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IPPR Economic Outlook February 2001

Waiting for Skorpion

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With most sectors showing little sign of growth this year, the economy awaits the coming on stream of the Skorpion zinc mine planned for the end of 2002 before it receives any major boost.

The task of economic forecasting is difficult enough in large and diversified economies with plenty of data. In Namibia's case, however, the greater uncertainties arising from it being a small, open economy, having an outsized government sector with few quantified macroeconomic objectives, and lacking reliable and timely economic statistics cannot be ignored. It is nevertheless still worth taking an informed view of the likely changes in output during the year ahead. However, under such circumstances the value of sophisticated modelling approaches must remain questionable. This view is based on a simple aggregation of sectoral output growth estimates with no quantified estimates being made for the income or expenditure sides of Gross Domestic Product (GDP).

In Namibia, provisional GDP statistics for the preceding year generally become available in time for the budget in March, with the first detailed estimates published in June, and the final National Accounts publication published some time towards the end of the year. The budget document has also started to include estimates of future GDP growth although these are not mentioned explicitly in the budget speech itself.

The IPPR makes an annual estimate of GDP growth at the beginning of the year, before the budget and before the provisional estimates for the preceding year are made public. The latest full set of national accounts estimates published in November 2000 put growth in 1999 at 3.8%. The additional budget in November 2000 stated that growth in 2000 was expected to be less than in 1999 but failed to quantify by how much. In February 2000 the IPPR estimated growth to be 4% for 1999 and 3% for 2000.

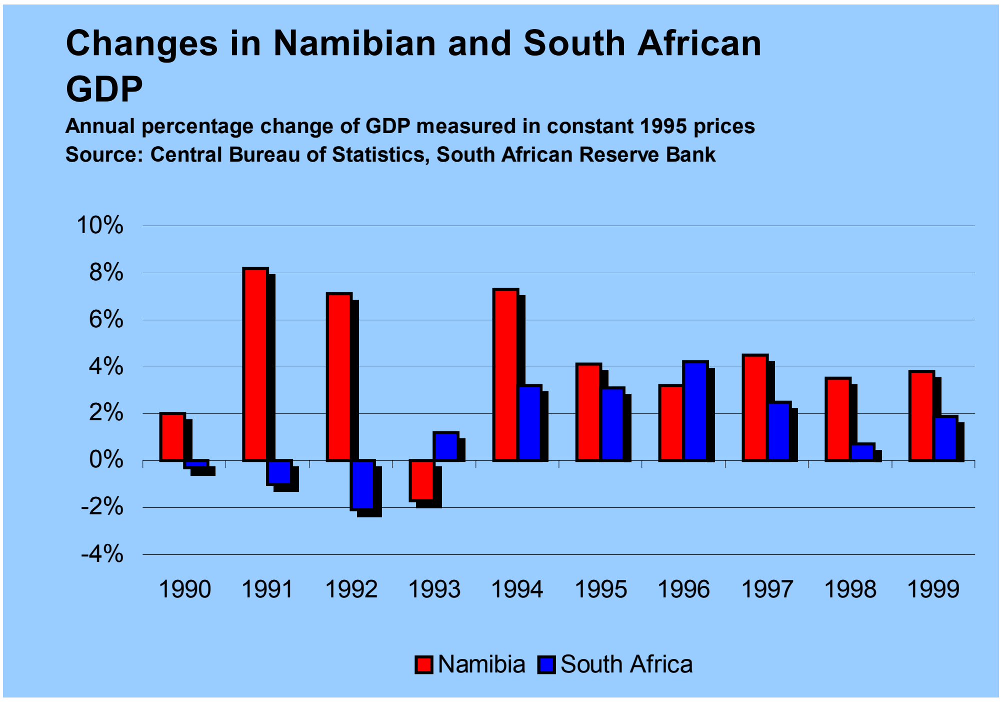
In his additional budget speech on 8 November 2000, Finance Minister Mbumba declined to offer an estimate of GDP growth during 2000 or 2001 but Annexure D to the Additional Budget Speech shows GDP to have been revised upwards for 2000/01 from N$21.4 billion to N$24.4 billion. This significant revision upwards has come about as a result of the revised GDP estimates made by the Central Bureau of Statistics as far back as 1993.

