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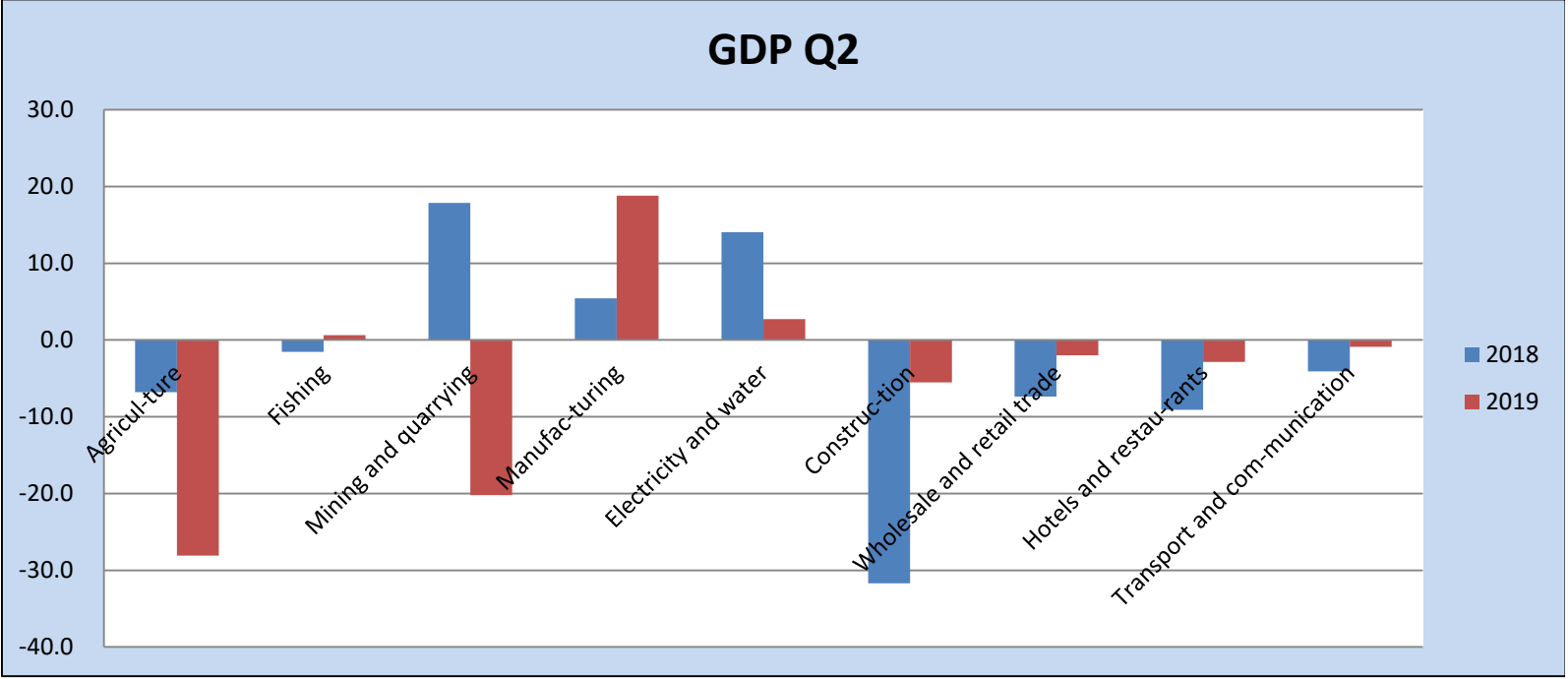
DOMESTIC ECONOMIC DEVELOPMENTS

QUARTER 2 OF 2019 UPDATE

The Namibian economy remained in recession in the Q2 of 2019 as the GDP contracted by 2.6 percent compared to growth of 0.6 percent recorded in the corresponding quarter of 2018. The weakening in economic activities was fuelled by the contraction in *agriculture and forestry, mining and quarrying, and hotels and restaurants*.

The *agriculture* sector contracted by 28.1 percent compared to growth of 2.7 percent recorded in the same quarter of 2018. The decline is a result of the drought that affected both livestock and crop farming negatively. The *livestock sub-sector* registered a contraction of 23.8 percent in the Q2 of 2019 in comparison to a contraction of 9.8 percent recorded in the corresponding quarter of 2018.

