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# Namibia Economic Outlook 2005

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25 February 2005



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# Content

- Global Economic Outlook
- Namibia Economic Outlook
- Exchange Rate & Interest Rate Outlook
- Macroeconomic and Fiscal Policy Challenges
- Competitiveness in attracting FDI
- RSA Budget & Impact on Namibia
- END





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# Economic Outlook

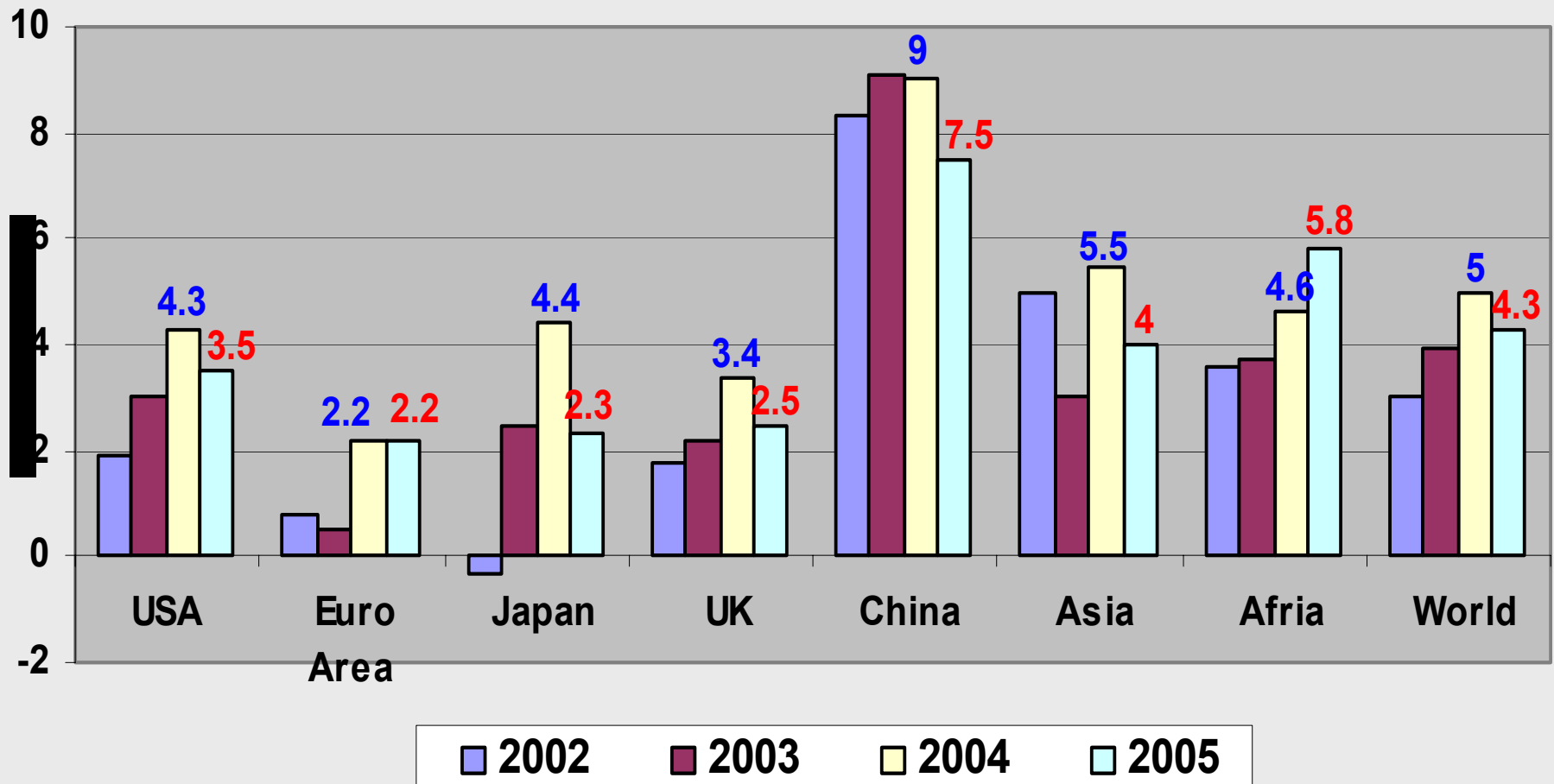
## Part 1



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# Global Economic Growth to fall in 2005



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# Global Economic Outlook

## Global Economic Growth Projected to fall in 2005 due to:

- Decline in GDP Output Gaps across the World, especially industrialized countries.
- Tight Monetary (rising interest rates) and fiscal Policies in major Industrial and emerging economies.
- Wealth Effect from declining equity and housing prices and declining corporate profits.
- Impact of higher oil prices.



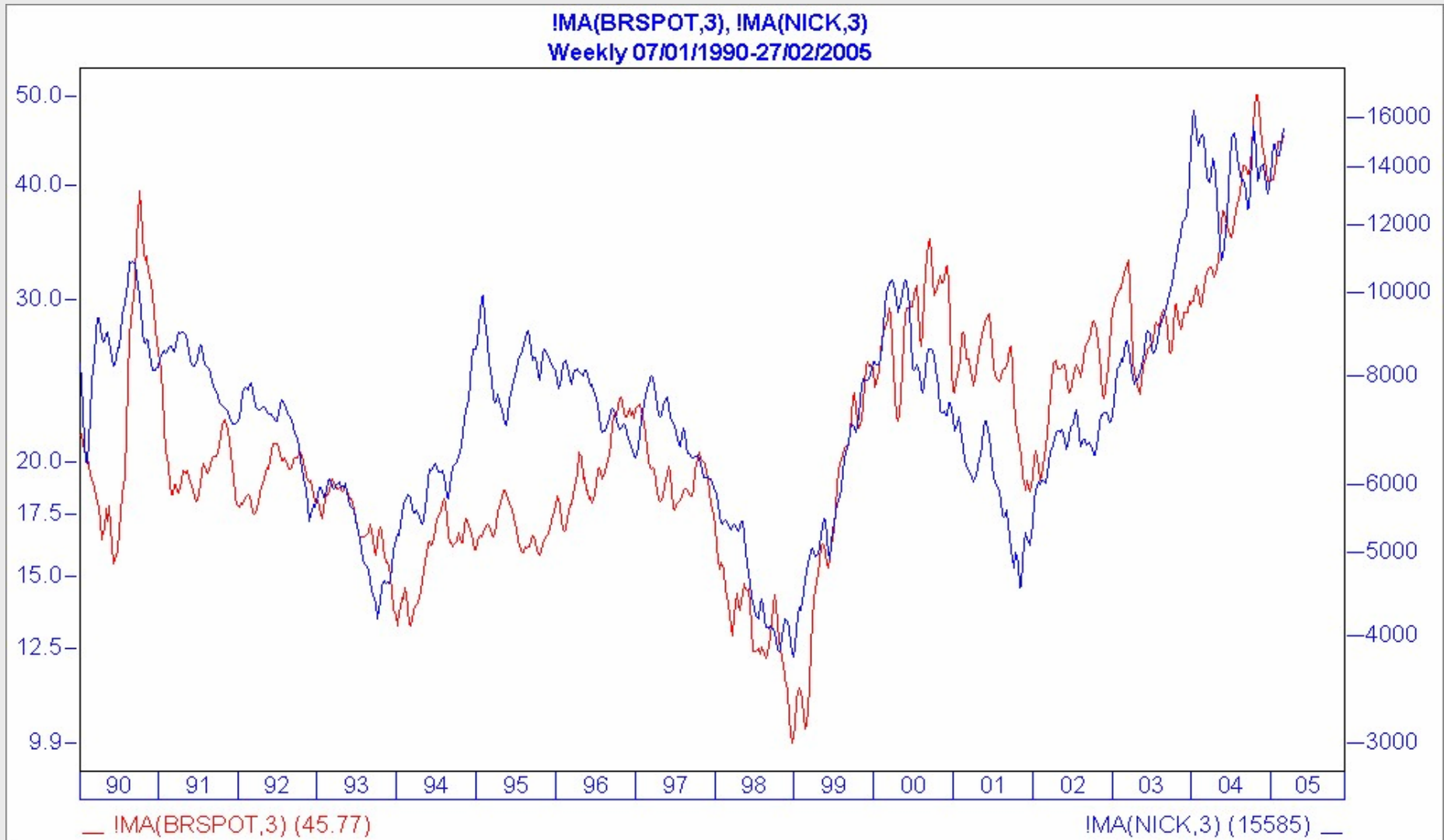
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# Oil Price Outlook: Expected to decline to US\$27bbl



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# Oil Price

## Oil Price to remain high as long as global Economic Growth remains strong:

- Once the Fed has hiked rates enough and the US growth slowed oil price is expected to come down like other commodities.
- Our long-run average oil price is around US\$27/bbl – US\$25/bbl.



