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Quarterly Economic Update

This Issue…

Regular Updates

Special Feature

The aim of these Quarterly Economic Updates (QEU) 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. Each QEU 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.

In this issue, we analyse the Namibian Housing Market for 2007-2014 .

Global Developments

Global growth fell in the first 6 months of the year by more than forecast; this was attributable to weak outturns in the US, the Euro area, Japan, and some large emerging economies, particularly in Brazil and Russia. Downside risks are also on the rise, including an escalation in geopolitical tensions (in the Middle East and Ukraine) and a possible rise in volatility and risk premia in the financial markets. The speed of the global recovery is becoming more uneven, and potential growth remains low in advanced economies and is falling in some emerging economies. **The IMF forecasts for world growth have therefore been reduced again, albeit marginally, from 3.4% to 3.3% for 2014, and from 4.0% to 3.8% for 2015.**

The **US** is rebounding quite strongly from a surprising economic contraction in Q114, which was attributed to a particularly harsh winter and a correction after inventory build-up. This resurgence has been driven by a recovery in the housing market, improved levels of job creation and increased non-residential investment, with monetary and fiscal conditions also proving conducive to stronger growth. As a result, **the IMF has increased its 2014 growth forecast for the US from 1.7% to 2.2%. Its forecast for US growth in 2015 has also been raised marginally, from 3.0% to 3.1%;** the continuing recovery is expected to be driven by the factors mentioned above, and additionally by an improvement in household balance sheets.

Although consumption in **Japan** saw a more pronounced increase than expected in Q114 in anticipation of a rise in consumption tax, the corresponding fall in consumption in the following quarter, after the implementation of the tax hike, was also larger than expected. **Growth forecasts for 2014 and 2015, which are now at 0.9% and 0.8% respectively, have been revised down considerably, from 1.6% and 1.1% respectively,** more than offsetting the upward revisions of three months ago.

Growth performance in the **Euro area** has remained poor, amid weak export volumes and low levels of investment. Slack capacity persists, keeping inflation (and inflation expectations) very low, while debt levels and unemployment remain high. With the region facing an uneven recovery, **the IMF has lowered its growth forecasts for the Euro area, from 1.1% to 0.8% for 2014, and from 1.5% to 1.3% for the following year.**

In **China**, economic activity has recovered after a weak first quarter of 2014. Export volumes have been strong, while government policies such as increased expenditure on infrastructure, support for small and medium-sized enterprises, and social housing schemes have underpinned economic growth. This combination of factors has lead to **an unchanged IMF growth forecast of 7.4% in 2014; the 2015 growth forecast for China likewise remains at 7.1%.**

On the back of both higher investment and higher exports, **IMF forecasts for India's growth in 2014 have been increased by 0.2 percentage points, to 5.6%.** The corresponding **expected growth figure for 2015 is unchanged at 6.4%.**

In **Russia**, investment has fallen following the escalation of the conflict in Ukraine, with business confidence taking a further hit. Consequently, capital outflows have contributed to a weakening of the rouble, creating inflation by raising the price of imports. Amid this economic disruption, **the IMF forecasts that the Russian economy will report only negligible growth of 0.2% in 2014, with a modest recovery to 0.5% growth next year,** with the latter forecast revised down from 1.0%.

Following economic contraction in the first six months of 2014, **Brazil** is facing a spate of economic challenges that may hinder its growth performance. Decelerating credit growth, a difficult investment climate and weak job creation have seen **the IMF cut its 2014 growth forecast for Brazil to 0.3%, from 1.3% previously; for 2015, Brazil is forecast to grow by 1.4%, down from a previous estimate of 2.0% growth.**

In light of the deteriorating outlook for Russia and Brazil, as well as geopolitical instability affecting growth forecasts for the Middle East and North Africa, **the IMF has marginally trimmed its growth forecasts for emerging market and developing economies, from 4.6% to 4.4% for 2014, and from 5.2% to 5.0% for 2015.**

Sub-Saharan Africa

Sub-Saharan Africa continues to post robust economic growth figures relative to other parts of the world, although **the IMF growth forecast for the region has been revised down from 5.4% to 5.1% for 2014.** This less positive outlook reflects weakness in some of the region's larger economies. Although downside risks persist, including a tightening of global financial conditions and lower external demand for resources from slowing emerging economies elsewhere, **the IMF outlook for growth in Sub-Saharan Africa in 2015 remains at 5.8%.**

Growth in **Nigeria** is expected to be strong both this year and next year, in spite of lower oil production. The recent revision of GDP methodology has revealed that the country's economy is better diversified away from the oil sector than expected, and recent performance in non-oil sectors of the Nigerian economy has been strong, particularly in agriculture, trade and services. **The IMF growth forecast for Nigeria has been lowered marginally for 2014, from 7.1% to 7.0%, and raised for 2015, from 7.0% to 7.3%.**

The IMF growth forecast for 2014 for **South Africa** has once again been **revised down, this time from 1.7% to 1.4%.** This reflects the fact that ongoing issues, namely the fallout from industrial action, energy supply constraints, and a lack of business confidence, continue to constrain economic output. **The growth projection for 2015 has also been lowered, from 2.7% to 2.3%,** although some improvement is expected in both net exports and labour relations.

