REPUBLIC OF NAMIBIA

MACROECONOMIC FRAMEWORK FOR 2010/11-2012/13 MTEF

Windhoek

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FOREWORD

The Macroeconomic Framework is a national policy document that reviews recent economic developments and provides an outlook for the domestic, regional and world economies upon which recommendations for the future course of fiscal policy are made. As such, the Macroeconomic Framework constitutes the primary basis for the Fiscal Policy Framework.

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

It is within the above-mentioned context that this Macroeconomic Framework for the 2010/11-2012/13 MTEF has been prepared. By taking into account a variety of factors that present opportunities for growth as well as those that pose risks to sustainable growth in the global, regional and domestic economies, the Macroeconomic Framework aims to enable policy makers to devise and implement appropriate macroeconomic and fiscal policy intervention measures. The risk factors outlined in the document include the sustainability of the anticipated recovery from the global economic crisis, the volatility of commodity prices, natural disasters, high level of HIV and AIDS infections, among numerous and competing other social-economic development challenges.

SAARA KUUGONGELWA-AMADHILA **DATE**

MINISTER

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GLOSSARY

BON	Bank of Namibia
CPI	Consumer Price Index
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
HIV and AIDS	Human Immune Virus and Acute Immune Deficiency Syndrome
IMF	International Monetary Fund
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NEPRU	Namibian Economic Policy Research Unit
NPC	National Planning Commission
NPCS	National Planning Commission Secretariat
NDP3	National Development Plan 3
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SOEs	State Owned Enterprises
US	United States of America
VAT	Value Added Tax

EXECUTIVE SUMMARY

The global economic crisis that was ignited by the malfunctioning of the sub-prime housing market in the United States towards the end of 2008 initially affected the US financial markets and subsequent snow-balled very quickly onto the global financial market with dire consequences and serious implications for the world economy. The years preceding the crisis were characterized by a combination of rising oil and food prices, relaxed credit conditions, aggressive lending practices and less disciplined financial risks.

The global crisis is transmitted to Namibia through international trade in goods and services and capital flows. Namibia is particularly vulnerable to external economic shocks because of the small size, structure and openness of its economy. The effects of the global economic crises on the Namibian economy have been profound. The National Accounts revealed a sharp decline in the economy in the first quarter of 2009, with real GDP contracting by 5.8 percent on a seasonally adjusted quarter-on-quarter basis. However, based on signs of recovery in the second half of 2009, annual GDP is predicted to contract more moderately by 1.1 percent year-on-year.

One of the most important effects of the crisis for government will be falling revenues, both through a reduction in SACU revenue pool collections and through decreases in domestic tax collections and other sources of income.

Regional and global economies

In its January 2010 World Economic Outlook, the IMF estimated that global output contracted by 0.8 percent in 2009, and projected a 3.9 percent recovery in 2010. The **US** economy is estimated to have contracted by 2.5 percent in 2009, following modest growth of 0.4 percent in 2008. It is projected that in 2010 the US economy will grow by 2.7 percent.

The economy of the **Euro Area** is estimated to have contracted significantly by 3.9 percent in 2009, after growing by 0.7 percent in 2008 whereas **China's** real GDP growth is forecast to moderate to 8.5 percent in 2009 from 9.0 percent in 2008. The growth rate is expected to be robust in 2010.

It is projected that **Sub-Saharan Africa's** real GDP will slow down significantly to 1.5 percent in 2009 from a robust growth of 5.7 percent in 2008. IMF forecasts show that Sub-Saharan Africa's real GDP will recover to 4.3 percent in 2010. The IMF predicts that **Angola**'s real GDP will contract by 0.2 percent in 2009. The economy is forecast to recover by 9.3 percent in 2010.

South Africa's real GDP growth is projected to contract by 2.2 percent in 2009, down from 3.1 percent growth in 2008, largely due to the country's high level of integration with global financial markets and subdued external demand for its exports. It is expected that the real GDP will recover by 1.7 percent in 2010, and 1.7 percent and 3.2 in 2011 and 2012 respectively.

Domestic Economic Estimates for 2009

In 2009, the **primary industries** are estimated to decline by 25.4 percent in 2009 mainly due to an acute contraction in diamond mining whereas the **secondary industries** are estimated to grow by 4.6 percent in 2009, driven mainly by the construction sector. **Tertiary industries** are expected to grow by 4.0 percent in 2009, mainly attributed to the fall in the number of tourists visiting Namibia.

Growth in private consumption is expected to slow from 5.8 percent in 2008 to 1.8 percent in 2009, due to the impact of retrenchments and falling incomes in the exporting sectors whereas Government consumption is expected to grow by 4 percent in 2009, reflecting government's policy of countercyclical spending in the face of the global economic crisis.

Gross fixed capital formation (Investment) is projected to grow by 13.2 percent in 2009, mainly driven by government's expansionary development budget, while private investment in the mining and construction sector makes a sizable contribution.

Exports are projected to contract by 15.1 percent in 2009, due to a significant down turn in the mining and manufacturing sectors, as well as declines in the export-oriented tourism and fishing industries. Slowing **consumption** growth will contribute to a slowdown in imports, which are projected to grow by only 1.5 percent in 2009, compared to a staggering 21 percent in 2008, mitigating the impact of the export contraction on the balance of trade.

Private sector credit growth decreased to an annual rate of 9.9 percent at the end of October 2009. Asset backed credit, i.e. mortgage loans mainly, showed a clear downward trend in 2009, slowing down further to 9.3 percent at the end of October 2009.

The overall **balance of the balance of payments** recorded a deficit during the second quarter of 2009. This was mainly driven by the appreciation of the Namibia Dollar against major currencies, most notably the US Dollar, Euro and British Pound.

The inflation rate rose sharply to 5.1 percent in 2006 (from 2.3 percent in 2005), sparked by high and persistent increases in international crude oil and food prices and a weaker domestic currency and accelerated progressively in 2008 to an annual average of 10.4 percent compared to 6.7 percent in 2007. The Bank of Namibia tightened its monetary policy stance in 2007 and 2008 and that translated into the deceleration of inflation during the last two months of 2008. In 2009, inflation averaged 8.8 percent.

Revenue outturn for the fiscal year 2009/10 is currently projected at some 23 billion, that is, 4.5% higher than estimates in the 2009/10 – 2011/12 MTEF. **Tax revenue** constituted 90.5 percent of total revenue in 2008/9, down from 92.7 percent in 2007/08 and compared to 90.1 percent in 2006/7. This decrease in the share of tax revenue is due mainly to a decrease in the share of SACU receipts from 39.1 percent in 2007/08 to 36.3 percent in 2008/09, coupled with a decrease in the share of value added tax from 18.6 percent of total revenue in 2007/08 to 17.5 percent in 2008/09.

SACU receipts, including both excise collections and customs revenues from a common pool, were the most important source of revenue over the 2006/07 to 2008/09 MTEF, averaging 37.8 percent of total revenue over this period. The share of SACU revenues decreased from 39.1 percent of total revenue in 2007/08 to 36.3 percent in 2008/09.

The global economic downturns, and the impending agreements between SACU members and other trade blocs, pose **medium-term risks to the sustainability of revenue growth**. The fall in commodity prices has had a negative impact on growth in the mining sector, and on tax revenues from mining companies. Forecasts of SACU receipts over the upcoming MTEF have been revised downward, following a N$9.5 billion deficit recorded in the 2008/09 common revenue pool. Namibia's share of this deficit is N$1.3 billion, and is to be forfeited from the 2010/11 revenue share. Another deficit is projected for 2009/10, of which Namibia's share, to be forfeited in 2011/12, amounts to N$3 billion.

Stronger-than-expected revenue performance and prudent expenditure control resulted in a **budget balance** of about N$ 1.5 billion during 2008/9, corresponding to 2 percent of GDP, exceeding the budget estimate of 1.1 percent. This is the third budget surplus in independent Namibia, after two consecutive surpluses, of 5.1 percent of GDP in 2007/8 and 4.1 percent in 2006/7.

The resulting budget deficit is projected to be N$2.3 billion, that is, 2 percent of projected GDP, which brings an end to the three years of consecutive budget surpluses, but nonetheless, constitutes an improvement on the 5.2% of GDP budget deficit projected for 2009/10 in the 2009/10 – 2011/12 MTEF.

Total debt stood at N$13,389 million during 2008/09, amounting to 18 percent of GDP. Previous years saw a steady decrease of the debt to GDP ratio, which fell from 29 percent in 2004/05, to 18 percent in 2007/08, and remained at 18% in 2008/9.

Government has set a target to keep **public expenditure** within 30 percent of GDP. The total expenditure outturn for 2006/7–2008/9 averaged N$18.2 billion, which amounted on average to about 27.8 percent of GDP. Expenditure outlay for 2008/9 amounted to N$21.9 billion. The expenditure to GDP ratio increased from 26.8 percent in 2007/08 to 29.5 percent in 2008/9. Public expenditure for 2009/10 is currently projected at N$25 billion.

Development expenditure increased from 11.6 percent of budgeted expenditure in 2007/08 to 15.6 percent in 2008/09. The execution rate of development expenditure was 89.2 percent in 2008/09.

Economic Outlook for the 2010/11–2012/13 MTEF Period

On the demand side, GDP growth is projected at 3.8 percent for 2010 and thereafter, at an average of 4.2 percent for the period 2011–2013. Beyond 2010, the economy will be driven mainly by private and government investments and exports.

On the supply-side, growth is expected to be mainly driven by the primary and secondary industries, which are projected to grow on average by 4.4 and 5.0 percent over the 2010-2013 period respectively, followed by the tertiary industries which are expected to grow on average by 4.2 percent.