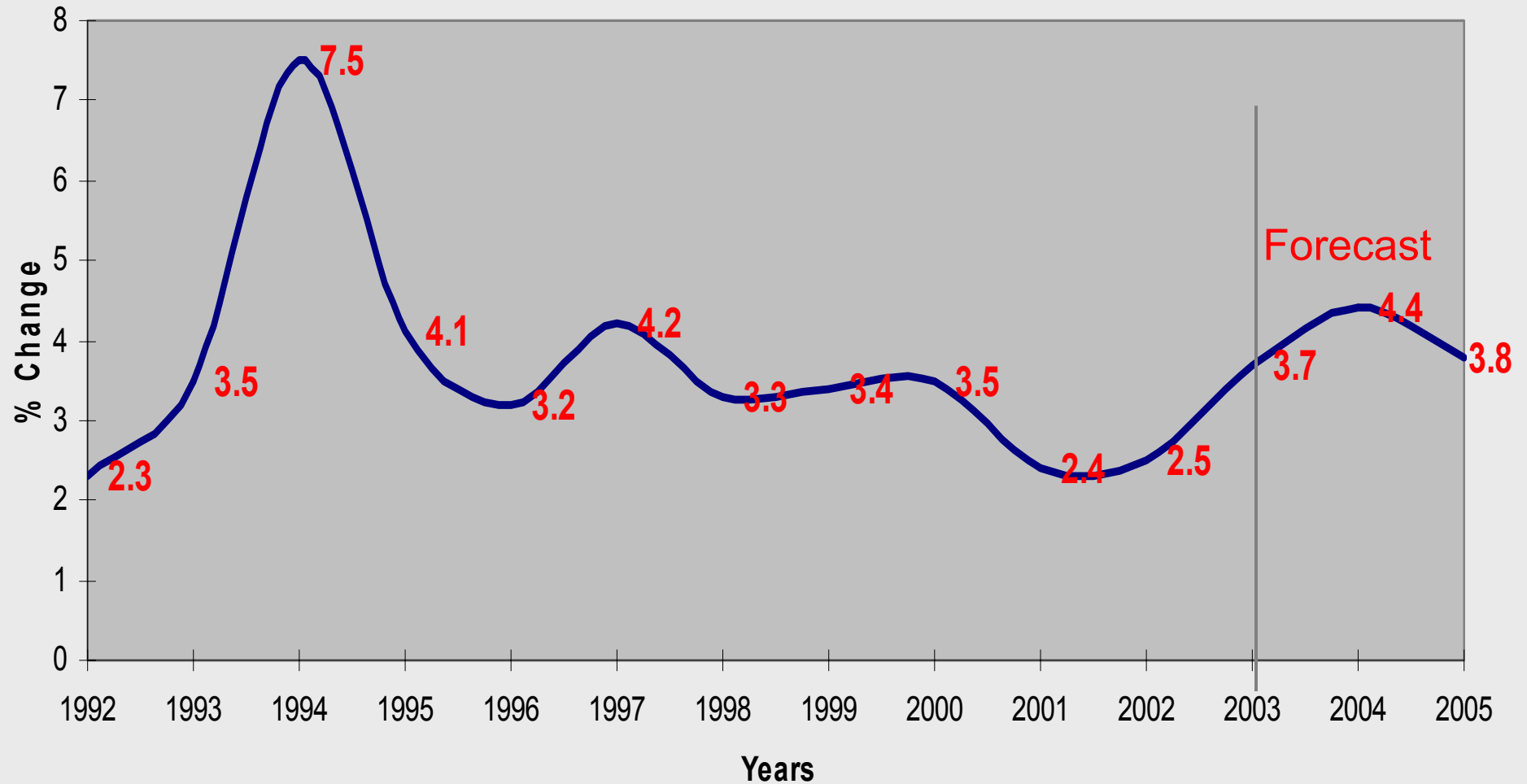
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# Namibia Economic Outlook



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# Sources of Economic Growth in 2005

## Mining sector main driver of growth in 2005:

- 2005: Diamond Production to exceed 2 million carats due to increased production from SAMICOR & NAMDEB.
- Ongopolo to open three new mines: Matchless Mine (March 2005), Tsumeb West Copper Mine ( April 2005), Tschudi Mine (2005) and Asis Far West.
- Copper Production to increase from 18000 tonnes in 2004 to 30000 tonnes in 2005.
- Skorpion Zinc Mine to reach full production of 150 000 tonnes, and an expansion of uranium expected in 2005.



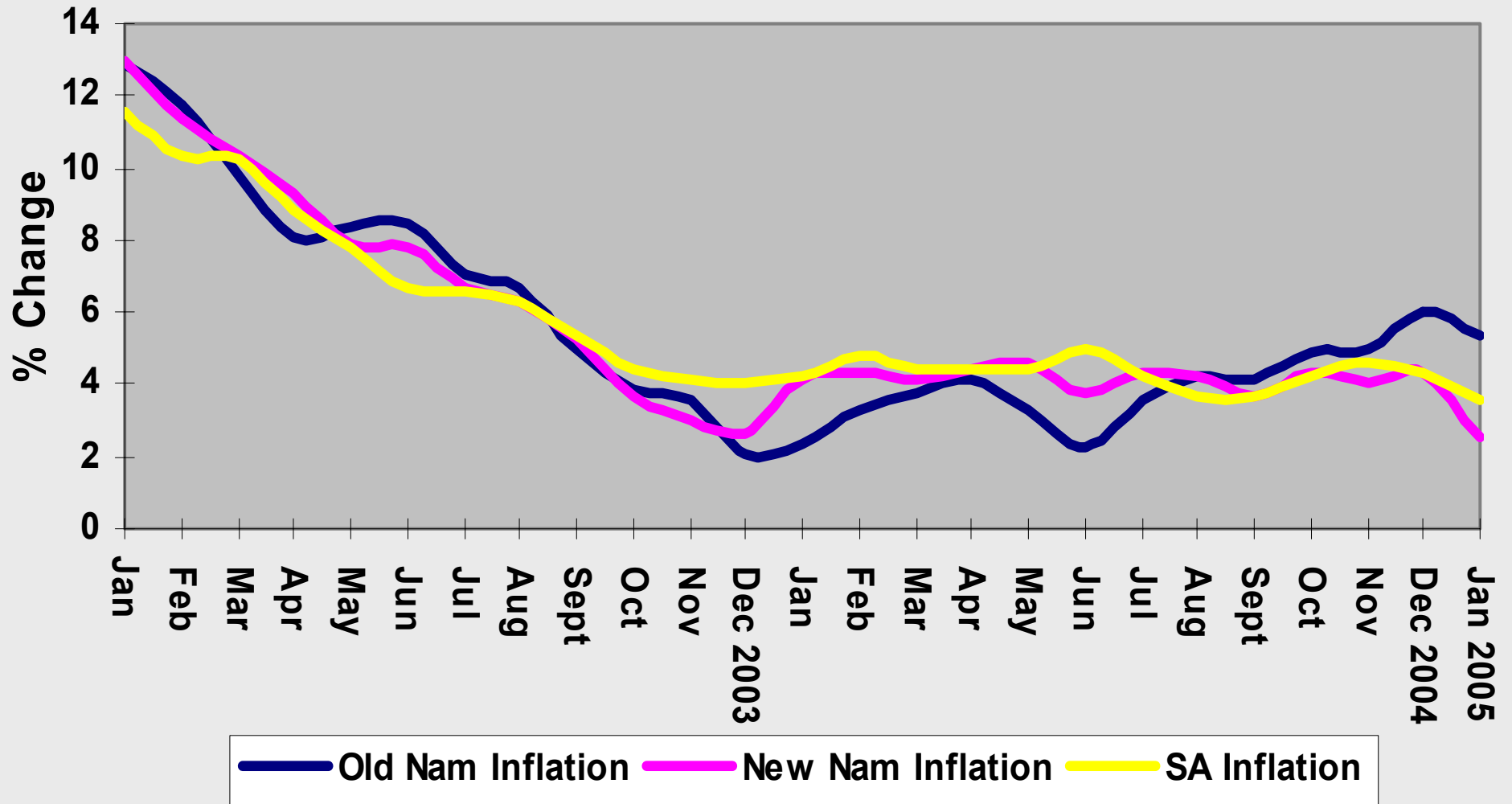
# Sources of Economic Growth in 2005

## Other Sectors:

- **Agriculture sector** will have a negative effect on the economy due to delayed rainfall (crop production to decline substantially)
- **Fishing sector** contribution to GDP neutral or negative due to strong currency and lower prices.
- **Manufacturing sector:** Negatively affected by strong rand, poor performance of fishing and agricultural sectors.
- **Retail and Wholesale sector:** To benefit from strong Domestic Demand due to lower inflation and interest rates.



# Inflation Outlook: Nam VS SA



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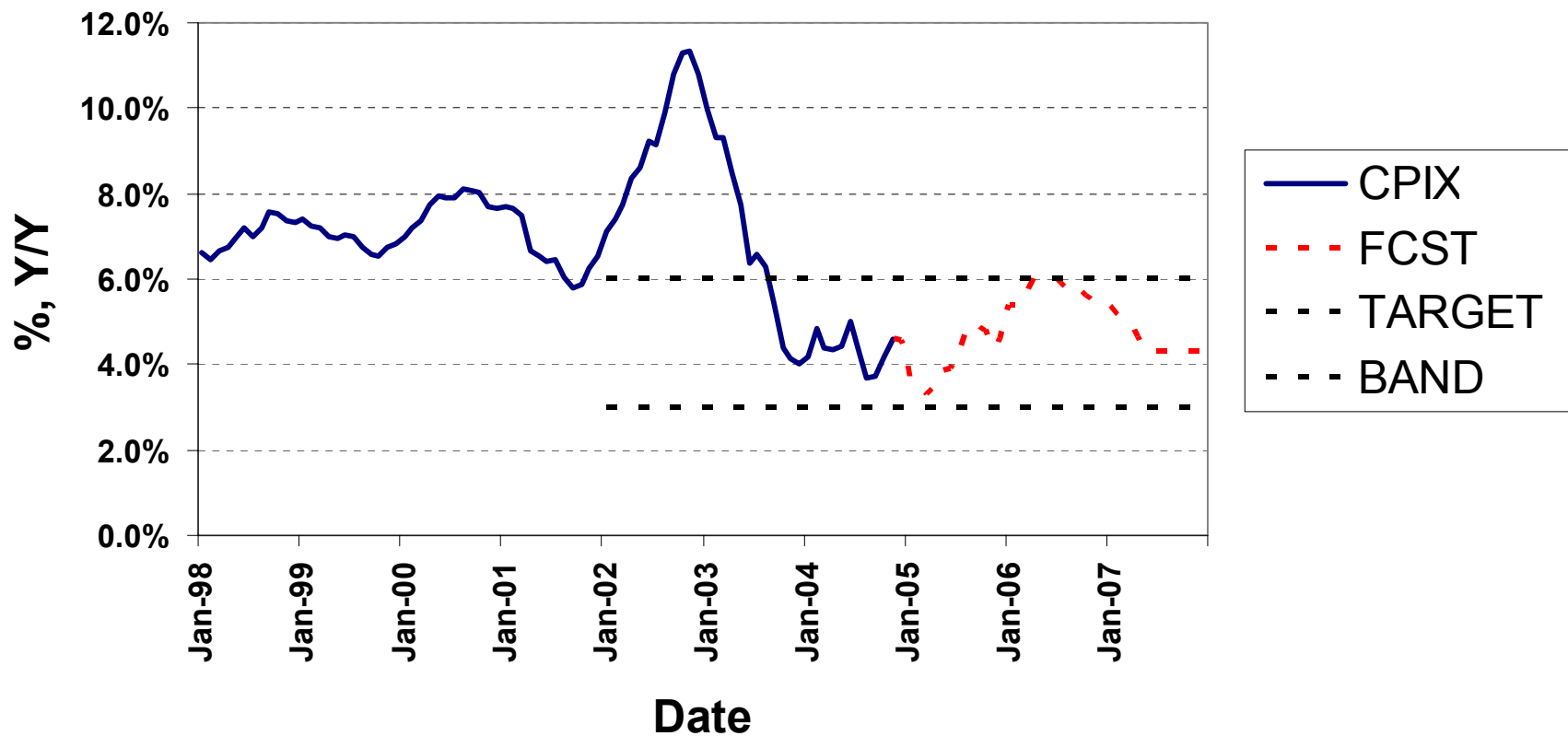


