Namibian Economic Outlook 2014

Source: Google Images

Research Analysts:

Romé Mostert, CFA
rome@ijg.net
+264 61 383 520

Rowland Brown
rowland@ijg.net
+264 61 383 513

Jan-Hendrik Conradie
janhendrik@ijg.net
+264 61 383 523

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Executive Summary

Following a below trend growth year in 2013 on account of drought conditions across Namibia, 2014 looks set to perform relatively well from a macroeconomic point of view. An improving global outlook, as growth in advanced economies starts to pick up and emerging market economies rebound, will help to bolster demand for Namibian exports, and result in stabilising international commodity prices for the most part. While the Rand and thus Namibia Dollar are expected to continue to depreciate against the US Dollar and other major currencies for the first quarter of 2014, following elections in South Africa, it is expected that fundamentals will cause the currency to strengthen again towards the close of the year, towards current levels.

Locally, growth is expected to be driven by strong output in the construction industry as a result of a number of sizable and on-going construction projects, most notably the Husab, Otjikoto and Tschudi Mines, as well as the Grove Mall, Freedom Plaza and a number of public works projects under the TIPEEG programme. Additionally, following contraction in 2013, the agriculture sector is expected to rebound strongly in 2014 provided reasonable rainfall is received across the country. Mining output for 2014 is expected to be fairly stagnant when compared to 2013, with a slight rebound in growth expected from “other mining” while diamond output is expected to remain unchanged. Another key sector for 2014 is that of wholesale and retail trade, which has been supported by income tax rate cuts in the 2013/14 financial year, as well as a number of years of expansive monetary policy allowing for access to “cheap credit” by Namibia’s banked population.

The aforementioned strong demand for consumer imports, when coupled with large scale construction and mining sector imports, will culminate to put substantial pressure on Namibia’s balance of payments, particularly on the side of the current account, which is expected to become progressively more negative through 2014 as imports for the Husab project, particularly, gather momentum.

Nevertheless, going forward, expansive monetary and fiscal policy are expected to remain in place for much of 2014 (monetary policy) and beyond (fiscal policy). However, increasing growth and inflationary pressure on account of a depreciated currency and increasing global commodity (particularly food and fuel) prices may put pressure on interest rates towards the end of the year. Added to this, a weakening external position as a result of strong consumer demand for imports on account of the aforementioned expansive macroeconomic policies will put pressure on the Bank of Namibia to increase rates, and defend the currency peg with the South African Rand, increasing interest rate differential between Namibia and South Africa for the first time.

On-going fiscal expansion will continue to support the local economy through 2014, however the expected fiscal deficit in the 2014/15 budget will result in increased debt issuance in 2014 when compared to 2013. For the year as a whole, domestic debt issuance is expected in the region of N$4.5 billion, up from approximately N$1.6 billion through 2013.

Finally, inflation is expected to remain manageable both in Namibia and South Africa throughout the year, despite the possibility of lagged first and second round inflationary effects of exchange rate depreciation. For Namibia, inflation is expected to average 5.6 percent for the year, similar to the levels expected for South Africa.

In all, 2014 looks to be a positive year for Namibia from a growth perspective, while the country's external position will require monitoring going forward.

Investment themes from the 2014 outlook:

i. Construction Boom – LONG Namibian banks

The momentum witnessed in the construction sector over the past three year is set to continue in the foreseeable future with both the private and public sectors continuing to contribute to the pipeline of projects. The mining sector will also be a significant contributor in 2014, with the construction of the Husab Uranium Mine, the Tschudi Copper Mine and the Otjikoto Gold Mine in full swing.

On the back of the construction boom we expect to see continued strong growth in private sector credit extension, with debt funding playing a critical role in funding these projects. With FNB Namibia and Bank Windhoek setting the pace in the Namibian banking sector, sitting on attractive market shares, we believe they are perfectly position to leverage off the construction boom.

ii. On-going Expansionary Fiscal Policy – SHORT GC's spread

Since the 2011/12 fiscal year, the Government has been implementing an expansionary fiscal policy and we foresee this to continue in 2014/15 and 2015/16, however a notable consolidation is expected to be budgeted for in 2016/17.

Additionally, a number of new large projects, such as the Mass Housing Scheme will receive funds in the 2014/15 additional budget, while the likes of NamPort's expansion and the construction of the Kudu gas-to-power plant, can be expected to receive (partial) Government guarantees, increasing the contingent liabilities of the Government. As such, the budget for 2014/15 is expected to increase by 10 to 15 percent on the N$48.2 billion estimate in the 2013/14 MTEF.

From a debt point of view, lower than budgeted for debt issuance in 2013/14, coupled with tumbling cash balances and the expectation of a sizable additional budget, suggests that healthy debt issuances can be expected in 2014/15 and 2015/16.

As a result of expected significant increases in debt issuance between 2013/14 and 2014/15, the spread on local debt, particularly, can be expected to widen.

iii. Exchange rates – SHORT fixed income, SHORT duration, LONG BIDVest

2013 marked a year of continuing Rand weakness with approximately 60 percent of the de-rating in the Rand attributed to the pricing of tapering talks by the FOMC. In May 2013 the Rand, and hence Namibia Dollar, weakened more than 13 percent (R1.18/USD) when FOMC minutes for the first time mentioned the possibility of reducing quantitative easing (QE). This also saw a broad based sell-off of emerging market assets.

Economist forecasts are suggesting a total unwinding of QE by 2014 year end, and as a result the bearish short term sentiment is likely to persist with a probability that the Rand will surpass the 2001 record levels within the 1st half of CY2014. Towards the end of the year we expect to see the Rand re-gaining some traction when valuation models and countries' differentials are stretched outside the standard deviation ranges.

We continue to recommend an underweight in bonds and income yielding instruments (with a limited growth profile). With the expected further steepening in the yield curve, we prefer shorter duration over longer duration.

BidVest Namibia is a strong Rand hedge, with its fishing division earning predominantly US dollars. We estimate that 70 percent of the movement in the currency flows through to the company's bottom line.

iv. Monetary Policy – LONG floating rate notes

As the primary mandate of the Bank of Namibia (BON) is to maintain the currency peg with the South African Rand, the primary indicator monitored and managed is the official international reserve position of the country, and with the decline in reserves that has been witnessed over recent months, it is very plausibly that a rate hike will be seen in Namibia in 2014. Similarly, a weak and weakening Rand may put pressure on the South African Reserve Bank (SARB) to increase rates, through expected (although not yet experienced) increased inflation. However, it is expected that the SARB will keep rates low for as long as possible due to currently manageable inflation (below the top end of the inflation targeting band), a negative output gap and pervasive unemployment.

In order to ensure that unsustainable outflows of capital are not experienced, Namibia may be required to hike interest rates before South Africa, in the light of expectations of continued fiscal expansion. Alternatively, the Ministry of Finance of Namibia will be required to issue substantive debt to not only fund expenditure in 2014, but also to prop up declining reserve levels.

On the back of our expectations for higher rates towards the end of the year, and possibly higher inflation as the Rand pass-through starts having an effect, we recommend increasing weights in floating rate notes and inflation linkers.

Outturn of 2013

Global

Through 2013, global growth remained fragile, however signs of improvement were seen, particularly in advanced economies. The US continued to post acceptable growth, while the Euro Area emerged from recession in the second quarter of 2013, after six consecutive quarters of contraction. On the other hand, however, a number of emerging market economies faltered somewhat as contagion from prolonged recession in Europe and lacklustre growth in the US started to bite.

On the back of weak demand for manufactured imports in advanced economies, the output of many emerging market economies, particularly those in Asia, slowed during the second half of 2013, which in turn dampened demand for commodity imports, resulting in commodity price declines, particularly for minerals. Nevertheless, despite slowing growth in emerging market economies, overall global growth remained underpinned by the expansion of emerging economies, most notably, China.

Despite the nascent growth recovery in Europe and the US, unemployment remained high throughout 2013. However, with improving trend towards the end of the year, hope for further improvement through 2014 remains. Nevertheless, central banks around the world maintained accommodative monetary policy stances so as to support growth and employment creation, in light of broadly acceptable inflation levels. Towards the end of 2013, the US Federal Reserve Bank announced the tapering of the Quantitative Easing bond-buying programme, highlighting an ever improving outlook for the US economy. As a result however, the significant capital inflows that had been seen in emerging economies as a result of the availability of cheap funds and low returns in the US market, started to reverse, resulting in the weakening of many emerging market currencies, none more so than the Rand.

Domestic

Trade

Despite a fragile global environment, Namibia was fairly shielded from economic headwinds through 2013. However, by the end of the year, declining commodity prices started to bite, reducing the earnings of mineral producers in the country, as well as the export earnings of the country. Nevertheless, mineral production volumes remained largely unchanged in 2013 when compared to the levels seen in 2012, partly due to fixed supply contracts and partly due to forward price hedging. Additionally, some export respite was seen as a result of Rand depreciation, which effectively increased the Rand value of hard currency denominated exports.

Growth

External headwinds notwithstanding, the performance of the Namibian economy in 2013 was mainly shaped by endogenous factors. Following abnormally low rainfall in the 2012/13 season, much of

Namibia experienced drought in 2013, causing a number of detrimental social and economic implications to the country. On the economic side, the agriculture sector was most affected, as agronomic production declined, and insufficient grazing resulted in large sell-offs of livestock from commercial farms. This draw-down of inventories as a result of the selloff is expected to result in a sizable contraction in agricultural value added for the year. The agriculture sector, when coupled with the nondescript performance of the mineral and fishing sectors, is expected to result in a contraction in output from the primary sectors as a whole for 2013.

On the other hand, the construction sector saw extremely strong growth in 2013, on account of both public and private sector construction activities. On-going fiscal expansion, particularly the TIPEEG public-works programme, continued to bolster strong output in the construction sector; however, during the year under review it was private projects that drove construction growth primarily. While construction activities remained strong in the municipal residential sector, as illustrated by municipal building plans approved and completed, large construction projects in the private sector were the underlying drivers of the abnormally strong growth in the construction sector as a whole. The construction of the Husab, Otjikoto and Tschudi mines, coinciding with the construction of the Grove Mall, the Freedom Plaza and the aforementioned residential construction and public works programmes, have culminated to generate strong double-digit growth in the sector for the year.

In the tertiary industries, a highly mixed growth picture was seen, with positive growth being driven by the accommodative monetary and fiscal policy stances taken by the Bank of Namibia and Ministry of Finance. Cheap credit coupled with income tax rate cuts, resulted in strong growth in the wholesale and retail sectors of the economy. On the other hand, however, the pervasive fiscal challenges being faced by Euro Area resulted in a decline in demand for Namibia's tourism industry, which is expected to see low growth in 2013, following contraction in 2012.

As a result of the aforementioned fragmented growth picture, the overall growth outturn for 2013 is expected to register at around 4.0 percent.

Inflation

On the inflation front, the inflation outturn for 2013 was lower than predicted in the 2013 IJG Outlook, partly on account of lower international prices for food and fuel, and partly on account of the rebasing of the Namibia Consumer Price Index in November of 2013. Over the year, the main drivers of inflation remained food and beverage prices, as well as housing, utilities and transport costs, however the inflationary trends in the aforementioned, with the exception of transport inflation, were downward throughout the year. In all, after the rebasing, average inflation for 2013 registered just 5.6 percent, compared to the projected level of 6.0 percent.

Interest Rates

As expected, both the South African Reserve Bank (SARB), and the Bank of Namibia (BON) kept interest rates unchanged in 2013, citing a weak global environment, manageable inflation, high unemployment and relatively low growth. The inflation targeting SARB was able to keep rates low as inflation remained within the 3-6 percent target band for the most part of 2013, while BON, guarding a mandate of maintaining the currency peg to the Rand, was able to retain rates at their historically low levels, despite falling reserves.

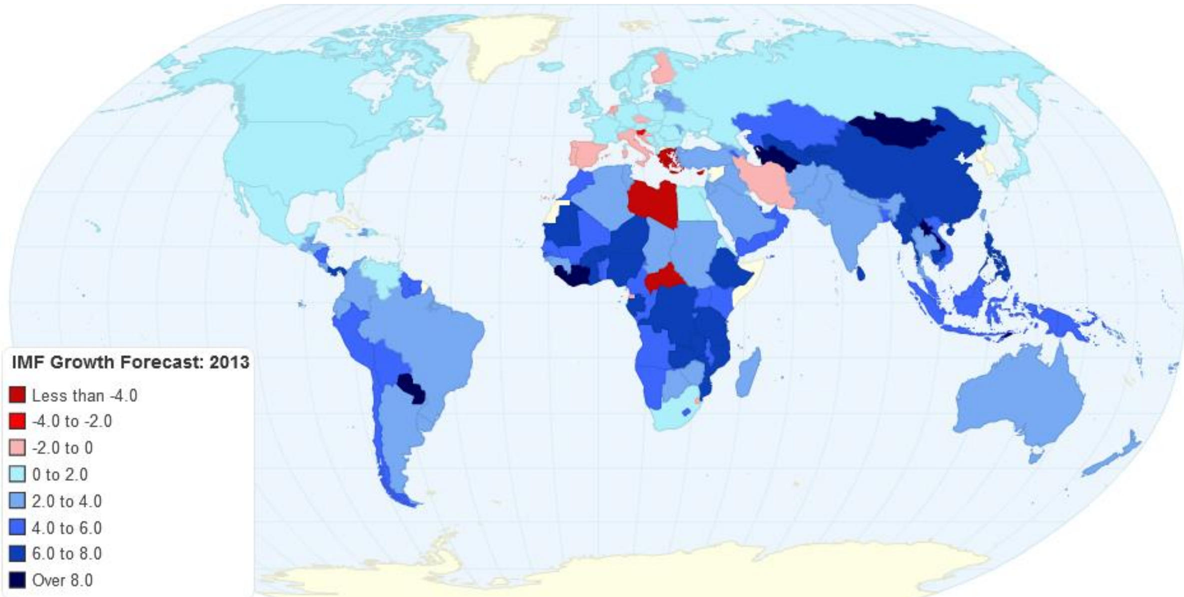
Exchange Rates

Through 2013, the Rand, and thus Namibia Dollar depreciated heavily against the globes major currencies. Against the US dollar, the currency weakened by some 23.8 percent over the course of the year, initially due to social unrest in South Africa in early 2013, which caused large losses in production and sizable current account deficits, and subsequently as a result of the unwinding of quantitative easing in the US, and the withdrawal of funds from emerging market economies back to the US.

Global economy

The global growth picture for 2014 generally sees improvement over 2013, with significant growth pickups in the advanced economies, with the vast majority of such positing positive growth for the first time in over a year.

