MID - YEAR REVIEW OF THE MACROECONOMIC FRAMEWORK

Financial Year 2014/15

“Fiscal Sustainability and Job - Creating Growth - Doing More with Less”
Mid-Year Review of the Macroeconomic Framework

Financial Year 2014/15
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1. Introduction

Since October 2013, the global economic climate has shifted as a number of critical developments have taken place. It is, therefore, against this backdrop that this Mid-Year Review of the Macroeconomic Framework (MEF) is published.

This document aims to update the assumptions contained within the FY2014/15 MEF pertaining to economic activity and prices, and thus updates growth and price forecasts for the Mid-Term Expenditure Framework (MTEF) period of 2014/15 – 2016/17. This is done to ensure that the Government’s stance on budgetary and economic policy issues is based on the current state of the economy. The Mid-Year Review also serves to provide the private sector and the general public with an insight into the Government’s economic assumptions that underlie its budget formulation and economic policy proposals.

It should be noted that the Mid-Year Review does not aim to replace the MEF, but rather to supplement it. As such, not all of the issues covered in the MEF are covered in the Mid-Year Review, and those that are may be covered to a different degree. In this regard, the general format of the Mid-Year Review is based on the MEF.

The Mid-Year Review is organised as follows: Section 2 provides an executive summary; Section 3 provides an overview of recent developments in global, regional and domestic arenas with respect to economic activity and prices, while Section 4 details the updated economic outlook.
2. Executive Summary

Driven by increases in inventory accumulation, the second half of 2013 saw global growth pick up speed, with growth averaging 3.7% compared to 2.7% in the first half of the year, according to IMF data. This saw world output expand by an estimated 3.0% in 2013, slightly beating earlier forecasts of 2.9% growth projected in the FY2014/15 Macroeconomic Framework (MEF). This, however, still represented a deceleration from the 3.2% growth recorded in 2012.

Advanced economies posted growth of 1.3% in 2013, slightly outperforming the 1.2% figure originally forecast in the FY2014/15 MEF, but this still marked a slowdown from the 1.4% expansion registered in 2012. Meanwhile, Emerging market and developing economies also experienced slower growth in 2013 compared to 2012, despite exceeding original expectations. Having seen output expand by 5.1% in 2012, emerging market and developing economies grew by an estimated 4.7% in 2013, beating the earlier projection of 4.5% published in the FY2014/15 MEF.

Preliminary data suggests that real GDP growth in Namibia underperformed in 2013 compared to forecasts made in the MEF, with real output expanding by 4.4% against projected growth of 4.8%. This also marked a sharp slowdown from the 6.7% growth recorded in 2012. This weaker-than-anticipated growth came despite growth in both secondary and tertiary industries outperforming forecasts as primary industries suffered a significant decline as a result of drought.

Despite the world output strengthening in the second half of 2013, and expectations for economic activity improving further over 2014 and 2015, the global growth forecast for 2014 has remained unchanged at 3.6%. This mirrored a weaker growth outlook in emerging market and developing economies, which is projected to offset the improved forecast for advanced economies. However, a deterioration in growth prospects in advanced economies in 2015 has led to a downward revision of global growth projections for the following year, from 4.0% to 3.9%.

On the domestic front, however, real GDP growth forecasts for both 2014 and 2015 have been revised upwards, largely on the back of a more positive outlook for primary industries. Having previous projected real output growth of 5.0% for 2014 and 4.8% for 2015 in the MEF, growth has now been upgraded to 5.7% for 2014 and to 5.1% for 2015.
3. Recent Developments

3.1. Global Economy

According to IMF data, the second half of 2013 saw global growth pick up speed, with growth averaging 3.7% compared to 2.7% in the first half of the year, driven by increases in inventory accumulation. The growth in the world output is estimated to have expanded by 3.0% in 2013, slightly above the 2.9% growth projected in the FY2014/15 Macroeconomic Framework (MEF). This, however, still represented a deceleration from the 3.2% growth recorded in 2012.

