ISSUE
25
Dec2019

MINISTRY OF FINANCE - EPAS
Quarterly Economic Update

This Issue…

Quarter 3 of 2019 update,

Nov Consumer Prices,

Exchange rate

Interest rate

Special Feature: Economics of Climate Change

GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

Global growth is estimated at 3.0 percent for **2019** and is projected to improve marginally to 3.4 percent in **2020**, which is a 0.1 percentage point lower for both years than the July 2019 World Economic Outlook (WEO) projections. One common feature of the weakening in growth momentum over the past year has been broad-based, notable slowdown in industrial output driven by multiple and interrelated factors. The performances of the *advanced economies* are negatively affected by the weakness in business confidence as a result of the trade tensions, slowdown in China (high debt and exacerbated macroeconomic consequence) and lower output in vehicle production and sales globally. Therefore, the extent of global output depends largely on the anticipated recovery in the stressed members of the *advanced* and *emerging market and developing economies.*

Growth for the ***advanced economies*** is estimated at 1.7 percent in **2019** and **2020**. The growth estimate for 2019 is 0.2 percentage point lower than in July 2019 WEO projections and is mostly reflecting a slight downward revision for the US' growth to 2.4 percent (from 2.5 percent), due to weaker-than anticipated output especially in capital goods. However, growth for the US is projected to moderate to 2.1 percent in 2020 as the fiscal stimulus unwinds and trade tariffs increase the cost of inputs and overall production.

Table 1: Global GDP growth rates – annual % changes

	2017	2018	2019	2020	Differences[1]	
World Output	**3.8**	**3.6**	**3.0**	**3.4**	**-0.2**	**0.1**
Advanced Economies	2.4	2.2	1.7	1.7	-0.2	0.0
United States (US)	2.2	2.9	2.4	2.1	-0.1	0.2
Euro Area	2.4	1.8	1.2	1.4	-0.1	-0.2
Japan	1.9	0.8	0.9	0.5	0.0	0.1
United Kingdom (UK)	1.8	1.4	1.2	1.4	-0.1	0.0
Emerging Market & Dev Economies	**4.8**	**4.5**	**3.9**	**4.6**	**-0.2**	**-0.1**
Russia	1.6	2.3	1.2	1.9	-0.4	0.2
Brazil	1.1	1.1	0.8	2.4	-1.3	0.1
Emerging & Developing Asia	6.6	6.4	5.9	6.0	-0.3	-0.2
India	7.2	7.1	6.1	7.0	-0.9	-0.2
China	6.8	6.6	6.1	5.8	-0.1	-0.2

Source: IMF WEO, 23 July 2019 Update

The ***euro area*** is estimated to record growth of 1.2 percent in **2019** and is expected to expand at a marginally higher rate of 1.4 percent in **2020**, with some economies performing relatively well and others suffering slightly due to weaker investment (Germany) and domestic demand. Nonetheless, growth is expected to stabilize over the remainder of 2019 and continue to grow marginally in 2020, dragged by uncertainty of brexit and weak external demand. The **United Kingdom** is set to expand at 1.2 percent in **2019** and by 1.4 percent in **2020**. The growth in 2019 reflects a slowed activity due to withheld investment in the wake of continued brexit uncertainty. **Japan's** economy is set to grow by 0.9 percent in 2019 due to increased private and public consumption and is projected to record marginally lower growth of 0.5 percent in 2020 due the anticipated impact of the increase in consumption tax in October 2019.

