communication, financial intermediation; public administration and defence and health sectors.

99 Over the past three years, there has been an increase in the relative importance of the contributions of the secondary and tertiary industries to the GDP. The share of these two industries combined, rose from 69.6 percent in 2008 to 77.0 percent in 2010, while the contribution of primary industries fell from 23.5 percent in 2008 to 15.6 percent in 2010. This is a positive development that bodes well for the **economic structure** and does, as such, augur well for employment growth.

## Demand Indicators

100 The **demand for goods and services** comprises of **final consumption expenditure** of both the private sector and general government, private and public expenditure on **gross fixed capital formation (investment)**, changes in inventories and **net exports**. These components reflect the expenditure on Namibian GDP by all sectors of the economy and the rest of the world.

[21] *Consisting of wholesale and retail trade, repairs, transport and communication, hotels and restaurants, financial intermediation, real estate and business services, community services and producers of Government services.*

**Table 14: Expenditure on GDP, percentage contribution (current prices) and percentage growth rates (constant 2004 prices)**

| Expenditure Category | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| | Percentage Contribution to GDP | | | Percentage Growth Rate | | | Estimate |
| Final consumption expenditure | 77.9 | 86.2 | 84.7 | 8.2 | 8.6 | 2.4 | 2.9 |
| Private | 57.5 | 63.5 | 61.9 | 9.0 | 9.4 | 1.4 | 1.9 |
| General government | 20.4 | 22.7 | 22.8 | 6.1 | 6.2 | 5.6 | 6.0 |
| Gross fixed capital formation | 24.5 | 23.6 | 22.3 | 7.2 | -4.2 | 0.6 | 4.4 |
| Private | 15.6 | 16.5 | 15.5 | 15.2 | -8.8 | -0.5 | 2.8 |
| Public | 8.9 | 7.1 | 6.8 | -9/9 | 8.1 | 2.9 | 6.4 |
| Changes in inventories | 0.9 | 0.3 | -0.1 | -1.0 | -0.7 | -0.1 | - |
| Gross domestic expenditure | **103.2** | **110.1** | **106.0** | **7.0** | **5.1** | **1.9** | **-** |
| Exports of goods & services | 53.2 | 47.1 | 44.6 | 5.2 | -8.7 | 0.8 | 3.2 |
| Imports of goods & services | 54.6 | 55.0 | 49.9 | 9.6 | 3.7 | -4.7 | 2.9 |
| Discrepancy | -1.8 | -2.2 | -0.7 | -0.9 | -0.1 | 1.1 | - |
| **GDP** | **100.0** | **100.0** | **100.0** | **3.4** | **-0.4** | **6.6** | **4.2** |

*Source: 2010 National Accounts*

101 **Final consumption expenditure**, which is made up of private and general government expenditures, is the main demand component of GDP. Its growth fell to 2.4 percent in **2010,** down from 8.6 percent in **2009** and 8.2 percent in **2008**. The performance of final consumption expenditure in 2010 was attributed to the slow growth of **private expenditure,** which slowed to 1.4 percent compared to 9.4 percent in 2009 and 9.0 percent in 2008. Growth in **Government expenditure** remained steady at 5.6 percent in 2010 compared to 6.2 percent in 2009 and 6.1 percent in 2008 and made up somewhat for the slack in public expenditure.

102 In **2011**, growth in final consumption expenditure is estimated to remain at a moderate level of 2.9 percent due to the sluggish overall economic performance (Table 14). Reflecting its expansionary policies, consumption of Government is estimated to increase by 6.0 percent while private consumption will increase only marginally by 1.9 percent.

103 In terms of growth rates, **Gross Fixed Capital Formation (GFCF)** recovered to 0.6 percent in **2010** from a negative growth rate of 4.2 percent recorded in **2009** (Table 14). Before the economic downturn, it grew by 7.2 percent in **2008**. Over the 2008-2010 period, GFCF fell by some 2.0 percent of GDP, with virtually the entire decline accounted for by reduced public investment. The latter possibly reflected increasing implementation bottlenecks in the public sector.

