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MINISTRY OF FINANCE
Quarterly Economic Update

In this issue…

Quarterly updates

- Global, Sub-Saharan Africa, SA & Domestic Economic Developments
- Consumer Price Index
- Balance of Payments
- Commodity Prices

Special feature: National budget for FY2018/19

GLOBAL ECONOMIC DEVELOPMENTS

The **global economy** continued to perform strongly during the third quarter of 2017, although downside risks to growth remained eminent. The strong growth was mostly reflected in improving economic dynamics in the Emerging Markets and Developing Economies (EMDEs) such as Brazil and Russia.

The Advanced Economies (AEs) continued to expand on the back of rising real wages due to low inflation and largely accommodative monetary policies during the review period. In particular, output growth accelerated significantly in the United States (US) and the Eurozone. The US economy expanded at a slightly slower pace by 2.3 percent in the third quarter of 2017, compared to 2.2 percent in the second of 2017. Growth in **the US** was supported by growth in private consumption, strong non-residential investment and increased inventories. The **Euro area** economic growth rose by 2.5 percent in the third quarter of 2017, compared to 2.3 percent in the preceding quarter. Higher growth in 2017 is mainly due to an expected acceleration in exports and continued strength in domestic demand, supported by accommodative financial conditions amid diminished political risk and policy uncertainty. GDP growth in Japan slowed to 1.7 percent in the quarter under review compared to 2.6 percent in the previous quarter mainly due to weak private spending. The IMF projected a mild improvement of Japanese growth to 1.5 percent in 2017, up from the 1.0 percent growth rate recorded in 2016, mainly supported by stronger net exports.

EMERGING MARKETS AND DEVELOPING ECONOMIES

GDP in **Brazil** expanded by 1.4 percent year-on-year in the third quarter of 2017, following 0.4 percent in the previous quarter. The strong growth was boosted by an increase in household spending, exports and services sub-sectors. **Russia** registered GDP growth of 1.8 percent in the third quarter of 2017, following an expansion of 2.5 percent in the second quarter of 2017. The slower growth is attributed to weak industrial production during the quarter under review. The **Indian** economy expanded by 6.3 percent in the third quarter of 2017 compared to 5.7 percent in the second quarter of 2017. Real GDP growth rate in **China** moderated to 6.8 percent year-on-year in the third quarter of 2017, compared to 6.9 percent recorded in the second quarter of 2017. The weaker growth is mainly on the back of private investment, which

SUB-SAHARAN AFRICA

The **South African** economy registered weaker growth during the third quarter of 2017 compared to the second quarter. The economy advanced by 0.8 percent year-on-year in the third quarter of 2017, below an upwardly revised 1.3 percent expansion in the previous quarter. The slower growth was mainly attributed to contractions in the manufacturing sector as well as weaker growth in the agriculture; transport, storage & communication; and finance, real estate & business services sectors. Going forward, the South African economy is projected to grow by 0.7 percent in 2017, compared to 0.3 percent registered in 2016, mainly driven by improvements in the agriculture sector.

Angola's real GDP is expected to grow by 1.5 percent in 2017, compared to 0.1 percent in 2016, driven by the positive impact of the recovery in oil prices on the rest of the economy and the expansion in the non-oil sector owing to higher public spending and an improvement in the terms of trade. The economy is set to recover moderately in 2018 and 2019 amid higher oil prices. Nevertheless, growth is set to remain constrained primarily due to foreign exchange currency shortages.

THE DOMESTIC ECONOMY

Q3 2017 GDP

A number of key indicators in the real sector displayed a weak performance, year-on-year, during the third quarter of 2017 which resulted in a 1.9 percent contraction of real GDP compared to a lesser contraction of 0.3 percent in quarter 3 in 2016. The biggest contributor to the contraction of the quarterly growth was attributed to activity in the *construction sector* (recorded a contraction of 45.9 percent) continued to slow, reflecting a decline in the Government construction works as a result of the ongoing fiscal consolidation measures to align expenditure with revenue. Real value for buildings completed in most major towns also decreased.

