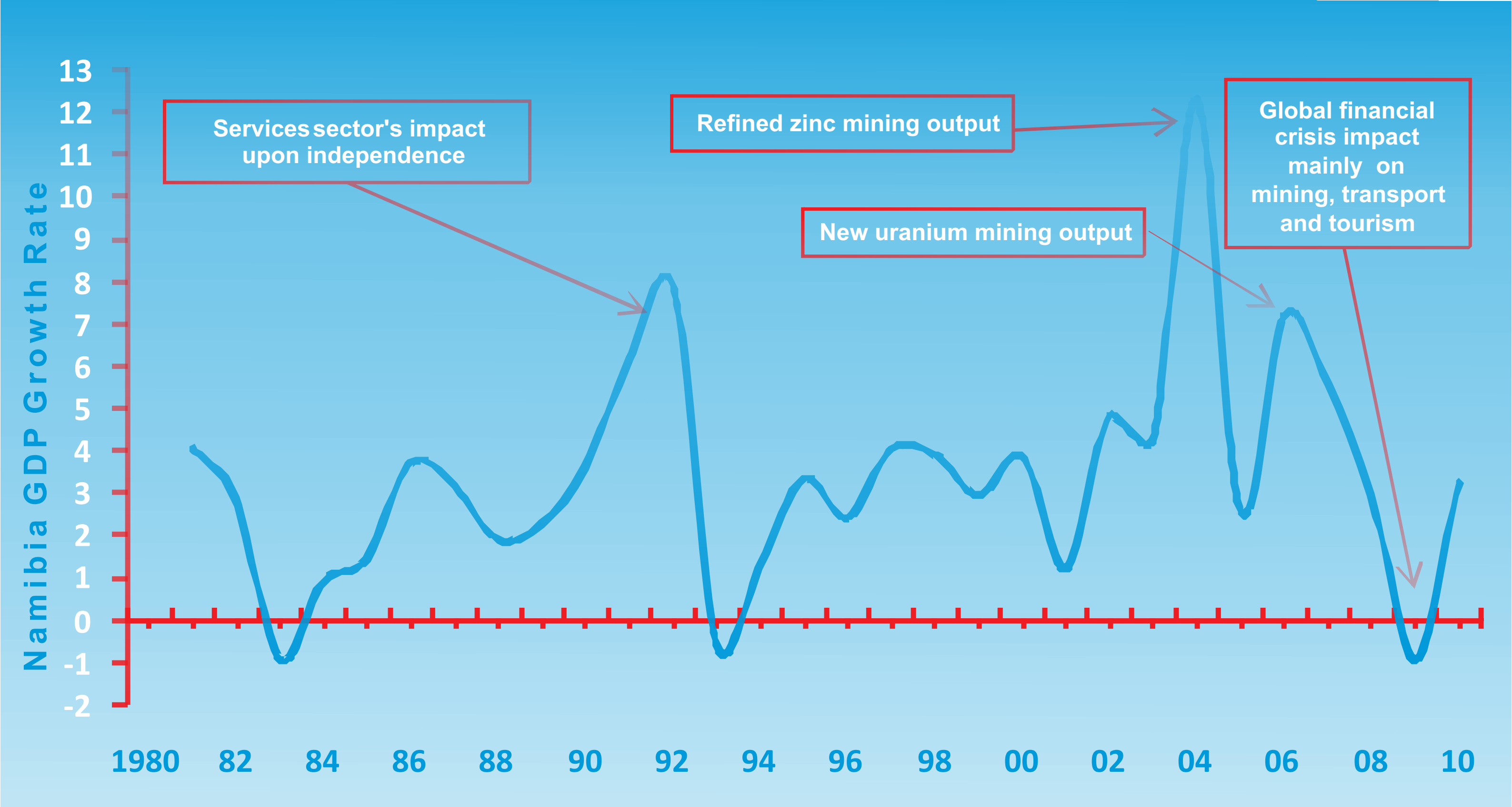

Namibia Economic Outlook Report 2010

January 2010

FIRST CAPITAL (PTY) Limited

"It is dangerous to apply to the future inductive arguments based on past experience, unless one can distinguish the broad reasons why past experience was what it was." — John Maynard Keynes

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First Capital (PTY) Limited (First Capital), established in July 2009, offers treasury and portfolio management service to Namibian institutional, corporate and individual investors/clients. Through our research arm, First Capital aims to help leaders in the commercial, public, and social sectors develop a deeper understanding of the Namibian and the global economy and to provide a fact base that contributes to informed decision making. First Capital research is a unique combination of different two disciplines, including investment, finance and economics. By integrating these different perspectives, First Capital is able to gain insights into the microeconomic underpinnings of the broad trends shaping the Namibian economy. Further information about First Capital and its services and to obtain copies of our published reports please see the address below:

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1. The Global Economic Outlook

1.1 Impact of the Global Financial Crisis

The years immediately before the crisis were characterized by a combination of rising oil prices, rising food prices, easy credit conditions, aggressive lending practices and less disciplined risk taking. The collapse of the sub—prime housing market in the United States has been followed by a global credit crunch, and falling asset prices, with serious implications for the global economy. The global economy is beginning to recover from the first synchronized contraction of the post-war era and global GDP is projected to turn positive in 2010, although the path to a sustainable recovery is not yet clearly shaped. The most recent data suggests that the global economy has begun to recover, but the shape and sustainability of that recovery remains a debate. Professor Nouriel Roubini, a leading USA based economist who predicted the scale of global financial troubles, said a U-shaped recovery is likely in 2010, where growth is going to remain below trend, especially for the advanced economies, for at least 2 or 3 years. If U.S. consumers consume less, then for the global economy to grow at its potential rate, other countries that are saving too much will have to save less and consume more. Roubini advanced several arguments for a weak U-shaped recovery, first, the financial systems in both advanced and developing economies, despite the policy support, are still severely damaged, second, economies which save a lot, such as China, Japan and Germany, might not boost consumption enough to compensate for any fall in demand from the United States and Britain. Employment is still falling sharply in the US and elsewhere in advanced economies. Table 1 below shows that advanced economies will experience sluggish U-shaped recovery, as balance sheets are still being rebuilt, fiscal stimulus is fading away and a combination of excess capacity and high public debt is constraining investment and consumption. The recovery in Emerging Markets (especially Asia, and commodity exporters) will be more like a V due to stronger balance sheets and buoyant domestic demand.

