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This Issue…

GLOBAL ECONOMY

Inflation Scares in an Uncharted Recovery
According to the IMF, the economic recovery has fuelled a rapid acceleration in inflation this year for advanced and emerging market economies, driven by rising demand, supply shortages, and rapidly rising commodity prices. The IMF in the latest World Economic Outlook forecast that higher inflation will likely continue in coming months before returning to pre-pandemic levels by mid-2022.

Inflation Dynamics and Recovering Demand
It is assumed that headline consumer price index-inflation has moved in line with unemployment. Although the pandemic period poses many challenges to estimating this relationship, the unprecedented disturbance doesn't seem to have substantially altered this relationship. Advanced economies are likely to face moderate near-term inflation pressure, with the impact softening over time. Estimates of the relationship between slack, the amount of resources in an economy that aren't being used, and inflation for emerging markets instead seem to be more sensitive to the inclusion of the pandemic period in the estimation sample.

Anchoring Expectations
Inflation during the pandemic has been well anchored, as long-term expectations drawn from government bonds in 14 nations, have been stable so far during both the crisis and the recovery, though uncertainty about the outlook remains. A key question is *what combination of conditions could cause a persistent spike in inflation?*

Previously, these have been associated with sharp exchange-rate depreciations in emerging markets and have often followed surging fiscal and current account deficits. Longer-term government spending commitments and external shocks could also contribute to expectations becoming de-anchored.
The projections, however, come with considerable uncertainty, and inflation may be elevated for longer. Contributing factors could include surging housing costs and prolonged supply shortages in advanced and developing economies, or food-price pressure and currency depreciations in emerging markets.

Policy Implications
When expectations become elastic, inflation can quickly take off and be costly to rein back in. Ultimately, central bank policy credibility and price expectations are difficult to precisely define, and any assessment of securing can't be decided entirely based on relationships in historical data.

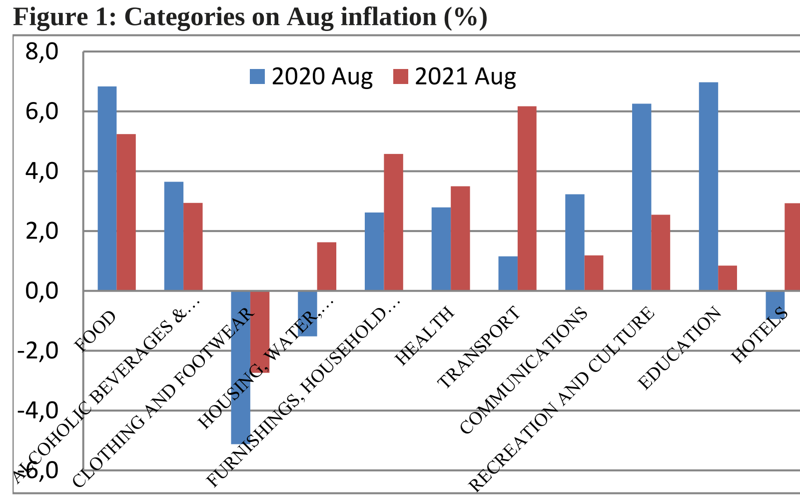
Policymakers therefore must walk a fine line between remaining patient in their support for the recovery and being ready to act quickly. Even more importantly, they must establish sound monetary frameworks, including triggers for when they would reduce support for the economy to rein in unwelcome inflation.

CONSUMER PRICE AUG 2021

The annual inflation for Aug 2021 increased to 3.4 percent from 2.4 percent recorded during the same period in 2020. The monthly increase in the inflation rate was recorded at 0.3 percent down from an increase of 0.4 percent recorded in April 2021.

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

Figure 1: Categories on Aug inflation (%)



Source: NSA Aug, 2021

Transport recorded inflation of 6.2 percent compared slower growth of 1.2 during the same period last year; the increase in inflation for transport was prompted by increase in the price level of *personal transport* and *sale of vehicles*, although the *operation of public transport* declined significantly.

