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MINISTRY OF FINANCE - EPAS
Quarterly Economic Update

This Issue…

MINISTRY OF FINANCE • Economic Policy Advisory Services (EPAS)

Quarterly Economic Update

GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

Global economic growth is estimated at 2.9 percent in 2019 and is projected to increase to 3.3 percent in 2020 and at a marginally better 3.4 percent in 2021. Compared to the October 2019 WEO forecast, the estimate for 2019 and the projection for 2020 represent 0.1 percentage point reductions for each year while that of 2021 is 0.2 percentage point lower. A more subdued growth forecast for India - a moderation from a robust 6.8 percent in 2018 to 4.8 percent in 2019 - accounts for the lion's share of the downward revisions of global economic growth.

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: Overview of IMF World Economic Outlook Projections - annual % changes

		January 2019 update			Difference from Oct 2019 projections	
	2018a	2019e	2020e	2021p	2020e	2021p
World Output[1]	3.6	2.9	3.3	3.4	-1.1	-0.2
Advanced Economies	2.2	1.7	1.6	1.6	-0.1	0.0
US	2.9	2.3	2.0	1.7	-0.1	0.0
Euro area	1.9	1.2	1.3	1.4	-0.1	0.0
Japan	0.3	1.0	0.7	0.5	0.2	0.0
Emerging Market & Developing Economies	4.5	3.7	4.4	4.6	-0.2	-0.2
China	6.6	6.1	6.0	5.8	0.2	-0.1
India	6.8	4.8	5.8	6.5	-1.2	-0.9
Sub-Saharan Africa	3.2	3.3	3.5	3.5	-0.1	-0.2
Nigeria	1.9	2.3	2.5	2.5	0.0	0.0
South Africa	0.8	0.4	0.8	1.0	-0.3	-0.4
Angola[1]	-1.2	-0.7	1.5	2.4	0.0	0.0

Source: WEO Update, January 2020 *a=actuals, e=estimates, p=projections*

Growth for the ***Emerging Market and Developing Economies*** is estimated to grow by 3.7 percent in 2019 (compared to the strong 4.5 percent registered in 2018) and is expected to increase to 4.4 percent in 2020 and further to 4.6 percent in 2021 (0.2 percentage point lower for both years than in the October 2020 WEO) from an estimated 3.7 percent in 2019 (compared to 4.6 percent in 2018). The growth profile for the group reflects a combination of projected recovery from deep downturns for stressed and underperforming emerging market economies and an ongoing structural slowdown in China.

Growth in *China* is projected to inch down from an estimated 6.1 percent in 2019 (compared to a higher 6.6 percent registered in 2018) to a marginally lower 6.0 percent in 2020 and 5.8 percent in 2021. The envisaged partial rollback of past tariffs and pause in additional tariff hikes as part of a "Phase One" trade deal with the US is likely to alleviate near-term cyclical weakness, resulting in a 0.2 percentage point upgrade to China's 2020 growth forecast relative to the October 2019 WEO. However, unresolved disputes on broader US-China economic relations as well as needed domestic financial regulatory strengthening are expected to continue weighing on activity. After slowing to 4.7 percent in 2019, growth in *ASEAN-5 countries* is projected to remain stable in 2020 before picking up in 2021. Growth prospects have been revised downs lightly for *Indonesia* and *Thailand*, where continued weakness in exports is also weighing on domestic demand.

REGIONAL ECONOMIC DEVELEMENTS AND OUTLOOK: SUB-SAHARAN AFRICA

In sub-Saharan Africa, growth is expected to strengthen marginally to 3.3 percent in **2019** (from 3.2 percent registered in 2018) and is, thereafter, projected to register a flat rate of 3.5 percent over **2020** and **2021**. The projection is 0.1 percentage point lower than in the October WEO for 2020 and 0.2 percentage point weaker for 2021. This reflects downward revisions for *South Africa* (where structural constraints and deteriorating public finances are holding back business confidence and private investment) and for *Ethiopia* (where public sector consolidation, needed to contain debt vulnerabilities, is expected to weigh on growth).