Table 1: Global Economic (GDP) Growth Rates

	2008	2009	2010	2011
Advanced Economies	0.5	-3.2	2.1	4.3
United States	0.4	-2.5	2.7	2.4
Euro Area	0.6	-3.9	1.0	1.6
United Kingdom	0.5	-4.8	1.3	2.7
Emerging Markets	6.1	2.1	6.0	6.3
Sub-Saharan Africa	5.6	1.6	4.3	5.5
China	9.6	8.7	10.0	9.7
India	7.3	5.6	7.7	7.8

Source: RGE, IMF

1.2 The Shifting Balance of Power

China's rapid economic growth has made important contribution to the development and prosperity of the world economy, especially to the world economic recovery in recent years. Over the past 20 years from 1990 when China share of the world economy amounted to 3.5% (see table 1), China has witnessed sustained, rapid economic growth, with the average annual growth rate of GDP in the 1990-2009 period reaching 10.3 percent, 12% percent in 2008, increasing its share in world GDP to 12% in 2009, and RBE estimate China's share of world GDP to reach 16%, calculated in accordance with the parity of purchasing power, while that of the USA declining to 20.7 percent rate, and advanced economies excluding the USA declines from 41% in 1990 to 33% by 2013. Although emerging markets (Asian Economies, Russia, Brazil, India) share of world economy increased from 20% in 1990 to 35% in 2009, and projected to increase to 45% by 2013, excluding China from, EM weight or share of world only increased marginally from 30% in 1990 to 33% in 2009 and projected to contribute around 35% by 2013. The USA's bubble economy has burst and it will take years to recovers, and the damage done to the USA and all Advanced Economies by the global financial crisis points to China taking over leadership of the world economy from the USA in the next 15 - 20 years.

Table 2: Trend in Countries share in global nominal GDP,PPP based

Date	Advanced Economies (AE)	AE - US	EM	EM-China	USA	China
1990	64.1	41.5	35.9	32.3	22.6	3.6
1995	64.1	41.1	35.9	30.2	23.0	5.7
2000	63.0	39.2	37.0	29.8	23.8	7.2
2005	58.9	36.3	41.1	31.6	22.6	9.5
2009	53.9	33.1	46.1	33.4	20.8	12.7
2010F	52.9	32.0	47.1	33.3	20.9	13.8
2011F	52.1	31.3	47.9	33.3	20.8	14.6
2012F	51.2	30.8	48.8	33.4	20.4	15.4
2013F	50.3	30.3	49.7	33.6	20.0	16.1
Source: IMF, RGE, First Capital		**EM= Emerging Markets.**				

Namibia positioning: China has also become the globe's most attractive commodity market, and the increased pace of urbanization in China, and the change in consumption patterns that results means China will become a net importer of both agricultural and mineral products. China therefore becomes, a key factor in Namibia's growth equation, and can become a major player in the transformation and modernization and major investor in Namibia's Agriculture sector, a sector that is likely to become a growth engine of the Namibian economy. While Namibia's traditional market (Europe, USA, South Africa), a friendly relationship with China be maintained more efforts and research needs to be conducted to determine how the Namibian economy can be integrated to that of China, that is, how can Namibia increase its exports to China, and attract more Chinese investors in Namibia's Agricultural sector.

1.3 Commodity Market Outlook

Emerging Markets, particularly China and India, will continue driving commodity hunger for the foreseeable future as commodity-intensive growth and urbanization encourage stockpiling and acquisition of national strategic reserves. 2009, was a very impressive year for the commodity markets. For most of the year commodities were seen as the place to be with many analysts touting them as a new and potentially sustainable investment class. Certain commodities forged very impressive rallies in the face of highly uncertain economic conditions, the continuous Commodity Index forging a gain of more than 30% from the end of 2008 to 2009 October highs. While the outlook for the economy remains very suspect as of this writing, a bit of historical perspective will lead one to conclude that many commodity markets still have significant upward potential. In our opinion, a large portion of the commodity price gains that were forged in 2009 were simply a rejection of severely deflated pricing.

1.3.1 Crude Oil

Recent Trend: The 2010 crude oil market is likely to be fraught with volatility, but ultimately it is the excess supply overhang present in late 2009 and perhaps into the first half of 2010 that could set the stage for a significant recovery in refined product prices later in the year. The break in energy prices from the 2008 high was clearly a function of weakening global oil demand following the credit crisis. Therefore, it stands to reason that a good portion of that demand will start returning in 2010, and that return could provide a significant lift to fuel prices, as global economic conditions improve.

1.3.2 Copper Market

Recent Trends: The copper market was clearly one of the most impressive physical commodity markets in 2009, with nearly prices managing a startling rally of almost 62% from the 2008 low. With copper and other commodities facing what looked like a sustained economic contraction in the wake of the sub-prime threat, 2009 rally is said to have been out of character. When copper prices touched down at prices of below US$3000 in December 2008, they were bordering on a level that could have seriously reduced future copper production capacity. However, quick action by several large multinational copper producers to curtail physical production reduced the threat of a large build up of supply in the wake of the global recession. According to some estimates as much as 20% of the world's copper production was idled in an attempt to provide support to prices in the event of a sustained and unrelenting contraction in the economy. In retrospect, Weatherly Mine and many copper producers braced for the worst, but the worst never came.

Forecast: Copper prices seemed to get slightly ahead of reality into the end of 2009 with the pulse-up rally to U$3, 2750. The risk to price is that with production still idled and the outlook for the global economy slowly improving, traders might view a correction back below the U$2,900 level. **The most important swing factor in 2010 will be – how long will production remain idled.**

1.3.3 Precious Metals Markets

Recent Trends: By end of December 2009, both gold and silver markets have already seen 75% of the bull market action that is due in this cycle, but considering the historical nature of conditions facing the markets, the remaining 25% of the move could still be quite surprising. Towards the end of 2009, the gold trade was encountering more frequent talk about the size of the "crowed" in the gold and silver inflation trade. Physical supply and demand issues are unlikely to be primary market forces in either the gold or silver markets in 2010, as the main event for precious metals prices will probably be the outcome of the growth/no growth and /or inflation/no inflation debate.

Forecast: In looking ahead to 2010, we think the most forces for metals prices will be ongoing foreign central bank purchases of gold and the ebb and flow of the inflation question. While the US Fed has suggested it would leave interest rates low until recovery is assured, the gold and silver trade will not be immune to the negative impact of premature rate hike speculation. In fact, while we see significantly higher gold and silver prices in 2010, we also think that the easy money has already been made and that it will probably require the use of options and futures combinations to be able to ride through the remaining 25% of the rally. While gold has been the tip of the sword in the metals complex this far, we would suggest that the beginning of the end of the historic run up in metal prices will initially be signaled by silver gaining consistently on gold. If gold prices are viewed as too expensive, it could result in a shift towards silver, and that would suggest to us that the bull market has entered its end game. **The most important swing factors we will be watching in 2010 are – economic recovery, escalating inflation expectations and the US dollar.**

Table 3: GFC Impact Assessment on the Namibia

		GFC Impact	
	2007/8	2008/9	2009/10
GDP Growth rate	5.5%	2.9%	**-1.5%**
Budget Balance(As % GDP)	5.2% (surplus)	-0.7%	**-5.2%**
SACU Receipts(million N$)	6,0	8,5	**8,6**
Diamonds	-3.1%	0.3%	**-62.5%**
Debt to GDP	18.9%	20.5%	**24%**

Source: GRN Budget, BoN

Namibia has not escaped the effect of the global financial crisis, in that the composition and orientation of its trade has exposed it to one of the main channels through which the sharp downturn in discretionary spending in the countries at the epicenter of the financial crisis has been transmitted to the global economy, namely, the dramatic downturn in trade in commodities and manufactured goods. A closer look at Namibia's export destination indicates that more than 60 percent of its exports were destined for advanced economies such as the UK, USA, Italy and Japan, the most hit by the GFC. Primary commodity exports made up more than 50 percent of Namibia's merchandise exports, making the country vulnerable to contraction in global economic growth and downward trend in commodity prices.

