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IPPR Economic Outlook, February 2002

Globalisation marches on

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Although events in Zimbabwe are likely to continue to cast a shadow over the economic prospects of the whole Southern African region, Namibia's economic outlook for 2002 is generally positive. With the South African Reserve Bank showing firm leadership on monetary policy, the Namibian economy can expect to benefit from the fall in the exchange rate and the improvement in the economic prospects of the US and other industrialised economies. The Ramatex and Skorpion investments appear to be on track and this should help to boost incomes and employment as the year progresses as well as further integrate Namibia into the world economy.

At the beginning of each year, the Institute for Public Policy Research (IPPR) produces an economic outlook for Namibia. The title economic outlook has been chosen in preference over anything more "scientific" such as forecast since the idea is to survey the economic landscape in a general way rather than come up with detailed estimates of economic variables which later prove wide of the mark. Making forecasts with any precision is a difficult task, especially in small open economies. It is worth noting that no one, least of all any of the region's highly paid economic analysts, predicted the sharp fall in the external value of the Rand at the end of last year. Certainly the IPPR believed that the rand was already greatly undervalued in purchasing power parity terms by mid-2001 (see IPPR Briefing Paper No 6).

The IPPR Economic Outlook includes an estimate of Gross Domestic Product (GDP) growth based on an assessment of the likely performance of the sectors of the economy. This estimate is made before the official estimate of GDP is published by the Minister of Finance in the budget speech (normally around the end of February) and before the estimate of GDP for the preceding year (in this case 2001) is released by the Central Bureau of Statistics around April.

Estimates presented in the 2001/02 budget indicate that the Government expected GDP to grow by 3.0% in 2000 and 4.8% in 2001. This compares with IPPR estimates of 3.0% for 2000 and 3.0% for 2001. The latest CBS estimates put real GDP growth for 2000 at 3.3%. GDP in current prices for 2000 was estimated at N$23.750 billion in the March 2001 budget and N$23.786 billion by the time the national accounts were published in August 2001.

Internationally the signs are that slowdown in economic activity in the US and other rich countries looks like being short-lived. The ***US Department of Commerce*** estimated that US GDP rose by 0.2% in the three months to December at an annual rate, thus helping the world's largest economy avoid contraction for a second consecutive quarter, the usual definition of a recession. The composite leading indicators of the Organisation for Economic Cooperation and Development (OECD) for November showed the first rise in the OECD average since May 2000. These positive changes in the world economy are generally good for the local economy since it means that foreigners buy more of the goods and services Namibia produces.

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Many people believe small states are at an economic disadvantage to larger ones. A recent economic research paper finds that, controlling for location, small states have higher per capita GDP but do not have different per capita growth rates than other states. Furthermore, small states have greater volatility of annual growth rates, due in part to their greater volatility of terms of trade shocks (Easterly W. and A. Kraay: 2000). By contrast, the latest official statistics suggest that Namibia has experienced consistently positive real per capita income growth since 1995 but that this growth has not exceeded 1% a year. On the face of it aggregate growth does not appear particularly volatile. Broken down by sector, however, Namibian GDP growth fluctuates far more.

Outlook for South Africa

Although aggregate growth in Namibia does not appear to closely follow aggregate growth in South Africa, the two economies are closely linked by trade and through monetary policy. The South African economy is more than 40 times larger than the Namibian economy. South African GNP per capita was estimated by the World Bank to be US$3,310 in 1998 compared to US$1,940 for Namibia.

Reuters produces a consensus poll of economic forecasts for South Africa which it puts together in the ***"Reuters EconoMeter"***. The latest edition of the EconoMeter, published in January 2002, shows that the growth forecast for 2002 has fallen since this time last year from 3.4% to 1.8%. The South African Government's own forecast is rather more optimistic than the consensus view at 2.2% for 2001 and 2.3% for 2002. The EconoMeter also shows that consensus opinion believes the South African Reserve Bank (SARB) will narrowly miss its inflation target of between 3% and 6% for 2002. Interest rates are expected to peak this year and decline thereafter while the rand weakens steadily but not dramatically against the US dollar.

