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MINISTRY OF FINANCE - EPAS
Quarterly Economic Update

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MINISTRY OF FINANCE • Economic Policy Advisory Services (EPAS)

Quarterly Economic Update

GLOBAL ECONOMIC DEVELOPMENTS

Global growth is estimated at **3.2 percent for 2019** and is projected to improve to **3.5 percent in 2020** (0.1 percentage point lower for both years than in the April 2019 WEO forecast). About 70 percent of the increase in the global growth forecast for **2020** relative to **2019** is accounted for by projected stabilization or recovery in stressed economies.

For advanced economies, growth is projected at 1.9 percent in 2019 and 1.7 percent in 2020. The 2019 projection is 0.1 percentage point higher than in April mostly reflecting an upward revision for the **US**. In the US, 2019 growth is expected to be 2.6 percent, due to stronger-than anticipated first quarter performance and is projected to moderate to 1.9 percent in 2020 as the fiscal stimulus unwinds. Growth in the ***euro area*** is projected at 1.3 percent in 2019 and 1.6 percent in 2020. With some economies doing well (Spain and France) and others suffering slightly due to weaker investment and domestic demand (Germany and Italy). Growth is expected to pick up over the remainder of this year and into 2020, as external demand is projected to recover and temporary factors continue to fade.

Table 1: Global GDP growth - % changes

	2018	2019	2020
World Output	**3.6**	**3.2**	**3.5**
Advanced Economies	2.2	1.9	1.7
United States	2.9	2.6	1.9
Euro Area	1.8	1.3	1.6
Japan	0.8	0.9	1.4
Emerging Market and Developing Economies	**4.5**	**4.1**	**4.7**
Russia	2.3	1.2	1.9
Brazil	1.1	0.8	2.4
Emerging & Developing Asia	6.4	6.2	6.2
India	7.1	7.0	7.2
China	6.6	6.2	6.0
Sub-Saharan Africa	**3.0**	**3.4**	**3.6**
Nigeria	1.9	2.3	2.6
South Africa	0.8	0.7	1.1

Source: IMF WEO, 23 July 2019 Update

The **UK** is set to expand at 1.3 percent in 2019 and by 1.4 percent in 2020. The growth reflects a stronger-than-anticipated first quarter outturn boosted by pre-Brexit inventory accumulation and stockpiling. This is likely to be offset partially by payback over the remainder of the year. *The forecast assumes an orderly Brexit followed by a gradual transition to the new regime*. **Japan's** economy is set to grow by 0.9 percent in 2019. Growth is projected to decline to 0.4 percent in 2020, with fiscal measures expected to somewhat mitigate the volatility in growth from the forthcoming October 2019 increase in the consumption tax rate.

The ***emerging market and developing economy*** is expected to grow at 4.1 percent in 2019, rising to 4.7 percent in 2020. The forecasts for 2019 and 2020 are 0.3 and 0.1 percentage point lower, respectively, than in April, reflecting downward revisions in all major regions.

In **China** growth is forecast at 6.2 percent in 2019 and 6.0 percent in 2020—0.1 percentage point lower each year relative to the April WEO projection, the negative effects of escalating tariffs and weakening external demand have added pressure to an economy already in the midst of a structural slowdown and needed regulatory strengthening to rein in high dependence on debt**.**

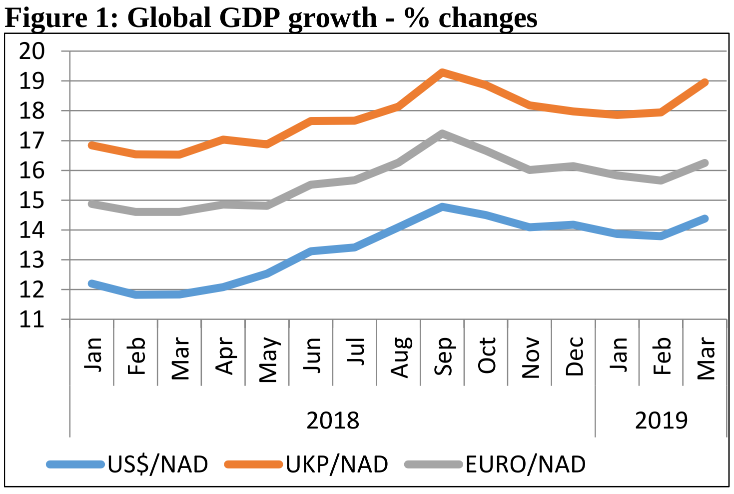
India's economy is set to grow at 7.0 percent in 2019, picking up to 7.2 percent in 2020. The downward revision of 0.3 percentage point for both years reflects a weaker-than expected outlook for domestic demand.