The Namibian economy entered the crisis from the point of strength, with the Namibian government fiscal position in a surplus, the current account in surplus, while Namibia's foreign reserve position had risen from three weeks of imports to more than 3 months of imports. The stock of *international reserves* held by the Bank of Namibia, increased to N$14.8 billion at the end of the third quarter of 2009 from N$13.0 billion recorded at the end of quarter two of 2009. Namibia's level of reserves at the end of the third quarter represented 17.5 weeks of import cover, slightly higher when compared to 17.4 weeks of import cover for the preceding quarter. Despite Namibia's sound financial position, the financial crisis brought about declining exports and shrinking demands, thus posing a grave challenge for the development of the economy. While the first round effects of the crisis have been mitigated, the Namibian economy faces severe threats of growth deceleration over the coming years, which would undermine the progress made in reducing poverty. In the early days of the crisis, the effects were mostly observed on the financial markets, with stock indexes losing substantially due to outflow of funds from equities into cash.

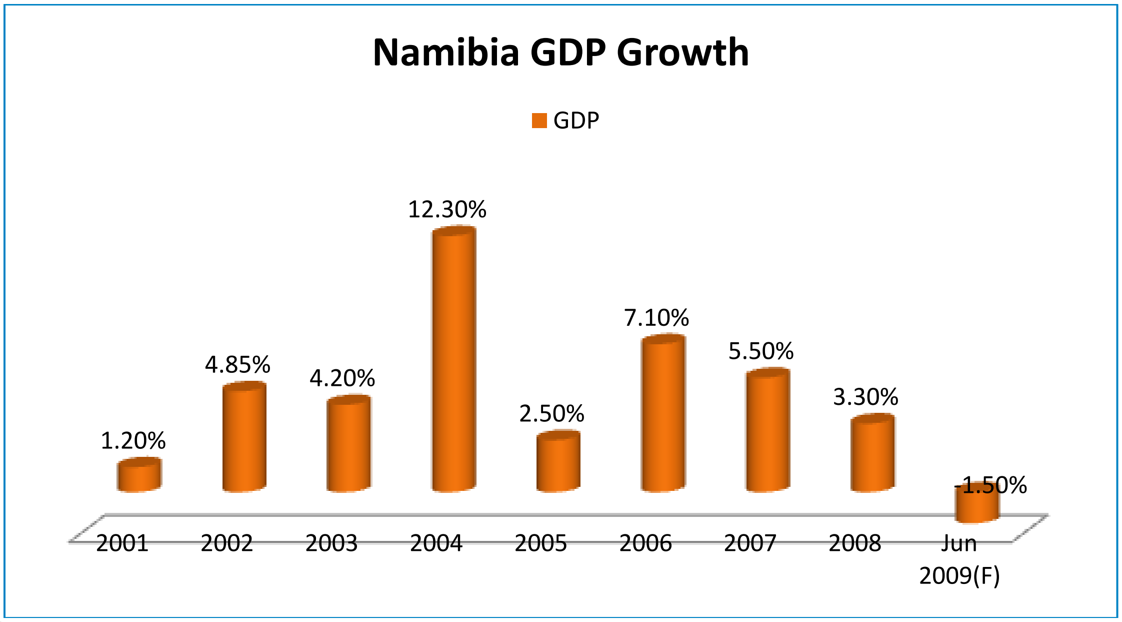
2.0 Namibia National Economic Indicators

2.1 Real Gross Domestic Product (GDP)

Recent Trends:

The global financial crisis has led to the most severe downturn in the Namibian economy in the last fifteen years. Since 1980 there are were only three periods when the Namibian economy registered negative growth i.e. 1982, 1993 & 2009. At the start of 2009, the prospects were somewhat bleak for the Namibian economy, with some sectors such as mining, tourism, and fishing, already registering negative growth rates, but 12 months later the country is well on its way to recovery, with the country's diamond industry producing at full capacity, rising commodity prices (minerals), re-opening of the Weatherly copper mine in Oshikoto on the pipeline, the economy on its way to full recovery. GDP growth declined from **7.1%** in 2006 to **3.3%** in 2008 and is projected to have declined by **-1.5%** in 2009 (figure 2). Underpinning the slowdown were factors such as the major decline in mineral production (diamond and copper), contraction in tourism and weak domestic demand. (In addition, factors such as the momentum provided by large amounts of infrastructure spending implemented during 2009 have somewhat shielded the Namibian economy from the effects witnessed internationally.)

Figure 1: Namibia GDP growth



Source: Bank of Namibia

Forecast:

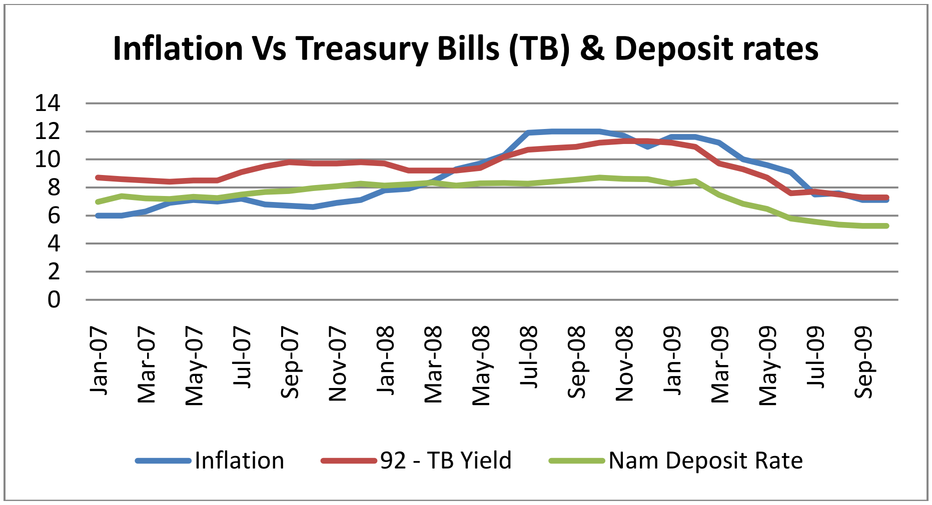
There are already signs of recovery within the international economy, with recent increases in global consumption spending as well as some positive movements in commodity prices and financial market indices. The economy is expected to begin a long process of recovery and **First Capital** expects net exports, low interest rates, increased business/private investment, and rise in personal consumption and positive contributions from accommodative fiscal policy to drive the recovery in 2010 and beyond. Real GDP growth estimates for the Namibian economy in 2010 range from the most bearish, 3.2 % (IMF), all the way to 4.5% by local forecaster. One of the key questions is what will be the shape of the recovery? From a negative growth in 2009, to a positive growth of more than 3%, First Capital predicts a V-shaped recovery in the Namibian economy, supported by strong growth from mining (especially diamond industry), service sectors (especially tourism and government), fishing and agricultural sector (supply side). **First Capital** believes that 2010 is expected to be a year of transition where cyclical and structural forces meet and the strength of the recovery is tested.