A. REVIEW OF ECONOMIC DEVELOPMENTS

I. GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

1. The **global economy** has started to recover from a recession unprecedented since the 1930s depression. However, stabilisation is expected to be uneven and the recovery will be slow. According to International Monetary Fund's (IMF) estimates, world output contracted by 0.8 percent in 2009, and is projected to recover by 3.9 percent in 2010. The recovery in 2010 is mainly expected due to the impact of public policy interventions, which are expected to stabilise economic activity and foster a return to modest growth in various economies (Table 1).

Table 1. World Output and Real GDP Outlook, Annual Percentage Change

Region/Country	Actual			Projection	
	2007	2008	2009	2010	2011
World Output	5.2	3.0	-0.8	3.9	4.3
Advanced Economies	2.7	0.5	-3.2	2.1	2.4
United States	2.1	0.4	-2.5	2.7	2.4
Euro area	2.7	0.6	-3.9	1.0	1.6
Japan	2.3	-1.2	-5.3	1.7	2.2
United Kingdom	2.6	0.5	-4.8	1.3	2.7
Canada	2.5	0.4	-2.6	2.6	2.6
Other advanced economies	4.7	1.7	-1.3	3.3	3.6
Emerging markets and developing economies	8.3	6.0	2.0	6.0	6.3
Africa	6.3	5.3	1.8	4.2	5.3
Sub-Saharan Africa	7.0	5.7	1.5	4.3	5.5
Angola	20.3	13.2	0.2	9.3	9.3
South Africa	5.1	3.1	-2.2	1.7	1.7
Central and Eastern Europe	5.5	3.1	-4.3	2.0	3.7
Commonwealth of Independent States	8.6	5.5	-7.5	3.8	4.0
Russia	8.1	5.6	-9.0	3.6	3.4
Developing Asia	10.6	7.6	6.4	8.3	8.3
China	13.0	9.0	8.5	10.0	9.7
India	9.4	7.3	5.6	7.7	7.8
Middle East	6.2	5.3	2.2	4.5	4.8
Western Hemisphere	5.7	4.2	-2.3	3.7	3.8
Brazil	5.7	5.1	-0.4	4.7	3.7

Source: IMF World Economic Outlook Update, January 2010

2. The **United States' (US) economy** is estimated to have contracted by 2.5 percent in 2009 after a modest growth of 0.4 percent in 2008. The US economy is projected to grow by 2.7 percent in 2010. The slow recovery for the US economy is mainly attributed to subdued consumer spending, rising unemployment, household deleveraging, the temporary fiscal stimulus and weak economic growth of its major trading partners.

3. In the **Euro Area**, real GDP is estimated to have contracted significantly by 3.9 percent in 2009 from a growth of 0.7 percent in 2008. The contraction in the Euro Area's real GDP is mainly due to its higher degree of dependence on exports to other economies which are contracting.

4. Going forward, the Euro Area's real GDP is expected to grow by 1.0 percent in 2010. Output in Germany, a major economy in the Euro Area is estimated to have contracted by 4.8 percent in 2009 from a growth of 1.2 percent in 2008. The German economy is projected to grow by 1.5 percent in 2010. In Spain, real GDP is estimated to have contracted by 3.6 percent in 2009 from a growth of 0.9 percent registered during 2008. Going forward, the Spanish economy is expected to contract by 0.6 percent in 2010.

5. The IMF estimates that real GDP in **Japan** contracted by 5.3 percent in 2009 after a 1.2 percent contraction registered in 2008. Similarly to the Euro Area, Japan's economy is highly reliant on trade with other countries, particularly the US. As a result of the global economic crisis, Japanese exports experienced a decrease in demand from the US and other economies, thereby negatively affecting real GDP growth. Furthermore, due to uncertainty and low consumer confidence, Japan's domestic demand declined significantly, resulting in a contraction in the country's real GDP. Real GDP growth is expected to recover to 1.7 percent in 2010. Aggressive fiscal policies, improved business confidence and robust performance in other Asian economies are expected to drive the recovery of the Japanese economy.

6. Real GDP growth in **China** is estimated to have moderated to 8.5 percent in 2009 from 9.0 percent in 2008. The robust growth in China would mainly be underpinned by strong domestic demand as a result of the fiscal stimulus package and expansionary credit policies.

7. In **Developing Asia**, real GDP growth is expected to slow to 6.2 percent in 2009 from a growth of 7.6 percent in 2008. The relatively small slowdown in Developing Asia's real GDP can mainly be attributed to continued economic expansions in China, India and Indonesia mitigated the slowdown in Asia Developing countries. In contrast, the smaller and open Asian economies were significantly affected by the global economic crisis.

8. In **Russia**, real GDP is estimated to have contracted by 9.0 percent in 2009, and is projected to recovering by 1.5 percent in 2010. The contraction in Russia's real GDP can mainly be ascribed to the decline in commodity prices coupled with a reversal in capital inflows. However, recent economic indicators, particularly industrial production and capital inflows, suggest that the contraction has begun to moderate.

9. The **Indian** economy is estimated to have slowed to 5.6 percent in 2009 from a robust growth of 7.3 percent recorded in 2008. IMF forecasts indicate that India's real GDP will grow by 7.7 percent in 2010. The government's counter-cyclical macroeconomic stimulus is expected to continue to provide a boost to growth in 2010, while the revival of international capital markets will enhance liquidity. The resilience and momentum of domestic demand will subsequently be a key variable in the economy's outlook. However, an expected drought situation may dampen the emerging recovery going forward.

10. In **Brazil**, real GDP is estimated to have contracted by 0.4 percent in 2009 from a robust growth of 5.1 percent in 2008, before a projected recovery to 3.5 percent growth in 2010. Brazil is projected to recover first amongst the Latin American economies due to its large domestic market and diversified export products and markets, especially its increasing links to Asia.

11. **Latin America's** real GDP is estimated to contract by 2.5 percent in 2009 as a result of weak developments in consumption, investment and exports coupled with deterioration in the demand for export from the region and lower workers' remittances. Going forward, real GDP growth for Latin America is forecast to recover to 2.9 percent in 2010 mainly underpinned by Brazil's recovery. It is expected that due to its large domestic market Brazil will exert significant influence on Latin America's economic recovery. In contrast, Chile and

Mexico, the hardest hit economies in Latin America, are expected to recover more slowly given a higher degree of integration with the United States.

II. AFRICAN REGIONAL ECONOMIC DEVELOPMENTS AND OUTLOOK

12. The IMF estimates that **Sub-Saharan Africa's** real GDP growth slowed significantly to 1.5 percent in 2009 from a robust growth of 5.7 percent registered in 2008. The main driver of the slowdown in Sub-Saharan Africa is a decline in exports which was amplified by the disruptions in global financial markets. The IMF forecasts that Sub-Saharan Africa's real GDP will recover by 4.3 percent in 2010 due to improved financial market conditions and the upturn in commodity prices. According to the IMF, the outlook for Sub-Saharan Africa is subject to a significant degree of uncertainty. Of particular concern is the possibility of a weaker than expected recovery of the global economy, which would slow the recovery in commodity prices and worsen the prospects for foreign demand for African products going forward.

13. The IMF estimates that **Angola**'s real GDP growth slowed to 0.2 percent in 2009 and projects a recovery to growth of 9.3 percent in 2010. The slowdown in real GDP growth for 2009 can largely be ascribed to subdued demand for the country's major exported commodities, especially crude oil and diamonds. The recovery forecast for 2010 is underpinned by an expected increase in the production of crude oil as well as the expansion of economic activities in the agricultural, construction and manufacturing sectors. Moreover, investment in the economy is expected to increase significantly in 2010.

14. The IMF estimates that **South Africa**'s real GDP contracted by 2.2 percent in 2009, down from 3.1 percent growth in 2008. The decrease in South Africa's real GDP is largely ascribed to the country's high level of integration with global financial markets and subdued external demand for its exports from its major trading partners. IMF projections indicate that South Africa's real GDP will recover by 1.7 percent in 2010. The projected recovery is largely underpinned by the recent increase in foreign capital inflow into South Africa, complemented by expansionary fiscal and monetary policies and the projected recovery of global trade.

III. DOMESTIC ECONOMIC REVIEW OF THE PERIOD 2006 - 2008

15. The 2008 National Accounts show that the economy recorded a slow growth rate of 3.3 percent in 2008 compared to 5.5 percent in 2007. This slowdown is attributed to the contraction in primary industries value added by 1.4 percent and a deceleration of both the secondary and tertiary industries which grew by 3.3 percent and 5.4 percent respectively (Table 2). The slowdown is attributed to the global financial crisis which led to a decline in the demand for export commodities. In addition to the developments in the real sector, inflation rose to 10.4 percent for 2008 from an annual average rate of 6.7 percent in 2007.

16. The real growth rate of gross domestic product per-capita slowedwas 1.5 percent in 2008 yielding N$24,733, compared to 3.6 percent in 2007. Also, real gross national income per capita growth rate slowed by 3.8 percent in 2008 compared to 7.3 percent in 2007. In terms of the components of final demand, the share of final consumption expenditure increased to 80.3 percent from 78.1 percent recorded in 2007; gross fixed capital formation had a share of 23.4 percent of GDP in 2008, down from 23.7 percent in 2007. The share of net exports to GDP deteriorated further to minus 2.6 percent during 2008 from minus 1.3 percent recorded in 2007.

