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MINISTRY OF FINANCE - EPAS
Quarterly Economic Update

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Quarterly Economic Update

This Issue…

Global Economic Developments

After strong growth in **2017** and early **2018**, global economic activity slowed in the second half of last year. **Global growth** in **2019** is also weighed down by the emerging market and developing economy group. Conditions have eased in **2019** as the US Federal Reserve signalled a more accommodative monetary policy stance and markets became more optimistic about US-China trade deal, but they remain slightly more restrictive. The financial market sentiment worsened, with financial conditions tightening for vulnerable **emerging markets** in the spring of **2018** and then in **advanced economies** later in the year, weighing on global demand

FIGURE 1: Global GDP growth - % changes

	2017	2018	2019	2020
World Output	**3.8**	**3.6**	**3.3**	**3.6**
Advanced Economies	2.4	2.2	1.8	1.7
United States	2.2	2.9	2.3	1.9
Euro Area	2.4	1.8	1.3	1.5
Japan	1.9	0.8	1.0	0.5
Emerging Market and Developing Economies	**4.8**	**4.5**	**4.4**	**4.8**
Russia	1.6	2.3	1.6	1.7
China	6.8	6.6	6.3	6.1
India	7.2	7.1	7.3	7.5
Brazil	1.1	1.1	2.1	2.5
Sub-Saharan Africa	**2.9**	**3.0**	**3.5**	**3.7**
Nigeria	0.8	1.9	2.1	2.5
South Africa	1.4	0.8	1.2	1.5

Source: IMF WEO April 2019

Growth for **advanced economies** is expected to slow down to 2.3 percent in 2019 after strong growth of 2.9 percent in **2018**. The slowdown in growth is due to the trade tensions (although easing now) as they took a toll on business confidence. Growth for ***United States*** is expected to decline to 2.3 percent in 2019 and soften further to 1.9 percent in **2020** with the unwinding of fiscal stimulus. ***Japan's*** economy is set to grow by 1.0 percent in **2019** (0.1 percentage point higher than in the October WEO), and 0.5 in **2020**. Growth in the ***Euro Areas*** contracted by 1.3 percent in **2019** (0.6 percent lower than in the October WEO, for 2020 growth is anticipated to grow to 1.5 percent . The ***Euro area*** economy lost more momentum than expected as consumer and business confidence weakened and car production in ***Germany*** was disrupted by the introduction of new emission standards.

For the **emerging markets and developing economies** growth is expected to slow down to 4.4 percent in **2019** from 4.5 growths in **2018**, before improving to 4.8 percent in **2020**. China's growth is expected to decline to 6.3 percent in **2019** and contract even further in **2020** to 6.1 percent, following a combination of needed regulatory tightening to rein in shadow banking and an increase in trade tensions with the ***United States***. On the other hand, India's economy is anticipated to pick up in **2019** with growth of 7.3 and 7.5 growth for **2020**.

COMMODITY PRICES

In early October 2018, oil prices exceeded $80, their highest level since November 2014, ahead of US sanctions against Iran's oil sector that took effect in November 2014. As of February 2019, oil futures contracts indicated that Brent prices will stay at about $60 for the next five year. Metal prices are expected to increase by 2.4 percent y-o-y in 2019 and decline by 2.2 percent in 2020 (compared with a decrease of 3.6 percent followed by a slight pickup of 0.4 percent in the October 2018 WEO).

Price forecasts of most major agricultural commodities have been revised down. Food prices are projected to decline 2.9 percent y-o-y in 2019 before increasing 2.1 percent in 2020 (compared with the projected increases of 1.7 percent and 0.3 percent in the October 2018 WEO).

REGIONAL ECONOMIC OUTLOOK FOR SUB-SAHARAN AFRICA
RECOVERY AMID ELEVATED UNCERTAINTY

The economic recovery in the Sub-Saharan Africa region is continuing but with duality in growth performance and prospects. Aggregate growth is set to pick up from 3.0 percent in 2018 to 3.5 percent in 2019, 3.7 percent in 2020 and stabilize at slightly below 4.0 percent over the medium term - or about 5.0 percent, excluding the region's two major economies of Nigeria and South Africa.