Growth in the ***emerging market and developing economies*** are estimated to slow down to 3.9 percent in **2019** and are expected to record a slightly higher growth rate of 4.6 percent in **2020**. The projections for 2019 and 2020 have been revised downward by 0.2 and 0.1 percentage points, respectively, than in July 2019 projections, which is a reflection of downward revisions across all major regions. In **China** growth is estimated at 6.1 percent in 2019 and is projected at a marginally lower 5.8 percent in 2020. This is mainly due to the negative effects of escalating tariffs and weakening external demand that added pressure to an economy that is already in the midst of a structural slowdown and needs regulatory strengthening to rein in high dependence on debt**.** Growth in China is projected to slow gradually to a more sustainable rate. **India's** economy is set to grow at 6.1 percent in 2019 and is expected to record a slightly higher growth rate of 7.0 percent in 2020. The downward revision of 0.9 percentage point for 2019 and 0.2 percentage points for 2020, relative to the July 2019 projections, reflects a weaker-than expected outlook for domestic demand, weaker output in the automobile and real estate, as well as the risks in nonbanking financial sector.

REGIONAL ECONOMIC DEVELOMENTS AND OUTLOOK: SUB-SAHARAN AFRICA

In the S**ub-Saharan African region**, growth is estimated at 3.2 percent in 2019 and is projected record a slightly higher growth rate of 3.6 percent in 2020 (Table 2), as strong growth in many non-resource-intensive countries partially offsets the lacklustre performance of the region's largest economies.

Table 2: Sub-Saharan Africa GDP growth rates – annual % changes

	2017	2018	2019	2020
Sub-Saharan	2.9	3.0	3.2	3.6
Nigeria	0.8	1.9	2.3	2.5
Angola	-0.2	-1.7	-0.3	1.2
South Africa	1.4	0.8	0.7	1.1
Namibia	-0.9	-0.1	-1.5	0.8

Source: IMF WEO, Oct 2019

Higher, albeit volatile, oil prices supported the growth for **Angola, Nigeria**, and other oil-exporting countries in the region. Growth in **Nigeria** is estimated to expand by 2.3 percent in 2019 and further by 2.5 percent in 2020 on the back of recovery in oil prices and continued diversification of the economy.

South Africa's growth is estimated at a subdued rate of 0.7 percent in 2019 mainly due to impact of labour instability, energy supply constraints and weak mining and agricultural production. For 2020, growth is expected at a slightly higher rate of 1.1 percent on the assumption of better performance in mining and quarrying as well as recovery in the power supply.

Growth for **Angola** is estimated to ease out but remaining negative due to lower oil production and is only expected to bottom out of the recession in **2020** with a growth of 1.2 percent. Growth in **2020 is on the premise of albeit** volatile, but higher oil prices and the diversification of the economy.

RISKS TO OUTLOOK

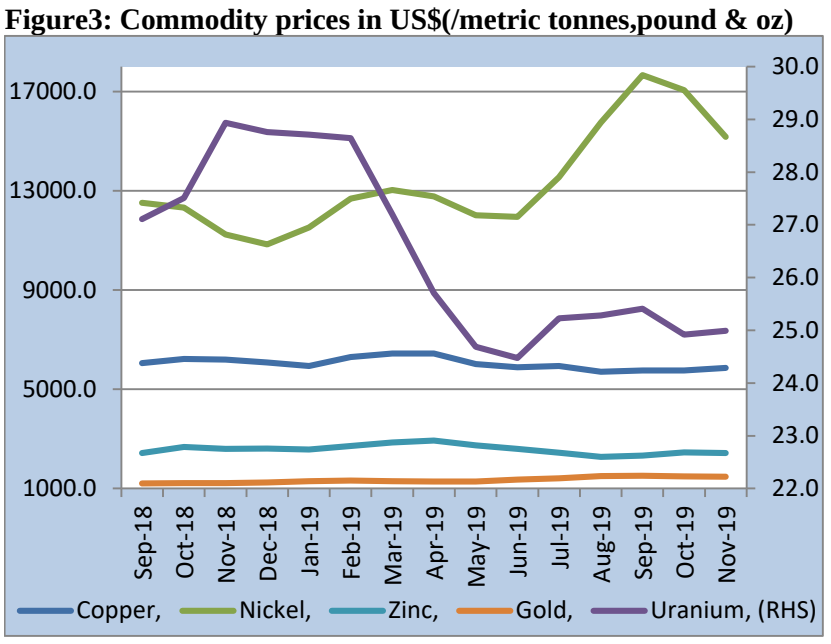
Escalating **trade war (US-China)** and technology tensions which have the potential to affect demand negatively and also dent sentiment and result in lower investment flows. Mounting **disinflationary pressures** could also result in increased debt servicing difficulties that could constrain monetary policy space to counter downturns and make adverse shocks more persistent. Downside risks are also elevated by the possibility of higher volatility in the **commodity markets**.