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<th>2012 Actual</th>
<th>2013 MEF Forecast</th>
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<td>3.8</td>
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<td>0.6</td>
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Source: IMF WEO April 2014
```

Advanced economies posted growth of 1.3% in 2013, slightly outperforming the 1.2% originally forecast in the FY2014/15 MEF, but this nonetheless still marked a slowdown from the 1.4% expansion registered in 2012.

Having shrunk by 0.7% in 2012, the Euro zone economy saw some improvement in 2013, but nonetheless contracted by an estimated 0.4%, matching FY2014/15 MEF projections.

The US outperformed an initial forecast of 1.6% in the FY2014/15 MEF and grew by an estimated 1.9% in 2013, largely on the back of a combination of better-than-anticipated export growth and inventory accumulation in the second half of the year. This did, however, represent a fairly sharp slowdown from the 2.8% growth posted in 2012.

In contrast, growth in Japan accelerated in 2013, from 1.4% in 2012 to an estimated 1.7%, although this was still lower than the 2.0% anticipated in the FY2014/15 MEF. The failure to meet projections was the result of a slowdown driven by weaker exports and consumer as well as corporate spending in the second half of the year. This follows expansionary monetary and fiscal policy that supported growth in the first six months of 2013.

Emerging market and developing economies also experienced slower growth in 2013 compared to 2012, despite exceeding initial expectations. Having seen output expand by 5.1% in 2012, emerging market and developing economies grew by an estimated 4.7% in 2013, exceeding the projection of 4.5% published in the FY2014/15 MEF.
China outperformed expectations for a 7.6% expansion in 2013, as growth was estimated to have matched the 7.7% recorded in 2012. Meanwhile, in Brazil, although growth fell short of original projections for 2.5% growth in 2013, expanding by an estimated 2.3%, this nonetheless represented an acceleration from the 1.0% growth posted in 2012.

Conversely, economic growth in India strongly outperformed earlier forecasts of 3.8%, growing by an estimated 4.4%. Nonetheless, it failed to better the 4.7% figure registered in 2012. Similarly, Russia also witnessed a slowdown in growth from the 3.4% recorded in 2012 as estimated growth matched expectations for a 1.5% expansion in 2013.

3.2. Commodity Prices

3.2.1. Oil

In 2013, the price volatility of Brent crude oil was at its lowest level since 2006, as many of factors driving instability in oil prices in recent years were mitigated. Brent crude hit a high of US$118.90 per barrel on 8 February 2013 and a low of US$97.69 per barrel on April 17 same year, thus reached an average of US$108.56 per barrel over the course of the year. This marked a decline from the average price of US$111.65 per barrel recorded in 2012. Robust production in Saudi Arabia helped to offset outages in Libya, while rising US production also helped to compensate for supply constraints elsewhere in world markets. During the first five months of 2014, the price of Brent crude oil has traded in even more narrow band, between a high of US$111.32 per barrel on May 21 and a low of US$103.37 per barrel on April 2, as supply conditions continue to stabilise.

Figure 1: Brent Crude Price

Source: US Energy Information Administration
3.2.2. Food

Food prices trended steadily lower over the course of 2013 on the back of supply improvements, but nonetheless ended the year 1.1% higher than 2012. This was primarily the result of a massive 41.3% increase in the price of seafood, but was also boosted slightly by a 2.7% increase in the price of meat, as the price of cereals, vegetables oil and protein meals and sugar all fell, by 7.7%, 4.4% and 15.5%, respectively. Over the first five months of 2014, however, food prices have once again begun to tick upwards.

![Figure 2: Food Price Index](https://example.com/food-price-index.png)

Source: World Bank

3.2.3. Metals

Metals prices declined sharply over the first half of 2013 on the back of slowing consumption and weak import demand in China. This saw the World Bank’s metals price index drop from a high of 101.34 in February to a low of 88.41 in June. Prices in the second half of the year, however, stabilised somewhat, nonetheless the price of metals fell by 4.3% in 2013. These losses were led by a 21.2% decline in uranium prices and a fall of 14.3% in the price of nickel, and were further compounded by declines in the price of copper (by 7.9%), aluminium (by 8.7%) and zinc (by 2.0%). However, increases in the prices of iron ore (by 5.3%), tin (by 5.6%) and lead (by 3.7%) did go some way towards preventing further slides in metals prices. Generally, the first five months of 2014 has since seen metals prices once again begin to head lower.