However, these aggregate numbers mask considerable duality in growth prospects within the SSA region. About half of the region's countries, mostly **non-resource-intensive** countries, are expected to grow at 5.0 percent or more, and see a faster rise in income per capita than the rest of the world on average over the medium term. However, the remaining countries, comprising mostly **resource-intensive** countries are expected to fall behind. As the **resource-intensive** countries - including Nigeria and South Africa - are home to more than two-thirds of the region's total population, it is important for the policy uncertainties that are holding back growth to be addressed for the lion's share of the region's population to enjoy improved standards of living.

Table: GDP growth for Sub-Saharan Africa – percentage changes

Country	**Real GDP growth rate**				**Estimates**	**Projections**
	2010-2015	**2016**	**2017**	**2018**	**2019**	**2020**
Angola	4.6	-2.6	-0.2	-1.7	0.4	2.9
Eswatini	3.3	3.2	1.9	0.2	-0.4	0.2
Lesotho	4.2	3.1	-1.6	1.5	3.9	0.3
Namibia	5.7	0.6	-0.9	-0.1	1.4	2.0
Nigeria	5.8	-1.6	0.8	1.9	2.1	2.5
South Africa	2.3	0.4	1.4	0.8	1.2	15
SSA	5.1	1.4	29	3.0	3.5	3.7

Source: IMF Regional Economic Outlook, April 2019

The following factors, amongst others, constitute the external and domestic headwinds that are weighing on the SSA region's growth prospects:

- The **global expansion is losing momentum**, including in key trading partners such as China and the euro area; trade tensions remain elevated; global financial conditions are volatile and have tightened somewhat relative to October 2018; and commodity prices are expected to remain low. On the domestic front, climate shocks are likely to impact agricultural output in southern Africa, while policy uncertainty is weighing on growth prospects in several countries;

- **Debt vulnerabilities remain elevated** in some countries. Weaknesses in public balance sheets are also weighing on countries' external positions, with reserve buffers below levels typically considered adequate in more than half of the countries in the region;;;

- At the same time, **high non-performing loans** continue to put a strain on financial systems, while weaknesses in public financial management systems are manifesting themselves in large domestic arrears with potential effects on growth and domestic financial systems; etc.

The familiar challenge of finding ways to address human and physical capital investment needs is being complicated by declining fiscal space and a less supportive external environment. Central to resolving this challenge is building fiscal space, enhancing resilience to shocks, and fostering an environment conducive to sustained, high and inclusive growth. Meeting this challenge would be even more difficult if the downside risks to growth materialize (for example, if global growth is even weaker than envisioned in the current baseline). This underscores the need to accelerate reforms and calibrate the size and pace of policy adjustments to ensure that any shift in policies is consistent with credible medium-term macroeconomic objectives, available financing, and debt sustainability.

While the dualism between resource-intensive and non-resource-intensive countries is manifested in their economic prospects, policy priorities, and the severity of their budgetary constraints, the countries also share the challenges of strengthening resilience and creating sustained high and inclusive growth. Addressing these challenges, amongst others, requires the following intervention measures:

- Stepping up revenue mobilization, ensuring efficient public investment, strengthening public financial management, containing fiscal risks from state-owned enterprises, improving debt management and resolution frameworks, and enhancing debt transparency. Enhancing exchange rate flexibility, in countries that are outside monetary unions, and strengthened monetary policy and financial systems are also key;