Figure1. GDP Q2 Figures



Source NSA, September 2019

Mining and quarrying contracted by 20.2 percent in Q2-2019 compared to a relatively high growth of 34.5 percent in 2018. The contraction in mining and quarrying sector is attributed to *diamond, uranium* and *other mining quarrying* subsectors that recorded declines. **Diamonds** subsector is estimated to have recorded a negative growth of 34.3 percent in the second quarter of 2019, compared to a strong growth of 36.7 percent in the corresponding quarter of 2018. The performance of this sub-sector is attributed to the decline growth in the production of carats produced.

The **uranium** subsector is estimated to have registered a decline of 6.4 percent in real value added compared also to a strong growth of 75.1 percent registered in the corresponding quarter of 2018. The decline is attributed to decline in production in the Q2 of 2019. **Other mining and quarrying**, also estimated to have recorded a decline of 5.3 percent in real value added compared to a decline of 12.8 percent recorded in the Q2 of 2018. The performance in the sub-sector is attributed to the reduction in granite and salt production.



Quarterly Economic Update

Despite these negative growth being observed, other sectors such as *manufacturing and electricity and water*’ registered positive growth rates. *Manufacturing* is estimated to have recorded strong growth of 18.8 percent in the Q2 of 2019 compared to a decline of 8.7 percent recorded in the corresponding quarter of 2018. The growth of the sector is observed in real value added of almost all the sub-sectors such as; *beverages, basic metals, and diamond processing* which posted growths of 20.1 percent, 54.1 percent and 22.4 percent compared to declines of 12.8 percent, 28.1 percent and 3.2 percent, respectively.

Wholesale and retail trade sector is estimated to have recorded an improved growth as compared to the same quarter of 2018, with a decline of 2.0 percent during the Q2 of 2019 compared to a decline of 7.3 percent registered in the corresponding quarter of 2018.

The *construction* sector improved slightly recording a contraction of 5.5 percent for the Q2 of 2019 compared to 7.5 percent registered in the corresponding quarter of 2018.

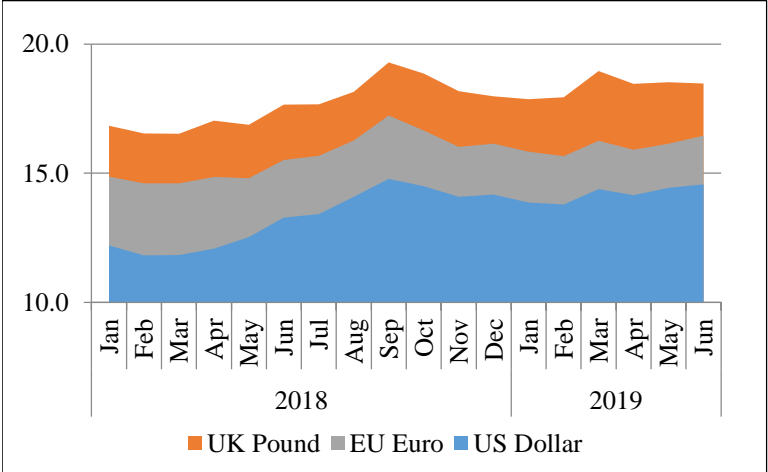
Furthermore, *financial intermediation* sector posted a growth of 1.9 percent in the second quarter of 2019, compared to a growth of 0.7 percent recorded in the same quarter of 2019. The performance is attributed to the banking sub-sector that grew by 3.4 percent compared to a growth of 0.3 percent estimated in the same quarter of 2018.

INTEREST RATE DEVELOPMENTS

On the 13th of August 2019, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to cut the repo rate by 25 basis points to 6.50 percent. The MPC took the decision in order to support the domestic economic activity and to maintain the one-to-one link between the Namibia Dollar and the South African Rand. Domestic economic activity continued to slow during the first six months of 2019, compared to the corresponding period of 2018.