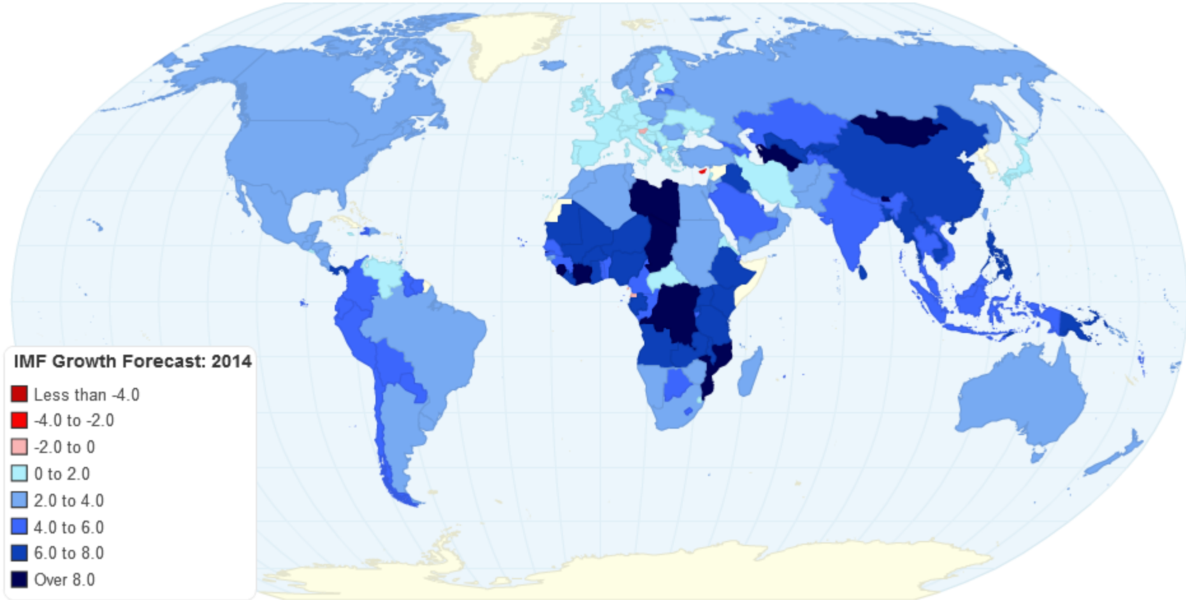
Global Growth Projection, 2013



Source: IMF WEO (October 2012)

For many emerging market economies the growth picture has also improved for 2014 when compared to 2013, as global drag effects, originating from lacklustre growth and/or recession in advanced economies has started to abate.

Global Growth Projection, 2014



Source: IMF WEO (October 2012)

Given the above, global growth is forecasted to accelerate to 3.7 percent in 2014 from 2.9 percent in 2013.

United States

It is forecasted that the US will have its strongest year of economic growth since the recession that ended in 2009. The US has endured a fiscal drag for the last three years and growth was also capped by 2013’s tax increases. Over the next year, the fiscal drag is expected to lighten, helping to spark further growth in the economy. The Fed announced it would begin in January 2014 to reduce its monthly bond purchases from $85 billion to $75 billion, as there are signs of the economy improving. There are also recoveries being seen in housing, consumer spending and business investment. Finally, US growth should be supported by an improving labour market, with unemployment having come down from 7.8 percent in January to 6.7 percent in December, 2013. On account of these improvements, the U.S. economy is forecasted to grow 2.6 percent in 2014 after growing 1.6 percent in 2013.

Euro Zone

In 2013 the Euro Zone emerged from an 18 month recession, however growth for 2014, as was the case in 2013, will be slow. A number of financial, economic, and political challenges remain to the monetary block, and until resolved can be expected to continue to dampen growth prospects. Unemployment in the Euro Zone is expected to stay at 12.2 percent in 2014. The commission forecasts Euro Zone annual inflation to be 1.5 percent in 2014, slowing to 1.4 percent in 2015, adding to pressure on the European Central Bank to cut interest rates further from already record-low levels.

On a positive front, however, the ECB has stabilized sovereign debt markets and systemic risk is much reduced when compared to 24 months ago. Further, manufacturers are expected to make a greater contribution to growth, investment and job creation this year. With a recovery in both external and domestic demand, we expect an improvement in Euro Zone growth in 2014, with the monetary area expected to expand by 1.3 percent.

United Kingdom

In the UK, the growth prospects are looking promising for 2014. Increasing business confidence is expected to spur growth in various sectors, including increase corporate spending. The Monetary Policy Committee of the Bank of England pledged to keep interest rate at current historic low levels of 0.5 percent until unemployment in the U.K. falls to at least 7 percent encouraging households and corporates to borrow, spend and invest to boost economic growth. The national deficit is also forecast to fall below £100bn in 2014/15, for the first time since the recession. As such, it is forecasted that the economy will grow by a solid 2.8 percent in 2014.

Japan

In 2013, Japan increased consumption tax from 5 percent to 8 percent in an effort to curb vast debt in the country. However, this move is expected to curb growth, as it reduces consumer spending which accounts for more than 50 percent of GDP.

Nevertheless, Japan is likely to continue to grow in 2014 with assistance from expansive policies such as the ¥18.6 trillion stimulus package passed in December 2013. The package includes steps to promote reconstruction in areas damaged by the Great East Japan Earthquake and tsunami, and infrastructure investments for the 2020 Tokyo Olympics and local spending on public works. Exports and capital expenditures are also expected to grow in 2014, and thus it is forecasted that Japan's economy will grow between 1 percent and 1.5 percent for the year.

China

China's growth slowed marginally in 2013 on account of global headwinds and reduced demand for her manufactured exports, however new policies focusing on domestic growth gained traction and transactions and construction picked up significantly as the year progressed. Going forward, as global growth gains steam once again, external demand will likely improve through 2014 and as the U.S. and Euro Zone economies grow, demand for China's exports will show positive growth again. Thus, a steady growth of 7.5 percent is forecasted for the year.

South Africa

The outlook for South Africa is somewhat overshadowed by political and social issues on account of 2014 being an election year. However while economic disruptions can be expected as a result of such, we believe that these will be relatively minor. Unemployment is expected to remain elevated, while inflation is expected to pick up slightly on account of lagged first and second round effects of exchange rate depreciation in 2013 and early 2014. The fiscal position is expected to worsen, with the country's debt expected to increase to 47 percent of GDP in 2014, due to on-going expansionary fiscal policy.

On the bright side South Africa's economy remains resilient in the long term, as strong and established economic infrastructure and sophisticated capital markets remain intact. Economic growth is likely to remain sluggish in the short term but the long term outlook should be more positive provided that South Africa can attract greater levels of Foreign Direct Investment, increase productivity, ease labour tensions and stabilize its fiscal policy. It is forecasted that the economy will grow 2.8 percent in 2014.

Commodities

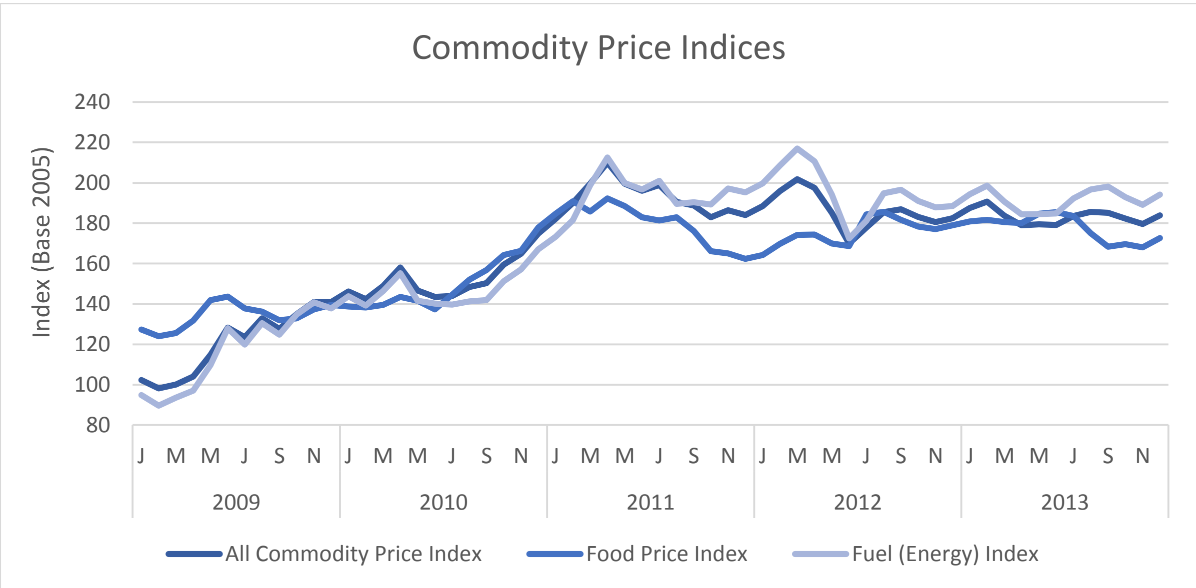
Through 2013, commodity prices softened, largely on account of slowing growth in China and South Asia, jitters surrounding Fed tapering and rising supply expectations. Going into 2014, this trend is expected to continue for the most part, however as import demand picks up in advanced economies, it is expected to start to reverse. The currently unwinding gold price is expected to continue to fall as the global economy inches towards recovery, while the price of crude oil is forecasted to uptrend as the year progressed due to increased demand from the US where consumption has rebounded to its strongest level in five years.

Domestic Economy

Inflation

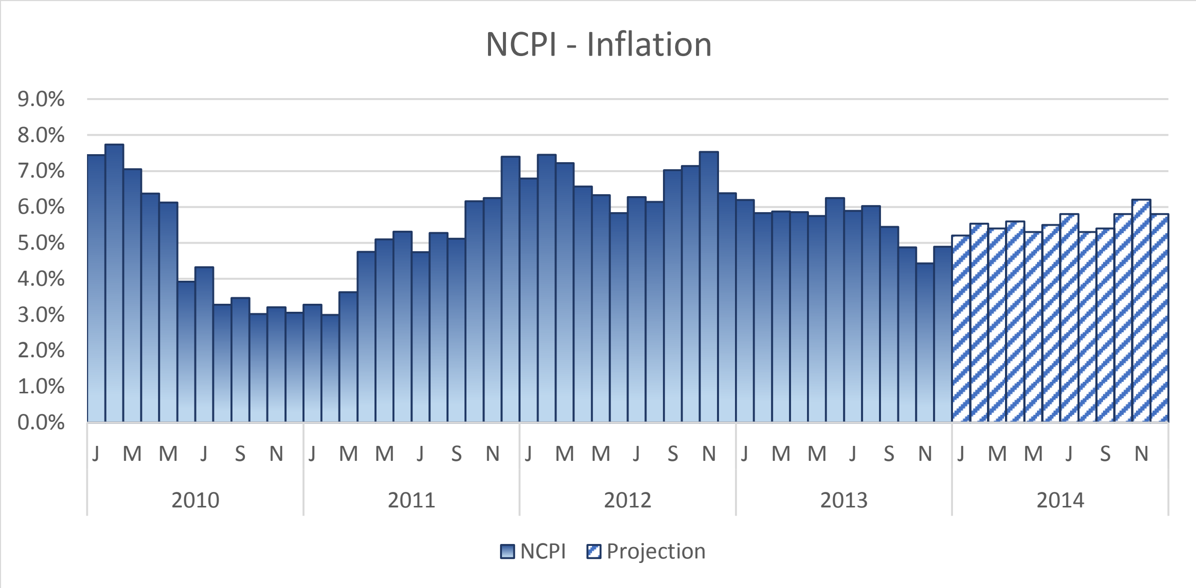
Namibian inflation moderated through 2013, going from 6.2 percent in January, to 4.9 percent in December, and finishing the year with an average annual inflation of 5.6 percent, down from the 6.7 percent average of 2012.

This decline in inflation occurred despite a weakening Rand, and was largely on account of falling commodity prices, most notably global food and fuel prices, through the year. The pass-through of Rand weakness has not yet been witnessed in its entirety, and although an inflationary impact can be expected up to a year after currency movements, to date a strong relationship between changes in currency, and changes in local prices, has not been witnessed.



Source: IMF

Thus, going forward inflation is projected to remain moderate through 2014, averaging 5.6 percent for the year, as was the case in 2013. Slight volatility is expected as a result of base effects, particularly in June August and November, however the rebased NCPI basket is expected to reduce volatility in the long run, due to a lower weighting for the volatile category of food and beverages.

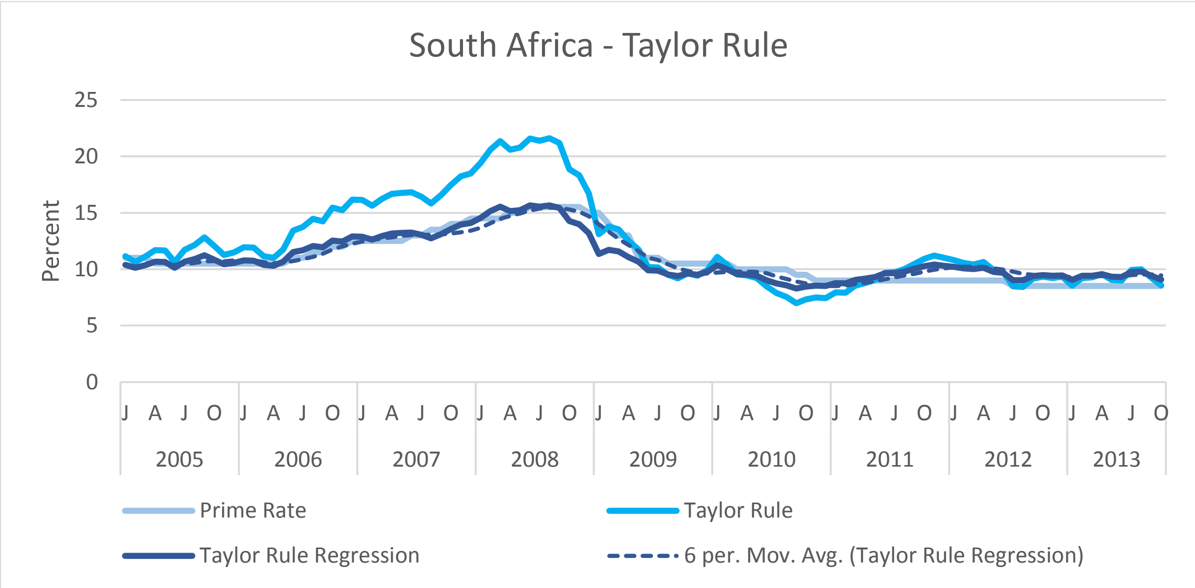


Source: Namibia Statistics Agency, IJG Research

Monetary Policy

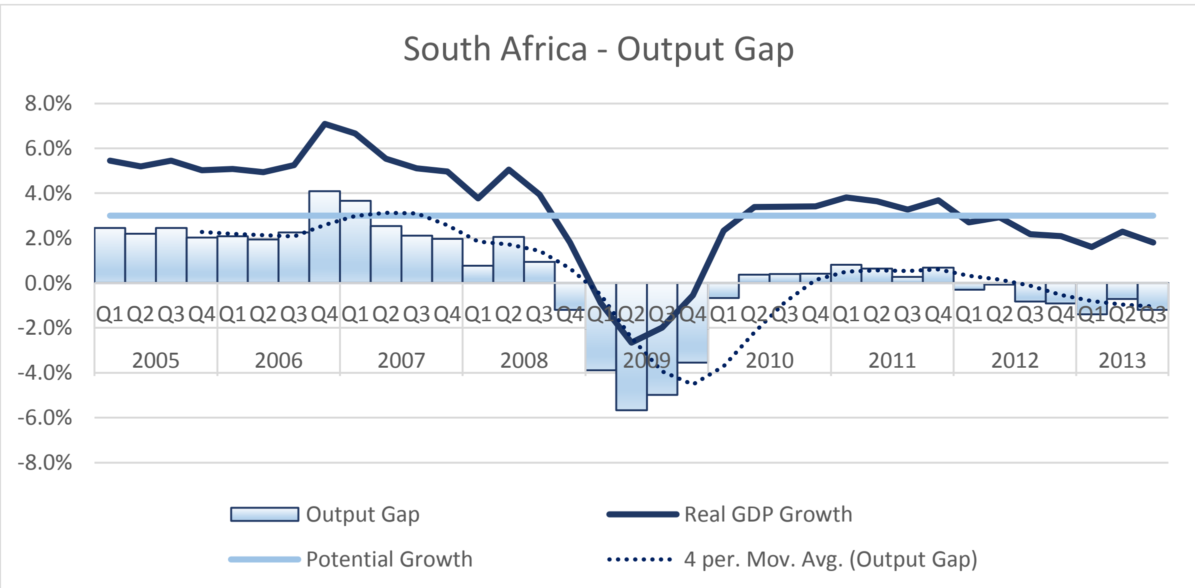
In 2013, the SARB and BON both kept their repo rates unchanged, at 5.00 and 5.50 percent, respectively. However, towards the end of the year the prolonged expansionary policies pursued by BON and Ministry of Finance started to put pressure on the Namibian Bank's International Reserve position, an early warning as to a threat to the ability of the country to defend the currency peg with the South African Rand.

