

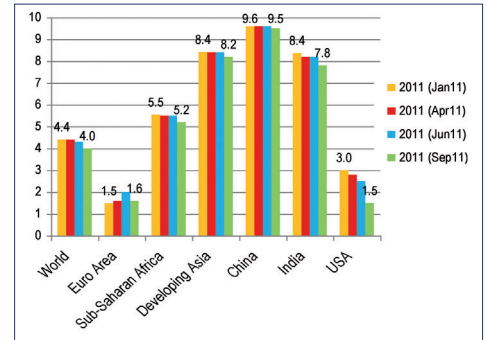


Economy Watch Namibia

Global economic developments

The global economic recovery has been overshadowed by continuous weaknesses in the US economy (low house prices, high unemployment rate) and the still unresolved European sovereign debt crisis. Euro zone leaders reached a deal on the Greek debt crisis that included private banks accepting a 50 percent on Greek debts they hold, a further capitalisation of the European Financial Stability Facility to 1 trillion Euro and a recapitalisation of private banks to the tune of EUR106 billion. Political uncertainty in Greece, first over whether a referendum would be held and secondly over prospects for a coalition government, have seen the world markets in turmoil. Global growth forecasts have been cut for the remainder of 2011 and for 2012 by 0.3 and 0.5 percent respectively. These events affect the Namibian economy in various areas, from commodity prices to exchange rates and create uncertainties about economic prospects in the near future. The current Euro zone crisis holds valuable lessons for the SADC region that envisages creating a Monetary Union in the near future.

IMF growth forecasts for 2011 as adjusted between January and September 2011



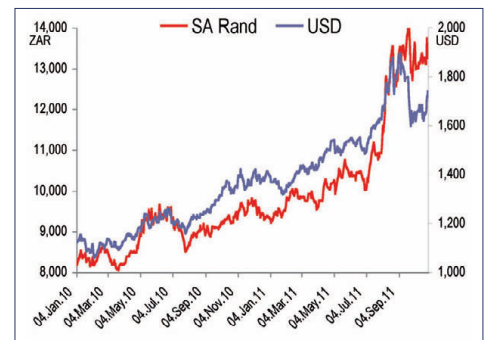
Source: IMF, World Economic Outlook, various publications.

Gold price

Price for an ounce (24.35 grams) of gold in US dollar

The increase in the gold price in US dollar terms slowed down since the middle of September 2011. Compared to the beginning of 2011 the gold price climbed by some 25 percent in USD, but 44 percent in South African rand. The price increase in South African rand is attributed to the depreciation of the rand against the US dollar. Although the gold price dropped from record levels close to USD2,000 per ounce in mid September mainly because of a rebound of the USD and amidst fears in some quarters of a gold bubble, it has gained some six percent in October. The unresolved sovereign debt crisis in Europe and a possible further round of qualitative easing by the Federal Reserve Bank in the USA that would pump liquidity into the financial markets support the strong performance of gold that is expected to move back to USD1,900 per ounce during 2012.

Gold price in South African rand and US dollar per ounce, Jan. 2010 to Oct. 2011



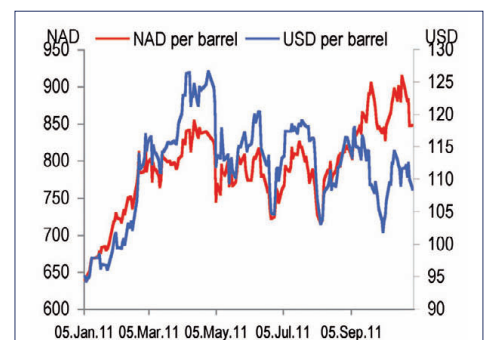
Source: World Gold Council, daily data

Oil and fuel prices

NAD – Namibia dollar
USD – United States of America dollar
Barrel of oil – 158 litres

The oil price dropped during the past two months owing to lower than expected economic growth prospects for the remainder of 2011 and for 2012 that dampens the demand for oil. The price dropped to almost USD100 at the beginning of October 2011, but recovered afterwards and has hovered around USD110 per barrel since then. Nevertheless, the Namibian consumer faced an increase in diesel and petrol prices by NAD 0.50 and 0.35 respectively in the middle of October – the first price increase after five months of stable or reduced pump prices. The increase in fuel prices can be mainly attributed to the weakening Namibia dollar that resulted in oil prices expressed in the domestic currency to rise by 34 percent compared to the beginning of 2011, while the oil price in USD increased by 13 percent over the same period. The current exchange rate and oil price levels, although displaying some fluctuations, suggest that fuel prices will remain stable for the month of November.