IMF growth forecasts for 2014 for **Angola**, SSA's second largest oil producer, have been **revised down significantly** from the levels expected six months ago, **from 5.3% growth to 3.9%.** This comes on the back of falling oil prices without the proposed increases in oil output volumes, as well as slower growth in agricultural output. Nonetheless, **the IMF growth projection for 2015 has been raised from 5.5% to 5.9%,** in light of a more positive view of the non-oil economy.

South African Economy

South African GDP grew by just 1.0% during Q214, which represented both a poor performance relative to growth of 2.3% in the same quarter of last year and the lowest second quarter growth figure since the recession of 2009. The growth rate for Q214 was also significantly lower than the 1.6% growth recorded in Q114.

This sluggish economic performance can be attributed to poor performance in several of the larger industries of the South African economy. Growth in *finance, real estate and business services*, a sector which has tended to account for around one fifth of South African GDP over the last five years, slowed to 0.7%. This was a notable deceleration from the 3.6% growth in Q213 and the slowest growth rate in this industry since 2009. Likewise, *manufacturing* (which has recently represented around 15% of the country's output) recorded a contraction of 0.6%, down from 2.6% growth in the second quarter of 2013; *manufacturing* has struggled since the beginning of 2013, frequently alternating between expansion and contraction. Another relatively large sector, *wholesale, retail and motor trade and catering and accommodation* (around 12% of GDP), grew by 1.4% to record its weakest quarter since early 2010 and a low growth rate relative to expansion of 2.4% in Q213. Other poor performers included *mining and quarrying*, which contracted by 2.7% in a similar outturn to the 2.8% contraction in the same period of 2013, and *electricity, gas and water* which posted negative growth of 0.8%, down from 0.1% growth in Q213.

Some stronger results were recorded in other South African industries (albeit smaller sectors in terms of their contribution to output). There was growth of 1.5% in *general government services* in Q214, marginally slower than the 1.7% growth of Q213, in a sector that accounts for over 13% of South African output. *Transport, storage and communication* (representing around 9% of GDP) grew by 2.5%, an improvement on growth of 1.8% in the same quarter of the previous year. Strong performance in the *construction* sector continued, with 3.0% growth compared to growth of 2.2% in Q213. A 5.8% rate of expansion in *agriculture, forestry and fishing* was a marked recovery in a sector that had been contracting since mid-2013, even if it was a slower rate of growth than the 6.8% posted in the second quarter of 2013. *Personal services* grew by 1.4%, in a similar outcome to Q213, when the industry grew by 1.5%.

South Africa is expected to continue to face challenges such as energy supply bottlenecks, poor labour relations and relatively uncompetitive goods and services throughout the second half of 2014**.** This has prompted **the IMF to revise down its 2014 growth forecast for South Africa**, **from 1.7% to 1.4%.** In the coming months, the recovery is also expected to be slow, with **growth forecasts for 2015 having been revised down from 2.7% to 2.3%.**

Namibian Economy

The National Statistics Agency (NSA) revised the first quarter GDP growth figure for Namibia upwards from a mere 1.6% to 4.4%. In the second quarter of 2014, meanwhile, GDP registered 3.0% growth, a deceleration compared to the 4.4% in the first quarter as well as compared to the 4.2% recorded in the same period the previous year.

The slower growth rate in Q214 was a result of a further 12.6% contraction in the *manufacturing* sector from a 5.3% contraction in Q114 and compared to a 6.7% growth rate recorded the same period in the previous year. A further contributing sector was *wholesale and retail*, which recorded slow growth of 1.4% in Q214, compared to expansions of 27.7% in Q114 and 16.1% in Q213. *Hotels and restaurants* also recorded a contraction of 16.0%, down from a 4.1% contraction in Q114 and from a 3.7% contraction during the same period in the previous year. Furthermore, the *fishing* sector recorded a 9.7% contraction in Q214 compared to the positive growth of 0.2% in Q114 and 3.0% in Q213. *Transport and communication*, meanwhile, recorded slower growth of 7.0%, down from 13.5% in Q114 and 10.0% in Q213.

Despite the weak performance in the above-mentioned sectors, positive growth in several other sectors posted ensured headline GDP growth remained well supported. *Mining and quarrying* recorded robust growth of 6.0% in Q214, compared to 1.9% in Q114 and a 6.7% contraction in Q213. *Electricity and water* posted strong growth of 6.6% in Q214, compared to a mere 1.0% in both Q114 and Q213. Growth in *public administration* accelerated to 11.6% in Q214, compared to a contraction of 7.4% in Q114 and a 22.4% contraction in Q213, while *education* also saw a robust expansion of 14.6% in Q214, compared to the contractions recorded in both Q114 and Q213 of 0.2% and 2.8%, respectively.