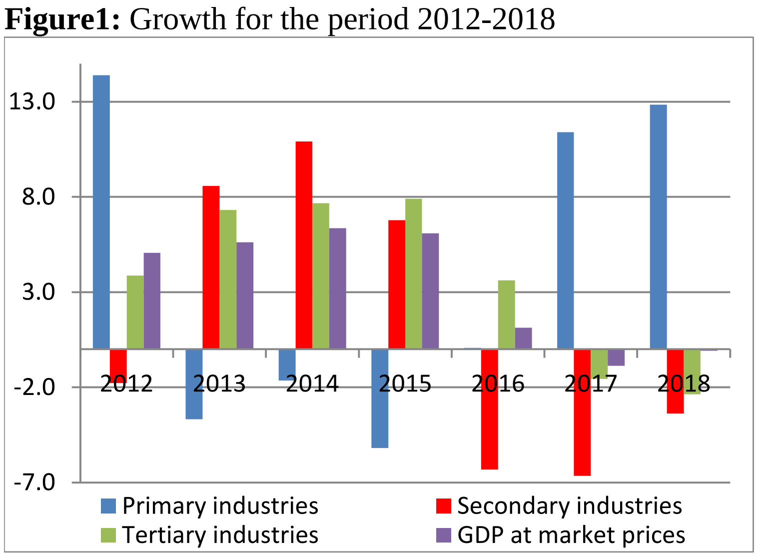
- Raising both productivity and private investment, while ensuring a more equitable sharing of the benefits of increased prosperity. Achieving this will require policies to enhance the contestability of markets and create an environment that fosters a dynamic private sector, such as addressing salient constraints to business operations and deeper trade integration and by improving access to and the provision of financial services and basic services (including health and education); etc.

Source: ***IMF Regional Economic Outlook for Sub-Saharan Africa, April 2019***

Preliminary National Accounts 2018 brief

The domestic economy recorded a contraction of 0.1 percent in 2018, marginally higher when compared to a contraction of 0.9 percent in 2017. The contraction in the economy can be attributed to the contraction in the secondary and tertiary industries, recording a contraction of 3.4 percent and 2.4 percent, figure1.

Figure1: Growth for the period 2012-2018



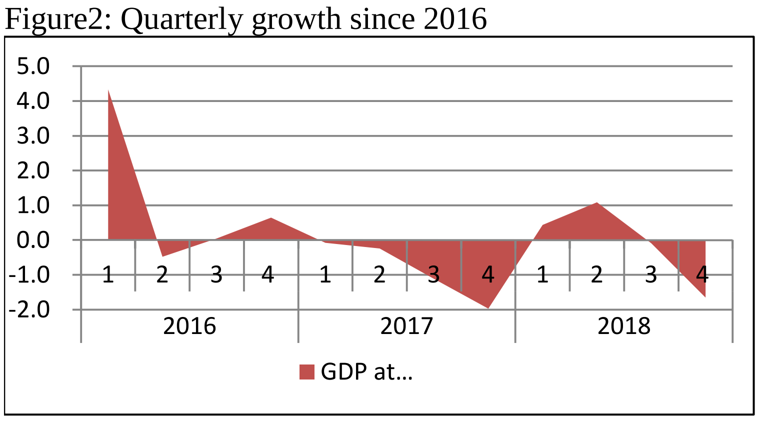
PNA 2018

Positive trajectory continue in the Primary industries posting improved growth in 2018, albeit a decline in *Agriculture and forestry sector* .The improved performance in the economy was mainly driven by the mining sector. The *uranium subsector* registered a strong growth of 64.8 percent compared to a slower growth of 23.4 percent in 2017, *other mining and quarrying* registered enormous growth of 54.1 percent compared to growth of 7.6 percent in 2017. The performance of the subsector is attributed to increase activities in mineral exploration and the production of marble & salt during the period of 2018. The activity in *Electricity & Water*, *Storage* and *meat processing* sectors also rose.

Furthermore, *Manufacturing* has registered a marginal growth of 0.2 percent compared to growth of 1.9 percent in 2017. The slow performance of the sector is mainly attributed to *diamond processing* sector that recorded slower growth of 3.6 percent compared to stronger growth of 14.6 percent in 2017. The contraction in basic non-ferrous metals (from 4.8 percent down to -2.4 percent) and non-metallic mineral products (from 0.8percent down to -16.6percent) also had a drag down effect on the performance of the sector. The construction sector is estimated to have recorded a contraction of 18.3 percent in 2018 compared to a deeper contraction of 25.0 percent in 2017.The poor performance of the sector was mainly dragged down by the decline in construction works done by the government and mining sectors.

