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MINISTRY OF FINANCE AND PUBLIC ENTERPRISES - EPAS *Quarterly Economic Update*

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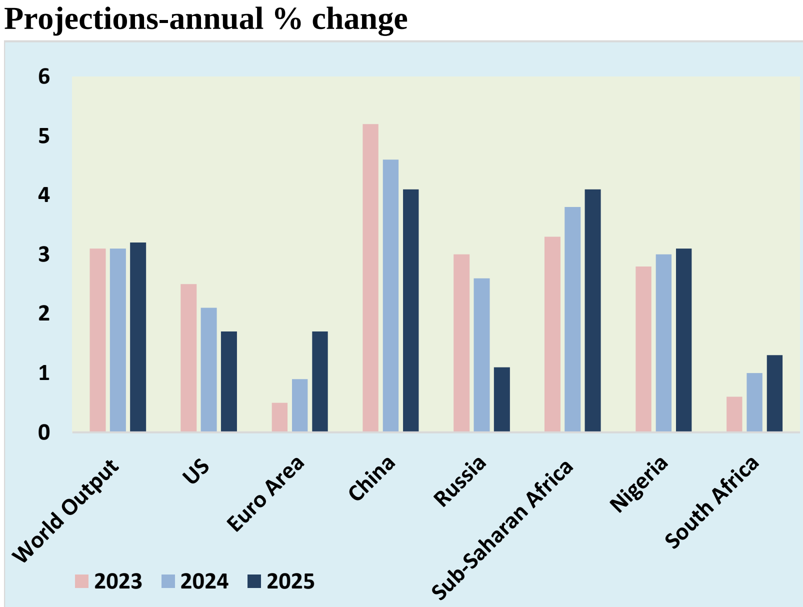
MINISTRY OF FINANCE ND PUBLIC ENTERPRISES • Economic Policy Advisory Services (EPAS)

Quarterly Economic Update

1. GLOBAL AND REGIONAL ECONOMIES

According to the IMF's World Economic Outlook (WEO) for Jan 2024 update, the global economy continues to show resilience towards the adverse risks that have been prevailing since the onset of the pandemic. The growth for the global economy is projected at a stable rate of 3.1% for 2023and 2024 before edging marginally higher at 3.2% in 2025. The growth forecast for 2024 was revised upwards by 0.2 percentage points higher than the Oct 2023 WEO forecast, the upwards revision is based on the back of lower-than-expected inflation outturn and the resilience of the growth in some of the larger economies and continued fiscal support for China. Despite the recovery, growth prospects remain below the pre-pandemic levels due to the withdrawal of fiscal support, tighter monetary policy meant to fight off the high inflation and, low productivity and the weight of high debt on economic activity.

Figure 1: Overview of IMF Economic Outlook Real GDP Projections-annual % change



Source: IMF, Jan 2024

Growth for Advanced economies that are projected to remain low at 1.6 percent and 1.8 percent in 2024 and 2025, marginally higher than the 1.5 percent growth recorded in 2023. The growth for advanced economies is mainly driven by substantial growth in the *US* and *Japan* which has shown greater resilience than anticipated. While the *Euro area* is expected to recover despite the high inflation and the high cost of living crisis, however going forward another set of risks are rising; the risks of disinflation and lingering impact the cost of energy continues to create greater uncertainty.

Emerging markets and developing economies are expected to continue accelerating at a steady growth of 4.1 percent since 2022 to 2024, before increasing marginally to 4.2 percent in 2025. The growth in 2024 is mainly driven by the Indian economy which is expected to grow by 6.5 percent for both 2024 & 2025, while growth for China is expected edge slower to grow by 4.6 percent in 2024 and 4.1 percent in 2025.

1.1 REGIONAL ECONOMIC OUTLOOK

The Sub-Saharan African economy is estimated to grow by 3.8 percent and 4.1 percent in 2024 and 2025, up from the 3.3 percent growth of 2023. The growth for the region anchored on the performance of the Nigerian economy, which is expected to grow by 3.0 percent in 2024 and 3.1 percent in 2025, up from the 2.8 percent growth in 2023. The South African economy is expected to grow by 1.0 percent and 1.3 percent in 2024 & 2025 respectively. The growth for South Africa was revised down significantly by 0.8 percentage points and 0.3 percentage points in 2024 and 2025 respectively. The slow growth in the South African economy is on the back of increasing logistical constraints, including those in the transportation sector, on economic activity.