104 For **2011**, GFCF is estimated to increase marginally from 2010 levels, growing by 4.4 percent (Table 14). This is mainly due to the increased development spending from the Government, with an estimated 6.4 percent growth in Government investment in 2011. Private investment is also estimated to improve in 2011, growing by 2.8 percent as business confidence picks up towards the end of the year[22].

105 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 recent years.

106 **Exports** recorded improved performance in **2010** with positive growth of 0.8 percent, from a contraction of 8.7 percent in **2009**. This is still below the 5.2 percent growth rate achieved in **2008** before the recession. The return to positive growth in exports in 2010 was due to the improved global economic outlook relative to the previous year. The global demand for exports, particularly minerals, picked up in 2010 which resulted in higher prices and, hence, increased export earnings. Diamond exports were one of the major contributors to improved export performance during 2010, constituting 20.5 percent of overall exports. In **2011**, exports are expected to increase by a moderate 3.2 percent.

107 **Imports** into Namibia recorded a negative growth of 4.7 percent in **2010,** down from the 3.7 percent growth recorded in the previous year (Table 14). This decline in imports exceeded expectations of both the public and private sector and resulted in a boost to GDP growth[23]. This decline in imports was mainly due to reduced imports of machinery and equipment, transport equipment and basic metals, amongst other categories. Imports are expected to increase by 2.9 percent in 2011, reflecting increased investment activity which will lead to increased demand for imports.

108 **Gross National Disposable Income (GNDI)** has always been higher than the Gross Domestic Product (GDP) in Namibia. GNDI was recorded at N$ 87.4 billion in 2010 while GDP was recorded at N$ 81.5 billion in 2010. The excess amount of GNDI to GDP implies that the country receives more from the rest of the world than it pays and is attributed to net SACU receipts that stood at N$6.0 billion in 2010. However, SACU receipts have been falling and in 2010 net SACU receipts contributed 8.4 percent to GDP, down from 11.3 percent during 2009.

[22] *The IPPR business climate index reached its highest ever level in August 2011 and continued to climb to the end of the calendar year.*
[23] *Imports represent a leakage from the economy and therefore a reduction in imports results in an increase in GDP.*

**Monetary and Financial Market Developments**

109 In 2010, **monetary policy formulation** was set against a rather complex economic backdrop stemming from the global financial crisis. Although the situation was more reassuring than in 2009, uncertainty about the shape and pace of the global recovery persisted. Private spending in advanced economies continued to be constrained, although inflation remained generally subdued.

110 In Namibia, the **expansionary monetary policy** which began in December 2008 continued during 2009 and 2010, in line with the global monetary policy trend. The Repo rate was reduced in October and December 2010 by 25 basis points and 75 basis points respectively on the basis of reigning domestic macroeconomic dynamics and in the broader context of persisting uncertainty of the global recovery. The expansionary monetary policy stance was supported by the improved inflation outlook and the subsequent abatement of the domestic inflationary pressures during the review period. The Repo rate has been held at a record low level of 6.0 percent in 2011.

111 **Private sector credit extension (PSCE)** expanded at a moderate pace at the end of 2010, largely assisted by lower interest rates and lower consumer prices that prevailed throughout the year. The growth in private sector credit appeared at the backdrop of the accommodative monetary policy stance and the general recovery in economic activity.

112 Annual growth in **credit extended to individuals**, rose by 9.0 percent over 2010 increasing from N$ 23.2 billion to N$25.3 billion. The improvement was most pronounced in mortgage lending, overdrafts and instalment credit.

113 On the contrary, **credit extended to businesses** slowed by 14.1 per cent on an annual basis, falling from N$17.5 billion at the end of 2009, to N$15.0 billion at the end of 2010. The slowdown was mostly recorded in the categories overdraft lending and other loans and advances.

114 At N$26.6 billion, **asset-backed credit** (mortgages and vehicles sales) accounted for 66.0 per cent of total loans and advances to the private sector at the end of 2010, which translated into a growth rate of 11.1 per cent over the 12-month period. The moderate rise in asset-backed credit is mainly attributed to the rise observed in mortgage advances, which typically account for about one half of total private sector credit.

