ISSUE
46
OCTOBER
2023

MINISTRY OF FINANCE AND PUBLIC ENTERPRISES - EPAS *Quarterly Economic Update*

MINISTRY OF FINANCE ND PUBLIC ENTERPRISES • Economic Policy Advisory Services (EPAS)

Quarterly Economic Update

This Issue…

Regular Updates

- **Global and Regional Developments**
- **Commodity Prices 2023 Performance**
- **CPI August 2023**
- **BOP quarter 2 performance**
-

Special Feature: Namibia's quarterly GDP Q2 2023

1. GLOBAL AND REGIONAL ECONOMIES

The IMF's World Economic Outlook (WEO) for Oct 2023 update projected the global economy to grow by 3.0 percent in **2023** and slow down marginally to 2.9 percent in **2024,** compared to the 3.5 percent recorded in 2022**.** This represents no change for **2023,** while growth for **2024** was revised downwards by.1 percentage points compared to the July 2023 WEO update. The decision to revise the growth for 2024 reflects the tightening monetary policy decisions and the financial developments in the advanced economies.

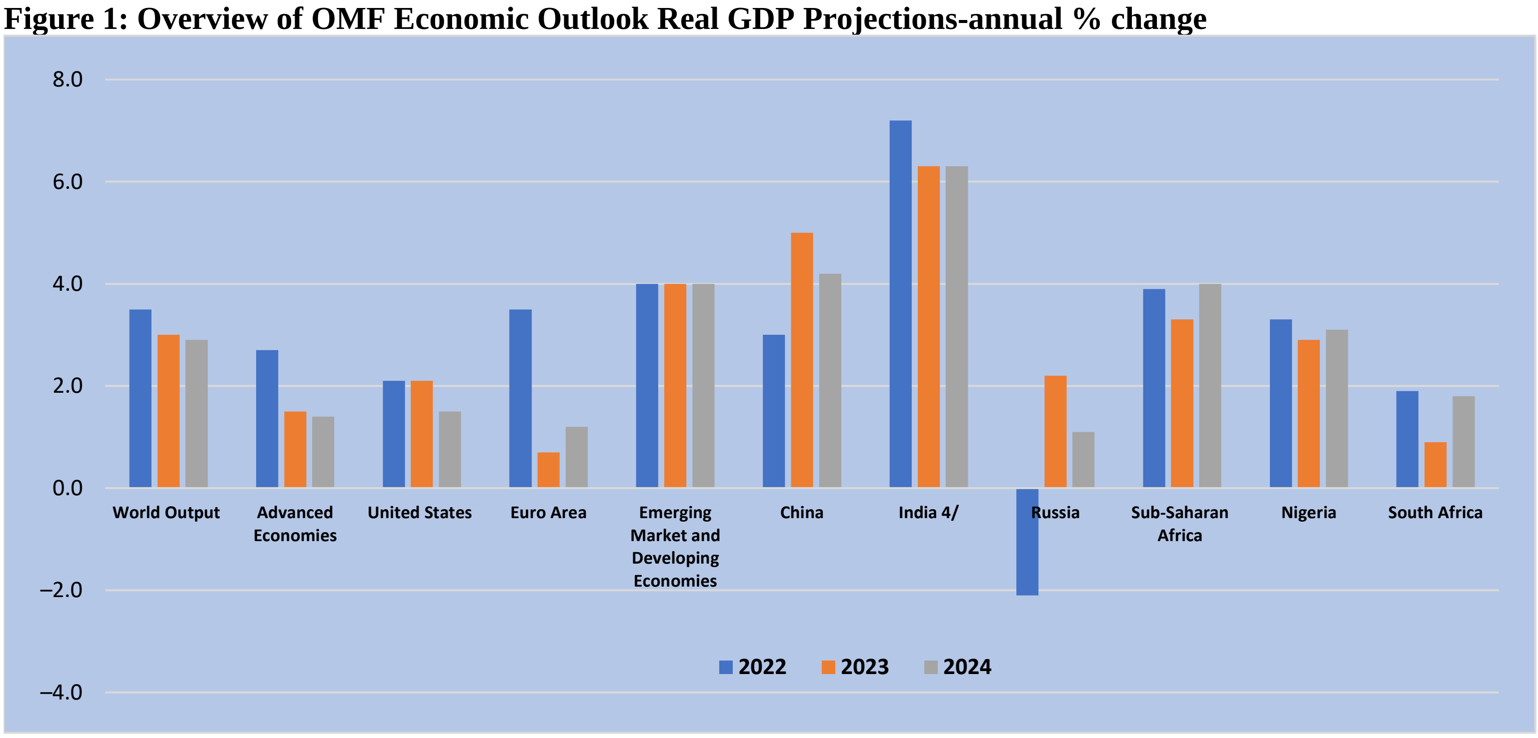
The revision was done on the back of lower-than-expected inflation levels while wages and unemployment remain low. The global economy continues to show signs of recovery from the pandemic and the war in Ukraine, albeit at a slower pace. The recovery is however not broad-based, as the advanced economies continue to struggle with high inflation and fuel/gas cost, although better than 2022.