1.2 RISKS TO THE GLOBAL ECONOMIC OUTLOOK

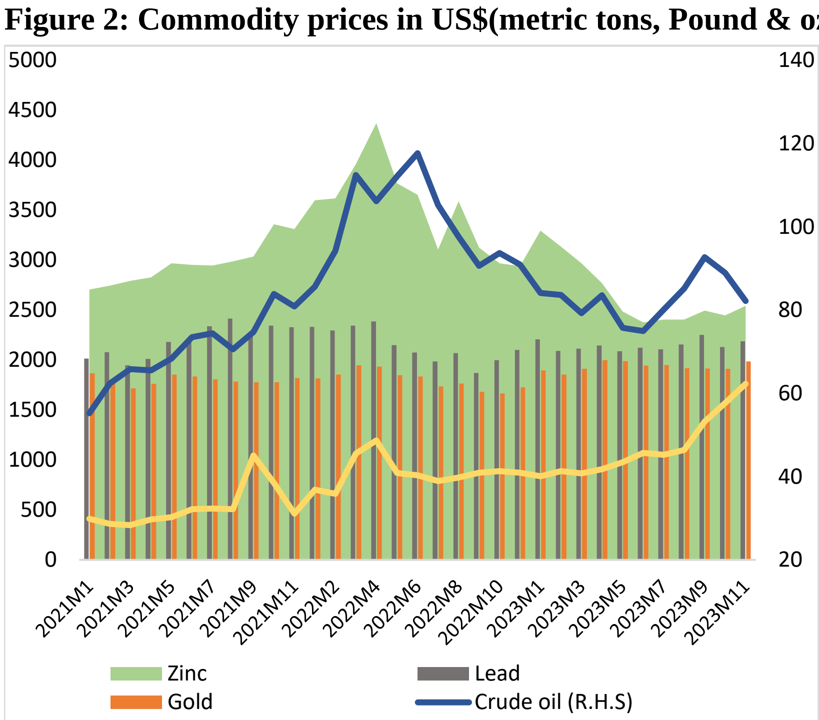
Risks to the global baseline are tilted to the downside and include the following:
- Geopolitical tensions remain high, due to the prolonging war in Ukraine, and the Red Sea conflict.
- New commodity prices hike due to geopolitics and attack in Red sea.
- Fast falling inflation Expected continuation of tight financial conditions, putting pressure on emerging market and developing economies, and
- The impact of climate change and the volatility that comes with it.

1.3 COMMODITY PRICES

The IMF All Commodity Price Index recorded an annual contraction of 14.4 percent in 2023 compared to a growth of 4.9 percent registered in 2022. The monthly index recorded a decline of 2.0 percent during the month of November 2023. The annual and monthly decline were attributed mainly to the decrease in crude oil and food price index, which decreased by 9.6 percent and 2.1 percent, compared to the growth of 12.4 percent and 3.8 percent respectively in 2022.

The **all-metal price index** registered a growth of 11.1 percent year-on- year, expanded by 3.9 percent month-on-month. The annual increase is premised on high uranium and gold prices copper, and lead prices ascribed to increase in demand based on the stable Chinese real estate market as the government of China following the property market reform and fiscal support that is expected to boost consumer confidence.

Figure 2: Commodity prices in US$(metric tons, Pound & oz)



Source: IMF, January 2024

Lithium prices declined by 42.6 percent in 2023 compared to a grow of 150.2 percent in 2022, the slower growth is on the back a slowdown in demand for electrical Vehicle (EV) in China. **Uranium** spot prices registered a growth of 52.1 percent on an annual basis and the price has continue to increase in 2024 with uranium current trading at US106/ounce. While **gold prices** saw a growth of 14.9 percent y-o-y, prompted by interest rates hikes in the US and Euro area and economic uncertainty as individuals prefer to hold their wealth in gold than in cash during such period.

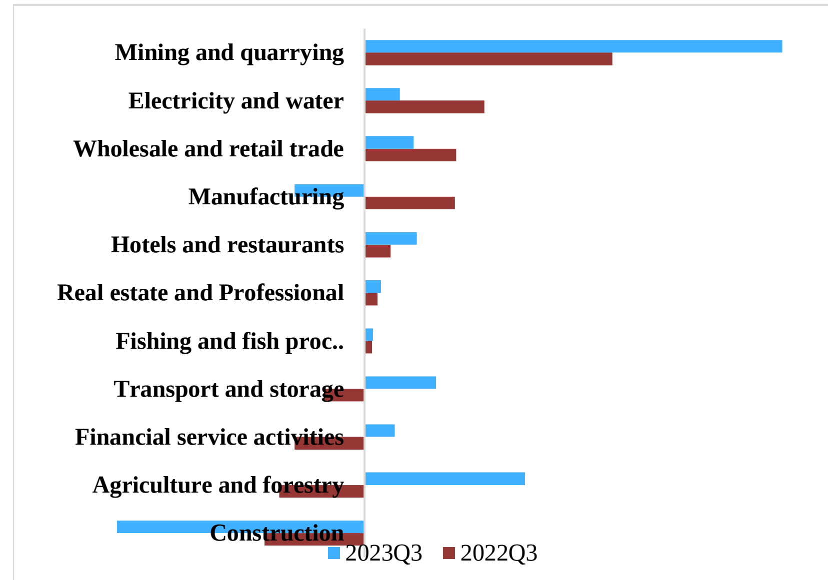
Copper prices went up marginally by 1.7 percent in 2023 compared to the contraction of 17.4 percent in 2022. The increase is due to increased demand supported by the recovery in the real estate sector in China. **Zinc prices** recorded a decline of 13.5 percent in 2023 based on low demand. **The Diamond IDEX** contracted by 18.3 percent on an annual basis, supported by lower demand in line with higher interest rate imposed by central banks globally in the fight against inflation.