Balance of Payments

The second quarter of 2014 saw Namibia's current account balance improve considerably, although it nonetheless remained in deficit. The deficit shrank by 47.6% q-o-q from N$3.2bn (revised down from a previous estimate of $N4.1bn) in Q114 to N$1.6bn in Q214. The improvement in the current account came about principally as a result of improvements in the *merchandise trade balance*. The *merchandise trade balance* improved by 16.7%, as *exports* grew by 24.8% q-o-q from N$10.8bn to N$13.4bn, which outweighed the 8.7% increase in *imports* q-o-q from N$17.6bn to N$19.1bn.

Goods, services and income improved by 10.1% q-o-q, from N$7.1bn in Q114 to N$6.7bn Q214; the improvement came about despite the further deterioration of *net services* and *net investment income*. *Net services* contracted by 76.3% q-o-q (continuing a trend since Q113) from net imports of N$154mn in Q114 to N$272mn in Q214, resulting in a widening of the deficit in trade in services during the period under review. *Investment income* also recorded a q-o-q increase in net outflow of 178.5%, from N$172mn in Q114 to N$479mn in Q214.

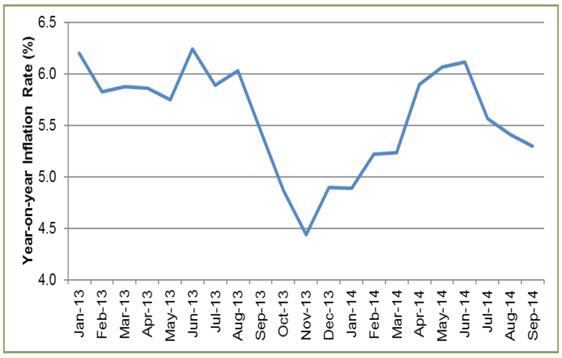
Current transfers in cash and in kind recorded a net inflow, supported by SACU inflows, which effected a 20.8% q-o-q increase in current transfers. SACU transfers increased by 23.0% q-o-q, from N$3.7bn in Q114 to N$4.5bn in Q214, accounting for the majority of the government transfers.

The capital and financial account balance increased sharply by 236.0% q-o-q, to record a surplus for Q214, an upsurge from the N$1.1bn deficit in Q114 to a N$1.4bn surplus. The surplus was a result of improvements in *other investment*, both *short*- and *long-term*. *Other long-term investment* increased sharply from N$1.1bn in Q114 to N$3.9bn in Q214, as a result of an increase in inflows in sectors other than Government, the Bank of Namibia and commercial banks, which rose from N$1.5bn in Q114 to N$3.5bn in Q214. Meanwhile, *other short-term investments* registered a net inflow of N$466mn in Q214 compared to an outflow of N$861mn recorded in Q114, also boosted by sectors other than Government and commercial banks.

The N$1.4bn surplus came about despite the decline in *direct investment in Namibia*, while *portfolio investment* also contracted. *Direct investment in Namibia* declined by 14.1% q-o-q in Q214, from a N$685mn inflow in Q114 to N$588mn in Q214. Inward *portfolio investment*, meanwhile, contracted dramatically, recording an outflow of N$2.3bn in Q214 compared to the inflow of N$84mn recorded in Q114. *Portfolio investment* was affected by outflows in both equity and debt.

Consumer Prices

Namibian Inflation, 2013-14



Source: *NSA: Namibia Consumer Price Index Bulletin, September 2014*

Annual inflation for the month of September registered at 5.3% y-o-y, marking a slowdown and continued downward trend for the fourth consecutive month since June 2014. The 5.3% inflation rate also indicates a y-o-y slowdown compared to the 5.4% registered in 2013 during the same period. The monthly inflation rate for September was 0.2%, slightly lower than the 0.3% reported in August.

The slower inflation of 5.3% came about despite acceleration in the prices of *furnishings, household equipment and routine maintenance of the house*, from 5.2% y-o-y in August to 5.5%, and in the prices of *clothing and footwear*, from 3.4% y-o-y to 4.1%. *Health* price inflation also increased slightly from 1.5% y-o-y to 1.6%. The deceleration in headline consumer price growth came on the back of weaker price growth in *Food and non-alcoholic beverages*, which slowed from 8.6% y-o-y in August to 8.4%; *housing, water, electricity, gas and other fuels* prices also slowed down, from inflation of 3.3% y-o-y to 3.0%. Growth of prices in *recreation and culture* decelerated from 6.0% y-o-y to 5.6%, while prices in *communications* contracted at a faster rate, from -0.5% y-o-y to -1.0%.

Alcoholic beverages and tobacco; education; hotels, cafes and restaurants; and *miscellaneous goods and services* all recorded constant rates of inflation (y-o-y) relative to August, at 6.9%, 8.1%, 5.3% and 4.5%, respectively.

Commodity Prices

Commodity prices in almost every major category have tumbled in the past two months, displaying a considerable amount of movement relative to recent years and in many cases reaching multiyear lows. The IMF's overall commodity price index fell by 8.7% y-o-y to September 2014, in the wake of falling food, oil and metals prices. This drop in prices was primarily a recent development, with commodity prices having fallen by 8.8% during Q314 alone.