Advanced economies that are estimated to grow by 1.5 percent in 2023 and 1.4 percent in 2024 compared to a growth of 2.6 percent in 2022. The growth for advanced economies is mainly driven by growth in Japan and the US which has shown greater resilience than anticipated, with the US growth revised up by 0.3 percentage points (ppt) and 0.5 percentage points for 2023 & 2024 respectively. While growth in the Euro area is not faring so well and growth has been revised down by 0.2 percentage points and 0.3 percentage points for 2023 & 2024 respectively.

Emerging markets and developing economies are expected to continue accelerating with a growth of 4.0 percent in 2023 and 2024. The growth for 2024 was marginally revised down by 0.1 percentage point while growth for 2023 remained unchanged. The 2023 growth is mainly driven by the Indian economy which is expected to grow by 6.3 percent for both 2023 & 2024, while growth for China is expected at 5.0 percent in 2023 and 4.2 percent in 2024. Growth for China was revised down by 0.2 percentage point and 0.3 percentage point in 2023 & 2024 respectively. The Sub-Saharan African is estimated to grow by 3.3 percent in 2023, a slowdown from the 4.0 percent recorded last year and it is expected to grow further to 4.0 percent in 2024.

The marginally slowdown in 2023 is exacerbated by the 0.3percentage points downward revision of the Nigerian economy, which is expected to grow by2.9 percent in 2023 and 3.1 percent in 2024. The South African economy is expected to grow by 0.9percent and 1.8 percent in 2023 & 2024 respectively. The slowdown in the South African economy is on the back of continued energy shortages and the impact of the on-going war in Ukraine the subsequent impact on the economy.