With the slowdown in the demand for electrical vehicle and electronics in 2023, came a fall in prices **of cobalt and rare earth minerals** which are the main components used in electronic and electric vehicles. The prices of cobalt and rare earth minerals have decreased due to lower in demand.

2. NAMIBIA QUARTERLY GDP Q3-2023

In Q3 of 2023, the economy recorded a growth of 7.2 percent, higher than the 5.4 percent recorded during the same period last year. The high growth was attributed to a strong performance, in agriculture and forestry; mining and quarrying; hotels and restaurant as well as transport and storage. A noticeable increase was also observed in financial services, and administrative and support services.

Figure 3: GDP Quarter 3 2023



Source: NSA, 2023

The growth in the third quarter was mainly supported by the ***primary sector***, which recorded a growth of 38.3 percent. The *mining and quarrying sector*, which recorded a growth of 51.7 percent compared to 30.6 percent registered in the same period in 2022, was one of the major drivers of growth. This transpired on the back of oil and gas exploration activities and improvement in the uranium mining due to an increase in production. The growth in metal ores posting a substantial growth of 33.4 percent compared to a decline of 22.6 percent registered in the same period of 2022, is attributed to the increase in the production of gold.

The increase recorded by the *agricultural and forestry* sector was the highest increment witnessed since the second quarter of 2020.The *sector* also rebounded with a record growth of 19.9 percent from a contraction of 10.6 percent during the third quarter of 2022. The growth was primarily ascribed to the recovery in *livestock farming subsector* which posted a growth of 25.6 percent, due to an improved cattle marketing during the period under review, compared to a contraction of 13.7 percent recorded in the same period last year. However, the *crop faming* subsector stagnated at 0.0 percent, relative to a contraction of 1.3 percent recorded in the same quarter of 2022.

Furthermore, the tertiary sector recorded a growth of 2.2 percent in 2023 compared to a slower growth of 1.1 percent recorded in the same period of 2022. The improved growth is ascribed to a better performance that was observed in some subcategories such as *wholesale retail trade, transport, hotels* and *restaurants* as well as *financial services activities. The wholesale and retail trade* recorded a growth of 6.1 percent in the third quarter in 2023 lower compared to 11.3 percent in the preceding year.

A growth of 8.8 percent was recorded by the *transport sector* in the period under review compared to a contraction of 5.0 percent during the same period last year. The *hotels and restaurants* posted a growth of 6.4 percent in 2023 compared to 3.2 percent in the same period last year. The growth in this subsector reflects the increase in the number of travellers from international, regional and domestic markets who demanded for hotels and restaurants services.

The secondary industry posted a contraction of 8.5 percent in the third quarter of 2023. The poor performance in this sector is ascribed to the manufacturing and construction subsector which recorded a contraction of 8.7 percent and 30.6 percent respectively.

The manufacturing sector was driven by the poor outturn in the basic non-ferreous metals, diamond processing and beverages registering a contraction of 74.4 percent, 29.8 percent, and 24.9 percent compared to an increase of 28.8 percent, 75.6 percent and 15.3 percent, respectively in the corresponding period. The construction sector continues to contract as reflected in the government expenditure recording a contraction of 30.6 percent in quarter three of 2023, compared to a smaller contraction of 12.4 percent registered in the same period last year.

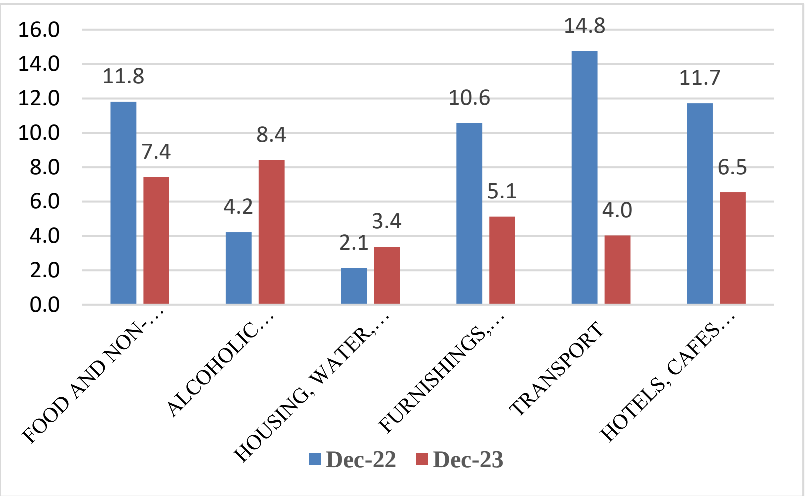
The overall average growth of the third quarter stood at 7.2 percent, which is significantly higher than the growth estimated by MEWG of 3.5 percent during the MYBR 2023/24 FY, and should the quarterly performance continue in the same direction a higher GDP outturn for 2023 should expected.