2.2 Inflation

Recent Trends:

Inflation averaged 4.7 percent during 2005, before accelerating progressively in 2006 and 2007, mainly due to high and persistent increases in international crude oil and food prices and a weaker domestic currency, resulting in annual average rates of 5.1 percent in 2006 and 6.7 percent in 2007. Persistent inflationary pressures were observed in Namibia during 2008 due to relentless increases in international oil and food prices. A collapse in international oil prices and Government's zero-rating of VAT on certain basic food commodities was a great aid to the reversal in inflation trends, and this moved the annual average inflation rate from **10.3%** in 2008 to an average of **7.5%** for 2009. Weakness in both the global and the Namibian economies, strong N$ and falling energy costs were the key factors responsible for the declining trend in inflation. Figure 4 below compares the relationship between inflation and yield (returns) on government treasury bills (both the 92 and 365 days treasury bills- TB). There seem to be a close and perfect relationship between the two variables, with TB being a better hedge against inflation than commercial bank deposits.

Figure 2: Inflation Vs TB



Forecast:

First Capital believe that inflation will continue the downward trend entered in 2009, before reversing the downward trend and start increasing as the economy strengthens, but is not expected to move up quickly, staying below 7%, for most of 2010. Meanwhile, the projected stable/strong local currency and the low risk of an external supply side shock to inflation will likely contain tradable and wholesale prices. One risk factor that could escalate inflation is the upward pressure on oil prices and the likely depreciation of the Rand/N$ currency against major currencies of trading partners.

2.3 Interest Rates

Recent Trends:

In response to rising inflation over 2006 – 2008, Bank of Namibia tightened monetary policy that saw its repo rate increasing by 350 basis points since the first increase in June 2006 in an attempt to contain prices and to prevent second-round effects of oil price inflation. Inflation responded well, and started declining from end of 2008, and having observed a progressive reduction in demand indicators, the Bank of Namibia felt it necessary to relax the monetary policy stance during the last month of 2008, when it reduced the repo rate by 50 basis points to 10 percent, followed by another 250 basis reduction in repo rate to 7.5%.

Forecast:

Interest rates are just about as low as they can go and all indications are that the next move is upward, and not downward. As the economy picks up strength, and high food prices, asset inflation and supply-side inflation turning into demand-led inflation will lead to the risk of rising inflation. At the time of writing forecasters unanimously project the Bank of Namibia to keep its policy rate unchanged throughout 2010. The Bank of Namibia have argued commercial banks to reduce the interest differentials between lending and deposit rates, which currently stands at more than 5% compared to SA where the spread is below 3%. First Capital believes Bank of Namibia will not be in a rush to increase interest rates when the Reserve Bank of South Africa, begins increasing interest rates towards the end of the second half of 2010. We maintain the view that the beginning of the hiking cycle will be around first quarter of 2011 and we expect the Bank of Namibia to hike the bank rate by 50 basis points, with a total of 200 basis points interest rate increase in 2011. The risk to our forecast may be the unexpected major depreciation in the currency, oil price rising above US$70. However, until credit and money supply actually grow meaningfully, and while real growth remains sluggish, passing supply side cost increases onto consumers is going to be difficult and broad-based inflation is going to remain subdued.

2.4 Currency Market & Namibian Dollar Forecast

A number of commodity-based currencies, including the South African to which the Namibian dollar is linked were on fantastic upward slopes in 2009 and may continue to gain. With many nations already indicating their intentions to fight inflation, it is possible that some of the hard lifting on the inflation front will be undertaken by someone other than the US Federal Reserve.

Table 4: Exchange rate & ZAR Cross rates

	2009					2010			
Exchange Rates	Q1	Q2	Q3	Q4	2009	Q1	Q2	Q3	Q4
EUR-USD	1.29	1.40	1.43	1.48	1.40	1.47	1.52	1.58	1.63
USD-JPY	95	96	94	90	94	93	94	96	95
GBP-USD	1.46	1.64	1.64	1.63	1.59	1.59	1.56	1.54	1.56
USD-ZAR	9.88	8.06	7.78	7.47	8.30	7.30	6.90	6.40	6.60
ZAR Cross Rates									
EUR-ZAR	12.75	11.28	11.12	11.02	11.54	10.73	10.50	10.08	10.74
ZAR-JPY	9.66	11.95	12.02	12.02	11.41	12.68	13.62	15.00	14.39
GBP-ZAR	14.42	13.22	12.76	12.20	13.15	11.61	10.76	9.86	10.30

Source: ETM, First Capital

2.5 Total Employment

Recent Trends:

Unemployment already at 37% (2003/04 Labour Survey) has risen dramatically since the start of the crisis in 2008. Decline in employment has been a major part of the story in this business cycle, with a total number of retrenched workers in the mining industry alone amounting to more than 1200 workers. Although no official statistics is available on total loss of employment in 2009, some retrenchments were reported in the tourism and fishing industries. However, most those retrenched in the mining industry and still fit to work were absorbed by other mining industry, especially the uranium companies and the new cement company. Social Security Commission data on new employees registered and new jobs created indicated an increase in new number of jobs created. One explanation to this is that, a substantial number of those who where retrenched established new small companies employing between 1 and 10 employees. More jobs were also created through the government tender process, where many tenders were awarded to new locally owned companies.

Forecast: The observed rise in jobless figures seen in 2008 and 2009 was in part cyclical, as a response to the decline in demand for Namibia's mineral products, and decline in number of tourists visiting Namibia. Most of these lost jobs have started returning, albeit slowly, as demand for Namibia's exports increases. However, the pre-crisis unemployment rate is not only linked to cyclical nature of the economy, but explained more by structural factors, that requires change in policy direction. Certain industries, such as the agriculture sector, continues to offload workers, the sector employed more than 40% of the country's labour force in the 1990s, but this has declined to around 20% of the labour force. The state of affairs is that, most of those who lost their jobs in the agriculture sector are unskilled and could not be absorbed in other sectors, partly because of their education levels, but also other sectors of the economy were not expanding. **First Capital** believes that most of the retrenched workers during the crisis are already employed, and the remaining ones will be rehired as the economy gains growth momentum in 2010. We do not see much change in the level of unemployment caused by structural factors, as these requires long-term solutions related to major investments in sectors such as agriculture, tourism, skills levels, major shift and re-orientation of government policy and support to micro –small-medium enterprises (MSMEs).