Housing, water, electricity, gas and other fuels recorded an increase of 1.6 percent compared to a decline of 1.5percent recorded the same period in 2020. The increase was mainly reflected in the price levels of rental payments and regular maintenance, which increased by 1.3 percent and 8.0 percent compared to a decline in price levels of 2.3 percent and slower growth of 0.8 percent respectively.

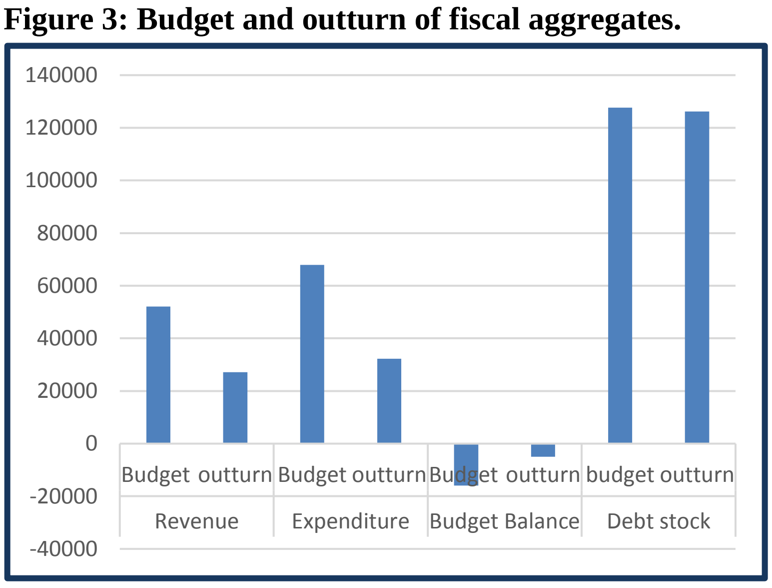
Food & non-alcoholic beverages recorded slightly slower but relatively high inflation of 5.2percent compared to 6.8 percent during the same period in 2020. Food was the second largest contributor to the increase in annual inflation, accounting for 0.6 percentage points of the total 3.4percent annual inflation rate. The increase emanated mainly from price increases in meat (12.5percent), and fats & oils (18.1percent).

Clothing and footwear recorded a decline of 2.7 percent compared to decline of 1.5 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, and clothing material*. The decline emanates from prolonged lockdowns that negatively affected disposable income and weak demand for items in this category.

FISCAL OUTTURN Q2 2021

The performance of Fiscal policy is still clouded by the impact of Covid-19, which is estimated to negatively affect revenue and increase in expenditure. Preliminary outturn reflects a collection of revenue recorded at N$27.2 billion or 52.0% compared the budgeted revenue of N$52.0 billion. This collection is better off if compared to the same period in the previous year that stood at 45.0 percent. Expenditure for the second quarter amounted to N$32.2 billion, representing 47% of the total budget of N$67.9 billion. Expenditure for this quarter is high compared to revenue as indicated above giving a budget deficit of N$5.0 billion or 32% relative to budget, while the stock of debt increased to N$126.1 billion compared to the budget estimate of N$127.7 billion for the current financial year, (figure 3). Interest payments are recorded at N$3.7 billion, which is 44.0 percent of N$8.5 billion provided for in the budget. Government Guarantees is recorded at N$10.8 billion, a decrease from an amount of N$12.9 billion in budget. The decrease in guarantee was mainly due to the repayment of Air Namibia Guarantee N$1.6 billion.

Figure 3: Budget and outturn of fiscal aggregates.