South African Reserve Bank



Source: South African Reserve Bank, IJG Research

A simple Taylor Rule and adjusted Taylor Rule assessment of the South African monetary policy position suggests that towards the end of 2013 a marginal rate hike could have been justified based on inflation and the output gap. Going forward, as growth picks up and should a depreciated Rand see a pass through to inflation as theory would suggest, fundamentals will suggest that a rate hike will be required. However, it is expected that the SARB will keep rates low for as long as possible due to currently manageable inflation (below the top end of the inflation targeting band), a negative output gap and pervasive unemployment. As such, should a hiking cycle start in 2014, it will be towards the end of the year, and in the year as a whole we are unlikely to see an increase greater than a 50 basis points.



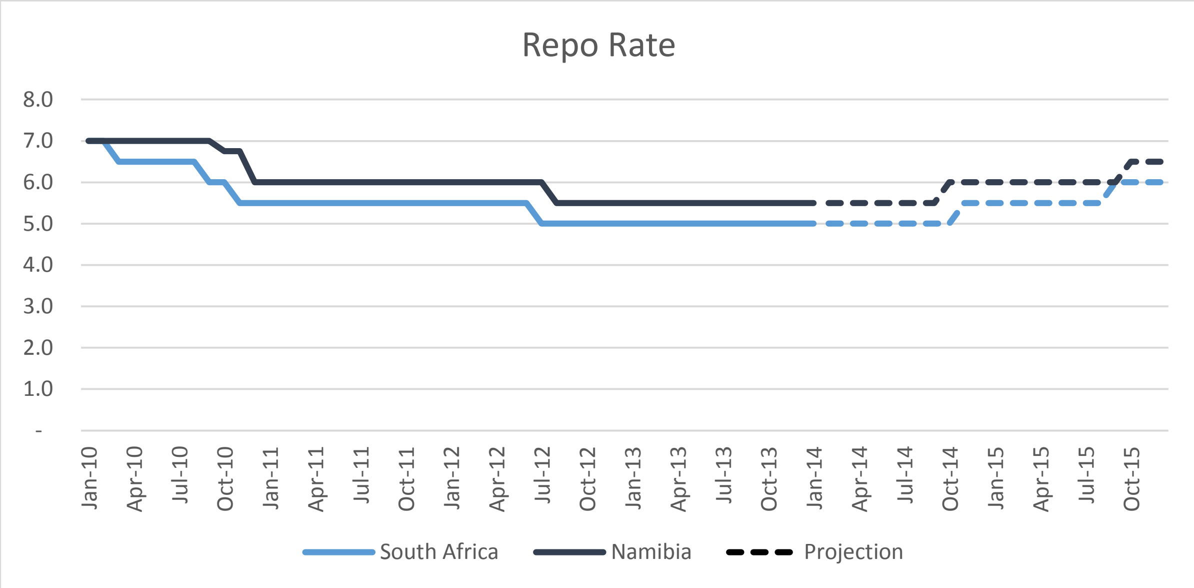
Source: South African Reserve Bank, IJG Research

Bank of Namibia

As the primary mandate of the Bank of Namibia is to maintain the currency peg with the South African Rand, the primary indicator monitored and managed is the official international reserve position of the country, and with the decline in reserves that has been witnessed over recent months, it is very plausibly that a rate hike will be seen in Namibia in 2014. The reason for this is that over the past three years, the Ministry of Finance has been implementing an expansionary fiscal policy in an attempt to increase growth and employment in Namibia, and has been injecting significant funds into the local economy for public works programmes. Additionally, in 2013 the Minister of Finance announced income tax cuts, effectively increasing the disposable incomes of income tax paying individuals in the country. At the same time, BON has kept interest rates at historically low levels for a number of years, allowing access to cheap credit. All of the above have resulted in increased merchandise imports, particularly construction materials, consumer vehicles and electronics, all of which have negatively affected the merchandise trade balance and by extension the overall balance of payments and national reserves.

Thus, while broadly speaking, the interest rate of Namibia tends to follow the movements of that of South Africa, based on similar economic conditions, 2014 may be a year in which deviation from this trend is witnessed. In order to ensure that unsustainable outflows of capital are not experienced, Namibia may be required to address macroeconomic imbalances leading to reserve losses. Two broad options exist, firstly, rates will have to be increased, or alternatively, the Ministry of Finance of Namibia will be required to issue substantive debt to not only fund expenditure in 2014, but also to prop up declining reserve levels.

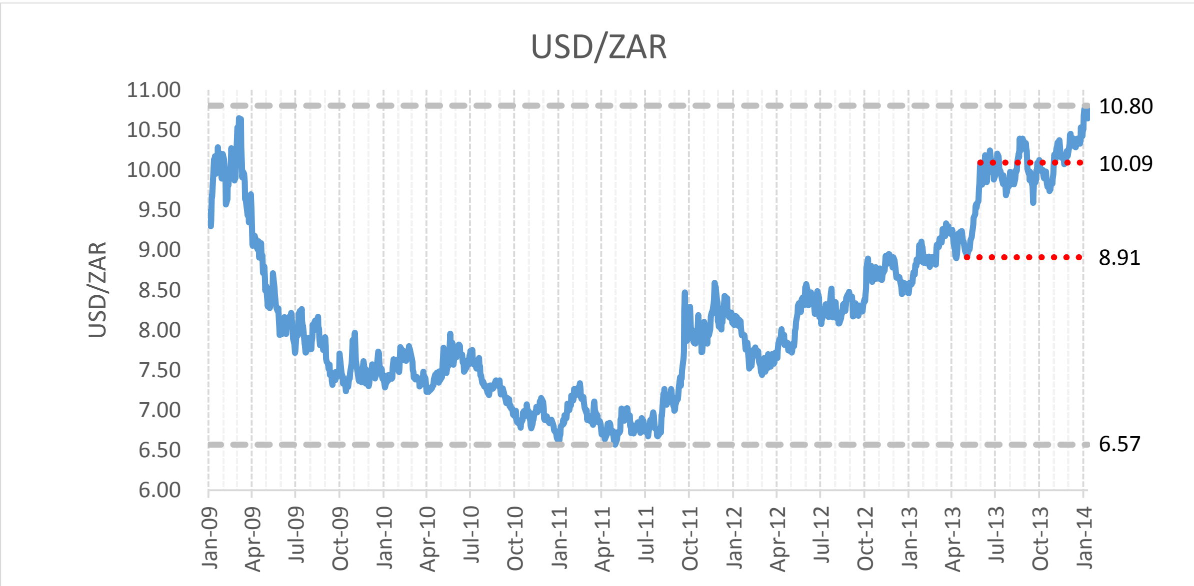
In light of expectations of a weakening external position for Namibia, we believe that 2014 may see BON taking the lead by making an interest rate move before South Africa. While this would be a first for the Bank, given our growth and inflation projections, as well as expectations of strong expansion in private sector credit extension, a weak balance of payments, plummeting reserves and high household indebtedness, we believe that economic conditions in Namibia are likely to be substantially different from those in South Africa, and that should a hike appear imminent in South Africa, that BON may act first by tightening rates in the third quarter.



Source: Bank of Namibia, South African Reserve Bank, IJG Research

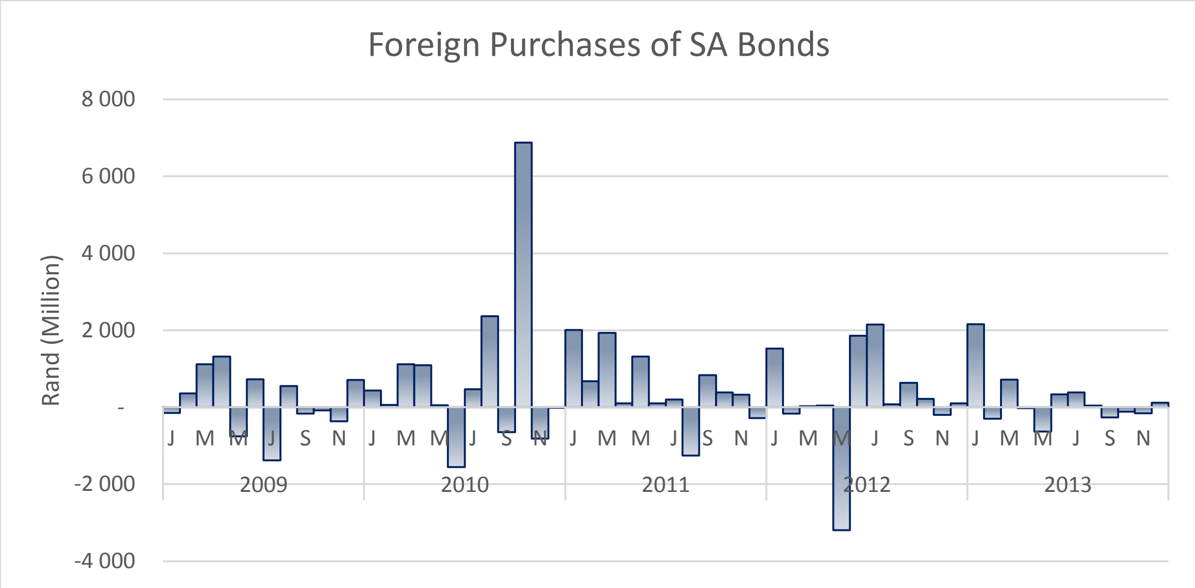
Exchange Rate

2013 marked a year of continuing Rand weakness with the exchange rate weakening by R2.02 to the US dollar or 23.8 percent, from R8.47 to R10.49, with approximately 60 percent of the de-rating in the Rand attributed to the pricing of tapering talks by the Fed. In May 2013 the Rand weakened more than 13 percent (R1.18/USD) when FOMC minutes for the first time mentioned the possibility of reducing quantitative easing. This also saw a broad based sell-off of emerging market assets.



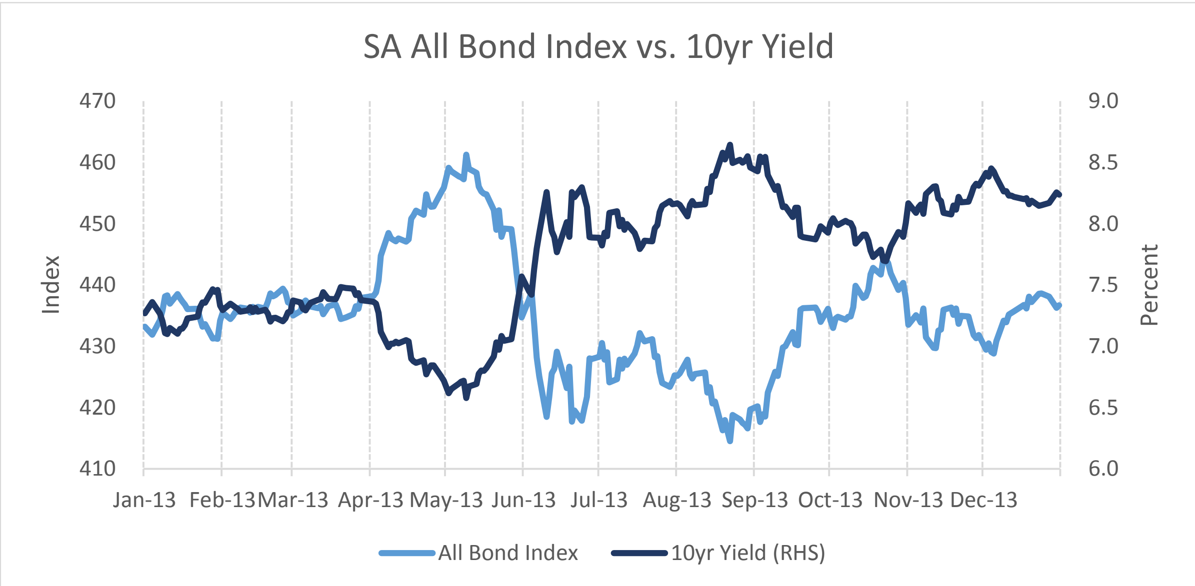
Source: Bloomberg, IJG Research

The May 2013 sell-off of South African bonds by foreigners was the 4th biggest monthly move seen since 2000. As a result bond yields spiked dramatically over the period, with the SA All Bond Index losing more than 9 percent from early May to early June.



Source: Bloomberg, IJG Research

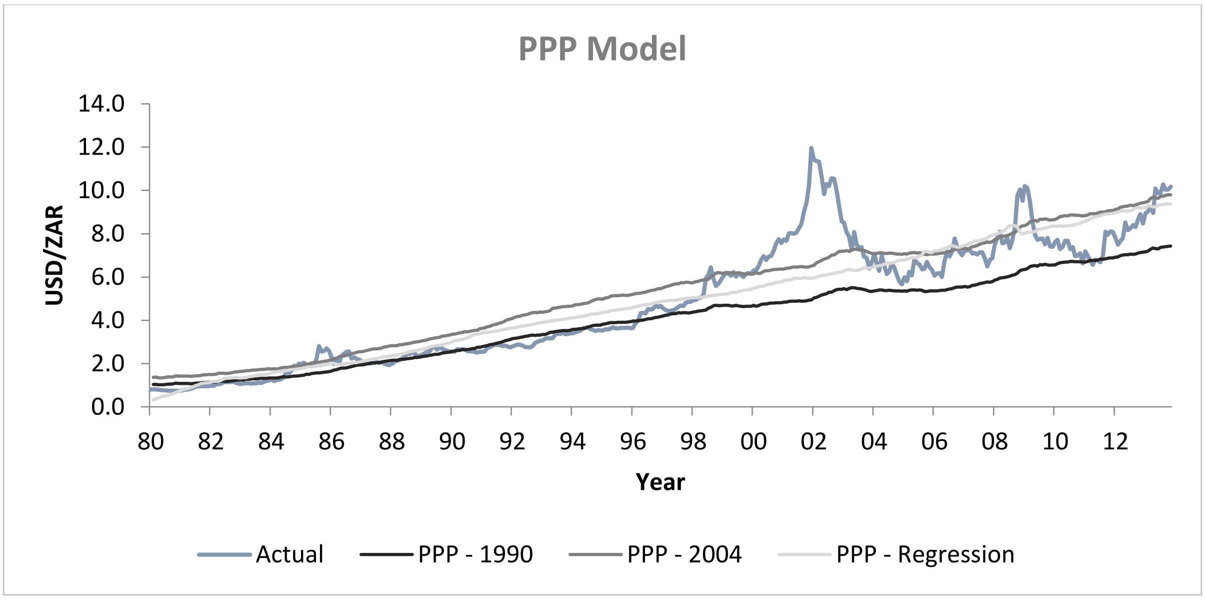
Since the big move in May, the Rand has been fairly range bound, trading between R9.60 and R10.40 to the dollar. Early January the Rand extended its losses to R10.80, trading at levels last seen in May 2009.