Developments in South Africa

Namibia's economy is closely linked to South Africa's through common membership of the Southern African Customs Union (SACU) and the Common Monetary Area (CMA). One consequence of the latter is that Namibia's interest rates and exchange rate reflect those of South Africa. In terms of output Namibia exports significant quantities of meat, fish, and beer to South

Africa while the country's tourist industry also benefits from large numbers of South African visitors.

However, many of the sectors that drive growth in Namibia also have important markets elsewhere. Furthermore, the small size and relatively undiversified nature of the economy mean that single events can exert an important influence on aggregate growth. Thus as can be seen from the chart, Namibian growth does not closely follow South African growth.



South African consensus of independent economic forecasts 2000-2001

	1999	*2000*	*2001*	*2002*	*2003*
GDP growth	1.2%	3.0%	3.5%	3.4%	3.0%
Core inflation (year end)	7.9%	6.1%	n/a	3-6%*	3-6%*
Prime interest rate (year end)	16.5%	15.5%	14%	13%	13%
Exchange rate R:US$ (year end)	R6.14	R6.46	R8.00	n/a	n/a

*SARB inflation target

Source: Business Day

The latest Reuter's poll of 20 forecasters in South Africa and London conducted in December 2000 estimated growth for South Africa at 3.5% in 2001 falling to 3.4% and 3.0% in the subsequent two years. This compares to South African Minister of Finance Trevor Manuel's own expectation of 3.5% for this year and the following two years presented in his recent budget speech.

Sectoral growth expectations in Namibia

Agriculture

Since Independence, the agricultural sector has been characterised by several important long-term trends: stagnation in the traditional commercial meat and crop sub-sectors; diversification into new products such as ostrich products, grapes, cotton, and milk products; and highly variable changes in communal livestock and crop production. Despite these changes, the sector remains dominated by beef and small stock. Forecasts are notoriously difficult for the agriculture sector since it is highly dependent on weather conditions. This said we expect livestock marketing to rise modestly over last year and see some growth in grapes and dates. This should be enough for the sector as a whole to register positive if unspectacular growth for the year.

Fishing

The year 2000 saw the final Total Allowable Catches (TACs) for hake, pilchard and orange roughy fall to 194,000 tonnes, 25,000 tonnes and 2,400 tonnes from 210,000 tonnes, 45,000 tonnes, and 6,000 tonnes respectively. Only the horse mackerel TAC was raised. For 2001 quotas for pilchard, horse mackerel, crab and rock lobster have already been set at 10,000 tonnes, 410,000 tonnes, 2100 tonnes, and 400 tonnes respectively. Quotas for hake and orange roughy will be set in April. Quotas can be revised during the course of the year depending on the evidence on stocks biomass.

While the hake TAC appears likely to rise over time to its long-term level of between 250,000 tonnes and 300,000 tonnes, uncertainty continues to plague the fragile pilchard industry and Namibia's relatively new deep-water fishery. There are signs that the fishing industry is starting to catch fish in international waters and process more fish caught by non-Namibian vessels, but it will take years before these initiatives start to make a significant impact on total output. Subdued conditions in the pelagic and deep water fisheries coincide with uncertainty created by the Ministry's latest initiative of unexpectedly using the allocation of long-term fishing rights as a means of coercing existing quota holders into forming joint ventures with selected joint venture partners who have little to offer in terms of enhanced profitability or risk taking. There seems no doubt that investor confidence has been seriously affected by this initiative and this is likely to have consequences for investment. We do not expect a hake TAC above 200,000 tonnes this year. Little real growth can therefore be expected to take place in fishing and fish processing this year.