2018 Quarterly Performance

Figure2: Quarterly growth since 2016



NSA 2019

Although it was initially the economy remains in a technical recession, it is not consecutive as previously reported and that the contractions recorded for both quarter one and two, have been revised to positive growth of 0.4 percent and 1.1 percent respectively. The positive growth can be attributed to acceleration in *Fishing* (10.3 percent), *mining and quarrying* (39.6 percent) and *electricity and water* (14.1 percent).

The last two quarters of the year recorded contractions with the fourth quarter being hit the hardest with a contraction of 1.7percent (this meant that overall growth was crippled by the performance of the last quarter), despite that being better than the 2.0 percent contraction in 2017. The contraction in the fourth quarter was driven by *construction* (-31.7 percent), *wholesale and retail trade* (-9.6 percent) and *hotels and restaurant* (-5.3 percent), while growth in Manufacturing (3.5 percent), Mining and quarrying (11.1 percent) and *electricity and water* (7.4 percent) was insufficient to offset the effects of the contractions mentioned above.

The overall performance of a contraction of 0.1percent is marginally higher than the contraction of 0.9 percent recorded in 2017 and similarly higher than the 0.5percent contraction projected by the MEWG.

BALANCE OF PAYMENTS

Namibia's ***current account*** registered an improved deficit of N$4.1 bn, a 56.0 percent y-o-y improvement from N$9.2 bn deficit recorded in 2017. The improvement in the current account deficit was prompted by development in the merchandise trade balance. Growth in the *merchandise trade balance* can be attributed to increase in exports of goods and services that grew by 12.0 percent in 2018 from 9.0 percent in 2017 that is N$55.7 bn from N$49.9 bn in 2017. Growth in *exports* was supported by an increase in *exports of manufactured products*; *other mineral products* and *diamond*. During the period under review import grew by 3.0 percent from N$73.5 bn to N$76 bn. The increase in *imports* is attributed to growth *in imports of mineral fuels, oils*, and *products of their distillation*.

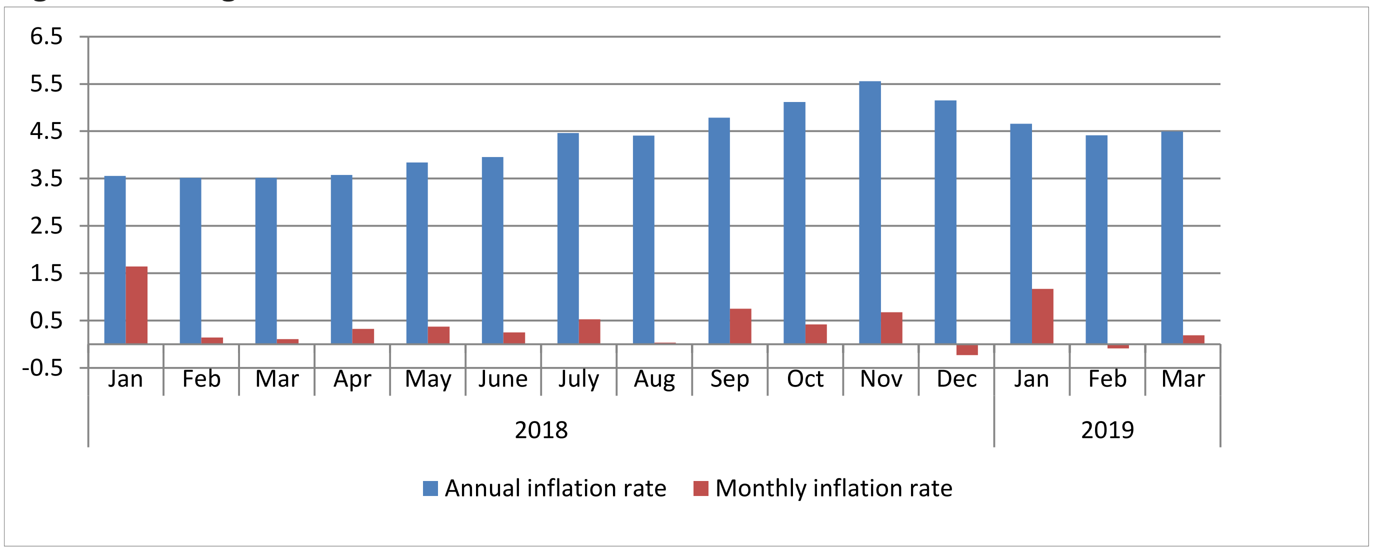
The ***capital account*** recorded a decline of 71.0 percent in 2018. The decrease in inflows mainly attributed to a decline in *capital transfer receipts* from foreign and private institutions. The ***financial Account***, recorded a reduction in net borrowing from the rest of the world by Namibians. The reduction in the ***financial account*** balance can be attributed to reduced inflow in the form of *investmen*t and increase in *portfolio outflow*. *Net Direct investment* recorded a decline from N$6.9 bn in 2017 to N$1.5 bn in 2018. The marginal improvement can be attributed to net acquisition of financial assets that rose from deficit of 784 million to a growth of 1 billion.