Figure 1: Overview of OMF Economic Outlook Real GDP Projections-annual % change



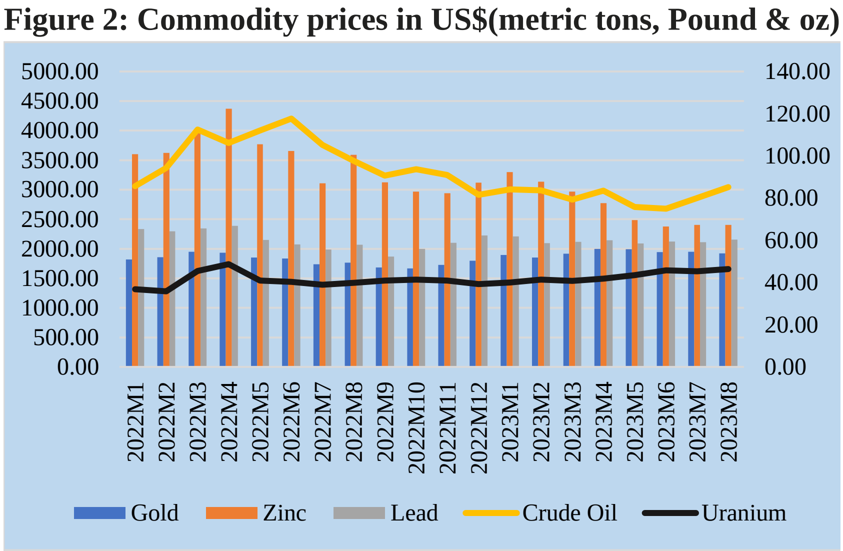
Source: IMF,Oct 2023

2. COMMODITY PRICES

The IMF All Commodity Price Index recorded an annual decrease of 33.3 percent year-on- year (y-o-y)***, while on the monthly basis the index recorded a growth of 2.2 percent during August 2023.*** The annual decline in the commodity price index was attributed mainly to the decrease in zinc and cobalt prices, which both dropped by 33.0 percent annually while the monthly increase in the index was prompted by price increase of crude oil, lead and uranium.

The **all-metal price index** went up by 3.2 percent y-o-y, however, monthly the index shrinks by 1.9 percent. The annual increase was supported by the price growth in uranium, gold, and lead. The monthly decrease in the index was premised on lower gold, copper and lithium prices that suffered from reduced demand based on the unstable Chinese real estate market since and Russian-Ukraine war.

Figure 2: Commodity prices in US$(metric tons, Pound & oz)



Source: IMF, August 2023

Lithium prices contracted both annual and monthly as prices decreased by 46.8 percent y-o-y and by 0.9 percent month on month (m-o-m), supported by continued strong supply in 2022 and low demand due to slow purchases of electric vehicles (EVs).

Uranium spot prices registered a growth of 16.5 percent on an annual basis, while **gold prices** recorded a growth of 8.8 percent y-o-y, prompted by interest rates hikes in the US and Euro, area and the economic uncertainty as individuals prefer to hold their wealth in gold than in cash during such period.

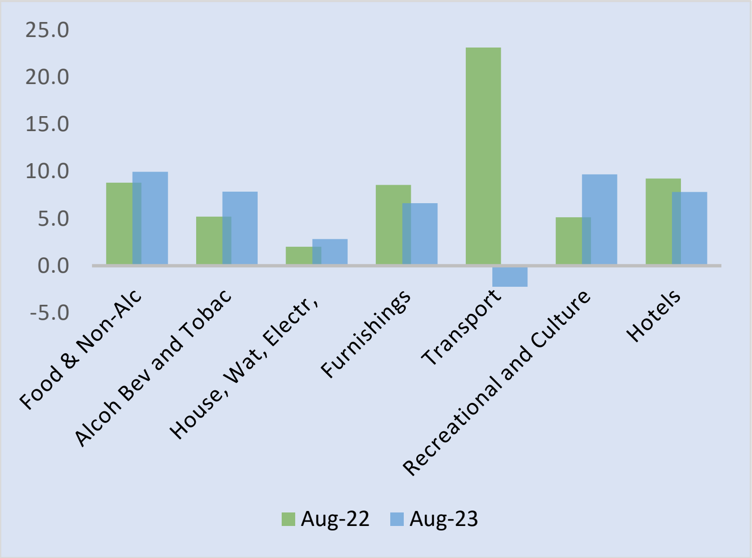
Copper prices increased by 4.5 percent y-o-y. The growth was supported by the growing demand from the power and EV sectors. **Zinc prices** also recorded a decline of 33.3 percent y-o-y based on low demand. The diamond IDEX contracted by 20.8 percent on an annual basis, supported by lower demand due to higher interest rate imposed by central banks in the fight against inflation. With the global increase in demand for technology and EV, whose main components are made from **cobalt** and **rare earth minerals** and as such prices for these minerals increased due to high demand in 2022, however, due to lower than anticipated uptake of EVs the price of cobalt has declined by 33.0 percent in 2023.