Mining

Since Independence growth in the mining sector has come largely from growth in diamond mining. Namdeb remains the largest diamond producer and it look set to continue the trend of the past decade whereby offshore operations contribute an increasing proportion to overall output. Namco posted remarkable results during the past two years and, with its takeover of ODM, looked set to become Southern Africa's largest offshore diamond mining company. For the time being this growth appears to have come to an abrupt halt after its NamSSol system was involved in an accident giving rise to a severe cash flow problem. The company's future looks uncertain and trading in its shares has been suspended. Diamond Fields International and its proposed tie-up with TransHex should mean that diamond output continues to rise over time. However, given that operations are due to start only in November 2001, this year is unlikely to be a year of growth for the diamond industry.

There is little to suggest that Rössing uranium mine's steady decline will be reversed and the company expects a return to full production with reduced workforce only by 2002. Ongopolo appears to be making a reasonable go of restarting the old TCL mines at Tsumeb, Otjihase and Kombat. The futures of Rosh Pinah zinc mine and Okorusu fluorspar mine appear secure. After the tumble in the gold price in 1999, Navachab gold mine looks set to continue until at least 2003 and possibly 2005 although the planned extension significantly beyond 2005 has now been ruled out by a feasibility study. Skorpion zinc mine is planned to come on stream only in the fourth quarter of 2002 although construction of the mine has now started. Until this happens, there is little prospect of meaningful volume growth in the sector although mineral prices are at present generally favourable.

Manufacturing

In the latest national accounts manufacturing has been reclassified to exclude any fish processing that may take place on board fishing vessels and include smelting operations at mines, notably Tsumeb. Furthermore, the sector as a whole is now broken down into four rather than three components, other manufacturing now being separated into manufacture of other food products and beverages and other manufacturing. An important component of the manufacture of other food products and beverages is Namibia Breweries.

Meat processing has experienced solid growth over the past two years and this is likely to continue this year. With the pilchard and deep water fisheries depressed, fish processing value added unlikely to experience significant growth unless the hake quota increases. Output growth in other food and beverages is likely to be modestly favourable given the expected economic conditions while other manufacturing will benefit considerably from the reopening of the Tsumeb smelter.

Electricity and water

Value added in electricity and water fluctuates wildly due to the importance of weather conditions on domestic electricity generation. With no new power generating capacity and uncertainty continuing to surround both the Kudu and Epupa projects, there are no reasons why the underlying trend for growth in output should rise. Likewise bulk water supply is unlikely to experience significant increases in value added until the desalination plant at the coast comes on stream.

Construction

The value of building plans passed and completed appears to have been experiencing a steady decline since the mid-nineties although construction value added experienced something of a peak in 1998 from the major work carried out in Walvis Bay. The industry itself views 2001 reasonably positively due partly to the commencement of several major projects including the Skorpion zinc mine, the northern railway line extension between Tsumeb and Oshakati, and the desalination plant and naval base at Walvis Bay and partly due to the steady interest rate environment. As always much will depend upon government's capital expenditure but there are no signs that spending is likely to experience a disproportionate increase this year.

Hotels and accommodation

According to the national accounts, real value added in the hotel and accommodation sector grew by less than 2% in 1999 after two years of double-digit growth. Tourist arrival statistics for 1999 and 2000 are still not available but the signs are that the high growth achieved by the sector during much of the 1990s has stalled. So long as problems continue due to UNITA incursions in the north-east and negative perceptions of instability are reinforced by participation in the war in the Democratic Republic of Congo (DRC) and a downturn in interest in Southern Africa as a whole, confidence is unlikely to fully return. This problem of confidence is compounded by the length of time it has taken to establish the Namibian Tourism Board, problems of service delivery at Air Namibia, and uncertainty over flight connections to Namibia from Europe. The past few years has seen a certain amount of consolidation in the sector as well as diversification away from the German tourist market. However, growth in 2001 is again likely to be subdued.