The **sub-Saharan Africa**, growth is expected at 3.4 percent in 2019 and 3.6 percent in 2020, 0.1 percentage point lower for both years than in the April WEO, as strong growth in many non-resource-intensive countries partially offsets the lacklustre performance of the region's largest economies.

Higher, albeit volatile, oil prices have supported the outlook for **Angola, Nigeria**, and other oil-exporting countries in the region. But growth in **South Africa** is expected at a more subdued pace in 2019 than projected in the April WEO following a very weak first quarter, reflecting a larger-than-anticipated impact of strike activity and energy supply issues in mining and weak agricultural production.

EXCHANGE RATE DEVELOPMENTS

Figure 1: Global GDP growth - % changes



Source: BoN, Quarterly Bulletin, Q1 2019

The Namibia Dollar (NAD) depreciated against all major trading currencies, with the EU/NAD increasing by11.9%, the £ increasing by 14.7% and the US$ increasing by 21.5% against the NAD on an annual basis while the increase was moderate on the monthly basis with 3.8%, 5.6% and 4.3% for EU, UK and US respectively for March 2019 averages

COMMODITY PRICES

The IMF all commodity price index recorded a decline of 15.4percent y-o-y and 4.1percent monthly, the main contributor to the decline was the decline in the oil price index, which also declined both monthly and annually by 15.3percent and 11percent as mirrored by the 15.8percent and 10.3percent decline in oil prices. However, the all metal price index increased by 5.3percent and 3.4percent y-o-y and m-o-m respectively, the increase was prompted by higher uranium and gold prices.

Generally all **commodity prices** recorded a decline with the only exceptions being uranium and gold prices. **Uranium prices** increased by 6.1percent annually but recorded a decline on an m-o-m basis of close to 1percent. **Gold** prices increased by 6percent annually and 5.8percent monthly, the price for Gold was highest at US$1359/oz for the last 5 years. On the other hand, **copper prices** declined by 15.5percent annually and 2.3percent monthly, the decline was exacerbated by the slowdown in China. **Lead prices** also recorded a decline of close to 22percent annually but recorded an increase monthly of close to 4percent for the month of June 2019.

Commodity markets are expected to rem ain volatile during the remainder of the year due to a combination of factors, ei. Geopolitical tensions, trade tensions (although albeit subdued) and general slow external demand.

RISKS TO OUTLOOK

Downside risks have intensified since the April 2019 WEO. They include escalating trade and technology tensions, the possibility of a protracted risk-off episode that exposes financial vulnerabilities accumulated over years of low interest rates, geopolitical tensions, and mounting disinflationary pressures that make adverse shocks more persistent.

BOP

The **current account** recorded a **surplus** for the first time in more than 4 years, the surplus stood at **N$1.1bn for the first quarter of 2019**.

The surplus was driven by a 9percent growth on **secondary income** and despite a decline in **primary income.** Another factor was the increase of 9percent in exports while imports declined by 8percent during the quarter, the **export of goods** accelerated by 7percent while the export of services expanded by 20percent. The increase in **exported goods** is reflected in the 37percent increase of other mineral products.

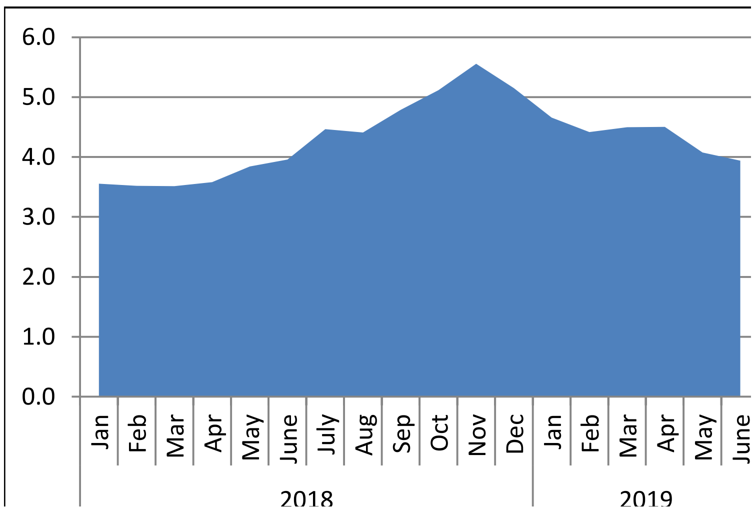
Goods imports on the other hand, declined by 11percent, and **imported services** increased by 14percent. The decline is a result of lower imports of all subcategories except *consumer goods* (which increased by 6percent), *Mineral fuels, oils and products of their distillation* (declined by 32percent); *Machinery, mechanical, electrical appliance* (declined by 21percent); *Base metals and articles of base* Metal (declined by 7percent) and *Vehicles, aircraft, vessels* (declined by 6percent).

