

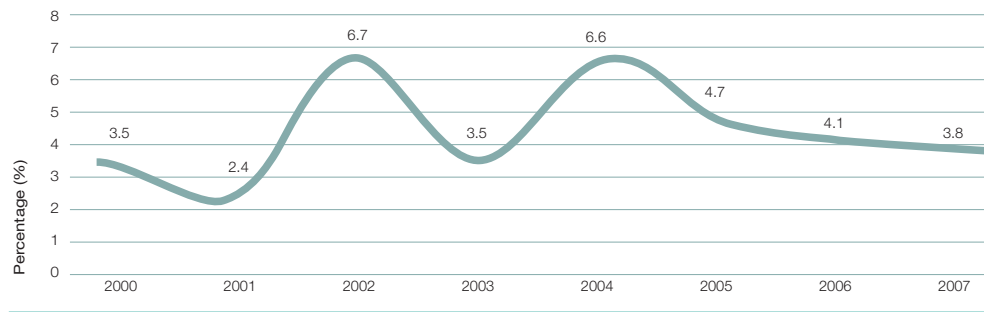
Economic review

Developments in the Namibian economy mirror, to some extent, those in the global economy, particularly with regard to rising inflationary pressure. Preliminary estimates suggest that the economy grew by roughly 3.8% in 2007, against 4.1% the previous year.

Similarly, the world economy is gradually losing growth momentum in the face of ever-increasing food and energy prices, exacerbated by the financial market crisis in the USA and other leading economies. The IMF projects that the world economy will grow by 3.7% in 2008 compared with 4.9% the year before. Naturally, the slowdown has been greatest in the advanced economies, particularly the US where the challenge of the housing and financial market crisis is still panning out. Consequently, the US economy is expected to enter a mild recession as a result of the mutually reinforcing housing and financial market corrections. It is projected to decelerate to 0.5% in 2008 after growing by more than 2% since 2003. Economic activity will be largely subdued in most advanced economies.

Growth in emerging and developing economies will in all likelihood be slow too, although showing some signs of resilience in the face of the current financial and inflationary crisis. The bottom line, however, is that emerging and developing economies will not remain insulated from a serious downturn in advanced economies as demand for their exports is likely to slow further. In fact, the Chinese economy is expected to drop to a growth rate of 9.3% in 2008 after exceeding 11% over the last couple of years.

Namibia Real GDP Growth

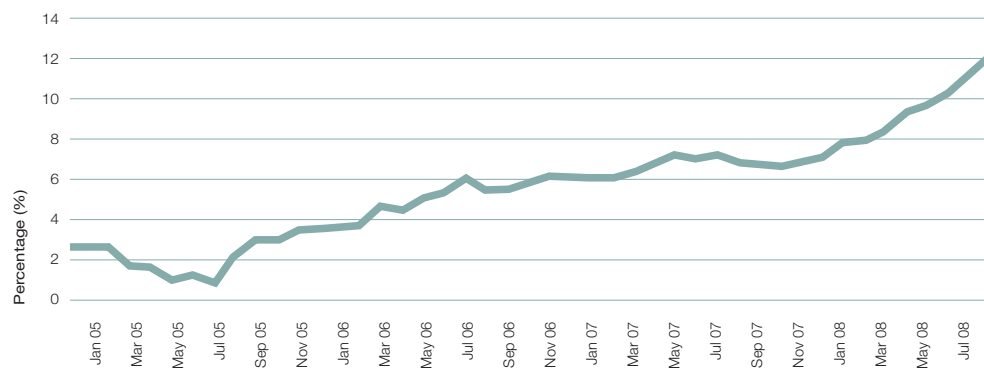


A key challenge for the global economy over the last 12 months has been illiquidity in the financial system. It has forced major central banks to inject much needed liquidity to address increased risk aversion in global markets. Namibia's financial system has remained fairly liquid over the period under review. However the shortage of government paper and other liquid instruments led to oversubscription, which continues to put pressure on effective yields as interest rates rise. The liquidity situation in Namibia will greatly improve with the implementation of changes to Regulation 28, which requires pension funds to invest in unlisted entities. This may result in excess liquidity in the medium term and may even stimulate the venture capital market.

