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MINISTRY OF FINANCE
Economic *Update*

This Issue…

The aim of these Updates is to inform the public of any recent economic developments, focusing on global, regional, and domestic developments that are likely to impact on the Namibian economy. Every Update will contain a standard update on the global, regional and domestic economy.

Special features will also be included on specific analysis conducted in the Ministry. **Namibia's National Development Planning Framework**

GLOBAL DEVELOPMENTS

Global output is estimated to grow by 3.1% in 2016, which is marginally lower than the 3.2% recorded in Q215 (revised up from 3.1%) and is projected to expand by 3.4% in 2017. Growth rates of 3.1% and 3.4% for 2016 and 2017, respectively, highlight the on-going realignments, particularly in the emerging market and developing economies, as well as the rebalancing in **China** and structural adjustments by commodity exporters to a decline in their terms of trade over the medium term period.

Advanced economies are estimated to grow by 1.6% in 2016 (revised down from 1.8%), while growth for 2017 is projected at 1.8%. The 1.6% growth is supported by growth of 1.7% in the **Euro Area** (revised upward from 1.6%) and growth in the **US** of 1.6% (revised down from 2.2%) for 2016 and . Growth is hauled down by weaker activity in the **US** during the first half of the year as well as manifestations of a significant downside risks and uncertainties due to Brexit. Although the reaction of the financial markets to Brexit has been relatively subdued, the increase in economic, political, and institutional uncertainties between the **UK** and the **EU** remain heightened

Growth for the **emerging markets and developing economies** is estimated to be 4.2% in 2016 (revised upward from 4.1%) and is projected to grow by 4.6% in 2017. The growth prospects for this group of economies are driven by several factors like the slowdown in **China** (which is forecast to grow by 6.6% in 2016 and 6.2% in 2017, mainly due to lower reliance on import and resource-intensive investment drive); the commodity exporters' continued adjustment to lower revenues; spill-overs from persistently weak demand in the advanced economies; and domestic strife, political discord and geopolitical tensions in several countries.

Brazil and **Russia** continue to face challenging macroeconomic conditions, but their outlook has strengthened, with Brazilian economy estimated to contract by 3.3% in 2016 and projected to record growth of 0.5% growth in 2017 (same projection as in the July update), while **Russia** is expected estimated to contract by 0.8% in 2016 (revised upward from a contraction of 1.2%) before recording growth of 1.1% in 2017 (revised upward from 1.0%)

SUB-SAHARAN AFRICA

GDP growth forecast for the region has dropped significantly to 1.4% in 2016 and 2.9% in 2017, reflecting significant slowdown revision from the previous estimates of **1.6% and 3.3% for 2016 and 2017**, respectively. This downward trend in growth has been persistent since 2013, with growth having reached its lowest level in over two decades. The slowdown in this forecast is a reflection of how the largest economies in Sub-Saharan Africa (Nigeria and South Africa) are experiencing sharp slowdowns or recessions as lower commodity prices, combined with strained domestic political settings, persistent recent drought and macroeconomic conditions prevail. In addition, currency depreciation remains on the forefront challenge as external demand remains relatively low.

GDP growth for Nigeria is expected to contract by 1.7% in 2016 (reflecting a marginal improvement from the previous estimate of 1.8%) before rebounding to 0.6% in 2017, contraction of 1.8% in 2016 (revised downward from the previous projection of 1.1%) The continued slower GDP growth is attributable to adjustments to lower oil revenue (due to continued low oil prices), declining foreign reserves, weak investor confidence, and power generation constraints.

The **South African economy is estimated to barely grow by 0.1% in 2016 and to improve marginally to 0.8% in 2017 (revised down from 1.0%)**. The weak growth in 2016 is primarily macroeconomic instability, political and labour insecurity, weak investor confidence, devastating drought and depreciating currency.

NAMIBIAN ECONOMY

GDP growth in the second quarter of 2016 (Q216) contracted by 1.3%, a year-on-year deceleration from the 7.0% growth recorded in Q215 and 3.4% in Q116, representing the first contraction since Q113. Therefore, the economy will fall into a technical recession if there is another contraction in Q316.