3.3. Regional Economy

Growth in Sub-Saharan Africa was flat in 2013 with an estimated growth rate of 4.9%, equalling the growth rate posted in 2012. This did, however, represent a slight underperformance when compared to original projections of 5.0% in 2013.

<table>
<thead>
<tr>
<th>Region</th>
<th>2012 Actual</th>
<th>MEF Forecast</th>
<th>Estimated</th>
<th>Difference</th>
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<td>-0.1</td>
</tr>
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<td>Angola</td>
<td>5.2</td>
<td>5.6</td>
<td>4.1</td>
<td>-1.5</td>
</tr>
</tbody>
</table>

Source: IMF WEO April 2014

Nigeria – which overtook South Africa as the region’s largest economy in 2013 after the country’s GDP was rebased – posted an estimated growth rate of 6.3% in 2013, exceeding the forecast for 6.2% growth. This, however, marked a slowdown from the 6.6% growth registered in 2012.

South Africa underperformed slightly compared to original forecasts for 2.0% growth in 2013, posting an expansion of 1.9% which represented a deceleration from the 2.5% growth posted in 2012.
Growth in Angola – Sub-Saharan Africa’s third largest economy – slowed sharply in 2013, to an estimated 4.1% as drought and weak budget execution combined to drag growth below the initial forecast of 5.6%, and lower than the 5.2% registered in 2012.

3.4. Domestic Economy

3.4.1. Supply Side

Preliminary data suggests that real GDP growth underperformed in 2013 compared to forecasts made in the MEF. Real output expanded by 4.4% against projected growth of 4.8%. This also marked a sharp slowdown from the 6.7% growth recorded in 2012. This weaker-than-anticipated expansion came despite growth in both secondary and tertiary industries outperforming forecasts, as primary industries suffered a significant decline as a result of drought.

Secondary industries grew by an estimated 8.7% in 2013, marking a 2.2 percentage point improvement over initial growth forecasts of 6.5%, and a sharp acceleration from the 4.3% expansion recorded in 2012. Meanwhile, tertiary industries registered an estimated growth rate of 6.4% in 2013, which represented a slowdown compared to the 8.7% posted in 2012. This growth nonetheless marked a 1.4 percentage point improvement over the 5.0% projected in the MEF. However, having originally been expected to register positive growth of 1.6% in 2013, primary industries actually shrunk by an estimated 9.3%, marking a sharp reversal from the 16.7% expansion recorded in 2012.

### Table 3: Real GDP Growth (%) – Domestic, Supply Side

<table>
<thead>
<tr>
<th></th>
<th>2012 Actual</th>
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<td>Secondary industries</td>
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<td>8.7</td>
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<td>6.7</td>
<td>4.8</td>
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*Source: Namibia Statistic Agency, Macroeconomic Working Group*

The decline in primary industries in 2013 was led by a massive 26.9% fall – compared to positive growth of 8.8% in 2012 – in Agriculture and forestry due to drought. The drought hit Livestock farming particularly hard, with output in the sub-sector falling by 39.2%, having expanded by 6.4% in the previous year. Similarly, Crop farming and forestry contracted, by 8.6%, marking a sharp reversal from the 16.7% expansion recorded in 2012.

Further, following strong growth rates of 23.5% and 19.3%, respectively in 2012, both Fishing and fish processing on board, and Mining and quarrying, witnessed contractions in 2013, of 2.6% and 1.2%, respectively. The decline in Mining and quarrying was led by a 30.4% fall in Metal ores, which represented a sharp reversal from the 23.5% growth recorded in 2012. This was compounded by a 6.9% contraction in Uranium, again a steep decline from the 27.1% expansion posted in the previous year. Meanwhile, growth in Diamond mining slowed from 23.8% in 2012 to 6.6%, while growth in Other mining and quarrying was recorded at 42.5%, up sharply from the 38.0% decline in the previous year.
A boom in Construction combined with an acceleration in the growth of Manufacturing saw Secondary industries perform strongly in 2013. Growth in Construction accelerated from 7.2% in 2012 to a massive 35.7% in 2013, while Manufacturing expanded by 2.2%, up from growth of 1.6% in the previous year. The acceleration in Manufacturing was led by good performance in Meat processing, which jumped from -1.1% to 15.8%, Fabricated metals, from 7.0% to 10.9%, and Other food products, from -8.4% to 7.8%. However, the sector was held back by a further weakening of Basic non-ferrous metal, which contracted by 10.2% in 2013 to compound the 2.3% decline posted in 2012. Meanwhile, Electricity and water was also affected by the drought in 2013, with output declining by 0.7% having expanded by 17.8% in 2012.