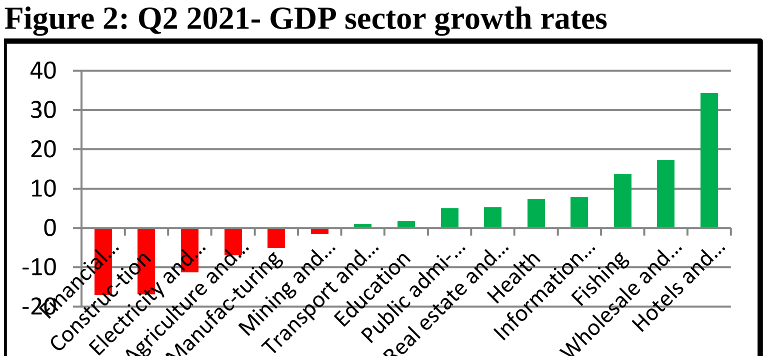
Source: MoF 2021

Going forwards, the fiscal policy direction is geared towards fighting the pandemic as well as targeted spending of project with high impact, to fuel the engine of the economy, while at the same time weight on unproductive spending to reduce bring the expenditure and debt at sustainable level.

Q1 2021 GDP OUTTURN

The Q2 GDP figures indicates marginal growth of 1.6percent on an annual basis compared a deep contraction of 11.6 percent which was recorded during the same quarter the previous year as per the latest release data by NSA, the economy is also estimated to have grown by **3.7 percent on a quarterly basis**. The growth of 1.6 percent is an indication of improvements in economic activities compare to the 2 quarters of 2020, as the restrictions related to Covid-19 are relaxed to allow for a recovery in economic activity. The marginal recovery was dumped by the 3rd wave outbreak of **COVID-19** and its effect on the global, regional, and domestic economy, which came about around May and June 2021.

Figure 2: Q2 2021- GDP sector growth rates



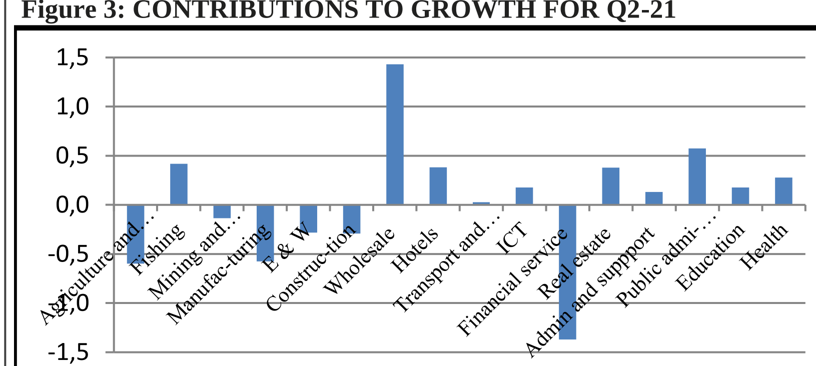
Source: NSA 2021

Q1 2021 GDP OUTTURN cont…..

Growth was supported by the strong recovery in *wholesale and retail trade*, *hotels*, and *restaurants*, as well as *fishing*. *Hotels and restaurants* recorded growth of 34.3 percent compared to a contraction of 50.0 percent that was recorded during the same quarter of 2020. *Wholesale and retail* sector grew by 17.3 percent compared to a contraction of 25.4 percent recorded during the same quarter of 2020 with the recovery in both sectors was supported by improvements from the dire impacts of Covid-19 and the subsequent measure that were put in place to reduce the spread of the pandemic. The growth in *fishing* also had a positive impact on GDP as the sector grew by13.8 percent compared a 16.4 percent contraction that was recorded in the 2 quarter of the previous year. *Health* (7.4 percent), *information* (7.9 percent), and *real estate* (5.3 percent) continued to post positive growth and such also supported the growth recovery.

The *financial services* contracted by17.0 percent due to declines in both commercial banks and the insurance subsectors. The decline in commercial banks is attributed to lower deposits, increasing non-performing loans and reduced appetite for new loans and the decline in the insurance emanates from low demand for new insurance as well as the cancellation of products due to business closure. The construction sector declined by 16.9 percent compared to a deeper contraction of 23.0 percent in 2020, the improved contraction was on the back of declines in the value and number of *building plans completed* and *overall government expenditure* on construction, as they posted contracted significantly with *government expenditure contracting by more than 50 percent*. The *electricity and water* sector recorded contraction of 11.3 percent in compared to growth of 13.9percent recorded in Q2 of 2021, the contraction is on the back of contractions from both of the subsector.

