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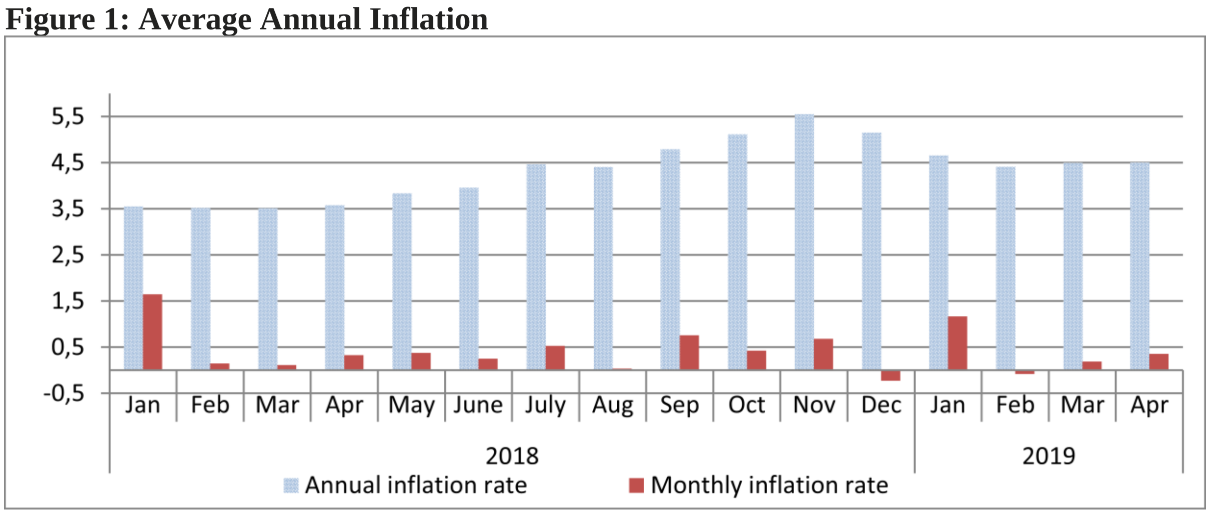
Annual National Inflation and Zonal inflation – April 2019

Inflation for April 2019 increased by 4.5 percent, a y-o-y and m-o-m increase compared to 3.6 percent in April 2018 and 0.2 March of the same year, (figure 1). The increase was propelled by increases in most of the major sub-categories except *housing water, electricity, gas and other fuels*, *health* and *miscellaneous*.

Figure 1: Average Annual Inflation



Source: NSA 2019

The increase is attributable to inflation increase in *food and non-alcoholic beverages*, *alcoholic beverages and tobacco*, *transport*, *furnishings, household equipment and routine maintenance of the house, transport, education,* and *communication.* Inflation for *food and non-alcoholic beverage* increased from 2.9 percent in 2018 to 5.3 percent (although marginally lower on a monthly basis from 5.8 percent in March 2019) driven by price increases in most of the subcategories except *meat, fish, oats and fats* and *fruits.*

Inflation for *alcoholic beverages and tobacco* increased from 4.7 percent in 2018 up to 7.5 percent on account of higher price growth in both *alcoholic beverages* and *tobacco subcategories*. Inflation for *transport* increased from 5.8 percent in 2018 to 7.1 percent, the acceleration emanated from price growth in the *public transportation services* which grew by 20.1 percent despite slower growth in prices of *purchases of new vehicles* and *operation of personal transport equipment.*

Although inflation for housing water, electricity, gas and other fuels, health and *Miscellaneous* slowed, it was not enough to offset the price growth in the other categories. Inflation for *housing water, electricity, gas and other fuels* recorded was slower at 2.2 percent compared to 3.4 percent during April 2018. The slower price growth in *housing water, electricity, gas and other fuels* emanated from slower price growth in all the subcategories. Inflation for *health* decelerated from 5.6 percent in 2018 to 2.5 percent of which the slower price growth is attributable low inflation in *medical products, appliances, and equipment* as well as *outpatient Services, medical, dental and paramedical.*

From April 2019, NSA will be producing CPI at a national and zonal level. The zonal level simply means a bit more disaggregated data at a CPI zone level. In terms of price data collection, since 2005 Namibia has been divided into three different zones. Zone 1 represents the northern part of the country (Oshakati, Katimo Mulilo and Otjiwarongo), Zone 2 represents Windhoek and Zone 3 represents, the southern part of the country (Gobabis, Mariental, Keetmanshoop and Swakopmund).