Source: Bloomberg, IJG Research

Looking forward, a purchasing power parity (PPP) model suggests the Rand is currently undervalued (1990 base) to slightly undervalued (2004 base and regression model). Incorporating consensus inflation forecasts the PPP model predictions are as follows:

	1990	2004	Regression
2014 year end	7.72	10.2	9.64
2015 year end	7.98	10.5	9.95

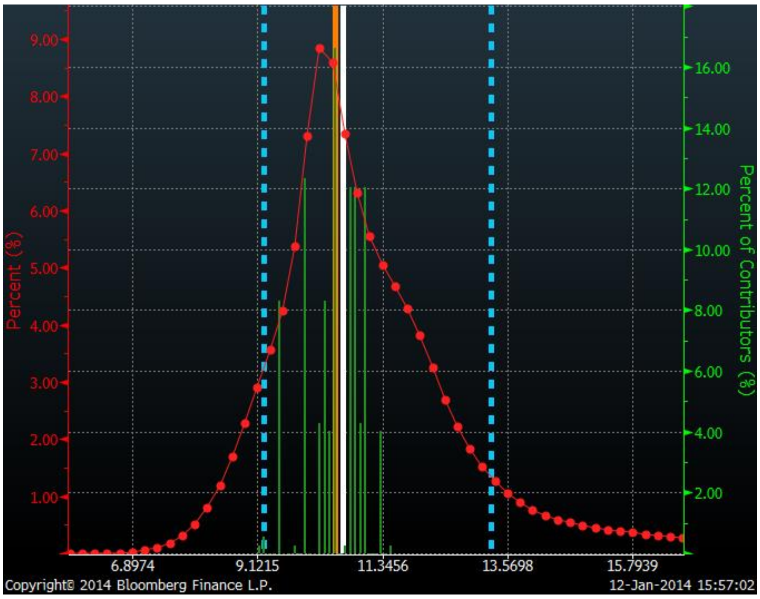


Source: Bloomberg, IJG Research

Bloomberg consensus forecast predicts the USDZAR at 10.45 in 12 month's time, generally stronger than the current level of 10.87. The 1 standard deviation levels suggest a trading range of 9.24 to 13.35.

The aforementioned notwithstanding, the house view is that the Rand will continue to weaken sideways for the first four months of 2014, as the market appears to remain incomplete and the depreciating trend remains strong. The current resistance level (11.00 to the US Dollar) is expected to be broken in the first quarter as the Rand moves towards 12.00 to the US Dollar as elections approach in South Africa, meeting resistance levels at 11.15 (weak) and 11.60 (strong). Following the elections, fundamentals are expected to drive appreciation as carry traders take advantage of overselling, and positive sentiment returns. As such, by the end of the year the currency is expected to have strengthened to levels similar to those seen at the end of 2013.

Bloomberg Forecast Model Distribution with Analyst Estimates



Source: Bloomberg

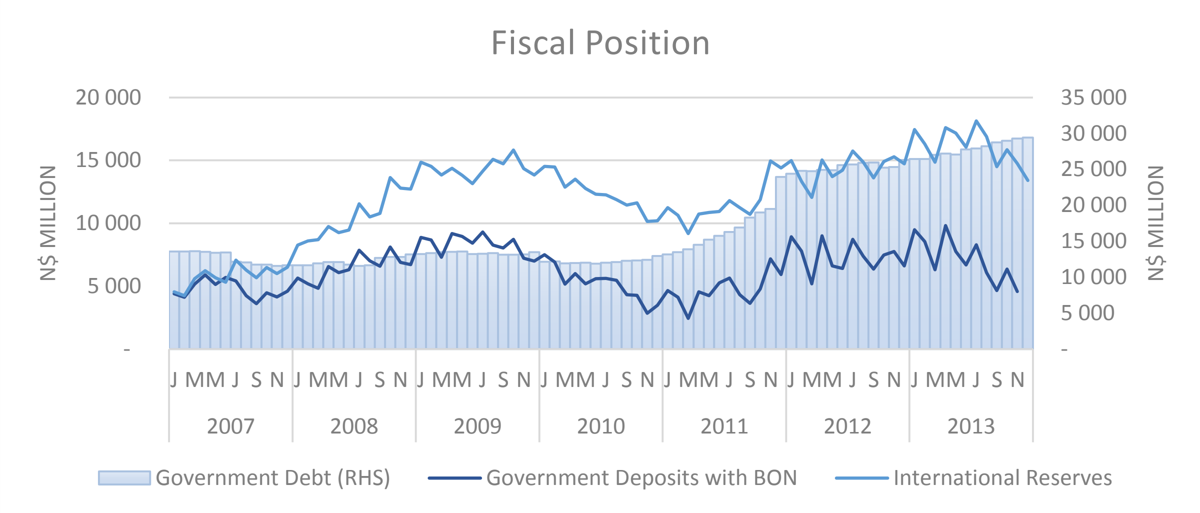
Fiscal Policy

Since the 2011/12 fiscal year, the Government has been implementing an expansionary fiscal policy with a planned duration of three years. Subsequently, however, while there has been talk of consolidation in both the 2012/13 and 2013/14 budget statements, this consolidation has not been visible in the numbers to date, with average growth in expenditure of 8 percent across the current MTEF period. That said, the somewhat erratic breakdown of expenditure has meant that the budget allowed for a 1.3 percent increase in expenditure between 2013/14 and 2014/15, while a 4.7 percent growth in expenditure was forecast for the year 2015/16.

The outturn for the 2013/14 fiscal year is expected to be better than projected in the budget, as a result of a number of factors. Firstly, revenues are expected to be above those projected in February 2013, due to higher income tax receipts, particularly from individuals, than those forecast. Additionally, under expenditure, particularly on capital projects, is likely to be experienced once again, and as such it is unlikely that the deficit will be as dramatic as previously thought, and well below the -6.4 percent projected in the MTEF for 2013/14. Additionally, the projected growth in debt is expected to be below the level of nominal GDP growth, thereby reducing the debt to GDP ratio of the country.

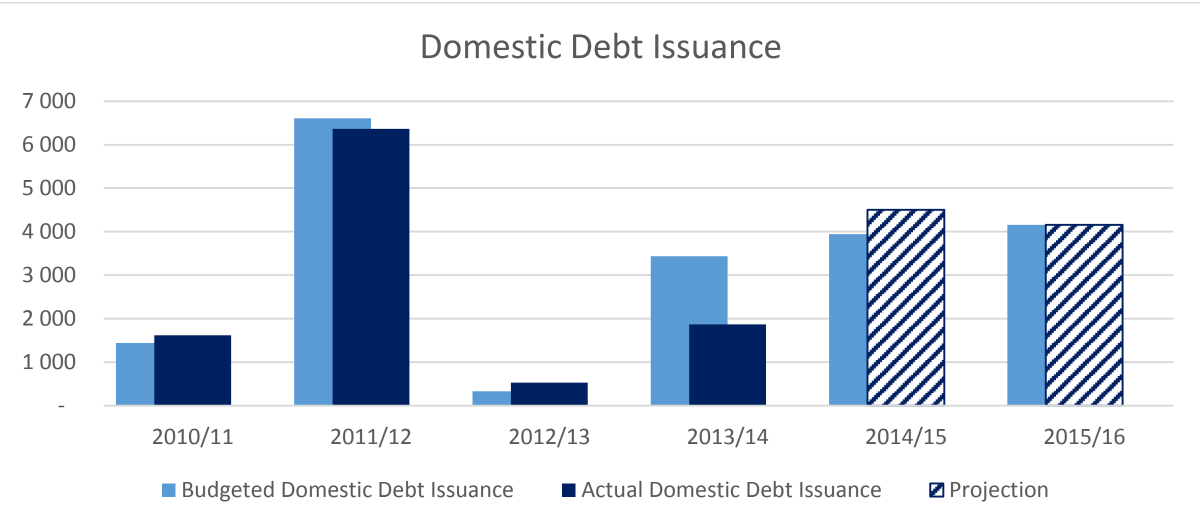
Through 2013/14, the Government has drawn down on approximately N$4 billion worth of cash balances with the Central Bank, and issued just over N$1.5 billion worth of debt, or about 4.4 percent of GDP. This figure reflects the approximate level of deficit that is expected overall in 2013/14.

Going forward, in 2014/15 and 2015/16 the expansionary fiscal policy is expected to continue, however notable consolidation is expected to be budgeted for in 2016/17. Additionally, a number of new large projects, such as the *Mass Housing Scheme* will receive funds in the 2014/15 additional budget, while the likes of NamPort's expansion and the construction of the Kudu gas-to-power plant can be expected to receive (partial) Government guarantees, increasing the contingent liabilities of the Government. As such, the budget for 2014/15 is expected to increase by 10 to 15 percent on the N$48.2 billion estimate in the 2013/14 MTEF.



Source: Bank of Namibia

From a debt point of view, lower than budgeted for debt issuance in 2013/14, coupled with tumbling cash balances and the expectation of a sizable additional budget, suggests that healthy debt issuance can be expected in 2014/15 and 2015/16. In all likelihood, the budgeted issuances of N$3.9 billion of domestic debt and N$616 million of foreign debt issuance in 2014/15 will be increased, with expectations of issuance of at least N$4.5 billion of domestic debt issuance and N$800 million of foreign issuance looking more realistic at this point in time. As a result of dramatic increases in debt issuance between 2013/14 and 2014/15, the spread on local debt, particularly, can be expected to widen.



Source: Bank of Namibia, Ministry of Finance, IJG Research

Overall growth projections

Overall, the growth out turn for 2013 is expected to be below trend levels, ultimately registering approximately 4.0 percent. This growth was driven by construction and wholesale and retail trade, while primary sector activities, particularly agriculture, performed poorly.

Real Growth (%)				Preliminary	Estimate	Projection
Industry	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Agriculture and forestry	0.6	-3.1	15.5	11.8	-10.9	13.5
Livestock farming	4.4	-7.0	26.1	21.2	-12.1	22.9
Crop farming and forestry	-1.7	-0.5	9.1	5.1	-10.0	6.0
Fishing and fish processing on board	4.4	2.1	8.4	16.9	4.0	4.0
Mining and quarrying	-42.2	32.7	-7.9	12.0	1.3	1.1
Diamond mining	-50.8	36.6	-2.5	9.0	3.3	0.0
Other mining and quarrying	-0.6	23.2	-22.1	22.0	-4.5	4.5
Primary industries	**-24.5**	**14.2**	**1.9**	**12.8**	**-2.4**	**5.5**
Manufacturing	5.9	7.3	1.2	1.2	1.1	3.9
Meat processing	5.2	4.9	-6.4	3.1	5.3	-3.9
Fish processing on shore	33.1	0.6	16.5	-27.1	-5.0	-3.2
Other food products and beverages	8.4	-2.4	-5.4	6.5	2.3	5.6
Other manufacturing	-1.7	18.4	3.3	4.7	1.2	4.2
Electricity and water	0.6	2.5	4.8	5.8	3.3	8.2
Construction	-18.4	5.7	19.3	12.5	17.6	23.2
Secondary industries	**0.2**	**6.4**	**4.7**	**3.9**	**4.8**	**8.9**
Wholesale and retail trade, repairs	3.1	7.9	3.3	12.1	7.0	6.4
Hotels and restaurants	-2.1	0.6	2.9	-1.2	0.5	3.0
Transport, and communication	5.3	2.5	4.9	4.2	3.8	3.4
Transport and storage	7.7	4.3	6.5	3.5	3.0	5.0
Post and telecommunications	3.2	1.0	3.5	4.8	4.5	2.0
Financial intermediation	12.3	5.4	4.2	6.6	5.4	5.0
Real estate and business services	6.0	1.7	4.3	6.4	4.2	5.0
Real estate activities	4.6	3.4	2.0	6.8	4.0	4.3
Other business services	10.1	-2.9	11.1	5.5	4.6	7.1
Community, social and personal service activities	2.5	-3.2	1.3	-2.9	2.0	1.7
Public administration and defence	5.0	8.8	3.4	6.2	6.1	1.9
Education	4.1	5.5	14.0	2.4	4.0	4.0
Health	2.9	2.4	3.7	11.8	3.0	1.0
Private household with employed persons	4.4	2.2	2.7	3.3	2.7	2.5
Tertiary industries	**4.8**	**4.7**	**4.9**	**6.4**	**4.9**	**4.1**
Less: FISIM	-0.6	8.7	5.8	10.3	10.3	10.3
All industries at basic prices	**-0.9**	**6.2**	**4.4**	**6.6**	**3.7**	**5.2**
Taxes less subsidies on products	-2.7	7.2	18.5	-9.7	7.0	5.0
GDP at market prices	**-1.1**	**6.3**	**5.7**	**5.0**	**4.0**	**5.2**

Source: Namibia Statistics Agency, IJG Research

For 2014, the growth outlook is much more positive, with a rebound expected in agriculture, reasonable growth in "other mining" and continued strong growth in construction. As such, a conservative projection for overall growth in 2014 is 5.2 percent, a significant increase from the 4.0 percent estimate for 2013.

Growth breakdown

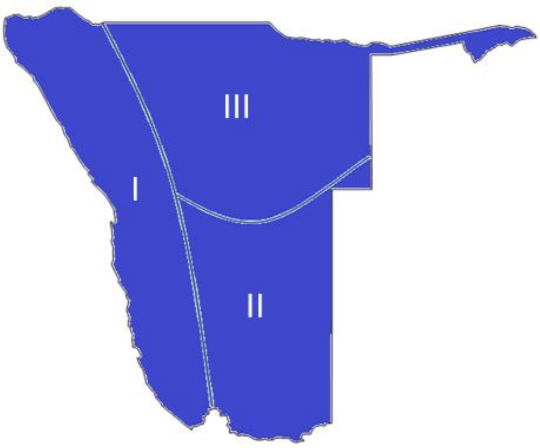
Agriculture and Forestry

Namibia experienced one of the worst droughts seen over the past 3 decades during the 2012/13 rainfall season. Most parts of the country received below average rainfall during the season, which had a major impact on the GDP growth of the agriculture sector as rain is a determining factor to the output of such, both crop harvests and livestock farming. According to the National Accounts, the agriculture sector grew 15.5 percent in 2011 and 11.8 percent in 2012 contributing N$5.1bn to the overall GDP, this growth is closely correlated to the good rainfall seasons. During 2013 however, we estimate that the agriculture sector contracted by 10 percent as a result of the drought.

Namibia experienced a predominantly drier than normal November everywhere in the country, while December 2013 was an exceptionally wet month in most parts of the country except in the southern and coastal parts. With the exception of Ondangwa that received near-normal rainfall, the remainder of the country received above-normal rainfall. Looking forward the outlook for rain remains favourable over most parts of the country for December, January and February (DJF).

