ISSUE
32
June 2020

MINISTRY OF FINANCE - EPAS
Quarterly Economic Update

This Issue…

MINISTRY OF FINANCE • Economic Policy Advisory Services (EPAS)

Quarterly Economic Update

GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

The COVID-19 pandemic pushed economies into a Great Lockdown, which helped contain the spread of the virus and saved lives, but also triggered the worst recession since the Great Depression. Over 75 percent of countries are starting to reopen at the same time as the pandemic is intensifying in many emerging market and developing economies. Several countries have started to recover. However, in the absence of a medical solution, the strength of the recovery is highly uncertain and the impact on sectors and countries is uneven.

Following the release of the April 2020 WEO, the COVID-19 pandemic rapidly intensified in a number of emerging market and developing economies, resulting in even larger disruptions to activity than previously forecasted. The IMF has adjusted its growth projections for World outlook to **-4.9** percent, a **1.9** percentage points below the April 2020 WEO forecast. The contraction is attributed to the pandemic which had a more negative impact on activities in the first half of 2020 than anticipated.

Growth for **advanced economies** is projected to contract by -8.0 percent in 2020, 1.9 percentage points lower than the April 2020 WEO. Growth for advanced economies for 2021 is projected to strengthen by 4.8 percent, habitual to the easing of COVID-19 pandemic.

Table 1: Overview of IMF World Economic Outlook Real GDP Projections - annual % changes

		April WEO 2020			Difference from April 2020 projections	
	2018a	2019e	2020e	2021p	2020e	2021p
World Output	3.6	2.9	-4.9	5.4	-1.9	2.4
Advanced Economies	2.2	1.7	-8.0	4.8	-1.9	0.3
US	2.9	2.3	-8.0	4.5	-2.1	-0.2
Euro area	1.9	1.2	-7.8	5.4	-0.8	0.2
Japan	0.3	0.7	-5.8	2.4	-0.6	-0.6
UK	1.3	1.4	-10.2	6.3	-3.7	2.3
Emerging Market & Developing Economies	4.5	3.7	-3.0	5.9	-2.0	-0.7
China	6.6	6.1	1.0	8.2	-0.2	-1.0
India	6.8	4.8	-4.5	6.0	-6.4	-1.4
ASEAN	6.1	4.2	4.5	6.0	-6.4	-1.4
Sub-Saharan Africa	3.2	3.1	-3.2	3.4	-1.6	-0.7
Nigeria	1.9	2.2	-5.4	2.6	-2.0	0.2
South Africa	0.8	0.2	-8.0	3.5	-2.2	-0.5

Source: IMF WEO 24 June 2020 *a=actuals, e=estimates, p=projections*

The growth forecast for the ***United States*** is projected to contract by -8.0 for 2020, -2.1 percentage points lower than April 2020 WEO. The contraction is due to huge uncertainties on economic outlook and investors highly sensitive to COVID-19 developments. ***Japan's*** economy is set to contract by 5.8 percent in 2020, -0.6 percentage lower than in the April WEO and 2.4 percent in 2021.

Growth in **Europe Areas** is projected to contract sharply by -7.8 percent in 2020 and grows by 5.4 percent in 2021. Lockdown measures to suppress the COVID-19 pandemic have taken a huge toll on many economies. Services have been mostly affected, especially face to face services, to an extent, activity in manufacturing has been also severely hampered, especially in sectors, like car making, heavily dependent on international supply chains that have undergone major disruption during the pandemic.

Growth for the **emerging and developing** economy group is projected to contract by -3.0 percent in 2020 and is expected to grow by 5.9 percent in 2021, largely strengthened by the rebound in China. The projection for 2020 and 2021 is -2.0 and -0.7 percentage points lower than the projections in April 2020 WEO. China, where the recovery from the sharp contraction in the first quarter is underway, growth is projected at 1.0 percent in 2020, supported in part by stimulus policy.

REGIONAL ECONOMIC DEVELEMENTS AND OUTLOOK: SUB-SAHARAN AFRICA

The **Sub-Saharan African** region is estimated to record growth of -3.2 in 2020 and 3.4 percent in 2021 respectively. For 2020 the projection is -1.6 and -0.7 percentage points lower than April WEO. The disruptions due to the pandemic, as well as significantly lower disposable income for oil exporters after the dramatic fuel price decline for the first quarter of 2020. Nigeria is projected to contract by 5.4 percent while South Africa is projected to contract by8.0 percent will be highly affected by the health crisis.