The **annual inflation** rate for **zone 1** was **3.8 percent** in April 2019, marginally higher compared to 3.7 percent during April the previous year. The increase emanated from increases in prices of *transport* (from 5.3 percent up to 7.3 percent), *food and non-alcoholic beverages* (from 2.0 percent, up to 4.7 percent), *alcoholic beverages and tobacco* (up from 6.0 percent to 7.1percent) and *communication* (up from -0.1percent to 1.9percent).

The **annual inflation** rate for **zone 2** was **5.0 percent** in April, a significant increase from 3.0 percent during April the previous year. The acceleration in inflation can be attributed to increases in the prices of all the elements of the weighted basket with the exception of *health* (down from 5.2percent to 2.4 percent) and *miscellaneous* (down from 4.3percent to 2.0 percent).

The **annual inflation** rate for **zone 3** was **4.8 percent**, the same growth rate for 2018 and 2019 April. The drivers of inflation is attributable to price growth of *food and non-alcoholic beverages* (up from 4.0 percent to 6.2percent), *alcoholic beverage and tobacco* (up from 3.9percent to 6.9 percent), *transport* (up from 5.4 percent to 7.1percent), *furnishings, household equipment and routine maintenance of the house (*up from 1.9percent to 2.0 percent), and *education* (up from 7.6percent to 9.4percent).

SYNOPSIS OF THE NAMIBIA'S FINANCIAL STABILITY REPORT 2018

The Bank of Namibia and Namibia Financial Supervisory Authority jointly released Namibia's 2018 Financial Stability Report (FSR) in April 2019. The report indicates that the financial systems - which consist of the banking and non-banking sector and the national payment systems - were resilient and sound during 2018.

The purpose of the Financial Stability Report is to identify risks and vulnerabilities in the financial system and assess the resilience of the financial system to domestic and external shocks. The report also presents recommendations to the identified risks and inform the reader on the soundness of the financial system, and what the regulators and government are doing in order to mitigate risks to the financial system.

Financial system stability is defined as the resilience of the domestic financial system to internal and external shocks, be they economic, financial, political or otherwise. It can also be described as the absence of macroeconomic costs of disturbances in the system of financial exchanges between households, corporates, and financial institutions.

The following are, amongst others, the highlights of the 2018 FSR:

1. The **banking sector** remained liquid, stable, profitable and well capitalized despite the subdued economic situation that affected asset quality negatively as the ratio of non-performing loans increased by 2.5 percent in 2018 (a moderation compared to 3.6 percent in 2017) but still remained less than the 4.0 percent industry benchmark.

2. The **non-banking financial institutions** remained financially stable and sound, with growth of 0.9 percent during 2018, despite the sluggish economic domestic economy which has a negative impact on the pension fund yields due to poor performance in the financial markets.

3. The **National Payment Systems** continued to perform effectively and efficiently, with two recovery tests conducted successfully during 2018.

According to the IMF's April 2019 Global Financial Stability Report, global financial conditions remained largely accommodative, but with variation across regions which may increase financial stability risks. Emerging markets and developing economies as well as advanced economies have recorded reduced financial market volatility and stable interest rates. Medium term risks are mounting in advanced economies due to sovereign, corporate and non-bank financial sectors.

Global growth in **2019** is also weighed down by the emerging market and developing economy group. Conditions have eased in 2019 as the US Federal Reserve signalled a more accommodative monetary policy stance and markets became more optimistic about US-China trade deal, but they remain slightly more restrictive. The **domestic economy** recorded a contraction of 0.1 percent in 2018, marginally higher when compared to a contraction of 0.9 percent in 2017. The contraction in the domestic economy can be attributed to the contraction in **the secondary and tertiary industries**, recording a contraction of 3.4 percent and 2.4 percent.

Household indebtedness increased by 7.0 percent in 2018 up from 6.7 percent in 2017, due to increased demand for short term credit. Contrary to this, the household debt-to-disposable income ratio moderated due to increasing household disposable income (8.5 percent) faster than the increase in debt accumulation. **Corporate sector debt** increased by 12.2 percent, mainly driven by borrowing by the mining sector and because the borrowing was inter-company borrowing and directed towards production, it does not pose a risk to financial stability.

Medium term risk to **global financial** stability have risen slightly, the financial conditions are still broadly accommodative and supportive of the forecast growth.

On the **domestic front**, risks to financial stability remained minimal and subdued over the medium term. There is a marginal increase in risks but only on the premise of a possible sovereign credit downgrade due to slower global growth prospects and depreciation of Namibia dollar. If growth prospects remain persistently subdued, it might pose as risks to financial stability. The regulatory bodies remain committed to monitoring of identified risks to ensure remedial action are in place should the need arise.