3. ANNUAL INFLATION FOR DECEMBER 2023

The annual inflation stood at 5.3 percent in December 2023 compared to 6.9 percent recorded in December 2022. The increase in the inflation in 2023 is ascribed to *food and non-alcoholic beverages* that contributed 1.4 percentage points, followed by *alcoholic beverage and tobacco* that contributed 1.1 percentage points. *Housing and transport* contributed 0.8 percentage points and 0.6 percentage points respectively and all other categories contributed a cumulative 1.3 percentage point.

On monthly basis the inflation recorded a contractionary growth of 0.1 percent in December 2023 compared to 0.3 percent registered during the month of December 2023. The decline in prices emanated from a decline in the price of *transport, communications and hotels and restaurants* that recorded a contraction of 2.2 percent, 0.1 percent, and 0.4 percent, respectively.

Figure 3: NCPI December 2023



Source: NSA, 2023

Food and non-alcoholic beverages recorded an annual inflation of 7.4 percent downward compared to 11.8 percent recorded in the same period last year. The increase in the price of this category was supported by *fish, and milk and cheese* sub-categories that registered a growth rate of 13.5 percent and 13.2 percent in 2023, respectively compared to 9.1 percent and 5.5 percent, respectively in 2022.

The slow growth in the prices is ascribed *to food, Bread and cereals and oils and fats* sub-categories which recorded a slow growth of 7.1 percent, 1.9 percent and a contraction of 2.2 percent respectively in the period under review compared to an upward growth of 12.1 percent, 18.2 percent and 20.8 percent respectively.

The annual inflation for *alcohol beverages and tobacco* category, amounted to 8.4 percent in December 2023 compared to 4.2 percent registered in December 2022. The increase was supported by *alcohol beverages* that recorded a growth of 8.8 percent in the period under review compared to 4.5 percent registered in the same period of the previous years.

Another growth was also observed in the *tobacco* sub-categories that registered a growth of 6.7 percent in 2023 compared to 2.9 percent in 2022.

The *housing* category registered an upward annual inflation of 3.4 percent in the December 2023, compared to 2.1 percent in December 2022. The growth emanated from *rental payments, water supply* and *electricity* and *gas* subcategories that recorded growth of 2.1 percent, 3.2 percent and 9.5 percent respectively compared to 1.4 percent, 2.5 percent, and 5.4 percent, respectively in the corresponding period last year.

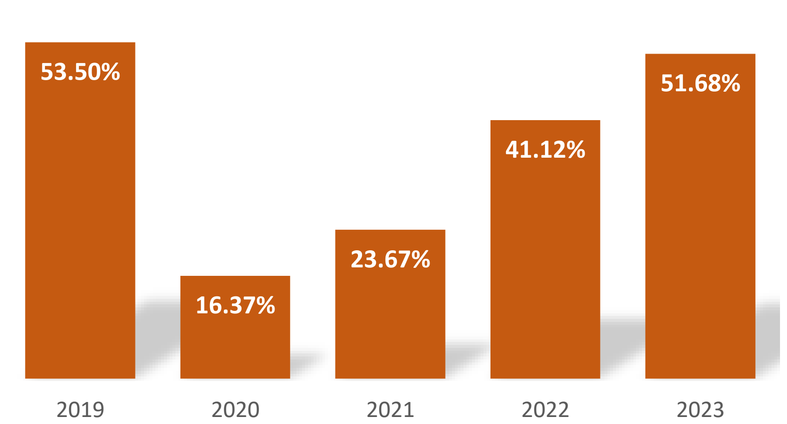
In the Transport category, the annual inflation slowdown at 4.0 percent compared to 14.8 percent registered in the same period last year. The slowdown in the price is ascribed to *operation of personal transport equipment* which recorded a slow growth of 2.8 percent in December 2023, compared to 22.6 percent recorded in December 2022. An observable slow growth was also registered in *public transportation* services recording a slow growth of 0.4 percent in 2023 compared to 1.4 percent in 2022. However, the *purchases of vehicles* recorded an upward growth of 10.1 percent in the current period compared to 4.5 percent in the period preceding year. The slowdown in the price of *transport* is also supported by the slowdown in the price of energy in the global market.

The overall annual inflation stood at 5.9 percent in 2023 compared to 6.1 percent recorded in 2022, translating to 0.8 percent slowdown in annual inflation for 2023. The biggest contributors towards the annual increase in prices were the food and non-alcoholic bbeverages, which contributed 1.4 percentage points followed by alcoholic beverages & ttobacco and ttransport 1.1 percentage points and 0.6 percentage point respectively. Housing contributed 0.8 percentage points. Going forward the annual inflation is anticipated to slow down to 4.8 percent in 2024, the slow growth is expected to be driven by slow growth in food and non-alcoholic beverages, alcoholic beverages and tobacco and transport categories.