South Africa's growth is projected to remain subdued, increasing only marginally from 0.4 percent in **2019** (compared to a marginally better growth of 0.8 percent recorded in 2018) to 0.8 percent in **2020** and further to a slightly better rate of 1.0 in **2021**, as private investment and export growth are expected to remain low.

The medium-term growth prospects are projected to be insignificant due to a combination of several constraints such as persistent policy uncertainties, high cost of doing business, inflexible product and labor markets, low public enterprise efficiency (mostly insecurity of electricity supply), constrained fiscal space, infrastructure bottlenecks and weakening external demand, particularly from the Euro Area and China.

RISKS TO OUTLOOK

The COVID- 19 outbreak and the lingering impact on the remainder of the year is expected to bring about a global economic crisis, with far more severe consequences compared to the 2008/9 financial crisis.

Tension between the United States and Iran, could disrupt global oil supply, hurt sentiment, and weaken already tentative business investment.

Higher tariff barriers between the US and China, will affect the business sentiment and the cyclical and structural slowdowns that are underway in many economies since 2019, adversely.

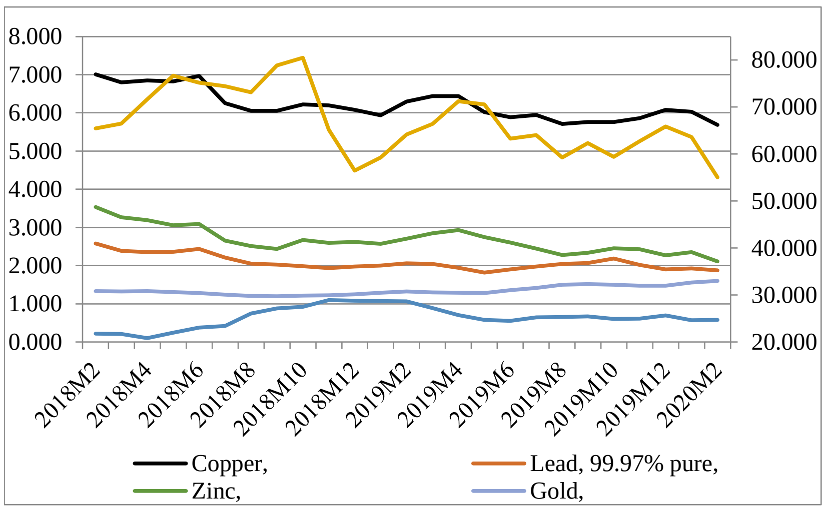
A widespread **tightening of financial conditions** would expose the financial vulnerabilities that have built up over years of low interest rates and further curtail spending on machinery, equipment, and household durables.

Climate change, the driver of the increased frequency and intensity of weather-related disasters, already endangers health and economic outcomes, and not only in the directly affected regions.

COMMODITY PRICES

The **IMF all commodity price index** recorded a decline of 6.7percent year-on-year and a 7.1 percent m-o-m, respectively for February 2020, mainly due to the weakening in the **oil price index** which declined monthly by 12.8 percent and 11.2 percent, annually. However, the **all-metal price index** increased by 7.1 percent annually but declined by 1.3 percent monthly, the annual increase was on the premise of higher **cobalt, nickel**, and **gold prices**.

Figure1: Commodity prices in US$(/metric tonnes, pound & oz)



IMF primary commodity prices: February 2020

Generally all commodity prices recorded a decline with the exception of nickel, cobalt, and gold prices. Uranium prices increased by 0.2 percent on a monthly basis but recorded an annual decline of close to 13.8 percent. Gold prices increased significantly by 20.1 percent annually and 2.3 percent monthly.