Consensus of Independent Economic Forecasts for South Africa 2002-2004

	2000	*2001*	*2002 (f)*	*2003 (f)*	*2004 (f)*
GDP growth	3.4%	2.0%	1.8%	3.0%	3.2%
Inflation (average CPI-X)	7.7%	6.6%	7.6%	6.2%	5.5%
Prime interest rate (year end)	14.5%	13.00%	14.85%	13.95%	13.00%
Exchange rate R:US$ (year end)	R7.56	R12.00	R12.37	R13.31	R15.56

(f) consensus forecast

Source: Reuters, IJG

SARB governor ***Tito Mboweni*** surprised analysts by announcing a 1% rise in the South African repo rate in January. He justified this move by stating his belief that the steep depreciation of the rand had altered inflationary expectations and this endangered the attainment of the bank's inflation targets. He further stated that he did not expect this rise in rates to seriously undermine growth because of the export stimulus provided by the weak rand. The question is whether

Mboweni is prepared to raise interest rates again to meet his targets if this proves necessary. The highest forecast for end-of-year prime rates in the consensus poll is 16.00%.

Sectoral Growth Outlook for Namibia

Agriculture

Forecasts for the agriculture sector in Namibia are notoriously difficult to make. The latest crop and food security bulletin released by the ***Namibia Early Warning and Food Information System*** forecasts normal rains for the second half of the rainy season in all crop growing regions and livestock rearing areas. Furthermore, good showers were reported in many areas particularly in the north central and north eastern parts of the country. The outlook for cereal production is uncertain since most crop growing areas had just received some productive showers at the time of publication. According to the Bulletin, the marketing of livestock and livestock products appears to be "on course" in most veterinary districts. The Bulletin states that the overall national food supply position remains satisfactory. Results from the January ***IJG Business Climate Monitor*** suggest a mixed picture for the sector and related industries with perhaps a brighter outlook for livestock than for crops.

Fishing

The Ministry of Fisheries and Marine Resources granted new long-term fishing rights in December 2001, the terms of which were extended from 4, 7 and 10 years to 7, 10, 15 and 20 years to encourage greater investment, especially in jobs on shore. No company has yet received a 20-year right. IPPR Briefing Paper No 7 presented trends in fishing output and value added since Independence. The paper was based on official statistics provided by the MFMR and suggested growth in fishing was levelling off. The Ministry has yet to publish its statistical bulletin for 2000. So far a ***Total Allowable Catch*** (TAC) for 2002 has only been set for horse mackerel (350,000 tonnes) and crab (2,200 tonnes). TACs for the remaining controlled species (pilchards, hake, monk, orange roughy, and rock lobster) will be announced later in the year. Overall, output in 2002 is expected to be flat.

Mining

According to the latest press reports, the construction of the ***Skorpion zinc*** mine near Rosh Pinah in the south is on track. Skorpion represents the largest mining investment in Namibia since Independence. The pilot plant was due to be completed by last November and full-scale production is now expected to start at the beginning of 2003. The mine is estimated to add another 4% to Namibia's GDP.

Diamond mining continues to form the mainstay of the mining industry in Namibia. Diamond prices should be positively affected by the upturn in prospects of the world's leading economies. The ***composite leading indicator*** of the Organisation for Economic Cooperation and Development (OECD) economies, with which diamond prices are strongly correlated, rose in November 2001 for the first time since May 2000. Namco, Namibia's second largest diamond mining company, faced liquidation last year but was saved by the Leviev group of Israel, the world's largest diamond manufacturer, which bought a controlling 31% stake in the company. Namco's share price on the NSX is still languishing at N$1.70 compared to its high of over N$45.00 in 1999.

Elsewhere in the mining industry, Namibia's major mines report a generally positive outlook with zinc and copper prices increasing in US dollar terms and gold hitting R300/oz earlier this month. The Ministry of Mines and Energy is presently completing a round of consultations aimed at revising Namibia's mineral policy.