Real Sector Developments

17. **Primary industries** had an average growth rate of 2.5 percent during 2006-2008. The highest growth rate during this period was 12.8 percent, recorded in 2006. However, the primary industries recorded a contraction of 4 percent in 2007, followed by a further contraction of 1.4 percent in 2008. This was a result of the fall in demand for mineral exports, particularly diamonds, and the severe contraction in fishing and fish processing on board. Unfavourable oceanic climatic conditions, high oil prices in 2008, and stricter fish resource management led to the decline in the fish landings which ultimately negatively affected the related processing output.

Table 2. Annual percentage change (at constant 2004 prices) in Gross Domestic Product by activity

Industry	2006	2007	2008	Average 2006-2008
Primary Industries	12.8	-4.0	-1.4	2.5
Secondary Industries	8.1	9.0	3.3	6.8
Tertiary industries	5.5	7.7	5.4	6.2
GDP at market prices	7.1	5.5	3.3	5.3

Source: 2008 National Accounts

18. Although the growth rate of primary industries slowed, its contribution to gross domestic product remained significant at 24.5 percent in 2008 (Table 3).

19. The **secondary industries** on average grew by 6.8 percent over the last three years. Growth in the 2006-2008 period is attributed to the positive performance of the electricity and water and the construction sector. However, these industries grew at a slower rate of 3.3 percent in 2008, down from 9.0 percent recorded in 2007. Slower growth of secondary industries resulted from high costs of intermediate products, mainly the cost of processing base metals. The secondary industries' average contribution to GDP is 20.1 percent, of which the manufacturing sector serves as the single highest contributor.

20. **Tertiary industries** on average grew by 6.2 percent in the last three years mainly driven by the value of output derived from the services provided by these industries. Tertiary industries registered a lower real growth rate of 5.4 percent in 2008 compared to 7.7 percent in 2007. This is mainly due to a significant slowdown in wholesale and retail trade, repairs, real estate and business services, and hotels and restaurants, caused by low demand. The tertiary industries remain the highest contributor to the economy (Table 3)

Table 3. Annual percentage Contribution (at current prices) to Gross Domestic Product by activity

Industry	2006	2007	2008	Average 2006-2008
Primary Industries	22.0	19.6	24.5	22.0
Secondary Industries	19.7	21.9	18.7	20.1
Tertiary industries	**51.9**	**52.2**	**50.8**	**51.6**
Taxes less subsidies on products	7.7	7.5	7.1	7.4
Less: Financial intermediation services indirectly measured	1.2	1.2	1.2	1.2
GDP at market prices	100	100	100	100

Source: 2008 National Accounts

Demand Indicators

21. **Final consumption expenditure** (Table 4) recorded an average growth rate of 9.7 percent over the 2006-2008 period. Even though the annual growth rate of final consumption expenditure slowed down from 10.1 percent in 2007 to 9.7 percent in 2008, its contribution to GDP increased to 80.3 percent, up from 78.1 percent over the same period.

    The performance of final consumption expenditure in 2008 was attributed to an increase of **private expenditure** that grew by 10.7 percent from 9.1 percent in 2007; while government expenditure moderated to 6.8 percent compared to 13.2 percent recorded in 2007. The increase in the annual growth rate of private final consumption expenditure mainly resulted from increased spending on housing, water, electricity and fuels which grew by 17.7 percent in 2008, compared to growth of 1.0 percent in 2007. **Government consumption expenditure** recorded 6.8 percent growth in 2008, lower than 13.2 percent registered in the preceding year.

22. The overall share of private consumption to **Gross Domestic Expenditure (GDE)** increased by 59.4 percent in 2008 as compared to 57.4 percent in 2007 while that of general government marginally increased from 20.7 percent in 2007 to 20.9 percent in 2008. Final consumption expenditure contribution to GDP stood at 80.3 percent in 2008 representing a level of N$58.8 billion compared to 78.1 percent in 2007 or N$48.5 billion.

Table 4. Expenditure on GDP, Percentage Change (at constant prices)

EXPENDITURE CATEGORY	2006	2007	2008	Average 2006-2008
Final Consumption	9.2	10.1	9.7	9.7
Private	8.7	9.1	10.7	9.5
General Government	11.0	13.2	6.8	10.4
Gross fixed capital formation (Investment)	29.8	12.1	3.2	15.0
Exports of goods and services	15.3	6.4	16.5	12.7
Imports of goods and services	16.3	31.8	21.1	23.0

Source: 2008 National Accounts

23. **Gross fixed capital formation (Investment)** grew by 15.0 percent on average between 2006 and 2008. Real growth of investment slowed down significantly from 12.1 percent in 2007 to 3.2 percent in 2008. This is mainly attributed to the relatively low level of investment in the mining and quarrying. In real terms, Gross Fixed Capital Formation increased from N$ 11.9 billion in 2007 to N$ 12.3 billion in 2008 but as a share of GDP it decreased marginally to 23.4 percent in 2008, down from 23.7 percent in 2007. Investment in uranium producing mines peaked during the period under review but could not offset the reduction in investment in diamond mining.

24. Total **exports of goods and services** grew by 12.7 percent on average between 2006 and 2008. In 2007 exports of goods and services were affected by the fall in diamond, copper and livestock exports, and grew by 6.4 percent. In 2008, a higher growth rate of 16.5 percent was recorded.

25. Total **imports of goods and services** grew by 23.1 percent on average over the 2006-2008 period. Imports of goods and services grew by 21.1 percent in 2008 compared to 31.8 percent in 2007. As a result of higher imports compared to exports, the external trade balance of goods and services was generally negative over this period. As a share of GDP, the trade balance, given by net exports, deteriorated to minus 18.7 percent in 2008, down from minus 14.4 percent in 2007; this was mainly due to the high cost of fuel imports and the depreciation of the Namibia Dollar against the US Dollar.

Monetary conditions

26. Growth in **private sector credit** remained suppressed during the 2006-2008 period, amid net repayments of business and household loans and a significant decline in mortgage lending. In response to the upside risks to inflation, the Bank of Namibia increased the reference rate from 7.67 percent in 2006 to 10.46 percent during 2008, whereas the prime rate increased from 12.42 percent to 15.21 percent over the same period.

27. Growth of **domestic credit** was 6.1 percent at the end of 2008, down from 8.0 percent at the end of 2006. The slowdown in domestic claim originated from the deceleration in claims on other sectors (private sector credit) reflecting the suppressed demand for credit due to the economic slowdown. Private sector credit extension slowed down from 18.02 percent at the end of 2006 to 11.05 percent at the end of 2008.

28. The constrained growth in private sector credit extension is attributed to the slowdown in economic activity coupled with prevailing stricter lending conditions which continue to dampen both the household and business sector's demand for credit.

29. The deceleration in private sector credit growth was markedly revealed in the tightening of asset backed credit. Mortgage loans, which account for about 77.6 percent of total asset backed credit, decelerated from the annual growth of 24.79 percent at the end of 2006 to 12.20 percent at the end of 2008.

Capital Market developments

30. The economic downturn continued to weigh heavily on investor confidence. In this connection, the performance of the **Namibian Stock Exchange (NSX)** came under pressure during the 2006-2008 period but remained upbeat. The annual growth of the overall index declined by 40.1 percent by end of 2008 compared to a growth of 42.3 percent recorded during 2006. Namibian listed stocks (local index) continued to grow positively recording an annual growth of 18.8 percent at the end 2008 compared to a growth rate of 18.8 percent recorded at the end of 2006.

External Sector and Exchange Rates Developments

31. In 2008, Namibia's external sector remained resilient to the slowdown in aggregate global demand for goods and services associated with the global economic crisis. The overall balance of the **balance of payments** reached a record high surplus of N$6.3 billion in 2008, driven by strong net inflows in current transfers. This surplus is a continuation of a significant increase observed since 2006 and represents 8.6 percent of GDP, up from that of 6.5 percent in 2007.

32. Namibia's **merchandise trade balance** deteriorated significantly in 2008, mainly on account of high fuel and fuel-related imports. This led to a declining current account surplus; the same trend was witnessed during 2007. The current account balance of N$1.9 billion in 2008 represents 2.7 percent of GDP, down from 9.1 percent of GDP in 2007.

33. With regard to the **capital and financial account balance**, the deficit narrowed sharply to N$1.1 billion in 2008 from N$4.7 billion in 2007. This balance represents 1.5 percent of GDP, down from 7.5 percent of GDP recorded in 2007.

34. On the **exchange rate** front, the international financial crisis led to a sharp depreciation of the Namibia Dollar against major currencies of the world, such as the US Dollar, Euro and British Pound in 2008.

Price Developments

35. **Inflation** rose sharply in 2006 sparked by high and persistent increases in international crude oil and food prices and a weaker domestic currency, and accelerated progressively in 2008 to an annual average of 10.4 percent (Figure 2). In an attempt to contain inflation and to prevent second round effects of oil price inflation, the Bank of Namibia tightened its monetary policy stance in 2007 and 2008, which saw its repo rate increasing by 350 basis points. This saw inflation decelerating in the last two months of 2008. Inflation averaged 8.8 percent in 2009.

Fiscal Developments for the period 2006/7 to 2008/09

36. The **main objective of government fiscal policy** is to maintain macroeconomic stability and sustain equitable socio-economic development over the long term. Despite severe structural and social challenges, government in recent years managed to reduce budget deficit and debt levels, by prioritising fiscal sustainability, anchored on fiscal prudence and expenditure control. These attainments have enabled government to engage in a countercyclical spending policy over the 2008/09 to 2010/11 and the 2009/10 to 2011/12 MTEF periods to offset the effects of the global economic crisis.

37. In keeping with this mandate, the government adopted the following **key fiscal targets**: (i) maintain average debt as a ratio to GDP within the 25 to 30 percent target band, (ii) maintain the average budget balance over the 2009/10 to 2011/12 MTEF at approximately 5 percent of GDP, (iii) achieve and maintain public expenditure levels below 30 percent of GDP, (iv) maintain contingent liability below the target of 10 percent of GDP.