The *wholesale and retail trade sector* recorded a decline of 8.2 percent implying a decline in real turnover during the period under review, broadly driven by weak activity in all subsectors. Similarly, activity in the *transport sector* (slow growth of 1.3 percent compared to growth of 7.4 percent previous year) was subdued during the quarter under review.

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Quarterly Economic Update

Positive developments were, however, registered in the *mining* (with growth of 11.3 percent), *manufacturing* (growth of 0.8 percent), *agricultural* (growth of 5.3 percent) and *tourism* (0.1 percent) sectors during the third quarter of 2017.

The rise in the *mining sector* was owing to the increase in the production of *diamonds, gold and uranium*, while the positive performance in *agriculture sector* was driven by increased marketing activity for both *cattle and small stock* during the review period. The increase in the *manufacturing* sector was underpinned by the *mineral processing* subsector. The increase *in tourism* activity was reflected in rooms and bed nights sold, as well as international arrivals.

CONSUMER PRICES

Namibia's **inflation** decelerated during the third quarter of 2017 compared to the same period in 2016, mainly driven by low inflation for food and non-alcoholic beverages as well as transport.

Inflation slowed both quarterly and annually by 0.9 percentage point and 1.4 percentage points, respectively, to 5.5 percent during the third quarter of 2017. The low inflation was predominantly reflected in the category *food and non-alcoholic beverages* as well as *transport*. Meanwhile, during October 2017, inflation declined to 5.2 percent from 5.6 percent in September 2017.

Year-on-year inflation for *food and non-alcoholic beverages* category decelerated to 4.4 percent during the second quarter of 2017, from 11.9 percent during the same quarter of the previous year. This was mainly driven by a significantly slower inflation for the categories bread and cereal, oils and fats, fruits, vegetables including potatoes and other tubers as well as milk, cheese and eggs. Furthermore, on a quarterly basis, food inflation and non-alcoholic beverages slowed by 0.3 percentage point, driven by a declaration in the inflation for most categories, with the exception of bread and cereal, meat, milk, cheese and eggs and vegetables during the quarter under review. This was mainly due to good rainfall received, which resulted in increased agricultural production during the early months of 2017.

Transport inflation decelerated by 3.4 percentage points and 0.6 percentage point to 2.8 percent, quarter-on-quarter and year-on-year, respectively, during the third quarter of 2017. On a quarterly basis, transport inflation slowed as reflected in the sub-categories such as purchases of vehicles and operation of personal transport equipment, which declined by 2.8 percent and 4.9 percent, respectively during the quarter under review. Furthermore, on an annual basis, the deceleration in the transport inflation was mainly reflected in the sub-category purchase of vehicles, which declined by 4.6 percentage point to 4.9 percent during the quarter under review.

Inflation for *housing, water, electricity, gas and other fuels* category rose year-on-year by 0.7 percentage point, to 8.8 percent during the quarter under review. The yearly acceleration was on account of an increase in the inflation for the sub-category, rental payments for dwellings which rose by 2.6 percent to 9.6 percent during the quarter under review. Meanwhile, on a quarterly basis, the inflation for housing slowed as reflected in most sub-categories of housing, with the exception of rental payments for dwelling which remained the same.

BALANCE OF PAYMENTS

Namibia's **current account** deficit narrowed significantly, both on an annual and quarterly basis, largely supported by stronger exports, a declining import bill and higher inflows in the secondary income and the services accounts during the third quarter of 2017. The current account deficit improved to N$433 million in the third quarter of 2017, compared to a much higher deficit of N$5.6 billion during the corresponding quarter of the previous year. This was primarily attributed to the improvement in the trade deficit, coupled with increased receipts in the services account chiefly in the manufacturing services subcategory.

