



Outlook hopeful, despite global slow-down

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The Namibian Economy

The Namibian economy responded positively to a series of interest rate reductions that started in early 2003. In 2004 the country showed high economic growth of 5.9% before trending down to 3.8% in 2005.

Namibia's economic cycles are dictated by global trends. High growth in 2004 was aided by a strong global recovery that had been gaining momentum since 2003. Similarly, a slowdown in global growth and falling mineral prices in 2005 resulted in a contraction of Namibia's mining sector.

In 2006 Namibia's growth rate is forecast to reduce to 3.4%, in line with subdued global developments, including a reduced demand for minerals and other products. Other factors contributing to the economic contraction are the strength of the Namibia dollar against other major trading currencies and the reduced output in the fishing industry arising from high oil prices and low quota allocations.

The performance of the manufacturing sector tends to be cyclical, and is affected by developments in the fishing and agricultural sectors. Decline in fishing output in 2005 coincided with a manufacturing decline despite an increase in meat processing and other food manufacturing. The outlook for this sector is also affected by a contraction in the beverage industry and challenges facing the textile industry. High petrol and diesel prices are expected to increase production costs and impact negatively on the sector in particular and the economy in general. The agricultural sector had a mixed performance in 2005.

Crop production declined due to late rains, but there was robust growth in livestock marketed.

The tight fiscal policy in place for the past two years is yielding dividends. The Minister of Finance announced a budget surplus for the fiscal year 2006/07 and government debt, as a percentage of GDP, has stabilised at around 33%. It is expected to reach the target level of 25% by 2009.

Global Integration benefiting the Namibian Economy

Government's policy of integrating Namibia into the global economy is meeting with success. It is reflected in improved macroeconomic management and broad improvement in inflation performance, and the synchronisation of Namibia's business cycles with global cycles.

With rapid global growth pushing up commodity prices, Namibia's terms of trade have improved. This translates into a windfall increase in revenue for exporting companies and government. Namibia's outward-looking policy is therefore yielding positive results for the economy through increased foreign direct investments, especially in mining and textiles. Negative factors that need to be addressed urgently to enhance international competitiveness include restrictions on work permits for skilled foreign nationals and high company tax rates. Imposing visa requirements on business executives from South Africa (Namibia's major trading partner) continues to detract from an otherwise investor-friendly environment.

Economic Review 2006

House Prices

The residential property market performed exceptionally well over the past year, with lower interest rates spurring lively growth in house prices. According to the FNB Housing Index, activity and prices of properties in the middle price ranges have outpaced growth in higher bands. The main impetus has come from the stable macroeconomic environment, healthy consumer balance sheets and higher disposable income due to declining inflation.

Strong growth led to a significant increase in the value of property being financed. However indications are that demand is cooling. The second quarter of 2006 showed an increase of 10% compared to 13% in the first quarter. The 50 basis point interest rate increases announced in June and August 2006, plus expectations of further increases, are likely to put a brake on the market.

Since January 2005, inflation has remained within the target band of 3% to 6% specified by the monetary authorities in both Namibia and South Africa. One factor helping to limit inflationary pressure is that rapid increases in energy prices have been absorbed by producers and have not translated into significant increases in other prices. The strong Namibia dollar vis-à-vis major trading partners and global reduction in inflation have also contributed to lower inflation in Namibia over the past few years. However, the inflation trend turned upward in March 2006 and this is likely to contribute to rising interest rates.

Economic Outlook for 2006/7

The recent investment grade rating from Fitch has encouraged a positive outlook for the Namibian economy and the International Monetary Fund ('IMF') has been bullish about the next five years. However, the market consensus in Namibia is that the global economic growth cycle has peaked, and is expected to slow down, affecting commodity prices and Namibian exports. The investment rating benefit is already yielding results. Yield-spread differentials between Namibian and South African bonds are narrowing due to reduced risk premium.

Sluggish global growth will pull the Namibian economy down to hover around 3.3% in 2006. Main sectors to suffer will be mining, agriculture and manufacturing.

With the expected depreciation of the Namibia dollar against the US\$, the tourist sector is expected to perform better than last year. In addition, a depreciated Namibia dollar could boost the export sector and re-activate economic activities.

The other side of the coin is that a depreciated Namibia dollar could lead to higher inflation, which in turn will reduce consumer disposable income and personal consumption. This situation could be worsened by declining asset values in such markets as property and equity which could reduce wealth.

Despite the gloomy international outlook which will impact Namibia, the Group remains optimistic that there are opportunities for real growth in the Namibian economy.