Crude oil prices (as measured by a simple average of the prices of Brent Crude, West Texas Intermediate and Dubai Crude) fell by 11.8% y-o-y and by 11.5% q-o-q up to September 2014, in spite of sizable supply disruptions caused by conflicts in Iraq, Syria and Libya, along with technical issues elsewhere. While OPEC countries have maintained a high output and possess ample spare capacity, the fall in prices has been primarily driven by the expansion of domestic shale oil production in the US, with production in Texas and North Dakota on the rise and the US as a whole satisfying more of its own demand without recourse to oil imports. This lower demand for imported oil has been particularly damaging for West African oil exporters; the price of a barrel of Brent Crude fell by 13.0% q-o-q during Q314.

A similar story has been exhibited in **food prices**, which have fallen 6.1% y-o-y and 10.1% q-o-q to reach a four-year low in September 2014, chiefly due to plentiful supply. Weather conditions this year have been conducive to a strong harvest of cereal and oilseed crops, and moreover, inclement weather patterns later this year are now considered less likely than previously thought. In particular, record global harvests are expected in both wheat and soybeans, and in light of these forecasts, their prices have fallen q-o-q by 20.5% and 30.1%, respectively, during Q314.

The **IMF metals price index** sat at its lowest level in just under five years in September 2014, with metals prices having fallen by 9.1% y-o-y. Zinc, nickel and aluminium prices all posted double-digit y-o-y growth rates in September, but this was seemingly not enough to offset falling prices in copper, tin and iron ore, with the latter in particular witnessing a collapse in price of 38.7% y-o-y. Uranium prices posted a robust recovery in Q314, growing by 21.2% q-o-q to counteract almost entirely the steep fall in price witnessed during the previous two quarters.

SPECIAL FEATURE

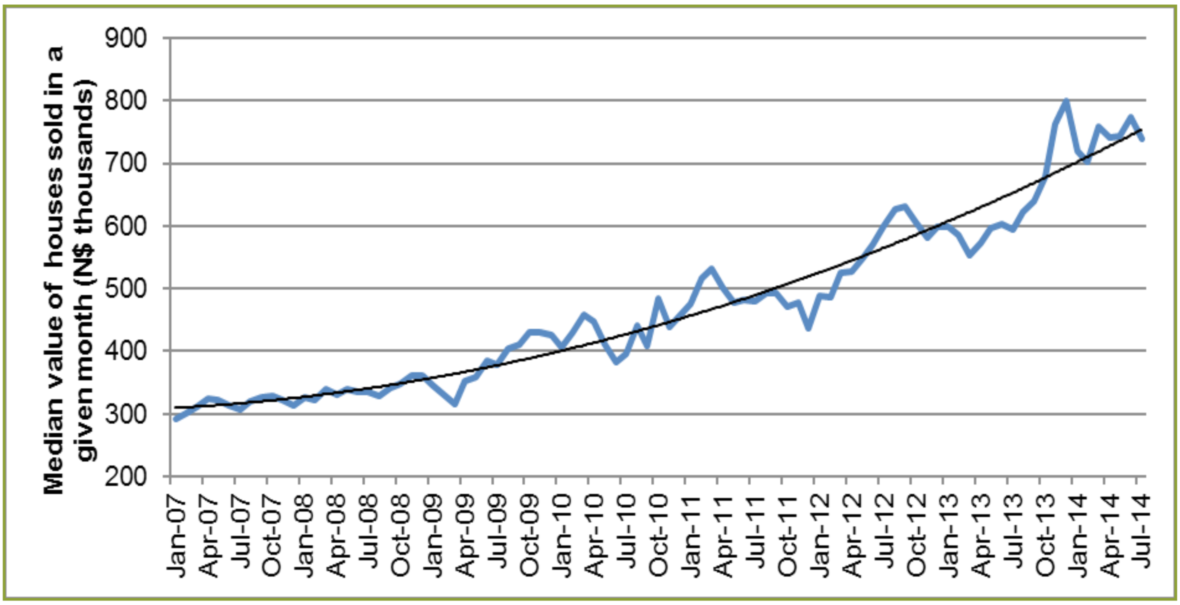
Spotlight on: Analysis of the Namibian Housing Market for 2007-2014

Shelter is a basic human need, and therefore the provision of housing has an important role to play both in promoting growth and eradicating poverty. Indeed, the housing sector is described as a major contributor to the national economy, and "having an impact on social, political and environmental fabrics of the Namibian Society"[1] .

Since independence, the provision of housing to all Namibians has been a key priority for Government. This, however, has not been an easy task. There have been several initiatives by Government to ensure or promote the provision of housing to all Namibians, including the Build Together programme, the National Housing Enterprise (NHE), the Habitat Research and Development Centre and, most recently, the Mass Housing Initiative. These have been supplemented by other non-governmental initiatives aimed at providing low-cost housing for Namibians, such as the Shack Dwellers Federation of Namibia and the Clay House Project, among others. However, despite these efforts there remains an estimated backlog of close to 100,000 housing units[2], a number estimated to be growing at 3,700 units per annum.

What can be deduced from all this is that the rate at which these projects and initiatives are providing housing and the rate at which housing is being demanded are not equal, and therefore the backlog mentioned above has become increasingly problematic. Studies by the Bank of Namibia (BoN), the Institute of Public Policy Research (IPPR) and other institutions have identified the following prominent issues: affordability, availability of serviced land, population growth and urban migration, rapid house price inflation and a shortage in supply.