In addition, increased inflows in the secondary income account, particularly SACU receipts further contributed to the year-on-year developments. Likewise, the current account deficit narrowed, quarter-on-quarter, by 46.0 percent from N$802 million in the preceding quarter. This was on account of an improvement in the goods account, which was explained by increased export proceeds relative to the rise in import payments coupled with a reduction in net investment income outflows in the primary income account.

Namibia's **merchandise trade deficit** narrowed during the third quarter of 2017, mainly attributed to a steep decline in the country's import bill, coupled with increased export proceeds. The goods deficit narrowed markedly by N$3.8 billion to N$4.8 billion during the third quarter of 2017, compared to the corresponding period of 2016. This was driven by a notable decrease in expenditure on imports which fell by 12.7 percent to N$18.3 billion during the review period.

The decline in the **import bill** stemmed from a reduction in expenditure on most major import categories, particularly vehicles, base metals, machinery, and consumer goods. This was in line with the on-going fiscal consolidation measures in the public sector, coupled with weak domestic economic activity. At the same time, the **value of exports** increased, year-on-year, contributing to the improvement on the goods account.
Export earnings rose by 9.1 percent to N$13.6 billion during the period under review, mainly underpinned by increases in receipts from most major export categories, of which diamonds, food and live animals and other mineral products were key contributors.

On a quarterly basis, the trade deficit improved by N$432 million during the third quarter of 2017 from N$5.2 billion registered in the preceding quarter. This was primarily attributed to an increase in the value of exports by 14.9 percent to N$13.6 billion during the review period. The surge in export proceeds was underpinned by increases in receipts from most major export categories, of which diamonds, food and live animals and other mineral products were the key contributors. The seasonally adjusted trade balance depicts a similar trend, that is, an improvement on the trade balances quarter-on-quarter by N$1.9 billion to N$3.8 billion, during the review period.

Inflows on the **capital account** decreased both on an annual and quarterly basis, reinforced by decreases in receipts from capital transfers. Inflows on the capital account decreased noticeably by 21.5 percent and 46.0 percent to N$337 million, year-on-year and quarter-on-quarter, respectively, following a decline in capital transfer receipts from foreign governments and private institutions.

The **financial account** recorded a reduction in net borrowing from the rest of the world by Namibia, both year-on-year and quarter-on-quarter. The net borrowing registered in the financial account declined to N$598 million during the quarter under review from N$4.4 billion during the same period of the previous year. The significant decline in the financial account balance was primarily due to increased portfolio outflows, reduced inflows in the form of other investment and a slower pace of increase in reserve assets. On a quarterly basis, the developments in the financial account balance closely mirrored the annual developments.

The stock of **international reserves** rose both on an annual and quarterly basis, at the end of the third quarter of 2017. The stock of foreign reserves rose by 19.0 percent and by 10.4 percent year-on-year and quarter-on-quarter to N$31.5 billion at the end of the third quarter of 2017. The rise was primarily driven by the inflow from the first tranche of the AfDB loan granted to the Namibian Government, which amounted to N $3.0 billion, higher SACU receipts, and the repayment of debt, by the Banco Nacional de Angola of N$687 million during the quarter. The international reserves at the end of September 2017 were 7.5 times higher than currency in circulation, thereby remaining sufficient to sustain the currency peg between the Namibia Dollar and Rand. At the same time, the import cover also rose from 3.7 months in the third quarter of 2016 to 5.1 months in the third quarter of 2017.

COMMODITY PRICES

The international price indices of metals increased by 9.9 percent and 26.0 percent on quarterly and yearly bases, respectively, in the third quarter of 2017. All **metal prices** increased in the third quarter, mainly led by zinc, nickel, iron ore and copper.

Prices of metals are expected to ease slightly in 2018 as an expected decline in iron ore prices will be offset by increases in all base metals prices, particularly for lead, nickel, and zinc, due to mine supply tightness.

The price of **copper** increased by 12.0 percent on a quarterly basis in the third quarter of 2017, mainly due to a slowdown in production and export restrictions emanating from Indonesia's Grasberg mine5 dispute and labour protests, adding to upward pressure on prices.