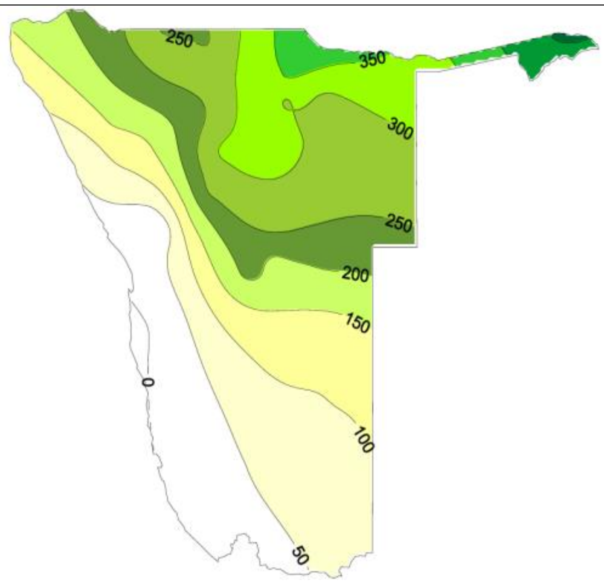
DECEMBER-JANUARY-FEBRUARY (DJF)

OUTLOOK



Probability of Rainfall			
Zone	Above Average	Average	Below Average
I	40%	35%	25%
II	40%	35%	25%
III	40%	35%	25%

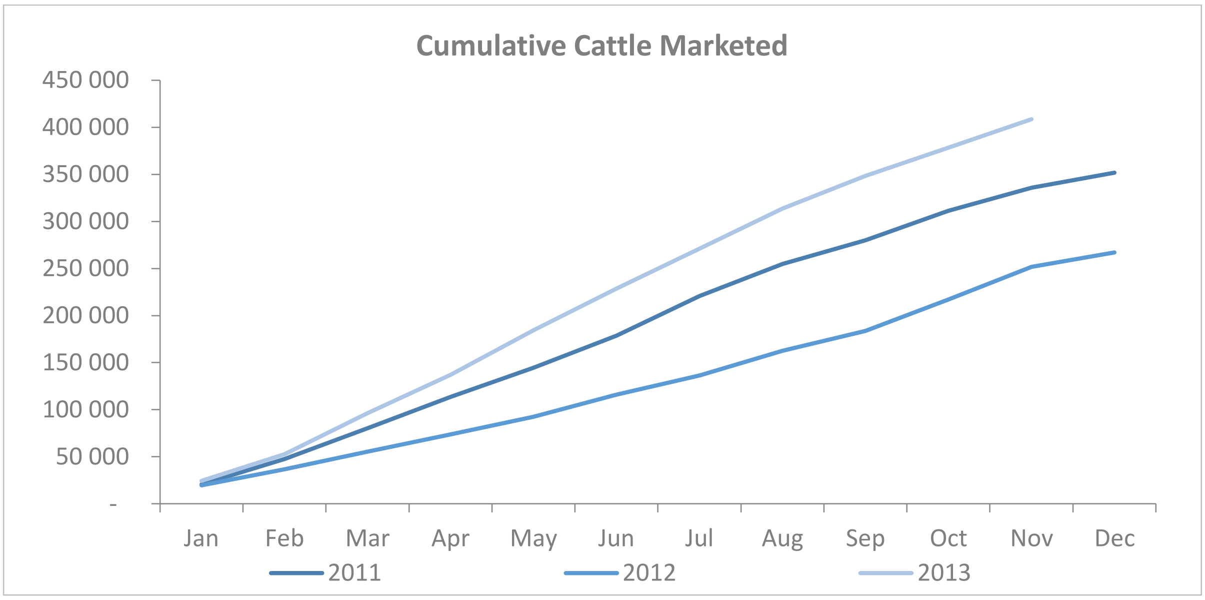
Normal



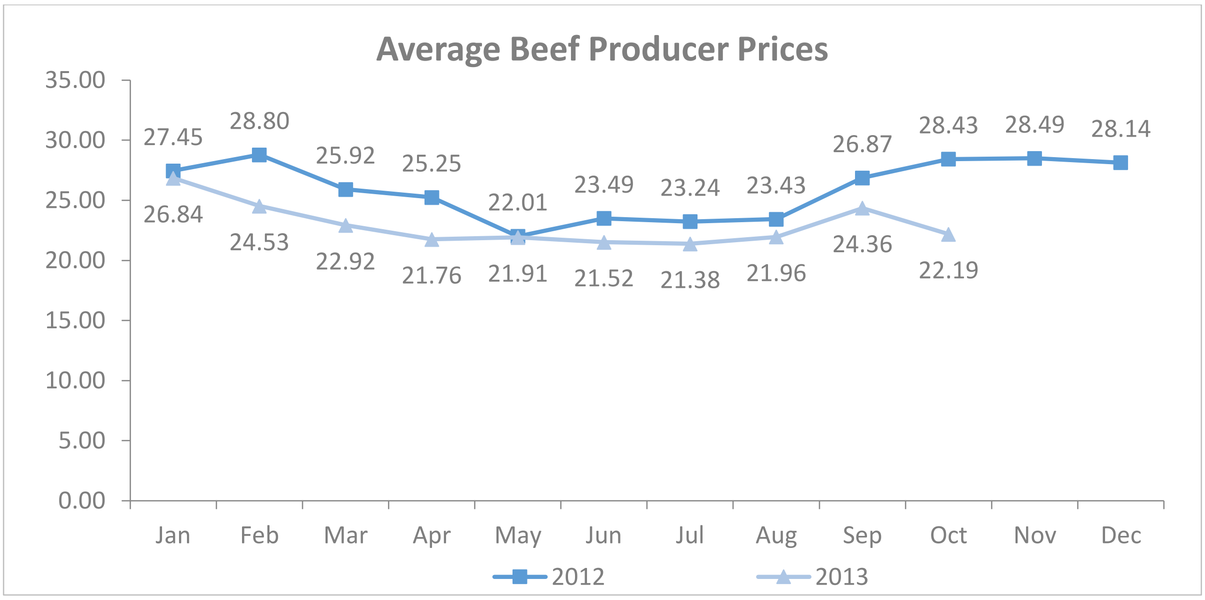
Source: Ministry of Works and Transport

Livestock

The poor veld conditions and high feeding costs as a result of the drought, resulted in farmers being forced to reduce livestock numbers through 2013, leading to live auction and producer prices falling.



Source: Meat Board of Namibia

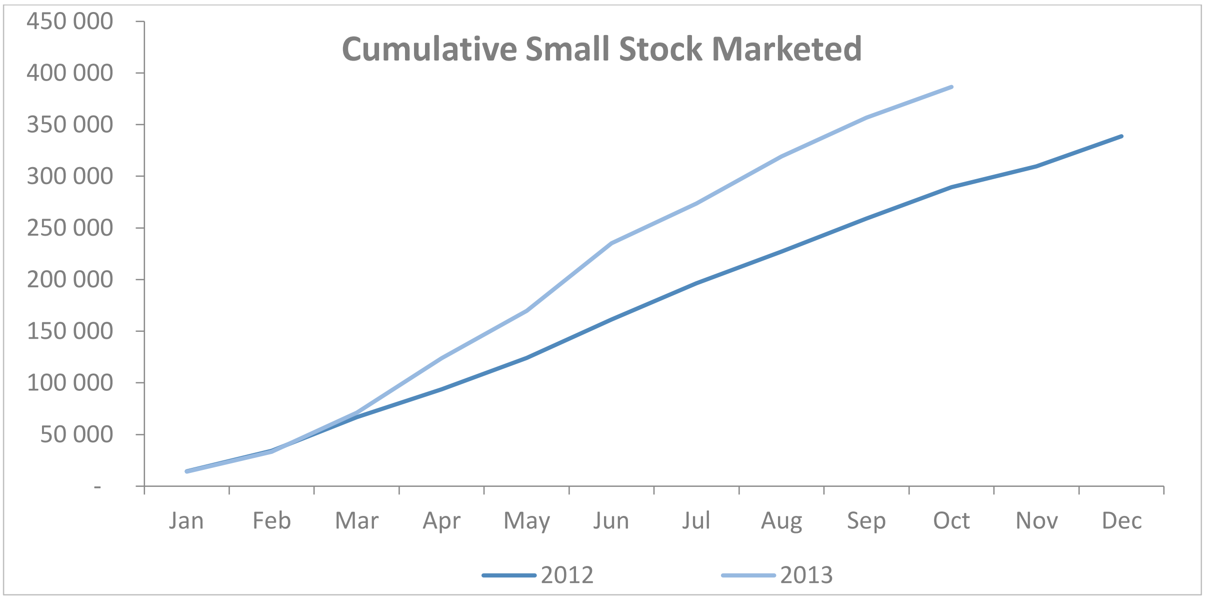


Source: Meat Board of Namibia

Almost 410,000 cattle were marketed from January to November 2013, this is 62.0 percent more than in same period for 2012. Live cattle exports increased more 100 percent from January to November, at which point, 259,943 cattle were exported to South Africa and Angola on the hoof. Additionally, Meatco slaughtered more than a 100,000 cattle during this period, while other local abattoirs and butcheries slaughtered 39,718 animals. This shows that 60 percent of all cattle marketed during 2013 were exported live, as opposed to processed domestically.

The consequences of the number of cattle that were exported will affect the entire industry for at least the next three years as it will take time for the national cattle herd to recover. Stores which would have been slaughter ready in 2014 were exported during 2013 to such an extent that there will be limited supply of animals for slaughter in 2014. Additionally, weaners exported last year would have been the stores for 2014, which would have been the slaughter oxen for 2015. This means that low numbers of slaughter stock will continue through 2015. The following year, 2016, will also be a challenge for the industry as a large number of cows that should have calved this year, have left the country on the hoof. This means that fewer calves will be born locally this year, causing a chain reaction on the supply of stock through to 2016.

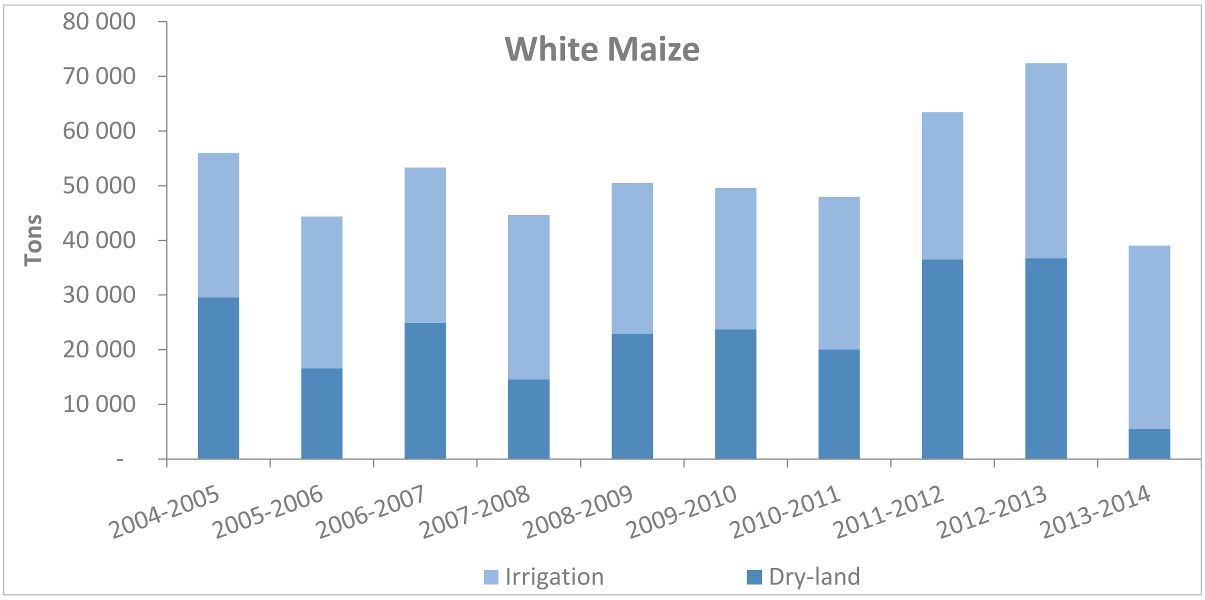
The number of goats and sheep exported live to South Africa and Angola also increased significantly through 2013. Export numbers rose 33.5 percent to 386,574 animals from January to October.



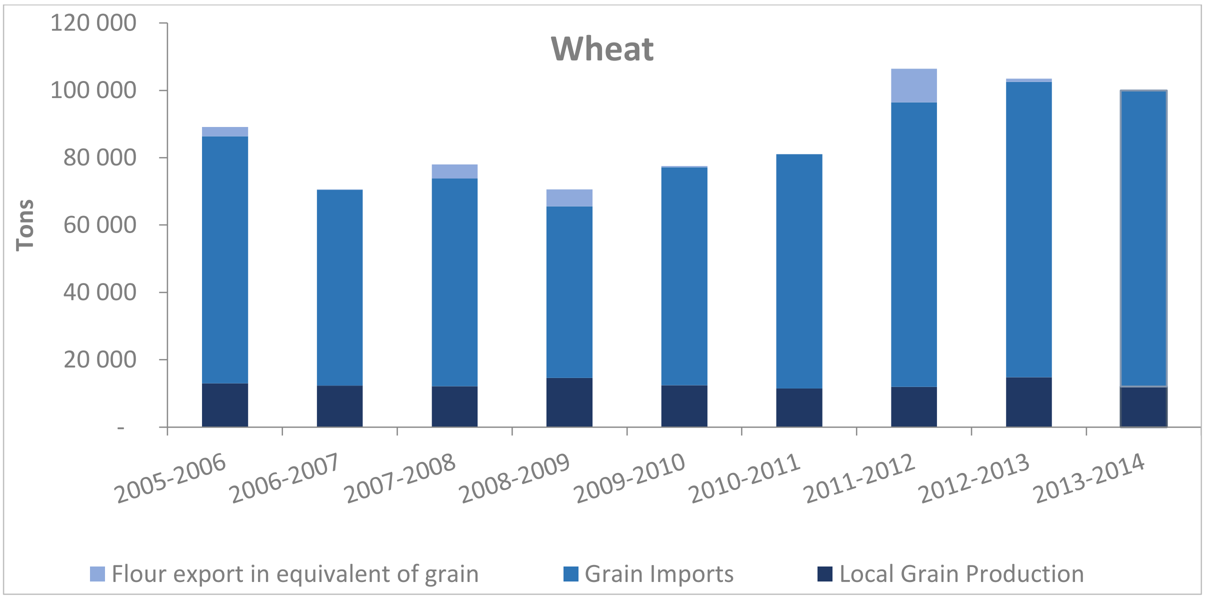
Source: Meat Board of Namibia

Crops & Forestry

According to the Agronomic Board, the reporting period witnessed one of the driest seasons due to below average rainfall experienced country-wide. These conditions led to extreme heat-waves which resulted in reduced local production of agronomic and horticultural produce.



Source: Agronomic Board of Namibia



Source: Agronomic Board of Namibia

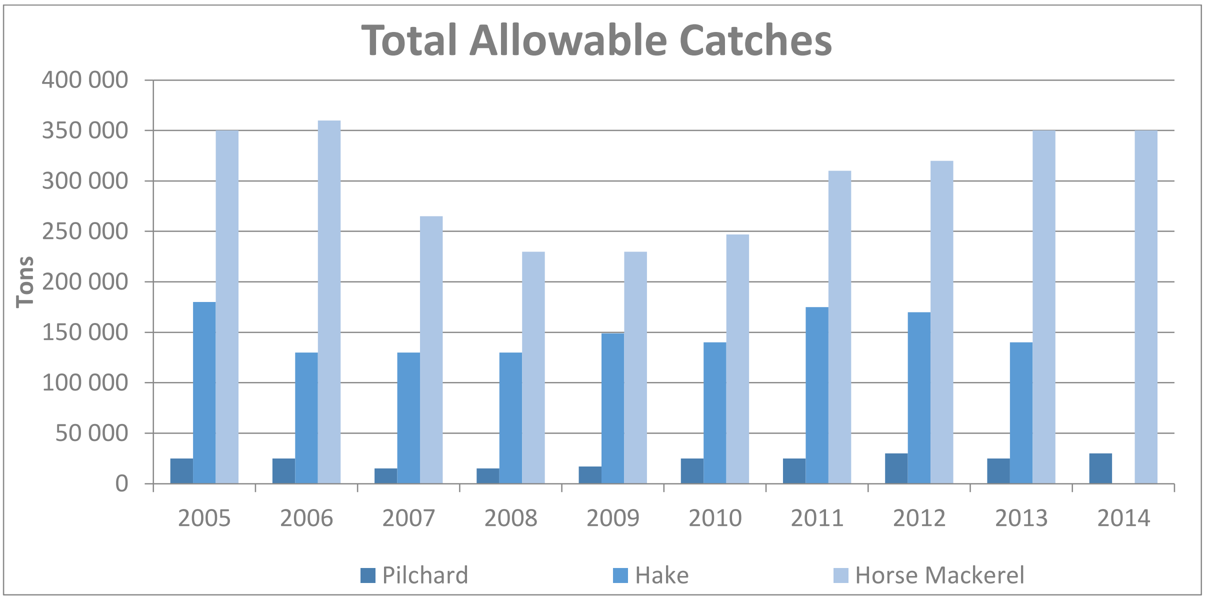
White maize is a staple grain in Namibia and is grown exclusively for human consumption. On average, dry-land harvests almost equal that grown under irrigation, and could exceed it during good rainfall seasons, as was the case in 2011 and 2012. However, due to the 2013 drought, almost 20,000 tons less wheat was harvested from dry-land than the average harvest of 25,000 tons over the previous nine years. On the other hand, the harvest of maize grown under irrigation was relatively in line with previous years. Wheat is only grown under irrigation during the winter months as Namibia is a summer rainfall country. Therefore, the harvest was not affected by the drought to the same extent as maize and mahangu. The locally produced wheat during 2013 is estimated to have declined marginally. Mahangu is also a staple food source in Namibia and according to the

Agronomic board of Namibia, it is estimated that 50 percent less Mahangu was harvested in 2013 than a normal year, on account of the drought. Horticulture experienced reduced local production as a result of the heat, especially potato produce, which is estimated to have fallen 3 percent last year.