Although Tertiary industries outperformed initial growth projections, the sector witnessed a slowdown in 2013, which was driven by a sharp deceleration in Real estate and business services. Indeed, growth in Real estate and business services slowed from 24.2% in 2012 to 3.9% in 2013 on the back of growth in Other business services collapsing from 54.5% to 3.0%. Further, growth in Transport and communication also slowed, from 9.5% in 2012 to 8.3% in 2013, as did Private households with employed persons, from 9.9% to 2.8%. However, growth in tertiary industries was kept buoyant by faster growth in Financial intermediation, Public Administration and defence and Health. Growth in Financial intermediation accelerated from 9.8% in 2012 to 14.1% in 2013, while growth in Public Administration and defence rose from 2.9% to 8.9% and the pace of growth in Health quickened from 5.7% to 8.8%.

### 3.3.2. Demand side

Although growth in gross domestic expenditure witnessed a sharp uptick in 2013, accelerating from 2.7% in 2012 to 7.6%, this nonetheless fell short of expectations for an 11.6% increase as projected in the MEF. This came largely as a result of private consumption failing to match expectations for a 9.5% expansion as growth remained unchanged from 2012 at 6.2%. Growth in government spending came in close to projections, growing by 8.9% in 2013, only marginally lower that the 9.0% forecast in the MEF. This resulted in final consumption expenditure growing by 7.0% in 2013, which marked an acceleration from the 5.2% growth recorded in 2012 Nevertheless, it came in below projections of 9.3% growth. Gross fixed capital formation performed strongly in line with the construction boom witnessed in 2013, growing by 20.1%, only slightly below MEF forecasts of 20.8% growth, and reversing the 9.5% contraction recorded in 2012.

Net exports outperformed projections made in the MEF, despite import growth coming in higher than expected. Imports grew by 15.5%, and while this represented a slight slowdown from the 15.7% expansion posted in 2012, it also marked a 1.3 percentage point increase over initial projections of 14.4% growth. However, this was offset by exports significantly outstripping initial growth forecasts of 4.4%, growing at 12.0%, up from 10.4% in 2012. As a result, net exports grew by 28.4%, a 3.3 percentage point improvement over initial forecasts of 33.2%.

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1 Since Namibia runs a trade deficit, positive growth of net exports represents a widening of this deficit. As such, weaker-than-anticipated growth in net exports is a positive development.
3.4.2. Consumer Prices

Consumer price inflation hovered around the 6.0% during the first three quarters of 2013, but dipped sharply in the last three months of the year. This brought average consumer price inflation to 5.6% for the year, marking a notable decline from the 6.7% average recorded in 2012. This slowdown can be largely attributed to a sharp slowdown in the price growth of Food and non-alcoholic beverages, which averaged 6.5% in 2013 compared to 9.1% in the previous year. However, slower price growth of Transport – which decelerated from an average of 7.1% in 2012 to 5.3% in 2013 – also contributed. Equally, weaker growth in the prices of Housing, water, electricity, gas and other fuels and Recreation and culture, which fell from 5.8% and 7.5% to 5.2% and 4.4%, respectively, also helped account for a slowdown in overall consumer price inflation. On the other hand, the price growth of Hotels, cafes and restaurants (from 4.9% to 8.9%) Clothing and footwear (from 0.5% to 3.5%) and Communications (from 0.7% to 2.3%) all witnessed notable accelerations.

After reaching a low level of 4.2% in November 2013, consumer price inflation has once again begun to rise, reaching an 11-month high of 6.1% in May 2014. This comes largely on the back of a resurgence in Food and non-alcoholic beverages inflation, and a sharp acceleration in the price growth of Transport.

Figure 4: Consumer Price Inflation (% change, y-o-y)

![Consumer Price Inflation Graph]

Source: Namibia Statistics Agency
4. Economic Outlook

4.1. Global Economy

Despite world output strengthening in the second half of 2013, and expectations for economic activity improving further over 2014 and 2015, the global growth forecast for 2014 has remained unchanged at 3.6%. This comes on the back of a weaker growth outlook in emerging market and developing economies, which is forecast to offset the improved forecast for advanced economies. However, a deterioration in growth prospects in advanced economies in 2015 has led to a downward revision of global growth projections for that year, from 4.0% to 3.9%.