Global trade will suffer a deep contraction in 2020 of –11.9 percent, reflecting considerably weaker demand for goods and services. Advanced economies group, **France and Spain** have been revised downwards the most compared to other countries in this group. This is mainly because; businesses had a harder time surviving the three-month lockdown. Spain takes up about 6.9 percent of Namibia's exports, mainly fish.

For the Emerging Market and Developing Economies, **India** was revised downwards to -4.5 for 2020, a difference of -6.4 from April projections. Major companies suspended or significantly reduced operations. Namibia imports 9.9 percent of good from India[1]. For Sub-Saharan Africa, South Africa is revised downward by -0.8 percent, difference of -2.2 since April projections. **South Africa**[1] remains Namibia's major trading partner with Exports of 20.8 percent and imports 22.2 % of goods.

Commodity prices: The assumptions on fuel prices are broadly unchanged from the April 2020 WEO. Average petroleum spot prices per barrel are estimated at $36.20 in 2020 and $37.50 in 2021. Oil futures curves indicate that prices are expected to increase thereafter toward $46, still about 25 percent below the 2019 average. Nonfuel commodity prices are expected to rise marginally faster than assumed in the April 2020 WEO.

RISKS TO OUTLOOK

Fundamental uncertainty around the evolution of the pandemic is a key factor shaping the economic outlook. The downturn could be less severe than forecast if economic normalization proceeds faster than currently expected in areas that have reopened. Development of a safe, effective vaccine would lift sentiment and could improve growth outcomes in 2021.

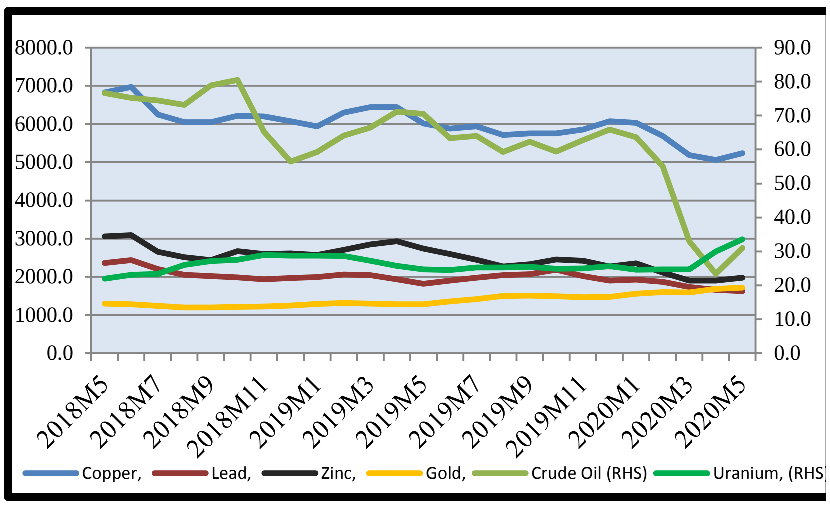
Beyond pandemic-related downside risks, escalating tensions between the United States and China on multiple fronts, frayed relationships among the Organization of the Petroleum Exporting Countries (OPEC)+ coalition of oil producers, and widespread social unrest pose additional challenges to the global economy.

As with the April 2020 WEO projections, there is a higher-than-usual degree of uncertainty around the June forecast. The baseline projection rests on key assumptions about the fallout from the pandemic.

COMMODITY PRICES

The **IMF all commodity price index** recorded a decline of 24.2percent year-on-year but recorded an increase of 8.5 percent m-o-m, respectively for June 2020. The y-o-y and m-o-m change was mainly due to the weakening in the **oil price index** which declined by54.0 percent, annually and however rebounded, and increased monthly basis by 43.2 percent. However, the **all-metal price index** increased by 7.0percent and 3.4 percent both annually and monthly respectively, the annual increase was on the premise of higher **nickel**, **uranium,** and **gold prices**.

Figure1: Commodity prices in US$(/metric tonnes, pound & oz)



IMF primary commodity prices: June 2020

Generally all commodity prices recorded a decline with the exception of nickel, uranium, and gold prices. Uranium prices increased both monthly and annually, by 11.8 percent on a monthly basis and by 35.8 percent annually during the period under review. Gold prices increased significantly by 33.7 percent annually and 2.0 percent monthly.