EXCHANGE RATE DEVELOPMENTS

Figure 2: Exchange figures



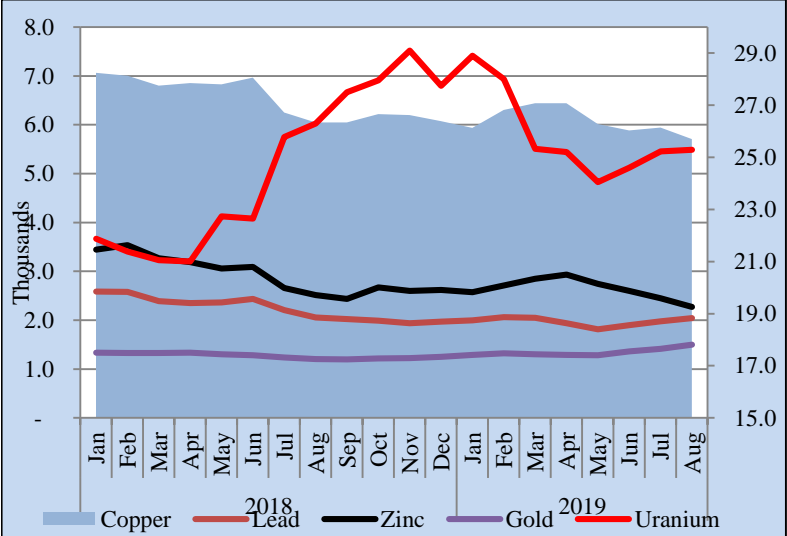
Source: BoN, Quarterly Bulletin, Q2 2019

The Namibia Dollar (NAD) depreciated against all major trading currencies, with the EU/NAD increasing by 6.0%, the £/NAD increasing by 4.6% and the US\$ increasing by 9.6% against the NAD on an annual basis while the increase was moderate on the monthly basis with 1%, and 1.2% against the €, and \$ respectively for Jun 2019, while against the £ it appreciated by 0.3% during the same period.

COMMODITY PRICES

The IMF all commodity price index recorded a decline of 12.1 percent year-on-year and 2.1 percent monthly, respectively for August 2019, mainly due to the weakening in the oil price index which declined both annually and monthly by 17.6 percent and 5.7 percent, respectively. However, the all-metal price index increased by 14.8 percent annually but declined by 2.9 percent monthly, the annual increase was on the premise of higher nickel and gold prices.

Figure 3: Commodity prices in US\$/(metric tonnes, pound & oz)



IMF primary commodity prices: September 2019

Generally all **commodity prices** recorded a decline with the exception of nickel and gold prices. **Uranium prices** increased by 0.2 percent on a monthly basis but recorded an annual decline of close to 3.0 percent. **Gold** prices increased significantly by 24.8 percent annually and 6.1 percent monthly, with highest price of at US\$1498/oz for the last five years. On the other hand, **copper prices** declined by 5.6 percent y-o-y and 3.9 percent m-o-m, exacerbated by the slowdown in China. **Lead prices** also recorded a decline of close to 0.4 percent y-o-y but recorded an increase of 3.5 percent for the month of August 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.

BALANCE OF PAYMENTS

Namibia’s **current account** deficit widened on an annual basis to N\$3.1 billion in the second quarter of **2019**, compared to a much lower deficit of N\$1.3 billion in the second quarter of 2018. The current account balance also worsened to N\$ 3.1 billion on a quarterly basis, from a surplus of N\$1.5 billion recorded in the first quarter of 2019. The current account deficit was, mainly attributed to the worsening in the merchandise trade deficit.

The **merchandise trade deficit** (c goods only) has widened to N\$6.2 billion in the second quarter of 2019, from N\$3.9 billion in the second quarter of 2018. This amounts to a 36.8 percent annual deteriorating of the merchandise trade deficit, which is due to a higher increase in imports. *Merchandise exports* increased on an annual basis by 5.6 percent to N\$13.7 billion during the second quarter of 2019, when compared to the corresponding quarter of 2018. The increases in merchandise exports came from *other mineral products* (mainly uranium), *food and live animals*, *manufactured products and other commodities*.

Similarly, merchandise imports accelerated faster by 15.2 percent annually, to N\$20.0 billion in the second quarter of 2019. The rise in merchandise imports was due to an increase in some of the major import categories, especially *mineral fuels and oils and products of their distillation*, *consumer goods*, *products of chemical industries* together with *base metals and article of base metals and other imports*.

The **capital account** balance decreased on an annual basis to N\$383 million from N\$449 million during the same period of 2018. Inflows on the capital account remained at the same level as recorded in the first quarter of 2019. The annual deceleration is mainly due to a notable declined in *capital transfers* received from the rest of the world during the second quarter of 2019.