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# CPIX Inflation Forecast

## CPIX INFLATION FORECAST



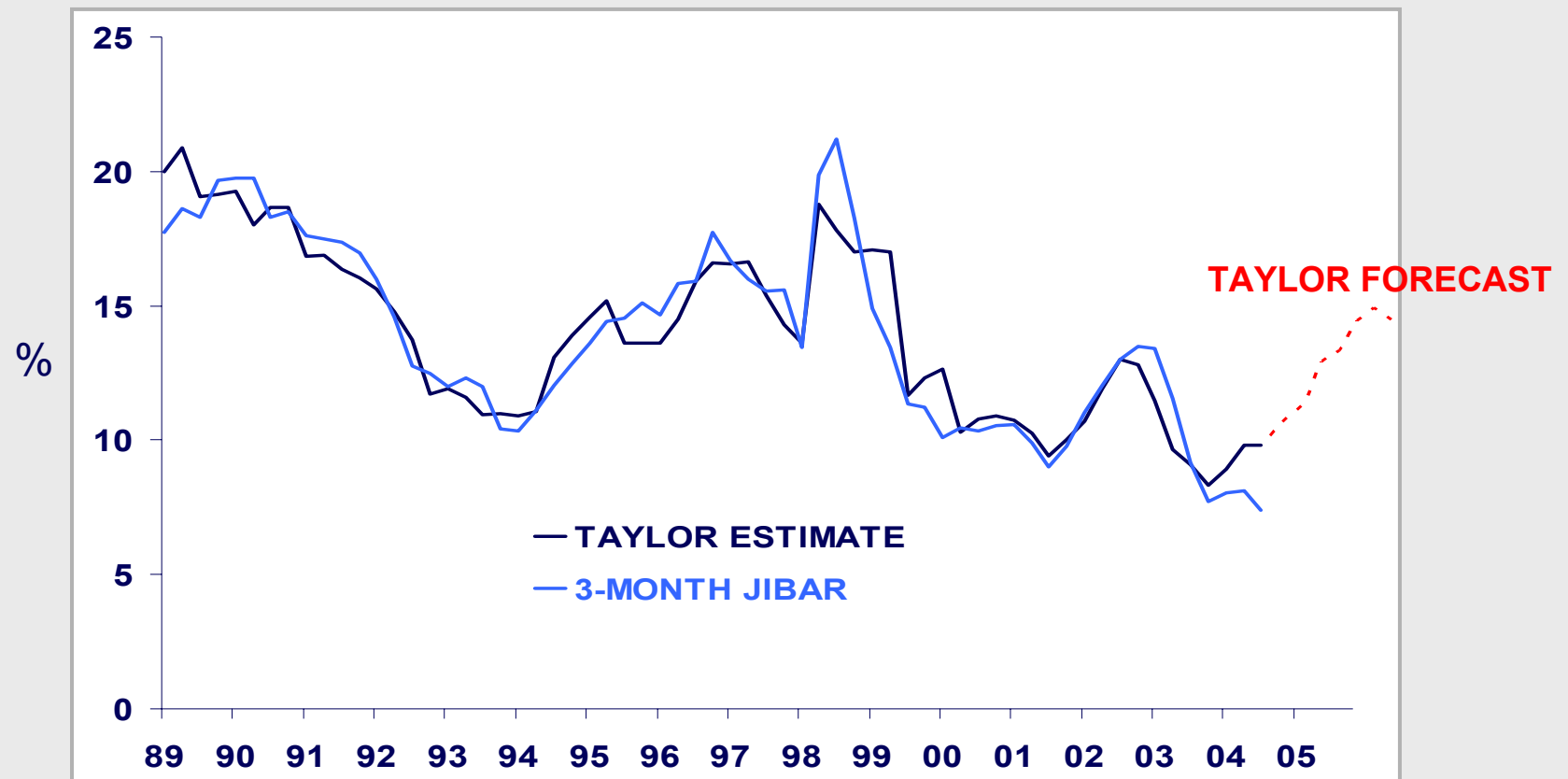
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# Taylor Rule suggests higher rates into 2005/06



- Driven by widening output gap as economy accelerates, strong consumer demand.



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# Implication of Higher Interest Rates on the Economy

## The Effect will be on:

- Household and Business heavily indebted
- High interest rate will reduce disposable income & consumption.
- Housing market to be affected negatively.
- Debt servicing cost for government debt to rise substantially.
- As a result the economy will be negatively affected.



# R/N\$ Currency Outlook in 2005

## The strength of the N\$ will depend on:

- The commodity price cycle: when is the upward cycle ending – depends on global economic growth.
- Global interest rate cycle.
- The US economic imbalances.
- Risk perception and equity valuations.



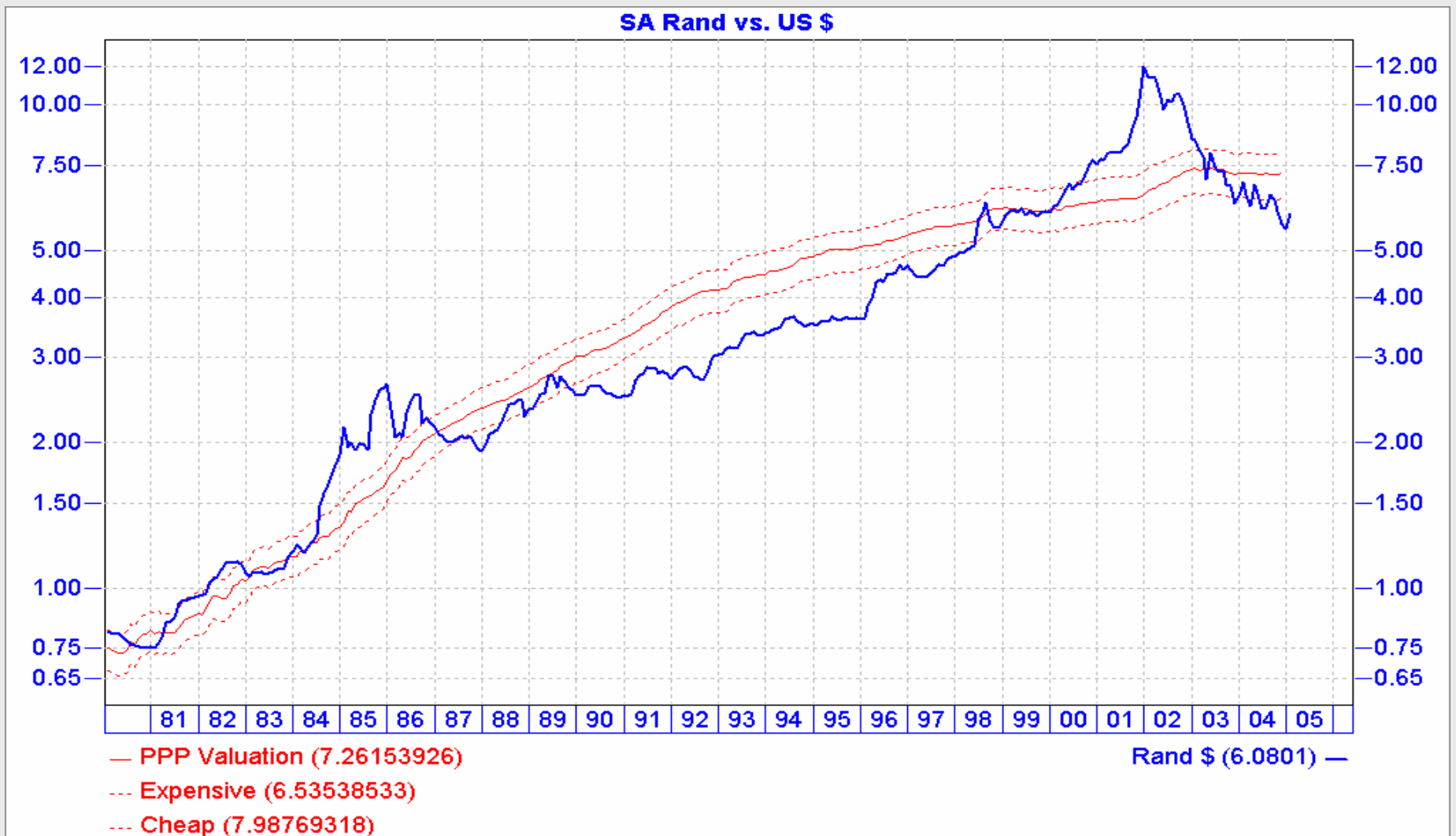
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# Currency Outlook: Rand overvalued by 20 –25%



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# MacroEconomic Stability & Challenges Ahead