4. HOSPITALITY PERFORMANCE IN 2023

Namibia has one of the most diversified tourism industries in southern Africa, catering for most, if not all markets, in terms of budget and fields of interest. The country's tourism sector is diversified from *camping, glamping,* and *budget tourism* offerings to the *very high-end travel.*
sector, and from *birding, hiking, fishing* and *hunting, sports* and *leisure* tourism, from activities along the Coast, to river-rides.

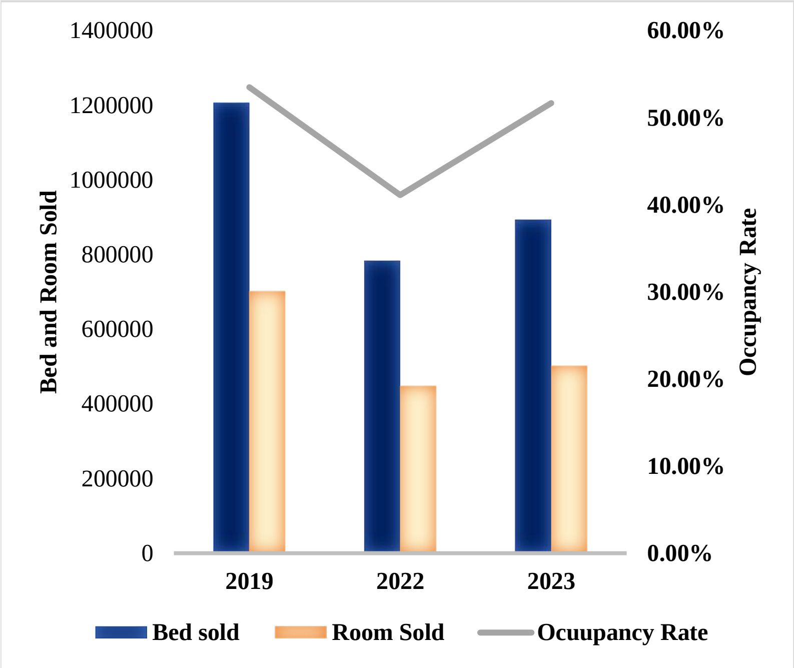
Figure 6: Namibia Hospitality Occupancy rates (%) 2019-2023



Since the outbreak of Covid-19 at the beginning, the 2023 appeared to be the first year not to be hounded by a new variant of the pandemic. This presented signs of continued recovery in the local tourism sector and subsequent potential growth. The overall occupancy rates at national level for hospitality establishments in 2023 amounted to 51.68 representing at 1.82 percent lower than pre-pandemic levels of 53.5 percent, however higher compared to 41.12 percent registered in 2022. Moreover, the total number of tourist arrival in 2023 increased to 884 506 compared to 779 742 recorded in 2022.

The increase in the number of visitors came from Namibia's main source market in Central Europe, (German, Austria and Switzerland), which together constituted over 34.10 percent tourist arrival, compared to only 29.83 percent and 30.0 percent recorded in 2019 and 2022, respectively (Hospitality Association of Namibia, 2023).

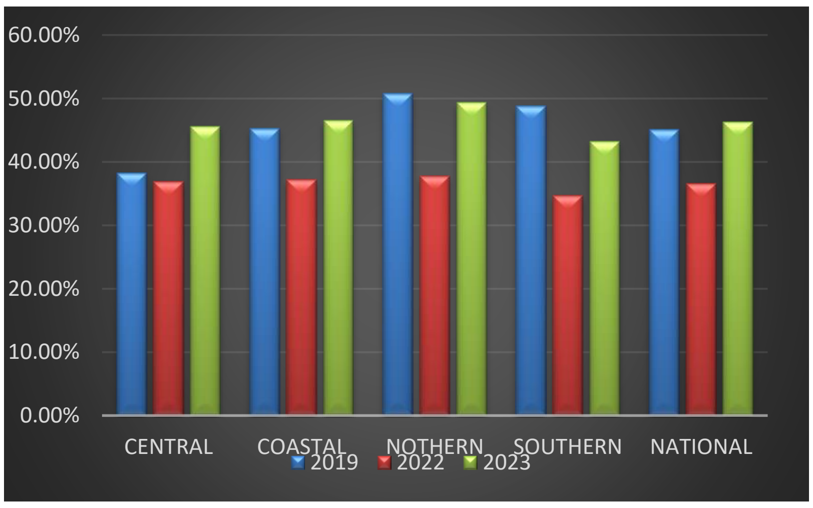
Figure 7: Rooms and beds sold, with national occupancy rate 2019-2023



Source: HAN, 2023

The share of Namibians visiting hospitality establishments declined from 30.6 percent in 2022 to 22.7 percent in 2023 totalling to 203 071 persons for the whole year. With the observed decrease in Namibians visiting the local establishment, Team Namibia hosted an initiative, "*no place like home*", to encourage local travel, by enticing Namibians to share their photos and experiences of their place of choice in Namibia with friends as well as family. The industry stakeholders commend that these initiatives should be copied and doubled, to continue encouraging communities to challenge each-other to visit different parts of the country, to learn about and experience the rich cultural diversity that Namibia offers.