Oil prices in USD and NAD per barrel for Europe Brent Oil, January 2010 to October 2011



Source: USD price - Energy Information Administration, daily data.
NAD price – Authors' calculation based on SARB daily exchange rates

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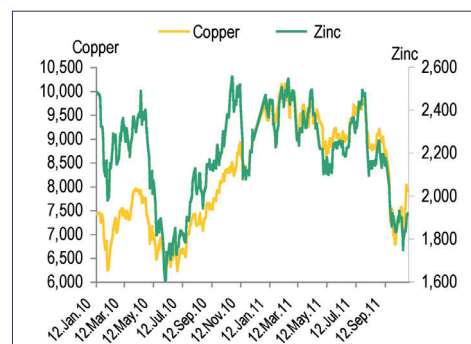
Mineral prices

Price for unprocessed minerals

Copper prices reached record levels of almost USD10,000 per ton at the beginning of 2011, thereby exceeding levels before the financial and global economic crisis depressed markets in 2008 and 2009. Zinc prices on the other hand never recovered to pre-crisis levels of USD3,000 or even USD4,000 per ton experienced during 2007 and remained below USD2,500 during 2011. Both minerals dropped in value by 22 percent (zinc) and 19 percent (copper) since the beginning of the year, in particular during the months of August and September amidst expectations of a less robust recovery of the global economy. Although in particular the price for copper increased after European leaders reached a deal on a Greece rescue package, the re-emerging uncertainties about the future of the Euro and the direction of the global economy could put pressure on metal prices again.

Uranium prices kept fluctuating around USD52 per pound over the past three months after a steep decline caused to a large extent by the Fukushima nuclear power plant accident. Although prices declined by 17 percent during 2011, the average price level so far for this year is higher than for the previous year – USD57.82 per pound compared to USD45.84 per pound in 2010. It is expected that prices will strengthen again owing to increasing demand caused by additional nuclear power plants under construction. Namibia stands to benefit from stronger demand and prices through additional investment into the development of existing uranium deposits and into exploration and prospecting activities for new deposits once the existing moratorium is reviewed.

Copper and zinc prices in USD per ton, Jan. 2010 to Oct. 2011



Source: London Metal Exchange, daily data

Uranium price in USD per pound, Jan. 2010 to Oct. 2011



Source: Ux Consulting Company

Inflation

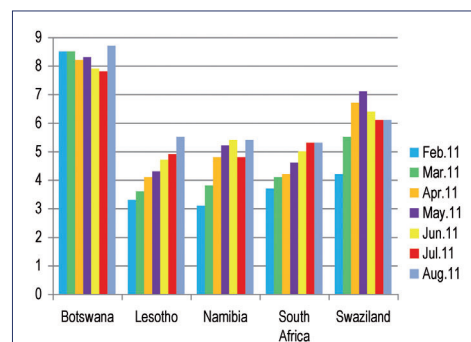
Inflation – price increases in percent for goods and services compared to the previous month (monthly inflation rate) or the same month in the previous year (annual inflation rate).

The calculation of the inflation rate is based on a consumption basket that contains all items an average household spends money on.

After price increases accelerated during the first five months of the year from 3.5 percent to 5.2 percent they remained more or less stable during the following four months. The level of inflation in Namibia is in line with other SACU countries such as Lesotho and South Africa, but lower than in Swaziland and Botswana. Botswana experienced a deceleration of price increases over the first six months, before inflation gained momentum again in August, caused mainly by rising prices for transport and food items.