3. INFLATION AUGUST 2023

The annual inflation stood at 4.7 percent in August 2023 compared to 7.3 percent registered same period last year. The increment emanated from the increases in the prices of *food and non-alcoholic beverages* that contributed 1.9 percentage points. Followed by *alcoholic beverages* that contributed 1.1 percentage points. *Housing* contributed 0.7 percentage points. Transport contributed a -0.4 percentage points compared a positive contribution of 3.3 percentage points last. The remaining categories contributed a cumulative 1.4 percentage points.

On monthly basis inflation, the inflation rate for the period under review stood at 0.4 percent as compared to the 0.3 percent observed in the preceding month. The increase in the monthly inflation rate was ascribed mainly from *hotels, cafes and restaurants* that increased from 0.1 percent to 1.9 percent; *food and non-alcoholic beverages* from -0.2 percent to 0.3 percent.

Figure 3: NCPI August 2022-August 2023



Sources: NSA, 2023

The inflation for *food and non-alcoholic beverages* increased to 10.0 percent in August 2023 compared to 8.8 percent registered in the same period last year. The annual growth was ascribed to the *fish* sub-category that recorded a growth of 16.2 percent in 2023 as opposed to 5.4 percent recorded in 2022. Another increase was also observed in the *food, bread* and *vegetables* sub-category that posted a growth of 10.2 percent, 11.6 percent, and 16.9 percent, compared to 8.9 percent, 9.8 percent, and 7.2 percent respectively during same period last year. However, a notable reduction in prices was observed in the *oil and fat* sub-categories that registered a contraction of 6.1 percent in August 2023 compared to a growth of 26.1 percent in August 2022, the high cooking oil prices last year was ascribe to Russian-Ukraine war, which caused an abrupt disruption in production.

The annual inflation for *alcoholic beverages and tobacco* increased to 7.9 percent in August 2023 compared to 5.2 percent in the same period of the preceding year. The increase in prices in this category is attributed to the increase in both categories of *alcoholic beverages* and *tobacco* that registered a growth of 8.4 percent and 5.5 percent, compared to 5.4 percent and 4.5 percent respectively recorded in the same period last year.

Housing, water and electricity registered an annual inflation growth of 2.8 percent in 2023 compared to 2.0 percent same period of the preceding year. The increase is prompted by the increase in *rental payments* sub-categories that went up by 2.1 percent in August 2023 compared to 1.4 percent in August 2022.The *electricity gas and other fuels* prices went up to 6.7 percent in 2023 compared to 3.9 percent registered in 2023.

The *hotel and restaurant* recorded a slower inflation of 7.8 percent in the period under review as opposed to 9.3 percent recorded same period previous year. The slower inflation was supported by decline in prices observed in *accommodation services* as the price slowed down to 9.2 percent this year compared to 16.5 percent last year. while increase in prices in this category was driven by the upward growth in the prices of *catering* that went up to 6.6 percent in 2023 compared to 3.6 percent in 2022.

The *transport sector* prices recorded a contraction of 2.2 percent in August 2023 compared to a growth of 23.2 percent in August 2022. The decrease in prices in this category is attributed to the decrease in the prices of *operation of personal transport equipment* that registered a contraction of 6.1 percent compared to a growth of 35.4 percent same period previous. the *purchases of vehicles* by registered a growth of 7.6 percent compared to 5.5 percent last year of the period under review. *The public transportation* services recorded a marginal growth of 0.8 percent in August 2023 compared to 6.4 in August 2022.