Inflationary pressure increasing

Spiralling crude oil and food prices led to significant inflationary pressure around the world. For advanced economies, average inflation is projected at 2.6% for 2008, up from 2.2% in 2007. Africa's average inflation rate, according to IMF projections, will increase from 6.4% in 2006 to 7.5% in 2008. Namibia's inflation rate is also edging upwards, ending in May 2008 at an annualised 9.7%. Transport and food are the key drivers of higher prices. Food inflation stood at an annualised 16.5% in May 2008 with transport inflation at 13.7%. The Bank of Namibia increased the bank rate by 300 basis points between June 2006 and October 2007 to curb inflation. However it did not follow other CMA countries in imposing the last three rate adjustments of 150 basis points. This may hint that the local central bank is more concerned about growth than inflation at present.

Namibia CPI (year on year growth)

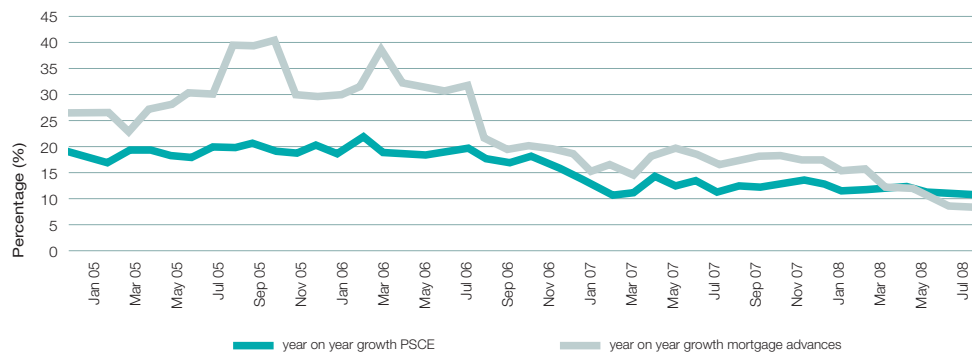


With oil prices hovering around the US\$140 per barrel at the time of finalising this report in July 2008 and the exchange rate sliding towards N\$8/US\$ there will be increased pressure for more contractionary monetary policy and higher interest rates to deal with inflationary expectations.

Credit extension slows as interest rates hikes take effect

There has been a marked deceleration in private sector credit extension since June 2006 as interest rates rose. A similar trend is discernible in residential mortgage advances. Private sector credit extension (“PSCE”) growth has tapered off after growing robustly by more than 12% during the year. Residential mortgage advances fell to 10% after standing at 20% for the previous year. Significantly, mortgage advances remain a substantial portion of the total credit extended to the private sector. The 2007 FNB National Housing Index shows a strong inverse relationship between rising interest rates and the demand for housing finance. A recovery in the demand for housing finance, especially in the upper-price segments, will only materialise gradually as fears of further interest hikes diminish.

Private sector credit extension and mortgage advance (year on year growth)



Economic outlook

The medium term outlook for the Namibian economy remains uncertain given the challenges in the primary sector as input costs rise. Fishing and mining are sensitive to exchange rates and energy prices. Our expectation is that growth will come in at a lower 3.5% for 2008. This is primarily due to production challenges in the fishing industry and structural issues related to land-based diamond mining operations. It is becoming increasingly costly to mine on land, and reserve levels could prove to be under pressure. Security of energy supply is a long-term concern. However, increasing uranium exploration and mining activities hold prospects for the economy and the long-term outlook is positive for mining and agriculture. Mineral and meat prices will continue to remain high in the medium to longer term. Nevertheless, the year ahead is unlikely to equal past performance on the demand side as higher interest rates and inflation put a damper on household demand. Furthermore, the economic slowdown in advanced economies is still panning out and remains uncertain.

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