Transport

Transport value added since 1993 has been revised upwards significantly in the latest national accounts. Yet again growth in transport will depend upon tourist volumes and the reopening of the TCL mines.

Post and telecommunications

Since commercialisation in 1992, growth in post and telecommunications has been driven primarily by telecoms. However, telecommunications growth has started to tail off from the double digits rates experienced in the mid-1990s as pent-up demand for telecom services was met by the parastatal. Telecom Namibia's monopoly is due to end in 2003 but with the overall telecoms market growing more slowly, large increases in sectoral value added are unlikely.

Financial intermediation

The expected stable macroeconomic environment should mean that consumer confidence is expected to remain solid which is good news for the banking sector. However, in the absence of significant growth in the overall economy and subdued activity by the domestic corporate sector, the impressive performances of 1995, 1996 and 1997 are unlikely to be repeated.

Producers of government services

Observers will be keenly watching the 2001/2002 budget expected in mid-March for direction on fiscal policy. There is particular interest in news on SACU negotiations, which have been dragging on for almost five years now, the simplification of Namibia's messy tax incentives for manufacturing, and privatisation. Realistically, however, much of the Ministry of Finance's attention during the past year has been focused on the introduction of Value Added Tax (VAT) and this is likely to continue for some time. The revisions made to the national accounts make most economically significant ratios look more acceptable than a year ago. While defence spending remains the joker in the pack, the Government is likely to pursue a steady-as-she-goes budget with few significant policy changes or shifts in resources.

A quantified summary of sectoral growth prospects can be found in Appendix 1 at the end of this document.

Inflation

Namibia's Windhoek interim Consumer Price Index (CPI) closely follows the South African CPI. South African headline inflation in January was 7.1%, up from 7.0% in December but the South African authorities have reiterated their intention to pursue an inflation target where the overall consumer price index minus mortgage costs (the so-called CPIX) will fall to between 3% and 6% during the calendar year 2002. The CPIX in January was 7.7%. Much will depend on the South African Reserve Bank's determination to achieve this target and whether it is blown off course by external shocks such as another sharp rise in the price of oil.

Interest rates

Prime lending rates in Namibia follow South African rates although small differences continue to exist. Consensus opinion expects a further 50 basis point cut in South Africa to 14% by the end of 2001 and a further fall to 13% during the following year. Namibian interest rates can be expected to follow this trend.

Exchange rates

As long as the Namibia dollar is pegged at 1:1 with the Rand, Namibia's exchange rate will continue to be determined by developments on South Africa's foreign exchange markets. The last consensus poll of forecasters in South Africa put the year-end rate at R8.00 to the US$.

Balance of payments

Namibia has recorded a current account surplus every year since 1990 although exports per head have been falling. This is unlikely to change in 2001 although the magnitude of the surplus is difficult to predict with any certainty. On the capital account, a deficit has been recorded every year since 1990 with the exception of 1995, the year in which the 35% domestic asset requirement for pension fund and life assurance companies began to bite.

GDP growth in Namibia

Namibian GDP growth depends heavily on external demand growth and on internal supply constraints, both of which are largely outside the control of domestic policy instruments. Based on the sectoral and macroeconomic expectations outlined above, the IPPR's "best guess" of GDP growth in Namibia is 3.0% in 2000 and 3.0% in 2001.