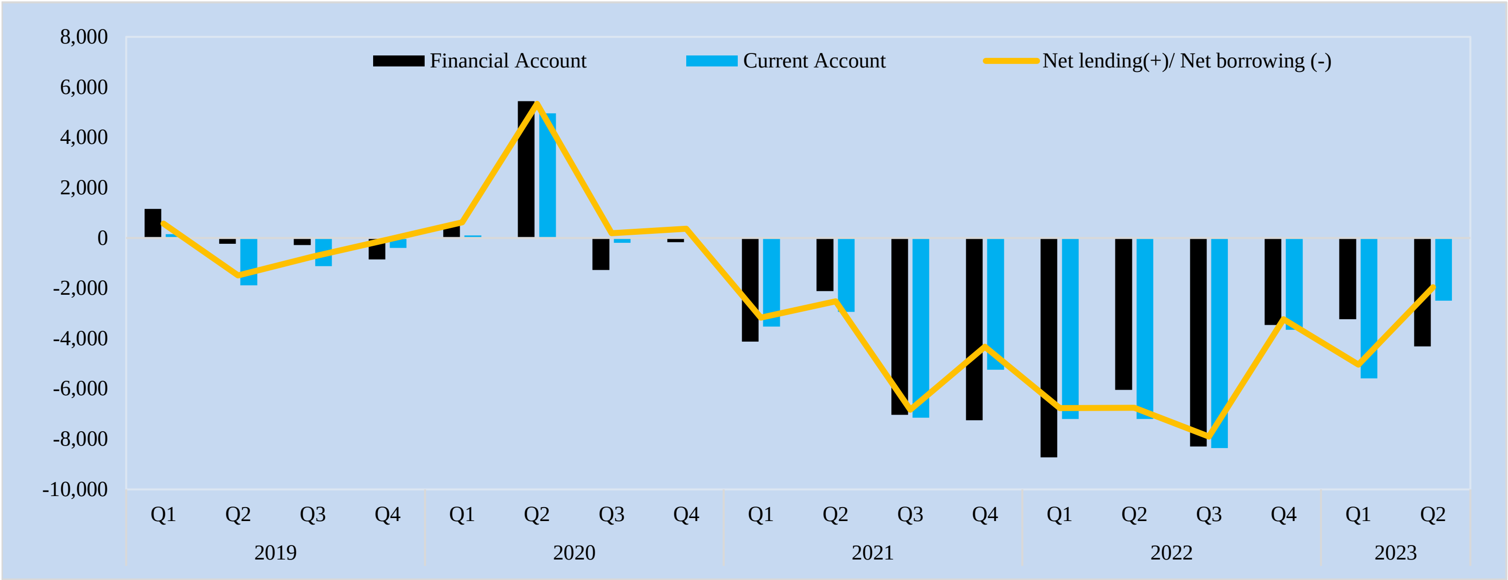
The headline inflation for August stood at 4.7 percent in 2023 (from a 4.5 percent registered in July 2023) and compared to 7.3 percent registered in August last year. The slowdown in the inflation this year is driven by the declining in the transport sector prices. August inflation rate surpassed the anticipated August inflation of 4.3 percent by the Bank of Namibia. The BoN estimates suggest that through the medium-term, inflation will average at 5.6 percent and 4.5 percent in 2023 and 2024 respectively, being driven by food category and a slowing down trend in other categories such as transport and housing.

4. BALANCE OF PAYMENTS SECOND QUARTER OF 2023 PERFOMANCE

CURRENT ACCOUNT

For the second quarter of 2023, Namibia's current account recorded a narrower deficit both annually and quarterly, the N$ 2.5 billion was recorded on an annual basis from a N$ 7.2 billion registered same period of 2022, while on quarterly basis the slowed from a higher deficit of N$ 5.6 billion in the first quarter of 2023 to N$ 2.5 billion in the second quarter of 2023. The improved current account deficit was, mainly attributed to the improvements in the merchandise trade balance which coincided with higher receipts from the secondary income account on the back of a significant increase in SACU receipts as well as lower outflows in the services account.