Figure 3: CONTRIBUTIONS TO GROWTH FOR Q2-21



Source: NSA 2021

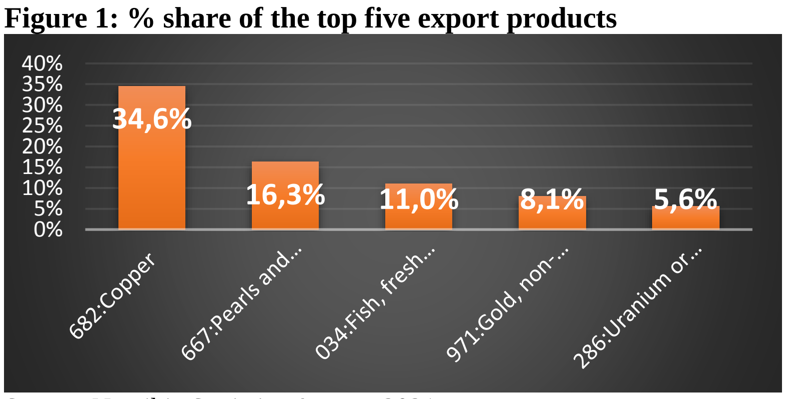
For this quarter sectors that recorded positive growth were so strong that it offset the negative impact of those that contracted and as such overall growth turned out positive, although the sector that contracted were enough to dumpen growth. *Wholesale and retail* recorded the highest contribution of 1.5 percentage points, public admin contributed 0.6 percentage points' *real estate* and *hotels and fishing* contributed 0.4 percentage point to total growth. On the other hand *financial services* contributed the most to the contraction with a negative contribution of 1.4 percentage points , *manufacturing and agriculture* with a negative contribution of 0.6 percentage points and *construction and E&W* contributed -0.3 percentage points to the overall contraction.

TRADE STATISTICS AUGUST 2021

Namibia's trade balance resulted into a trade deficit of N$2.9 billion for August, a worse-off performance compared to the trade deficit recorded in 2020 during the same month which was only N$1.4 billion. The higher trade deficit resulted as total exports that slowed by 6.2percent in August on an annual basis from N$7.5 billion recorded in August 2020 to N$7.1 billion, while imports grew by 12.1percent from N$8.9 billion to N$10 billion under the same period. However, over the last month, export earnings rebounded significantly by 41.5percent to N$7.1 billion from N$4.8 billion in July 2021 after plunging by 49. 4percent from June 2021.

The monthly recovery in exports buoyed by increases in the value of export of copper up by 76.1 percent to N$1.1 billion, Precious stones-diamonds up by 93 percent to N$554 million, Non-monetary gold up by 30.2percent to N$132 million, while Ores and concentrates of base metals increased by 36.2percent to N$65 million.