Figure 8: Occupancy rates per region (%)



Source: HAN, 2023

The tourism industry has shown to be on the recovery trajectory; however, tourism and leisure remain a luxury product and it will always depend on the financial and economic performance of local and international markets. The northern region occupancy improved from 37.7 percent recorded in 2022 to 49.83 percent in 2023, however it remained below the pre-covid of 50.7 percent registered in 2019. Another improved occupancy rate was observed in the central region, presenting an occupancy rate of 45.5 percent in 2023, compared to 36.8 percent in 2022 and 38.2 percent pre-Covid level. This higher occupancy rate is attributable to the sport activities that have been picking up recently.

CHALLENGES AND OPPORTUNITIES TO THE SECTORS

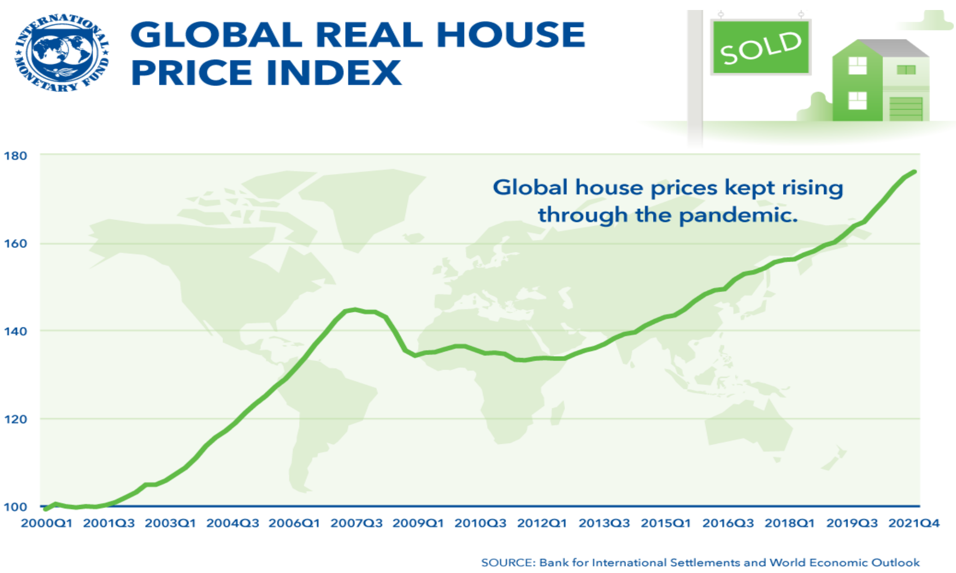
Namibia has large number of parks under some form of conservation, where tourism products are within concession areas. These concession areas are issued by the Ministry of Environment, Forestry and Tourism, where private sector is encouraged to go into Joint Venture Partnerships with local communities, as the custodians of the state land, to develop tourism products, be it accommodation, hunting and other activities, or operations. The key is to ensure that people from the area benefit from these joint ventures by providing them with income and employment opportunities and foster entrepreneurship. This constitutes another strong element of opportunities that the tourism sector provides for rural development. However, many of these tourism concessions seem to be threatened by increasing exploration & mining activities in some of the pristine areas of Namibia and even in national parks, which may constitute a huge hindrance to tourism development going forward.

There is increasing demand for deepening the understanding the visitors' experience especially in the cultural tourism, including cuisine, cultural activities and festivals. These markets have huge scope, for Namibian youths and want to be entrepreneurs to tap in this market. The local communities are encouraged to get involved in the tourism sector and offer their services by identifying the key and unique cultural heritage sites, making them attractive and accessible to the public, as well as working with the tourism industry to add such offerings to the tourism experience.

SPECIAL FEATURES: HOUSING MARKET- INFLATION, INTEREST RATES AND HOUSING PRICES

Following the impact of COVID-19 and the subsequent fallout of working from home has put immense pressure on the global real estate sector especially on the commercial real estate, while the prices on residential have been growing substantially. However, as global central banks raised interest rates to tame inflation, the growth of housing prices have cooled relative to the start of the hiking cycle. But, despite the sensitivity of the residential market to higher policy rates, housing prices are still above historical averages. Home prices in advanced economies, including most European Union countries, as well as Africa and the Middle East are 10 percent to 25 percent higher than pre-pandemic levels.