Zinc prices also increased by 14.2 percent in the third quarter from US$2 592.84 per tonne in the previous quarter. The increase was mainly due to a deficit in global inventories. China, which is one of the largest producers of zinc, has been constrained by environmental inspections, closures of illegal mines, and the delayed start-up of new capacity. This has resulted in China increasing its import of zinc putting upward pressure on price.

Uranium prices declined by 5.9 percent during the review period to US$ 20.20 per ounce from US$21.47 per pound in the second quarter of 2017. The recent low uranium prices are due to global oversupply of the commodity. This could mainly be attributed to slow progress to implement the planned cuts in production by Kazakhstan producers. In addition, a rise in secondary supplies, notably from Russia's stockpile of enriched uranium which have added to the inventories, also contributed to the low prices.

In the third quarter of 2017, the **gold** price increased by 1.7 percent on a quarterly basis and declined by 4.3 percent on an annual basis. The increase is on the back of investment demand stemming from a weaker U.S. dollar and geopolitical tensions

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Quarterly Economic Update

Special Feature: National Budget for the Financial Year 2018/19

In terms of Article 126 (1) of the Constitution of the Republic of Namibia, the National Budget (Appropriation Bill), must be tabled in Parliament by the Minister of Finance before the end of the Government's financial year, that is, before 31 March a nnually.

The National Budget focuses on the following five key priority areas

- Maintaining a gradual fiscal consolidation policy stance to safeguard macroeconomic stability and long-term fiscal sustainability;
- Providing targeted support to fledgling economic growth;
- Protecting core spending in the social sectors of education, health, skills development and housing and sanitation;
- Improve domestic resources mobilization through fair and equitable tax policy, efficient and effective tax administration, mobilizing domestic savings as well as utilizing affordable alternative forms of financing;
- Implementing supportive policies and structural reforms to enhance overall policy effectiveness and bolster the competitiveness of the national economy.

Objectives of the Budget

- Reduction of the budget deficit as a proportion of GDP as a lever for stabilizing growth in public debt;
- Reduction of the proportion of non-core expenditure to curb wastage and enhance allocative efficiency;
- Scaling-up of the development budget allocation by 30.0 percent, with greater impetus on economic growth and the completion of current phases of on-going large capital projects;
- Introduction of a ring-fenced project financing growth stimulus package for industrial development and logistics hub infrastructure investment;
- Increasing budgetary allocations to social sectors to guard against reversals and enhance access to affordable and reliable public services; and
- Strengthening of allocations to social safety nets to maintain coverage of qualifying beneficiaries and maintaining the grants in real terms.

Policy Reforms

In addition to the expenditure-based measures, the following key structural policy reforms will be introduced to stimulate economic growth, reinforce the impact of fiscal policy and implement the fiscal consolidation measures:

- The Ministry of Finance is developing the institutional framework for implementing the Procurement Act by strengthening institutional capacity and regulatory environment as well as effective implementation of the preference provisions;
- The roll-out of the Integrated Tax Administration System (ITAS) in July this year and the establishment of Namibia Revenue Authority (NAMRA) on 1 March 2019 are an integral part of the reform programme.
- The Ministry of Industrialization, Trade and SME Development is overseeing the implementation of the National Single Window facility in collaboration with Namport and the finalization of amendments to the Investment Promotion Act and the repeal of the Export Processing Zones Act this year.
- The public wage bill will be managed effectively, with specific wage bill reduction target ratios set for realization over the MTEF.
- Public Enterprises reforms are indispensable to the realisation of a successful fiscal consolidation measures. Perpetual bail out of the public enterprises, especially those in the economic, financial and commercial sectors is unsustainable and should be reined in.
- Finalizing and tabling of the NEEEF Bill to promote real economic empowerment and provide policy certainty.
- Addressing the institutional and administrative bottlenecks for the smooth implementation of the Public Procurement Act.
- Improving overall national investment climate and competitiveness through finalization and tabling of the Investment Promotion Act, operationalization of the National Single Window facility and repeal of the Export Processing Zone Act