Figure 1: % share of the top five export products

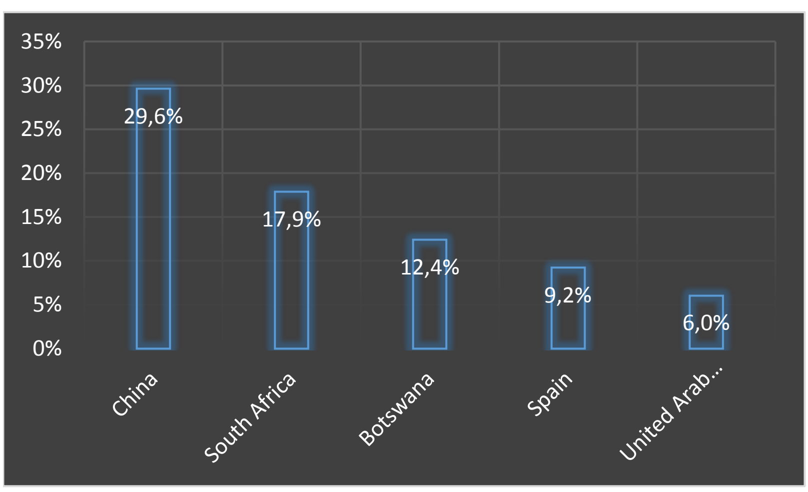


Source: Namibia Statistics Agency 2021

Its counterpart, the import bill, rose by 18.5percent to N$10 billion m-o-m, after having shrunk by 23.1percent to N$7.9 billion in the prior month. Commodities underpinning the increase in imports for August include copper and concentrates which were up by 85.9percent to N$1 billion; petroleum oils up by 89.7percent to N$716 million; motor vehicles for transportation of persons up by 76.7percent to N$94 million; ores and concentrates of base metals up by 60.6percent to N$77 million; manufactures of base metals and; telecommunication equipment up by 104.3percent to N$95 million.

Namibia's top five export destinations for August were China (29.6percent), South Africa (17.9percent), Botswana (12.4percent), Spain (9.2percent), and the United Arab Emirates (6percent). China reclaimed its position as the largest export market for Namibia's goods after slipping to third in July, while South Africa affirmed as the number one source of imports for Namibia taking up 40.3 percent of the value of all goods.

Figure 2: % Share of exports by country



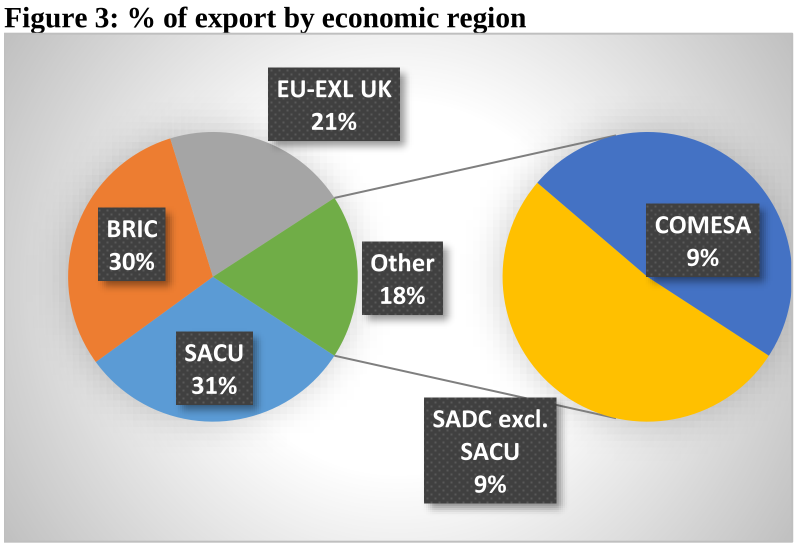
Source: Namibia Statistics Agency

These export destinations accounted for over 75.2 percent of Namibia's total exports, up from 67.9 percent recorded in August 2020, as well as up by 57.4 percent recorded in July but down from 71.7 percent in June 2021.

In August, re-exported copper made use of 69.7percent of these logistical services mostly to China, Spain, France, and the UAE, precious stones (diamonds) mostly destined to Belgium, the UAE and South Africa accounted for 6.6 percent. Other commodities that were re-exported include but are not limited to; Petroleum oils (mostly to Botswana) accounting for 4.2 percent of all commodities re-exported; Ores and concentrates of base metals and plastics accounted for 3.1 percent (mostly to Singapore) and 2.0 percent, respectively according to data from the NSA.

Trade by region saw the Southern Africa Customs Union (SACU) take up the bulk of Namibia's total exported goods (30.3 percent) during August mainly for precious stones (diamonds), gold and petroleum oils. The BRIC region absorbed 29.7percent of total exports mainly for copper and uranium, while the EU absorbed 20.3 percent mainly importing Fish. Trailing the pack were the pair SADC (excluding SACU) and the Common Markets for Eastern and Southern Africa (COMESA), which claimed 9.4 percent, and 8.6 percent of total exports on the regional level respectively, which included mainly fish, other plastics and rubber tires.