The Q216 GDP growth contracted on account of deceleration in growth in *agriculture, mining and quarrying, manufacturing, construction, hotels and restaurants* and *public administration and defence. Agriculture contracted* by 5.2% (although lower than previously reported, it remained a contraction), compared to a deeper contraction of 13.21% in Q215 and 14.2% in the previous quarter. *Mining and quarrying* contracted by 13.2% compared to a lower contraction of 5.9% in Q215 and 6.8% growth the previous quarter, due the contraction in diamond mining. Growth in the *construction* sector contracted by 19.9%, down from an expansion of 37.7% in Q215 and 0.2% marginal growth during the previous quarter, mainly on the back of contraction in the value of buildings completed in both private and public sectors.

The *manufacturing* sector posted negative growth of 9.4% in Q216, down from a smaller contraction of 2.9% in Q215 and growth of 5.6% growth during the previous quarter. The contraction in *manufacturing sector* is attributable to the water limitations in the central regions of the country. The *hotels and restaurant* is also estimated to have contracted by 15.5%, down from the 6.2% recorded in Q215 and the marginal growth of 0.2% recorded in the previous quarter. *Public administration and defence* recorded a deceleration of 2.9%, down from 15.8% in Q215 and 7.9% recorded in the previous quarter, due to fiscal consolidation path adopted by the government.

On the other hand, *fisheries and fish processing, wholesale and retail, transport and communications, financial intermediation* and *real estate services posted positive growth*. *Fisheries and fish processing* posted growth of 3.0%, compared to 3.9% in Q215 and a contraction of 2.0% over the previous quarter. Growth in *wholesale and retail* recorded growth of 9.6%, compared to 12.1% in Q215 and 3.5% recorded in the previous quarter.

Financial intermediation grew by 4.1%, which is relatively slower than the 4.8% recorded in Q215 but marginally stronger than 3.8% recorded in the previous quarter. *Transport and communications* recorded sluggish growth of 3.5%, compared to the 7.7% growth in Q215 and an acceleration of 0.7% recorded in the previous quarter.

Electricity and water sector recorded an expansion of 25.7%, both y-o-y and q-o-q, which is the highest growth rate since Q414. The *health sector* also recorded growth of 5.5%, up from 4.0% recorded in Q215 and a contraction of 4.7% recorded in the previous quarter.

The negative growth is an indication that the economy is slowing and is relatively in line with the MEWG growth projection of 2.5% for 2016, which has been revised downward from the initial projection of 4.3%.

CONSUMER PRICE OCTOBER 2016

Consumer price inflation for October accelerated considerably y-o-y, at 7.3% up from 6.9% in September, while the m-o-m growth increased to 0.5% compared to the 0.2% in September. The main driver to the increasing price growth was *alcoholic beverages and tobacco*; *furnishings, household equipment and routine maintenance of the house and transport.* While *food and non-alcoholic beverages* and *housing, water, electricity, gas, and other fuels* recorded marginal slowdown in price growth, *education* recorded the same inflation as the previous month.

Alcoholic beverages and tobacco recorded an increase in price with an inflation of 6.0%, up from 5.2% over the previous month. The increase in price growth is due to increases in alcoholic beverages with an inflation of 7.5%, up from the 6.5% price growth in September, while inflation in tobacco remained at the same contraction of 0.1%. *Furnishings, household equipment, and routine maintenance of the house* recorded an inflation of 7.9%, representing a significant increase in the price growth rate. The acceleration in price growth in this category was caused by the rise in the prices *of furniture and furnishings* to 5.4% from 0.8% in the previous month and *furniture, furnishings, decorations, carpets, floor coverings, including repairs* with price growth of 5.5%, compared to the 1.1% previously recorded.

Transport registered an increase in prices of 3.6%, compared to 3.3% in September, due to *operation of personal transport equipment* that recorded a price growth of 2.2%, compared to 1.8% in the previous month and *purchases of vehicle* that recorded a marginally higher price growth of 10.6%, compared to 10.1% in September. *Public transportation services* recorded negative inflation of 0.3%, compared to 0.2% recorded in the previous month

Food and non-alcoholic beverages recorded inflation of 11.7% in October, compared to the 12.0% recorded in September the same year. The deceleration in price growth was attributed to lower price growth in all the sub-categories with the exception of *food, meat* and *food products* that recorded a decline in price growth of 11.9%, 5.3%, and 12.3% compared to 12.3%, 7.9%, and 14.5%, respectively, for September.