<table>
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Source: IMF WEO April 2014

For 2014, growth forecasts for advanced economies have been revised up from 2.0% to 2.2% on the back of a brighter outlook across the Euro Area, the US and Japan. However, although growth prospects have improved in the Eurozone in 2015, they have not done so by a sufficient margin to offset a weaker picture in Japan and particularly the US. As such, the growth forecast for advanced economies for 2015 has been adjusted in the opposite direction to 2014, down from 2.5% to 2.3%.

A slowdown in the pace of fiscal tightening across the bloc, and a brighter outlook for net exports combined with a stabilisation of domestic demand in the periphery, have seen growth prospects in the Eurozone since the publication of the MEF. As such, growth forecast for the Eurozone for both 2014 and 2015 have been revised upward, from 1.0% to 1.2% in 2014 and from 1.4% to 1.5% in the following year.

Growth forecasts for the US economy have been revised upward for 2014, from 2.6% to 2.8% on the back of accommodative monetary policy, a recovering real estate sector and easier bank lending conditions. Further, a more moderate fiscal consolidation will also prove to be a boon as it acts a less of a drag on overall activity. However, while this more moderate fiscal consolidation is set to boost growth in 2014, it means that a tighter stance is likely to be
adopted in the following year, which will act as a drag on growth and has thus prompted a downward revision to growth of the US economy in 2015, from 3.4% to 3.0%.

Economic activity in Japan is now expected to be stronger than the 1.2% growth initially forecast for 2014 in the MEF due to an anticipated strengthening of private investment and exports. This will be supported by firmer economic growth in key trading partners and substantial Yen depreciation. As such, Japan is now projected to expand by 1.4% in 2014. Looking ahead to 2015, the winding down of monetary and fiscal stimulus is now expected to drag harder on overall activity than first anticipated, and as such, growth is now expected to slow to 1.0%, down from 1.1% projected in the MEF.

The picture in emerging market and developing economies in 2014, however, is not quite so bright. Expectations for export growth to be boosted by a combination of stronger activity in advanced economies and currency depreciation are expected to be more than offset by continued weakness in investment and tighter external funding as well as domestic financial conditions. In light of this, emerging market and developing economies are now forecast to grow by 4.9%, down from the 5.1% projected in the MEF. The forecast for 2015, however, has remained unchanged, with emerging market and developing economies still projected to expand by 5.3%.

Growth forecasts for China have been revised upward for both 2014 and 2015, from 7.3% to 7.5% in the case of the former and from 7.0% to 7.3% in the case of the latter, as investment is set to remain strong despite authorities’ efforts to rein in credit growth and rebalance the economy.

In India, Government efforts to revive investment growth and stronger export growth supported by Rupee depreciation are now expected to see economic activity rebound more strongly than initially anticipated in both 2014 and 2015. As such, growth in India is now expected to come in at 5.4% in 2014, up from MEF projections for 5.1% growth, and at 6.4% – revised up from 6.3% – in 2015.

While demand in Brazil is expected to be supported by the recent depreciation of the Real and still-buoyant wage and consumption growth, weak private investment – partly reflecting low business confidence – has now become an increasing concern. This has prompted a downward revision of Brazil’s growth forecast for 2014 from 2.5% to 1.8% and from 3.2% to 2.7% for 2015.

Recent developments in Ukraine have seen near-term prospects in Russia deteriorating significantly, with growth projections lowered for both 2014 and 2015, from 3.0% to 1.3% and from 3.5% to 2.3%, respectively.

4.2. Commodity Prices

4.2.1. Oil

Brent crude futures point to a further easing of prices over the remainder of the 2014 and beyond. The price of Brent crude oil is expected to end the year around US$110.00 per barrel, after which time it is forecast to continue trending lower towards US$100.00 per barrel by the end of the current MTEF period. This is due to a combination of declining demand in advanced economies and expected increases in non-OPEC production. However, oil prices will remain elevated as OPEC members scale back production, geopolitical risks persist, and demand from emerging market and developing economies remains strong.