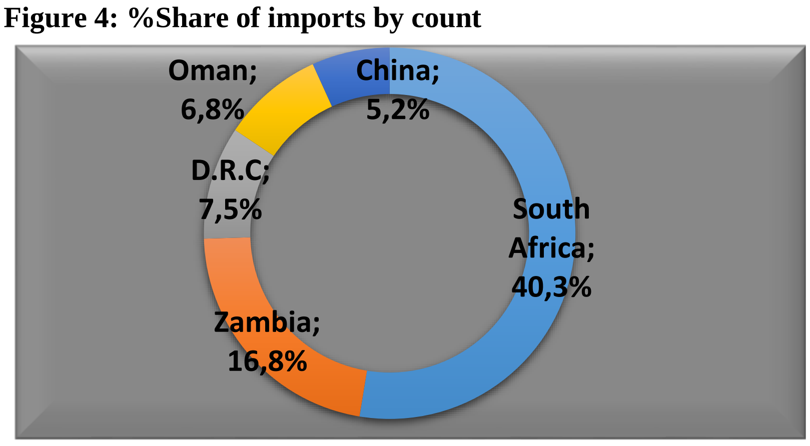
Figure 3: % of export by economic region



Source: Namibia Statistics Agency 2021

The top five import markets for August; South Africa; Zambia; D.R.C; Oman and China supplied Namibia with 76.6 percent of all imports required by the country. Namibia sourced from the various economic regions, Copper was the high value of imports from SADC excluding SACU while thermionic, cold cathode or photo-cathode valves; telecommunications equipment; and medicaments had the largest share of imports from the BRIC region. Finally, the EU concluded the list in the fifth position with a contribution of 4.3 percent and supplied Namibia with other plastics in primary forms as well as aircraft and associated equipment. Following a similar trend, the SACU region was the largest supplier of imported goods to Namibia, accounting for 40.8 percent of all goods brought into the country.

Figure 4: %Share of imports by count



Source: Namibia Statistics Agency 2021

These were mainly ores and concentrates of base metals, motor vehicles, as well as petroleum oils. The COMESA supplied 25.1 percent with copper as the main commodity sourced from this region. For August, Copper was the top export product accounting for 34.6 percent of total exports, mainly demanded by China, Spain, France, UAE and Netherlands. Precious stones followed as the second most exported commodity, accounting for 16.3 percent destined mostly to Botswana, UAE and Belgium. Third on the list were fish which took 11 percent of total exports mostly destined to Spain, the D.R.C and Zambia. Finally, Non-monetary gold mostly meant for South Africa and Uranium to China absorbed 8.1 percent and 5.6 percent of total export respectively.