38. **Average revenue outturn** for 2006/7 – 2008/9 amounted to N$ 20.6 billion compared to N$ 11.4 billion recorded in 2003/04 – 2005/06. Revenue outturn totalled N$23.4 billion in 2008/09, up by 13.3 percent from the N$20.7 billion recorded in 2007/08, but decelerating from a high of 34 percent year on year growth in 2006/7. The rise in total revenue over this period was driven by increases in receipts from normal income tax on individuals, company tax, value added tax, and SACU revenues.

Table 5. Total Revenue, Expenditure and Budget Balance (N$ million), 2004/05 to 2008/09[1]

ITEM (in N$ millions)	2006/07	2007/08	2008/09
Revenue	17,593	20,689	23,447
% of GDP	31.4	31.9	31.5
Expenditure	15,279	17,382	21,946
% of GDP	27.3	26.8	29.4
Budget Balance	2,314	3,306	1,501
% of GDP	4.1	5.1	2
Total Debt	13,636	11,693	13,389
% of GDP	24.3	18	18
GDP at market prices	**56,046**	**64,882**	**74,456**

Source: Ministry of Finance 2009/10

39. **Tax revenue** constituted 90.5 percent of total revenue in 2008/9, down from 92.7 percent in 2007/08. This decrease in the share of tax revenue is due mainly to a decrease in the share of SACU receipts from 39.1 percent in 2007/08 to 36.3 percent in 2008/09, coupled with a decrease in the share of value added tax from 18.6 percent of total revenue in 2007/08 to 17.5 percent in 2008/09.

40. Tax revenues amounted to N$21.2 billion in 2008/09, exceeding budget estimates by 5 percent. This performance can be explained by value added tax collections exceeding expectations by 16.2 percent, as well as by the good performance of taxes on income and profits in general. Tax on individuals, as part of this category, exceeded budget estimates by 9 percent and outperformed returns from company tax by 42 percent. Company tax exceeded budget estimates by 11 percent, owing entirely to improvements in non-mining company tax returns, which increased from N$1,834 million in 2007/8 to N$ 2,039 in

[1] According to the GDP figures published in the National Accounts 2008, and converted to financial years.

2008/9, that is, 21.9 percent higher than expected. Returns from diamond mining company tax and non- diamond mining company tax fell short of budget estimates by N$4 million and N$25 million respectively, due to sharp falls in commodity prices and demand, except in the uranium sub-sector.

41. **SACU receipts**, including both excise collections and customs revenues from a common pool, are the most important source of revenue over the 2006/07 to 2008/09 MTEF, averaging 37.8 percent of total revenue over this period. The share of SACU revenues decreased from 39.1 percent of total revenue in 2007/08 to 36.3 percent in 2008/09. Taxes on income and profits are the second most important tax revenue source and increased from N$6,730 million in 2007/08 to N$8,070 million in 2008/9, the fastest growing categories in this period being normal income tax, tax for non mining companies, and royalty tax. Domestic taxes on goods and services averaged N$3,872 million during 2006/7 – 2008/9 period and recorded an increase from N$4,089 million in 2007/08 to N$4,339 million during 2008/9, to a large extent driven by increases in value added tax.

42. The global economic downturn and impending agreements between SACU members and other trade blocs, pose **medium-term risks to the sustainability of revenue growth**. The fall in commodity prices has had a negative impact on growth in the mining sector, and on tax revenues from mining companies. Forecasts of SACU receipts over the upcoming MTEF have been revised downward, following a N$9.5 billion deficit recorded in the 2008/09 common revenue pool. Namibia's share of this deficit is N$1.3 billion, and is to be forfeited from the 2010/11 revenue share. Going forward, another deficit is projected for 2009/10, of which Namibia's share, to be forfeited in 2011/12, amounts to N$3 billion. While excise collections have remained strong, customs revenues are underperforming, mainly due to the fall in imports of high tariff goods such as cars.

43. Stronger-than-expected revenue performance and prudent expenditure control resulted in a **budget balance** of about N$ 1.5 billion during 2008/9, corresponding to 2 percent of GDP, exceeding the budget estimate of 1.1 percent. This is the third budget surplus in independent Namibia, after two consecutive surpluses, of 5.1 percent of GDP in 2007/8 and 4.1 percent in 2006/7. These results represent significant improvements from the deficit of N$82 million, minus 0.2 percent of GDP, recorded in 2005/6. The resultant fiscal space has provided scope for using expansionary fiscal policy measures to offset the impact of the global economic downturn on Namibia. Among the measures undertaken are a 12 percent across the board salary increments for public servants, and on the fiscal policy front, reducing the corporate tax rate for non-mining companies, increasing tax exemption thresholds on retrenchment packages, and the tax free amount on pension payout that can be taken as a lump sum. In addition to this, the schedule of personal income tax has been adjusted to provide relief to lower income earners.

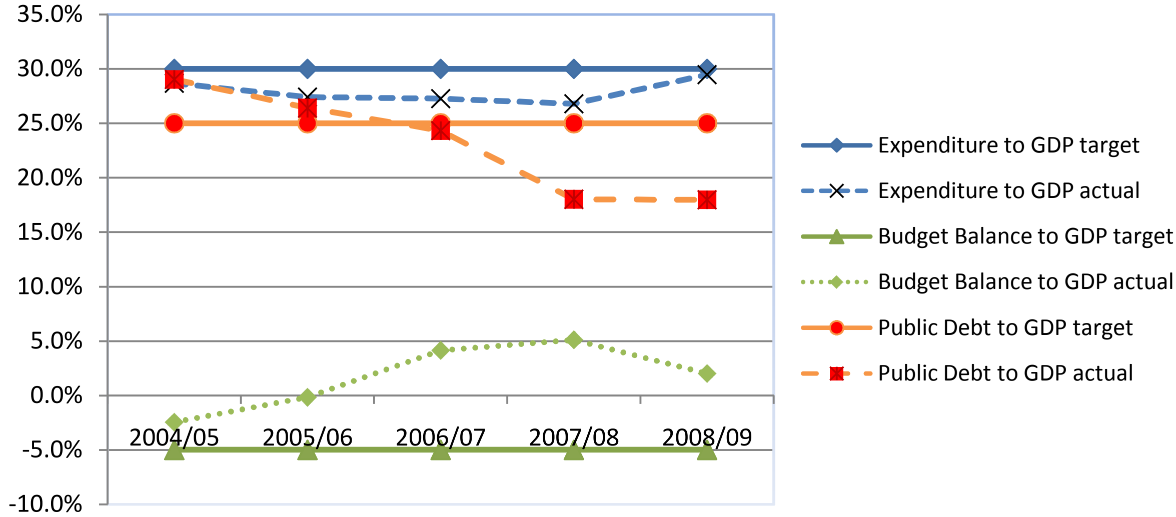
44. **Total debt** stood at N$13,389 million during 2008/09, amounting to 18 percent of GDP. Previous years saw a steady decrease of the debt to GDP ratio, which fell from 29 percent in 2004/05, to 18 percent in 2007/08, and remained at 18 percent in 2008/9. Available fiscal space was utilised to accelerate debt repayment, so that the proportion of total debt to GDP for the 2006/07-2008/09 MTEF remains well below the set target of 25 percent. However, year-on-year, the total debt increased by 14.5 percent from 2007/08 to 2008/09, and the debt to GDP target has been revised to 30 percent. This target is consistent with macroeconomic stability and gives the government scope for expansionary fiscal policy measures. Total loan guarantees decreased by 11.3 percent from N$3,413 million in 2007/08 to N$ 3,028 million in 2008/09, after a decline of 9.4 percent from 2006/7 to 2007/8. A payment of N$27 million on a guaranteed loan defaulted in 2008/09, bringing the total payments of this nature to N$534.1 million since 2000/01.

45. Government has set a target to keep **public expenditure** within 30 percent of GDP. The total expenditure outturn for 2006/7-2008/9 averaged N$18.2 billion, which amounts on average to 27.8 percent of GDP. Expenditure outlay for 2008/9 amounted to N$21.9

billion. The expenditure to GDP ratio increased from 26.8 percent in 2007/08 to 29.4 percent in 2008/9.

46. **Development expenditure** increased from 11.6 percent of budgeted expenditure in 2007/08 to 15.6 percent in 2008/09. After a record high execution rate of 96.3 percent achieved during 2006/7, the rate fell to 88.9 percent in 2007/08, and rose marginally to 89.2 percent in 2008/09.

Figure 1. Performance of fiscal indicators against current fiscal targets, 2004/05 - 2008/09



Source: Ministry of Finance 2009/10

IV. DOMESTIC ECONOMIC DEVELOPMENTS IN 2009

47. After a severe downturn of the economy in the first half of 2009, the Namibian economy is showing signs of recovery.

48. The first quarter 2009 National Accounts reveal a sharp decline in the economy, with real GDP contracting by 5.8 percent on a seasonally adjusted quarter-on-quarter basis. However, based on signs of recovery in the second half of 2009, annual GDP is predicted to contract more moderately by 1.1 percent year-on-year.

Demand Side Developments

49. **Exports** are the major factor behind the projected contraction in 2009. Due to the contraction of the mining and manufacturing sectors, as well as declines in the export oriented tourism and fishing industries, exports are projected to contract by 15.1 percent in 2009. In the first quarter, mining and quarrying contracted by 65.6 percent, manufacturing by 39.5 percent, fishing by 33.5 percent, and the hotels and restaurants sector by 17 percent in real terms. With the global financial crisis leading several of Namibia's main trading partners into recession, the collapse of commodity prices, and the appreciation of the rand against other major currencies, Namibia's export sector has been hard hit. Nevertheless, growth in the Chinese economy is expected to stimulate the demand for Namibian minerals, especially copper. As the global economy recovers demand for commodities will in turn recover leading to high growth in exports.