The **financial account** recorded a deficit of N$0.6bn during the reporting quarter, the outflow is in line with the increase in net outflows of other investments which increased by 39percent annually supported by *currency and deposits.*

CONSUMER PRICES

The **inflation during June** stood at 3.9 percent; this marks a y-o-y and m-o-m deceleration from 4.0 percent during 2018 and 4.1 during for May. The slowdown was driven by slower price growth in *transport*, *housing, water, electricity, gas, and other fuels* as well as *health*. *Food and non-alcoholic beverage*, alcohol and tobacco and the remaining categories recorded higher price growth with the exception of *furnishings, household equipment, and routine maintenance of the house* which recorded same inflation as the previous year.

Figure 2: Consumer price index - June 2019



Inflation for *Food and non-alcoholic beverage* for **June** stood at 3.9 percent; this was marginally higher than the 3.8 percent recorded during 2018 but lower than the 4.4 percent recorded for the month of May 2019. The increase was prompted by higher price growth in *bread and cereal* (from 3.1percent to 8.2percent in 2019) as well as *milk, cheese and eggs* (from 0.8percent to 3.6percent in 2019).
Alcoholic beverages and tobacco recorded inflation of 5.5 percent, an increase from 5.1percent the previous year, due to an increase in *alcoholic beverages* (from 5.3percent to 7.9 percent during 2019), despite the steep decline in *tobacco* of 4.7percent, down from 4.1percent (an 8.8percentage points decline).

Education recorded an increase of 12.0 percent, up from 9.9 percent during 2018; the increase was primarily due to increases in *pre-primary* (from 7.5percent up to 12.6percent in 2019) and *tertiary education* (from 6.7percent to 12.6percent during 2019) despite a deceleration in *primary education* (from14.6percent down to 11percent in 2019).

Inflation for transport slowed marginally from 7.2percent in 2018 down to 7.0percent as both purchases of vehicles (slowed from 6.6percent in 2018 down to 3.6percent) and operation of personal transport equipment (from 8.0percent down to 5.0 percent during June 2019), while *Public transportation services* increase exponentially from 1.8 percent up to 19.9 percent.

Housing, water, electricity, gas, and other fuels recorded inflation of 2percent, a deceleration compared to the 3.2percent recorded during the same period in 2018, the slowdown is attributable to all the subcategories slowing price growth while *Electricity gas and other fuels* recorded a decline of 0.5percent compared to a growth of close to 5percent during the preceding period. Health registered inflation of 2.6percent, a relative slowdown when compared to 5.4percent of 2018; the slowdown is attributable to all subcategories except hospital services which recorded no price growth.

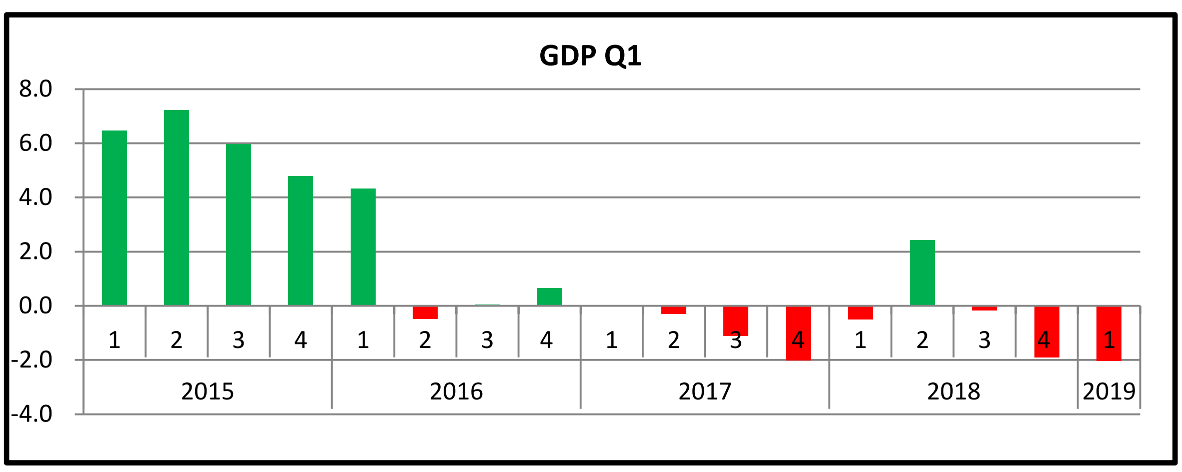
To date, the average annual inflation is standing at 4.3percent for the first half of the year compared 3.7 percent recorded for the same period during 2018.

