

REPUBLIC OF NAMIBIA
MARCH 2008

CREDIT GUARANTEE COUNTRY PROFILE:

IES 02/ ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
2B	↑ / →	→	Debt recovery might be better suited to the use of a good collection agent.

Credit Guarantee Experience

We are open for cover in this market without any restriction and we have a fairly substantial exposure. Although this market is generally favourable, it is not claims free prompting exporters to ensure that they have done their homework and taken the necessary precautions in managing the payment risk when dealing on open cover and unsecured payment terms.

Political Highlights

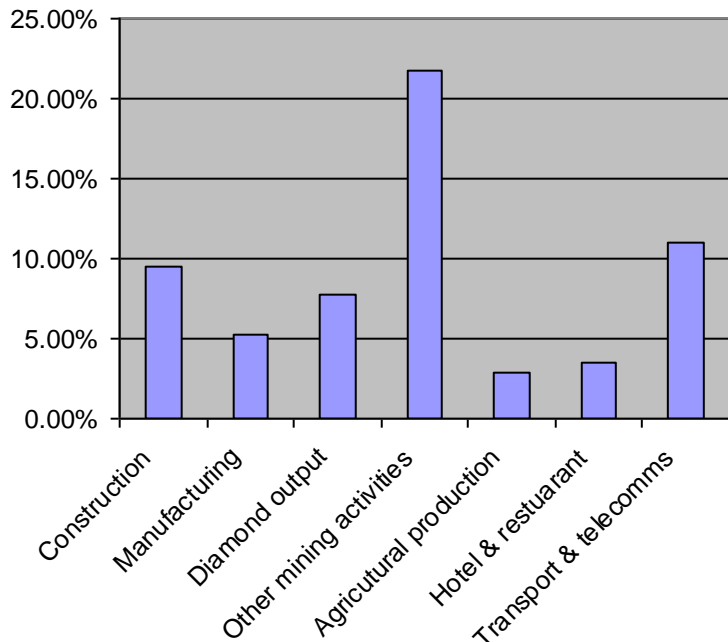
- ❑ At SWAPO's congress in November last year, founding president Sam Nujoma bowed out after 47 years in office and Hifikepunye Pohamba was unanimously appointed to take over SWAPO (South-West Africa People's Organisation) presidency; confirming him as the party's only candidate for the general elections scheduled for November 2009. Nujoma will be allowed to attend meetings of the party structures such as the Central Committee and Politburo.
- ❑ The political landscape in Namibia has been unsettled by the defection of several senior leaders of the ruling SWAPO party to form an opposition party. Former Foreign Minister, Hidipo Hametunya, launched the Rally for Democracy and Purpose (RDP) in November last year. A SWAPO founder who fought in its 27-year struggle for independence, Hametunya, was dismissed as foreign minister four years ago after running unsuccessfully against the SWAPO presidential candidate and Namibia's current president Hifikepunye Pohamba. It however remains to be seen whether the new party will make significant inroads into SWAPO's three-quarters majority in parliament, given the dismal record of opposition parties in Namibia so far. Hametunya says his party wants to address inequalities in the Namibian economy whose impressive growth has failed to benefit the estimated 55% of the population that lives on less than \$2 a day.
- ❑ In what is now considered a 'test case' for Government's rollout of its expropriation of farmland, the high court in Windhoek recently ordered in favour of foreign landowners who sought relief from the court to have their farms restored to them. What the court found flawed was not the decision by the lands ministry to expropriate the farms, but that the sequence of events leading up to the expropriation was flawed and not in compliance with the Act. The farms came under the spotlight after a February 2004 cabinet decision to have a list of 25 farms owned by 16 'absentee landlords' expropriated as part of the country's land reform and resettlement process. The Act requires that the lands minister consult with the Commission before he decides to acquire any property.