Looking forward, a good year for crops is expected should the rain be favourable. The Horticulture outlook is positive, while good wheat and maize harvests are also expected during 2014. Nevertheless, the maize industry is facing a number of obstacles as insurance companies are hesitant to insure crops in Namibia following large losses experienced due to last year's drought.

Fishing and Fish Processing on Board

The Namibian fishing industry recorded real growth of 16.9 percent in 2012, with growth prospects remaining strong for the industry driven by the expected increases in Total Allowable Catches (TAC) for the 2013/2014 fishing season on the back of excellent state of the various fishing resources. International prices firmed for both horse mackerel and pilchards through the year, helping to cushion the impact of the higher oil prices, which is one of the significant costs affecting the fishing companies, while the weaker currency forecast is also beneficial to the dollar-denominated fish exports.



Source: Ministry of Fisheries and Marine Resources

The fishing sector's main products are canned pilchards, fish meal and oil, fresh and processed horse mackerel and hake. Since 1990, growth in the sector has been driven largely by growth in the production of fresh and processed hake. Due to an increase from 25,000 tons in 2013 to 30,000 tons in 2014 in the TAC, prospects for pilchard are positive. Local fishing companies noted that recent horse mackerel landings showed good results and the TAC for horse mackerel was kept at 350,000 tons by the Ministry. The TAC for hake is yet to be determined and will only be released in March when it is approved by the Ministry.

Although environmental conditions over the past couple of years appears to have been favourable for spawning, survival and growth of fish stocks, there appears to be some evidence suggesting that juvenile hake and pilchards are subject to high predation risks from seals. According to the 2011 seal-census done by The Ministry of Fisheries and Marine Resources, the seal population was at 1.2m and it is estimated that they eat 700,000 tons of fish each year, which is more than the country's Total Allowable Catches. Key external factors likely to influence the fishing industry are exchange rate volatility, elevated international oil prices and the state of the European economies and consumers.

Mining and Quarrying

The mining sector performed moderately well in 2013, with little substantial change in terms of production, from previous years. However, a number of significant developments took place in the sector, most notably vast investment, largely in the form of construction activities. For the first time in Namibia's history, the country saw the consecutive construction (on-going) of three new mines, while sizable reinvestment was seen from a number of existing mining and mining related companies. As such, the growth contributions of the mining sector to the local economy were predominantly seen in the construction space, rather than the mining space, an occurrence which is expected to continue into 2014. However, from 2015 onward, large growth in production output is expected as the new Husab mine starts production and Otjikoto gold mine starts to ramp up production.

An additional major development in 2013 was the discovery of oil off the Namibian coast. While not commercially viable in volumes, the discovery confirmed the presence of the hydrocarbon for the first time, and thus may prove game-changing in nature as exploration continues for exploitable resources.

Diamond mining:

In 2013, diamond production grew, albeit marginally, as a result of increased output from both the land and sea operations of Namdeb. However, Namdeb is now operating at full capacity, and thus output is not expected to change much over the coming two to three years. Prices for diamonds, polished and rough, remain reasonable, and exchange rate depreciation through 2012 and 2013 helped to bolster the revenue received for diamond sales in Namibia Dollar terms.

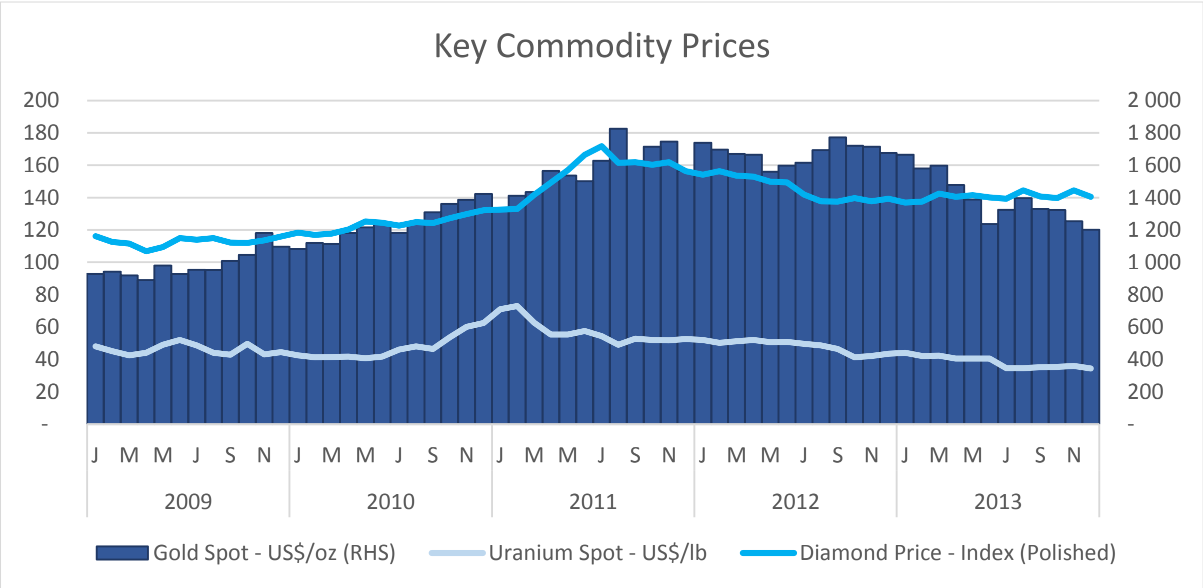
Going forward, diamond mining output is expected to hover around the 1.7 million carat mark for 2014 and 2015, in line with the output levels of 2013. In the longer term, Namdeb is looking to expand the life of land based operations by opening new mines along the Orange River, while improving technology to mine the surf line of the land based operations. Additionally, efforts are underway to increase production capacity from maritime activities through increased sampling capacity of the maritime resource. Finally, prices are expected to remain favourable as the US economy recovers, and on the back of ever increasing demand for diamonds from China and India.

Other mining:

Production output from the two operating uranium mines was slightly down in 2013 when compared to 2012, however was not attributed to any major setback in operations, despite complications at Rossing towards the end of the year. At the same time, uranium prices remain at the lowest levels seen in a number of years, despite expectations of a price recovery through 2014 and beyond. Nevertheless, uranium output is expected to rebound slightly in 2014, posting real growth of around 2.5 percent in 2014.

On the gold front, output remained largely unchanged in 2013, however is expected to increase in 2014 as a result of the new Otjikoto mine coming on-stream. Nevertheless, the output from the Otjikoto mine will be relatively low in 2014, and full production of 4000kg per year won't be achieved until 2015.

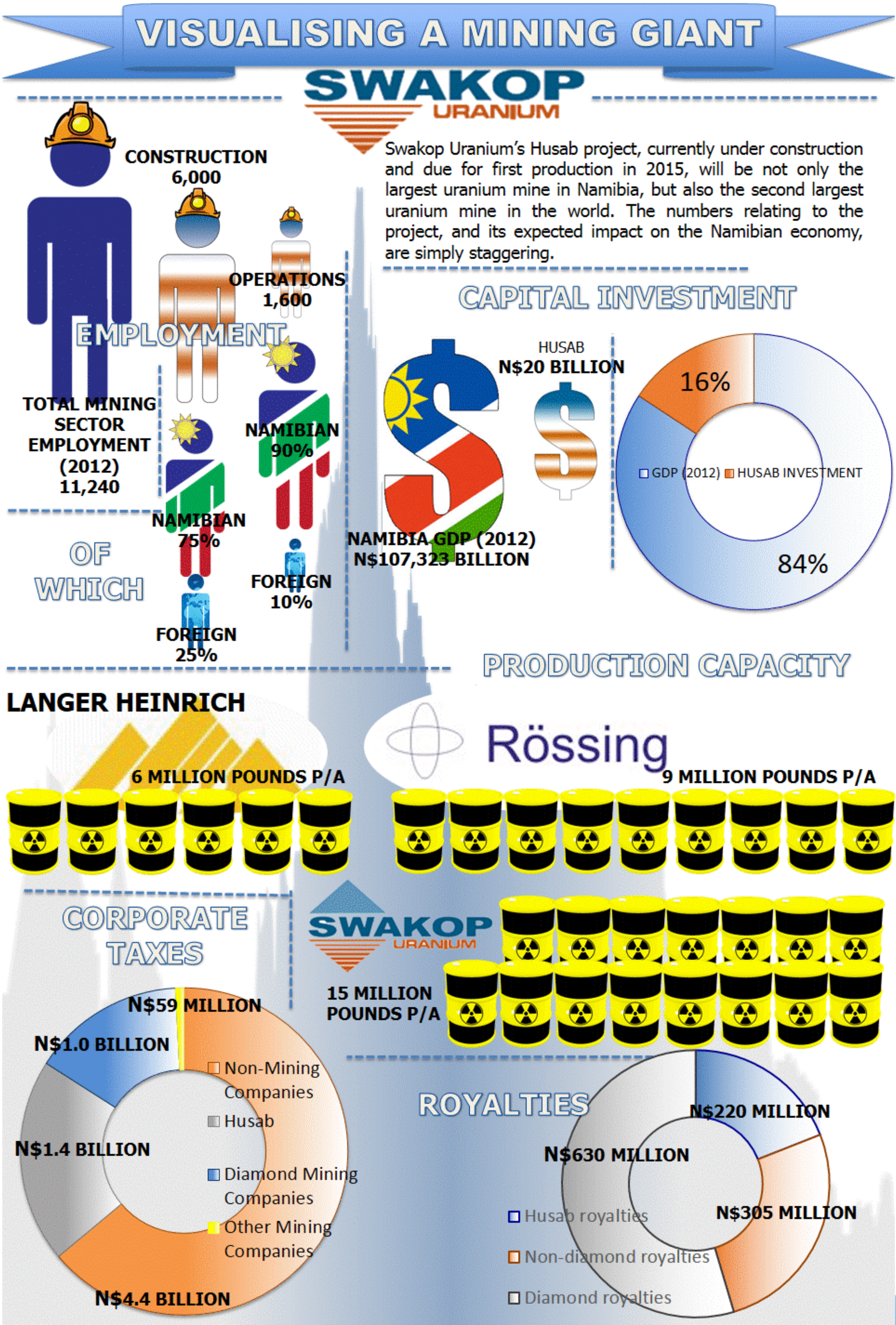
On the copper front, output is expected to increase in 2014 as a result of the reopening of the Old Matchless mine (not to be confused with Matchless mine), while further expansion is expected in 2015 as the new Tschudi mine goes into production for the first time. When at full production, the Tschudi mine will produce 17,000 tonnes of copper cathode per year, a first for Namibia in terms of the production of a fully refined copper product.



Source: Bloomberg

Broadly speaking, the future for Namibia's mining sector is extremely bright as the three mines under construction come on-stream over the next 24 months, however for many this is but the tip of the iceberg. With a number of known and tested resources across the country, as well as the new issuance of prospecting and mining licences, it appears that more of the same is to come. This includes, but is not limited to: Otjosondu Manganese Mine (licenced), Zhonghe (uranium) Resources (licenced), Reptile Uranium (licenced), Valencia Uranium (licenced), Trekkopje Uranium (licenced), Etango Uranium (licenced), the Dordabis Iron Ore Project (licenced), Omitiomire Copper Mine and Okanjande Graphite, to mention but a few.

Box 1: Visualising a Mining Giant



Manufacturing

The manufacturing industry performance in 2013 was fairly mixed, with certain sectors, most notably cement production, performing well, while the manufacturing of minerals saw slight declines in value addition. Additionally, the manufacturing of meat products, which started off well in early 2013 due to abnormally high livestock sales on account of the drought, lost momentum towards the end of the year as sales dwindled. Finally, food and beverage production was largely unchanged as a whole through 2013.

Looking forward, manufacturing growth will once again be mixed in 2014, with a contraction in output expected in the meat processing sub-sector as a result of expected restocking of cattle on farm land across the country following the end of the drought. Cement manufacturing is expected to continue to grow, but due to base effects, at a lower rate than was the case in 2013. Food manufacturing is also expected to see reasonable growth in 2014 as a result of the opening of the new SAB Miller brewery in Okahandja in mid-2014. In 2015 and beyond, mineral manufacturing is expected to expand considerably as a result of the completion of the Tschudi mine, and thus the manufacturing of copper cathodes, a first for Namibia.

Electricity and water

Electricity:

The drought experienced in 2013 saw electricity generation being negatively affected as the water level of the Kunene River fell to the lowest level in two decades, affecting production at the Ruacana hydro station. The drop in domestic energy generation saw an increase in imports from the Southern African Power Pool (SAPP), specifically from Eskom in South Africa, further amplifying the negative effect from an economic perspective.

With the 2013/14 rainy season looking considerably better and the Kunene's water level rising, the prospects for electricity generation seems significantly better, with a return to normal levels off a low base likely to contribute positively to the Namibian economy. Also of note is the generally warm 2013 winter which resulted in a lower peak demand than what was originally anticipated and resulted in slower growth in peak demand.

With game-changer projects like the Husab Uranium Mine (50MW for the 1ste two years and 100MW thereafter) and The Otjikoto Gold Mine (25MW, although B2Gold will construct its own generators) being constructed, Namibia's peak demand is set for a number of step loads to come through over the medium term. As a result, Namibia's power deficit is set to increase and in light declining surpluses in the SAPP, NamPower is continuously under more pressure to invest in new generation projects.

As of late the Kudu Gas Project has received considerable focus with press reports suggesting that negotiations regarding off-take agreements are progressing, with a final yea-or-nay expected by mid-2014.

Water:

Growth in demand for water is likely to be centred on the Husab mine over the short to medium term, with mine already using water in the construction phase with significant step loads budgeted for once production commences. NamWater factors in a significant step load for the pre-production phase at the Husab Mine at around May 2015.

A constant supply of water, however remains a challenge in the Erongo region where potential water extraction from the aquifers has decreased significantly (around 50%). The mines in the region are currently buying water from the Areva desalination plant via NamWater, however it is reported that the desalinated water is relatively expensive compared to historical norms. NamWater capital projects at the coast mostly entail maintaining the existing infrastructure and pipeline network.

In the Khomas region growth prospects for the water sector seem promising with the recent upgrade of the Von Bach Dam pump capacity almost doubling, the result of which is that the water flow to Windhoek can be more effectively managed. This has however came at a cost with the cost of water in Windhoek increasing about 25 percent over the past year. Nevertheless, demand in Windhoek remains strong, based on the rate of urbanization and Namibia Poultry Industries which are being fed of the same line.

The drought of 2013 created a concern in terms of water supply, with the Von Bach dam, Omatako dam and the Swakoppoort dam not receiving any inflow for the first time in their existences during the 2012/13 rain season. Although there has been rain reported for the 2013/14 season, it has not been sufficient to translate into meaningful inflows for these dams. According to NamWater, two rainy seasons with severely low inflow into these dams will be qualified as a state of emergency. As it stands the dams have enough water to last until August 2015 should there be no inflows.

NamWater has recently undergone a significant asset revaluation on its balance sheet, and as a result depreciation is forecasted to be higher which will increase pressure to hike tariffs as it constitutes a significant portion of the water tariff. It is also expected that the revaluation will rollover into higher capital expenditure over the medium term.