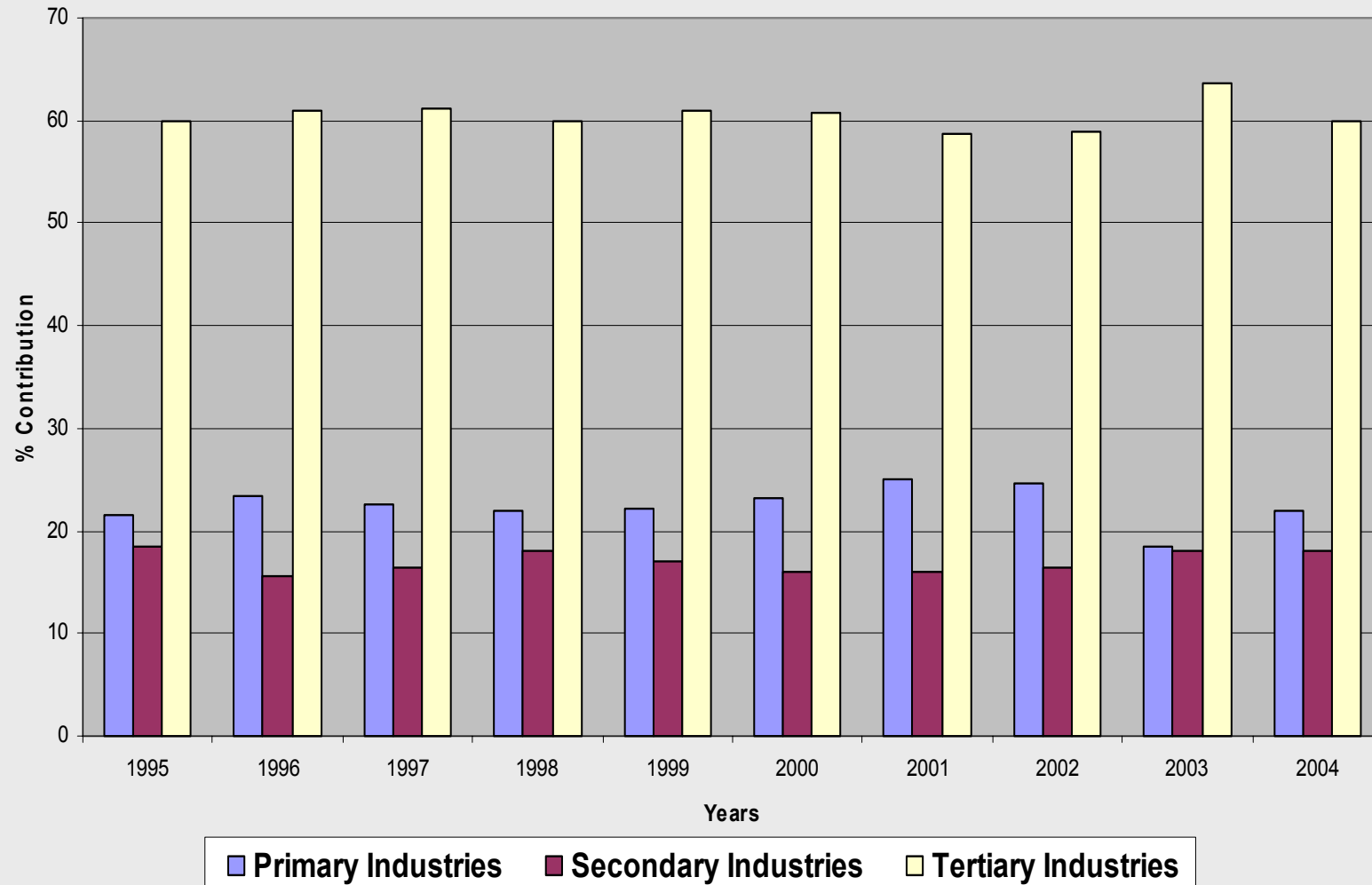
## Part 2



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# Structural Change not Occurring



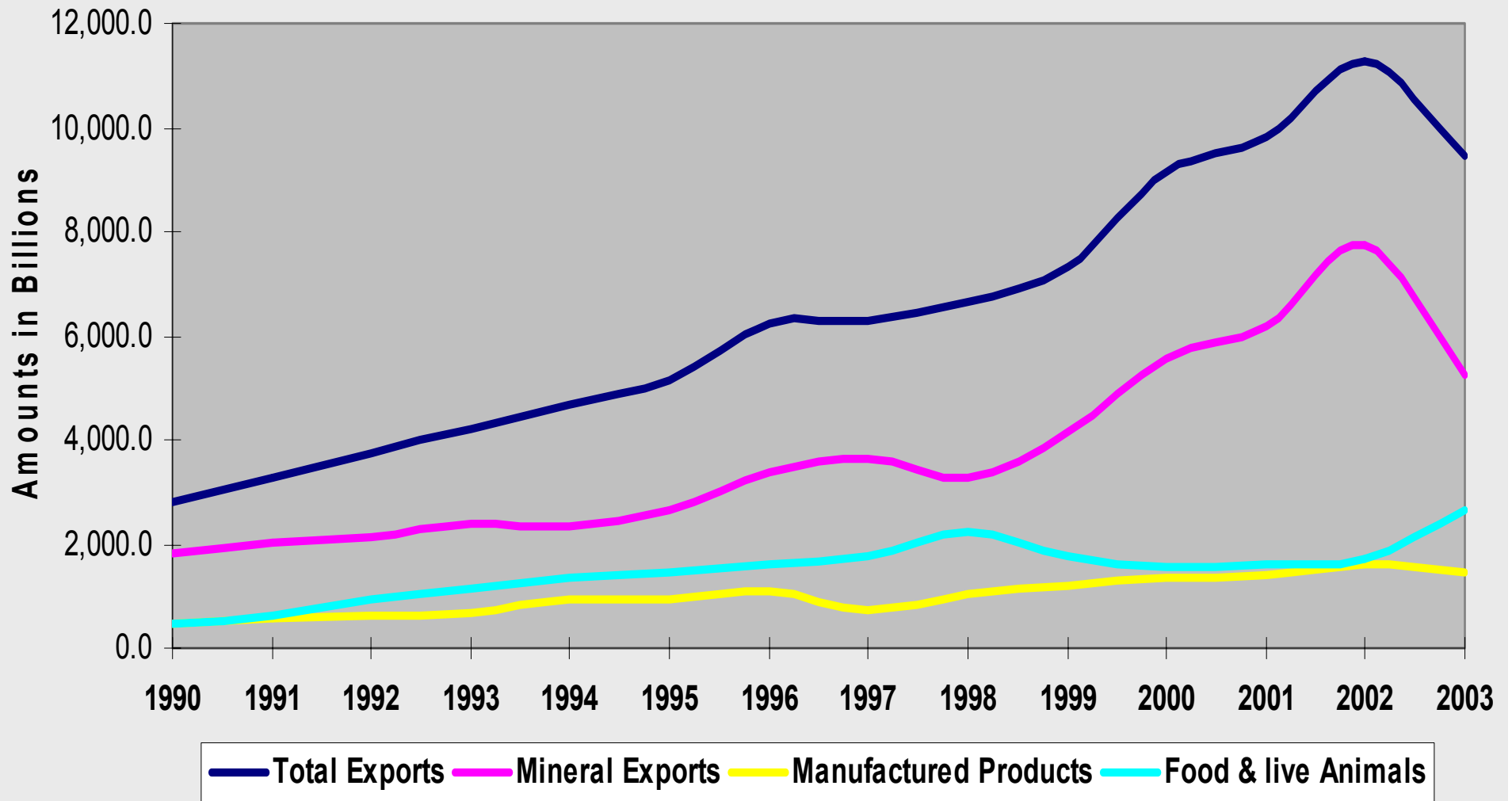
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# Undiversified Export Base: Minerals Dominates



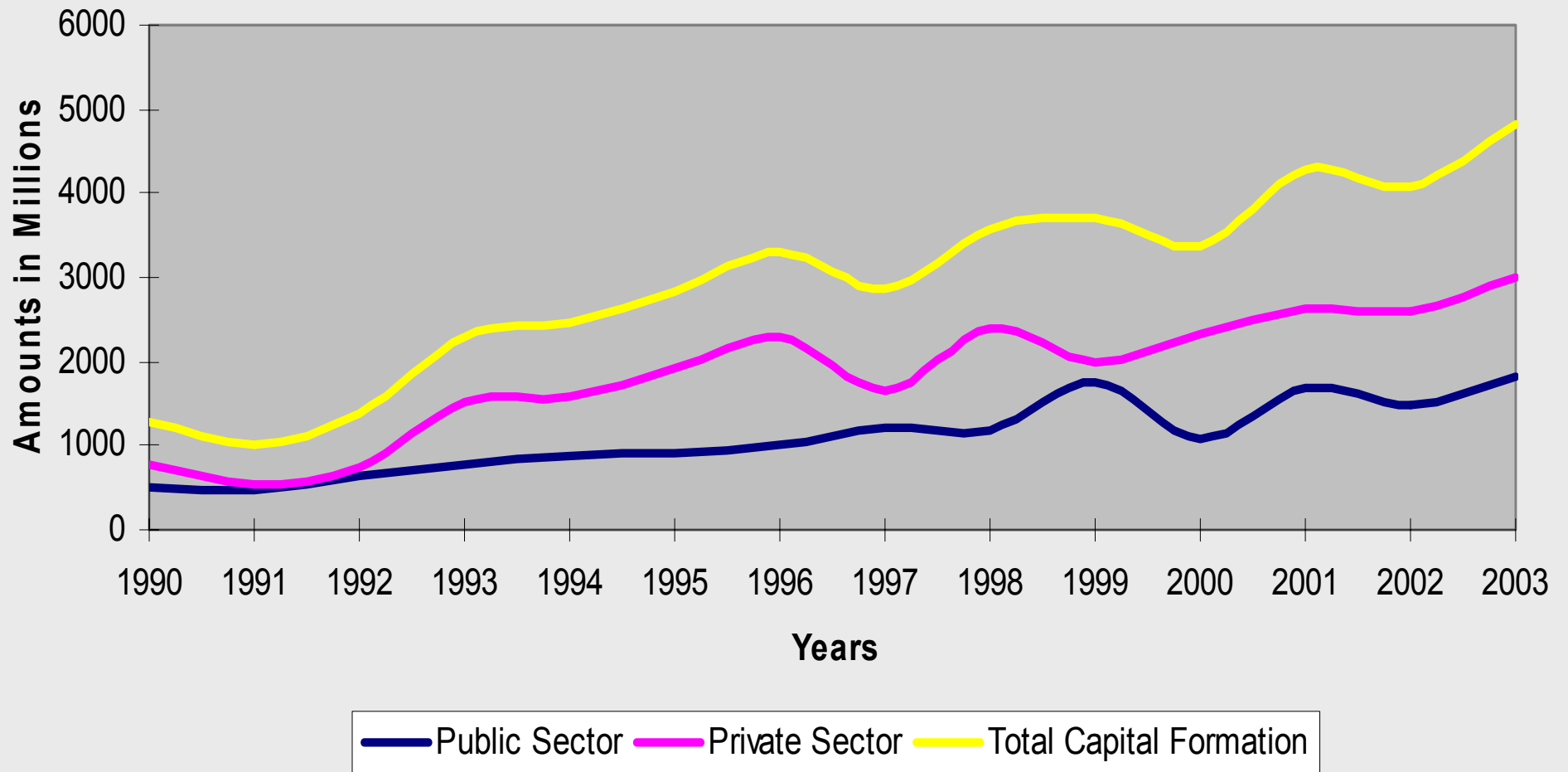
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# Public vs Private Fixed Capital Formation