SPECIAL FEATURE: SUMMARY OF ANALYSIS FNB HOUSING AND RENTAL PRICE INDEX

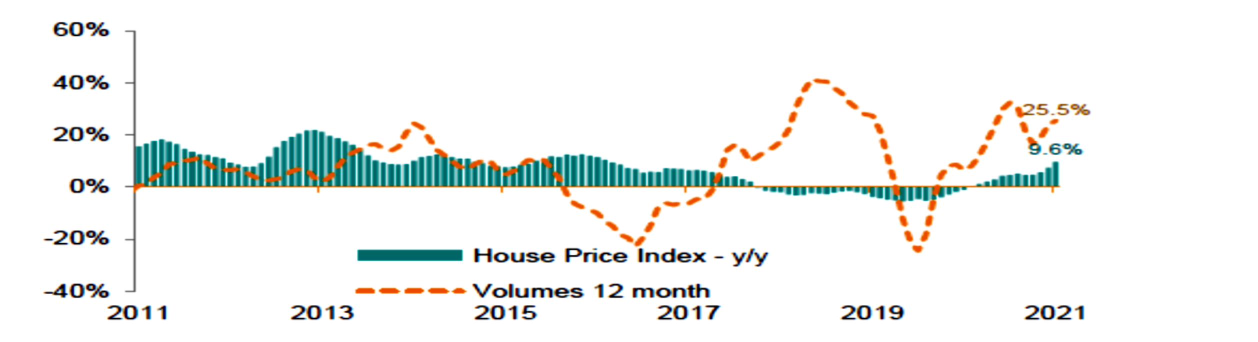
1. FNB rental price Index

The *FNB Residential Rental Index* posted an annual contraction of 2.3% at the end of June 2021 from the -3.7% recorded at the end of the preceding quarter. The national ***weighted average*** rent has reached N$7 003 at the end of June 2021 from **N$6 886** recorded in March 2021. The moderate improvement in the rental index highlights a gradual recovery in rental **occupancy rates** and economic activity in general. Rental price growth was specifically evident within the 1-bedroom and more-than-3-bedrooms segments, which grew by 2.2% and 2.9% y-o-y to N$3 634 and N$18 129 respectively. On the other hand, the 2-bedroom and 3-bedroom segments continue to suffer from a large supply overhang, resulting in rental contractions of 5.8% and 4.2% y-o-y to N$6 612 and N$9 615 at the end of June 2021, respectively. For context, the 2-bedroom accounted for the highest share of overall rental listings of 46% in the second quarter, followed by the 1-bedroom (32%), 3-bedroom (17%) and the more-than-3-bedrooms (5%). The rental prices are expected to continue recovering throughout the reminder of the year.

Although the rental index is starting to show some signs of recovery from the **Covid-19 associated economic impact**, we are not out of the woods yet. The implementation of the **Rent Control Bill** also presents downside risks to affordability for tenants. Given that the **ceiling is set at 10%** and the market determined **rental yields are at 6.8%,** this gives room for landlords to push prices higher, thus putting the tenants under pressure.Rent Control Bill set for tabling in parliament in December 2021.

2. FNB House Price Index

Figure 1: FNB House Price Index (Prices and Volumes)



The **Namibian housing marke**t remains strong due to **record-low mortgage rates** and **shortage of inventory**, with pent-up demand building in almost every region of the country. The FNB House Price Index is up by 9.6% y-o-y at the end of June 2021, following a contraction of 1.0% y-o-y over the same period in 2020. Consequently, the national **weighted average house price** was much stronger at N$1 286 908, compared to N$1 042 852 seen in a prior year. These trends mirror the considerable increase in mortgage sales across the board – with a relatively high growth emanating from the medium and large housing segments. This also reinforces the narrative that Namibia is currently in a **buyers' market phase**, making it a good time to invest in a property or a dream home. On a quarterly basis, the medium and large housing segments contracted by 0.7% and 4.1% y-o-y to N$2 146 000 and N$4 045 000 at the end of June 2021, respectively. These dynamics reflect the emergence of **cyclical forces** such as distressed **property sales** induced by **weak economic** conditions and **affordability issues**. Indeed, sales of houses within the medium and large housing segments soared by 34.9% and 53.4 y-o-y over the review period compared to contractions of 20.5% and 1.7% recorded a year earlier. On a more positive front, green shoots in house price growth were observed within the small and luxury segments, registering growth of 7.1% and 95.3% y-o-y, respectively. This points' out the resilience of these market segments from a demand and affordability perspective. Suffice to say, a house in the small segment tend to sell quick, averaging about 1-4 months in the market, if reasonably priced.

Although the economy remains in a relatively weak position, the **housing market** is showing some signs of a return to normal. In fact, buying conditions for houses have improved and are back to where they were about two years ago. However, **affordability** is expected to remain challenging as the **labour market** is still reeling from the impact of **Covid-19 pandemic**. Over time, as the policy momentum on **affordable housing** continues to gain traction, we expect price pressure to soften as newly completed homes help increase inventories from their current low levels.

This publication was produced by:

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