50. Growth in **private consumption** is expected to slow from 5.8 percent in 2008 to 1.8 percent in 2009. The impact of retrenchments and falling incomes in the exporting sectors is partly responsible for this. A survey conducted in October 2009[2] found consumer confidence still bottoming out, with the consumer confidence index falling relative to the previous quarter. Nonetheless, growth in the wholesale and retail trade sector was 2.1 percent in the first quarter, recovering from a contraction of 1.5 percent in the last quarter of 2008, and is expected to pick up further over the course of the year. In a Retail Business Survey conducted in July and August 2009[3], 40 percent of respondents claimed that business conditions had improved during the second quarter of 2009, while 45 percent said conditions remained the same.

51. **Government consumption** is expected to grow by 4 percent, reflecting government's policy of expansionary fiscal policy measures in the face of the global economic crisis.

52. **Investment** is projected to grow by 13.2 percent in 2009, mainly driven by government's expansionary development budget, while private investment in the mining and construction sector makes a sizable contribution. Business confidence surveys conducted by IPPR in the first half of 2009 showed a drop in businesses planning investment, but in the October 2009 survey, 42 percent of respondents indicated that business conditions had improved in the third quarter, and 69 percent of respondents had investment plans for the fourth quarter.

53. Slowing consumption growth will contribute to a slowdown in **imports**, which are projected to grow by only 1.5 percent in 2009, compared to a staggering 21 percent in 2008, thus mitigating the impact of the export contraction on the balance of trade.

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[2] IJG Business Confidence Survey, October 2009

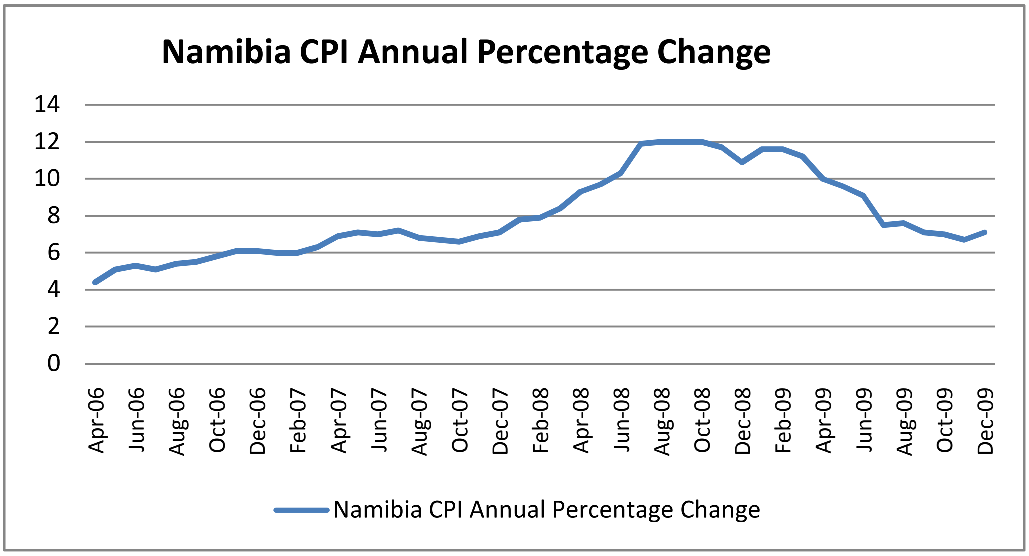
[3] Retail Business Survey, Institute for Public Policy Research (IPPR)

54. **Private sector credit** slowed to an annual growth rate of 9.9 percent at the end of October 2009. Asset backed credit, i.e. mainly mortgage loans, show a clear further downward trend in 2009, where it slows down further to 9.3 percent at the end of October 2009. The slow growth is ascribed to the weak real estate market and the commercial banks' stricter lending requirements.

55. The overall balance of the balance of payments recorded a deficit during the second quarter of 2009. This was mainly driven by the appreciation of the Namibia Dollar against major currencies, most notably the US Dollar, Euro and British Pound.

56. In addition, the price of energy, as well as demand, declined worldwide in 2009. Consequently this lead to inflationary pressures easing in the domestic economy. The trend in 2009 was that of declining price pressures, with an average yearly inflation rate of 8.8 percent, as is shown in Figure 2. Consequently, the Bank of Namibia eased the repo rate to end off at 7.0 percent at the end of 2009. This is a decrease of 3.5 percent within the past 12 months.

Figure 2. Inflation rate



Source: Central Bureau of Statistics (CBS) 2009

57. In early 2010, cautious optimism started being expressed in that a global economic recovery was underway. If demand does indeed pick up, amongst other factors, inflation could change direction over the medium term. The risk remains on the upside.

Supply Side Developments

58. The **primary industries** are estimated to decline by minus 25.4 percent in 2009 mainly due to an acute contraction in diamond mining.

59. The **secondary industries** are estimated to grow by 4.6 percent in 2009 and this growth will be driven mainly by the construction sector. The performance of the EU economies would reduce the demand for Namibian fish and beef exports to those countries.

60. The **tertiary industries** are expected to grow by 4.0 percent in 2009. The slowdown in the real growth rates of the tertiary industries is mainly attributed to the fall in the number of tourists visiting Namibia, especially from Germany, France and Italy as a result of the contraction in real GDP of those economies.

B. MEDIUM TERM OUTLOOK

61. GDP growth is projected under two scenarios, the most likely and the pessimistic scenarios. However, for planning purposes, the most likely scenario will be adopted. The pessimistic scenario projections (attached as annexure) are based on the premises that the downside risks to the most likely scenario will materialise, with the consequent impact on economic performance having a dampening effect on growth.

62. The GDP growth for 2010/11-2012/13 MTEF under the most likely scenario is based on the following assumptions for macroeconomic variables:

Box 1. Assumptions for MTEF 2010/11 – 2012/13 under a most likely scenario

Macroeconomic assumptions for 2010/11 – 2012/13

International and Regional Assumptions

- International inflation is assumed at 0.1 percent and 1.1 percent in 2009 and 2010 respectively.
- World trade is assumed to grow by -11.9 percent in 2009 and 2.5 in 2010.
- The USA long-term interest rate is assumed at 5.0 percent per annum.
- Oil prices are expected to average at US$ 61.53 per barrel in 2009; US$ 76.50 in 2010; and assumed to remain unchanged in real terms over the Medium Term.
- After contracting by 1.1 percent in 2009, global output is forecast to expand by 3.1 percent in 2010. During 2010-2014, global growth is forecast to average just above 4 percent.
- Commodity prices are assumed to start a slow recovery in 2009 and are projected to remain at relatively low levels in 2010.
- The growth in the Chinese economy is expected to stimulate demand for Namibian mineral exports.
- After going into recession in 2009, advanced economies are expected to show signs of recovery in 2010, growing at a rate of 1.3 percent.
- The Rand will strengthen in 2009 and 2010 and follow a depreciating trend as of 2011.

Domestic Assumptions

Demand Side Assumptions

- Average annual inflation was 8.8 percent in 2009. It is expected to average 7 percent in 2010 and around 6 percent for 2011 - 2013.
- The Namibian Dollar's movements are determined by its peg to the Rand.
- Population growth is projected at 1.9 percent per annum as in the population report.
- Labour force growth is projected to be 2.6 percent per annum, as in the NDP3.
- Consumption growth is expected to decelerate in 2009 and follow an upward trend thereafter.
- Foreign direct investments are expected to play a major role especially in the non diamond mining and construction sectors.
- The Government's material consumption and investment are assumed to follow the MTEF. As falling revenues over the medium term reduce fiscal flexibility, growth in both public consumption and investment is curbed as of 2011.
- Employment in the Government is assumed to follow the population growth trend.
- The salaries and wages (wage rate) in the Government will increase by 12% in 2009 and 2010, based on the outcome of civil service wage negotiations in 2008.
- Exports are expected to contract in 2009 and recover in 2010-2013 in parallel with the expected global recovery. Uranium exports will continue to grow over the medium term. Namibia is also set to become a net exporter of cement over the coming MTEF.
- Imports are expected to follow an accelerating growth path from 2010 to 2013 as demand from both private consumption and investment grows.