Climate change remains an overarching threat to health and livelihoods in many countries, as well as to global economic activity. Domestic policy mitigation strategies are failing to muster wide societal support in some countries.

COMMODITY PRICES

The IMF all commodity price index recorded a decline of 4.1percent year-on-year and a 3.31 percent increase m-o-m, respectively for November 2019, mainly due to the weakening in the oil price index which declined annually and 2.53 percent, annually. However, the all-metal price index increased by 10.1 percent annually but declined by 2.67 percent monthly, the annual increase was on the premise of higher iron ore, nickel, and gold prices.

Figure3: Commodity prices in US$(/metric tonnes,pound & oz)



IMF primary commodity prices: November 2019

Generally all **commodity prices** recorded a decline with the exception of nickel, iron ore and gold prices. **Uranium prices** increased by 0.28 percent on a monthly basis but recorded an annual decline of close to 14.0 percent. **Gold** prices increased significantly by 20.4 percent annually and but declined by 1.66 percent monthly. On the other hand, **copper prices** declined by 5.4 percent y-o-y but increased by 1.8 percent m-o-m, exacerbated by the slowdown in China. **Zinc prices** also recorded a decline of close to 6.5 percent y-o-y and 1.1 percent m-o-m for November 2019.

Commodity markets are expected to remain volatile during the remainder of the year due to a combination of geopolitical tensions, trade wars and generally slow external demand.

TRADE STATISTICS Q3-2019

The third quarter of 2019 recorded a trade deficit amounting to N$6.8 billion as compared to the deficit of N$4.7 billion witnessed during the same period 2018, a substantial deterioration of 4.5 percent. This was mainly driven by exports which weakened by 23.1 percent over the course of the year, while imports declined by a lower margin of 12.4 percent.

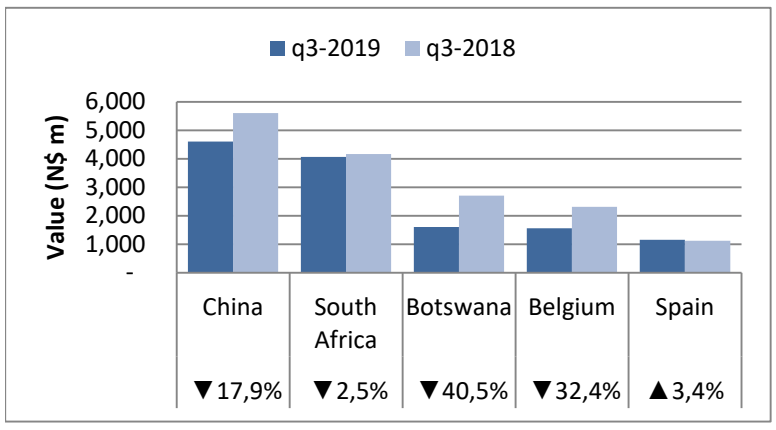
Quarter 3 exports stood at N$19.4 billion from N$25.7 billion in q3-2018 and N$23.7 billion in q2-2019, while imports amounted to N$26.2 billion in quarter 3 of 2018 after recording N$29.9 billion and N$27.4 billion in q3-2018 and q2- 2019 respectively.
attributed to the worsening in the merchandise trade deficit.