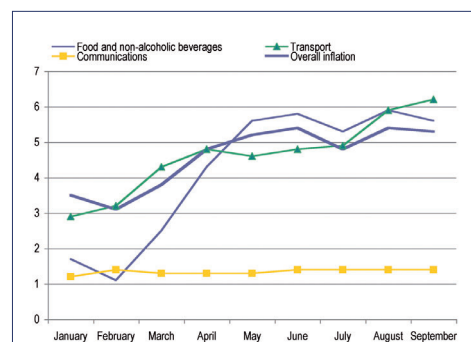
The inflation rate in Namibia dropped slightly from 5.4 percent in August to 5.3 percent in September. This is mainly owed to easing price pressure in the category of ‘food and non-alcoholic beverages’ that carries the highest weight in the consumption basket (29.63 percent). Prices for this category rose by 5.6 percent in September compared to 5.9 percent in August. The main price drivers in this category were ‘sugar, jam, syrup etc.’ with 13.4 percent, ‘meat’ with 10.2 percent and ‘tea, coffee, cocoa’ with 7.2 percent. ‘Bread and cereals’ increased below average at 4.6 percent despite increasing crop prices on the world market (see following page). As in previous months, the category of ‘housing, water and electricity’ recorded the highest inflation rate of 9.0 percent, up from 8.2 percent in August. This is still below our expectations, since we expected the electricity price hike of 13 percent implemented by the Windhoek municipality on 1 September 2011 to have a stronger impact on the inflation rate. Since the category of ‘housing...’ accounts for the second largest share of the consumption basket (20.59 percent), price movements in this category have a strong influence on the overall inflation rate. Prices in the category ‘transport’, the third largest item in the consumption basket with 14.79 percent, continued the upward trend to 6.2 percent

Inflation rates for SACU countries, January to August 2011



Source: Southern African Customs Union, 2011, SACU Inflation Report, August.

Inflation rates for selected categories, January to September 2011

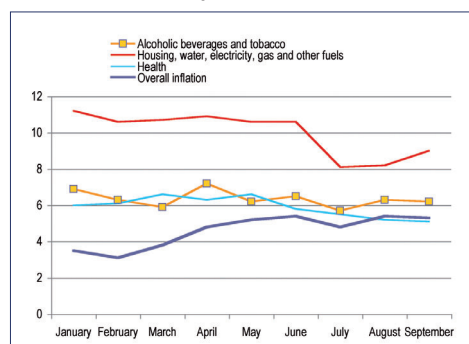


Source: Central Bureau of Statistics

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cent compared to 5.9 percent during August. We expect transport inflation to exceed 7 percent in October due to the fuel price increase that amounted to more than 30 percent compared to the fuel prices for October 2010. Petrol and diesel constitute about 15 percent of the category 'transport' after motor vehicles with 67 percent. We anticipate an inflation rate around 4.8 percent for the whole of 2011. Although the inflation rate could exceed 6 percent during 2012, the upper limit of the inflation target, we expect the repo rates to remain at 5.50 percent for South Africa and 6.00 percent for Namibia in order to support domestic demand and hence economic growth.

Inflation rates for selected categories, January to September 2011



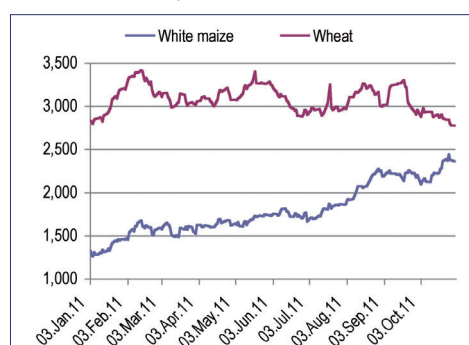
Source: Central Bureau of Statistics

Crop prices

**ZAR – South African rand
White maize and wheat are major crops produced and consumed in Namibia, but prices are influenced by world market prices.**

Crop prices reveal divergent trends. The price for maize, in particular white maize, has increased during the course of 2011 by 79 percent compared to an increase of 64 percent for yellow maize. The price for wheat on the other hand dropped by 2 percent since January 2011, narrowing the price gap between the two crops from more than ZAR1,500 per metric ton to some ZAR300 per metric ton. Despite a record harvest in China, the country's imports continue to rise owing to growing demand for maize as livestock feed. According to reports, China's dairy herd almost tripled since the year 2000. In addition, the diet in emerging economies is changing increasing the demand for beef and pork in particular that pushes up the demand for fodder and consequently prices. Adding to this is the use of crops for bio diesel. However, declining wheat prices can lead to farmers switching from maize to using wheat as livestock fodder, which would result in downward pressure on maize prices, but upward pressure on wheat prices. Overall, since output is struggling to keep pace with growing demand, crop and consequently food prices are expected to stay at high levels.