On the other hand, **copper prices** declined by 9.7 percent y-o-y and 5.7 percent m-o-m, exacerbated by the slowdown in China. **Zinc prices** also recorded a decline of close to 22 percent y-o-y and 10.2 percent m-o-m for February 2020. The **IDEX** fell by 4.1 percent on an annual basis and by 1.6 percent on a monthly basis; the decline is in line with lower **diamond prices** as demand for luxury goods is on the decline globally

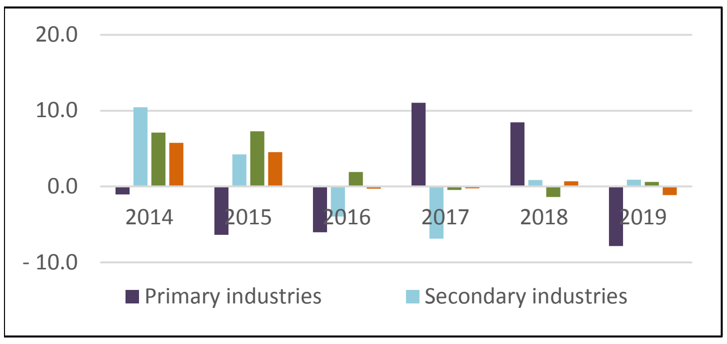
Commodity markets are expected to remain volatile during the year due to a combination of geopolitical tensions, impact **of COVID 19**, oil price crush due to lack of agreement between suppliers, trade wars and generally low external demand for commodities.

PRELIMINARY NATIONAL ACCOUNTS 2019 BRIEF

The domestic economy recorded contraction of 1.1 percent compared to growth of 0.7 percent registered in **2018**. In **Nominal terms, GDP** expanded slightly by 0.4 percent to N$178,677 million in **2019** fromN$178 052 million recorded in **2018.** The contraction in the economy can be attributed to the contraction in the **primary industry** that recorded a decline of 7.8 percent compared to a growth of 8.5 percent recorded in 2018. The **secondary industries** that remained unchanged at 0.9 percent.

Although most of the sub-sectors activities in the **tertiary declined**, overall industries slightly improved posting growth of 0.6 percent from contraction of 1.4 percent registered in 2018.

Figure2: Growth for the period 2014-2019



NSA: PNA 2019

Negative trajectory continues in the **primary industries** posting declines in 2019. *Agriculture, forestry and fishing* registered a contraction of 2.6 percent in 2019 compared to a decline of 1.9 percent in 2018.The downward trajectory in the sector was predominantly driven by both *crop farming and the livestock* subsectors that recorded contractions of 13.5 percent and 6.7 percent respectively, compared to contractions of 6.9 percent and 0.5 percent in 2018. The *fishing processing on board* subsectors grew by 6.1 percent in 2019 compared to growth of 0.1 percent in 2018.

Manufacturing registered a growth of 3.5 percent in 2019 compared to 1.0 percent recorded in 2018. The improved performance in the sector was mainly due to *Beverages*, *Other manufacturing and meat processing* subsector that recorded growth rates of 12.5 percent, 9.2 percent and 18.1 percent in 2019 compared to growth of 5.0 percent, 0.1 percent, and 14.7 percent in 2018. Furthermore, *basic non-ferrous metals and Non-Metallic* minerals products subsector also recorded strong growths of 12.3 percent and 3.8 percent compared to negative growths of 4.0 percent and 5.1 percent in 2018. The *construction* sector is estimated to have recorded a contraction of 7.9 percent in 2019 compared to a contraction of 8.7 percent in 2018.

BALANCE OF BALANCE PAYMENTS

Namibia's **current account deficit** narrowed by 18.2 percent to N$4.1 billion in 2019 compared to a deficit of N$ 5 billion recorded in 2018. The improvement in the current account deficit was ascribed to the shrinking merchandise **trade deficit** that reflected a moderate decline in the import bill and a slight increase in export earnings. Growth in the **merchandise trade balance** can be attributed to increase in exports of goods and services that increase to N$55.9 billion in 2019 compared to N$ 55.5 in 2018. Growth in **exports** was supported by an increase in *exports of other mineral products; manufacturing products*. During the period under review**, imports** declined marginally from N$76 billion in **2018** to N$75 billion in **2019**. The marginal decline in imports is attributed to decline in in *imports of machinery, mechanical, electrical appliance and other imports*.

