Global, regional and domestic prospects
Presentation for the Institute of Internal Auditors – Namibia

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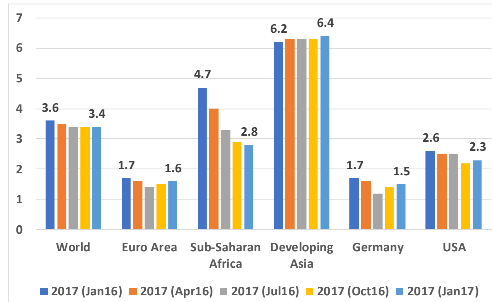
Global prospects – IMF projections



Global prospects

USA:

- Tax cuts for middle class & businesses (no details yet on the extent)
- Review of business regulations
- Infrastructure (USD 1 trillion) and defence spending up (no details)
- Inflationary pressure expected to rise, tightening of monetary policy as soon as March 2017
- Growth prospects revised upward from 2.2 to 2.3 percent

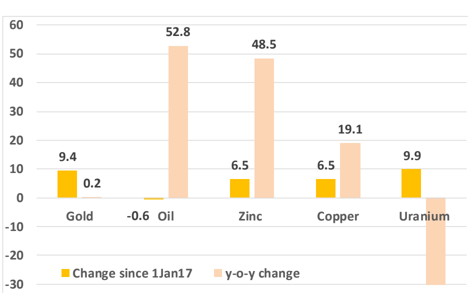
EU:

- Growth expected to slow down from 2.0 percent (2015) to 1.7 percent and 1.6 percent (2017)
- UK economic growth expected to drop from 2.2 percent (2015) to 2.0 and 1.5 percent in 2017
- Namibia / SACU to start discussing Trade Agreement with UK

BRIC performance

- China's targets 6.5 percent annual economic growth rather then 6.5 percent to 7.0 percent
  - 6.5% growth would still add USD715 billion to the economy
  - Roughly 65 times the Namibian GDP
- India stronger growth than China – 7.2 percent, but downward adjusted from 7.6 percent mainly owing to cash shortage
  - India could emerge as engine of growth over next five to ten years, although cash shortages resulted in downward revision of current growth prospects
- Russia and Brazil to grow very moderately – 1.1 and 0.2 percent respectively

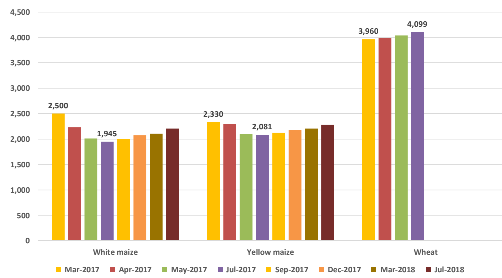
Commodity price trends



Commodity price trends – cont.

- Gold not really playing role as safe haven
- Oil prices up compared to beginning of 2016, in part caused by OPEC and non-OPEC production cap.
  - Incentivise investment into oil & gas exploration
  - Increased production of shale oil producers in USA
- Zinc and copper rebounded strongly due to demand increases, speculation (infrastructure spending in USA), and supply side factors (strike at major copper mine)
- Uranium slightly higher than early January, but some 30% below last March's price levels (high level of stock piles)

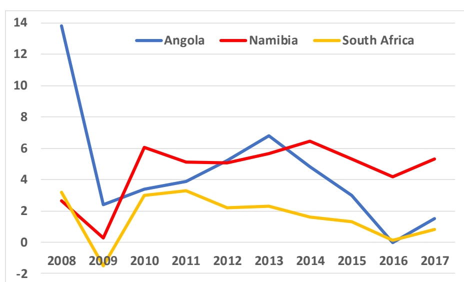
Crop futures



Global prospects – risk factors

- Tightening of monetary policy in developed countries (USA in particular) could result in pressure on emerging market currencies (however, NAD continues to appreciate against USD/GBP/EUR)
- Termination of existing trade agreements has potential to disrupt global and regional value chains
- Re-negotiation of trade agreements lengthy process causing uncertainties amongst investors
- Trade negotiations will absorb administrative capacity
- Increased administrative burden for businesses due to new / additional border procedure, increased red tape (Brexit, NAFTA, etc.)
- Political uncertainties in the EU – Elections in France, the Netherlands, Germany with populist right-wing parties on the rise could result in policy responses by ruling parties
- Greece back on the agenda, doubts about financial sector stability in some EU countries such as Italy. Risk of spreading over to other EU countries?
- Geopolitical risks – South China Sea, Middle Eat, North Africa etc.