Manufacturing

Developments in the manufacturing sector will be dominated by the arrival of ***Ramatex***, a Malaysian garment manufacturer, which is setting up a large factory on the outskirts of Windhoek in Otjomuise. The plant, which includes the operations of two subsidiary companies Rhino and Tai Wah, has been awarded Export Processing Zone status and will export to the US and EU through Walvis Bay. Although estimates vary significantly, the factory is expected to employ thousands of Namibian workers. It also has the potential to encourage the development of supply industries. The Ramatex factory and the Skorpion zinc refinery are significant investments which should help the Government counter the criticism that its EPZ programme was failing to meet its goals. The Ministry of Trade and Industry is currently in the process of revising its 1992 White Paper on Industrial Policy with the assistance of the Namibian Economic Policy Research Unit (NEPRU).

Electricity and water

Value added in electricity and water fluctuates greatly due to the importance of weather conditions on domestic electricity generation. With no new power generating capacity, there is no reason 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. Negotiations on who should build the plant are now entering a critical phase.

Construction

The value of ***building plans passed***, compiled by the Central Bureau of Statistics from surveys conducted by municipalities, totalled N$828 million in 2001 compared to N$633 million in 2000, a real increase of almost 20%. This exclude data from two municipalities for December 2001. Investment by major companies also appears healthy. The last ***IJG Business Climate Survey*** conducted in January indicated 24 out of 29 of Namibia's major companies intended to invest in new plant and equipment. The sudden rise in lending rates in January is likely to dampen these trends somewhat. As always much will depend upon government's capital spending programme to be unveiled in the budget although it is important to bear in mind that this programme is generally underspent (see IPPR Briefing Paper No 4 from July 2001).

Hotels and accommodation

The Central Bureau of Statistics estimates that value added from hotels and accommodation, the main measure of tourist activity in the national accounts, rose 7.4% in real terms in 2000 compared to a very poor year in 1999 when value added fell 11.7%. Figures released by the Hospitality Association of Namibia (HAN) for January 2002 suggest ***bed occupancy rate*** was just over 34%. However, it is difficult to read too much into these statistics since they are gathered on a voluntary basis and do not consistently record occupancy rates from the same establishments every month. This is only likely to change once the compulsory bed levy is introduced to fund the recently established Namibia Tourist Board. The HAN's last quarterly media release covering what is normally the busiest time of the year, showed occupancy rates of just under 36%. This poor performance is partly a consequence of the downturn in tourism worldwide following September

11. The recent depreciation of the rand, which is now the most undervalued currency measured by *The Economist* magazine of the UK, should help attract more tourists but this will be tempered by what happens elsewhere in the region, notably Zimbabwe.

Transport

Transport value added is likely to be enhanced by the arrival of Ramatex which imports raw materials via Walvis Bay to Windhoek and ships out processed products through the same route. It remains to be seen whether ***TransNamib*** can rise to the challenge of Ramatex and whether a new CEO, still to be announced by Minister Shaetonhodi, can turn the company round. Significant developments at Air Namibia also appear to be in the pipeline which could finally halt the poor performance which has been dogging the company for many years.

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 new parastatal. A ***second mobile licence*** is due to be auctioned while Telecom Namibia's fixed-line monopoly is finally due to end in 2004. However, since the overall telecoms market is now growing more slowly, large increases in sectoral value added are unlikely.

Financial intermediation

Macroeconomic stability and a relatively stable interest rate environment should mean the financial intermediation sector, consisting mainly of the commercial banks, enjoy a modest year of growth. Fortunately a pragmatic compromise was reached in the damaging dispute between the Government and the insurance industry on the issue of the National Reinsurance Corporation last year. Hopefully the episode has resulted in a better understanding of the issues at stake and improved communication between the Government and the industry. The banking sector should benefit from the merger between SWABOU and CSIB and the creation of ***SWABOU bank***. The new bank, which has its roots firmly in Namibia, should help increase competition and choice in the retail banking sector. Similarly, the creation of a new ***development bank*** to finance infrastructure projects and higher risk initiatives is scheduled to take place this year. The new bank will replace existing development finance institutions. However, it is unlikely that the new institution will be fully operational before the end of 2002. Discussions are taking place on the establishment of a venture capital fund funded by government but run by licensed private fund managers. At this early stage talk is of a fund of about N$100 million.