2.6 Government Finances (Fiscal Developments)

In response to the food and the global financial crisis, the Namibian government embarked on massive expansionary expenditure (expenditure increase of more than 20%) after years of tight budgets. A relatively large surplus of 5.3 percent of GDP on the Government budget was recorded in the 2007/08 fiscal year, and this supported expansionary budgets in subsequent years. To counteract the effects of the global crisis, major expansionary fiscal policy was implemented in the 2009/10 recording a budget deficit of more than 5%, the highest deficit since 2005. Despite the accommodative fiscal policy in 2009/10, total Government debt stock outstanding increased marginally from 19% of GDP end of 2008 to 24% of GDP. Unlike other countries, Namibia did not implement fiscal stimulus to the extent of overextending unsustainable levels of fiscal deficits and debts.

The Namibian Budget Outlook for 2010/11

We make our projections under the assumption that the current laws and policies remain in place. **Outlays -** We forecast a rise in government expenditure of more than 20% in the 2010/11 to $27 billion, as government begins to fast track implementation of NDP 3 program, Vision 2030 and implementation of the 2009 SWAPO Party Manifesto. **Revenues – First Capital** expects government revenues to total $24.5 billion this fiscal year (2010/11), an increase of 18% over 2010/11. The combination of the expected strong recovery in mining output and overall strength in the economy is expected to lead to sizable increase in receipts from mining, individual and corporate income taxes and SACU.

SACU Revenue Assessment

The SACU revenue contributes 35% to Namibia's total government revenue, and a decline in this revenue category has a major negative impact on the government's financial position. A review of the SACU revenue pool indicates that the SACU revenue pool is estimated to have declined to around N$43 billion in 2008/09, from R46.29 billion in 2007/08 mainly due to the effect of the global financial crisis. The decline in SACU revenue is likely to continue in 2009/10. Initially the size of the Revenue Pool was to increase to above N$50 billion, but with the projected decrease in imports, the revenue pool is now estimated to decline to N$40 billion in 2009/10, and to below N$45 billion in 2010/2011. Preliminary import data within SACU indicates that there has been a major decline in the import of motor vehicles, which accounts for more than 40% percent of the customs revenue pool. Table 3 below indicates that Namibia budgeted to receive **N$8.5** billion in 2008/09, **N$8.6** billion in 2009/10 and N$5.2 billion in N$5.1 billion. First Capital believes that the full impact of the global financial crisis was not fully captured in these estimates, and in table 3 below we present revised figures and revised SACU receipts for 2008/09 by N$1.8 billion to N$6.5 billion and a decline of N$2.5 billion in 2009/10 to N$6.2 billion. We revise the 2010/2011 upward to N$6.8 billion due to expected rise in imports as economic recovery gains momentum. Namibia's main revenue share in SACU is mainly influenced to a large extent by the customs revenue, as this is distributed on the basis of intra-SACU imports and in practice BLNS import more from the region, in particular from South Africa. On the other hand, South Africa's share of the Pool comes mainly from excise revenue, largely because the excise component is distributed on the basis of GDP and South Africa has the largest economy.

Table 5: SACU Revenue Share (million N$)

REVENUE SHARES	2007/08	2008/09	2009/10	2010/11
Namibia	6,0	8,5	8,6	5,1
Namibia (Revised)		6,7	6.0	6.5

Source: ***BLNS national budgets & Forecasts***

Government Deficit and Debt – Table 4 above shows SACU receipts declining substantially and will therefore have a significant impact on government revenue. First Capital now projects a much higher deficit for years 2008/09 and 2009/10. We project a deficit of around 4% of GDP for 2010/11 due to expected increase in SACU and diamond revenue**.**

3.0 Sectoral Outlook

3.1 Mining Sector Outlook

Over the past seven years, prices of many commodities, including copper, uranium, nickel, diamonds, platinum and petroleum, have risen to record highs, and contributed significantly to good growth in Namibia. However, since September 2008 commodity prices have been declining, while oil fell by more than 70 per cent in the second half of 2008. The mining sector's total output is estimated to have contracted by more than 50 percent in 2009, on account of major contraction in the diamond industry, estimated to have declined by more than 100%, and a total collapse of the copper production as a result of closure of Weatherly Mine towards the end of 2008.

The Diamond Sector

The diamond industry was the most hit by the global financial crisis and has faced an unprecedented crisis after Oct 2008. Supply volumes into the market fell significantly, due to liquidity constraints; US market demand collapse & speculation. The demand for diamonds is generally measured in relation to the manufacturing capacity and the United States' diamond jewellery market, which represents 50% of total international diamond jewellery sales, was badly damaged by the global financial crisis. In addition, the major diamond jewellery markets after the USA, namely, Japan, Europe were all in recession, while China and India experienced downward trend in their economic growth and contraction in consumer spending, and without robust consumer spending in both the USA, Japan, Europe, China and India the diamond market struggles. NAMDEB, the largest diamond producer in Namibia responded to the global financial crisis and contraction in global consumer spending by introducing the following measures, a 3 month's production shutdown, retrenchments and early retirement of more than 700 employees and suspension of further diamond prospecting. The Bank of Namibia based on the three quarters of 2009 projects that diamond production declined by 55.3% during 2009. Despite the decline in diamond production the value of diamonds exported increased substantially by 28.3% during the third quarter from N$1.1 billion recorded during the same quarter of 2008 (Bank of Namibia Q3 Report).

Diamond Market Outlook: The outlook for the diamond market is good in 2010 and beyond. While the current challenging economic conditions have had a negative impact on diamond demand and diamond prices the medium to long-term outlook for diamonds remains robust. A rough diamond supply shortfall of US$3 Billion is estimated by 2011(Rio Tinto). Continued positive outlook for rough diamond prices has enticed major diamond producers, such as De Beers and Rio Tinto, to devote large part of their budgets for exploration of new sources of production. Several lead indicators are now moving in the right direction. Consumers in USA, Europe, Japan, China and India are feeling a bit more confident about the economy and likely to increase spending, polished prices have stopped falling and now rising, most diamond jewellery manufacturers have re-entered the market and rough diamond sales improved and increased significantly in Q2/Q3 2009 and supply volumes into the market are moving back towards pre-crisis levels. A shortage of rough supply is expected over the next ten years as a result of global production remaining constant and demand continuing to increase. This will result in continued price increases in the short to medium term. At some point the market will correct, although some decrease in rough prices may occur at this stage, much of the recent gains would have become entrenched into the market.