Housing, water, electricity, gas, and other fuels recorded inflation of 7.8%, down from 8.0% recorded in the previous month. The lower price growth was affected by slower price growth in *electricity gas and other fuels* and *regular maintenance and repair of dwellings* (with inflation of 10.4% down from 12.1% and from 6.1% down to 5.6%, respectively, in September). *Water supply, sewerage service and refuse collection recorded* inflation of 13.1%, compared to 12.2% in September. *Rental payments for dwellings* (both owners and renters), on the other hand, recorded a constant rate of 7.0% since February of the same year.

The average inflation for the year to date is 6.6%, almost double the average of 3.4% in Q215 for the same period.

BALANCE OF PAYMENTS

Q216, registered a current account deficit of N$5.9bn, a 23.0% improvement from the N$7.7bn deficit recorded in Q215. The current account deficit was prompted by weakness in investment income, weaker current transfers, and net services. However, the improvement in merchandise trade balance (although remains negative, the change shrunk the deficit marginally) as exports improved while imports weakened provided some improvement in the size of deficit.

The improvement in the merchandise trade balance enhanced slightly with a deficit of N$8.4bn compared to the N$12.3bn deficit in Q215 as backed by improved exports which grew by 8.3% to N$13.7bn from N$12.7bn in Q215.

Growth in exports was supported by 47.1% increase in exports of manufactured goods; 25% increase in the export of other minerals products, despite imports felling by 11.6% to N$22.1bn from N$25bn in Q215, the value of imports was relatively higher than exports.

Investment income recorded a net outflow of N$1.2bn, a huge drop compared to the N$261mill inflow recorded in Q215. However, the outflow was an improvement compared to Q116 as this recorded an outflow of N$2.9bn. This was prompted by stronger outflows (from N$455mil to N$1.9bn) from direct investment compared to weaker investment portfolio inflows (down from N$1bn down to N$875mill in the period under review). The slowdown of 13.6% in net current transfers from N$4.6bn in Q215 to N$3.8bn – and from N$4.8bn in Q116 – the slowdown was brought on by weaker government transfers as SACU receipts came in at N$3.5bn, down from N$4.3bn in Q215 and Q116.

The capital and financial account recorded a surplus of N$1bn, a y-o-y, and q-o-q slowdown by 79% from N$5.1bn in Q215 and by 51% from N$2.1bn respectively. The slower growth was prompted by weaker growth in portfolio investment, other investment both long term and short term. As portfolio investment and other short term investment recorded strong outflows, while other investment long term recorded weaker inflow. On the other hand direct investment in Namibia and net capital transfers recorded relatively positive growth but however not sufficient to offset the negative effects of the other categories.

Portfolio investment recorded an outflow of N$1.8bn, down from an inflow of N$1.4bn in Q215 and 16.3% reduction from N$2.2bn in Q116 as both debt and equity recorded significant outflows. Equity registered relative decline in growth from an inflow of N$808mil in Q215 down to an outflow of N$613mill and but that designates some improvement from N$1.1bn in Q116. On the other hand, Debt registered a net outflow of N$1.2bn down from inflows of N$614mill in Q215, and N$1.1bn in Q116. Other investment-short term recorded an outflow of N$365mil, down from an inflow of N$1.2bn in Q215, this came about as banks recorded a net outflow of N$1bn down from a net inflow of N$1.2bn in Q215. The N$365mil in other investment - short term, represents an improvement from the N$1bn in Q116

Other investment- long term registered an inflow of N$1.7bn, marginally lower than the N$1.9bn recorded in Q215 and significantly lower than the N$2.4bn recorded in Q116. This weak performance came on the back of sluggish growth in other sectors (liabilities) that came lower at N$1.8bn down from N$2.2bn in Q215 and N$2.6bn in Q116.