Moreover, risks are tilted to the upside, particularly in view of the on-going threat posed to political stability in the Middle East and Africa, by both current and potential conflicts in the regions.

4.2.2. Food
According to World Bank forecasts, food prices are expected to fall in both 2014 and 2015 as both supply and demand conditions continue to normalise over the medium term. The decline of 1.8% in overall food prices predicted by the World Bank in 2014 is forecast to be led by an 18.3% fall in the price of cereals and compounded by a 1.9% decline in the price of vegetables, oils and protein meals. These losses are, however, expected to be offset by a 7.8% rise in the price of meat and a 14.5% increase in the price of seafood. Meanwhile, despite meat prices continuing to rise, by an anticipated 1.3% and the price of sugar also set to increase by an anticipated 7.7%. Food prices are nonetheless projected to fall further in 2015 as cereals, vegetable oils and protein meals and seafood all record declines, of 4.9%, 7.8% and 13.0%, respectively.

4.2.3. Metals
The price of metals is forecast by the World Bank to continue trending lower over the course of 2014 and 2015, with metals prices projected to decline by 6.2% in the case of the former and by 3.2% in the case of the latter. The projected price fall in 2014 is expected to be led by a 15.0% drop in the price of iron ore and a 14.3% decrease in uranium, but will be compounded by declines in the price of copper (by 6.2%), aluminium (by 2.4%) and lead (by 2.0%). These losses will, however, be offset somewhat by an anticipated 19.6% rise in the price of nickel, a 7.2% increase in the price of zinc, and a 3.6% growth in the price of tin. The outlook for 2015 is marginally more optimistic, with the prices of aluminium (by 6.4%), nickel (by 6.3%) zinc (by 1.5%) and lead (by 1.3%) all forecast to rise. However, overall metal prices are still projected to decline as the prices of uranium (by 14.4%), iron ore (by 13.9%) and copper (by 1.4%) are all forecast to fall, while the price of tin remains unchanged.

4.3. Regional Economy
In light of ongoing tight financing conditions and a general slowdown in emerging market and developing economies, growth forecasts for sub-Saharan Africa have been revised downward for 2014, from 6.0% to 5.4%. Further, due to the weaker outlook for advanced economies for 2015, growth projections for the region have also been lowered for the following year, from 5.7% to 5.5%.

Table 6: Real GDP Growth Forecasts (%) - Regional

<table>
<thead>
<tr>
<th>Region</th>
<th>MEF Forecast</th>
<th>Updated Projection</th>
<th>Difference</th>
<th>MEF Forecast</th>
<th>Updated Projection</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>6.0</td>
<td>5.4</td>
<td>-0.6</td>
<td>5.7</td>
<td>5.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7.4</td>
<td>7.1</td>
<td>-0.3</td>
<td>6.9</td>
<td>7.0</td>
<td>0.1</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.9</td>
<td>2.3</td>
<td>-0.6</td>
<td>3.3</td>
<td>2.7</td>
<td>-0.6</td>
</tr>
<tr>
<td>Angola</td>
<td>6.3</td>
<td>5.3</td>
<td>-1.0</td>
<td>6.4</td>
<td>5.5</td>
<td>-0.8</td>
</tr>
</tbody>
</table>

Source: IMF WEO April 2014
Due to the rebasing of its national accounts, Nigeria recently overtook South Africa as sub-Saharan Africa’s largest economy. However, despite a positive outlook for the oil sector as major pipelines are repaired and oil producers see a significant growth pickup, as well as continuing expansion of production in the non-oil sector, the growth forecast for Nigeria has been lowered for 2014 from 7.4% to 7.1%. The downward revision is in line with the weaker outlook for emerging market and developing economies. Despite this, however, the outlook for 2015 is more positive, with initial growth projections of 6.9% having been upgraded to 7.0%.

Although an improvement in external demand is expected to boost growth in South Africa, a recent dampening of expectations regarding the strength of this anticipated uptick, in conjunction with ongoing concerns about domestic policy uncertainty, has prompted a downward revision of growth forecasts for South Africa both in 2014 and 2015, from 2.9% to 2.3% in the case of the former and from 3.3% to 2.7% in the case of the latter.

Sub-Saharan Africa’s third largest Economy, Angola, has seen its growth forecast for 2014 and 2015 slashed, from 6.3% to 5.3% and from 6.4% to 5.5%, respectively. This has come largely on the back of concerns surrounding oil output, which is forecast to remain fairly stagnant over the medium term, as well as weak budget execution, which was a key reason cited for the weak growth outturn posted in 2013.

4.4. Domestic Economy

4.4.1. Supply Side