On the other hand, **copper prices** declined by 12.9 percent y-o-y, but increased by 3.6 percent m-o-m, exacerbated by the slowdown in China and increased market volatility due to COVID-19. **Zinc prices** also recorded a decline of close to 29 percent y-o-y and increased by 3.8 percent m-o-m for June 2020. The **IDEX** fell by 3.9 percent on an annual basis and by 0.3 percent on a monthly basis; the decline is in line with lower **diamond prices** as demand for luxury goods is on the decline globally, as the impact of COVID-19 intensifies for the commodity market, the biggest price drop happened in April 2020.

Commodity markets are expected to remain volatile during the year due to a combination of geopolitical tensions, impact **of COVID 19**, oil price crush due to lack of agreement between suppliers, trade wars and generally low external demand for commodities.

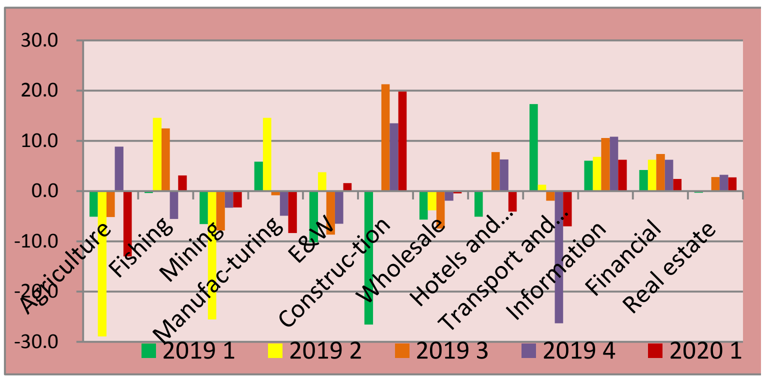
Quarterly GDP for Q1 2020

For Q1-20, GDP contracted by 0.8 percent compared to a contraction of 3.3 percent recorded in the corresponding quarter of 2019.

The marginal improvement was supported by positive growths in *construction* (19.8 percent compared to contraction of 26.6 percent in 2019), the *fishing* sector recorded growth of 3.1 percent compared to contraction of close to 1 percent in 2019. *Electricity and water* recorded growth of 1.6 percent compared to a contraction of 10.2 percent the previous year.

Information & communication sector recorded growth of 6.2 percent compared to 6.1 percent the previous year (this sector is expected to perform better than other sectors going forward in the year due to the increase in demand for ICT services as the spread of COVID-19 forges on). The financial and real estate services also recorded growth of 2.4 percent and 2.7 percent compared to 4.2 percent and contraction of 0.3 percent respectively in 2019.

Figure2: Q1 GDP growth for the period 2018-2020



NSA: Quarterly GDP 2020

Agriculture and mining contracted by 13.0 percent and 3.3 percent compared to 5.1 percent and 6.5 percent the previous year respectively. *Manufacturing* registered a contraction of 8.3 percent in Q1-20 compared to growth of 5.9 percent during Q1-19. The contraction was prompted by weak activity in almost all subsectors of manufacturing due to lower demand for Namibian export markets as the spread of COVID-19 necessitated a global lockdown. *Transport & storage* as well as *hotels & restaurants* recorded contraction of 7.0 percent and 4.1 percent compared to growth of 17.3 percent and contraction of 5.1 percent during Q1-19 respectively. The contraction in *transport& storage* sector underperformed due to the underlying factors that emanated from the other sectors (mining, agriculture, etc.)

BALANCE OF PAYMENTS Q1-2020

Namibia's **current account deficit** for the 1st quarter of 2020 increased from a positive balance of N$312 million in 2019 and recorded a deficit of N$432 million; this increase in the deficit was triggered by the worsening of merchandise trade.