Wheat and white maize prices in ZAR per metric ton, Jan. 2011 to Oct. 2011



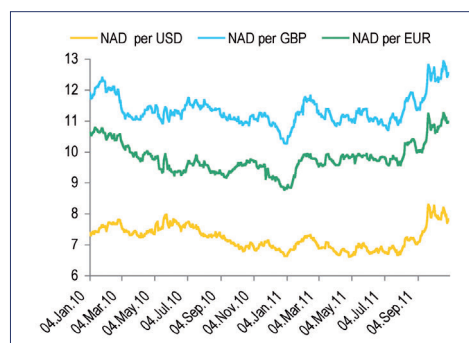
Source: SAFEX, daily data

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The Namibia dollar maintained its strong position vis-à-vis major currencies such as the US dollar, British pound and Euro during the first half of 2011, but lost ground since August and in particular during September. It appreciated against the US dollar during October, but depreciated slightly against the pound and Euro. Overall, the local currency depreciated during the first ten months by 18, 22 and 24 percent against the US dollar, British pound and Euro respectively, since investor sentiments turned against emerging markets in the wake of uncertainties concerning the debt crisis and the robustness of the global economic recovery that dominated financial markets. While the depreciation benefits exporters, and could mitigate the decline in commodity prices, unless companies are bound by longer-term contracts, and while it improves the competitiveness of Namibian products on the global and local markets, it raises the costs of imports from outside the region. The increase in fuel prices in the middle of October is the most obvious impact of the currency depreciation. Prices of other imported goods might follow suit and result in rising imported inflation. Despite prevailing global uncertainties, sound economic fundamentals in South Africa and Namibia suggest that the currency will gain ground again against major currencies.

Exchange rates for major currencies, Jan. 2010 to Oct. 2011



Source: South African Reserve Bank, daily data

Namibia in international comparison

A number of international reports covering various social, economic and political aspects have been released over the past couple of weeks, such as the Global Competitiveness Report and the Global Gender Gap Report (World Economic Forum), Doing Business Report (World Bank) and the Ibrahim Index of African Governance (Mo Ibrahim Foundation). While international comparisons of countries always bear the risk of criticism about the indicators and sources used, they nevertheless provide a good opportunity to compare the performance of countries over time. Namibia continues to perform well compared to other African countries, but has slid in her global ranking in most of the surveys. This is not necessarily due to a deterioration in the performance of the indicators

Doing Business – ranking of southern African countries (out of 183 countries), 2010 to 2012



Source: World Bank, 2011, Doing Business 2012.

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Web sites for further reading and information:
www.doingbusiness.org;
www.moibrahimfoundation.org;
www.weforum.org

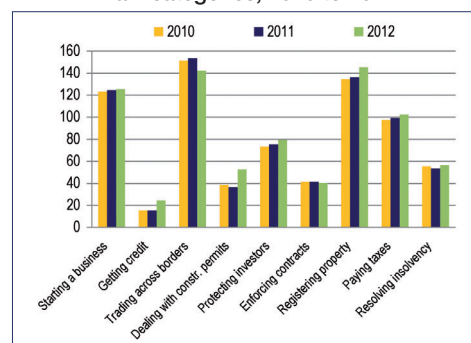
used, but often due to other countries improving their performance faster than Namibia has done. Consequently, Namibia falls back in the international rankings.

Two of the reports launched recently tend to receive the attention of investors interested in foreign direct or portfolio investment, namely the Doing Business and the Global Competitiveness reports. Namibia dropped four ranks to 78 out of 183 countries in the Doing Business Report 2012, which is in line with most other countries in the region that could not maintain their previous positions. Only South Africa improved her ranking by one place to 35. Namibia's decline in the global ranking is mainly owed to a drop by 16 places to rank 52 in the indicator 'Dealing with construction permits' and by nine places to rank 145 for 'Registering property'. The decline is not caused by more cumbersome procedures. The amount of time (139 days) and the number of procedures to follow (12) concerning construction permits remained the same as last year and the costs improved from 113 percent of the per capita income to 103 percent. This indicates that other countries moved faster than Namibia in improving the procedures for getting construction permits. While the number of procedures to be followed in registering property dropped by two to seven, the number of days to get property registered increased by 16 to 39 and the costs increased as well from 9.6 percent of the property value to 13.7 percent, which has caused Namibia's low ranking in this category. On the other hand, Namibia improved her ranking in the category 'Trade across borders' by 11 places to rank 142. However, for an economy as dependent on exports and imports as the Namibian one, it is important to improve further in order to become more competitive.