Real GDP growth forecasts for both 2014 and 2015 have been revised upwards, largely on the back of a more positive outlook for primary industries. Real output growth was initially projected at 5.0% for 2014 and 4.8% for 2015 in the MEF, but has now been upgraded to 5.7% for 2014 and to 5.1% for 2015.

Table 7: Real GDP Growth Forecasts (%) – Domestic, Supply Side

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MEF Forecast</td>
<td>Updated Projection</td>
<td>MEF Forecast</td>
</tr>
<tr>
<td>Primary industries</td>
<td>1.9</td>
<td>4.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Secondary industries</td>
<td>9.2</td>
<td>8.7</td>
<td>-0.5</td>
</tr>
<tr>
<td>Tertiary industries</td>
<td>4.6</td>
<td>4.9</td>
<td>0.3</td>
</tr>
<tr>
<td>GDP</td>
<td>5.0</td>
<td>5.7</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Macroeconomic Working Group

Growth for primary industries has been revised upward for both 2014 and 2015, largely on the back of a much weaker than anticipated outturn for Agriculture and forestry in 2013. Agriculture and forestry had been projected in the MEF to grow by 2.1% in 2013, but actually contracted by a massive 26.9%. In light of this, Agriculture and forestry is now expected to benefit from substantial base effects in 2014, and accordingly, growth forecasts have been revised upward to reflect this. Agriculture and forestry is now projected to expand by 8.7% in 2014, with Livestock farming expected to grow by 9.5% and Crop farming and
forestry by 8.0%. In 2015, Agriculture and Forestry is projected to grow by 8.9% as Livestock farming expands by 11.5% and Crop farming and forestry by 6.3%. In addition, Mining and quarrying is also expected to benefit from similar base effects. Having contracted by 1.2% in 2013 compared to an original projection for a 1.4% expansion in the MEF. Mining and quarrying is now forecast to grow by 3.6% in both 2014 and 2015, up from previous expectations for growth of 1.6% and 1.5%, respectively. Meanwhile, growth forecast for fishing and fish processing on board have remained unchanged at 1.2% in 2014 and 1.3% in 2015.

Although growth in secondary industries is expected to remain robust at 8.7% 2014 and 5.8% in 2015, projections have nonetheless been lowered from the 9.2% and 6.5%, respectively, originally forecast in the MEF. This is due to a combination of weaker prospects in both Manufacturing and in Construction. Manufacturing was originally forecast to expand by 4.2% in 2014 and by 5.5% in 2015, but this has now been lowered to 3.2% and 4.2%, respectively, after growth in the sector underperformed expectations in 2013, which has suggested that the anticipated uptick in Manufacturing is slower in coming than first projected. Meanwhile, growth forecasts for Construction have been downgraded slightly for 2014, from 26.6% to 25.1%. Growth is still expected to be strong in 2014 as the ongoing construction boom continues, but given that the sector expanded by a massive 35.2% in 2013, it would appear that much of the planned construction has been realised earlier than originally thought. It is therefore this – along with base effects – which has prompted the minor downgrade. Projections for Construction have, however, remained unchanged at 9.9% in 2015. Moreover, growth forecasts for Electricity and Water have also remained unaltered at 2.9% for 2014 and at 3.7% for 2015.

Projections for tertiary industries have been upgraded from 4.6% to 4.9% in 2014 and from 4.5% to 4.9% in 2015, primarily as a result of significant upward revisions to growth forecasts for Transport and communication. Transport and communication grew by 8.3% in 2013, outstripping MEF forecasts for a 4.3% expansion, and given that growth in the sector is expected to continue to accelerate. This is in line with efforts to make Namibia a logistics hub and an anticipated expansion in the telecommunications industry on the back of an increase in data services, forecasts for 2014 and 2015 have been revised up accordingly. Growth forecasts for Transport and communication have now been raised from 5.2% to 10.5% in 2014 and from 6.1% to 11.4% in 2015.

On the other hand, growth forecasts for Wholesale and retail trade have been lowered for 2014 from the 5.4% projected in the MEF to 4.9%, following disappointing growth in the sector in 2013. This 4.9% expansion will, however, still represent an acceleration from the previous year as civil service salary increases and a generally more conducive economic environment help to buoy the sector. Growth forecasts for Wholesale and retail trade for 2015 have remained unchanged at 4.7%. Meanwhile, while growth projections for Financial intermediation have remained unchanged at 7.0% in 2014, they have been revised down for 2015, from 7.2% to 6.0%, largely on the back of high base effects.

4.4.2. Demand Side