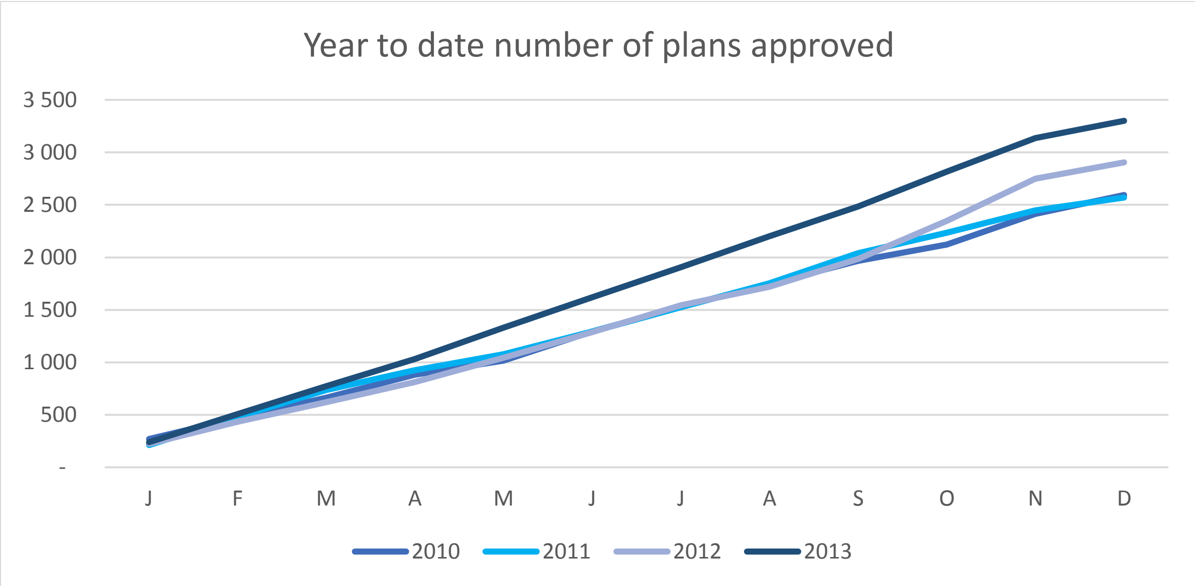
Construction

The momentum witnessed in the construction sector over the past three year is set to continue for the foreseeable future, according to leading construction firms in Namibia, with a strong pipeline of projects lined-up. Both the private and public sectors continue to contribute to the pipeline of projects. There are however a particularly strong reference to the private sector. The mining sector will be a significant contributor in 2014, with the construction of the Husab Uranium Mine, the Tschudi Copper Mine and the Otjikoto Gold Mine.

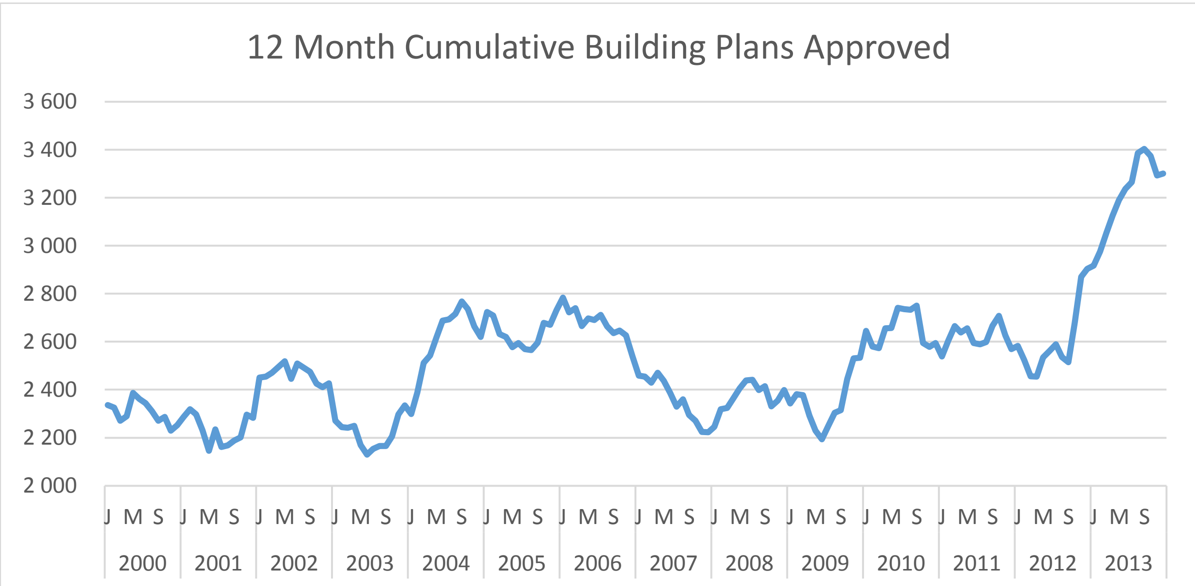
An interesting observation is that current order book levels are running at full capacity of local construction firms. 100 percent capacity utilization is also a theme when analyzing the City of Windhoek building statistics with the year to date number of plans approved straight-lining as opposed to showing normal seasonal trends.

A total of 3,300 plans valued at N$2.2bn were approved by the City of Windhoek in 2013. In terms of the numbers, 2013 saw a 13.6 percent increase compared to 2012, however from a value perspective 2013 witnessed a 3.8 percent decline after more than N$2.3bn worth of plans were approved in 2012. The reason for the decline is as a result of a number of significant projects (example the Grove Mall) given the go-ahead in the base period.

The 12m cumulative number of plans approved has started to decline with the y/y growth rate starting to moderate from the levels seen in September 2013, when it was 35.3 percent higher than a year ago.



Source: City of Windhoek



Source: City of Windhoek

Government Construction:

According to the Government's latest Development Budget, the Government has approximately 550 projects planned over the MTEF, valued at N$17.9bn. N$5.9bn is set for the current fiscal year, ending March 2014, with N$6.3bn and N$5.7bn earmarked for the 2014/15 and 2015/16 fiscal years. Thus growth for the year ahead is set to slowdown to 6.3 percent after the previous year's 24.2 percent spike.

The sectors benefitting the most from the Government's Development Budget over the MTEF is Transport at N$3.5bn (19.6 percent), Agriculture, Water & Forestry at N$3.2bn (17.9 percent), Health and Social Service at N$2.0bn (11.2 percent) and Education at N$2.0bn as well.

Development Budget – Construction per vote

VOTE NAME	Execution Rates	2012/13	2013/14	2014/15	2015/16	Total
President	91%	-	-	-	-	-
Prime Minister	67%	-	54,447	72,000	19,988	146,435
National Assembly	77%	-	500	-	-	500
Auditor General	100%	-	16,921	-	-	16,921
Home Affairs and Immigration	90%	46,627	54,500	37,139	18,165	109,804
Police	100%	212,661	394,101	488,282	386,383	1,268,766
Foreign Affairs	80%	-	-	-	-	-
Defence	97%	200,000	202,495	207,000	202,525	612,020
Finance	58%	76,523	80,000	29,251	34,736	143,987
Education	94%	321,566	639,090	697,601	657,432	1,994,123
National Council	3%	200	-	10,000	11,810	21,810
Gender Equality and Child Welfare	77%	30,312	30,984	31,050	12,545	74,579
Health and Social Services	85%	488,926	695,600	694,400	560,341	1,950,341
Labour and Social Welfare	61%	-	20,713	31,700	30,410	82,823
Mines and Energy	92%	3,550	7,800	9,000	22,750	39,550
Justice	93%	45,707	56,700	75,000	128,375	260,075
Regional and Local Government, Hou	97%	403,872	661,264	566,278	716,965	1,944,507
Environments and Tourism	92%	139,924	145,000	107,000	68,500	320,500
Trade and Industry	99%	392,915	315,378	380,058	384,685	1,080,121
Agriculture, Water and Forestry	91%	790,623	1,118,582	1,244,106	833,365	3,196,053
Namibia Correctional Services	92%	83,897	118,000	160,000	150,602	428,602
Fisheries and Marine Resources	65%	47,000	42,000	52,500	29,250	123,750
Works	77%	2,000	26,486	27,160	16,243	69,889
Transport	91%	1,361,118	1,087,058	1,230,625	1,206,253	3,523,936
Lands and Resettlement	92%	29,900	25,050	9,500	12,013	46,563
National Planning Commission	90%	-	-	-	-	-
Youth, National Services sport and cu	62%	54,283	81,000	79,000	91,671	251,671
Electoral Commission of Namibia	87%	500	5,000	5,500	14,560	25,060
Information and Communication Tec	95%	14,000	34,000	50,000	22,821	106,821
Ant-Corruption Commission	26%	22,201	12,000	2,000	-	14,000
Veterans Affairs	71%	5,907	5,800	9,000	22,633	37,433
Total		4,774,212	5,930,469	6,305,150	5,655,021	17,890,640
			24.2%	6.3%	-10.3%	

Source: Ministry of Finance

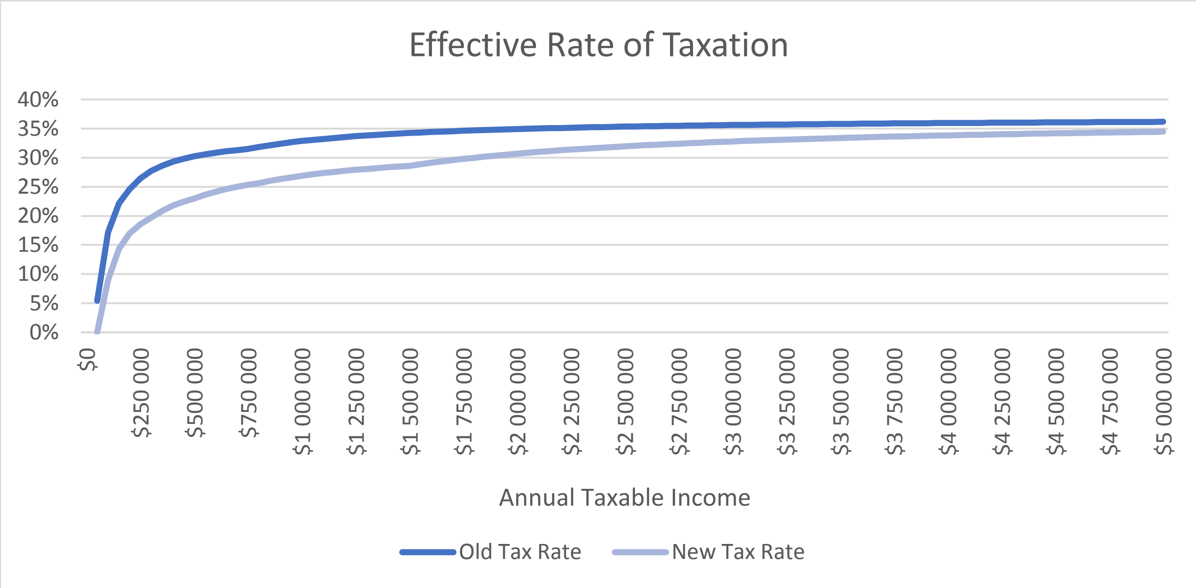
Development Budget – Government Projects larger than N$40m

PROJECTS	2012/2013	2013/2014	2014/2015	2015/2016
Construction of large dams, desalination and provision of water to larger settlements	260,010	708,346	531,324	162,500
TR 14/2 Gobabis Otjinene road upgrading to Bitumen	3,800	78,030	221,888	113,750
green scheme	215,932	166,469	217,357	130,000
Rural water supply coverage, pipeline construction	100,025	66,874	143,215	97,500
Omakange-Ruacana upgrading to Bitumen Standard	-	90,000	140,000	105,000
Liselo-Linyanta-kongola Road upgrading	184,000	18,486	130,000	102,693
Upgrading of Gobabis-Aminius-Aranos	-	7,500	90,695	180,431
Nationwide Primary Health Care Clinic Construction/Upgrading	65,000	91,800	89,500	80,900
Construction of Teachers houses-Primary	10,000	86,045	84,200	92,950
Construction of Police Accomodation	56,615	99,979	80,456	52,170
Consruction of head office for civil aviation	42,000	87,832	80,098	8,147
Upgrading of civil aviation	42,000	87,832	80,098	8,147
Upgarding and rehabilitation of Aus-Luderits railway line	75,350	165,000	78,000	51,188
Informal Settlement Upgrading & Low Income Township Development	100,000	109,936	77,890	-
Police Stations Upgrading	50,308	79,942	74,479	51,463
Northern railway line extension	35,000	10,000	72,000	63,700
Oshakati Intermediate Hospital Extension	61,000	65,000	70,000	45,045
Nationwide Primary Health Care Centre Construction/Upgrading	70,000	83,000	70,000	105,874
Construction of the 2nd Office of the PM		4,643	68,022	19,500
Construction of MAFW regional offfices	104,500	17,505	65,474	48,750
Construction of veterinary clinics	25,612	42,515	62,040	58,500
Maintanace of roads: flood damaged infrastructure	30,000	-	55,055	
Windhoek Central Hospital Renovation (Phase 6)	40,000	30,000	54,000	58,500
Development of animal and plant health inspection centres at border entry points	8,000	5,644	51,305	45,500
Katutura Hospital Renovation (Phase 7&8)	40,000	49,000	50,000	40,950
Construction of MICT Office Complex in the region	-	34,000	50,000	22,821
Construction of Additional Offices wihtin the National Police Headquarters	5,142	25,000	40,000	29,250
Fencing of conservation areas	35,000	40,000	40,000	40,000

Source: Ministry of Finance

Wholesale and retail trade

Wholesale and retail trade saw marked increases through 2013 due to expansionary fiscal policy and the resultant income tax cuts experienced in 2013. Additionally, on-going accommodative monetary policy continues to incentivise the use of credit for the purchase of consumer goods, also adding to the continued growth in wholesale and retail trade. Further, an ever growing middle class with ever-greater access to banking services and credit too has been seen to increase consumer demand, which when coupled with increases in "retail tourism", particularly from Angola, have culminated to show strong growth in the sector through the year. A similar trend is expected through 2014, as expansionary monetary and fiscal policies are expected to persist through the majority of the year. Additionally, a weak Namibia Dollar against the US dollar is expected to incentivise increased numbers of "retail tourists" from the region.



Source: IJG Research

Tourism

The tourism sector performed relatively poorly in the first half of 2013, however saw marked improvement towards the end of the year. This improvement was largely on account of last minute bookings from local, regional and international clients.

The primary reason for the recovery in booking numbers in the latter part of 2013 was the on-going depreciation of the Rand vis-à-vis the Euro, Pound and US dollar. This depreciation effectively reduced the hard-currency cost for tourists visiting Namibia, while increasing the cost of holidays for Namibians looking to go abroad, resulting in a substitution effect away from such international travel in favour of domestic holidays.

Current booking information for 2014 and 2015, coupled with the in-house exchange rate view as well as the gradual, albeit lethargic, recovery in the Euro Area and global economy as a whole, suggest that the tourism sector in Namibia should see steady recovery and growth in 2014 and 2015, and should the Rand remain weak, particularly against the Euro, thereafter. Additionally, the local tourism industry is expected to continue to see strong demand for services from regional tourists, particularly “retail tourism” from Angola.