Namibian GDP growth prediction 2000-2001

	1999	*2000**	*2001**
GDP growth	3.8%	3.0%	3.0%

*IPPR estimates

Appendix 1: Sectoral breakdown of growth forecasts (forecasts in red)

Industry	1993	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture		25.2%	-5.7%	15.3%	-7.9%	-1.8%	11.8%	2.9%	5.0%
Commercial		5.3%	-10.1%	16.4%	-13.8%	-5.8%	2.7%	**3%**	**5%**
Subsistence		81.3%	1.4%	13.5%	1.0%	3.2%	22.1%	**3%**	**5%**
Fishing		0.4%	3.6%	-1.8%	-3.5%	21.9%	1.2%	**0%**	**0%**
Mining and Quarrying		10.6%	6.0%	4.0%	4.1%	-2.4%	4.7%	4.8%	0.0%
Diamond Mining		9.3%	7.8%	2.6%	-0.1%	1.4%	9.3%	**3%**	**0%**
Other Mining		14.2%	1.7%	7.5%	14.5%	-10.7%	-6.5%	**10%**	**0%**
Primary Industries		13.4%	1.0%	6.9%	-2.0%	2.2%	6.4%	3.1%	1.8%
Manufacturing		6.4%	-1.9%	-16.1%	18.0%	8.9%	-0.6%	1.6%	3.9%
Meat Processing		-1.6%	-0.8%	4.1%	-28.1%	7.6%	10.1%	**3%**	**3%**
Fish Processing		20.1%	-14.3%	-64.4%	88.5%	35.9%	-9.6%	**-5%**	**0%**
Manufacture of other food products and beverages		5.3%	9.1%	8.7%	11.6%	11.1%	5.8%	**5%**	**5%**
Other Manufacturing		-2.1%	-1.4%	-9.0%	17.7%	-10.0%	-7.6%	**0%**	**5%**
Electricity and Water		21.7%	7.9%	-8.5%	-10.1%	4.2%	22.4%	**0%**	**0%**
Construction		7.5%	5.3%	15.6%	-11.8%	15.3%	-18.4%	**5%**	**5%**
Secondary Industries		8.2%	0.4%	-9.7%	7.9%	9.6%	-1.7%	1.9%	3.6%
Trade and Repairs		9.4%	9.7%	9.5%	5.8%	7.3%	4.6%	**3%**	**3%**
Hotels and Restaurants		22.4%	13.6%	-7.8%	27.0%	12.2%	1.8%	**0%**	**0%**
Transport and Communication		12.9%	10.5%	5.1%	7.6%	-10.4%	10.7%	3.6%	3.0%
Transport and Storage		12.2%	11.0%	3.1%	2.7%	-20.8%	11.6%	**3%**	**3%**
Post and Telecommunications		15.0%	8.5%	10.6%	20.9%	13.8%	8.8%	**5%**	**3%**
Financial Intermediation		6.5%	16.1%	16.6%	11.1%	6.2%	-2.9%	**3%**	**3%**
Financial Services Indirectly Measured		20.3%	31.3%	14.7%	9.6%	5.1%	5.6%	**3%**	**3%**
Real Estate and Business Services		2.8%	7.7%	4.5%	-0.2%	3.7%	5.0%	3.0%	3.0%
Owner-occupied Dwellings		3.7%	2.9%	3.6%	2.5%	2.5%	2.6%	**3%**	**3%**
Other Real Estate and Business Services		1.8%	12.8%	5.3%	-2.9%	4.9%	7.3%	**3%**	**3%**
Community, Social and Personal Services		8.4%	-1.7%	5.3%	1.7%	0.0%	1.6%	**3%**	**3%**
Producers of Government Services		2.3%	0.2%	3.5%	3.6%	3.2%	3.9%	**4%**	**4%**
Other Producers		2.4%	1.9%	2.3%	1.9%	2.2%	1.8%	**2%**	**2%**
Tertiary Industries		5.2%	4.9%	4.9%	4.6%	2.5%	4.3%	3%	3%
All industries at basic prices		7.5%	3.2%	2.6%	3.7%	3.7%	3.7%	3%	3%
Taxes less subsidies on products		5.8%	11.7%	7.6%	10.7%	2.0%	4.6%	**3%**	**3%**
GDP at market prices		7.3%	4.1%	3.2%	4.5%	3.5%	3.8%	3.0%	3.0%

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