The **financial account** balance recorded net borrowing from the rest of the world on an annual basis amounting to N\$994 billion during the second quarter of 2019, when compared to a net borrowing of N\$329 during the corresponding quarter of 2018. The annual developments are reflection of the widening *current account deficit*. Likewise, the financial account balance recorded a higher net borrowing on a quarterly basis from a net lending position of N\$734 million during the first quarter of 2019.

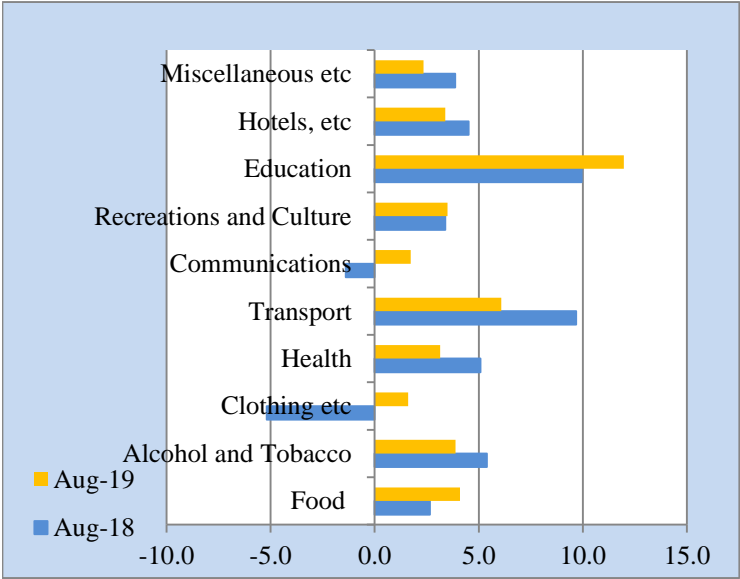
CONSUMER PRICES - AUGUST 2019

Inflation for August 2019 decreased by 0.7 percentage points to 3.7 percent from 4.4 percent y-o-y and on monthly basis it stood from 0.2 percent to 0.1 percent.

The decrease resulted predominantly from decreases registered in: *Transport* (from 9.7 percent to 6.1 percent), *Housing, water, electricity, gas* *Health* (from 5.1 percent to 3.1 percent), *Alcoholic beverages and tobacco* (from 5.4 percent to 3.9 percent), *miscellaneous goods and services* (from 3.9 percent to 2.3 percent) and *Hotels, cafes and restaurants* (from 4.5 percent to 3.4 percent).

The decline in transport resulted from decreases in the price levels of Purchase of vehicles. The increase in Food and non-alcoholic beverages sprung mainly from annual price increases recorded in all the subgroups of Food and non-alcoholic beverages, except Meat which registered decreases. Alcoholic beverages and tobacco contracted, the downward movement resulted from decreases in the level of prices for the Tobacco sub-component Recreation and culture.

Figure 4: NCPI for August 2018&2019



Source: NSA 2019

To date, the average annual inflation is standing at 4.2percent for the first 8 months of the year compared 3.9 percent recorded for the same period during 2018.



FIRST NATIONAL BANK (FNB) HOUSING PRICE INDEX

According to the FNB House Price Index report date??, the house price index contracted by 3.7 percent y-o-y at the end of June 2019 compared to a marginally lesser contraction of 2.0 percent over the same period last year. This is the worst contraction recorded since 2009 and comes on the back of price contractions across all four regions in the country. The contraction brings the average national house price at the end of June 2019 to N\$1 066 908, which is similar to the mean price recorded in February 2016.

Central property prices recorded a contraction of 6.1percent y-o-y at the end of June 2019 compared to growth of 0.3 percent observed over the same period last year. The Coastal region is the weakest performer with property prices showing a deeper contraction of 11.4 percent compared to a contraction of 2.6 percent over the same period last year. The average house price in the Coastal region has consequently come down to N\$1 025 000 compared to N\$1 157 000 recorded in June 2018. Northern property prices have also continued to retreat, contracting by 6.5percent y-o-y, compared to a growth of 5.3 percent recorded over the same period in 2018. . The largest increase in transaction volumes were observed in Oshakati and Eenhana, with growth in these towns recorded at 189% and 50%, respectively.

The prevailing economic conditions of low wage growth, highly indebted households and declining GDP growth are signalling that Namibians are likely to opt for renting rather than buying houses. Property prices are expected to show little growth as risks to the economy remain tilted to the downside.

