



Economic Review for 2007

Global economic activity has held up well in the face of the slowdown in the United States, indicating a welcome decline in the role of US consumers as the mainstay of world demand. The International Monetary Fund expects world economic growth to average almost 5% in 2007 and 2008, as it did in the three previous years. Global inflation is expected to average only 3.5% for the next two years. There has been an impressive convergence in global inflation with the gap between developed and emerging worlds shrinking from 10% to 3%. Despite this, there are inherent risks in the world economy.

With global liquidity that has contributed to lower interest rates drying up, indications are that the US dollar is likely to drift lower this year against major currencies, including emerging market currencies. Industrial commodity prices are far above the marginal cost of new production, and are vulnerable to a major setback such as new supplies coming on stream. In addition, the oil price is likely to remain high as the mismatch between supply and demand widens and geopolitical uncertainties continue.

These risks are likely to have a significant bearing on the performance of emerging markets, including Namibia.

The latest data from the Central Bureau of Statistics estimates 2006 GDP growth for Namibia at 2.9%, far below the Ministry of Finance's initial projections of 4.2%. According to the bureau, reduced output in the fishing and agricultural sectors – combined GDP weight 15% - contributed to poor growth. On the other hand, the mining sector, with an 8.3% GDP weight, performed exceptionally well, supported by strong commodity prices.

In addition, Government's tight fiscal policy and a budget surplus emanating mainly from both expenditure and revenue sides had a negative impact on growth.

Demand for credit by the private sector, although still high, grew by only 12% for the year ended May 2007, against an annual growth of 17% in June 2006, according to the Bank of Namibia.

A breakdown of private sector credit indicated that 65% of commercial bank lending goes to individuals, leading to rising consumer indebtedness. Asset-backed loans such as mortgage and vehicle financing contributed significantly to the growth in credit extension.

In response to credit extension and rising inflation, monetary authorities in both Namibia and South Africa increased the bank and repo rates by 200 basis points during the year.

Namibia had relatively low inflation in 2006 but the rate began to rise until it breached the upper level of the target range of 6% in the first quarter of 2007. Higher oil prices and food inflation were the main drivers. It is expected that, with strong underlying pressures, inflation will stay above the target range for the first half of the next financial year.

During 2006 and midway through 2007, treasury bills and Government bonds were in short supply in Namibia. This shortage of liquid instruments led to oversubscription, which pushed effective yield down despite interest rate hikes. In an effort to remedy the situation, the Bank of Namibia broadened the range of instruments qualifying as liquid assets. New instruments such as STRIPS bonds and debt securities issued by public sector entities, are now included. This is expected to improve availability in the secondary market, resulting in an eased demand on Government-issued instruments by banks needing to comply with regulatory requirements.

The business climate in Namibia, as measured by the IJG/IPPR index, fell slightly from a high in the first half of the year. Nevertheless it remained positive, thanks to critical success factors such as stable exchange rates and political environment, sound labour relations, market development and sustained economic growth. Namibia has done much to improve in these areas. The Group has benefited from it.

Economic Outlook for 2008

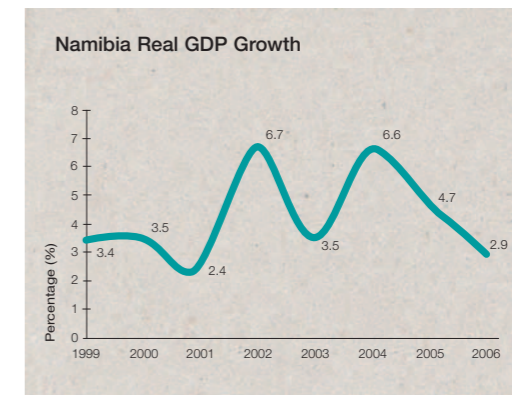
Despite disappointing growth in 2006, the Namibian economy is likely to improve in 2007. The IMF projects that the global economy is set for another good year, albeit that growth may slow mildly to average around 5% in 2007 and 2008. The Namibian economy, linked to world trends, is expected to grow at a better rate than last year.

Sector growth seems likely to improve. Fishing is expected to improve performance as research indicates that fish stock has begun to recover, leading to higher quotas. Manufacturing is poised to boost its contribution due to the expected recovery in the fishing and agriculture sectors. However, a downside risk comes from continued problems in the textile industry. Mining is expected to grow by more than 6% in 2007, with diamonds and uranium the main drivers. Increased production will come from expansions in diamond mining and the opening of uranium mine Langer Heinrich.

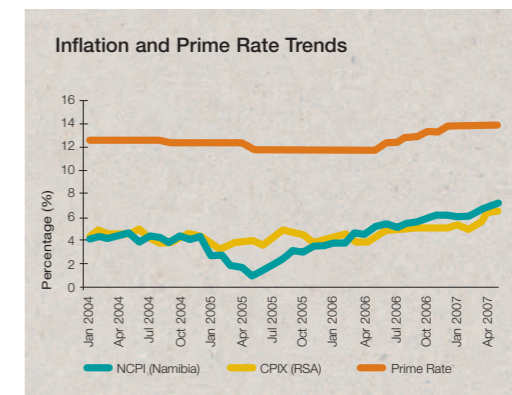
Tourism is showing good growth prospects. The first quarter of 2007 saw a significant increase in the number of foreign tourists visiting Namibia.

Agriculture looks set to grow at a faster pace because below-average rainfall in many areas has forced farmers to sell more livestock. Although livestock prices are slightly lower than last year, prices are expected to increase towards the end of 2007.

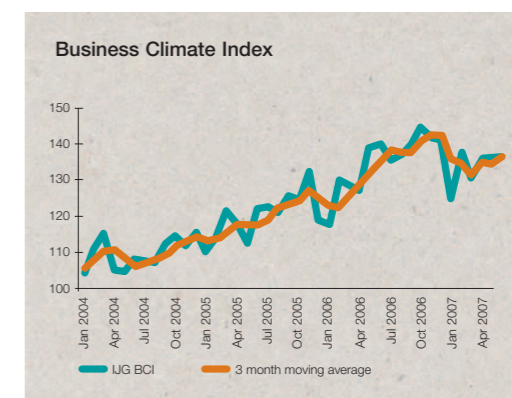
With uncertainty in the global economy and increased geopolitical risks, the oil price is set to remain high. Coupled with shortages in food (grain) output, inflation is expected to stay above 6% in both Namibia and South Africa for most of the year. As a result interest rates in the Common Monetary Area are likely to remain high.



Source: CBS



Source: CBS and Statistics South Africa



Source: IJG Securities (Pty) Ltd



1907 What we know today as First National Bank of Namibia, opens as Deutsche Afrika Bank in Lüderitz.



1907 Etosha National Park is established. The park is one of the world's greatest conservation areas.

1907 The Karakul sheep, commonly referred to as "The Black Diamond of Namibia" are imported from central Asia for the first time.



1908 A railway labourer discovers the first diamonds in the vicinity of Kolmanskupe, setting off the diamond rush.



1908 The Ford Model T comes into popular usage. It is generally regarded as the first affordable automobile, the car which "put America on wheels".