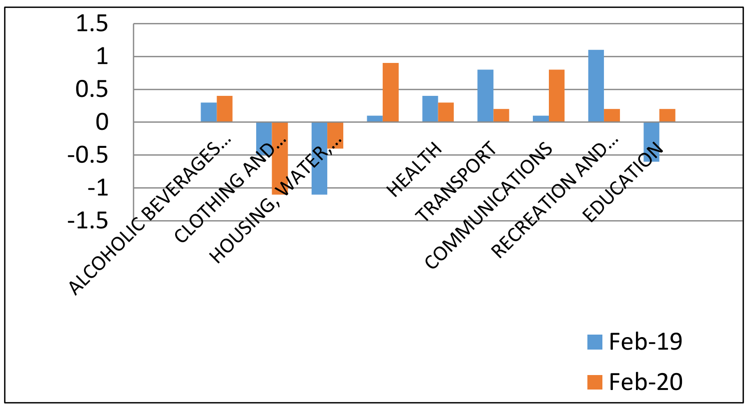
The **capital account** recorded a decline from N$1.7 billion in 2018 to N$ 1.6 billion in 2019. The decrease in flows mainly attributed to a decline in capital transfers from foreign and private institutions

The US$/N$ kept an average of N$14.44 for 2019. The US$/N$ reached an all-time high for **2019**, which was 15.1 in July. The average exchange rate for Namibia for Namibian dollar to the pound was 18.43 and Namibian dollar to the Euro was 16.17.

CONSUMER PRICES – Feb 2020

The annual inflation for **February** 2020 stood at 2.5 percent, significantly lower than 4.4 percent recorded in February 2019. On monthly basis inflation rate slowed down to 0.3 percent in February compared to 0.6 percent recorded in the preceding month. The slowdown in the annual inflation is largely attributed to the decline that was registered in Housing, water, electricity, gas and other fuels and Food and non-alcoholic beverages.

Figure: 3: February 2020 CPI



Source: NSA 2020

Inflation for Housing, water, electricity, gas and other fuels recorded a deflation of -0.4 percent in February 2020 compared to deflation of -1.1 percent registered during the same period 2019. The slowdown in this group emanated from declines recorded mainly in the subcomponents in Rental payments for dwelling (both owners and renters) which decreased from 0.0 percent to -0.7 percent.

Inflation for Food and Non-alcoholic beverages stood at 1.0 percentage compared 1.7 percent recorded in February 2019. The shrinkage in this category was due to the decline in the price levels of Fish from -0.1 percent to -0.8 percent), Vegetables including potatoes and other tubers from 1.7 percent to -0.1 percent and Mineral waters, soft drinks and juices from 0.5 percentage to -1.1 percent.

The main drivers of annual inflation rate were Education, Miscellaneous goods and services, Hotels cafes and restaurant. Inflation for *Education* stood at 1.2 percent in February 2020 compared to a deflation of -0.6 percent recorded during the same period 2019. The increase in this category was due to increase Primary (Private) and secondary education (ages 7 to 17 years) from -11.3 percent to 1.8 percent.