Direct investment in Namibia registered net inflows of N$1.1bn, up from N$795mil, however relatively lower than the N$2.4bn recorded in Q116. The increase was backed by reinvested earnings that grew from N$380 in Q215 up to N$1.0bn, but lower than the N$1.6bn in Q116. Net capital transfers grew marginally from N$429mill in Q215, up to N$494mill and up from N$478mill in Q116. The growth in net capital transfers was supported by growth in resident official sector at N$488mill up from N$424mill in Q215 and N$472mill in Q116.

The overall balance recorded a deficit of N$3.9bn, down from a surplus of N$2.5bn in Q215 and down from N$1.2bn in Q116 in accordance to the deficit in the current account.

COMMODITY PRICES

The IMF all commodity price index registered a y-o-y and m-o-m growth of 4.4% and 5.7% respectively as all major commodity prices recorded increases, with food prices being the main drivers in growth, followed by a marginal growth in crude oil and metal price index.

Food price increased in Q316 as the **IMF food price index grew by 5.5%** y-o-y and 0.7% m-o-m, the first increase since July following a period of oversupply and weak demand. The growth in prices was brought on by increases in prices of food and food products with the price index for food prices growing by 5.6% y-o-y and 0.9% m-o-m. On the other hand the beverage price index declined by 3.2% y-o-y and 0.9% m-o-m. The decline in beverage price index kept price index growth minimal.

The IMF metal price index finished October 2016 up by 2.6% y-o-y and 1.6% m-o-m, the increase in prices is expected to have been boasted by easing oversupply and increased demand compared to the previous year. The price increases were most notable in Zinc, Tin, lead and aluminium, while the decline in prices of uranium and copper had an offsetting effect on overall metal commodity price index.

Major metals produced in Namibia include uranium, copper, and zinc. Prices for zinc increased by 34.1% y-o-y and 0.8% m-o-m as demand picked up from the previous quarter. However the decline in uranium prices had a rather dampening effect on overall prices, uranium prices fell by 42.7% y-o-y and 14.7% m-o-m as the downward trend continues due to high inventories and selling off with expectations that prices would continue to fall. Although marginal, copper prices also fell by 9.9% y-o-y but a slight increase of 0.2% m-o-m in line with reduced China imports and large stockpiles.

Gold prices accelerate by 13.5% y-o-y, while m-o-m prices declined by 2.2% as demand increased on the back of uncertainty that is looming the global economy. Demand for gold had increased substantially as gold has become the preferred form of investment. **The diamond index (IDEX) increased marginally y-o-y by 0.2%** and by 0.8% m-o-m as the industry is struck by weak prices due to low demand and oversupply but most producers are holding on to their stock with expectations that prices would recover. However prices still have room to fall because of weaker demand from Asia and a supply glut.

The IMF crude oil price index recorded growth 9.3% y-o-y and 4.9% m-o-m, growth in crude oil was brought on by a decision by OPEC to reduce production in the short term, due to current oversupply glut that hindered price improvements. However expectations are that the effects of the OPEC decision will be short lived.

SPECIAL FEATURE:

Namibia's National Development Planning Framework

At independence in 1990, the Government inherited an economy that was characterised by four inter-related challenges of low economic growth, high rate of poverty, inequitable distribution of wealth and income and high unemployment. Thus, the Government faced the formidable challenge of devising appropriate medium and long term remedial interventions strategies in order to redress the prevailing economic and social development imbalances.

As means to that end, Namibia had to devise multi-pronged planning strategies in that the long term planning has been anchored on the compelling Vision 2030 that was adopted in 2004. Vision 2030 stipulates that by the year 2030 ***"Namibia will be a prosperous and industrialized nation developed by her human resources, enjoying peace, harmony, and political stability".*** In turn, Vision 2030 is broken down in medium-term development plans that essentially constitute quantifiable five-year building-blocks for the attainment of the overall long-term national objectives and aspirations of the Vision. This gave rise to the introduction of the five-yearly National Development Plans (NDPs) cycles which resulted in the formulation of the First National Development Plan (NDP1) in 1995, with a special focus on four distinctive goals of *sustainable economic growth, employment creation, reduction of inequality in income distribution and poverty eradication.*