2019 Q1 GDP UPDATE

The Namibian economy remained in recession as economic activity contracted during the 1st quarter of 2019, GDP contracted by 2.0 percent, which ; this contraction was higher than the 0.5 percent contraction in 2018 during the same period and is the worst since the 4th quarter of 2017 (2 percent contraction)

The deterioration in economic activity was fuelled by the contraction in *construction, agriculture, wholesale and retail trade; hotels and restaurants; mining and quarrying, and public admin and defense*. *Construction* contracted by 27.8 percent, (down from a contraction of 0.7 percent during the same period in 2018) on account weaker activities in the number of buildings completed for the central and western region coupled with a decline in government's expenditure on capital (construction) projects. *Agriculture* recorded declines of 6.7 percent compared to growth of 0.3 percent during q1 of 2018, the declines is a result of the drought that affected both livestock and crop farming negatively.

Figure 3: Quarterly GDP growth - % changes



Source: NSA, June 2019

The decline in growth from the *wholesale and retail trade* from 4.3 percent contraction in 2018 to a deeper contraction of 6.7 percent in 2019 emanated from poor performance in the sale of new vehicles, and all the other subsectors as a result of weak disposable income by households. The decline of 8.7 percent in *hotels and restaurants* was better than the 17.5 percent contraction recorded during 2018; however the sector contracted on account of continued weaker tourism activity. *Mining and quarrying* activity declined by 1.1 percent, compared to growth of 13.4 percent during the same period in 2018, the decline is attributable to declines all the subsectors except uranium that posted positive growth. *Public admin and defense* recorded a decline of 1.2 percent during the quarter under review compared to no growth during the 1st quarter of 2018, as government continued with fiscal consolidation.

Despite these declines sectors like *water and electricity, fishing, financial intermediation and manufacturing* posted positive growth, although the growth wasn't enough to offset the contractions. The *water and electricity* sector benefited from poor rainfall as demand for water for irrigation, livestock, and human consumption increased. The *water and electricity* sector posted an increase of 2.7 percent compared to a decline of 6.6 percent recorded in the corresponding quarter of 2018. *Manufacturing* also showed positive performance, posting an increase of 3.6 percent, compared to a growth of 0.5 percent during q1 of 2018. *Fishing* grew by 1.1 percent compared to a decline of 1.3 percent in q1 2018, while *Financial intermediation* grew by 1.4 percent, slightly slower than the 2.6 percent growth in q1 of 2018.

SPECIAL FEATURE

1st Quarter 2019 FNB Rental Price Index

The FNB Rental Index

According to the FNB rental index report, the rental index – which tracks advertised rental prices across the country - recorded a contraction of 3.0 percent y-o-y at the end of May 2019. This contraction, the slowest recorded since March 2018, is due to 0.6 percent y-o-y price growth in the 1-bedroom segment. Contractions of 3.0percent y-o-y, 3.8percent y-o-y, and 4.5percent y-o-y in the 2 and 3bedroom segments, while the 3+ bedroom segments, recorded a further acceleration in prices. The overall national mean rent price is higher at N$7387.00 compared to N$7346.00 a year ago.

The deposits charged has seen a downward trend that started in August 2018. The average deposit charged at the end of May contracted sharply by 22.0percent y-o-y compared to a contraction of 11.8percent recorded in March. This contraction clearly illustrates the willingness by landlords to bargain downwards on deposit levels to attract and secure tenants. Lower charges of rental deposits are typical of fragile economic conditions and strained consumer demand for rental units, which puts landlords under immense pressure.

Table 2: Mid-year rent prices by town

Towns	Monthly Rent	Town	Monthly Rent	
Arandis	4 000	Otjiwarongo	5 088	
Gobabis	4 500	Outapi	2 250	
Henties Bay	4 375	Rundu	4 250	
Okahandja	5 357	Swakopmund	7 826	
Ondangwa	4 621	Tsumeb	2 850	
Ongwediva	4 959	Walvis Bay	8 171	
Oshakati	4 779	Windhoek	6 804	

Source: FNB rental price index report June 2019

Rental yields across the country

The national average yield stands at 7.4percent, rental yields – a proxy for return on investment – remain below the price ceiling proposed in the rent bill.

When looking at yields across towns, the Coastal region provide the most favourable returns. Walvis Bay offers the highest yields of 9.9percent followed by Swakopmund and Arandis, which offer yields of 8.8percent and 8.2percent respectively. The rental yield in Windhoek is still below the average yield, at 5.1percent. Tsumeb offers the lowest yield of 3.0percent while Outapi offers a yield of 3.4percent.

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