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Quarterly Economic Update

MINISTRY OF FINANCE • Economic Policy Advisory Services (EPAS)
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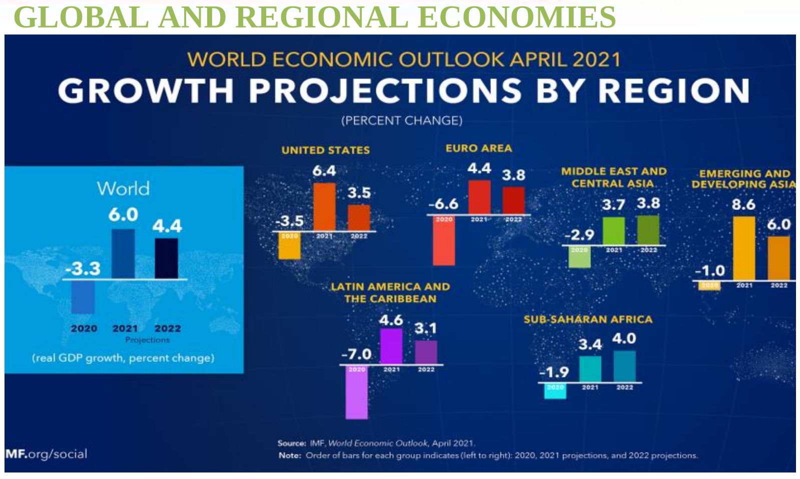
This Issue…

GLOBAL AND REGIONAL ECONOMIES



The IMF's April 2021 World Economic Outlook **(WEO) -** provides a revised global growth forecast for **2020 and 2021**, departing from the January 2021WEO, following the **gathering of more data** on 2020, the evolvement of COVID-19 as well as the **successful development** and **initial rollout of COVID-19 vaccines**. The output growth for 2020 was revised upwards to a contraction of 3.3 percent compared to a contraction of 3.5 percent published in January 2021. For **2021**, the estimate was revised up basis points to **6.0 percent,** while growth for **2022 improved by 0.2 percentage points to** 4.4percent.

These upward revisions were attributed to the **anticipated recovery** based on the **development of vaccines** and **strong fiscal support** in advanced economies. However, despite these upward revisions, the recovery is expected to **be uneven** due to different levels of **fiscal strengths** and of **resilience of the health** sectors and the effectiveness of policies across the globe. Growth is being driven mostly by **advanced economies** while emerging market and developing economies are expected to record **sluggish growth** due to **weaker fiscal positions** and **health system deficiencies**.

Sub-Saharan Africa

The region is expected to perform **below expectations** and pre-pandemic levels and recorded a contraction of 1.9 percent in 2020 (the lowest contraction ever recorded) due to the slow **procurement of the vaccines**, poor **health facilities** and the frequent occurrence **of lockdowns**. These factors are also likely to **continued impacting** growth in 2021 with a slow recovery of 3.4 percent (compared to global output of 6.6 percent) and moderate to 4.0 percent in 2022. Growth in 2021 is dragged down by slow recovery **in South Africa and Nigeria**, as well as tourism dependent economies

RISKS TO THE GLOBAL ECONOMIC OUTLOOK

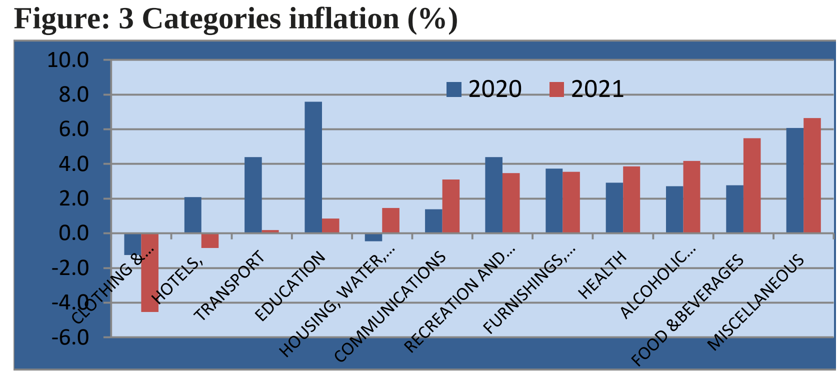
The risks to global output have intensified with fundamental uncertainty around the evolution of variants of the virus causing the pandemic as a key factor shaping the economic outlook. It is possible that financial conditions may tighten again, exposing vulnerabilities among borrowers. This could tip some economies into debt crises and further slow economic activity. Beyond the pandemic-related downside risks, the fallout effect of the US-China trade tension is likely to affect global trade in the medium

CONSUMER PRICE FEBRUARY 2021

The annual inflation for February 2021 increased to 2.7 percent from 2.5 percent recorded during the same period in 2020, an increase of 20 basis points. The monthly increase in the inflation rate was recorded at 0.4 percent down from an increase of 0.9 percent recorded in January 2021.