Figure 1 House price growth, 2007-14

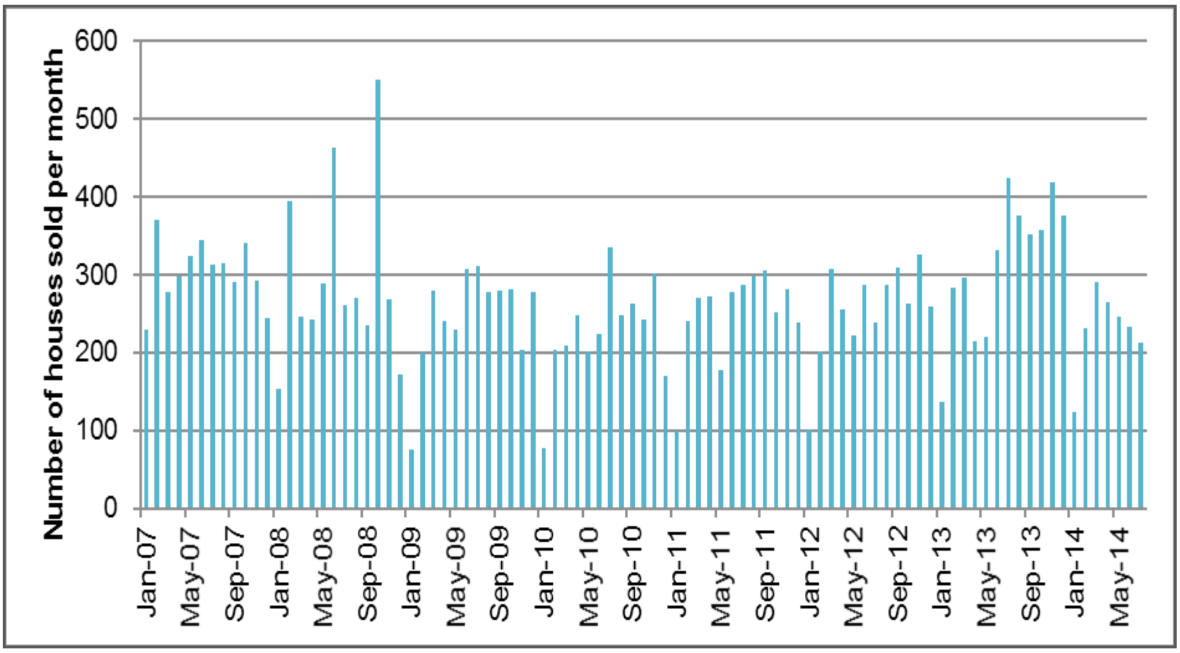


Source: *FNB Namibia Housing Index*

Trends in the Housing Market

Namibian house prices, as measured by the median price of all houses sold nationwide in a particular month, **have seen both considerable and accelerating growth since 2007** (see Figure 1 above). Whereas annual house price growth stood at around 7.6% y-o-y in 2007 and 2008, it has exceeded 12% in every full year since, peaking thus far at 16.4% in 2012. The strongest individual quarter of house price inflation, Q413, featured a q-o-q price rise of 20.7%, albeit during what is often the busiest period of the year for house purchases. Underscoring the magnitude of these housing price developments, at 16.0% for the year to June 2014, Namibia's rate of house price growth was recently ranked second in the world – behind only Dubai – in the Knight Frank Global House Price Index[3].

Figure 2: Volume of houses sold, 2007-14



Source: FNB Namibia Housing Index

The progression in **the volume of houses sold** over the same period has been less clear-cut (see Figure 2 above), with a **fall in volumes during 2009-12** relative to 2008-09, and a **subsequent recovery in 2013.** After strong outturns in 2007 and 2008, with over 3,500 houses sold per year, housing sales fell below 3,000 per annum until 2012, when just 3,053 houses changed hands. It is possible that reduced demand as a consequence of the global economic crisis partially contributed to the low volumes recorded from 2009 to 2012, although growth in real output recovered swiftly in the domestic economy from 2010 onwards. Aided by robust figures in the second half of the year, the total volume for 2013 reached 3,785 houses. However, absent a spike in sales towards the end of 2014, this year housing market activity looks set to remain relatively subdued: the 1,387 houses sold in the first half of 2014 represent a significantly lower volume than in the equivalent periods of 2013 (1,482 houses), 2008 (1,787) and 2007 (1,841). House sales also show a pronounced seasonality: low volumes at the beginning of each calendar year are followed by increased activity in later months.

As others have noted, the availability of data on the Namibian housing market continues to pose a challenge[4]. Working from median price data without the benefit of a mean price figure gives us little insight into the distribution of house prices in a given month. Moreover, data on volumes of houses sold each month may reflect either the sale of new houses or the resale of existing housing stock, making it impossible to separate the respective effects of increased supply and increased turnover.

Supply of Housing: a Growing Shortage?