Figure 4: Balance of Payment (Current and Financial Account)



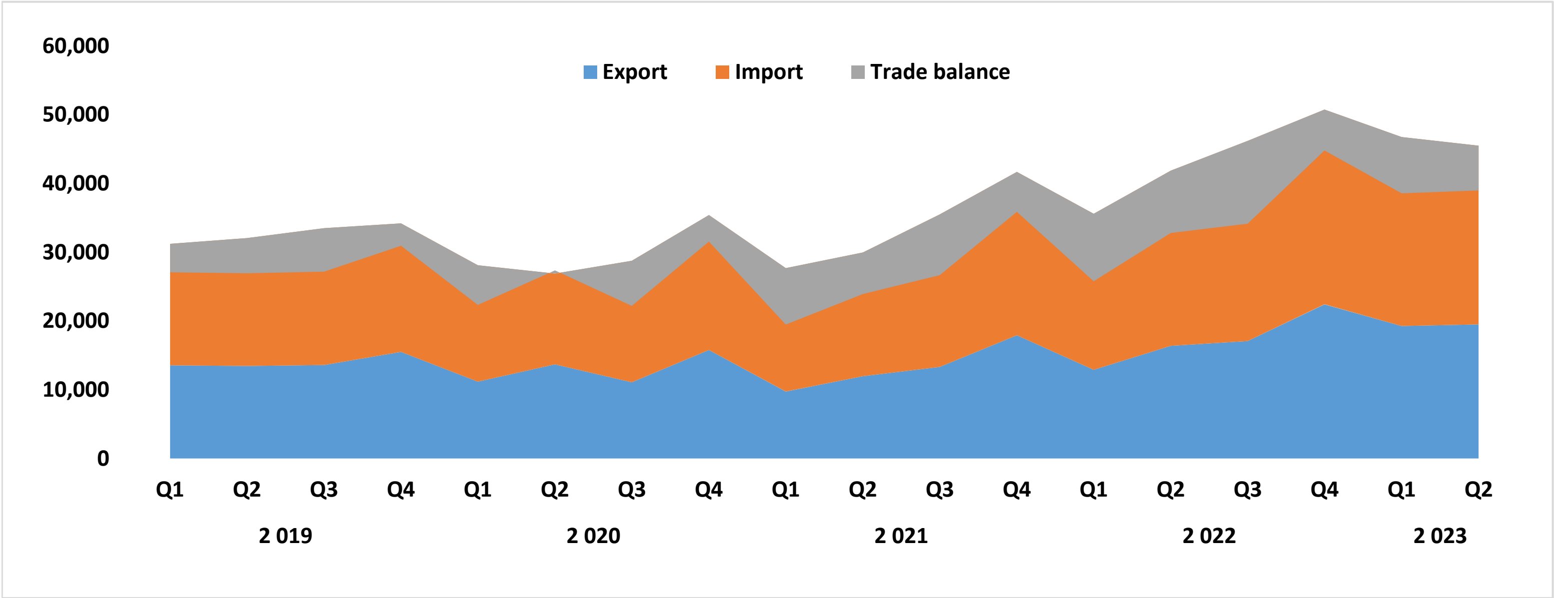
Source: Bank of Namibia, 2023

As a percentage of GDP, the current account deficit stood at 4.3 percent in the second quarter of 2023, compared to deficits of 10.3 percent and 14.4 percent registered in the preceding quarter of 2023 and the corresponding quarter of 2022, respectively.

MERCHANDISE TRADE BALANCE

The merchandise trade deficit (for goods only) has narrowed to N$6.5 billion in the second quarter of 2023, from N$9.1 billion in the second quarter of 2022. This amounts to a 28.5 percent year on year and 20.7 percent quarter on quarter improvement of the merchandise trade deficit compared to 38.1 percent register in the first quarter of 2023. The annual improvement in the deficit was ascribed to an increase in exports receipts, which rose by 18.9 percent to N$19.5 billion, mainly driven by gold, uranium and processed fish export receipts. On a quarterly basis, the improvement in the merchandise trade deficit was attributable to a 5.4 percent fall in imports to N$26.0 billion due to a decrease in mineral fuels over the period under review.