The increase in growth of the annual inflation for February 2021 was mainly as a result of increases in the price levels of *food &non-alcoholic beverages, alcoholic beverages & tobacco, health, communication, & Housing, water, electricity, gas and other fuels.* This was despite the decline in the price levels of *clothing & footwear* as well as *hotels, cafes & restaurants.*

Figure: 3 Categories inflation (%)



Source: NSA November, 2020

Food & non-alcoholic beverages category recorded inflation of 5.5 percent compared to 2.8 percent in 2020 during the same period. This category is the largest contributor to the increase in annual inflation in February 2021, accounting for 1.2 percentage points of the total 2.2 percent annual inflation rate. The increase in this category emanates mainly from price increases in most sub-categories with the exception of milk & cheese, fruits as well as fish products that recorded declines in price levels.

Housing, water, electricity, gas and other fuels recorded an increase of 1.5 percent compared to a decline of 0.5percent recorded the same period in 2020. The increase was mainly reflected in the price levels of rental payments, which increased by 1.3 percent compared to a decline in price levels of 2.3 percent.

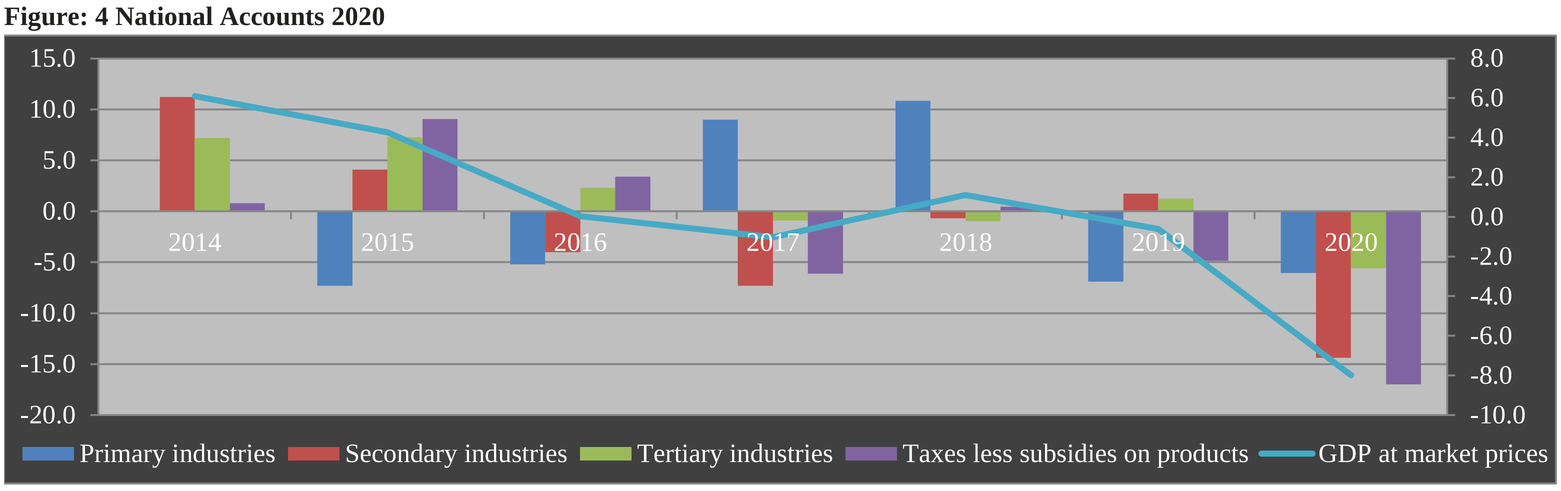
Alcoholic beverages & tobacco recorded an inflation of 4.2 percent compared to 2.7 percent in 2020 during the same month. The increase in was mainly driven by increases in price levels of tobacco which increased by 9.7 percent from a decline of 4.4 the previous year, despite a marginally slowdown in price levels of alcoholic beverages.