The most recent of these five-yearly medium-term development plans, NDP4, has been implemented as of the financial year of 2012/13 and is due to come to an end at the end of the FY2016/17. The NDP4 is a high level document which consists of only three distinctive national development goals, namely, *high and sustainable economic growth, employment creation, and increased income equality.*

Methodology for NDP4

NDP4 embodies the Government's National development priorities and focal areas for the five-year period over the financial years of 2012/13-2016/17. It is based on clearly defined priority areas that are informed by strategic initiatives and desired outcomes in strategic focal areas. Therefore, NDP4 essentially sets out high level and detailed action plans which necessitate the formulation of appropriate strategies and adoption of suitable sectoral approaches for effective implementation.
To that end, seventeen sectors were identified and assigned to different line Ministries as lead institutions for each sector to ensure that the strategic initiatives are implemented for the attainment of the desired outcomes. The lead institutions are expected to coordinate the activities of all stakeholders in the sector in order to ensure that the set targets are achieved. The sectors are expected to develop five-year Sectoral Execution Plans (SEPs) and Annual Sectoral Execution Plans (ASEPs) to ensure measured implementation of the overall plan.

Formulation of the Planning Framework for NDP5

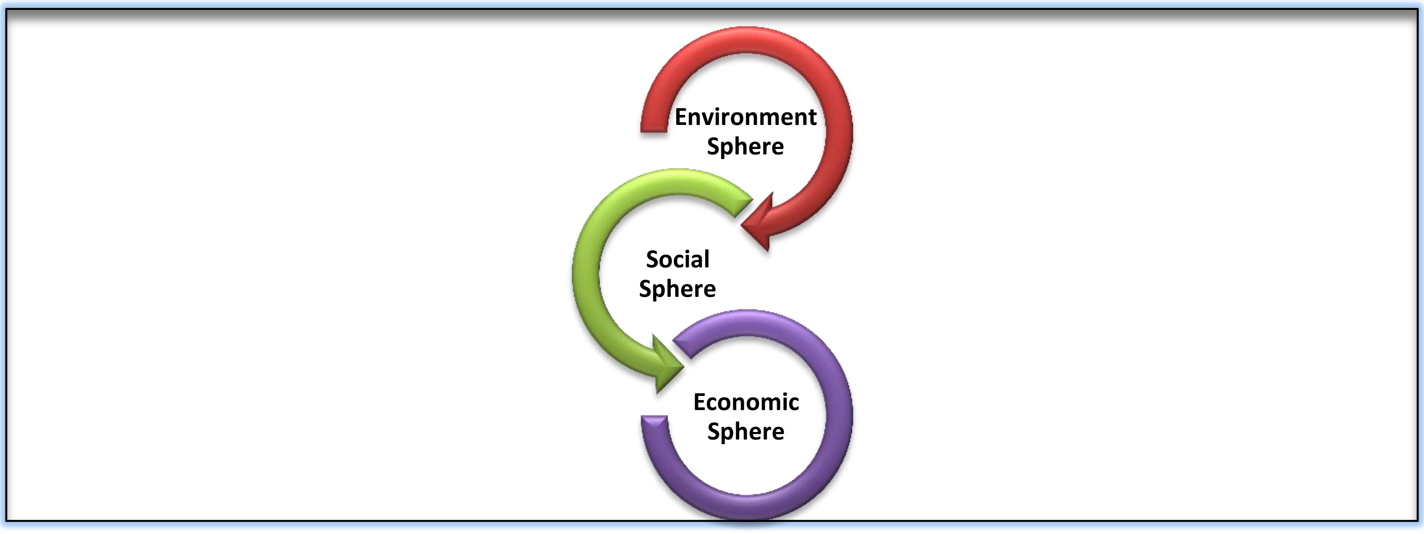
The Fifth National Development Plan (NDP5) is the latest of the National Development Plans and spans the period of 2017/18-2021/22. As such, NDP5 is the third last medium term development plan before the country reaches its pinnacle of development endeavours in 2030 by which period a total of seven NDPs would have been implemented. The NDP5 is currently in a draft format as the process of wide consultations at national, regional and local levels, including all stakeholders in the public and private sectors as well civil society, development partners, etc. is still underway.