Diamond prices are notoriously difficult to predict due to the whims of fashion and jewellery trends. Over and above this, there are over 16,000 different polished diamond price categories as a result of the various combinations of colour, clarity, cut and size within each individual stone. **The most important swing factor in 2010 will be – how strong and robust is global economic growth, especially in USA, consumer spending & confidence.**

3.2 Agriculture Sector

Agriculture accounts for about 6 percent of Namibia's Gross Domestic Product of which 90 percent is from livestock. 70% of Namibia's population depends on agriculture for livelihood and employment (the sector employs 22% of the total labour force). The main products for export are live animals which go to South Africa and meat which is exported both to South Africa and the European Union (EU). According to the 2006 livestock census, Namibia has about 2.4 million cattle of which 1.2 million are found in the Northern Communal Areas and the rest are south of the Veterinary Cordon Fence (VCF) which constitutes the World Organization for Animal Health (OIE) recognized Foot and Mouth Disease Free zone. Agriculture in Namibia is divided into two main production systems, large private commercial farms (dominated by livestock farming). Communal crop farming is confined mainly in the regions of Caprivi, Kavango, Ohangwena, Oshikoto, Omusati and Oshana, while commercial crop farming is largely concentrated in the "Maize Triangle" around the towns of Grootfontein, Otavi and Tsumeb, with maize being the most important crop, grown both under rainfed and irrigated conditions. Wheat is also grown under irrigation on about 2 400 ha annually at various irrigated sites around the country. Despite receiving the highest rainfall in the country, Crop yields in communal agriculture are very low compared to those obtained in the commercial sector. Average maize yields in communal agriculture are estimated in the 0.5- 0.55 t/ha range this year while yields in the commercial sector, which includes both dry land and irrigated maize, average 3.87t/ha. Millet and sorghum are primarily smallholder crops, with yields varying from 0- 0.45t/ha this year. Yield differences are primarily the result of lower use of improved seed and fertilizers in the communal sector, due to a lack of working capital.

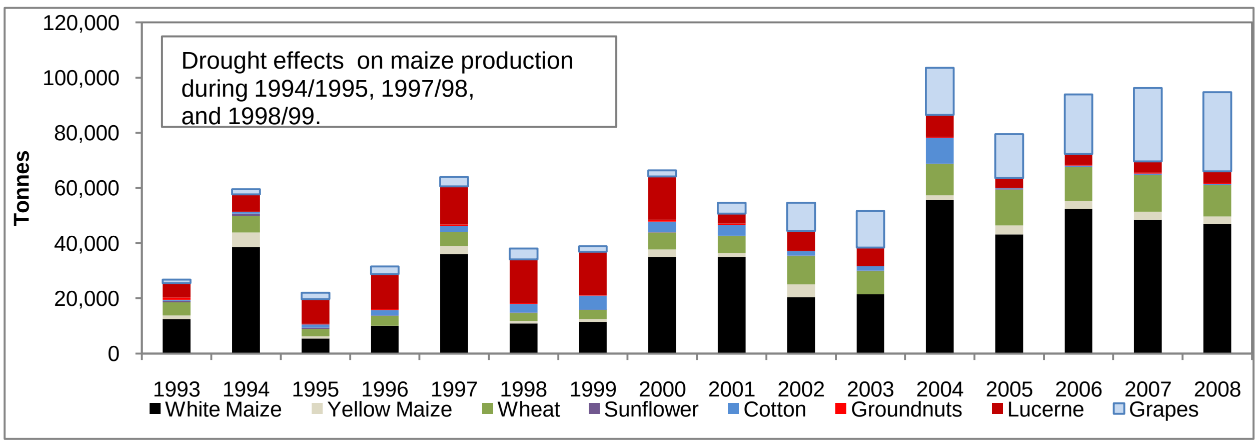
Government efforts in diversifying the agricultural sector by venturing into non-traditional products such as grapes and dates, pigs and ostrich production is yielding results with Namibia now an exporter of grapes and dates to Europe and the Middle East. Agricultural growth is estimated to have decelerated to -0,9 per cent in 2008. The slowdown was a result of the drastic decline in total cattle marketed, mainly due to the decline in weaners marketed. Crop production is also expected to have declined by 2, 5 per cent in 2008. The decline is attributed to the effect of floods which destroyed crops earlier in 2008.

Crop Production

Recent Trends: The total coarse grain produced in the 2008/9 period was 115,827 tonnes, and white maize constituted 51% of the total produced followed by millet and wheat at 32% and 13% respectively. The 2008/9 maize harvest was 9.1% more than that of 2007/8 season and 4.1% more than the five year average. Although the past three harvests from the 2006/7 were below the five year average, the 2008/9 production showed significant recovery since severe floods began in 2006/7.

The tables below show production figures by product and commercial and communal farmers' production for the years leading up to 2008.

Figure 3: Total Cereal Production by Product

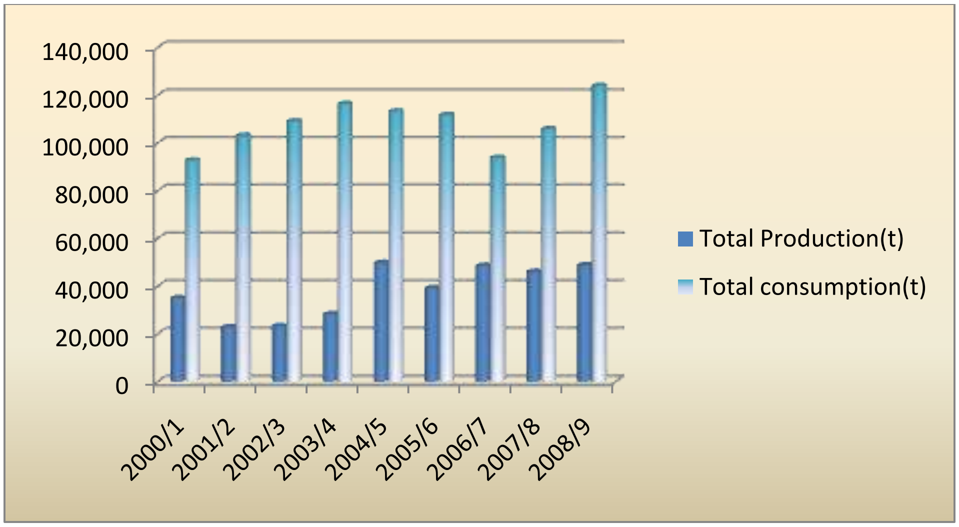


Source: Agronomic Board

Forecast: The 2009/10 planting season started off in late December due to late onset of soaking rains and forced farmers to start planting in late December 2009 to January 2010. There are also strong indications of more floods this year and this poses major risks to crop production in areas prone to floods. The expected coarse grain harvest is likely to increase by at least 7.1%, with maize continuing to have the larger share. Wheat and millet production is estimated to increase by 15% and 5.0% respectively.

Namibia as a net importer of maize, currently imports approximately 70% (see figure 3 below) of its maize requirement from South Africa. Figure 3 shows the total consumption in the country vs. the total recorded production. The total consumption in the country has seen a sharp increase since 2006/7 as households began to buy more affordable traditional staple foods such as maize meal during the recession period when food prices increased sharply especially in the 2007/8 period.