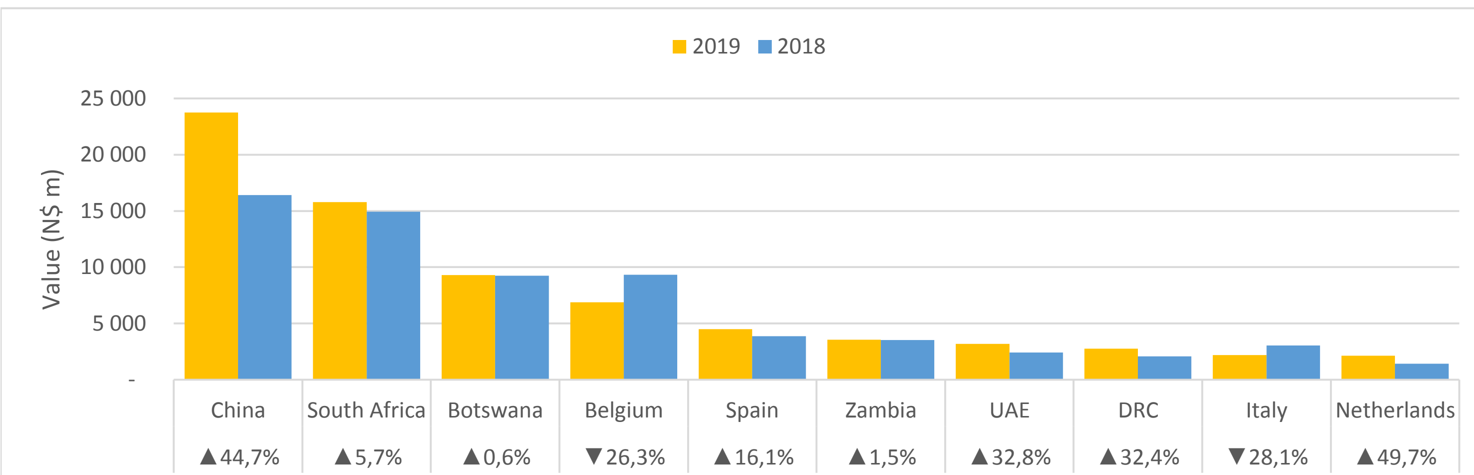
To date, the average annual inflation is standing at 2.5 percent for the first two months of the year compared to an average of

ANNUAL TRADE STATISTICS 2019

In 2019, Namibia's overall trade (total of export and imports) amounted to N$203, 01 billion, slightly lower 0.4 percent than the 2018 level of N$203, 7 billion. The export revenue for 2019 was N$91, 7 billion in 2018, a 1.5 percent decline from N$93.1 billion in 2018. The import bill stood at N$111.3 billion, an increase of 0.7 percentage from N$110.620 billion recorded in 2018.

China remained Namibia's largest export partner in 2019, accounting for 25.9 percent of Namibia's total exports. South Africa took second place, accounting for 17.2 percent of overall exports, followed by Botswana, Belgium and Spain accounting for 10.1 percent, 7.5 percent and 7.5 percent respectively.