The US$/N$ kept an average of 13.3 for 2018. The US$/N$ reached an all-time high for 2018, which was 14.7, in September. The average exchange rate for the Namibian dollar to the pound (N$/£) was 17.6 and Namibian dollar to the Euro (N$/€) were 15.6. The US Federal Open Market Committee raised interest rates on four occasions in 2018. The monetary authorities in UK increased their benchmark interest rates, whilst the Euro Area maintained their policy rates in 2018.

CONSUMER PRICE INDEX

Inflation for March 2019 increased by 4.5 percent, a y-o-y and m-o-m increase compared to 3.5 percent in March 2019 and February of the same year. The increase was propelled by increases in most of the major sub-categories except *clothing and footwear*, *housing water*, *electricity*, *gas and other fuels*, *health* and *miscellaneous*.

Figure 1: Average Annual Inflation



Source: NSA 2019

The increase is attributable to inflation increase in *food and non-alcoholic beverages*, *alcoholic beverages and tobacco*, *transport*, *furnishings, household equipment and routine maintenance of the house, transport, education*, and *communication.* Inflation for *food and non-alcoholic beverage* increased from 2.7 percent in 2018 to 5.8 percent driven by price increases in most of the subcategories except *meat, fish* and *coffee, tea, and cocoa.*

Inflation for *alcoholic beverages and tobacco* increased from 4.4 percent in 2018 up to 6.7 percent on account of higher price growth in both *alcoholic beverages* and *tobacco subcategories*. Inflation for *transport* increased from 5.4 percent in 2018 to 7.0 percent, the acceleration emanated from price growth in the *public transportation services* which grew by 20.1 percent despite slower growth in prices of *purchases of new vehicles* and *operation of personal transport equipment.*

Although inflation for housing water, *electricity*, *gas and other fuels*, *health* and *Miscellaneous* slowed, it was not enough to offset the price growth in the other categories. The slower price growth in *housing water, electricity, gas and other fuels* emanated from *rental payments for dwelling* and *water supply, sewage services and refuse collection* posting slower price growth and *electricity, gas and other fuels* recorded price declines, while *regular maintenance and repair of dwellings* recorded price growth. Inflation for *health* decelerated from 6.0 percent in 2018 to 3.0 percent of which the slower price growth is attributable low inflation in *medical products, appliances, and equipment* as well as *outpatient Services, medical, dental and paramedical.*

On an annual basis, for 2019 the average inflation is 4.5 percent compared to 3.5 percent in 2018, this indicates a growth trajectory.