The merchandise trade worsened as exports slowed faster (20 percent annually and 30 percent on a quarterly basis) than the reduction in imports (declined by 6 percent annually and 11 percent on a quarterly basis). **Exports slowed due to lower export of diamonds and other mineral products, while imports recorded a slower uptake in fuel related products which declined by 22 percent annual and 21 percent quarterly.**

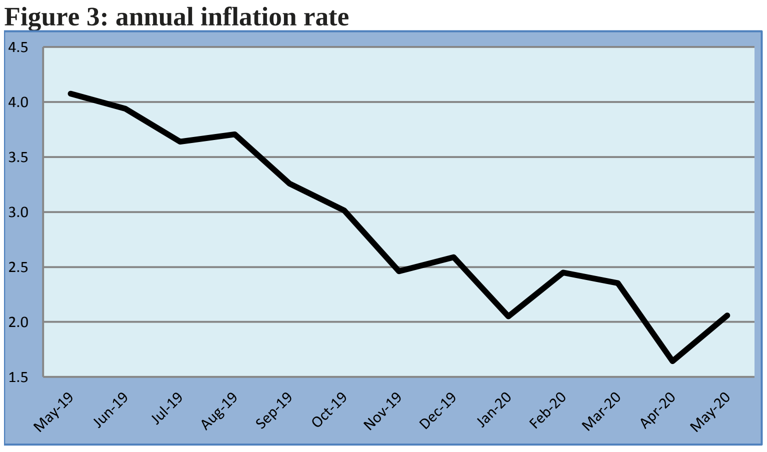
The **financial account** recorded a decline from N$967 million in to N$ 818 million in Q1-2020. The decrease in flows mainly attributed to a decline in other investment and portfolio investments.

The average US$/N$ depreciated by 9.6 percent in Q1 to N$15.41 compared to average of N$14.01 during Q1-19. The US$/N$ reached an all-time high for **2020**, which was N$16.66 in March. The average exchange rate for the Namibian dollar to the pound was N$19.62 and Namibian dollar to the Euro was N$15.91.

CONSUMER PRICES – May 2020

The annual inflation for **May** 2020 slowed down to 2.1% compared to 4.1% percent that was recorded in May 2019. The monthly inflation rate increased to 0.4 percent compared to a deflation of 0.3 percent that was recorded in April. The main reason for the deflation in **April** was due to the lockdown that was imposed as preventative measure for the containment of COVID-19 in Namibia.

Figure 3: annual inflation rate



Source: NSA June, 2020

*Transpor*t category recorded a deflation of 0.1 percent in May 2020 compared to inflation of 7.6 percent recorded during the same period last year. The decline was reflected in the subcomponent: Operation of personal transport equipment that recorded a deflation of 6.2 compared to inflation of 5.7 recorded during the same period in 2019. *Hotels Cafes and Restaurant* slowed down in annual inflation rate y-o-y from 4.7 percent to 0.8 percent. The slowdown was influenced by decline in accommodation services.

Housing, water, electricity, gas and other fuels recorded a decline y-o-y from 1.9 percent to -0.6 percent. The decline emanated from the following subcomponents: Rental payments for dwelling (both owners and renters), that recorded a deflation of 2.3.

The main drivers for inflation in May were: *Health, Food and Non-alcoholic Beverages*. The *Health* category recorded annual inflation y-o-y growth of 3.0 percent from 2.6 percent. The increase in this category emanated from increase in price levels of the subcomponent for *Medical products, appliances and equipment* that recorded inflation of 4.9 percent compared to 2.5 percent recorded in May 2019.

The annual inflation rate for *Food and Non-alcoholic Beverages* category stood at 4.7 percent in May 2020 compared to 4.4 percent registered during the same period last year. The increase in this group emanated from all subcomponents in this category *except that of bread & cereal* and *Vegetables including potatoes and other tubers which recorded slowed growth of 0.6 % and 8.0 % compared to 8.0% and 13.3% respectively in 2019*.

Average annual inflation is standing at 2.1 percent for the five (5) months of the year compared to 4.4 percent recorded for the same period during 2019.

THE IMPACT OF ALCOHOL SALE PROHIBITION OF ON REVENUE TO GOVERNMENT

Under the proclamation No.14 of 2020, the President declared a State of Emergency on the 17th of March 2020 due to the COVID-19 outbreak, which was also declared by WHO as a global pandemic on 11th of March 2020 (WHO, 2020). Thereafter the nation went in lockdown on the 27th of March 2020, which meant that all businesses that do not provide health and other essential services were not allowed to operate during the period 27 March - 05 May 2020. During the lockdown period and up to 2nd of June 2020 (stage 3 of COVID-19 road map) the sale of alcohol was prohibited.