EXPORTS TO KEY MARKETS

Namibia's exports were mostly destined to five countries namely; China (N$4.6 billion, mainly copper blister and other mineral ores including Uranium), South Africa (N$4.1 billion: precious stones & metals, live animals and fish), Botswana (N$1.6 billion: precious stones and metals), Belgium (N$1.6 billion: copper) and Spain (N$1.2 billion: fish).Together, these countries made up the largest share of the value of all goods exported to the rest of the world, with 67.12 percent of the value of all goods exported destined to these markets.

China emerged as Namibia's largest export destination, absorbing 23.8 percent of all goods exported while South Africa occupy second position, absorbing 21 percent of the total domestic exports. Botswana in the third position accounted for 8.3 percent whereas Belgium was responsible for 8 percent of Namibia's total exports, finally Spain's contribution to domestic exports stood at 6 percent.

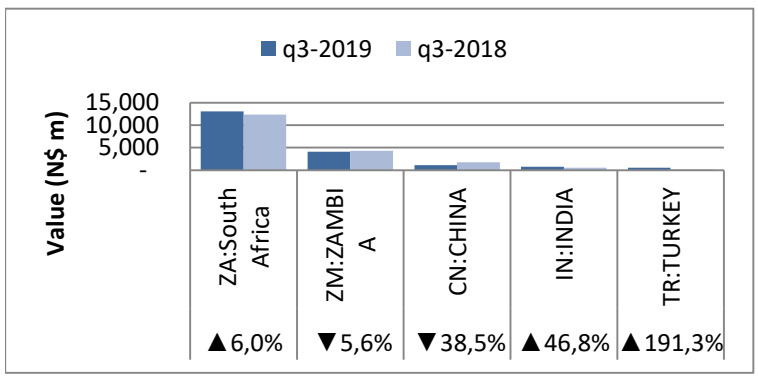
FIGURE 1: TOP FIVE EXPORTING PARTNERS



Source NSA 2019

IMPORTS FROM KEY MARKETS

Namibia's imports were mainly sourced from South Africa (N$13.1 billion: motor vehicles & parts, industrial machinery, electrical machinery), Zambia (N$4.1 billion: copper), China (N$1.1 billion: industrial machinery and articles of iron or steel), India (N$769 million: mineral oils & fuel) and Turkey (N$558 million: mineral oils & fuel). Together, these countries accounted for the largest share of Namibia's total imports, with 74.7 percent of the value of all imported goods into Namibia



Source NSA 2019

CONSUMER PRICES – Nov 2019

The inflation for **November** slowed annually from 5.6 percent to 2.5 percent and monthly from 0.2 percent to 0.1 percent. The annual decrease resulted from decreases registered mainly in: *Transport, Alcohol beverages and tobacco, Health, Food and non-alcoholic beverages, housing, water, electricity, gas and other fuels*.

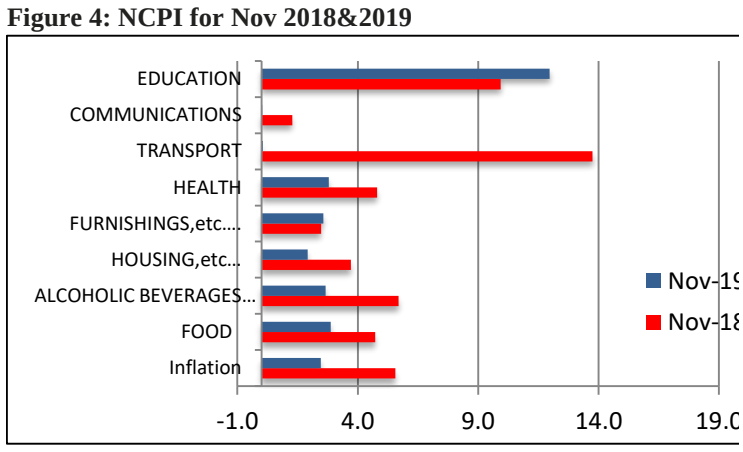
Inflation for *Transport* shrunk to 0.1 percent compared to 13.8 percent in 2018. The slowdown emanated from marginal growth in the price levels of purchases of vehicles and public transportation services while price levels for the operation of personal transport equipment sub-components shrunk.

