Economic review

Global recession

The world has undergone what can be termed the most challenging economic slowdown since the Great Depression in terms of both scale and depth. In April 2009 the International Monetary Fund (IMF) projected that the global economy would shrink by 1.3% this year, having grown by 3.2% the previous year. The recession is a direct result of the slowdown that followed the collapse in global credit markets, culminating in the bankruptcy of Lehman Brothers and others.

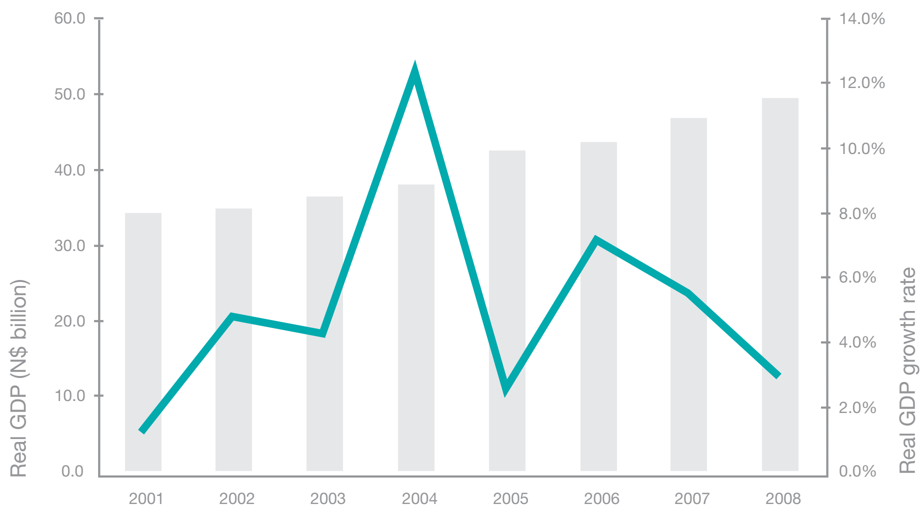
The IMF projects that the USA economy will contract by 2.8% in 2009 after growing 1.1% in 2008; and that the Euro Area will contract by 4.2% after growing 0.9% the previous year. Emerging and developing economies are expected to experience slow growth of 1.6% in 2009. Debate continues about the shape and timing of the expected recovery in 2010. Some developing country economists are more pessimistic about the outlook than the IMF.

Namibia's economy slows significantly

The global slowdown affected Namibia's major export destinations for key exports like diamonds and copper. Preliminary figures from the Central Bureau of Statistics, released in May 2009, show a mild expansion of 2.9% in 2008, mostly from construction and tertiary industries. This followed growth of 5.5% in 2007 according to revised figures.

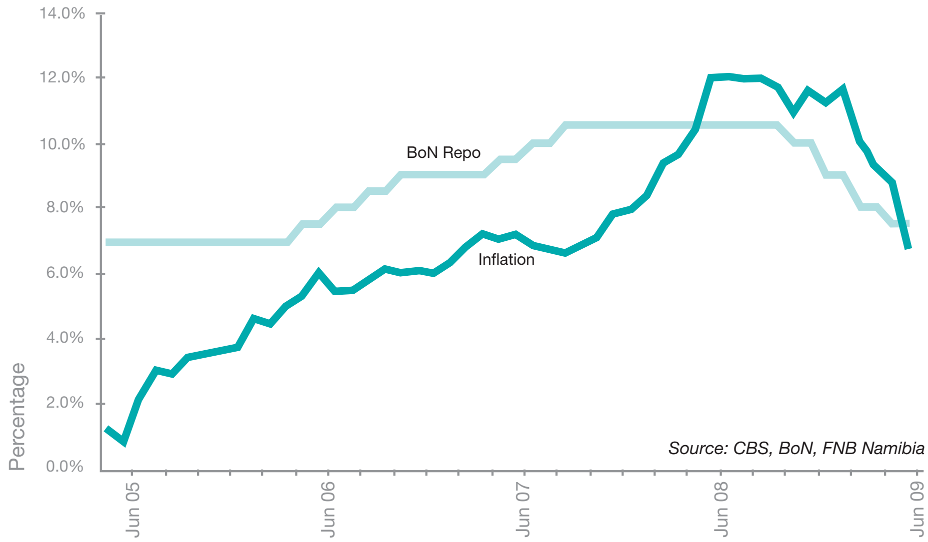
The IMF expects real GDP for Namibia to shrink by 0.7% in 2009, followed by a mild recovery of 1.8% in 2010. This is more or less in line with our expectations. Some local economists are more pessimistic but expect a more robust V-shaped recovery in 2010. The divergent opinions reflect the uncertainty that prevails following the closure of copper mining and the introduction of a production holiday by Namdeb in the second half of the financial year. These actions led to a loss of about 1 200 jobs.

Namibia Real GDP



Source: CBS (2009)

Namibia CPI and Interest Rates



Inflation pressure eased

Inflation reached an annualised peak of 12% in August 2008 on the back of crude oil prices that rose to US$147 a barrel the previous month. But the pressure began to ease significantly in the second half of the financial year as food and transport inflation slowed. By the end of June 2009 annualised inflation stood at 9.1% as opposed to 10.4% in June 2008, showing that inflationary pressures were abating even though the levels remained high. At its peak in July 2008 both food and transport inflation stood at an annualised 18%. This – coupled with high interest rates - put tremendous strain on household disposable income despite the Bank of Namibia being less aggressive in raising interest rates than South Africa's Reserve Bank. Depressed household balance sheets in turn affected credit growth. The first rate cuts only occurred in December 2008. Given the lagged effect on real economic activity, we expect the rate cuts to have a meaningful effect in the new financial year.

Credit extension signals lacklustre recovery

Private sector credit extension entered a prolonged slowdown period in June 2006 and it will be a while before growth rates recover to historical levels. Bank of Namibia data show that total private sector borrowing grew by only about 6% in the first half of the FNB financial year. There has been some upward momentum in recent months; between January and May 2009 private sector credit extension grew at about 11% on an annualised basis. But we are just entering the final phase of the rate-cutting cycle so it is too early to draw conclusions. Because households have found their budgets stretched, most of the growth has been driven by non-financial sector borrowings. By May 2009 business increased their borrowing by an annualised 15.6% while credit extension to individuals moved sideways at 8.9%. Mortgage advances – accounting for nearly half the portfolio – remained subdued at best. The outlook for 2010 is slightly bullish in that it could allow balance sheet stability.

Economic outlook

Consensus is emerging that the world economy has been in serious recession since late 2008. For Namibia, significant recovery is not expected until 2010. New data signal that growth has been under pressure with new vehicle sales collapsing and house prices becoming increasingly volatile. We have revised our outlook for the 2009 calendar year and expect negative growth of about 0.2% with significant downward risk. Overall, we share the IMF view that the world economy will recover only mildly in 2010. Indications are that some economies will recover much more quickly than others. Emerging and developing economies could begin their recovery late this year.

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