Namibia shed nine ranks in the Global Competitiveness Report 2011-12, dropping from rank 74 to 83 out of 142 countries. This is mainly caused by the deterioration in basic requirements, where the country dropped 14 places to rank 68. In particular the macroeconomic environment that used to be one of Namibia's assets in her competitiveness worsened owing to the increasing budget deficit. Namibia dropped from place 31 to 119 concerning the budget deficit, even though the higher budget deficit can be justified if it is used to improve social and economic conditions, and from rank 40 to 63 regarding the macroeconomic environment at large. There is, however, some good news. The efforts by the Bank of Namibia to curb the interest rate spread have resulted in a more favourable ranking of the country on this indicator (rank 53 compared to 56 and 61 in the previous two years). Namibia dropped also four places concerning infrastructure, mainly because roads are no longer as highly rated as in previous years (a drop from rank 15 to 31). This might have been caused by the unusually heavy rains Namibia received at the beginning of 2011. In addition, government procedures are perceived to be more cumbersome than before resulting in a decline from 38 to 60. Namibia's weakest point in the basic requirements remains the area of health and education (rank 114 out of 142).

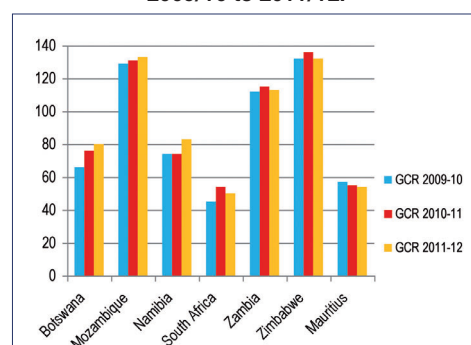
There is not much change concerning the main areas of concern for the business sector. Labour market related topics remain on top of the list, such as inadequately trained workforce, restrictive labour regulations (although less of concern than a few years ago) and poor work ethic. Corruption has emerged as a growing concern, ranked now as the fourth biggest impediment to businesses, while crime and theft are apparently again on the increase.

Doing Business – Namibia's ranking in the main categories, 2010 to 2012



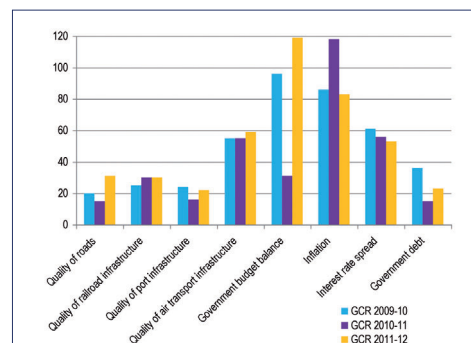
Source: World Bank, 2011, Doing Business 2012.

Global Competitiveness – ranking of southern African countries (out of 142 countries) 2009/10 to 2011/12.



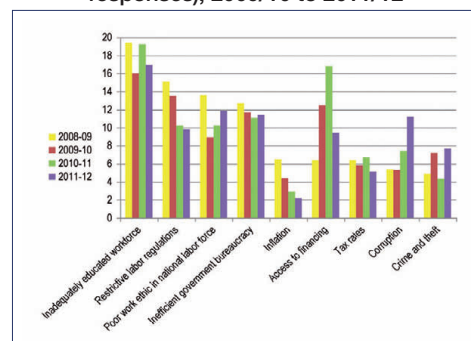
Source: World Economic Forum, 2011, Global Competitiveness Report 2011-12.

Global Competitiveness – Namibia's ranking in selected basic requirements, 2009/10 to 2011/12



Source: World Economic Forum, 2011, Global Competitiveness Report 2011-12.

Global Competitiveness – Main concerns of the business sector (in per cent of total responses), 2009/10 to 2011/12



Source: World Economic Forum, 2011, Global Competitiveness Report 2011-12.