One explanation frequently cited for the acceleration of house price growth over recent years is that of **a supply shortage,** i.e. positive and significant excess demand. This is an economically intuitive concept: the property market may find itself in disequilibrium if the number of potential buyers is larger than the number of potential sellers, with the result that the buyers compete for whatever housing supply becomes available by bidding up house prices, until the number of buyers who can afford a house falls to roughly equal the number of available houses once more.

The signs of a housing supply shortage are not difficult to identify in the Namibian market. As noted above, the period from 2009 to 2012 saw both a lower supply (as measured by volume of sales) and faster-rising median prices than observed prior to 2009. This evidence supports recent claims of a housing backlog (excess demand) of approximately 80,000 by 2011[5] and 100,000 by 2013[6].

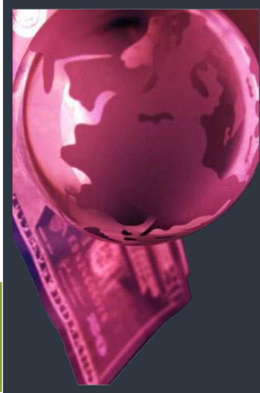
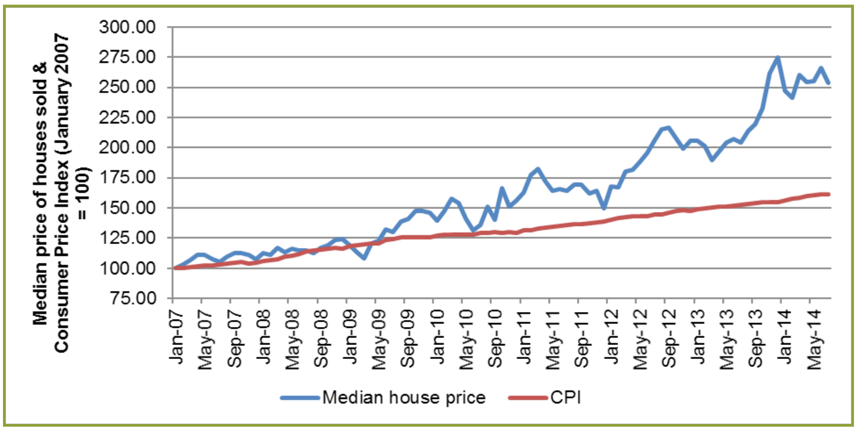


Figure 3: House Prices and Consumer Price Inflation, 2007-14



Source: FNB Namibia Housing Index; NSA

The **growth of house price inflation since 2012** (see Figure 3 above) also supports the claim that this backlog is increasing[7]. Although there is a broad positive correlation between the Consumer Price Index and median house price, the rate at which median house prices are growing has accelerated beyond that of the CPI, indicating a decoupling of house prices from the progression of prices in the rest of the economy. From Figure 3, it is possible to identify this decoupling setting in in mid-2009, after which in several nine-month bouts house price inflation considerably exceeded the growth rate of the CPI. The pernicious nature of the housing backlog is such that, in the face of rising demand for housing, every subsequent year of low supply increases excess demand by more, and the problem can quickly spiral out of control.

There is also some evidence that the supply shortage has hit harder in certain sectors of the market than others. FNB data show both a large, steady fall in the supply of housing for low income earners from 2007-13 and a concomitant rise in housing supply for high-income earners[8]. This may represent the combination of private sector housing developers failing to serve less profitable market segments, and the relatively slow progress of publicly-funded efforts to supply housing to low income groups. It is also a worrying trend, given that low income individuals represent a sizable proportion of Namibian citizens, and a constituency that is being increasingly inadequately served with housing supply.

Demand for Housing

In general, demand for housing is thought to rely on several fundamental demographic and socioeconomic factors, many of which have been on the rise in Namibia in recent years.

The **size and spread of a country's population** can increase housing demand. This positive relationship between population growth and the need for housing is obvious, whereas trends towards a smaller average household size and a higher proportion of the population living in urban areas (both of which have been observed in Namibia, according to recent censuses) also tend to increase housing demand.

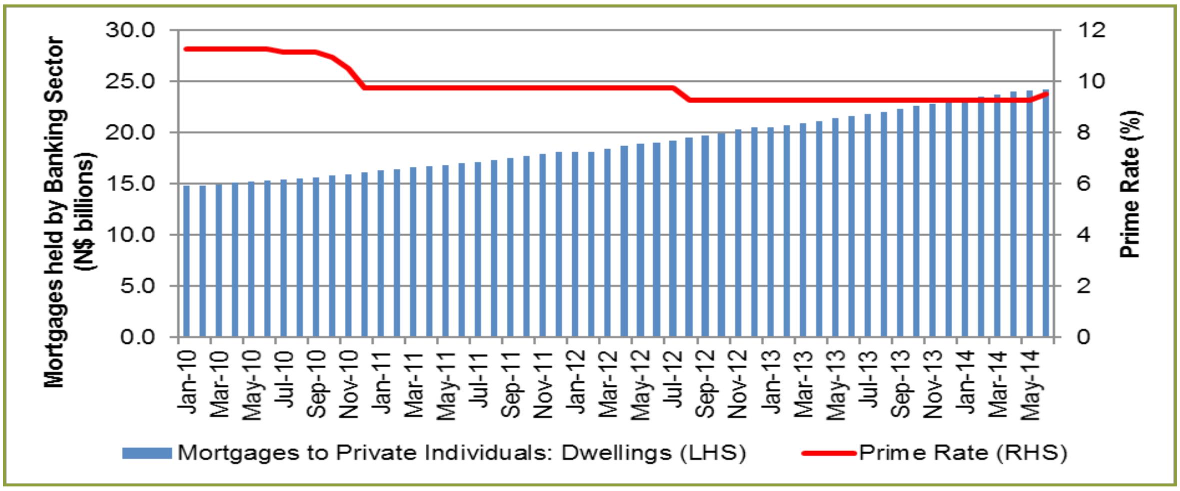
Another important determinant of demand in the property market is the **income level of the population**. Housing demand is rather intuitively subject to a positive income effect, as wealthier buyers demand larger, better and more houses. In this way, the rising average income levels recorded in Namibia in recent years have also contributed to an increase in the demand for housing.