Producers of government services

The forthcoming budget, expected in mid-March, will be important in that it will allow the first proper assessment of the revenue raising capacity of Namibia's Value Added Tax (VAT) brought in at the end of November 2000. A further announcement on the progress of the Minister's tax review, which was launched last November, would also be welcome. The budget will be an important test of whether the new Medium-Term Expenditure Framework (MTEF) announced in last year's main budget is more than just words. Already its credibility has suffered since the Minister of Finance blew a hole in the original deficit target of 3% just seven months after announcing it by increasing the deficit to 5.3% in the additional budget in October. A further concern is the issue of ***contingent liabilities***, that is to say debt that the Government has underwritten which does not appear regularly in the Government's budget statements.

Last October's additional budget was followed up by a little publicised ***Cabinet decision*** which set targets for the stock of public debt, the budget deficit, and public spending. The decision entails limiting the Government's budget deficit to not more than 3.2% of GDP on average for the next 3 years and the stock of public debt to 25% of GDP. More surprisingly, the target for public expenditure is set at 30% of GDP. This target is clearly unrealistic. Public spending currently stands at 37.4% of GDP. Since Independence the government has never consciously cut the ratio of public spending to GDP. If taken seriously, this target will have major implications for the public service and the Namibian economy. Fortunately or unfortunately, this appears to have been a decision that slipped through Cabinet without anyone realising its implications rather than a serious target. However, this in itself raises serious questions about the decision-making process on important issues of public policy.

Inflation, Interest Rates and Exchange Rates

Since Namibia is a member of the CMA, the external value of the Namibia dollar is the same as the rand while Namibian inflation and interest rates closely follow those of South Africa. As explained above, the consensus opinion of forecasters is that the SARB will miss its ***inflation target*** for 2002, but not by much. The rise in the repo rate shows Tito Mboweni is serious about meeting the target. He could have used the escape clause claiming *force majeur* because of the sharp depreciation of the rand. At this stage inflation forecasts appear uniformly low and the highest forecasts are well below 10% through to the end of 2004. Namibia can expect to benefit from this benign inflation outlook.

GDP Growth in Namibia

The IPPR estimates the overall rate of GDP growth by combining an examination of historical sectoral growth rates since 1993 with the sectoral prospects for 2002 described above. Clearly some sectors, such as the government and mining sectors, carry a far larger weight in determining overall GDP growth than others, such as hotels and accommodation. Even a very high growth rate in some sectors will make little difference to overall growth because they are small. The IPPR sees modest growth taking place over a range of sectors with only the manufacturing and construction sectors growing significantly above trend. Value added from Ramatex can at this stage only be based on very approximate estimates. If it succeeds in boosting non-food processing value added by as much as 20%, overall growth in GDP could reach 4% for the year. Historical and estimated sectoral growth rates are contained in Appendix 1.

Namibian GDP Growth 2000-2002

	2000	*2001**	*2002**
GDP growth	3.0%	3%	4%

*IPPR estimates

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Appendix 1: Historical and Estimated Sectoral Growth