Due to the international outbreak and the closure of borders, the travel ban and social distancing, the domestic economy is expected to contract significantly by 6.6% during 2020. This has subsequent consequences on the Namibian governments' ability to collect enough resources to fund their operations, thus government revenue is expected to decline. This article looks at how much revenue government stands to lose due to the lockdown and prohibition of buying and selling alcohol in Namibia. The article looks at the following type of revenue streams, VAT, Excise duty and company income tax, gambling levies, and other fees related to the sale of alcohol.

EXCISE DUTY

Results indicate the revenue collected from the consumption of alcohol and tobacco products over the period of the last three years in Namibia. This form of revenue stream is collected by the Directorate of Customs & Excise of the Ministry of Finance. Over the past period, it shows that the government collected close to N$1bn annually on average and close to N$250 million per quarter for this revenue line. The data for 2020/21 is the forecasted revenue expected to be collected over the first half of the year, but due to COVID-19 and the lockdown restrictions close to N$300 million of the expected N$500 revenue is likely to be forgone revenue. This means that for this revenue stream government is expected to loss close to N$300 million in addition to the already weak economic activity.

TAX (VAT& CIT)

Value Added Tax (previously known as sales tax) is also considered as consumption tax and is charged at a rate of 15% for the price of any transaction undertaken. There are some products and services that are VAT zero-rated, (VAT Act of 2020). Results show the performance of the **VAT** and Corporate Income tax (**CIT** as per the Income Tax Act) for distillers and manufacturers of alcohol (top 4 companies). **VAT** for 2020/21 for this sector is expected to fall by close to N$3 million, which constitutes a 36.3% decline due to the lockdown and subsequent social distancing regulations.

The **CIT** has been declining for the past four years and is expected to decline further in 2020/21. Declining by close to 80% between 2016/17 and 2020/21 and by close to 30% in 2020/21, reflecting an N$25 million fall. The decline is reflective of the economic environment which makes companies less profitable and as such lower revenue is collected. VAT refund has been increasing and in 2018/19 it surpassed **VAT** receipts. This basically means that due to the economic recession over the past five years, the cost operation has increased, thus increasing the cost of value addition, which consequently increased **VAT refunds** This is expected to increase the **VAT refunds** to alcohol manufacturing companies by more than 20% (N$8 million) and therefore reduce government revenue streams by two-folds from this sector

LEVY ON GAMBLING INCOME

The **levy on gambling income** is revenue stream that stems from levies charged on income derived from gambling activities. Through the Ministry of Environment, Forestry, and Tourism, the government has issued a total of 6 casino licenses and 250 gambling licenses, from a total of 256 licenses; government receives a 10% levy on the income received from gambling activities (Gambling House Act). For the review period, this revenue stream has generated a cumulative of N$95 million. However due to weaker economic activity, this revenue stream has declined by 21% between 2018/19 and 2019/20 and expected to decline further by a minimum of 25% (N$8 million) due to lockdown.

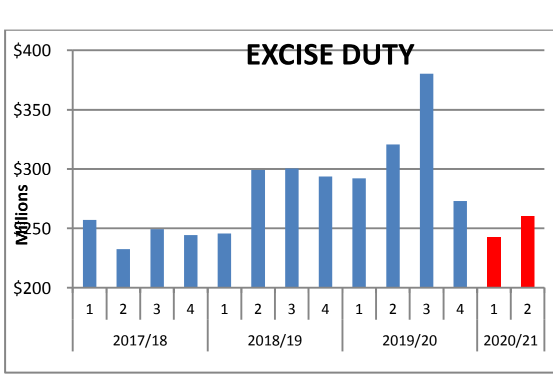
CONCLUSION

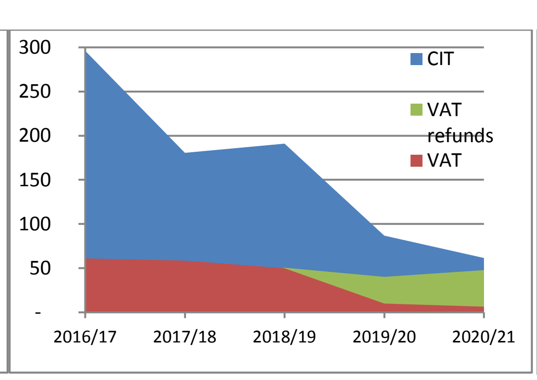
Through this analysis which was focused on the loss of revenue to government through the prohibition of the sale of alcohol, it was found that during the period of lockdown, the government is estimated loss closed to half a billion Namibian dollars in revenue from VAT, excise duty and levy on gambling income for FY2020/21. Given that government is already burdened with the provision of additional expenditure in dealing with combating the spread of COVID-19, which is expected to amount close to N$2.5bn, it is set to loss that additional half a billion. Therefore in total government will need an additional N$3bn funding to ensure smooth implementation of set government programs.