Table 1: Impact of repo rate cut on home loan repayment

Old interest rate		New interest rate	
Loan amount	N\$ 1 100 000	Loan amount	N\$ 1 100 000
Annual interest rate	11.5%	Annual interest rate	11.25%
Loan term	240 months	Loan term	240 months
Repayment amount	N\$11 729.19	Repayment amount	N\$11 540.34

Source: FNB House Price Index report 2019

Bank of Namibia announced a 25-basis point cut in the repo rate, bringing it down to 6.50 percent. The reduction in the repo rate is expected to bring about relief to households as household indebtedness is at its peak. However, this does not necessarily mean that households will be in a position to take up new debt.

Table 2: Changes to loan-to-value regulations

	Current Maximum LTV %	New Maximum LTV
Primary Home	N/A	N/A
Non-primary residences:		
Number 1	80%	90%
Number 2	70%	80%
Number 3	60%	80%
Number 4 & further	50%	80%

Source: FNB House Price Index report 2019

In addition to the repo rate cut, Bank of Namibia announced changes to the loan-to-value (LTV) regulations that were implemented in 2017. Much like the changes to the repo rate, the new LTV ratios will provide some support in terms of affordability but will not spur a significant improvement in the overall property market. Improvement in the property market will largely depend on higher disposable incomes through increases in real wages.



Quarterly Economic Update

ANNUAL AVERAGE HOUSE PRICES

Table 3: Annual Average House Prices (2013-2019)

Town	2013	2014	2015	2016	2017	2018	2019
Arandis	299 000	494 000	456 000	532 000	640 000	664 223	913 132
Eenhana	532 000	553 000	700 000	798 000	770 000	884 080	824 616
Gobabis	699 000	839 000	889 000	1 119 000	908 000	1 041 947	804 229
Grootfontein	559 000	647 000	736 000	645 000	812 000	679 531	811 282
Helao Nafidi	575 000	909 000	1 002 000	425 000	607 000	607 000	-
Henties Bay	851 000	929 000	1 115 000	1 103 000	1 190 000	1 242 714	974 389
Katima Mulilo	595 000	737 000	791 000	893 000	673 000	1 076 965	872 861
Keetmanshoop	504 000	610 000	863 000	632 000	686 000	819 361	762 042
Luderitz	527 000	509 000	584 000	829 000	811 000	711 800	946 095
Mariental	518 000	685 000	736 000	913 000	1 336 000	1 041 857	1 895 000
Okahandja	624 000	820 000	922 000	856 000	937 000	976 097	882 842
Okahao	466 000	492 000	491 000	611 000	568 000	739 952	783 686
Omaruru	562 000	954 000	767 000	1 092 000	1 111 000	737 470	599 240
Omuthiya	482 000	540 000	612 000	640 000	750 000	1 138 340	1 327 330
Ondangwa	551 000	683 000	720 000	836 000	910 000	894 783	866 296
Ongwediva	585 000	755 000	1 009 000	944 000	951 000	1 033 958	1 092 641
Oshakati	572 000	1 163 000	974 000	679 000	785 000	791 197	846 847
Oshikuku	533 000	569 000	580 000	634 000	635 000	750 415	724 829
Otavi	533 000	611 000	531 000	560 000	647 000	701 872	514 405
Otjiwarongo	803 000	825 000	967 000	1 021 000	1 069 000	936 829	858 089
Outapi	456 000	553 000	579 000	785 000	738 000	983 147	768 924
Outjo	755 000	739 000	925 000	928 000	809 000	918 706	874 667
Ruacana	707 000	855 000	898 000	968 000	875 000	788 945	649 370
Rundu	468 000	630 000	684 000	780 000	727 000	905 202	724 435
Swakopmund	1 019 000	993 000	1 096 000	1 334 000	1 348 000	1 224 611	1 139 680
Tsumeb	741 000	750 000	966 000	1 162 000	1 222 000	957 641	1 131 511
Usakos	715 000	427 000	657 000	445 000	617 000	660 000	2 800 000
Walvis Bay	854 000	1 042 000	992 000	1 156 000	1 079 000	954 716	953 547
Windhoek	1 152 000	1 209 000	1 440 000	1 514 000	1 614 000	1 542 364	1 525 272
Namibia**	895 000	972 000	1 110 000	1 151 000	1 187 000	1 199 179	1 068 644

Source: FNB FNB House Price Index report 2019

*Namibia number in above table indicates the average prices across the towns within the table.



REPUBLIC OF NAMIBIA

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