Macroeconomic assumptions for 2010/11 – 2012/13

Supply-side Assumptions

- **Primary industries** are expected to perform relatively well compared to previous years.
  - **Livestock farming** is expected to continue growing moderately over the medium term due to diversification towards Angola and better prices from abattoirs.
  - **Crop farming** will grow consistently, driven by cheaper diesel and fertiliser imports and expansion of irrigated land under the Green Scheme, as well as investments from the Millennium Challenge Account (MCA). The !Aimab O&L Superfarm became operational in 2009.
  - The **fishing** sector contracts in 2009, albeit less than in 2008 due to a decrease in Lobster activity and Monk TAC, a moratorium on Orange Roughy, and small size of catch. Good management of fishing resources will pay off in the medium term with positive growth in this sector resuming as of 2010, also bolstered by cheaper fuel prices and the expected depreciating trend of the Ran. The growth of the sector, however, will be contained based on the expansion of the TACs.
  - **Diamond mining** declines in 2009 due to the three months production holiday resulting from the financial crisis. The global recovery will be accompanied by a recovery in the prices of certain commodities and increasing demand for diamond and uranium exports. **Mining** output is expected to improve due to the entry of new mines in the economy, especially in the Uranium sector (Trekkopje, Etango, Valencia).
- **Secondary industries** are expected to perform well on the backdrop of good performance in the construction sector.
  - **Meat processing** will grow over the MTEF due to market diversification into Angola.
  - Other **food and beverage manufacturing** performs well in 2009 and is expected to grow over the medium term. SABMiller has been granted a licence to brew in Namibia, local breweries performed well in 2009 with planned expansion to overseas markets.
  - While in 2009, **manufacturing** takes a hit from the reduction in diamond value adding activities, positive developments over the medium term include doubling the volume of copper processed by the Weatherly Smelter, the commencement of cement production at Ohorongo,
  - The **electricity and water sector** are expected to perform well over the medium term due to a number of projections coming on board. The Areva desalination plant was commissioned in late 2009. Nampower will increase capacity in 2010 with the completion of a 20 MW Diesel Peaking Facility. Imports, and hence distribution, are set to increase as Nampower has signed an agreement with Zambian Zesco to import 50 MW of power per day.
  - **Construction** is expected to perform very strongly over the MTEF. The value of Windhoek approved and completed building plans in the third quarter of 2009 rose by more than 50% year on year. The sector will be driven by government and private investments, as well as the MCA which will span a five year period.
- The good performance of **tertiary industry** over the past years is expected to continue albeit at a decelerated growth rate in 2009 but is expected to improve thereafter.
  - In the **telecommunications sector**, the passing of the Telecommunications Act and competition between providers will lower prices and increase usage.
  - **Transport and storage** will grow over the medium term due to increasing traffic of merchandise over the Transcaprivi highway, expansion of Namport's facilities, and in the medium term, increasing volume of commodity exports.
  - The **financial intermediation** industry is expected to grow, supported by expansionary monetary policy. Booking cancellations in the hotel and restaurant sector point towards a contraction over the short term.
  - **Business services**, both professional and personal, are expected to follow a similar trend to GDP, with professional business services leading GDP by one year.
  - **Government services** are expected to grow in line with government spending.

Source: Macroeconomic Working Group

V. DOMESTIC ECONOMIC PROJECTIONS FOR THE 2010 TO 2012 PERIOD

Demand Side Projections

63. The Namibian economy is estimated to contract by 1.1 percent during 2009, owing to a sharp decline in exports, and slowing private consumption growth (Table 6).

64. Growth is projected to be 3.8 percent in 2010, and thereafter, average 4.4 percent for the period 2011-2013. Beyond 2009 the economy will be driven mainly by private and government investments, and exports. Investments are attributed largely to new projects in the water and electricity sector, government investment in infrastructure, construction in the tourism industry, uranium mining projects, and Millennium Challenge Account (MCA) investments in Education infrastructure, Agriculture and Tourism. After a sizable contraction in 2009, exports will grow at a rapid pace. Imports are also expected to be high as a response to high consumption and investment demand.

Table 6. GDP projection, expenditure approach- A Most Likely Scenario

Constant 2004 prices - percentage change	2008	2009	2010	2011	2012	2013
	Actual	**Estimate**	**Projections**			
1. Consumption	**9.7**	**2.3**	**3.2**	**4.0**	**3.8**	**3.7**
Private consumption	10.7	1.8	3.0	5.0	5.0	4.3
Government consumption	6.8	4.0	3.9	1.0	0.2	1.7
2. Investment	**3.2**	**13.2**	**8.9**	**11.5**	**7.5**	**6.9**
Private enterprises,	-4.0	9.8	12.0	17.0	11.0	9.0
Government investment	18.4	19.0	4.0	2.0	0.5	2.2
3. Exports of goods and services	**16.5**	**-15.1**	**12.0**	**7.0**	**13.5**	**10.3**
4. Imports of goods and services	**21.1**	**1.5**	**6.5**	**7.8**	**8.4**	**8.1**
GDP, growth rate	**3.3**	**-1.1**	**3.8**	**4.2**	**4.8**	**4.2**

Source: 2008 National Accounts; Macroeconomic Working Group Projections

Supply Side Projections

65. On the supply-side, growth is expected to be mainly driven by the primary and secondary industries, which are projected to grow on average by 4.4 and 5 percent over the 2010-2013 period respectively, followed by the tertiary industries which are expected to grow by 4.2 percent on average.

Table 7: GDP Growth Rates by Industry - A Most Likely Scenario

GDP by Industry, 2004 prices	2008	2009	2010	2011	2012	2013	2010-2013
	Actual	Estimate	Projection				Average
Primary Industries	-1.4	-25.4	6.6	2.5	5.8	2.5	4.4
Secondary Industries	3.3	4.6	4.2	5.1	5.3	5.5	5.0
Tertiary industries	5.4	4.0	3.6	4.3	4.5	4.3	4.2
GDP at constant prices	3.3	-1.1	3.8	4.2	4.8	4.2	4.2

Source: 2008 National Accounts; Macroeconomic Working Group Preliminary Projections 2009

66. The **primary industries** are estimated to decline by 25.4 percent in 2009 mainly due to an acute contraction in diamond mining; and are projected to recover by 6.6 percent in 2010 due the recovery of the international export markets as the economic crisis abates and due to the increase in production from new mines. The primary industries are projected to continue growing by 4.4 percent on average between 2010 and 2013 due to the coming on board of new mines such as Valencia in 2010 and Etango in 2011 as well as increased offshore output by Namdeb. However, declining onshore diamond resources going forward will exert pressure on primary industries output from 2011. This had been indicated in 2008-2011 economic outlook already.

67. The **secondary industries** are estimated to grow by 4.6 percent in 2009. These industries are projected to grow by 4.2 percent in 2010, and follow an increasing growth trend for the rest of the 2010-2013 period, reaching an average growth rate of 5 percent. The growth will be driven mainly by the construction sector. In 2010, a 5.4 percent expected increase in power capacity will boost the electricity and water sector. Food and beverage manufacturing are expected to perform well, as meat processing is boosted by growth in the livestock sector and diversification of export markets into Angola. The Weatherly copper smelter is expected to expand activities over this period, nearly doubling its output. With demand for diamonds recovering alongside the global economy, diamond cutting and polishing activities may resume a growing path. The secondary industries will also be boosted by the increase in production of cement by Ohorongo cement that is coming on board in 2011.

68. The **tertiary industries** are expected to grow by 4.0 percent in 2009, and 3.6 percent in 2010. This growth is expected to be supported by activities related to the World Cup and the African Cup of Nations such as the use of accommodation, communication and transport facilities. Wholesale and retail trade will be bolstered by the strong expected growth in neighbouring Angola, where real GDP is expected to grow by 9.3 percent in 2010. The average growth for the 2010-2013 is projected to be 4.2 percent, driven by wholesale and retail trade, financial intermediation, transport and communication, and Government services. The financial intermediation sector will be boosted by the expansionary monetary policy and while tourism is expected to be hard hit by the crisis in 2009, the sector is expected to recover after 2010, boosted by the weakening of local currency.

C. CHALLENGES AND DOWN-SIDE RISKS IMPACTING ON ECONOMIC PERFORMANCE

69. There are a number of challenges that need to be addressed in order to put the Namibian economy on a higher, sustainable growth trajectory. These challenges are mainly structural in nature and have been amplified as a result of the global economic downturn. Government recognised these challenges with a view to address them in development plans, and fast tracked implementation of appropriate policies.

70. It is also important to note that the financial crisis is not over yet and could pose a risk to the domestic economic performance in the medium term. Although there are currently indications that a recovery is eminent, the projected downside risks may materialise and, therefore, translate into a prolonged economic crisis, at least over the medium term.

71. Cognisance should be taken that efforts towards addressing structural challenges may be compromised by significant reductions in revenue, as a consequence of the current financial crises and trade liberalisation. Consolidation of public expenditure thus becomes imperative.

72. Receipts from the SACU Revenue Pool have been, and remain, a significant contributor to Government revenue. SACU revenues are expected to reduce due to outstanding deficits in the common revenue pool of 2008/09 and 2009/10 as well as projected declines in customs collections over the medium term.

73. Namibia's ability to significantly increase her economic output is hampered by high unemployment, supply side constraints, poor skills levels and the challenges emanating from the HIV and AIDS pandemic and perennial diseases.

74. Namibia depends on imported energy resources and this includes electricity and liquid fuels, mainly from South Africa. South Africa has been experiencing perpetually increasing energy needs of its own. Due to these developments, South Africa has reduced the quantity of electricity exports to neighbouring countries, including Namibia, and increased the sale price. Nampower has initiated an ambitious programme to address national energy shortages.

75. A number of policies exists which should assist the private and public sectors to become more competitive in the regional and international context, but there are no safe-guards for local industries against dumping and other anti-competitive practices.

76. It is critical to improve financial performances of state-owned enterprises, local and regional authorities in order for them to become self-sustainable, especially in the face of dwindling Government revenues. Improved performance of SOEs can significantly improve services rendered while relieving pressure on the budget. Government has put measures in place aimed at improving the management of SOEs. Such measures include the need to target subsidies to SOEs to specific outputs and introducing performance accountability of SOE management. However, continuous evaluation of these measures will be required.

77. The fishing industry has been hard hit by the appreciation of the Namibia Dollar against the Euro, as this has reduced receipts from its main export market. In the medium term, performance of the fishing sector will depend on the exchange rate, the price of fuel, and on the sustainability of the total allowable catch.

78. Namibia is a small open economy, with a trade-to-GDP ratio in excess of 80 percent. This implies that Namibia's economy is very much affected by events taking place elsewhere,

such as the current financial crisis, which led to recession in most of the world's economies in 2009. A recovery is expected in 2010, however, this is subject to a number of risks.