NDP5 is essentially based on the bedrock of the successes, achievements and shortcomings of the past plans, that is, from the initial Transitional National Development Plan to the NDP4. NDP5 is premised on the principle of sustainable development and partnership formation. The principle of sustainable development permeates to the fabric of our development endeavours and puts people at the centre of our development agenda. In principle, the concept of sustainable development fosters the idea of meeting current development needs without compromising the ability of the future generations to meet their needs. It further advocates attainment of economic, social and environmental objectives simultaneously within the context of politically and culturally acceptable frameworks Overall, NDP5 is informed by and premises on the principles of the existing national, regional, continental and global development frameworks, including but not confined to, Vision 2030, Harambee Prosperity Plan, Regional Integrated Strategic Plan of SADC, Agenda 2063 (AU).

Framework and Methodology for NDP5

The NDP5 has been crafted within the context of the economic, social and environmental spheres that are interlinked (Figure 1).

Figure 1: The developmental framework for NDP5



Economic Sphere: entails the economic space where policy interventions are supposed to create conditions for economic growth and improvement of the quality of life by expanding capacity and opportunities for individuals, firms, and communities to maximize the use of talents, skills, capital and other resources to support innovation, competitiveness, production and trade goods and services.

Social Sphere: entails developmental space where policy interventions put people at the centre of development through the provision of public goods and services to communities in order for them to improve their living conditions and quality of life.

Environmental Sphere: entails the operational space where both economic and social activities interact. It is a source of input in the form of land, water, energy, and raw materials to be transformed into goods and services that would be enjoyed by the society but may, however, also be impacted negatively by the socio-economic activities.

Good Governance

The smooth running of the total developmental sphere is dependent on good governance or the absence thereof. Therefore, the government of the day is accountable for the success and failure of the developmental machinery. The leadership and role of government in economic development cannot be over-emphasized.

In setting the agenda for NDP5, a cascading approach has been used, that is, starting from the understanding of the four development pillars/spheres as explained above, followed by the following six aspirations:

- Achievement of inclusive, high and sustainable economic growth and wealth-creation;
- Attainment of a competitive economy;
- Achievement of high standards of living and quality of life for the Namibian people;
- Development of t a capable and healthy national human resources;
- Ensuring sustainable utilisation of the natural resources; and
- Promotion of good governance.

These aspirations are directly linked to the objectives of Vision 2030 and are reflective of the nation's high level and long-term desired outcomes.

Complimentary Medium Term Development Planning Tools

The **Harambee Prosperity** Plan [HPP] is a targeted Action Plan that seeks to accelerate development in clearly defined priority areas. It identifies goals that can be pursued with vigour in the short-term implementation period (2016/17 – 2019/20) and lay a solid base to attain prosperity in subsequent planning phases. The Plan does not replace, but complements the medium-term and long-term goals of the NDPs and Vision 2030, respectively. It introduces an element of flexibility in the planning system by fast-tracking development in areas where progress is insufficient. HPP also incorporates new development opportunities and aims to address challenges that have emerged after the formulation of NDPs.

Government has also adopted the **Medium Term expenditure Framework (MTEF**), which is a three-year rolling Government expenditure framework. The MTEF, which is updated annually through the national budgeting formulation process, comprises the appropriated budget ceiling for first year and provides estimated expenditure framework for the remaining two financial years. Therefore, estimated expenditure framework for the last two years are merely indicative as it subjected to changes based on revenue projections for that period.
Recently in the 2015/16 FY Government has introduced the **Mid-year budget review policy statement** with the principal objective *"to provide the macro-fiscal review, resource reallocation proposals and budget policy priorities for the next MTEF"*.

Furthermore, Offices, Ministries, and Agencies are required to formulate five-year **Strategic Plans** that are intended to support the implementation of the set objectives and targets of the NDPs and HPP. Strategic Plans are essentially costed business plans which, as such, provide an indication of financial request that are required for implementation of programmes and projects over the MTEF period. Furthermore, the five-year Strategic Plans are broken down into implementable and practical **Annual Plans.**

REPUBLIC OF NAMIBIA

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