Economic Trends

- ❑ Namibia's population was estimated at 2 million in 2007. Although adult literacy rate is estimated at 85%, it is important to note that the number of Namibians who are functionally literate and have the skills that the labour market needs are significantly fewer. Unemployment is estimated at 35%. In 2007, Namibia passed a new labour act, which updates the 1992 law but also contains provisions such as leave time and the banning of labour hire agencies (temporary agencies). The new law is expected to be implemented in phases starting in mid-2008.
- ❑ Mining contributed approximately 8.3% of GDP in 2006, with diamond activities alone accounting for about 5%. Mining provides more than 50% of foreign exchange earnings but employs less than 3% of the population. Although agriculture (excluding fishing) contributed less than 6% of Namibia's GDP in 2006, about 70% of the Namibian population depends on agricultural activities for livelihood, mostly in the subsistence sector. Despite this, Namibia still imports about 50% of its cereal requirements. Namibia's manufacturing sector contributed about 12.6% of GDP in 2006. Namibian manufacturers have historically been inhibited by a small domestic market, dependence on imported goods, limited supply of local capital, a widely dispersed population and a small skilled labour force with high wages.
- ❑ In early March, President Hifikepunye Pohamba declared the floods in the northern and northeastern Namibia an emergency. Thousands of people have been displaced, communal farmers have lost around 25,000 animals and nearly 100 schools have closed temporarily. 26 health-care clinics have been rendered inaccessible and sources of safe drinking water have been contaminated, sparking fears of a surge in infectious diseases.
- ❑ Namibia's Early Warning and Food Information Unit (NEWFIU) has painted a grim picture of the country's 2008/2009 cereal output, saying overall food production is likely to go down by 23%. A recent army worm outbreak in the northern region has worsened the food situation. The United National Children's Fund is calling for \$1.2 million to help with relief efforts. Overall damage to public roads and bridges caused by raging floodwaters will cost the government over N\$50 million in repairs in the Oshana, Ohangwena and Omusati regions.
- ❑ Namibia's economy is expected to accelerate to 4.7% in 2008 from 3.7% in 2007, on the back of favourable commodity prices and increased uranium production, the finance minister forecast. The risks to the average inflation rate that is pegged at 7% this year are the rising oil and food prices, high interest rates and an expected slowdown in the world economy. Growth is expected to average about 5.2% until 2011. The minister said that four new uranium mines would come on stream in the next three years, adding to the existing two mines in operation. The largest uranium deposit has been found near Warmbad in a mountain range along the Orange River and according to mining experts, Namibia's uranium deposits will be depleted by about 2026.

- ❑ The Bank of Namibia (BoN) forecasts strong growth in the tertiary sector, with the tourism sector expected to do well. Diamond output is expected to pick up due to an increase in offshore mining activities, with diamond production expected to reach the 2.5 million carat mark. The outlook for fishing is less favourable due to concerns about the sizes of fishing stocks, which has seen a reduction in the total allowable catch (TAC) figures. Over the past three years, the fishing sector has buckled under the weight of increasing oil prices, low market prices and adverse oceanic conditions. The telecommunications sector is likely to be adversely affected by the 15% value added tax imposed on all pre-paid mobile phone services. Growth in the transportation sector is seen against the background of increased activity in other sectors such as mining and construction.

Growth forecasts for 2008 from BoN



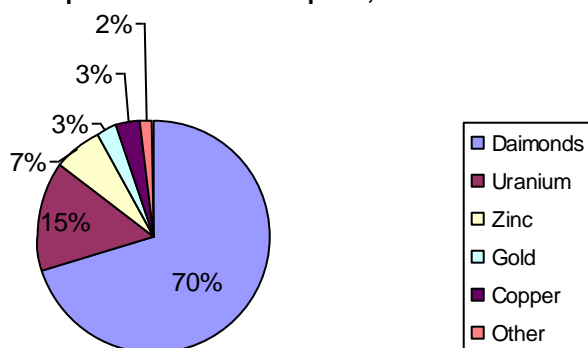
- ❑ An economist said that the 2008/9 national budget with expenditure growth of 26% and a deficit of 2.7% came at the right time to absorb some negative shocks brought about by the global financial crisis and natural disasters that hit the north and northeastern parts of the country. Due to the likelihood of the SACU revenue pool shrinking, concerns have been raised about the sustainability of some recurring expenditures such as the huge increase in war veteran's allowances. There were disappointments at the budget speech which contained no new tax proposals; Namibia's corporate tax rate is currently 35% which is very high compared to Botswana's effective tax rate of 25% and South Africa's 28%.
- ❑ In order to remain competitive within southern Africa's seaborne trade and transport sector, Namibia port authority (Namport), has embarked on a N\$1 billion five-year Master Plan to change the face of the Port of Walvis Bay. The terminal will increase its capacity to above 500,000 containers per year- last year the company handled just more than 140,000 containers. Other developments include the addition of bulk and break handling facilities, a floating dock and a syncrolift ship and rig. The proposed projects come about because of the heavy demand placed on the Namibian port as it gradually becomes a trade partner with African countries that rely on it for the import and export of goods. Construction commences in August this year and completion of the proposed projects is expected by 2012.
- ❑ Construction work on the Afrodite Beach, a multi-billion-dollar project near Walvis Bay, is in full swing. Afrodite Beach will consist of various sized modern units, villas, a luxury hotel with executive suites, hotel units and commercial facilities. The project will cost about N\$1.2bn and is expected to provide more than 500 direct jobs to the local market.
- ❑ Nampower started implementing electricity rationing in January this year to ease the power supply crunch in the wake of South Africa's failure to export electricity to its regional neighbours. Eskom, which supplies 80% of regional electricity, has reduced power exports to its regional neighbours due to growing demand at home. The government has made a bold move towards making the country more self-reliant in power generation. After months of speculation the government has made known its intentions to develop a nuclear power station and uranium processing plants. However it is believed that it will long before Namibia can build nuclear power plants, as the country does not have the infrastructure and personnel to manage such plants and stations. Environmentalists have opposed the development of nuclear power saying that it's unsafe, dangerous and a bad option for Namibia due to long-term radiation and unsolved problems regarding nuclear waste storage. Environmentalists say that Namibia has many sustainable and climate-friendly resources which should be utilised to the benefit of the country, its people and the environment.
- ❑ According to a new study in the wake of an acute power supply crisis in southern Africa, the future of Namibia's electricity supply security lies in power saving and a mix of different options like solar, wind power and biomass. Namibia currently has an electricity generation capacity of 384MW and imports 200MW when necessary; demand can soar up to 550MW during peak periods. However with more uranium mines expected to be open in the next two years, more electricity will be required. The government has plans to develop the Kudu offshore natural gas field, which holds about 1.3 trillion cubic feet of proven gas reserves. This is enough to power a planned 800MW electricity plant for more than 20 years. The total cost of the project is expected to be US\$1bn.