Clothing and footwear recorded a decline of 4.5 percent compared to growth of -1.3 percent recorded during the same period of 2020. The decrease in the price levels of this group emanated from all the subcategories except *infant clothing, accessories, & dry cleaning*. The decline emanates from prolonged lockdowns that negatively affected disposable income and weak demand for items

Q4 2020 AND PRELIMINARY NATIONAL ACCOUNTS

According the latest release of the **preliminary national accounts** by NSA, the Namibian economy is estimated to have contracted by **8.0 percent during 2020** and by 6.9 percent in Q4 of 2020. The annual contraction of 8.0 percent is the highest contraction ever recorded by Namibia both pre & post-independence. The contraction was induced by the **COVID-19** and its effect on the global, regional and domestic economy. It is important however to noted that the **economy was already weak** due to recession in the past 4 years. The effects were mainly caused by *lockdowns, travel bans, and subsequent health regulations* that were impose to help reduce the spread of COVID-19. The following narrative provides highlights of the effects in the industries.

Figure: 4 National Accounts 2020



Source: NSA 2021

Primary industries contracted by 6.1 percent in 2020 compared to a contraction of 6.9 percent in 2019, the marginal improvement is attributed to a positive growth of 5.9 percent in *agriculture*. The growth in *agriculture* is supported by strong growth of 76.5 percent in *crop production and forestry*, which came as a result of good 2019/20 rainy season. However, this positive growth was offset by the contraction in *livestock farming* of 10.2 percent compared to a 5.4 percent growth in 2019. The fishing sector contracted by 9.4 percent, which also had negative impact on the sector performance**. *Mining and quarrying*** contracted by 14.9 percent compared to a smaller contraction of 9.5 percent in 2019, the contraction was exacerbated by poor performance in all subsectors of mining with the strongest contracted recorded by metal ores.

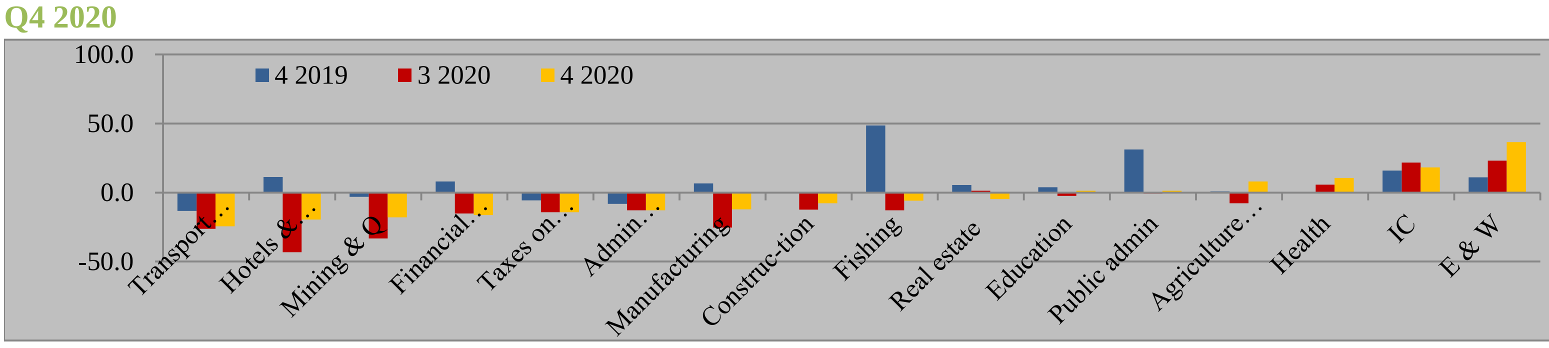
Metal ores contracted by 20.8 percent compared to growth of 14.0 percent in 2019, although gold production increased, the increase was not enough to offset the impact of the contraction of *zinc, lead and copper* production. The contraction in metal ores is attributable to the closure of 3 mines that went under care and maintenance (C&M) namely Skorpion Zinc, Weatherly mining, and Namib lead & zinc mines, which closed due to lower commodity prices and the emergence of COVID-19. *Diamond and uranium* production contracted by 14.9 percent and 8.5 percent compared to a contraction of 17.7 percent and 4.4 percent in the previous year, the fall in diamond production was due to decreased demand and lower prices. While the challenges that were experienced by *uranium* were similar, there was an additional constraint of water supply shortages.