Inflation for *food and non-alcoholic beverages* slowed to 2.9 percent on account of lower price growth food items (*food, bread & cereal, fish, mineral water & soft drink*s as well as *oats & fats*) and *meat and sugar, jam and confectionary* which recorded declines. For a*lcoholic beverages and tobacco* inflation slowdown from 5.7 percent to 2.7 percent, due to decreases in the price levels for *tobacco*, while growth in price levels slowed for the *alcoholic beverages* sub-components.

The annual inflation rate for *Housing, water, electricity, gas and other fuels* for the month of November 2019 stood at 1.9 percent compared to 3.7 percent recorded in 2018. The slowdown originated from the slower inflation registered in all sub-components of this group, except *regular maintenance and repair of dwelling* which increased from 3.5 percent to 5.0 percent and electricity gas and other fuels decreased by0.8 percent.

The main drivers of the annual inflation rate for November 2019 were: *Education, Recreation and culture, Hotels, cafes and restaurants*. Inflation for education, increased from 9.9 percent recorded during the same period in 2018 to 12.0 percent. The increase emanated from an increase in the price levels of all the sub-components comprising the Education group.

Figure 4: NCPI for Nov 2018&2019



Source: NSA 2019 Dec

To date, the average annual inflation is standing at 3.8percent for the 11 months of the year compared 4.3 percent recorded for the same period during 2018.

SPECIAL FEATURE

CLIMATE CHANGE - *FIFTY SHADES OF GREEN (IMF – the Economics of Climate change)*

In 2019 the world witnessed the threats from **climate change** as demonstrations across the world and prompted the parliaments in the United Kingdom and many other countries to declare a "climate emergency", in Namibia's case it was a drought emergency. These actions occurred against a backdrop of record temperatures across Europe and North America, the worst wildfires ever in the Amazon basin, severe tropical storms in Asia, devastating drought in Sub-Saharan Africa, and sea levels that are rising faster than previously thought. **The human costs are immeasurable**. The **financial losses**, however, were significantly high. **Insured losses in 2018 were $80 billion**, double the inflation-adjusted average for the past 30 years. But protection gaps in low- and middle-income countries mean that even greater costs are being borne by the uninsured. In 2017, **a record $140 billion in insured losses** was eclipsed by an additional **uninsured $200 billion**. In some of the countries most exposed to climate change—Bangladesh, Egypt, India, Indonesia, Nigeria, the Philippines, and Vietnam—insurance penetration is less than 1 percent.

A 2018 Intergovernmental Panel on Climate Change report stresses that we have only 12 years left to stop runaway climate change. But currently the world is moving in the wrong direction: global energy emissions increased 1.7 percent last year. To limit warming to 1.5˚C requires a 45 percent decrease by 2030 and net-zero emissions by 2050. The changes needed to keep warming below 1.5˚C are enormous: massive reallocation of capital is needed, which presents unprecedented risks and opportunities. The International Energy Agency estimates that a low-carbon transition could require **$3.5 trillion** in energy sector investment every year for decades—twice the current rate. Under the agency's scenario, in order for carbon to stabilize by 2050, nearly **95 percent of the electricity supply must be low carbon and 70 percent of new cars electric**, and the carbon dioxide intensity of the **building sector must fall 80 percent**. For markets to anticipate and smooth the transition to a net-zero world, they need the right information; proper risk management; and coherent, credible public policy frameworks. Here's how.