Following the announcement of a more expansionary budget for FY2014/15 than was originally anticipated in the MEF, projections for final consumption expenditure have been revised upward for both 2014 and 2015. Government spending is now expected to grow by 13.7% in 2014, up from the 6.8% forecast in the MEF, and by 5.3% in 2015 up from previous projection of 4.4% expansion. Growth forecasts for final consumption expenditure have as a
consequence been revised up from 8.8% to 10.5% in 2014, and from 7.4% to 7.6% in 2015. This comes despite a slight downward adjustment in the growth forecast for private consumption in 2014, from 9.4% to 9.2%. However, it should be noted that a revision in the opposite direction has been made for 2015, with growth now expected to come in at 8.5%, slightly above the 8.4% projected in the MEF.

Meanwhile, gross fixed capital formation has been adjusted downward for both 2014 and 2015 in line with the downward revision to the growth forecast for construction. Gross fixed capital formation is now expected to grow by 20.3% in 2014, down from 28.5% in the MEF, and by 9.8% in 2015, down from 11.9%.

Growth projections for exports have been revised sharply upwards for both 2014 and 2015 following stronger-than-anticipated growth in 2013. Exports were originally forecast to grow by 5.5% in 2014 in the MEF, but are now expected to expand by 13.0%, while projections for 2015 have been raised from 9.2% to 13.8%. Meanwhile, forecasts for import growth have been revised down marginally for 2014, from 17.7% to 17.5%, and in the same magnitude but in the opposite direction for 2015, from 13.2% to 13.4%. These revisions have consequently seen growth projections for net exports for 2014 fall from 32.3% to 28.7%, and from 17.1% to 12.4% for 2015².

<table>
<thead>
<tr>
<th>Table 8: Real GDP Growth Forecasts (%) – Domestic, Demand Side</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014</strong></td>
</tr>
<tr>
<td><strong>MEF Forecast</strong></td>
</tr>
<tr>
<td>Final consumption expenditure</td>
</tr>
<tr>
<td>Private</td>
</tr>
<tr>
<td>General government</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
</tr>
<tr>
<td>Gross domestic expenditure</td>
</tr>
<tr>
<td>Exports of goods and services</td>
</tr>
<tr>
<td>Imports of goods and services</td>
</tr>
<tr>
<td>Net Exports</td>
</tr>
<tr>
<td>GDP</td>
</tr>
</tbody>
</table>

*Source: Macroeconomic Working Group*

### 4.4.3. Consumer Prices

Consumer price inflation has been steadily accelerating over the first five months of 2013 on the back of faster price growth of *Food and non-alcoholic beverages* and *Transport*. While headline inflation is expected to moderate in the second half of the year, average consumer

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² Since Namibia runs a trade deficit, positive growth of net exports represents a widening of this deficit. As such, a fall in growth in net exports is a positive development.

Price growth is expected to come in at a higher rate than the 5.6% recorded in 2013. Indeed, consumer price inflation is forecast to average 6.1% in 2014, before moderating somewhat in 2015, to 5.8%.

4.5. Risks to Outlook

The balance of risks to global economic activity has improved since the MEF was drafted, largely reflecting improving growth prospects in advanced economies. However, significant downside risks persist, especially for emerging market and developing economies. These downside risks include:

- With inflation levels across advanced economies generally lower than anticipated, there is a risk of these economies sliding into deflation, which would pose a threat to both economic activity and the efficacy of monetary policy, given already low interest rates.

- There is an increased risk of reduced momentum or appetite for both national and region-wide reforms, as a result of improved growth prospects and reduced market pressures in the Euro zone.

- Although risks related to the normalisation of monetary policy in the US have diminished, they nonetheless still linger given that achieving such a major shift in monetary policy in a smooth fashion will likely still prove challenging, and may even involve renewed bouts of financial market volatility.

- Further underperformance in emerging market and developing economies as a result of increased sensitivity on the part of foreign investors and tighter financial conditions.

- Lower growth in China if credit growth and policy stimulus cannot be unwound in an orderly fashion.

- Geopolitical risks related to Ukraine and/or ongoing conflicts in the Middle East.

On the other hand, upside risks still exist. These, however, mainly revolve around the prospect of stronger-than-expected growth in advanced economies, particularly in the US, Germany and the UK.
“Striving towards improving Public Finance Management while addressing socio-economic challenges”