D. CONCLUSIONS

79. In view of the likely economic outturn under the MTEF and the specific needs to attain the goals of NDP3, Government will implement appropriate measures that will create an enabling environment for the economy to grow at sustainable rates. This includes, results-based budgeting, especially for capital expenditure, in order to improve investment outcomes, improvement of systems efficiencies and strengthening of revenue collection measures, for both tax and non-tax collections.

80. An annual GDP growth rate of at least 5 percent is required for the attainment of the development goals and targets of the NDP3. However, the domestic economy is expected to grow by 4.2 percent only over the medium term period (2010-2013). Consequently, Government will have to pursue measures that can put the economy on a higher growth trajectory if Namibia is to achieve the targets of the NDP3.

81. Public expenditure will continue to be aimed at outcome-based human development (health and education constraints), sustainable agricultural output (increased quantity and improved quality) to guarantee food security and infrastructure development.

82. Government will continue to pursue policies aimed at diversifying the economy, reducing its dependency on primary industries, and encouraging market diversification in export oriented sectors.

83. More specifically, the Government will, inter alia, introduce the following measures over the 2010/11-2012/13 MTEF period:

a) Maintain **macroeconomic stability** and fiscal sustainability;

b) Given the uncertainty about the pace at which the global recovery will proceed, **system efficiencies** will be ensured through continuous improvement of the quality of expenditure.

c) Improve the efficiency of the **collection of non-tax revenue** such as rent tax, dividend income and others;

d) Enforce **anti-dumping countervailing and safeguard measures** in order to safeguard existing investments and encourage new ones, as well as to protect consumers;

e) **Explore alternative export markets** for the fish, beef and other products;

f) Implement appropriate policy intervention measures to encourage **diversification and value addition** to non-renewable resources;

g) Pursue measures to support the development of the secondary industries in order to **enhance the contribution of manufacturing to GDP,** and bring it up to 80 percent as per the target of Vision 2030;

h) **Optimise benefits from FDI** and other opportunities created through development programmes and projects funded outside the state revenue fund (including loan aid) for sustainable employment generation, training/skills development, knowledge and technology transfer;

i) **Optimise efficiency gains in public service delivery** to further improve the business operating conditions and environment by accelerating the implementation of the Performance Measurement System (PMS) for employment in the public service, results-based budgeting;

j) Continue to promote the development of **capital markets** in order to ensure the smooth channelling of investment funds;

k) Finalise the review some of the **fiscal incentive schemes** currently in place;

l) Continue to improve the performance of State-owned Enterprises (**SOE**s) and governmental operations.

E. ANNEXURE

Table 8. Annual percentage change (at constant 2004 prices) in Gross Domestic Product by activity, 2006 to 2008

INDUSTRY , 2004 PRICES	2006	2007	2008	2006-2008
Agriculture	3.8	-4.6	2.4	0.5
Livestock Farming	-7.3	2.8	5.8	0.4
Crop Farming and Forestry	15.2	-10.7	-0.9	1.2
Fishing and fish processing on board	-8.8	-19.0	-5.3	-11.0
Mining and quarrying	27.6	0.5	-2.6	8.5
Diamond mining	38	-3.1	-0.3	11.5
Other mining and quarrying	-8.5	19.4	-12.3	-0.5
Primary Industries	12.8	-4.0	-1.4	2.5
Manufacturing	2.7	8.4	-0.6	3.5
Meat processing	-8.5	4.3	-8.4	-4.2
Fish processing on shore	-31.7	29.6	-3.8	-2.0
Manufacture of other food products and beverages	3	4.8	2.9	3.6
Other Manufacturing	12.7	8.0	-2.2	6.2
Electricity and water	6.3	4.0	5.9	5.2
Construction	43	14.5	15.3	22.3
Secondary Industries	9.1	9.0	3.3	6.8
Wholesale and retail trade, repairs	7.6	7.9	2.9	6.1
Hotels and restaurants	7.4	10.6	1.3	6.4
Transport and communication	14.5	5.4	5.5	8.4
Transport and storage	35.9	6.0	9.3	16.6
Post and telecommunications	2.8	4.9	2.8	3.6
Financial intermediation	4.4	12.0	10.0	8.8
Real estate and business services	3.6	8.6	4.3	5.5
Real estate activities	5.3	7.0	4.9	5.7
Other business services	-0.9	13.1	2.6	4.9
Community, social and personal services	2.8	1.1	-0.7	1.1
Producers of government services	2.7	8.1	8.1	6.5
Other producers	2.2	3.4	5.2	3.6
Tertiary industries	5.4	7.7	5.4	6.2
Less: Financial services indirectly measured	14.2	10.1	2.7	9.0
GDP at Basic prices	7.4	5.5	3.8	5.6
Taxes on Production and Imports less Subsidies	4.1	5.1	-1.6	2.5
GDP at market prices	7.1	5.5	3.3	5.3

Source: 2008 National Accounts

Table 9. Projected Growth Rates by Activity - A Most Likely Scenario

Sector Growth Rates, Constant 2004 Prices	2007 Actual	2008 Actual	2009 Estimate	2010	2011	2012	2013
				Projections			
Agriculture	-4.6	2.4	3.4	3.4	4.0	4.0	3.8
Livestock farming	2.8	5.8	3.7	3.7	3.5	3.5	3.2
Crops farming and forestry	-10.7	-0.9	3.1	3.0	4.5	4.5	4.5
Fishing and fish processing on board	-19.0	-5.3	-3.5	-0.5	2.5	2.5	4.0
Mining and quarrying	0.5	-2.6	-46.6	12.8	1.0	8.7	0.7
Diamond mining	-3.1	-0.3	-56.6	15.0	-0.3	0.0	0.0
Other mining and quarrying	19.4	-12.3	2.0	8.4	4.0	27.5	2.0
Primary Industries	**-4.0**	**-1.4**	**-25.4**	**6.6**	**2.5**	**5.8**	**2.5**
Manufacturing	8.4	-0.6	0.9	2.7	3.5	4.1	4.5
Meat processing	4.3	-8.4	2.0	3.3	3.6	3.7	4.5
Fish processing on shore	29.6	-3.8	-0.5	0.5	1.6	2.6	4.4
Manufacturing of other food products and beverages	4.8	2.9	3.5	4.0	4.5	5.0	5.0
Other Manufacturing	8.0	-2.2	-0.9	2.0	3.1	3.6	4.0
Electricity and water	4.0	5.9	1.5	4.5	5.0	5.5	6.0
Construction	14.5	15.3	17.6	8.0	9.0	8.0	7.5
Secondary Industries	**9.0**	**3.3**	**4.6**	**4.2**	**5.1**	**5.3**	**5.5**
Wholesale and retail trade, repairs	7.9	2.9	3.0	3.0	4.6	4.9	4.8
Hotels and restaurants	10.6	1.3	-18.0	0.5	2.5	4.8	4.0
Transport and communication	5.4	5.5	2.3	4.0	5.7	5.6	4.9
Transport and storage	6.0	9.3	2.0	4.0	6.0	5.0	5.5
Post and telecommunications	4.9	2.8	2.5	4.0	5.4	6.0	4.5
Financial intermediation	12.0	10.0	6.5	6.0	6.6	7.3	8.0
Real estate and business services	8.6	4.3	3.7	3.7	3.5	3.9	3.1
Real estate activities	7.0	4.9	3.7	3.6	3.2	3.6	3.0
Other business services	13.1	2.6	3.6	4.0	4.2	4.7	3.5
Community, social and personal services	1.1	-0.7	-0.9	1.0	2.3	2.4	3.0
Producers of government services	8.1	8.1	7.7	4.0	4.0	4.0	3.5
Private household with employed persons	3.4	5.2	2.2	2.0	2.0	2.0	2.5
Tertiary industries	**7.7**	**5.4**	**4.0**	**3.6**	**4.3**	**4.5**	**4.3**
Less: Financial services indirectly measured	10.1	2.7	9.5	9.5	9.5	9.5	9.5
GDP at Basic prices	**5.5**	**3.8**	**-1.1**	**4.4**	**4.1**	**4.8**	**4.2**
Taxes on Production and Imports less Subsidies	5.1	-1.6	-1.0	1.0	4.2	4.7	4.7
GDP at market prices	**5.5**	**3.3**	**-1.1**	**3.8**	**4.2**	**4.8**	**4.2**

Source: 2008 National Accounts; Macroeconomic Working Group Projections

Table 10. Gross domestic product by activity (Current prices in N$ millions)
- A Most Likely Scenario -