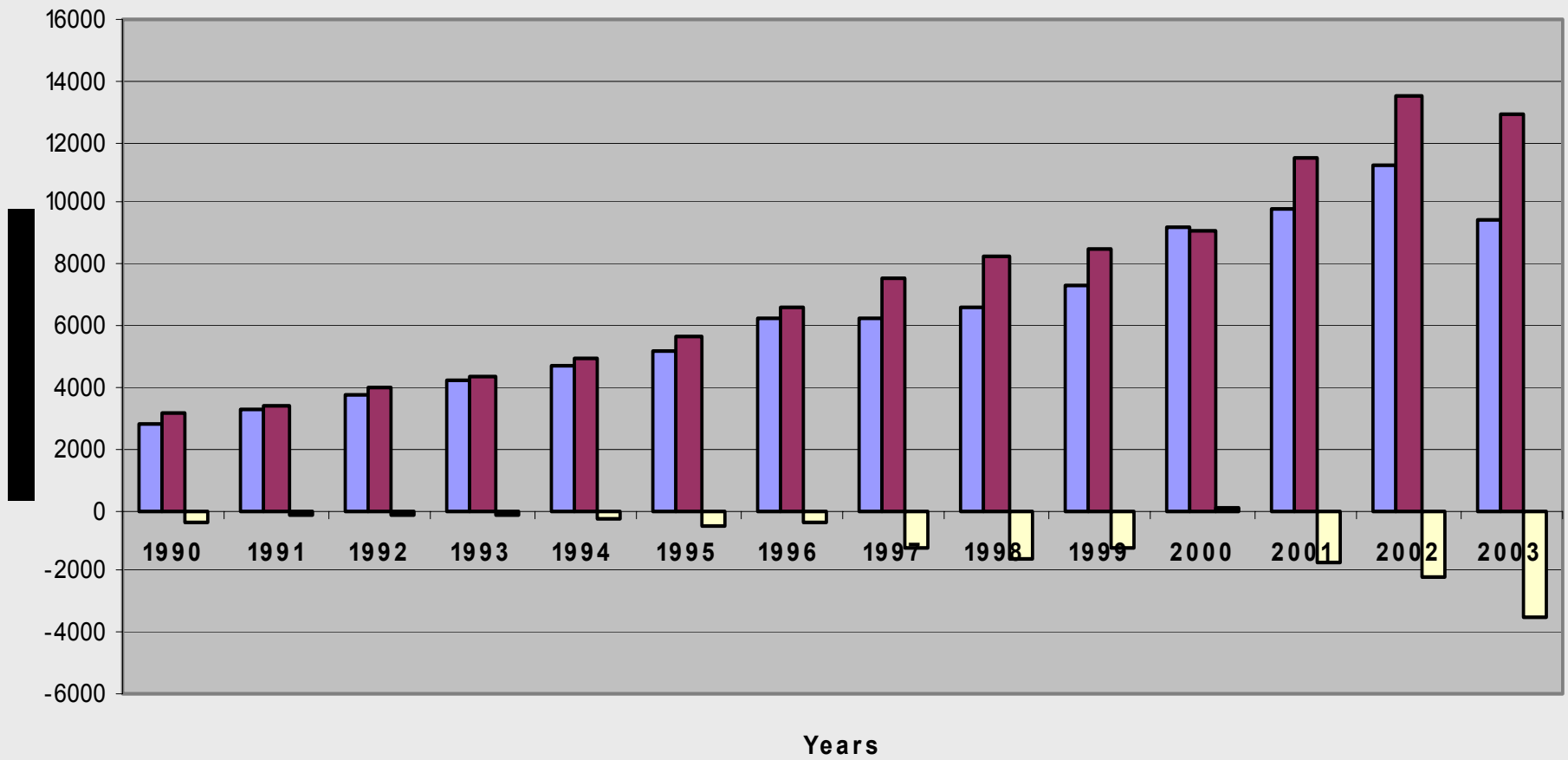
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# Undiversified Export Base: Rising Trade Deficit



■ Exports ■ Imports ■ Trade balance



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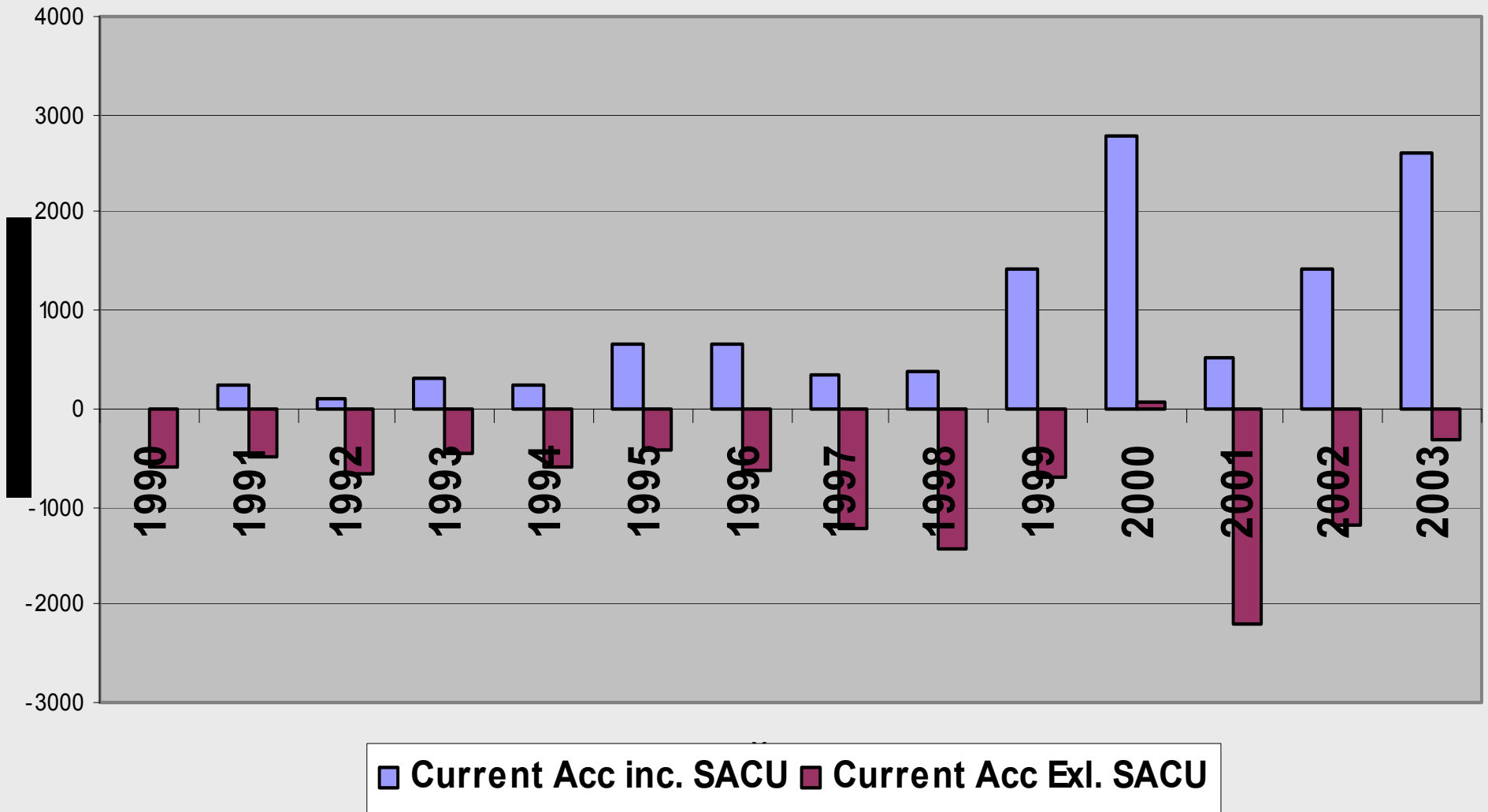
# Structural Change: Policy Challenge

## Too little policy instruments with many targets & Objectives:

- **Exchange Rate Policy:** Does the fixed exchange Rate inhibit economic diversification & promotes import dependence?
- **Trade Policy:** Despite government revenue, what other benefit do we derive from SACU?
- **Fiscal policy:** The only discretionary policy at government's disposal – is it effective in supporting the economy?
- **Financial & Industrial policy:** Availability of productive capital and the effectiveness of the incentives given to businesses.



