

Namibia Business Forecast Report Q2 2014

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Abstracts

Core Views

Despite persistent external headwinds, we predict that the Namibian economy will experience a modest pickup in growth in 2014. Favourable credit conditions and a recovery in the agricultural sector will support solid private consumption growth, while a major government housing programme and several new mining projects will see fixed investment growth remain robust.

The expansionary FY2014/15 budget announced in February contains few major surprises. In an election year, a public sector wage hike will be politically popular but will add to persistent recurrent spending pressures. Given our slightly more cautious outlook for the economy, we believe the budget shortfall of 5.4% of GDP projected by the government could prove ambitious.

With inflation likely to be contained and with economic growth still below trend levels, albeit picking up, we expect interest rates to stay at current levels through 2014. The key risk to the inflation outlook continues to come in the form of imported price pressures stemming from a weak currency.

Major Forecast Changes

The latest balance of payments data published by the Bank of Namibia have prompted changes to our forecasts for Namibia's current account. We now predict a current account shortfall equal to 2.2% of GDP in 2014 and 3.1% of GDP in 2015 (compared to 2.3% and 3.0% previously).

Key Risks To Outlook

Namibia's small, open economy is highly exposed to events on the world stage. While we have incorporated the ongoing global malaise into our economic forecasts, if the situation abroad deteriorates (or, conversely, improves) more than we anticipate, we would have to adjust our forecasts accordingly.

Much of the economy remains closely tied to agriculture, and weather poses substantial risks, as illustrated by the ongoing drought which has threatened yields and food security. Changing weather conditions pose both upside and downside risks to a number of our forecasts, including for growth, inflation, and trade.

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Ruling Party Set To Be Returned To Power

The November 2014 general election will dominate the political landscape in the coming months, and should see Namibia's ruling SWAPO party reaffirm its dominance with a comfortable victory. Even so, a short-term and politically expedient budget and an overreliance on the public sector may yet offer a glimmer of hope to the political opposition in the longer term.

Table: Political Overview

Long-Term Political Outlook

Stability Likely To Prevail Over The Coming Decade

While Namibia's enormous income inequality poses some risks to political stability, we believe the population is likely to continue supporting the South West Africa People's Organization (SWAPO) government for the next 10 years, ensuring broad political stability and continuity.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
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Economic Activity
Economy Picking Up Despite External Headwinds

Despite persistent external headwinds, we predict that the Namibian economy will experience a modest pickup in growth in 2014. Favourable credit conditions and a recovery in the agricultural sector will support solid private consumption growth, while a major government housing programme and several new mining projects will see fixed investment growth remain robust. We are forecasting real GDP growth of 4.3% in 2014, quickening to 4.5% in 2015.

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Balanced Risks To See Rates Remain Steady

The Bank of Namibia's decision to keep its key repo rate unchanged at 5.50% is in line with our expectations and reflects an evenly weighted balance of risks for interest rates in 2014. With inflation likely to be contained and with economic growth still below trend levels, albeit picking up, we expect interest rates to stay at current levels through 2014.

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The expansionary FY2014/15 budget announced in February contains few major surprises. In an election year, a public sector wage hike will be politically popular but will add to persistent recurrent spending pressures. Given our slightly more cautious outlook for the economy, we believe the budget shortfall of 5.4% of GDP projected by the government could prove ambitious.

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