Industry	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Estimate	Projections			
Agriculture	3 045	3 961	4 459	4 917	5 398	5 920	6 444
Livestock farming	1 765	2 536	2 861	3 163	3 460	3 782	4 098
Crops farming and forestry	1 280	1 425	1 597	1 754	1 937	2 138	2 346
Fishing and fish processing on board	2 330	2 411	2 531	2 685	2 909	3 149	3 438
Mining and quarrying	6 816	11 556	9 304	10 934	11 875	15 010	16 001
Diamond mining	3 535	5 522	2 607	3 196	3 368	3 557	3 735
Other mining and quarrying	3 281	6 034	6 696	7 738	8 506	11 453	12 266
Primary Industries	**12 191**	**17 928**	**16 294**	**18 536**	**20 181**	**24 079**	**25 883**
Manufacturing	9 767	9 103	9 984	10 922	11 947	13 126	14 394
Meat processing	206	145	161	178	194	213	234
Fish processing on shore	902	999	1 082	1 159	1 245	1 349	1 478
Manufacturing of other food products and beverages	2 923	3 360	3 784	4 195	4 634	5 138	5 664
Other Manufacturing	5 736	4 598	4 957	5 390	5 874	6 426	7 018
Electricity and water	1 558	1 589	1 755	1 955	2 170	2 417	2 690
Construction	2 285	3 016	3 858	4 442	5 118	5 837	6 588
Secondary Industries	**13 610**	**13 707**	**15 598**	**17 319**	**19 234**	**21 380**	**23 673**
Wholesale and retail trade, repairs	6 769	7 682	8 609	9 453	10 451	11 577	12 739
Hotels and restaurants	1 115	1 269	1 132	1 213	1 314	1 454	1 588
Transport and communication	2,955	3 513	3 910	4 335	4 840	5 397	5 945
Transport and storage	1 146	1 387	1 540	1 707	1 912	2 120	2 349
Post and telecommunications	1 809	2 125	2 370	2 628	2 928	3 277	3 596
Financial intermediation	2 563	2 889	3 348	3 783	4 263	4 830	5 477
Real estate and business services	5 041	5 467	6 168	6 820	7 462	8 190	8 871
Real estate activities	3 564	3 781	4 268	4 713	5 141	5 624	6 083
Other business services	1 477	1 686	1 900	2 107	2 321	2 566	2 788
Community, social and personal services	1 987	2 173	2 343	2 523	2 728	2 950	3 190
Producers of government services	11 534	13 740	16 100	17 849	19 621	21 549	23 418
Private household with employees	424	492	548	595	642	691	744
Tertiary industries	**32 388**	**37 226**	**42 158**	**46 571**	**51 321**	**56 639**	**61 973**
Less: Financial services indirectly measured	765	858	1 022	1 193	1 380	1 597	1 836
GDP at Basic prices	**57 424**	**68 003**	**73 028**	**81 233**	**89 357**	**100 500**	**109 693**
Taxes on Production and Imports less Subsidies	4 678	5 219	5 621	6 052	6 667	7 373	8 105
GDP at market prices	**62 102**	**73 222**	**78 649**	**87 285**	**96 023**	**107 873**	**117 798**

Source: 2008 National Accounts; Macroeconomic Working Group Projections

Table 11. Gross domestic product by activity, (Constant 2004 prices in N$ millions) - A Most Likely Scenario -

Industry	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Estimate	Projections			
Agriculture	2 564	2 625	2 714	2 805	2 917	3 033	3 150
Livestock farming	1 253	1 325	1 374	1 425	1 475	1 526	1 575
Crops farming and forestry	1 311	1 300	1 340	1 380	1 442	1 507	1 575
Fishing and fish processing on board	1 059	1 003	968	963	987	1 012	1 052
Mining and quarrying	4 742	4 621	2 469	2 786	2 815	3 065	3 089
Diamond mining	3 840	3 830	1 662	1 911	1 906	1 906	1 906
Other mining and quarrying	902	791	807	875	910	1 160	1 183
Primary Industries	**8 365**	**8 249**	**6 151**	**6 554**	**6 719**	**7 110**	**7 291**
Manufacturing	6 395	6 358	6 416	6 589	6 822	7 101	7 417
Meat processing	169	155	158	163	169	176	184
Fish processing on shore	640	616	613	616	625	642	670
Manufacturing of other food products and beverages	2 407	2 478	2 565	2 667	2 787	2 927	3 073
Other Manufacturing	3 178	3 109	3 081	3 143	3 240	3 357	3 491
Electricity and water	1 230	1 302	1 322	1 381	1 450	1 530	1 622
Construction	1 832	2 112	2 484	2 682	2 924	3 158	3 394
Secondary Industries	**9 457**	**9 772**	**10 222**	**10 652**	**11 196**	**11 788**	**12 434**
Wholesale and retail trade, repairs	5 904	6 072	6 255	6 442	6 739	7 069	7 408
Hotels and restaurants	936	948	777	781	801	839	873
Transport and communication	3 161	3 335	3 411	3 548	3 749	3 957	4 152
Transport and storage	1 328	1 452	1 481	1 540	1 632	1 714	1 808
Post and telecommunications	1 833	1 883	1 930	2 008	2 116	2 243	2 344
Financial intermediation	2 267	2 493	2 655	2 814	3 000	3 219	3 477
Real estate and business services	4 711	4 914	5 096	5 285	5 468	5 680	5 858
Real estate activities	3 447	3 616	3 751	3 886	4 011	4 155	4 280
Other business services	1 264	1 298	1 344	1 398	1 457	1 525	1 579
Community, social and personal services	1 721	1 709	1 694	1 711	1 750	1 792	1 846
Producers of government services	9 136	9 872	10 632	11 057	11 500	11 960	12 378
Private household with employees	370	389	398	406	414	422	433
Tertiary industries	**28 205**	**29 733**	**30 918**	**32 044**	**33 420**	**34 939**	**36 425**
Less: Financial services indirectly measured	652	670	734	803	879	963	1 055
GDP at Basic prices	**45 376**	**47 083**	**46 557**	48 447	50 456	52 874	55 095
Taxes on Production and Imports less Subsidies	4 057	3 990	3 950	3 990	4 158	4 354	4 559
GDP at market prices	**49 432**	**51 073**	**50 507**	**52 437**	**54 613**	**57 228**	**59 654**

Source: 2008 National Accounts; Macroeconomic Working Group Projections

Table 12. Expenditure on GDP (Constant 2004 prices in N$ million) – A Most Likely Scenario –

Expenditure Category	2007 Actual	2008 Actual	2009 Estimate	2010	2011	2012	2013
				Projections			
Consumptions	**41 247**	**45 261**	**46 317**	**47 810**	**49 725**	**51 636**	**53 558**
Private consumption	30 969	34 279	34 896	35 943	37 740	39 627	41 344
Government consumption	10 279	10 982	11 421	11 867	11 985	12 009	12 214
Investment	**11 945**	**12 322**	**13 944**	**15 188**	**16 934**	**18 199**	**19 446**
Private enterprises	8 139	7 814	8 580	9 609	11 243	12 480	13 603
Government investment	3 806	4 508	5 364	5 579	5 691	5 719	5 843
Exports of goods and services	**20 677**	**24 089**	**20 452**	**22 906**	**24 509**	**27 818**	**30 669**
Imports of goods and services	**27 784**	**33 636**	**34 141**	**36 360**	**39 196**	**42 488**	**45 930**
GDP	**49 432**	**51 073**	**50 507**	**52 437**	**54 613**	**57 228**	**59 654**

Source: 2008 National Accounts; Macroeconomic Working Group Projections

Box 2. Assumptions for MTEF 2010/11 – 2012/13: Under a pessimistic scenario

International and Regional Assumptions

- Premature exit from accommodative monetary and fiscal policies lead to advanced economies stalling in the global recovery process.
- Possibility of resurgent protectionism and failure of international trade volumes to recover in the short term.
- Other global shocks such as rising oil prices or a worsening of the H1N1 pandemic.

Domestic Assumptions

Primary Industries

- The global economic crisis prolongs beyond 2010, which will depress demand for export goods in the areas of diamonds, copper, zinc and uranium
- Credit availability remains problematic and mining companies are unable to acquire sufficient financing for capital expenditure projects. This leads to a stagnation in output as exploration activities are put on hold.
- The high cost of Diesel and fertiliser imports and expansion of irrigated land under the Green Scheme may lead to the slowdown of growth in the crop-farming sector.
- Fishing resources decline in the medium term as of 2011 due to climatic change and other external factors
- The EPA with EU is not signed, leading to Namibia losing quota free market access for fish, meat and agricultural products.
- An appreciation of the rand could make exports uncompetitive, resulting in depressed production in the corresponding sectors.
- Water and energy may pose a constraint to production and/or new entrants, especially in sectors such as mining, fishing and agriculture, which heavily rely on fuel and water as an input.

Secondary Industries

- The floods experienced in the past two rain seasons may recur, which wouldhave a negative impact on the manufacturing industry.
- The opening of Ohorongo Cement couldbe delayed beyond the end of 2010 thereby affecting the construction sector.
- Price volatility of coal and fuel could hamper the envisaged expansion of Nampower in 2010.
- The slowdown in the manufacturing sector may deepen due to the fragility of the global economy resulting in decreased production, and thus value addition in the diamond sector.

Tertiary Industries

- The global economy may not recover as soon as expected from the crisis, resulting in the World Cup in South Africa in 2010 failing to make the hoped for contribution to rising tourist numbers and demand for related services.
- Government revenue may be reduced further due to declining receipts from the SACU Revenue Pool and decreases in collections from other taxes due to the weakness of global economic activities.

Source: 2008 National Accounts; Macroeconomic Working Group Projections

Table 13. GDP projection, expenditure approach

- A Pessimistic Scenario -

Constant, 2004 prices - percentage change	2008	2009	2010	2011	2012	2013
	Actual	**Estimate**	**Projections**			
1. Consumption	**9.7**	**2.3**	**2.9**	**1.5**	**2.7**	**2.9**
Private consumption	10.7	1.8	2.3	2.7	3.2	3.4
Government consumption	6.8	4.0	4.9	-2.2	1.4	1.4
2. Investment	**3.2**	**13.2**	**9.0**	**7.7**	**5.2**	**6.8**
Private enterprises	4.0	9.8	12.1	11.0	7.7	9.5
Government investment	33.8	19.0	4	2	0.5	1.5
3. Exports of goods and services	**16.5**	**-15.1**	**3.7**	**4.9**	**6.3**	**7.0**
4. Imports of goods and services	**21.1**	**1.5**	**2.6**	**2.9**	**3.2**	**6.0**
GDP growth rate	**3.3**	**-1.1**	**2.5**	**3.1**	**3.6**	**3.7**

Source: 2008 National Accounts; Macroeconomic Working Group Projections