Economic performance of ANSA



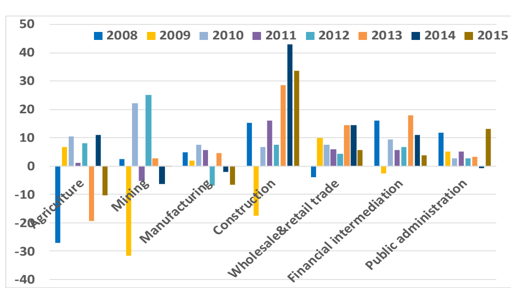
Regional prospects

Sub-Saharan Africa
- Strong downward revision of economic growth for 2017 from 4.7 percent (Jan. 16) to 2.8 percent (Jan. 17) due to low commodity prices (in particular oil)
- Nigeria: contraction in 2016 (-1.6 percent estimated)

RSA
- Growth prospects for 2017 revised downward from 1,8 percent in Jan 2016 to 0.8 percent in Jan 2017. Estimated 0.3 percent in 2016
- Fiscal policy: Balancing act between addressing social and infrastructure needs as well as supporting economic growth and the need to address budget deficit and public debt (about 50 percent)
- Simmering social tensions – afrophobia, spills over into relationship in particular with Nigeria
- Political stability improving, but new leadership election end of 2017

Angola
- President announced stepping down, but not much change expected.
- Hit by low oil prices, shortage of foreign currency (in particular USD) that has hit Namibia's economy in various ways

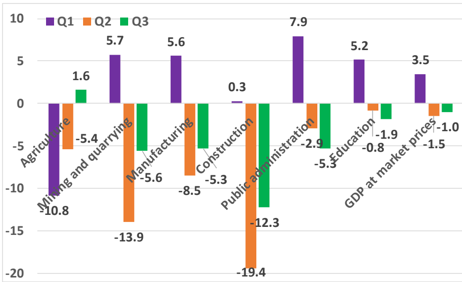
Drivers of Namibia's economic growth



Drivers of Namibia's economic growth

Direct impact - most sectors showed strong fluctuations
- Construction benefited from:
  - Private sector investment – FDI & LDI (mining, retail trade, residential buildings, tourist facilities)
  - Low interest rates
  - Fiscal expansion (TIPEEG) – public investment into infrastructure (Walvis Bay port, Neckartal dam, road/railway construction / rehabilitation
  - Public sector salary increases (Compensation of employees increased faster than profits)
- Retail trade benefitted from
  - Increased disposable income of consumers
  - Employment creation (labour-intensive construction sector)
  - Shopping tourism (mainly Angolan tourists)
  - And created jobs
- Mining sector affected by global economic crisis in 2009
  - Diamond production halved in 2009
  - Uranium mining contracting since 2011 – Fukushima effect
  - Metal ores (gold) performed strongly in 2015 with commencement of production at B2G
- Agriculture affected by droughts – contracted in 2013, 2015 & 2016

Namibia's economic performance 1q to 3q 2016



2016

2016 technically in recession – two consecutive quarters of contraction – even before budget cut announcement

- Agriculture -4.7%
- Mining -3.3% because of diamond mining and metal ores
- Manufacturing negatively affected by meat processing, grain milling and food production (water shortage impacted on beverage sector), but rebound of diamond processing after a few years of contraction
- End of construction boom, completion of new mine developments etc. – contraction for 2016
- Transport (contraction) and storage sector slowed down owing to
  - lower commodity demand and consequently import demand by neighbouring countries as well as power exports
  - Decline in construction activities
- Tourism performed well

2017 – Economic growth

- Agriculture to rebound – restocking of herds, higher crop output (despite flooding and pest outbreak in some areas)
- Mining – commissioning of new diamond exploration vessel expected to result in increased diamond output, further output increase of gold mine.
- Uncertainties regarding output of Swakop Uranium (Husab mine). Uranium prices recovered from a low of USD18,00 per pound (beg. Dec. 2016) to USD26.50, but drop to USD22.50 per pound (27 Feb 17)
- Construction continue to contract – impacts of public spending cuts
- Retail trade sector will feel the pinch of inflation, job losses in private sector and job freezes in public sector
- Tourism expected to perform well – benefits for other sectors such as transport (car rental), service stations, financial sector, retail sector, etc.

Budget & Fiscal policy

Continuation of fiscal consolidation

- Priorities: Social sectors (including social grants), infrastructure (including water in central areas)
- Strengthening revenue collection – Revenue Authority envisaged for 2018
- Additional SACU transfers expected since RSA increased SACU allocation to BLNS upward by ZAR4bn – create fiscal and policy space rather than to increase spending
- Tax amnesty initiative could support revenue flow
- Except for so-called 'sin taxes' no tax increases expected although Government could consider raising tax threshold to lessen burden on low income earner, and increase marginal tax for highest tax bracket to keep increase in tax threshold tax neutral
- Maintaining current public employment levels will adversely affecting private sector job creation
- Use current challenges to change way of doing business
- Public debt expected to drop below 40% of GDP
- Sovereign rating agencies expected to consider consolidation efforts favourably

Monetary policy

Ensure currency peg with ZAR

- Currently sufficient foreign exchange reserves to protect currency peg, but import cover below international benchmark of three months
- Part of Eurobond used to boost foreign exchange reserves
- Interest rate hike while weighing on consumer demand and investment could raise capital inflow (or reduce outflow)
- Inflation expected to slow down, because of lower food price increases (despite January increase) (Namib Mills announced price reduction)

Thank you for your attention

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