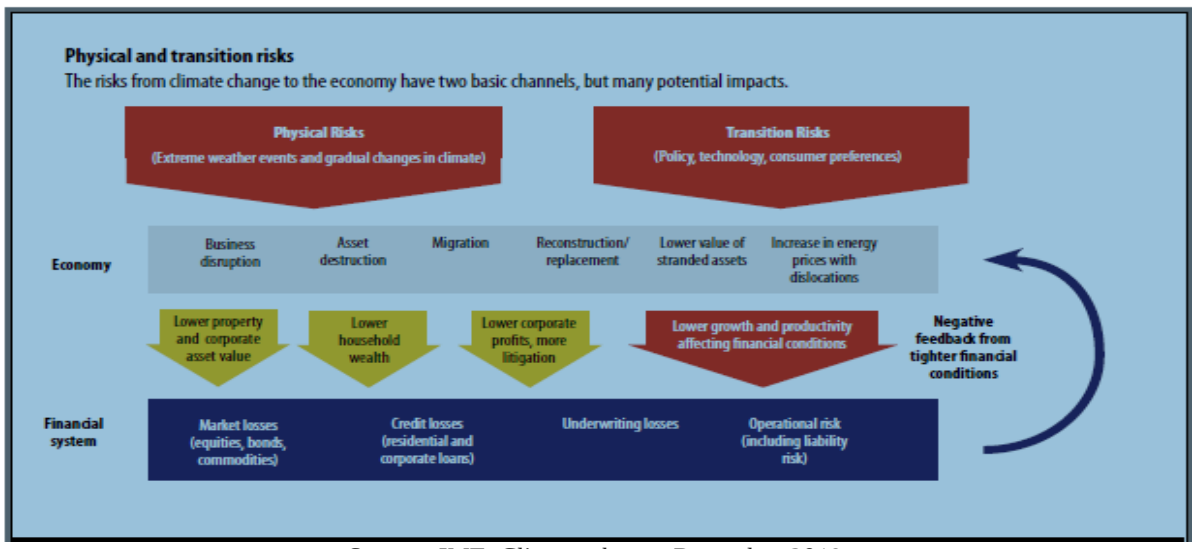
A NEW FINANCE

A new, **sustainable financial system** is under construction. It is funding the initiatives and innovations of the private sector and amplifying the **effectiveness of governments' climate policies**—it could even accelerate the transition to a low-carbon economy. Unfortunately, like virtually everything about the response to climate change, this new sustainable financial system is not developing fast enough for the world to reach net zero. To bring **climate risks and resilience** into the heart of financial decision making, climate disclosure must be comprehensive, **climate risk management** must be transformed, and sustainable investing must be mainstreamed.

RISK MANAGEMENT

The providers of capital (banks, insurers, and asset managers and those who supervise them) must all achieve better understanding and management of climate-related financial risks. Changes in climate policies, new technologies, and growing physical risks will prompt reassessment of the value of virtually every financial asset. Firms that align their business models with the transition to a net-zero world will reap handsome rewards and those that fail to adapt will cease to exist. Banks have begun to consider the most immediate physical risks to their business models—from the exposure of mortgage books to flood risk to the impact of extreme weather events on sovereign risk. This includes exposure to carbon-intensive sectors, consumer loans for diesel vehicles, and mortgages for rental properties, given new energy efficiency requirements. (Given that Namibia is highly susceptible to frequent occurrence to drought, evaluating this option is not too far-fetched)