- ❑ The government will take legal action against Ramatex, after the Malaysian company decided to close down its operations in Namibia on short notice. Ramatex (one of the largest foreign investors) acted in bad faith because it had earlier agreed with the government that it would give one year's notice before closing down but instead only gave a month's notice. Close to 3,000 Ramatex employees lost their jobs instantly when the textile company decided to shut down operations after 7 years in Namibia. According to a Ramatex general manager the company had losses of N\$500 million in 2007. Nonetheless the Namibian government plans to stay on course with the EPZ despite Ramatex closing. Companies with EPZ status are exempt from corporate tax, import duties on imported inputs, VAT (currently at 15%) and transfer duties. There are no geographic restrictions on the location of approved EPZ companies and local investors can also apply for EPZ status. Companies qualifying to operate in an EPZ are allowed to repatriate their capital and profits while enjoying freedom from exchange controls. They can hold foreign currency accounts at local banks. Currently, about 20 companies from the rest of Africa, Asia, Europe and the US are making use of Namibia's EPZ incentives. Some EPZ companies change their status to become ordinary enterprises due to tight competition from international markets.
- ❑ The absence of effective legislation to guide telecommunication in the country is proving problematic for the communication sector with one cellular services provider hinting that it's ready to offload government owned equity as it feels that it's not appropriate that all operators are government owned. The government has been called on to fast track efforts to liberalise the sector and to level the playing field. The chief drafter of the new Communication Bill said that the draft could be tabled in the National Assembly as early as mid-April.
- ❑ The multi-billion electric trans-Kalahari railway line is going ahead as planned and may be operational by the end of next year. Due to electricity supply problems in the region, plans are that Falcon Resource Holdings, the holding company of the consortium of companies involved in the project, will build its own power station. The project involves constructing a 1,600km railway line from Morepule Colliery in east central Botswana, which will pass through Namibia's new coal mine south of Aranos and a harbour at Shearwater Bay. This will be the first electrified heavy haul railway line in Namibia and is poised to be the longest in the whole of Africa. The 1600-km long line over the Kalahari will address import and export constraints of products and minerals from Namibia's hinterland countries, namely Botswana, Zimbabwe, Zambia and the DRC.

Trade Developments

- ❑ Main exports: diamonds, copper, gold, zinc, lead, uranium, fish products, livestock, grapes, karakul skins and light manufactures.

Composition of Mineral Exports, 2006



- ❑ Main imports: foodstuffs, petroleum products and fuel, machinery and equipment and chemicals.
- ❑ Major trading partners: SA, EU and USA. The Namibian economy is strongly integrated with the South African economy- about 85.2% of Namibia's imports originate in South Africa and most Namibian exports are destined for the South African market or transit that country. Namibia is seeking to diversify its trading relationships away from its heavy dependence on South African goods and services.
- ❑ President Hifikepunye Pohamba recently inaugurated the country's new North Korean-built presidential residence. The new State House in Windhoek cost about N\$1bn and was a symbol of friendship between Namibia and North Korea. During his four-day official visit to Namibia in March, Korean President Kim Yong-Nam held talks with Pohamba and signed agreements on public health and a memorandum on diplomatic relations. Namibia, the world's fifth largest uranium producer, has received high-level visits from a number of countries looking to source uranium for their nuclear power plants over the past two years, including Russia and China.
- ❑ SADC delegates meeting in Gaborone agreed that the interim Economic Partnership Agreement (EPA) is a stepping stone towards a more comprehensive agreement expected to be concluded towards the end of this year. The gathering was the crunch time for the regions as it appears to be disintegrating amidst the growing pressure that SACU is placed under around the EPA negotiations. Concerns have been raised by Namibia and South Africa on the EPA that may negatively impact aspects such as regional integration, development and political space. SACU receipts account for about 32% of government revenue in Namibia.
- ❑ Cabinet has given approval to the Ministry of Trade and Industry to continue spearheading the process of trade and investment with Congo-Brazzaville by commissioning a market study to identify prospects and opportunities for doing business with the central African nation.