While these longer-term developments have certainly played a part in the increase in housing demand and the resulting imbalances of supply and demand, a further influence on housing demand is the price of the facility by which many househunters purchase property, i.e. **the cost of mortgages.**

Demand and Mortgage Finance

In the absence of reliable quantitative data on demand for housing in Namibia, it is instructive to consider the mortgage finance environment of recent years, which is in theory one of the main determinants of housing demand.

Figure 4: Prime Rate and Mortgages to Private Individuals, 2010-14



Source: Bank of Namibia

The prime lending rate represents the rate at which a bank lends to its most creditworthy customers (e.g. large companies) and is closely related to both the repurchase rate (the rate at which the BoN lends to banks, which in fact determines the prime rate) and the average rate of interest charged on mortgages (which is determined by the prime rate plus a premium, often around one percentage point). Figure 4 above shows the evolution of the prime rate in recent years. Cuts in the repurchase rate by the BoN from 7.00% to 6.75% in September 2010, and then again to 6.00% two months later, were both anticipated and followed by a fall in the prime rate, which slid from a rate of 11.25% for the first half of 2010 to settle at 9.75% in the wake of expansionary monetary policy. When the repurchase rate was lowered again to 5.50% in August 2012, this was reflected one-for-one in the prime rate, which fell to 9.25%, where it remained for almost two years. In recent months, the BoN has twice raised the repurchase rate in 25 basis point increments, initially to 5.75% in June 2014, and then to 6.00% in August, which has caused the prime rate to revert to 9.75%. As the BoN has reiterated its concern over pressure on Namibia's current account and international reserves arising from credit-fuelled spending on imports[9], further rate rises (which would be passed on to mortgage rates) remain a possibility.

The effects of the gradual loosening of financial constraints can be seen **feeding through to the growth rate of the volume of mortgages** on the collective balance sheet of the Namibian banking sector. The stock of mortgages to individuals for the purpose of purchasing dwellings grew by an average of 10.0% y-o-y during the first nine months of 2010, whereas at the lower prime and mortgage rates that prevailed from the December 2010 to July 2012, the same mortgage pool grew by an average of 11.4% y-o-y. During the most accommodative period for borrowers in recent times (from August 2012 to May 2014), the average y-o-y growth rate of these mortgages was 13.3%.

This easing of the financial environment in recent years may have combined with supply and demand imbalances already prevalent, to exacerbate the rise in house prices. Not only do lower interest rates allow banks to extend a greater volume of mortgage credit to the market, allowing more potential buyers to enter the market, but lower interest payments (in percentage terms) allow borrowers to sustain a larger loan than they might otherwise have, which may have facilitated more bidding-up of house prices.

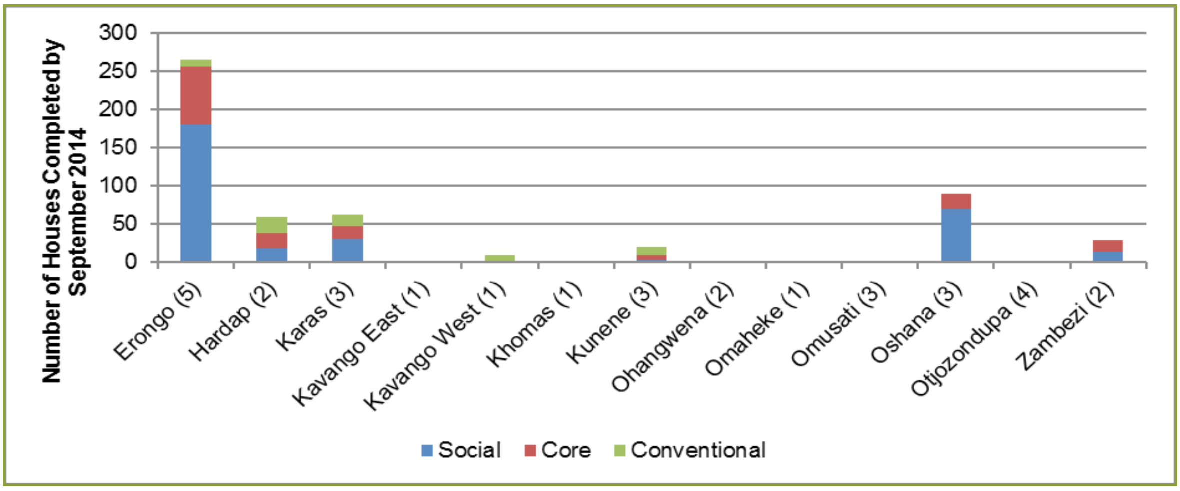
High levels of mortgage debt bring with them a threat to financial stability, particularly if mortgage interest rates rise midway through the loan term (as they have begun to do after the recent BoN repurchase rate increases in mid-2014) and borrowers subsequently begin to find their debt payments unsustainable. Furthermore, recent analysis[10] has suggested that a small proportion of households (i.e. middle-income Namibians who use banking services) may hold a disproportionately large share of household debt, including borrowing for other purposes such as increased consumption. As such, an increase in the cost of servicing mortgage debt could quite easily increase loan delinquency among this cohort. The effects of increased loan delinquency may vary depending on the purpose for which the mortgages were acquired: if these middle-income borrowers are investing in second houses, the consequences of default may be less severe. On the other hand, an increase in defaults among lower-income borrowers, who are most likely borrowing to purchase their primary residence, could aggravate this group's hardship.