# Unsustainable Current Account Balance



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# Government Budget Analysis & Expectations 2005

## Part 3

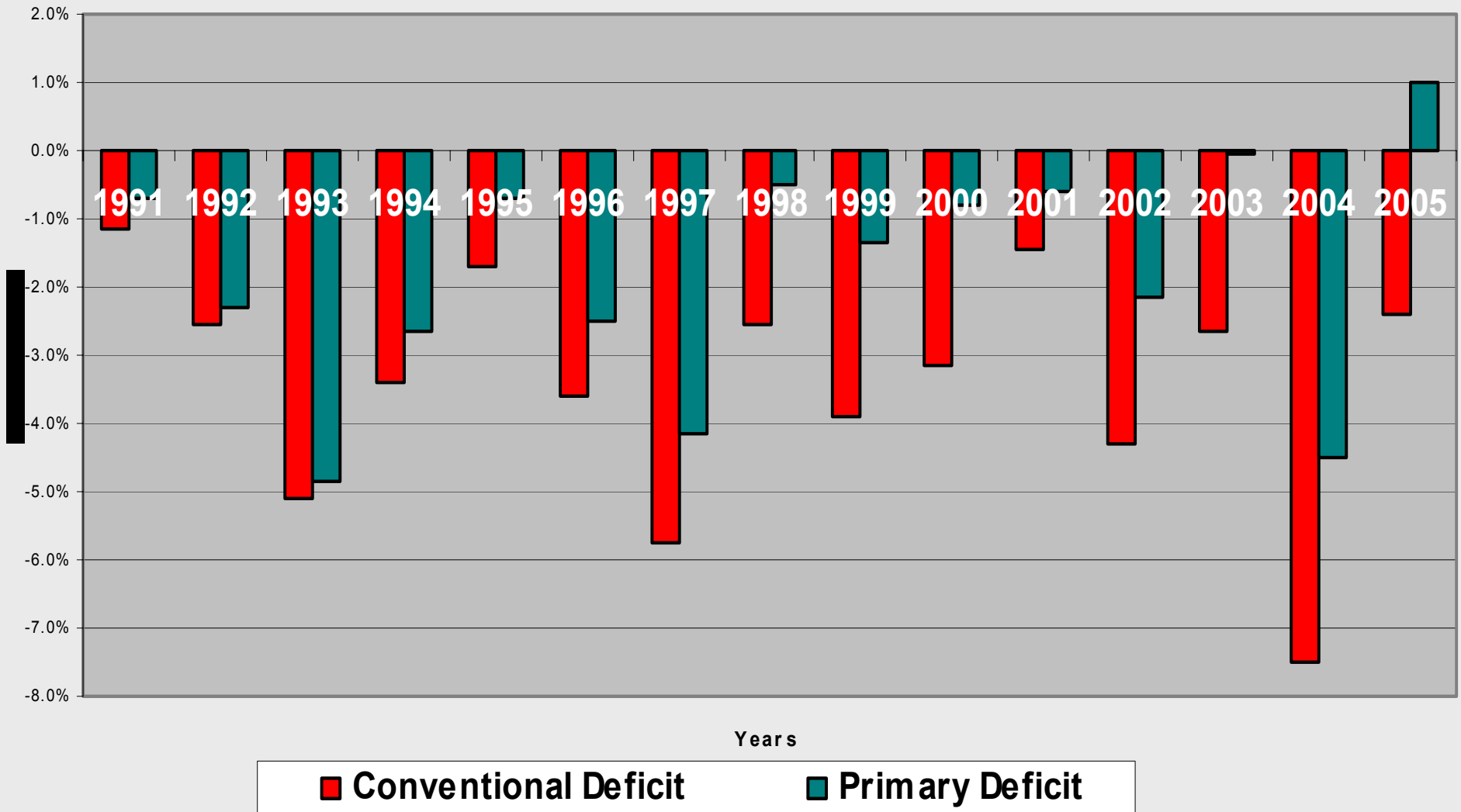


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# Budget Deficits: Overall Deficit Vs Primary Deficit



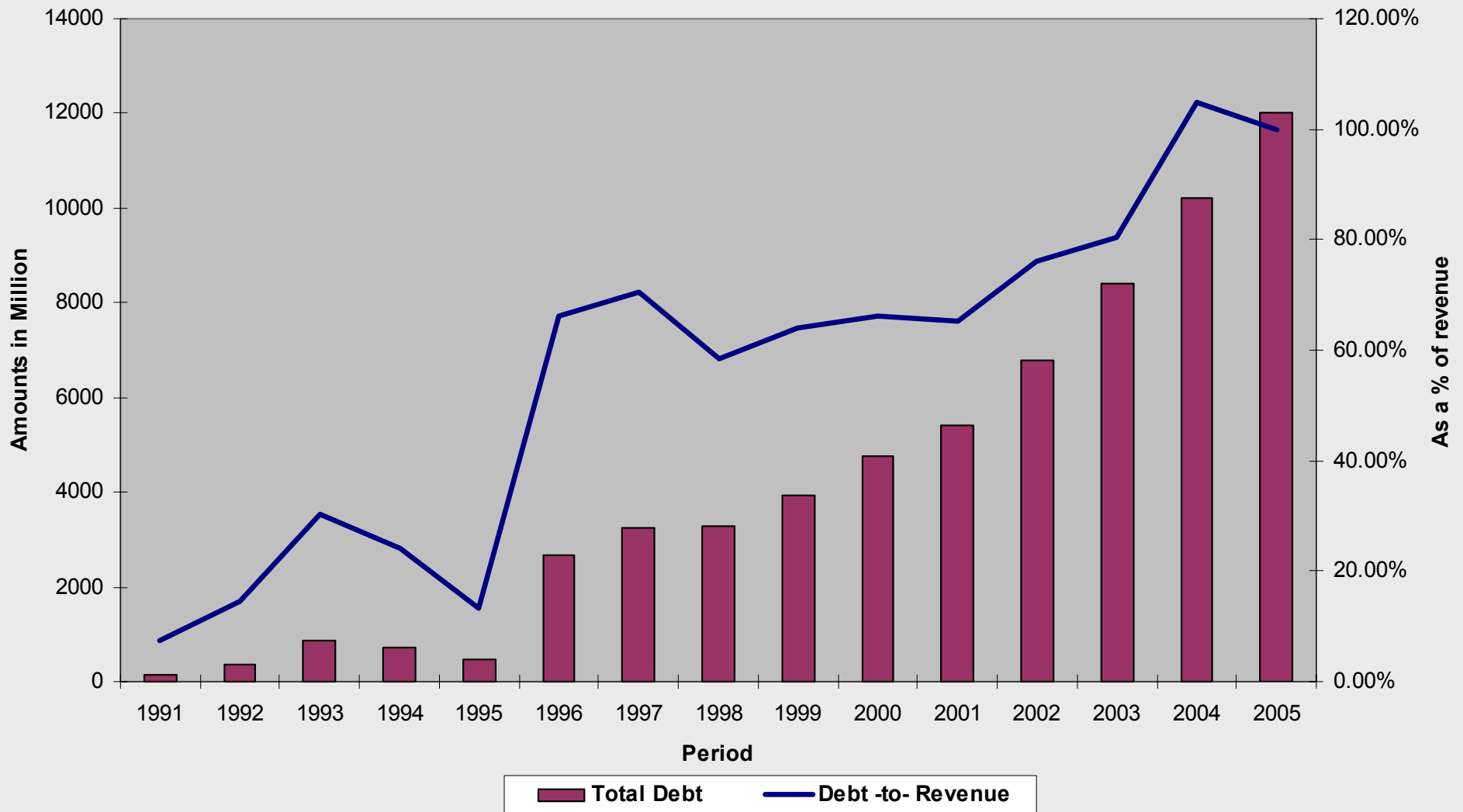
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# Total Debt & Debt as % of Government Revenue



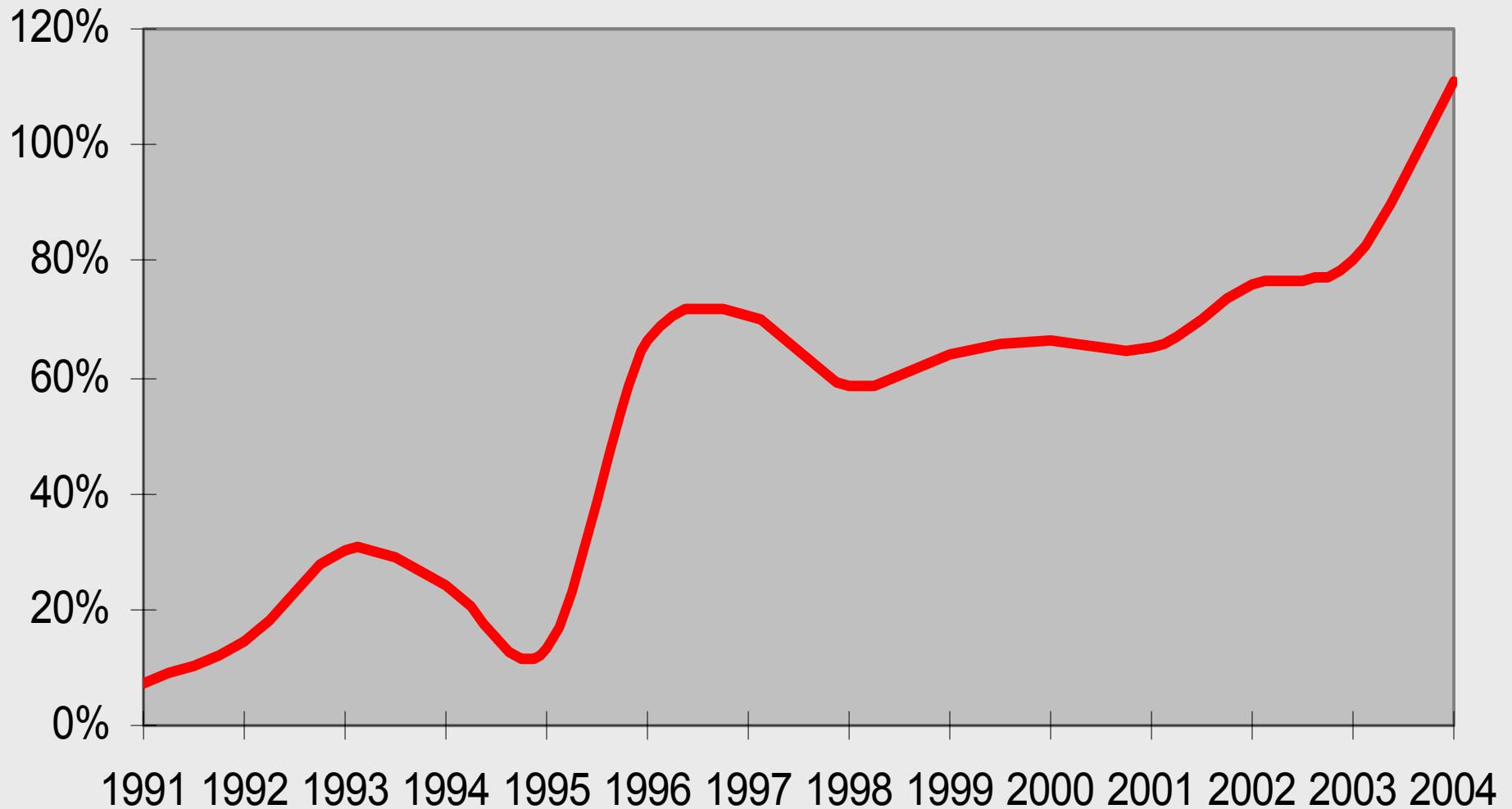
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# Debt to Revenue ( IMF Danger Zone)