## Capital Market Developments

115 The **Namibian Stock Exchange (NSX)** performed well in **2010**, with an increase of 12.3 percent in the overall index percent over the year. This was partly driven by the positive performance of the Anglo American shares, which account for around 40 percent of the NSX's total market capitalisation. The overall market capitalisation for NSX expanded by 12.4 percent during 2010 to N$1.15 trillion. The stock exchange continued to grow during the start of **2011**, with moderate quarterly growth of 1.3 percent.

116 The local index recorded a significant turnaround from a decline of 2.0 per cent at the end of 2009 to 11.6 per cent at the end of 2010. The continuous improvement in the local index was due to the artificial demand created by Regulation 28, which stipulates that each fund must invest 35.0 percent of its total funds in Namibian assets. The market capitalisation of the components of the local index slowed by 9.1 percent, reaching N$7.8 billion at the end of 2010.

117 The **Government bond yields** trended downward during 2010, similar to the yields of the South African benchmark bonds. The South African Reserve Bank reduced the benchmark policy rate in 2010 to stimulate the fragile domestic economic activities. Subsequently, the yields on the South African benchmark bonds also fell, in line with the Repo rate. The Namibian yields were lower in 2010 than those observed during 2009.

118 A favourable development has been that the average spread between the Namibian bonds and the South African equivalent benchmark bond narrowed significantly during 2010, compared to that of 2009, reflecting a reduced premium on the Namibian bonds.

## External Sector and Exchange Rate Developments

119 The external sector deteriorated significantly during 2010. The overall balance of **balance of payments** recorded a deficit of N$3.8 billion in 2010 compared to a surplus of N$1.1 billion recorded in 2009. This reflected developments in both the current, capital and financial accounts. The surplus in the **current account** decreased significantly during 2010 relative to the previous year, mainly as a result of a decline in current transfer receipts from the SACU revenue pool, as well as higher net outflow recorded in payments made to foreign direct investors. The **capital and financial account** deficit widened further, mostly due to large outflows in portfolio and other long-term investments during 2010 (both in terms of debt and equity flows).

120 The **Namibia Dollar** strengthened against most major currencies from early 2009 to mid-2011. This reflected, amongst others, the fact that the Euro Zone and the US have embarked

on large scale quantitative easing measure since the global economic downturn in 2008 in order to improve business confidence and reduce risks in their economies. However, such injection of money has also resulted in large capital flows from advanced economies to emerging economies, including the Common Monetary Area (CMA).

121 **Capital inflows** into South Africa were due to relatively higher interest rates and favourable investment opportunities, resulting in several effects. On the positive side, capital inflows allow for increased investment, financial market development and promotion of trade. On the negative side, it has resulted in reduced export competitiveness as a result of a strengthening of the SA Rand. High commodity prices (one of the main exports of the CMA) have also caused the SA Rand and, subsequently, the Namibia Dollar, to appreciate.

122 In the second half of 2011 and in early 2012 the SA Rand weakened somewhat and this trend is likely to continue at a moderate pace over the first half of 2012. Developments thereafter are difficult to predict given the volatile economic and financial climate at the global level.

123 The level of **foreign reserves** held by the BoN has been in decline since the third quarter of 2009. At the start of 2011 reserves levels fell again, to N$9.2 billion, a fall of almost 30 percent compared to the corresponding quarter of 2010. This is mainly due to the decline of SACU receipts. Despite this reduction, the reserve levels are sufficient to hold the currency peg to the SA[24] Rand, which is the anchor for price stability in Namibia. In addition, while in terms of import coverage reserves represented 3.1 months of imports, down from 4 months in 2009, reserves remain in line with the international benchmark requirements of 3.0 months.

124 The ratio of external debt servicing to exports stood at 5.3 percent in 2010, significantly lower than the 12.8 percent recorded in 2009. This ratio remains far below the international benchmark of 15.0 to 25.0 percent.

[24] *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.*

## ANNEX C: SCENARIO ASSUMPTIONS

The supply and demand side growth rates presented in the MEF are based on a range of assumptions concerning domestic, regional and international developments. Some of these assumptions are endogenous (i.e. actions by Government that will impact on growth) and some of the assumptions are exogenous (i.e. factors outside Government's control that will impact on growth). The box below presents the central assumptions for the MEF.