Figure 5: Merchandise Trade Balance 2019Q1-2023Q2



Source: Bank of Namibia 2023

CAPITAL ACCOUNT

The capital account balance increased on an annual basis to N$544 million in 2023 from N$452 million during the same period of 2022 which, amounts to year-on-year increase of 20.4 percent. On quarterly basis the capital account balance increased by a mere 0.6 percent from N$ 542 million in quarter one of 2023 to N$ 544million in quarter two of 2023. The increase in capital account inflow was mainly due to higher capital transfers in the form of aid received from abroad for fixed investment.

FINANCIAL ACCOUNT

Namibia's financial account balance recorded a lower net inflow from the rest of the world in the second quarter of 2023, amounting to N$4.2 billion compared to N$6.0 billion recorded in the corresponding quarter of 2022 (as indicated in figure 1). The lower net inflow was driven by reduced inflows from other investments supported by higher outflows observed in portfolio investment. Therefore, the financial account balance as a percentage of GDP is 5.0 percent in 2023 compared to 12.1 percent in 2023.

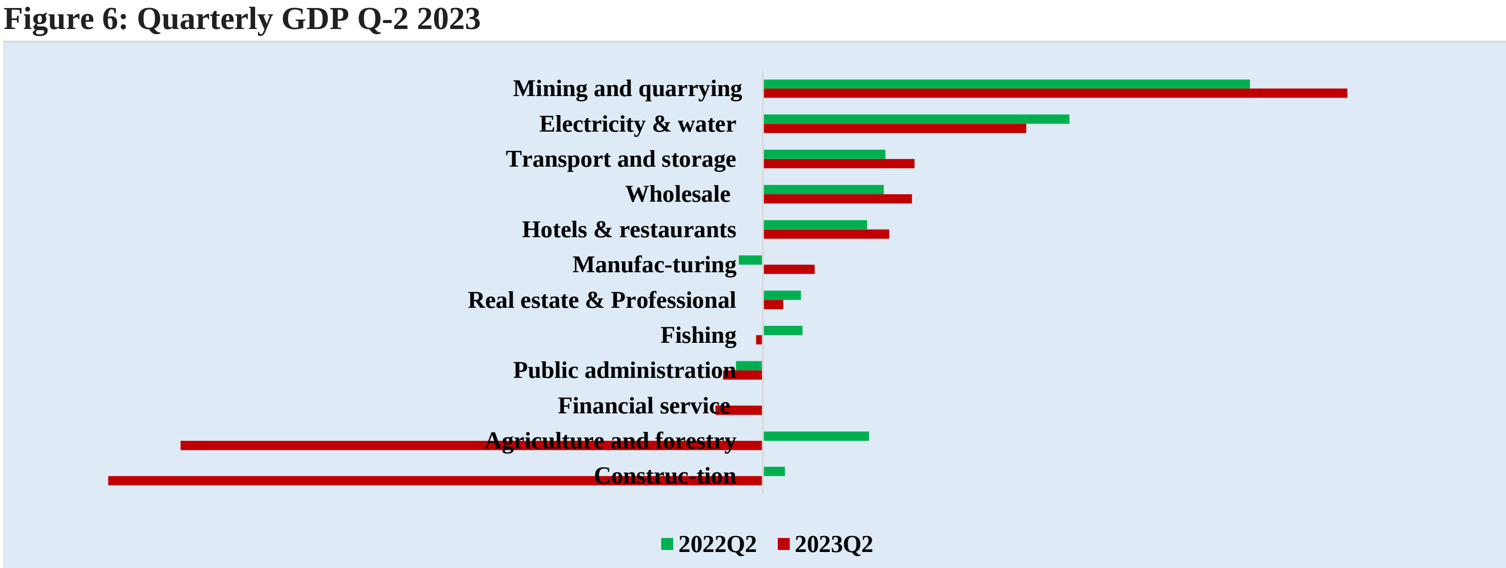
Overall, the balance of payment (BOP) registered an improvement in the current account and capital account, which all recorded an increase on annual and quarterly basis. The increase in the current account was prompted by merchandise trade balance while the capital account was ascribed to capital transfers in the form of aid received from abroad for fixed investment. But a lower net inflow was observed in the financial account as result of reduction in the inflows from other investment supported by higher outflow in portfolio investment.