Tax Proposals

Government understand that the successful implementation of the fiscal adjustment and placing the economy on a firm inclusive growth trajectory needs to be funded, hence the following tax proposals in the budget:

- Phasing out the preferential tax treatment that is only granted to some existing manufacturers to achieve equity and equal treatment of all operators, this will be replaced by support instruments for SMEs and start-ups.
- Repealing the Export Processing Zone Act and introduce the Special Economic Zones, with a sunset clause for current operators with the EPZ status
- Re-adjust the current tax brackets for Individual Income Tax, reduce the lower bracket tax rate from 18 percent to 17 percent and introduce new tax rates of 39 percent and 40 percent for individuals earning over N$1.5 million and N$2.5 million respectively.
- Introduce a 10 percent dividend tax for dividends paid to residents to enhance the fairness of the tax system
- Subject income derived from commercial activities by charitable, religious, educational and other types of institutions under Section 16 of the Income Tax Act to normal corporate tax
- Deepen the current hybrid tax system by taxing all income earned from foreign sources.
- Explore a profit tax of 37 percent on betting and gaming entities
- Introduce VAT on income of listed asset managers, and
- Introduce VAT on proceeds on the sale of shares or membership in a company owning commercial immovable property.

Fiscal Aggregates for the FY2018/19

- **Public revenue** for 2018/19 is estimated at N$56.7 billion, compared to the N$56.8 billion collected in 2017/18, representing a reduction of 0.1 % mainly on the back of lower SACU receipts.
- Total **public expenditure** is budgeted at N$58.4 billion for 2018/19, representing a reduction of 5.3% from the revised 2017/18 FY budget of N$61.0 billion. For the later years of the MTEF, expenditure is expected to be N$58.9 billion and N$59.6 billion in 2019/20 and 2020/21, respectively.
- A **budget deficit** equivalent to 4.5% of GDP is projected for the 2018/19 FY, an improvement from the deficit of 5.8% in 2017/18 albeit marginally higher than the 3.6% of GDP in 2016/17.
- The **public debt stock** is estimated to be 45.3% of GDP in 2018/19 compared to 43.3% of GDP in 2017/18.
- **Interest payments** as a percentage of revenue is estimated to be 8.8% in 2018/19 compared to the 8.6%

Fiscal aggregates for the 2018/19-2020/21 MTEF

N$ Millions	2017/18	2018/19	2019/20	2020/21
Revenue	56 811	56 696	57 742	61 307
as % of GDP	*33.1%*	*30.7%*	*28.8%*	*28.0%*
Expenditure	61 039	58 489	58 983	59 557
as % of GDP	*35.9%*	*31.7%*	*29.4%*	*27.2%*
Budget balance	-9 241	-8 306	-7 939	-5 004
as % of GDP	*-5.4%*	*-4.5%*	*-4.0%*	*-2.3%*
Total debt	74 467	83 721	92 729	99 141
as % of GDP	*43.3%*	*45.3%*	*46.2%*	*45.2%*

Budgetary Allocations to Offices, Ministries and Agencies

For the 2018/19 financial year the following allocations are done:

- The highest allocation is made to the Ministry of Basic Education and Culture with N$13.5 billion, while N$3.2 billion was allocated to the Ministry of Higher Education Training and Innovation;
- The Ministry of Health and Social Services received second highest allocation of N$6.5 billion, with N$2.6 billion apportioned to PSEMAS;
- Ministry of Defence with an amount of N$5.9 billion is third highest to successfully protect the national sovereignty;
- An amount of N$5.2 billion is allocated to the Ministry of Safety and Security;
- The Ministry of Poverty Eradication and Social Welfare is allocated N$3.4 billion;
- The least allocation is made to the Ministry of Public Enterprise with an amount of N$ 42.3 million.

Budgetary allocations %