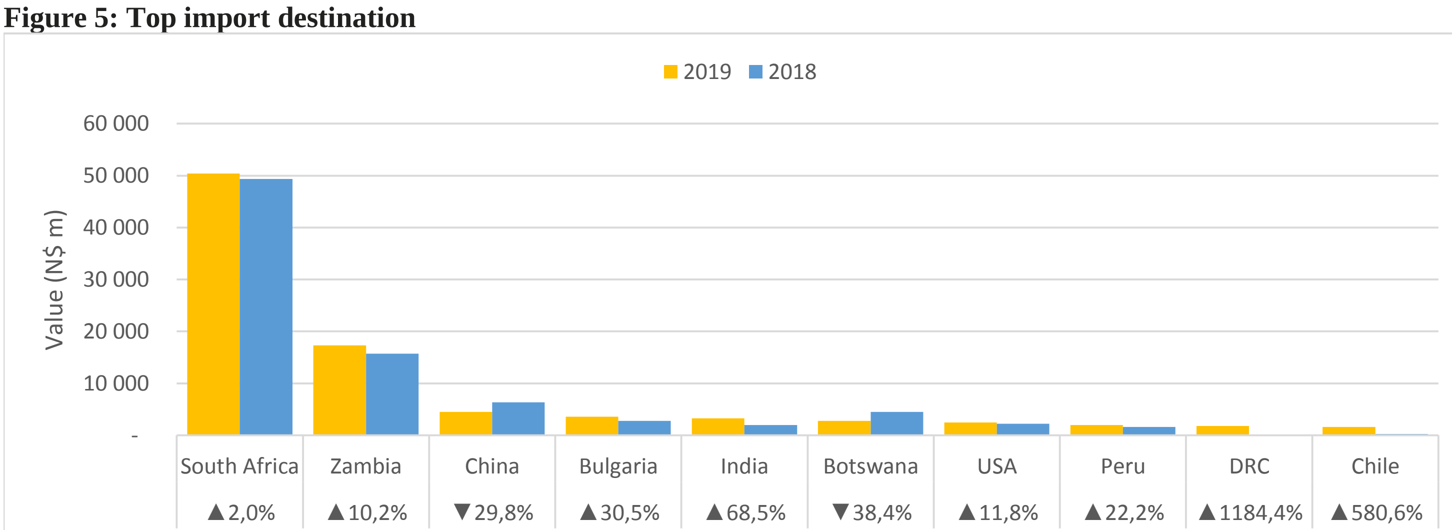
Figure 4: Key export destinations



NSA 2020

Over 60 percent of Namibia's imports where sources from African countries, with South Africa and Zambia taking the lead. South Africa took the largest market share of 45.3 percent while Zambia claimed second place accounting for 15.5 percent of the total imports. The remaining countries in the top importers each accounts for less than 4 percent to Namibia's overall import.

Figure 5: Top import destination



NSA 2020

Namibia's top export products were copper (N$23.633 million), precious metals and metals (N$20.571 million), ores (N$12.899 million), fish (N$10.034 million and vessels (N$3.140 million).Namibia's commodity composition of imports remained pretty much the same as in 2018. Top five commodity importers where copper (N$18.380 million), oils and mineral fuels (N$13.365 million), motor vehicles parts (8.008 million), industrial machinery (N$7.984 million) and ores.

During the period under review, Namibia mostly exported to SACU, BRIC, the EU, SADC, COMESA and EFTA. SACU moved one place up replacing EU as Namibia's largest export market in 2019. Overall, Namibia's trade continues to be highly concentrated to a few countries and commodities. There is a need for Namibia to diversify her export basket to mitigate risks associated with lack of diversification.

SPECIAL FEATURE

4TH QUARTER 2019 FNB RESIDENTIAL REPORT

According to FNB Residential Report**,** House Price Index recorded a contraction of -4.7 percent y-o-y at end of December 2019 compared to 0.5 perecent recorded during the same period in 2018. On a quarterly basis, the house price index averaged -5.1 percent in Q4 2019 compared to - 2.4 percent recorded during the same quarter in 2018. This contraction brought the average national house price to N$1 1155 468 at the end of 2019. The deeper contraction emanates from weaker economic activities, subdued real wage growth, and high household indebtedness.

Table 2: Regional snapshots: Average House Prices

Central	**N$1 520 000**	**(3.3% y/y)**
Coastal	**N$1 128 000**	**(8.6% y/y)**
Northern	**N$833 000**	**(-0.1% y/y)**
Southern	**N$769 000**	**(-8.6% y/y)**

Source: FNB Residential Report March 2020

The average prices as at December 2019 stood at N$ N$1 520 000 for the central regions, N$1128 000 for the Coast, N$ 833 000 for the northern region and N$769 000 for the southern region. The Central and Coastal region prices increased by 3.3 percent and 8.6 percent respectively, on the other hand, the Northern, and Southern regions recorded a contraction of -0.1 percent and -8.6 percent respectively. Land delivery recorded a contraction of -23 percent in the 4th quarter of 2019 compared to a contraction of 48.8 percent recorded in 4th quarter of 2018.

On March 2020 the central bank reduced the repo rate by 100 basis points bringing it down to 5.25 percent from 6.25 percent. This was done to provide support to the economy in the wake of CODIV- 19 pandemic with its associated disruptions of economic activity. This will bring about a new state of equilibrium that responds to the purchasing power of the economy. However, the pass-through effect of the reduced interest is will be lagged and as such the impact is minimal in the medium term to the already indebted households. Therefore in order to revive demand in the residential property market may require a structural shift in the extent of land delivery for housing.

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