Figure 1: Physical and transitional risks



Source: IMF. Climate change December 2019

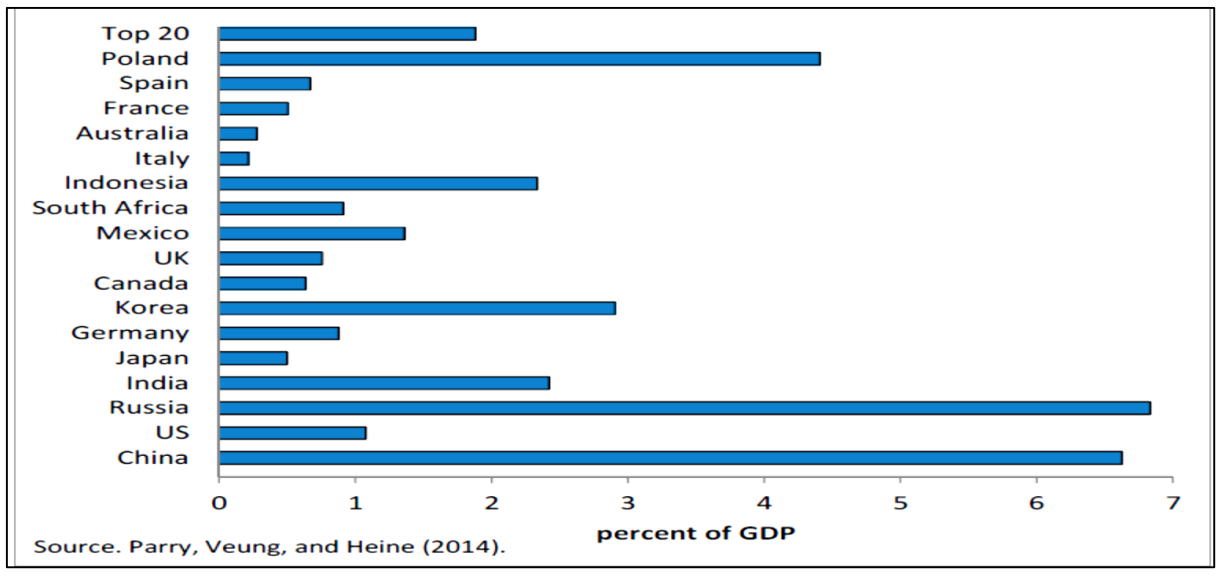
The case for carbon taxation

Carbon taxes are charges on the carbon content of fossil fuels. Their principal rationale is that they are generally an effective tool for meeting **domestic emission mitigation commitments**. Because these taxes increase the prices of fossil fuels, electricity, and general consumer products and lower prices for fuel producers, they promote switching to lower-carbon fuels in power generation, conserving on energy use, and shifting to cleaner vehicles, among other things. **A $35 per ton carbon** tax by itself would exceed the level needed to meet mitigation commitments in high coal consuming countries and it would be about right to meet pledges in countries with a balanced energy mix. But even a carbon tax as high as **$70 per ton** would fall short of what is needed in some countries that are already busy transitioning to clean green energy production. These findings reflect differences not only in the stringency of commitments, but also in the responsiveness of emissions to taxes: emissions are most responsive to carbon pricing in countries consuming a great deal of coal.

An important argument for **carbon taxes** is that they could raise a significant amount of revenue, typically **1–2 percent of GDP for a $35 a ton tax in 2030**. Using this revenue productively to benefit a country's economy could help offset the harmful macroeconomic effects—reduced employment and investment—of higher energy prices. Although, the different stages of development would determine how each country uses the proceeds/revenue from carbon taxes.
Another rationale for carbon taxes is that they can **generate significant domestic environmental** benefits (reductions in the number of people dying prematurely from exposure to local air pollution caused by fossil fuel combustion). Finally, carbon taxes are **straightforward to administer** and can be integrated into existing road fuel excises, which are well established in most countries and among the easiest of taxes to collect, and applied to other petroleum products, coal, and natural gas.

Another option is to **integrate carbon charges into royalty regimes** for extractive industries, though rebates should be provided for exported fuels as, under the Paris Agreement, countries are responsible only for emissions within their own borders. An alternative way to price carbon emissions is through **emission-trading systems** in which firms are required to acquire allowances to cover their emissions, the government controls the total supply of allowances, and trading of allowances among firms establishes an emission price. This option is **easily attainable** to Namibia and in line with social corporate responsibility (SCR) but as a compulsory requirement and not as a voluntary action as is the case currently.
Carbon-pricing strategies could hold the key to meeting the world's climate stabilization goals. Carbon taxes also provide a clear incentive for redirecting energy investment toward low-carbon technologies like renewable power plants.

Figure 2: Revenue from CO2 pricing for domestic environmental benefits, 2010



Source: IMF, climate change, macro and fiscal policy (2014)

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This publication was produced by: Ministry of Finance
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