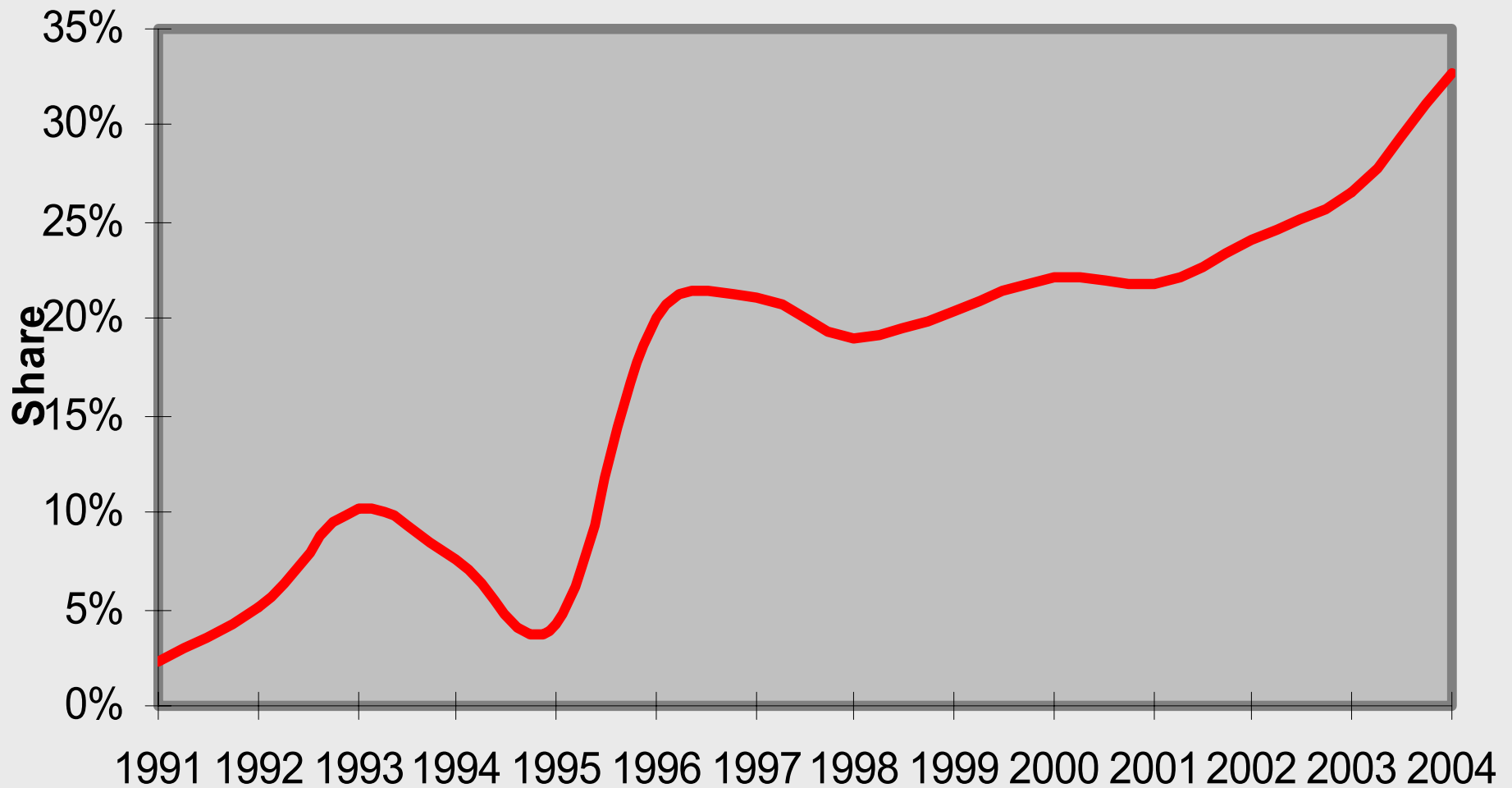
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# Debt - to - GDP ( Approaching Critical levels)



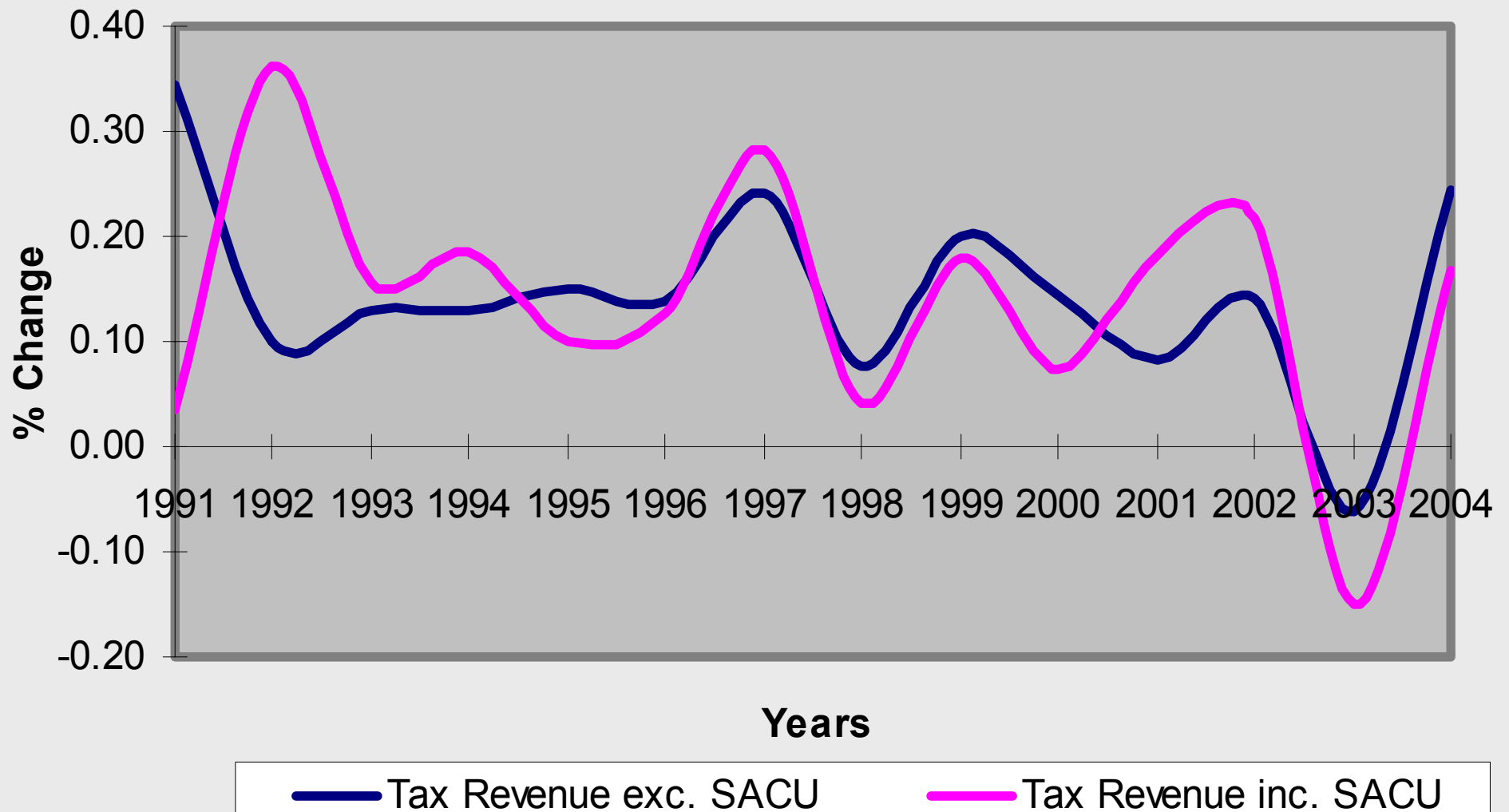
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# Elasticity of Tax Revenue ( $< 1 = \text{inelastic}$ )