SPECIAL FEATURES: NAMIBIA'S QUARTERLY GDP Q2-2023

The Namibian economy registered a growth of 3.7 percent in the second quarter of 2023, a slowdown compared to the 8.5 percent recorded in the same period last year. The slower growth was attributed to huge contraction in *construction* and *agriculture and forestry* of 35.9 percent and 31.9 percent, respectively. While a moderate contraction was also observed in *financial services* and *public administration* and *defence* positing a reduction of 2.6 percent and 2.2 percent, respectively.

The *construction sector* continues to contract as reflected in the government expenditure on construction that recorded a contraction of 54.5 percent in quarter 2 of 2023, compared to a marginal contraction of 2.2 percent registered in the same period last year. The *agricultural and forestry* sector recorded a contraction, the highest decline witnessed since the second quarter of 2019, during the drought period and the contraction primarily ascribed to the *crop farming subsector*. the crop farming subsector recorded a contraction of 55.0 percent during quarter 2 of 2023 compared to a marginal growth of 0.2 percent posted in quarter 2 of 2022. The performance is associated with the on-going drought being experienced in 2023.

Figure 6: Quarterly GDP Q-2 2023



Sources: NSA, 2023

During the quarter under review, it was observed that, growth in the *mining, electricity & water, wholesale and retail, transport sectors* continue to have a positive impact on growth. The *mining sector* recorded growth of 32.0 percent, albeit, slower compared to the 64.5 percent growth registered in quarter 2 of 2022. The growth was on the back of increased in uranium production that registered a growth of 55.3 percent in 2023 compared to a decline of 2.7 percent in the corresponding year, other mining and quarrying grew by 55.6 percent in quarter 2 compared to 146.5 percent same period last year due to increased investment for mineral exploration activities, while output from metal ores recorded a strong growth of 37.2 percent compared to a growth of 28.1 percent last year. The growth in metal ores was ascribed to the increase in production of gold and lead.

The *electricity and water* sector recorded growth of 14.4 percent compared a slower growth of 12.9 percent the previous year, this increase was on the back of increased domestic production from *electricity subsector* due to increased local capacity output of renewable energy relative to imports.

The *wholesale and retail sector* recorded growth of 8.2 percent compared a mere growth of 2.1 percent the previous year during the same quarter, with growth supported by increased activities despite the high interest rate environment in the economy. The *transport sect*or recorded growth of 8.3 percent compared to a slower growth of 2.3 percent the previous year in the same quarter. Growth in the *transport sector* was supported by increased activities in the road freight and air transport subsectors as the number of tourist arrivals increased during the period under review.

The *financial services sector* recorded a decline of 2.6 percent compared to a growth of 11.4 percent during the same period of 2022. The decline in financial services was attributed to lower value added in the insurance sector as well as slower growth in the banking sector. The *insurance subsector* recorded declines due to reduced life cover uptake and lower premiums while the *banking subsector* recorded slower growth due to lower deposit as high interest rates and inflation affect consumers from all fronts especially drawing down on their savings levels.

The *manufacturing sector* posted a slower growth of 2.8 percent in quarter 2 of 2023 compared to a growth of 3.8 percent same period last year. The slower growth was prompted by a reduction of production from the following sub-sectors; *grain mill products, beverages, diamond cutting, meat processing and fish processing* as affected by the high inflation of both the input costs as well as the availability of those inputs. However, improvement was observed in basic non-ferrous as well as in fabricated metal.

The recovery in growth remains tilted towards the primary industry, mainly the mining sector. For broad-based growth recovery, we need all the sectors of the economy to be growing and not only growth concentrated on a few sectors of the economy. The recovery is generally hampered by developments in the financial sector as the high interest rates and inflation dampen growth prospects.

This publication was produced by:

Ministry of Finance
Economic Policy Advisory Services
Head Office, Moltke Street
P/Bag 13259, Windhoek
Tel: (061) 209 2131