Secondary industries recorded a contraction of 14.4 percent compare to a growth of 1.7 in 2019. The contraction is prompted by declines of 19.6 percent in manufacturing and 11.8 percent in construction, while the growth of 18.4 percent wasn't strong enough to offset the contractions. The contraction in manufacturing was driven by poor performance in all the subsectors with the exception of wood &wood products (9.2%) and rubber and plastic products (4.1 %). The strong contraction of 40.8 percent in meat processing, 46.8 percent in basic non-ferrous metals and 36.5 percent contraction in beverages dragged down the overall growth of manufacturing. The contraction of 11.8 percent recorded in construction sector was prompted by the lockdown and restrictions imposed to limit the spread of COVID-19, which led to under implementation of capital projects in government and reduced investments by the private sector.

Tertiary industries contracted by 5.6 percent, compared to a growth of 1.2 percent in the previous year, which was attributed to the contraction in all major sectors with the exceptions of *information communication*, *real estate*, *health* and *education* sectors. The greatest contraction was recorded in *hotels & restaurants* at 33.1percent – expected as this sector was the most negatively affected by the travel restrictions that was imposed globally, the loss of income for the end users and lockdown measure throughout 2020. *Transport & storage* sector contracted by 22.4 percent on the back of the 26.3 percent contraction in *transpor*t while *storage* only contracted by 8.2 percent, the contraction in *transport* sector was mainly on the back of weak performance in passenger transport and freight due to the imposition of travel restrictions and closures of some export destinations.

The **8.0 percent** contraction recorded for 2020 is slightly lower by 0.7 percentage points than the **7.3 percent** contraction estimated by the **MEWG** as well as **BoN outlook** for 2020. The big difference between the estimates and the preliminary outturn if 2020 is mainly the magnitude of the contraction in the different sectors and industries, some were (*mining, construction* and *manufacturing*) worse off than anticipated and others were (*agriculture*, *hotels and restauran*t and *real estate sectors*) better off than estimated.

Q4 2020



Source: NSA 2021

The decline of 6.0 percent in Q4- 2020 which is better than the 11.5 percent recorded the previous quarter but worse off than the previous year during the same period, can be attributed to an improvement in the performance of agriculture, health, electricity & water as well as ICT which are the only sectors that recorded positive growth in 2020.

Q4 AND 2020 FINAL BOP

For 2020, Namibia registered the **current account surplus** of N$3.4 bn, this was the first surplus recorded in **over** a **decade**. However, on a quarterly basis the current account recorded a deficit of N$855 million during the final quarter of 2020 compared to a deficit of N$479 million recorded in the preceding quarter. The current account deficit was mainly attributed to the weakened merchandise trade balance, reflecting a significant decline in export earnings and an increase in import payments, higher outflows of primary income and a decline in secondary income.

On an annual basis, the **current account** recorded a surplus of N$3.4 bn from a deficit of N$3.1 billion registered in 2019, mainly supported by higher inflows on the *secondary income* account and an improvement in the *primary income*.
During the fourth quarter of 2020, Namibia's **trade balance** deficit improved to **N$4.2 bn** from a deficit of N$6.8 bn in the corresponding quarter of the previous year. The improvement follows *exports* that improved by 39.0 percent, faster than the increase in i*mport* of 11 percent. The increase in *exports* was on the back of acceleration in the export volumes of all categories on a quarterly basis.

The value of *imports* increased by 11 percent to a level of N$21.2 bn, mainly underpinned by uptick in the demand for the imports of *consumer goods, mineral fuel, vehicles and machinery*. The **capital account** balance remained the same as previous quarter but increased on annual basis to N$383 million from N$328 million during the same period in 2019. Inflows on the capital account increased as a result of a higher capital transfers.

The **Financial account** recorded a net outflow of N$2.1 bn in 2020 compared to a net inflow of N$214 million in 2019. The net outflow emanated from increased outflow of *net direct investments, other investments, and financial directives*. The increase in *direct investment* is in line with the decline in *net incurrence of liabilities* while the *acquisition of financial assets* increased. *Other investments* recorded an outflow of N$1.7 bn, on the back of increased net acquisition of financial assets as well as net incurrence of liabilities. *Financial directives* recorded an outflow of N$141 million as both net acquisition of assets & incurrence of liabilities recorded increased outflows.

SPECIAL FEATURE

DELAYED AFCFTA IMPLEMENTATION: What does it mean to Namibia?