Figure 4: IMF global house price index 2022



Source: IMF, 2023

Rising interest rates have passed swiftly to residential mortgage markets, impeding affordability for current and prospective house buyers. Additionally, scarce housing supply is limiting purchases in some regions. In all, housing affordability is more stretched amid still-elevated housing prices and higher interest rates. In the first half of 2023, mortgage rates in advanced economies climbed by more than 2 percentage points compared to the previous year. During this period, housing prices have fallen more than 15 percent in some advanced economies while the drop in emerging economies was less significant. But, on net, real house prices will need to keep cooling from the 2021 and 2022 highs to reach pre-pandemic levels.

Approvals and repayment

With the increase in interest rates, the borrowers' debt servicing costs have increased, some by more than 1.8 percentage points. That would have dire consequences for loan approvals and borrower repayment capabilities (affordability). Nonetheless, borrowers are also less indebted, and underwriting standards have been strengthened since the global financial crisis, tempering the risk of a surge in loan defaults. This may have also limited instances of forced selling or foreclosures of homes, helping to support home prices.

In the United States, the Federal Reserve's interest rate hikes brought big changes to the mortgage loan market, with the average rate on a 30-year fixed mortgage recently reaching a two-decade high of 7.8 percent. For prospective buyers, entry costs are putting homeowners further out of reach as the required down payments have also become a prohibitive factor because savings have shrunk since the pandemic. Existing homeowners, deterred from purchasing new properties due to larger monthly mortgage payments, stay put causing a reduction in supply of existing homes. This phenomenon, known as "lock-in" effect, is particularly evident in the United States, where long-tenured fixed-rate mortgages are most popular.

Rates and refinancing

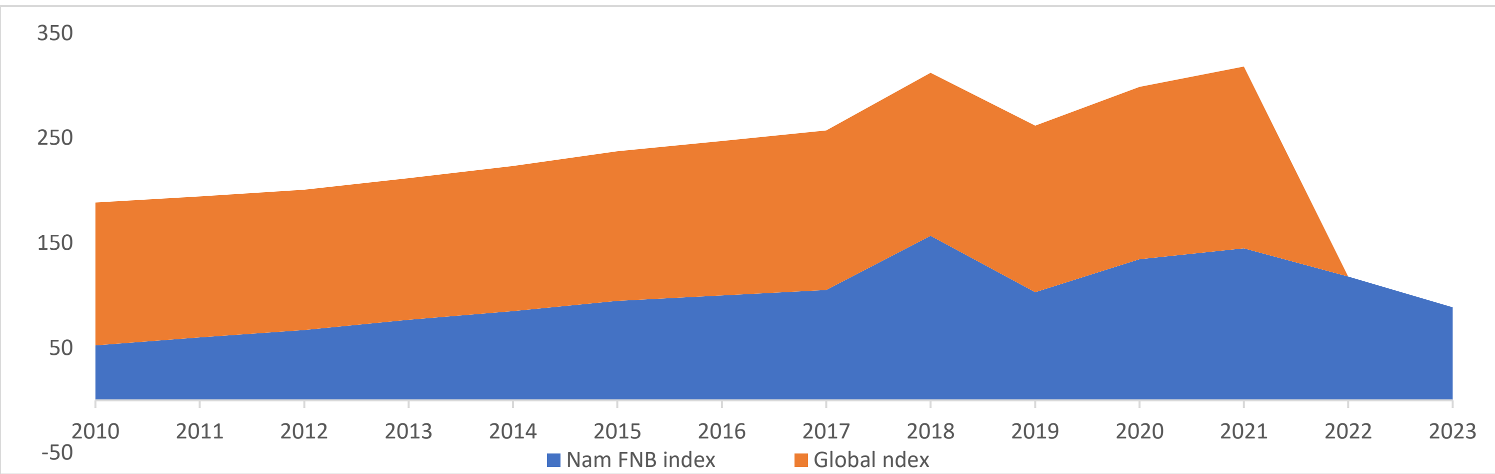
The 30-year fixed-rate mortgages accounted for 90 percent of new US home loans at the end of last year, according to ICE Mortgage Technology. Almost two-fifths of all US mortgages were originated in 2020 or 2021, ICE data show, as the low interest rates during the pandemic allowed many Americans to refinance their home loans. Higher, interest rates also raise rental costs. Many people prefer to rent instead of buying given median house prices have been slow to adjust. In this context, the combination of higher rates and still-scarce housing supply creates a vicious circle that complicates central banks' fight against inflation. US monthly home prices continued to rise in October 2023 compared with a year ago, with shelter contributing to one-third of the change of consumer prices in November 2023.

If the Fed starts rate cuts this year, as policymakers and market participants project, mortgage rates will continue to adjust, and pent-up housing demand could be unleashed. A sudden increase, as the result of rapid rate cuts, could offset any improvements in housing supply, causing prices to rebound.