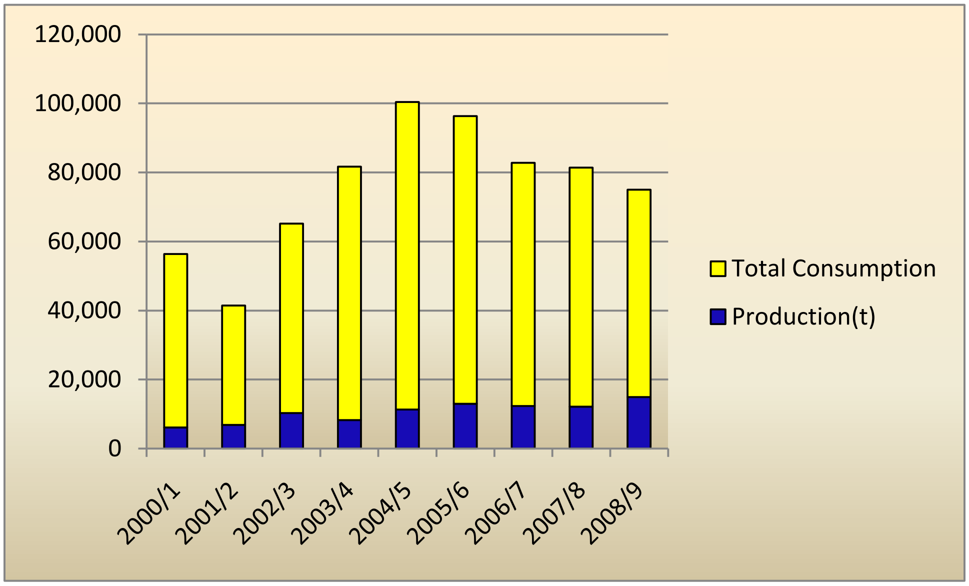
Figure 4: Total production and consumption of White Maize in Namibia



Source: NAB

The trend of wheat production for the past 10 seasons, with the exception of 2003/4 season (see figure 4 below) is that, production is directly proportional to its consumption. In 2008/9 the ratio of consumption to production in Namibia was 4:1. Wheat consumption in Namibia had been showing an upward trend from the 2001/2 period but as it started to fall in the 2005/6 season it was reflected by the 6.7% decrease of production in the subsequent 2006/7 harvest. The season that followed showed the same trend as prices of fertilizer were driven upwards. The 2008/9 production saw an increase of 22.6% although the consumption level continued to decline by 13.2% from the previous season. Namibia's wheat producers resolved that increase in wheat production will move further towards the country's goal of food security by 2030. Since wheat production like other grains produced in Namibia, is driven by the race towards food security, although the producer prices are competitive. Production for 2009/10 is expected to increase by 15%, as local demand will motivate more production. As was the case in 2007/8 season where approximately 90 percent of the wheat produced was from government initiated schemes.

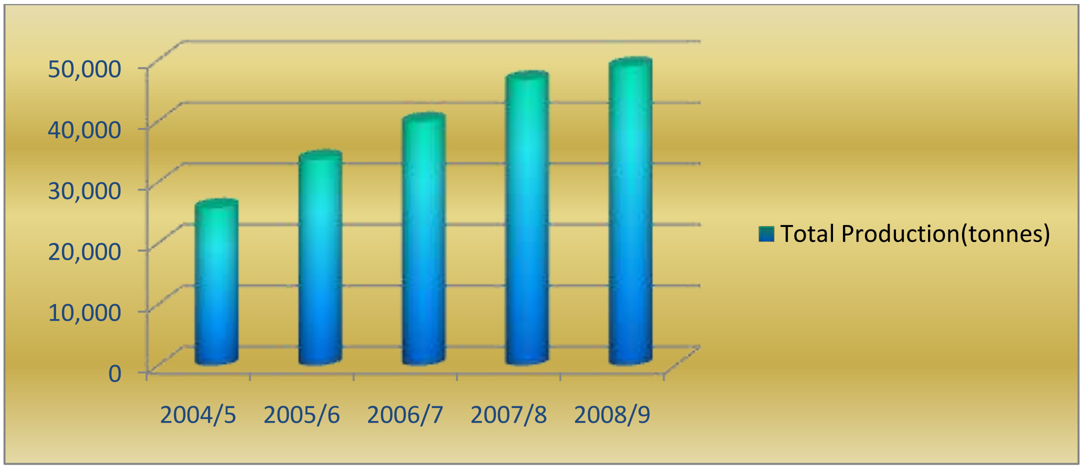
Figure 5: Consumption vs. production of wheat in tonnes for 2000/1 to 2008/9.



Source: NAB

In the horticulture subsector production has shown a consistent increasing trend with an average growth of 17.8% for the past five seasons. This is partly due to initiatives such as the Market Share Promotion (MSP) scheme, which gives producers guarantee of a local market for their produce and to some extent protects local producers from competing with the bigger South African markets. The MSP is currently at 32.5% for this first quarter of 2010 and is revised upwards every quarter. Namibia's horticultural produce includes tomatoes, onions, table grapes, cabbage and many other fruits and vegetables.

Figure 6: Total relative production (in tonnes) of Horticultural products in Namibia



Source: NAB

Namibian table grapes continue to "lead the pack" by having the bigger share of the production since 2005/6. Onions, Tomatoes and Cabbage have seen rapid growth in production levels over the past two years, having 15.7%, 9.1% and 7.2% of the total tonnage produced in the 2008/9 season. Potatoes have the highest demand locally and made up 10.5 % of the 2008/9 harvest which was lower than 2007/8 production and accounted for 34.6% of exported tonnage. In late 2008, there were reports of a fruit fly outbreak in which the hardest hit economically was Etunda Irrigation Scheme, with reported losses of up to N$4 million. This was the case because South African borders implemented stricter sanitary measures on all export produce. A total of 279 fly traps have since been set up by producers all over the country including Etunda, Manheim Research Station, Naute Dam, Aussenkehr and many others. Good news came early in January 2010 for horticulture producers as the Ministry of Agriculture, Water and Forestry announced plans to erect cold storage facilities, this year. This means an increased shelf-life for horticultural produce, which translates into competitive prices. Given these improvements and an already existing periodic of growth, production in 2010 is expected to increase by at least 17.8%.

Livestock Production

According to the Namibia Early Warning and Food Information Unit, the livestock subsector saw a good year in 2009 with respect to pasture for grazing in communal and commercial areas. The last animal census performed in Namibia on national level was in 2006. The official population of livestock is estimated at 2, 4 million for cattle and 4.7 million for small stock. The most accurate population indicator at the moment is therefore the marketed production.

Small stock farmers saw government revising the Small stock marketing scheme ratio of 6:1 to 3:1 especially for 2007 as abattoirs could not accommodate the numbers that had to be slaughtered. As an example, for every animal sold to the external market, a farmer had to slaughter six animals for local market at an unfavorable price. The following year farmers started to restock their herds after the drought and in hope that the scheme will be revised permanently. By 2009 small stock, especially sheep producers started to lose confidence in small stock farming scheme being revised and although producer prices for carcasses, were increasing on annual basis, the live exports to South Africa still offered better prices. The scheme ensured that there was an 8.6% increase in marketing of the said product in 2009 from 2008. As the future of the scheme is still being decided on, year- 2010 will see an increase in marketed production of small stock as diversified and specialized farmers shift their focus to more profitable types of livestock such as cattle or pigs. Why Cattle and pigs? - Because of good grazing pastures in traditionally dry areas as a result of higher rainfall in the past three years. Namibia has seen an increase of the population of pigs from 2000 to 2006 of 45%. In January of year-2009 Meatco opened its first strictly- pig slaughtering abattoir just outside Windhoek. Farmers will venture into piggery because these animals require a smaller production space than other free roaming small stock and piglets are produced twice in higher numbers per year, which is a much higher scale of production as compared to other animals.