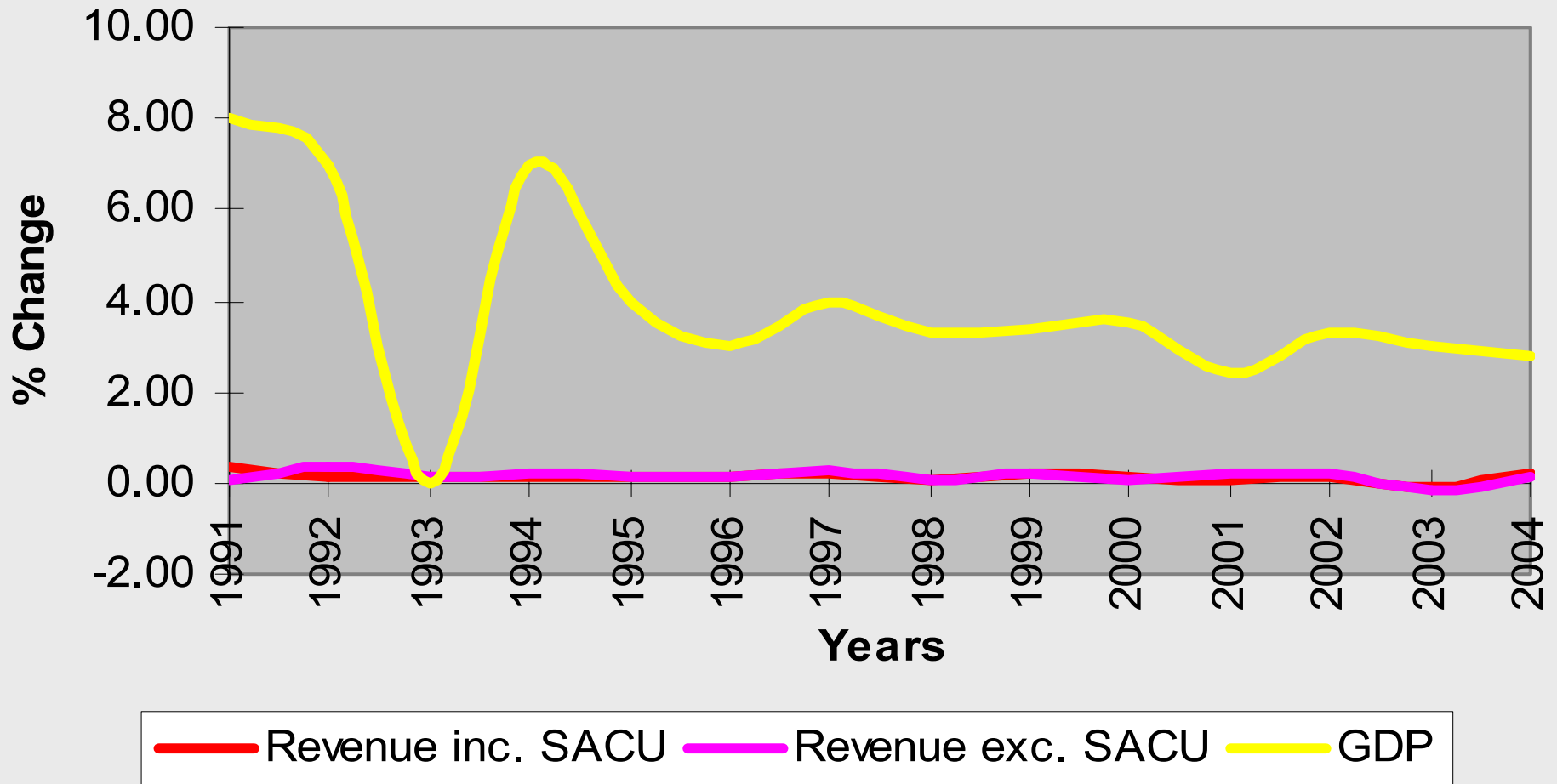
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# Elasticity of Tax Revenue VS GDP



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# Government Finance Position

## The big question:

- Debt now exceeds Revenue. Government is borrowing to finance old loans not new projects
- The main problem for government is on the revenue side: Tax Elasticity below one (1) – sign of weak revenue collection.
- Broadening tax base and restructuring of the Receiver of Revenue Department to improve collection of revenue and make the office more independent.



# Solutions for Government Finance Position

## The solutions are:

- Privatization Programme: A schedule of privatization need to be put in place to support government financing needs.
- IJG Brokers estimates that at current valuations government can raise close to N\$1 billion from the sale of MTC.
  - Securitization of government debt: Seek for a financially sound institution that will buy government debt at a discount.
  - Consolidate current short –term debt into a single long-term Euro bond or restructure current debt through IMF and World Bank, and African Development Bank financing.



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# How Attractive is Namibia as an Investment Destination

## Corporate Tax:

- Highest Corporate Tax at 35% for Non-mining companies, and 37.5% for Non-Diamond Mining companies.
- Effective tax rate for Diamond Mining Companies at 55%.
- Effective Tax Rate for Oil and Gas is 35%.
- In comparison to other countries, Namibia has the highest corporate tax in the world with India at 40%.
- To compete for Foreign Direct Investment – tax regime is key.



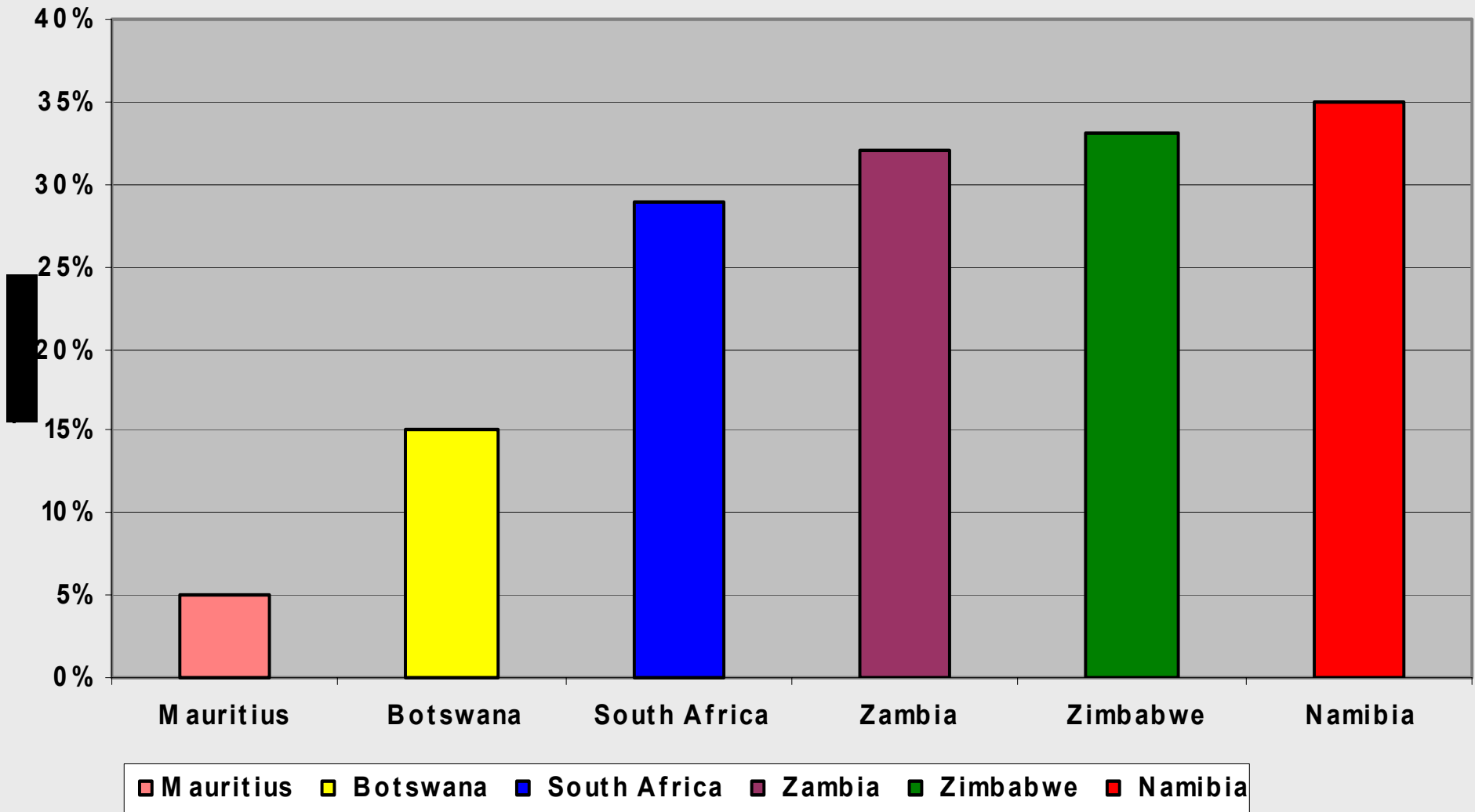
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# Namibia's Corporate Tax Rates Compared



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# How Attractive is Namibia as an Investment Destination

## Factor Productivity:

- **Labour:** Highly unskilled and unproductive - Bank of Namibia studies indicates that labour costs (wages and salaries) is very high in Namibia, only second to SA in the region. 35% of the active labour force not in use.
- **Capital:** Surplus capital and exported. Allocated to unproductive sectors (Home loans, consumption loans and loans to government).
- **Land:** Most of the fertile land in rural area not put to productive use and is underutilized.



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# The goals of vision 2030 to be realised only if...

## Factor Productivity:

- **Labour Productivity improves:** High labour cost should be matched with high productivity and put the 35% of the active labour force into use.
- **Capital:** Surplus capital currently exported through Institutional Investors such as insurance companies and pension funds be re-channeled back to Namibia & invested in productive projects. Government funds to be invested in productive projects.
- **Land:** Land reform should not negatively affect production and rural land be fully utilized.



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# RSA Budget & Impact on Namibia

## SA reaping the fruits of fiscal discipline and hard work:

- The SA Minister of Finance presented an expansionary budget that will support an economic growth of 4% 2005.
- Company tax reduced to 29%, and Personal Income tax cuts/relief to consumers of N\$6.8 billion a boost for retail sector. The main beneficiaries are those earning R150 000 & below.
- Government GDFI to increase by N\$74 billion a major boost for construction and building sector.



# RSA Budget & Impact on Namibia

## SACU Pool Transfers:

- SACU transfers declines from N\$13,3 billion to N\$12,1 billion a decline of 9.6%.
- Simon Storm Securities estimates that Namibia's receipt for 2005/06 fiscal will decrease by approximately N\$400 million.
- The N\$6.4 billion tax relief will increase disposable income of South Africans & more tourists will come to Namibia.





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# The End

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