Recent Developments

The major development in the Namibian property market in the last year has been the inception of Government's **Mass Housing Development Initiative (MHDI).** This government programme aims to wipe out the backlog created by low housing supply in recent years and to deliver on NDP4 objectives of having a housing delivery programme that focuses on affordability, and increasing the percentage of households living in modern houses from 41% in FY2009/10 to 60% by FY2016/17[11].

The MHDI, having commenced in late 2013, plans to deliver 8,800 new houses in its first two years and around 12,000 in each subsequent year until 2030, **increasing housing supply by around 185,000 units over the course of its implementation.** The **total investment** in the MHDI is expected to amount to **N$45 billion,** which equates to about N$2.5 billion per year, on average. On paper, this "big push" approach to solving the housing shortage appears to be a good option, especially given the dynamics described above, through which the housing backlog has quickly escalated.

Figure 5: Completed MHDI Houses as of September 2014



Source: National Housing Enterprise

Considerable positive externalities are also expected from the MHDI. NHE estimates suggest that 2.5 jobs will be created per house built, which translates to **20,556 new jobs that are expected to be created** and sustained during the lifecycle of the MHDI. Other potential benefits to the economy include a boost to GDP growth via stronger output in the construction sector, creation of more sustainable communities and scope for more efficient public service delivery.

Figure 5 (see above) shows the number and composition of completed MHDI houses by region as of September 2014, with the figures in parentheses representing the number of building companies engaged in MHDI projects in each region.

The **composition of the houses** built is organised into three categories from the most basic house type, *social* houses, to the least basic, *conventional* houses. Given that the housing backlog is heavily weighted towards lower income individuals, there has been an encouraging proportion of *social* houses among the projects completed so far. For example, in the Erongo Region 181 of the 265 houses completed have been *social* houses, most of them located in Walvis Bay and Swakopmund. *Social* houses also comprise just under one third of the houses completed in the Hardap Region and one half of those built in the //Karas Region.

Nonetheless, efforts will most likely need to be redoubled to ensure that MHDI initiative projects are completed on schedule, as the scheme needs to address the housing shortage without delay. For example, it has been observed that construction in the capital has fallen somewhat behind the target of 1,191 houses delivered by late 2015[12], although work there is on-going. Another challenge during the implementation of the MHDI will be keeping the projects cost-effective; previous initiatives of this kind have struggled in this respect[13].

1 "Namibia National Housing Policy", Ministry of Regional and Local Government, Housing and Rural Development (2009).
2 "Future developments and improvements, planned and required in the Namibian housing market", Vinson Hailulu (2013), National Housing Enterprise.
3 Cited by FNB Housing Index, June 2014.
4 See also section 5 of "Housing Policy and Delivery in Namibia", Els Sweeney-Bindels (2011), IPPR.
5 "Housing Policy and Delivery in Namibia", Els Sweeney-Bindels (2011), IPPR.
6 "Housing Demand and Supply in Namibia", Roland Brown (2013), Bank of Namibia.
7 Brown (2013), modelling his own demand functions, estimates that excess demand in each of the four major cities of Rundu, Swakopmund, Walvis Bay and Windhoek has grown steadily from 2010 to 2013.
8 Cited in "Housing Demand and Supply in Namibia", Roland Brown (2013), Bank of Namibia.
9 "Monetary Policy Statement", Ipumbu Shiimi (22 October 2014), Bank of Namibia.
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11 "Final Draft Blueprint on Mass Housing Development Initiative in Namibia", the Honourable Charles Namoloh, Minister of Regional and Local Government, Housing and Rural Development, National Committee on Mass Housing Development Program.
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13 Cf. section 6.4 of "Housing Policy and Delivery in Namibia", Els Sweeney-Bindels (2011), IPPR.

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