RECOMMENDATION

The prohibition of the sale of alcohol was announced with the lockdown effective from March 28th of 2020. There was no prior study done on the cost benefit implications on the ban of alcohol during the period of lockdown. This and many other decisions were made without evidence and have cost implications to government both on the expenditure side (increased spending on safety protections) and on the revenue side (implications of reduced revenue, lower VAT, PIT and CIT). Evidence based decision making is important and is highly recommended especially during such times when government has limited fiscal space.

Disclaimer: revenue received from the issuance of licenses is not dependent on sales and as such will not be affected, unless businesses close and do not renew their licenses (liquor license, gambling license). Due to data limitations, this study only used data for the big alcohol manufacturers in Windhoek and therefore excluded other smaller manufactures and alcoholic beverage retailers. In addition, other revenue streams that are affected by the lockdown such as: Park entrance fees, export levies, tourism concessions, etc. Therefore the revenue lost would be higher than that estimated by this article, as it only focused on that of alcohol sales' related revenue.





SPECIAL FEATURE

FIRST QUARTER 2020FNB REWIDENTIL PROPERTY REPORT

According to the FNB Residential Property report, the first quarter of 2020 posted a contraction of 5.9 percent y-o-y compared to a marginally lesser contraction of 1.5 percent recorded during the same period in 2019. This contraction brings the average national house price to N$1 038 577, a 5-year record low.

Table 2: REGIONAL SNAPSHOTS

Central	N$1 353 000 ↑	8.2%
Coastal	N$1 119 000 ↑	7.2%
Northern	N$749 000 ↓	-18.7%
Southern	N$811 000 ↓	-13.6%

Source: FNB housing price index 2020

Central property prices grew by 8.2 percent y-o-y in the first quarter of 2020 compared to a contraction of 13.8 percent y-o-y recorded over the same period of 2019. Demand in the central region has recovered, although at a slow pace. This brought the average national house price to N$1 038 577 as at March 2020. The ***coastal*** region recorded house price growth of 7.3percent y-o-y in the first quarter of 2020 compared to 9.percent y-o-y recorded during the same period last year. The average house price in the coastal region is now recorded at N$1 119 000.

Northern house prices have continued to deteriorate, posting a contraction of 18.7 percent y-o-y at the end of March 2020. The average house price in the Northern regions is now at N$749 000.The ***southern*** region which is predominantly characterized by the small housing segment recorded a contraction in house price of 13.6 percent y-o-y compared to a growth of 15.9percent y-o-y recorded a year ago. The large variations in price and volume growth over the years in the southern region appear to indicate a slow pace of development and minimal trading activity in the region.

The number of ervens made available in urban areas has improved drastically over the first quarter across all the regions, with overall growth in trading activity increasing by 44 percent y-o-y at the end of March 2020 compared to 3 percent y-o-y realised as at March 2019

According to the report, property prices looks bleak from a market perspective as widespread job losses and income uncertainty induced by COVID-19 do not bode well for demand. Although data contained within the report is unlikely to reflect the economic impact of COVID-19.

The dynamic in the property market are slightly edging on the downside and the current economic environment proves to be risky. On the demand side, the reduction of the repo rate provides for relief on the affordability and provides for good incentive to enter the property market if there is a security on income, however due the COVID-19 the prospects of employment security is another factor to take into account. On the supply side, although much effort have been put on increasing the supply of houses on the lower and middle segment, the high-end segment proves to have an oversupply and currently dragging prices down. To some extend this is reflected in the inflation dynamics for housing in Namibia, which recorded deflation in since January 2020. This gives bargaining power to the consumers in the high-end segment on the market and if prolonged might subsequently affect the middle segment of the market (this will be favourable to the consumers as well). to second quarter activity will likely print lower home sales figures, which may exert further downward pressure on price growth.

REPUBLIC OF NAMIBIA
This publication was produced by: Ministry of Finance
Economic Policy Advisory Services
Head Office- Moltke street
P/Bag 13259, Tel: 061 – 209 2131