Industry	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Agriculture		25.2%	-5.7%	15.3%	-7.9%	-1.8%	11.1%	10.3%	5.0%	3.0%
Commercial		5.3%	-10.1%	16.4%	-13.8%	-5.8%	1.4%	14.9%	**5%**	**3%**
Subsistence		81.3%	1.4%	13.5%	1.0%	3.2%	22.4%	5.8%	**5%**	**3%**
Fishing		0.4%	3.6%	-1.8%	-3.5%	21.9%	-1.4%	13.4%	**0%**	**0%**
Mining and Quarrying		10.6%	6.0%	4.0%	4.1%	-2.4%	8.3%	-2.6%	0.0%	3.0%
Diamond Mining		9.3%	7.8%	2.6%	-0.1%	1.4%	14.5%	-7.0%	**0%**	**3%**
Other Mining		14.2%	1.7%	7.5%	14.5%	-10.7%	-6.5%	10.2%	**0%**	**3%**
Primary Industries		13.4%	1.0%	6.9%	-2.0%	2.2%	7.2%	5.3%	1.9%	2.4%
Manufacturing		6.4%	-1.9%	-16.2%	18.0%	8.9%	-3.7%	4.5%	4.0%	8.1%
Meat Processing		-1.6%	-0.8%	4.1%	-28.1%	7.6%	12.1%	-11.7%	**3%**	**3%**
Fish Processing		20.1%	-14.3%	-64.4%	88.5%	35.9%	-21.1%	1.1%	**0%**	**0%**
Other Food Products and Beverages		5.1%	8.9%	8.7%	11.6%	10.9%	4.7%	2.0%	**5%**	**5%**
Other Manufacturing		-2.1%	-1.4%	-9.0%	17.7%	-10.0%	-7.6%	17.3%	**5%**	**20%**
Electricity and Water		21.7%	7.9%	-8.5%	-10.1%	4.2%	20.2%	-13.4%	**0%**	**0%**
Construction		7.5%	5.3%	15.6%	-11.8%	15.3%	-13.9%	-5.2%	**5%**	**10%**
Secondary Industries		8.2%	0.4%	-9.7%	7.8%	9.6%	-3.3%	0.6%	3.7%	7.6%
Trade and Repairs		9.4%	9.7%	9.5%	5.9%	7.1%	3.3%	4.9%	**3%**	**5%**
Hotels and Restaurants		22.4%	13.6%	-7.8%	27.0%	12.2%	-11.9%	7.6%	**0%**	**3%**
Transport and Communication		12.9%	10.5%	5.1%	7.6%	-10.4%	13.3%	2.9%	3.0%	5.0%
Transport and Storage		12.2%	11.0%	3.1%	2.7%	-20.8%	18.4%	2.1%	**3%**	**5%**
Post and Telecommunications		15.0%	8.5%	10.6%	20.9%	13.8%	5.2%	4.3%	**3%**	**5%**
Financial Intermediation		6.5%	16.1%	16.9%	11.3%	6.4%	2.4%	5.6%	**3%**	**3%**
Financial Services Indirectly Measured		20.3%	31.3%	14.7%	9.6%	5.1%	5.6%	-3.9%	**3%**	**3%**
Real Estate and Business Services		2.8%	7.7%	4.5%	-3.3%	2.3%	3.7%	1.4%	3.1%	3.0%
Owner-occupied Dwellings		3.7%	2.9%	3.6%	2.5%	2.5%	2.6%	2.5%	**3%**	**3%**
Other Real Estate and Business Services		1.8%	12.8%	5.3%	-8.8%	2.2%	4.9%	0.5%	**3%**	**3%**
Community, Social and Personal Services		8.4%	-1.7%	5.3%	1.7%	0.0%	0.0%	0.0%	**3%**	**3%**
Producers of Government Services		2.3%	0.2%	3.5%	3.6%	2.7%	3.3%	4.2%	**4%**	**3%**
Other Producers		2.4%	1.9%	2.3%	1.9%	2.2%	1.8%	2.1%	**2%**	**2%**
Tertiary Industries		5.2%	4.9%	4.9%	4.1%	2.1%	3.7%	3.9%	3%	4%
All industries at basic prices		7.5%	3.2%	2.6%	3.4%	3.4%	3.2%	3.6%	3%	4%
Taxes less subsidies on products		5.8%	11.7%	7.6%	10.7%	2.7%	4.9%	0.8%	**3%**	**3%**
GDP at market prices		7.3%	4.1%	3.2%	4.2%	3.3%	3.4%	3.3%	3%	4%

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