### BOX 1: ASSUMPTIONS FOR THE CENTRAL GDP PROJECTIONS

**International and Regional**

- Global output is projected to grow at a rate of 3.8 percent in 2011 and 3.3 in 2012. Global growth is forecast to remain around 4 percent between 2013 and 2015.
- Advanced economies are projected to grow at a collective rate of 1.6 percent and 1.2 percent in 2011 and 2012, respectively.
- Global consumer price inflation is projected to be 2.75 percent and 1.5 percent in 2011 and 2012, respectively.
- World trade volume is estimated to grow by 6.9 percent in 2011 and 3.8 in 2012.
- In general, volatility in commodity prices remains elevated. However, uranium prices are expected to show an increase over the MTEF period.
- Oil prices are expected to average at US$103.20 per barrel in 2011 and US$100.00 in 2012, following political turmoil in North Africa and the Middle East.
- Given the global economic and financial uncertainty, the Rand (and therefore the Namibia Dollar) is expected to remain volatile over 2012 and 2013.

**Domestic**

**Demand Side**

- Annual inflation is expected to average around 6.2 percent for 2012 - 2015.
- 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 interest rates, the availability of credit and the moderate growth of domestic economic activity.
- Growth in Government consumption is expected to increase over the MTEF.
- Private investment is expected to increase, boosted by the opening/re-commissioning of several mines and other major projects.
- Government investment is expected to increase as from 2012 as the TIPEEG is to be fully implemented and other major public investment projects commence.
- After a difficult year in 2011, **exports** are projected to grow moderately at the start of the MTEF, with improving prospects from 2013 onwards as the global economy recovers and new mining activities export output.
- Imports are also expected to increase due to increased consumption and investment.

**Supply Side**

**Primary Industries**

- Going forward diamond production will continue to decline due to the depletion of the onshore resources, whilst uranium production will improve on the back of increased prices and new projects.
- Livestock farming is expected to continue growing moderately over the medium term; due to government intervention programmes to increase the production capacity of the industry.
- Following a difficult year in 2011 due to flooding, crop farming sector is expected to grow moderately, mainly due to the expansion of land for crop production; the government's Green Scheme programme; and investments to increase crop production and improve business capacity.
- In the fishing sector the TAC for some commercial marine species has increased for 2011 and 2012. However, the high exchange rate will moderate high growth in 2011. Going forward, the TAC is expected to stabilise over the MTEF leading to low but stable growth.

**Secondary Industries**

- Secondary industries are expected to perform well against a backdrop of good performance in the construction sector.
- Meat processing is expected to grow 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 and the commencement of Namibian poultry production.

- Other food and beverage is expected to perform better over the projection period due to increased milk production and expansion of the Namibia Breweries into new markets.
- Other manufacturing is expected to be boosted by the increasing processing of minerals and the increased production of cement as Ohorongo cement factory reaches full capacity.
- The electricity and water sector is expected to perform well over the medium term due to increased economic activities emanating from 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 solid 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.
- The continued fragility in the global economy has hampered growth in the tourism industry. However the expected improvement in the global economy will result in improved prospects in the sector from 2013 onward. Government and private investment will also contribute to growth in the sector.
- Transport and storage is expected to grow due to the expansion of the Walvis Bay harbour which will facilitate increased trade and transport services.
- The financial intermediation industry is expected to grow, supported by economic growth and favourable monetary conditions.

There are many exogenous factors that impact on macroeconomic performance in Namibia. Whilst the Domestic Growth Scenario presents the most likely developments in these exogenous variables, it is important to consider upside opportunities and downside risks. The following boxes highlight these opportunities/risks.