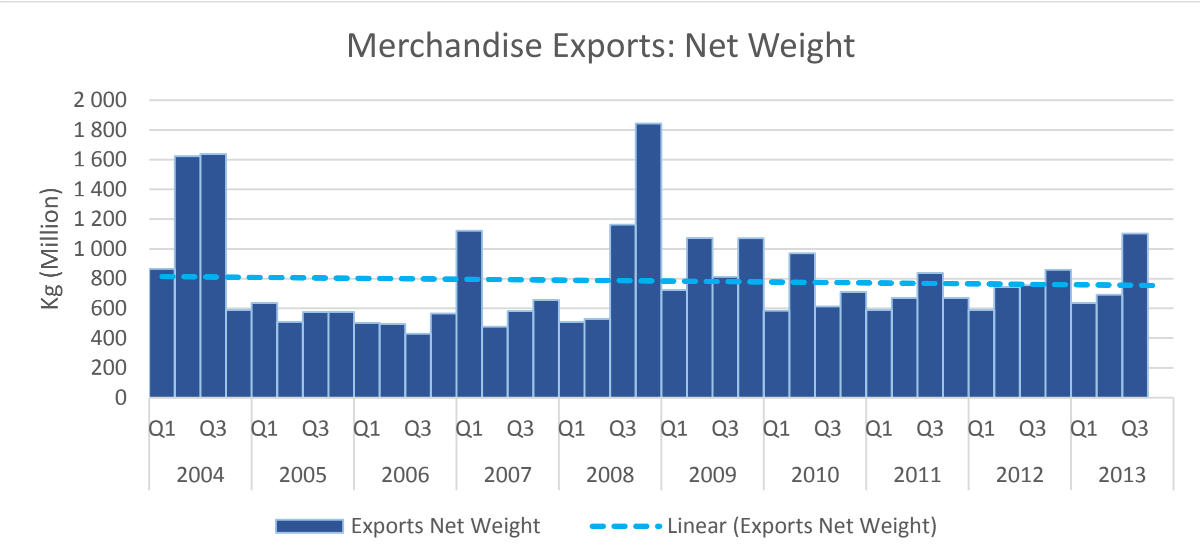
Moreover, a growing middle class coupled with wealth effects in Namibia as a result of expansionary fiscal and monetary policy, has resulted in increased domestic demand for leisure activities (as can be seen in the reweighted Namibia Consumer Price Index, with the Recreation And Culture component increasing from 2.5 to 3.6 percent). As such, an increasing trend in local tourists has been seen in the industry, particularly over the last three to five years, helping to support and grow the sector principally through the low season.

Thus, for 2014 we are expecting to see real growth of approximately 3.5 percent, based on forward booking numbers for the year.

Trade and balance of payment

2014 looks set to be a challenging year for Namibia's balance of payments, particularly from the point of view of the current account balance due to expected sizable merchandise trade deficit. The reasons for these imbalances are manifold, however have coalesced at a single point in time to form a "perfect storm" for the country's balance of payments.

Over the past 30 months the Namibia Dollar (Rand) has depreciated by over 60 percent against the US Dollar (and similar against other major currencies), which has significantly increased the costs of imports, without reducing the volume of such, particularly in the short term. On the other hand, export receipts will have increased for goods sold in hard currencies (the majority of Namibia's exports), however the volume of exports has not increased substantially. This is as a result of a number of factors. Firstly, for minerals, production volumes are largely fixed in the short term, based on supply constraints and forward contracts. Additionally, many major mineral producers in Namibia are operating at full capacity already, and thus cannot increase output to take advantage of the exchange rate changes. Secondly, livestock/meat exports increased in 2013 due to the drought that was experienced in the year, however going forward, a restocking/rebuilding of inventories is expected, and thus these exports are expected to contract in 2014. Thirdly, fish exports are limited by the total allowable catches, which in turn are determined by the available resource, and thus cannot increase to take advantage of currency depreciation. Thus, of Namibia's major (merchandise) exports (and excluding goods imported for re-export), it is only manufactured goods, particularly beer, that can truly make the most of the currency depreciation in the short term.

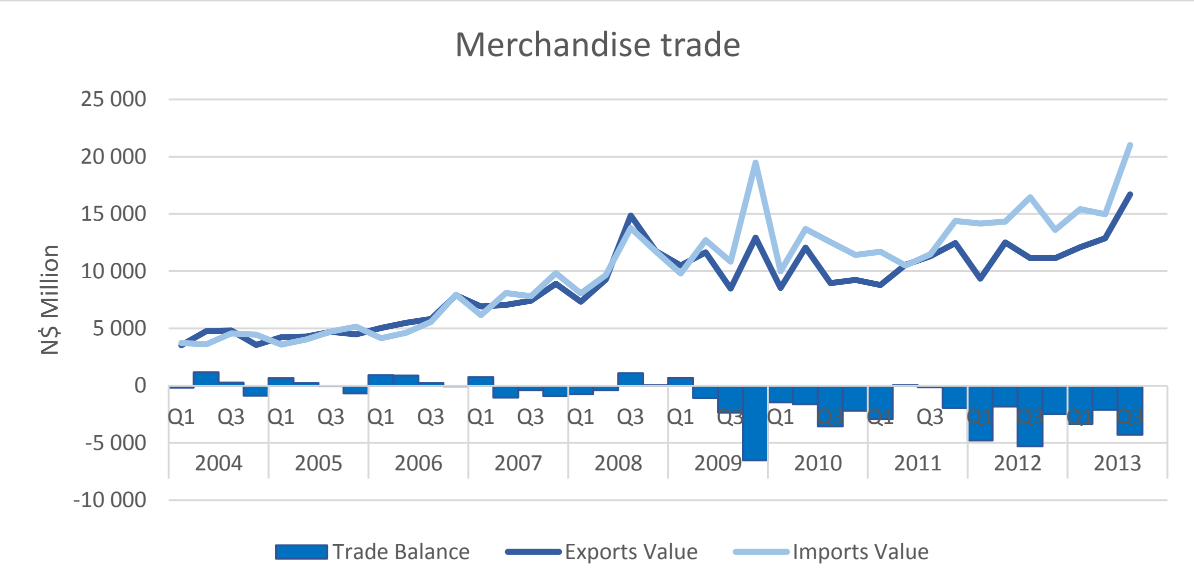


Source: Bank of Namibia

Additionally, commodity price weaknesses, particularly for minerals such as gold, uranium and copper, will further reduce export earnings, thus further increasing the current account deficit. This will be particularly apparent when current supply and price contracts are renegotiated, and will partially offset revenue gains that would have been realised as a result of currency depreciation.

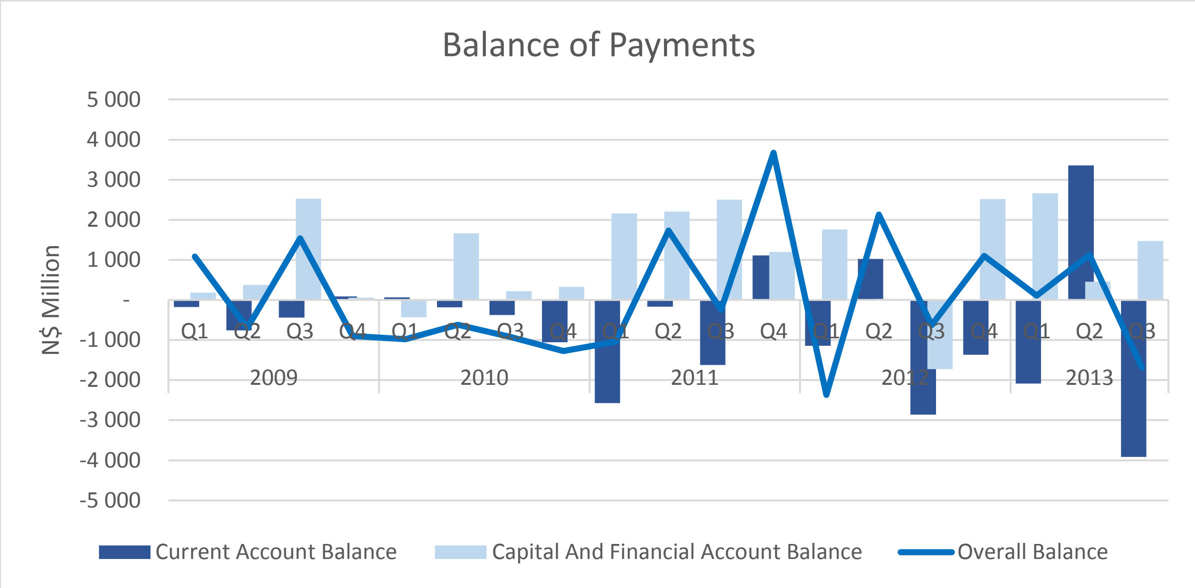
On the other side of the coin, imports are expected to increase dramatically through 2014 as a result of large construction projects in the mining space particularly. Included amongst these is the construction of the Husab uranium mine, the second largest uranium mine in the world. The size and scale of this mine is such that the merchandise import requirement will be simply staggering, and with a total capital investment of approximately N$20 billion, the effect on the capital account will be highly visible. However, these imports should be funded through FDI, and thus a counter-entry for merchandise imports should appear on the capital account.

An additional factor driving imports is the on-going monetary and fiscal stimulus pursued by the Bank or Namibia and Government of Namibia. From the point of view of the individual, these stimuli put money back into the pockets of the middle class, particularly, effectively increasing demand for merchandise imports such as vehicles and electronics (as well as petrol and diesel), as the marginal propensity to save in Namibia is relatively low. On the other hand, large public works programmes tend to have a large import component, not only resulting in large leakages from the economy, but also having a dramatic impact on the balance of payments. As such, the capital account is expected to be highly negative through 2014 and into 2015.



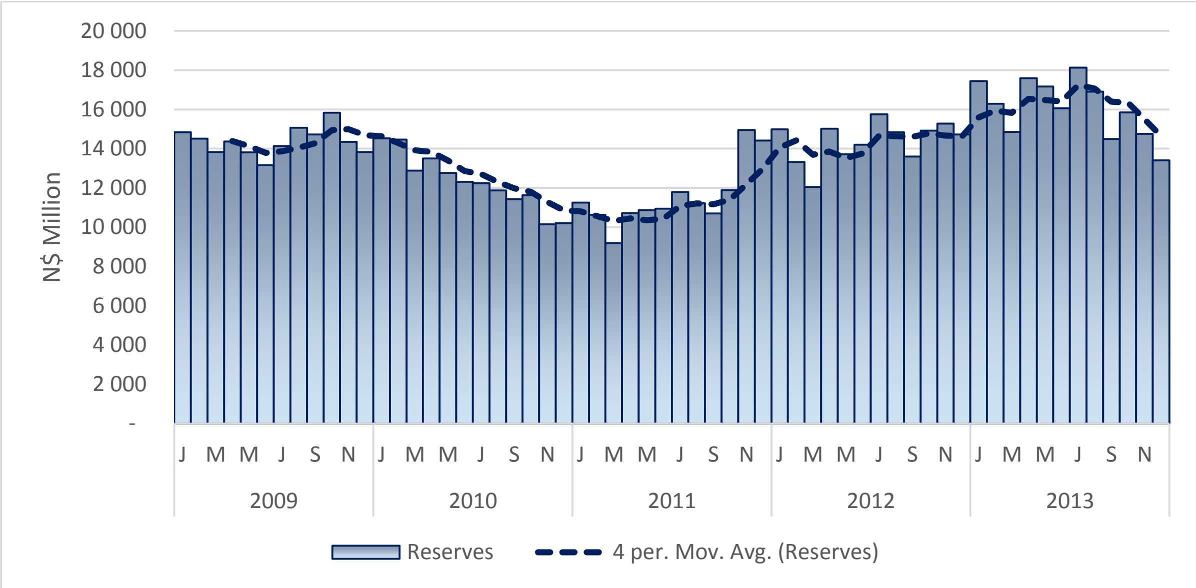
Source: Bank of Namibia

From the point of view of the capital and financial account (CFA), 2014 should see a strong positive balance, as strong foreign direct investment (FDI) is expected to more than offset the net outflow of portfolio and other short and long term investments to the Common Monetary Area (CMA). Additionally, the expectation of increased foreign debt issuance will further support the CFA, as will on going SACU receipts.



Source: Bank of Namibia

Despite a positive CFA, the expectation remains that the CA balance will be heavily in the red in 2014. Thus, the overall balance of payments will remain in the negative for the year, putting substantial pressure on the country's reserve position, and on BON to increase interest rates, or take additional measures to curb imports, or the outflow of capital. While many options exist for the Bank, it is believed that the following methods are most likely to be pursued: firstly, continue to issue the BON Bill offering shorter duration (than the current 56 day) and better interest rates so as to encourage financial institutions to invest funds in Namibia rather than the CMA; secondly, work with the Ministry of Trade and Industry to amend the Credit Agreement Act and Usury Act so as to discourage the uptake of instalment sales credit (through shorter repayment periods and/or larger deposits); and thirdly, work with the Ministry of Finance to increase debt issuance, both domestically and internationally (JSE Bond) so as to bolster reserves. Finally, should all of the above fail, the Bank could be expected to start an interest rate hiking cycle towards the end of 2014.



Source: Bank of Namibia

Appendix

Real Growth (N$ Million)			Preliminary	Estimate	Projection
Industry	**2 010**	**2 011**	**2 012**	**2 013**	**2 014**
Agriculture and forestry	2 048	2 366	2 645	2 356	2 674
Livestock farming	779	982	1 190	1 046	1 286
Crop farming and forestry	1 269	1 384	1 455	1 310	1 388
Fishing and fish processing on board	1 069	1 159	1 355	1 409	1 466
Mining and quarrying	3 533	3 253	3 643	3 692	3 731
Diamond mining	2 564	2 499	2 723	2 813	2 813
Other mining and quarrying	968	754	920	879	918
Primary industries	**6 650**	**6 778**	**7 643**	**7 457**	**7 870**
Manufacturing	7 427	7 519	7 610	7 697	7 997
Meat processing	171	160	165	174	167
Fish processing on shore	826	962	701	666	645
Other food products and beverages	2 809	2 658	2 830	2 895	3 057
Other manufacturing	3 621	3 739	3 915	3 962	4 128
Electricity and water	1 251	1 311	1 387	1 433	1 550
Construction	1 737	2 072	2 331	2 742	3 379
Secondary industries	**10 416**	**10 902**	**11 328**	**11 872**	**12 927**
Wholesale and retail trade, repairs	6 754	6 977	7 821	8 368	8 904
Hotels and restaurants	947	974	962	967	996
Transport, and communication	3 502	3 674	3 827	3 971	4 108
Transport and storage	1 682	1 791	1 854	1 910	2 005
Post and telecommunications	1 820	1 883	1 973	2 062	2 103
Financial intermediation	2 943	3 067	3 269	3 445	3 617
Real estate and business services	5 254	5 482	5 835	6 078	6 384
Real estate activities	3 907	3 985	4 255	4 427	4 616
Other business services	1 347	1 497	1 579	1 651	1 768
Community, social and personal service activities	1 714	1 736	1 685	1 719	1 748
Public administration and defence	5 331	5 510	5 852	6 210	6 328
Education	3 907	4 454	4 562	4 744	4 934
Health	1 820	1 888	2 111	2 175	2 196
Private household with employed persons	415	426	440	452	463
Tertiary industries	**32 587**	**34 188**	**36 362**	**38 129**	**39 679**
Less: FISIM	724	766	845	932	1 028
All industries at basic prices	**48 929**	**51 102**	**54 488**	**56 526**	**59 448**
Taxes less subsidies on products	4 720	5 592	5 050	5 404	5 674
GDP at market prices	**53 649**	**56 694**	**59 538**	**61 929**	**65 121**

Source: Namibia Statistics Agency, IJG Research

Managing Director
Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Executive Director
James Hill
Tel: +264 (61) 383 500
james@ijg.net

Sales and Research
Romé Mostert
Tel: +264 (61) 383 520
rome@ijg.net

Rowland Brown
Tel: +264 (61) 383 513
rowland@ijg.net

Jan-Hendrik Conradie
Tel: +264 (61) 383 523
janhendrik@ijg.net

Financial Manager
Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

IJG Direct
Naïke Burger
Tel: +264 (61) 383 515
naike@ijg.net

Money Market & Administration
Leon Maloney
Tel:+264 (61) 383 521
leon@ijg.net

Tashiya Shekutamba
Tel:+264 (61) 383 511
tashiya@ijg.net

Equity & Fixed Income Dealing
Nigel Mubita
Tel: +264 (61) 383 514
nigel@ijg.net

Stuart Main
Tel: +264 (61) 383 512
stuart@ijg.net

Consulting
Hannelie Eksteen
Tel:+264 (61) 383 500
hannelie@ijg.net