Table 5: Total cattle & small stock marketed in numbers recorded in the Meatboard Database.

Year	Total marketed production(n)	Total marketed Production(n)
2005	377,053	1,342,240
2006	317,797	1,334,780
2007	317,821	1,397,936
2008	277,769	1,140,001
2009	270,906	1,238,448

An additional motive for farmers to increase their cattle stocks in the coming year is the relatively stable beef producer prices, and an ever increasing demand in the EU market and possible new markets such as United States(Meatco is expecting feedback from the USDA by the last quarter of 2010) and Russia. A light at the end of the tunnel for small stock producers especially sheep producers, is a possible agreement with Norway as well as the Far East for lamb export, which is still being finalised.

As Namibia carves out niche markets around the world, restocking also gives farmers an opportunity to have their stock carry the FANMeat (Farm Assured Namibian Meat) label, the young bovines can be placed on the specific diets required, meat from these animals will fetch reasonably good prices as the EU market continues to gradually return to normal and consumers begin to pay attention to quality as their wallets recover from the economic downturn. Globally, Brazil, which is the biggest exporter in the world, will increase its production for 2010 as the EU market and other export destination stabilizes. This will push prices to become more competitive because of other heavyweights such as the US whose beef production for 2010 is set to decline because of increased feed prices and debt-ridden producers, among other things and Argentina and Australia who are currently recovering from a recent drought which ended in mid June, 2009. These countries will export less at higher prices in 2010 in order to meet local consumption and restock their herds. This will push global prices upwards. Producer prices for beef will gain strength and become more stable given the increase in demand for 2010. They are likely to hover below the N$23.00 mark for the coming year.

3.3 The Fishing Sector

2009 was a challenging year for global fishing industry following the global economic downturn that induced a general sector-wide demand-led contraction. The trend in falling fish prices which began in late 2008 appears to have finally abated, and moderate price increases for most species have been registered for several months in succession. This development reflects resurgence in demand against lower supply potential in the recession-hit farmed fish sector. The FAO Price Index reached 126.4 in September 2008 and fell drastically hitting bottom in March 2009 at 110.3, and this has since recovered to 115 in September 2009 (base year 2005 = 100). Although the worst seems to have passed, with trade slowly beginning to expand in several key markets, activity remains far below the levels registered in the run up to the recession.

Fish Market Outlook in 2010 & Beyond: While the process of recovery in some markets will be lengthy, the outlook for 2010 remains generally positive as does the longer-term trend for fish trade, with rising shares of production in both developed and developing countries entering international markets. The fishing sector is projected to have a positive impact on the economy.

3.4 The Tourism Sector

Recent Trend: The negative trend in international tourism that emerged during the second half of 2008 intensified in 2009 under the impact of the rapid deteriorating world economy combined in various destinations with the effects of influenza A (H1N1) outbreak. According to the World Tourism Barometer international tourism declined by -4% between January and August compared to the same period in 2008. The Namibian tourism industry did suffer a double blow in 2009, first from the flood impact for tourist establishments in the North and North-eastern Namibia and then the impact of the global financial crisis, with many tourist establishments experiencing a lot of booking cancellations which resulted in a number of operators retrenching workers, scaling down their operations and right sizing their business operations. The floods along Zambezi, Kavango and Linyanti rivers, in 2009, left several business owners in the hospitality industry helpless after recording substantial losses.

The national carrier (Air Namibia) closed down the London route resulting in major cancellations, and affecting the number of tourists visiting Namibia. Total tourist arrivals in Namibia declined by -25.62% in 2009 from 2008, as the effect of the global financial crisis started to filter through. Tourist arrivals from the UK were the worst affected as arrivals declined by more than 50%, while the traditional power house of Namibia's source market (German, Switzerland and Austria) went down by -41.53%. In 2008 there were 786,429 rooms available and out of those rooms 412,390 were sold. This comes to an occupancy level of 52.44%. In 2009 there were 622,444 rooms available and out of those rooms only 301,489 were sold. This comes to occupancy level of 51.56%.

Namibia Tourism Outlook in 2010: The World Travel & Tourism Council projects that; Namibia will see an increase in the number of tourist arrival in 2010, and estimates that the increase would be in the region of about 1,200,000 tourists visiting Namibia in 2010 much higher than the number recorded in 2008 & 2009. Some lodges interviewed by First Capital indicated that they are already fully booked for the high season (July – October 2010). A number of hotel establishments would be opening their doors to the public in 2010 in anticipation of the increase in tourist arrivals. An example is the new five star hotels which is being built in Windhoek by United Africa Group – Eliakim Naudjembo Plazza. Protea Hotels is also building a lodge in the Sossusvlei area, Camp Kipwe in Damaraland and Monjila Safari lodge to name just a few which will open their doors for tourist in 2010. Trends in the first quarter of 2010 shows most have increased forward bookings for the first quarter than the same period in 2009. Okonjima lodge which is a prime tourist lodge near Otjiwarongo was scheduled to close in December – February for renovations & had to post pone the closure because of demand for accommodation during the period in review. **Tourism sector will be a key driver to economic growth in 2010.**

4.0 Conclusion

The financial crisis of 2008 and ensuing global recession in 2009 served as a reminder that countries need to establish integrated approaches to risk management. The Namibian economy has suffered a significant amount of turmoil over a short time period, but it is making good strides toward a recovery, although it will take some time before we once again reach the levels seen before the recession. The economy needs to see a resurgence of the entrepreneurial spirit, if sustainable higher economic growth is to be realized. The current global economic recession, through a fall in demand for export commodities and prices, continued to have negative implications for economic activities. GDP growth contracted by 12.4 percent in the first quarter of 2009, and is estimated to contract further by 0.6 percent for 2009 as a whole. The impact of the crisis continued to be mostly felt on the diamond mining and tourism sectors. The former is forecast to contract by about 65.6 percent and the latter by about 20.0 percent in 2009. In addition, the slump in global demand for diamonds has resulted in over 1,900 job losses. Bank of Namibia projects that tourism industry is expected to contract by 5.0 percent in 2010, while diamond mining is forecast to decline by 6.6 percent.

The downside risks to the domestic outlook continue to be the possibility of a deepening and prolonged economic slowdown. The slump in the global economy will continue to limit export growth and adversely affect domestic economic growth. Slow economic activity will negatively impact the incomes of both firms and households, with possible adverse consequences for banking institutions and financial stability.