Special Feature
Labour Force Survey 2018 brief

According to the recently released 2018 LFS report, unemployment declined marginally from **34 percent** in 2016 down to **33.4 percent in 2018**, the reduction in the unemployment rate stems from the increase in total labour force. The number of unemployed persons increased by 4.3% between 2016 and 2018, while the labour force (in terms of volume) increased by 6.2 percent during the same period and that the labour participation rate increased by 1.8 percentage points.

The youth in the labour force increased by 1.7 percent, while the economically active youth employed declined by 3.1 percent, this is in line with the increase of 7.9 percent in the unemployed youth as well as a decline in labour force participation by the youth and as such youth unemployment increased by 2.7 percentage points for the period.

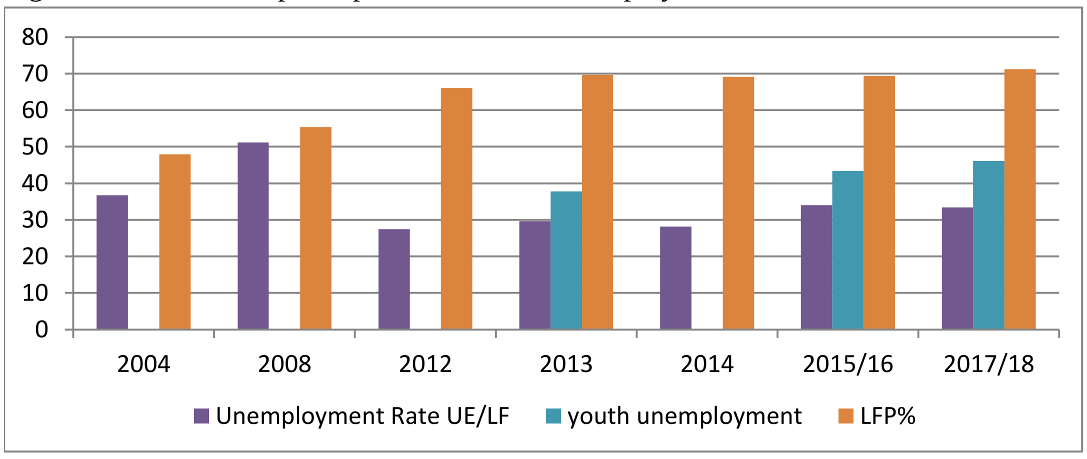
Table 1: Basic labour force indicators for Namibia for 2018

	2016	2018	Change from 2016-2018	% change
Total population age 15 years and older	1,478,193	1,531,967	53,774	3.6
Economically active population Employed	676,885	725,742	48,857	7.2
Unemployed – broad	349,383	364,411	15,028	4.3
Labour force	1,026,268	1,090,153	63,885	6.2
Labour force participation rate – broad	69.4	71.2	1.8	
Unemployment rate - broad	34	33.4	-0.6	
Economically Active Youth Employed	320,737	310,854	-9,883	-3.1
Unemployed – broad	246,262	265,770	19,508	7.9
Labour force	566,999	576,624	9,625	1.7
Labour force participation rate – broad	66.3	65.8	-0.5	
Youth Unemployment - broad	43.4	46.1	2.7	

Source NSA 2019

The largest employer remains the agricultural and fishing sector as it accounts for 23 percent of total employment in 2018, an increase from 20.1 percent in 2016. The second largest employer is Accommodation and food service activities at 11.4 percent (previous at 7.1 percent) followed by whole and retail trade at 11.1 percent (previously at 9.7 percent), while Activities of households as employers accounted for 9.9 (previously at 8.7 percent) percent and the last top 5 employer was the education sector at 6.5percent (previously at 6.1percent).

Figure 1: Labour force participation relative to unemployment



According to the figure above, the labour force participation rate has increased over the previous three periods and grew by 1.8 percentage points between 2016 and 2018. However, youth labour force participation declined by 0.5 percentage points and as such resulted in the overall increase of the youth unemployment.

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