1. **Introduction**

It is widely understood that the African Continental Free Trade Area (AfCFTA) is the continent's most ambitious integration initiative, which aimed at (i) creating a single continental market for goods and services, with free movement of business persons and investments (ii) expanding intra-Africa trade across the regional economic communities and the continent in general and (iii) enhancing competitiveness and support economic transformation.

The Agreement establishing the AfCFTA was signed at the 10th Extraordinary Summit of the AU Assembly on 21 March 2018 in Kigali, Rwanda and entered into force on 30 May 2019.

To date, all African Union Member States except ***Eritrea*** have signed the Agreement, of which 29 Member States have deposited their instruments of ratification. Namibia has been part of the process, leading to the signing on ***1st of July 2018*** and ratification of the Agreement in ***November 2018***, while the instruments of ratification were deposited in ***February 2019.***

The Agreement consists of (i) the Protocol on Trade in Goods, its annexes and appendixes; (ii) the Protocol on Trade in Services; (iii) the Protocol on Rules and Procedures for Settlement of Disputes; (iv) the Protocol on Investment; (v) the Protocol on Intellectual Property Rights and (vi) the Protocol on Competition Policy.

As required by Article 8 of the AfCFTA agreement, all outstanding Protocols and Annexes shall, upon completion form an integral part of the Agreement.

2. **Progress to date**

The AfCFTA agreement and the Protocols on trade in goods and services, as well as dispute settlement, have all entered into force. However, despite that, it is important to note that essential aspects have not yet been agreed upon.

The key issues that have been delaying conclusion of negotiations and implementation of the Agreement include inter alia: *tariff reductions, rules of origin and conditions for trade in services in the priority areas*. Based on our assessment, as long as the instruments for these disciplines remain outstanding, the AfCFTA based preferential trade is not possible. The 1st of July 2020, was officially declared the target date for the commencement of real business (trade), but has not been met.

Regarding the Rules of Origins (RoO), negotiations are ongoing; four chapters are yet to be agreed upon (Chapters on motor vehicles; edible oils; textiles and clothing as well as on sugar).

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3. Slow AfCFTA Implementation – *what does it mean to Namibia*?

Broadly speaking, the AfCFTA is a huge market with an estimated population of over 1 billion people from all 54 African countries with an estimated combined GDP of more than 3 trillion US dollars.

Given that the AfCFTA will bring together the African economic powerhouses such Nigeria, South Africa, Kenya and Egypt together in a single market, this is an opportunity for smaller economies like Namibia to enable its industries gain access to a larger market for their export of goods and services as well as a larger source market for industrial inputs and consumer goods.

Some anecdotal evidence suggests that the services sector is key to economic development because it contributes a significant share of Gross Domestic Product (GDP), employment and trade in a country's economy, regardless of the level of development. Data from the United Nations Conference on Trade and Development (UNCTAD) for 2017 shows that the share of services to GDP increased from 61% to 76% in developed economies and from 42% to 55% in developing countries, in the period 1980-2016.

Delaying the implementation of the AfCFTA agreement would mean that Namibia's potential benefits arising from this Agreement would only be realised from the medium to long-term. This is likely to reverse the efforts the country has done so far in making the commitment at the continental level.

4. Conclusion and Recommendations

It will be recalled that from the onset, the commitment demonstrated by AU member countries to sign the Agreement establishing the AfCFTA at the 10th Extraordinary Summit of the AU Assembly on 21 March 2018 in Kigali, Rwanda, which came into force a year later was a significant progress and notable achievement.

Moreover, the conclusion and subsequently coming into force of the Protocols on trade in goods and services, as well as dispute settlement, have all added another milestone achievement.

Since then, slow negotiations process on tariff reductions, rules of origin and conditions for trade in services in the priority areas have then delayed the implementation of the AfCFTA agreement and eventually exceeded the officially declared target date of 1st of July 2020 for commencing trade under the AfCFTA. The delay was further worsened by the COVID-19 pandemic, which derailed the work plan for completing the outstanding AfCFTA negotiations.

Based on these developments, it is now clear that trading under the AfCFTA will not be possible as long as the negotiations on the above mentioned areas remain outstanding.

It is therefore advisable for the policy makers to engage the AfCFTA leadership at a political level so as to find a common ground and fast-track negotiations process to enable member countries' private sector to realise the benefits as early as possible. This is notwithstanding the fact that the presence of COVID-19 presents additional challenges to the trading environment, therefore more coordinated and concerted efforts from all members are critical to the successful full implementation of the AfCFTA agreement.

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