## BOX 2: UPSIDE OPPORTUNITIES AND DOWNSIDE RISKS

***Downside Risks***

- Problems in the Euro Zone worsen and a solution to the debt crisis is not forthcoming, leading to a deeper recession than projected.
- The US economy continues to witness stagnant growth.
- The worlds emerging economies, which have been driving global growth over recent years, overheat, leading to inflation and dampened confidence/growth.
- At a global level policies to foster both internal and external rebalancing in the world's largest economies are not sufficient and the global recovery slows further towards the outer years of the MTEF.
- Continued political instability in North Africa and the Middle East, as well as geopolitical tension with Iran leads to further oil supply constraints.
- The Namibia Dollar strengthens, affecting the demand for exports and worsening the balance of trade.
- Climate conditions impacts unfavourably on the output of the agriculture, water and fisheries sectors.
- The loss of tariff revenue as a result of international trade agreements (SADC-EU EPA, SACU-India, etc.) will outweigh the economic benefits of increased trade.
- Global food and fuel prices continue to rise, causing higher inflation and increasing the costs of production (therefore leading to lower output).
- Demand for exports from advanced economies falls, leading to depressed demand for mining and fishing exports.
- 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 SADC-EU EPA negotiation process with EU are not fully addressed, leading to Namibia losing out on advances made to develop some key national industries.
- The adverse effects of climate change lead to a decline in the fisheries, livestock and crop farming sectors.
- 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.

- Inflation increases above target level, leading to an increase in interest rates and therefore reduced consumer spending.

**Upside Opportunities**

- Spread of sovereign debt problems in the Euro Zone is halted and plans for fiscal rebalance are put in place.
- Economic growth in the US starts to increase towards pre-crisis levels.
- The worlds emerging economies, which have been driving global growth over recent years, continue to register high growth whilst addressing concerns of overheating.
- Both internal and external rebalancing in the world's largest economies occurs, cementing the global economic recovery.
- Political instability in North Africa and Middle East is restored, easing the supply constraints for oil.
- The Namibia Dollar stabilises at a low level in 2012, improving the demand for exports and the balance of trade.
- Climate conditions impact favourably on the output of the agriculture, water and fisheries sectors.
- Global food and fuel prices would stabilize, resulting in lower inflation and the costs of production (therefore leading to higher output levels).
- The inflation rate stabilizes, allowing for the continuation of loose monetary conditions.
- Demand for exports from advanced economies increases, leading to increased demand for mining and fishing exports.
- Uranium prices increase, leading to increased profitability in the sector and implementation of the new uranium mine projects.
- Namibia's industrial development concerns in the SADC-EU EPA negotiation process are fully addressed, leading to Namibia retaining its market access and developing some key national industries.

## ANNEX D: KEY FINDINGS OF THE ANNUAL INDUSTRY SURVEY

1. The Macroeconomic Working Group (MEWG) undertakes an Annual Industrial Survey as part of the Macroeconomic Framework. The aims of the survey are twofold:

2. Firstly, there is a quantitative section where firms input data on past and projected revenue, costs and personnel numbers. This information assists the MEWG with overall and sectoral projections for the annual Macroeconomic Framework.

3. Secondly, there is a qualitative section, where firms are asked for reasons behind performance and projections as well as challenges they face. Furthermore, the annual industrial survey seeks to highlight perceived and/or real public policy hurdles that large-scale businesses are experiencing in order to bring these to the attention of the authorities.

4. The results from the survey help to inform the MEWG's macroeconomic simulations and projections as well as highlight key constraints faced by the private sector.

5. The 2011 Annual Industrial Survey has, amongst others, highlighted the following pertinent issues that are regarded as constraints to enterprise growth and business development:

- **Lack of certain skills**: This is perceived to be a serious challenge to the economy in that many large companies struggle to grow their business due to skills gaps. This appears to be more pronounced for high skilled roles such as engineers, financial positions, managerial and leadership positions. Many companies resort to costly in-house training to get round this issue.

- The **difficulty of obtaining work visas and work permits** to cater for areas of skills deficiencies: An improvement in this area would help to increase enterprise growth, industrialisation, spur job opportunities and increase training and skills transfer for Namibians. A committee has been setup among the Ministry of Home Affairs, National Chamber of Commerce and Industry (NCCI), Namibia Manufacturers Association (NMA) and Namibia Employers Federation (NEF) to address this issue.

- The **prevalence of crime**: Theft and mugging in Windhoek is seen as an increasing problem, especially by the tourism sector. White-collar crime is also matter of concern to profitability.