THE NAMIBIAN HOUSING MARKET

According to the recently released FNB housing price index, housing prices seems to be edging lower due to the presumed pressure of high inflation and interest rates, in line with global expectations. On an annual basis, the housing index recorded declines over last two years due to the high interest rate, this has translated into slower growth in prices from an average of N$1.18 million in Q3 of 2022 to N$1.24 million (up by only 3.3%) in Q3 of 2023 compared a growth of 4.5 % and 6.4% growth in Q2 of 2023 and Q3 of 2022. The growth in prices was also supported by higher demand as supply remained contractionary throughout 2022 and 2023.

Figure 5: Namibia and global housing price index



Source: Global and FNB house price index 2023

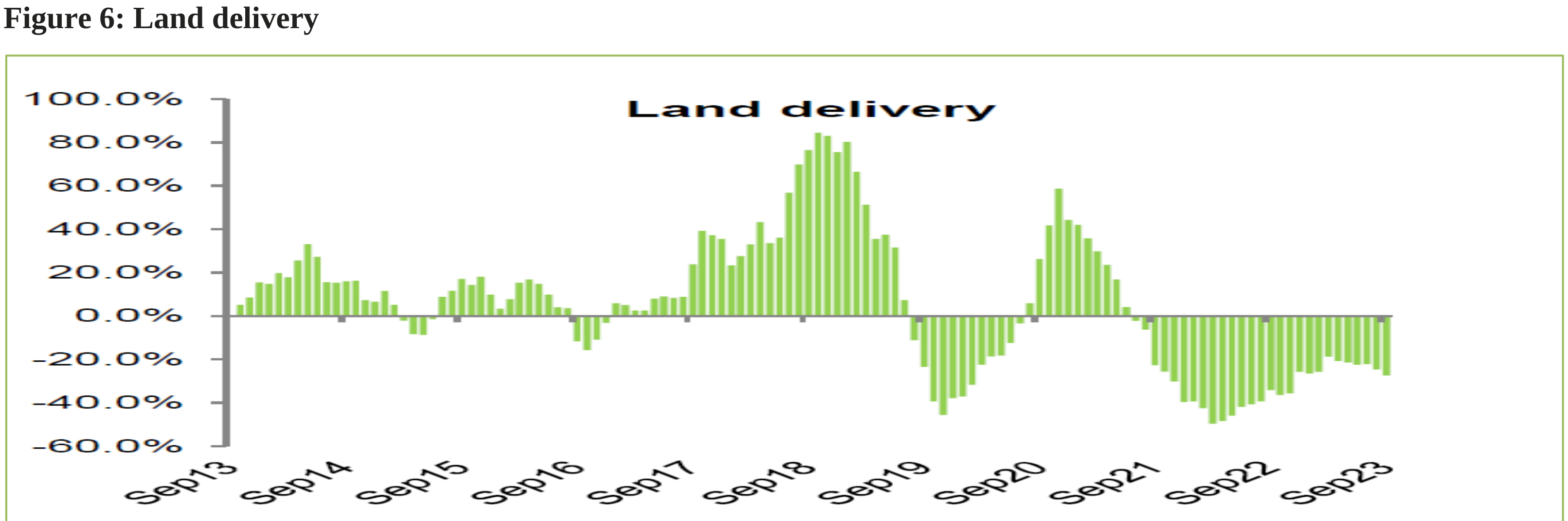
The average housing prices at N$1.24 million, was supported by economic activities and prices from the coast southern and northern region, which recorded growth of 14.4 %, 7.3% and 0.8% respectively, while growth in the central region contracted by 1.1% during the review period. The contraction in the central region was mainly driven by the contraction in the medium segments. The impact of higher interest rates is evident in the deterioration of demand for houses and mostly so in the central region. The current environment of low/weak consumer demand due to lagged effect of the high inflation in 2022 and the already high indebted households is reflected in the expected consumption patterns.

In terms of supply, we have seen a decline in terms of volume trading, in line with prices but at a slightly bigger contraction for the fourth consecutive quarter since 2021. The volume index recorded a contraction of around 29 percent compared to a 25 percent contraction in Q2 of 2023 and 19.6% in Q3 of 2022. The volume index is highly volatile given the nature of housing supply in Namibia but has been relatively negative since the onset of the pandemic in 2020. Supply is expected to remain muted and an on-going challenge for the country, despite the mass housing initiative and other concerted made by government.

Another factor that has been hampering growth prospects especially for residential property is the delivery of serviced land (figure 6), which has been lacking far behind the needs for housing. The sale of residential plots has been bland, with a contraction of 27.4 % for the period under review, a slight improvement compared to the 34.1% contraction in the same period of 2022. The largest contraction emanates from poor performance in the coastal and southern regions, which contracted by 35.5% and 35.7% respectively.

Future expectations are anchored on upcoming housing policy that is expected to be launched in 2024. Another policy decision that is expected to positively affect the real estate market is the new adjusted loan-to-value ratio that became effective from the 31st of October 2023 and expected to boost investment into the sector as was observed in 2019 before the change was made to increase the deposit ratios and thus restricting developments in the housing sector.

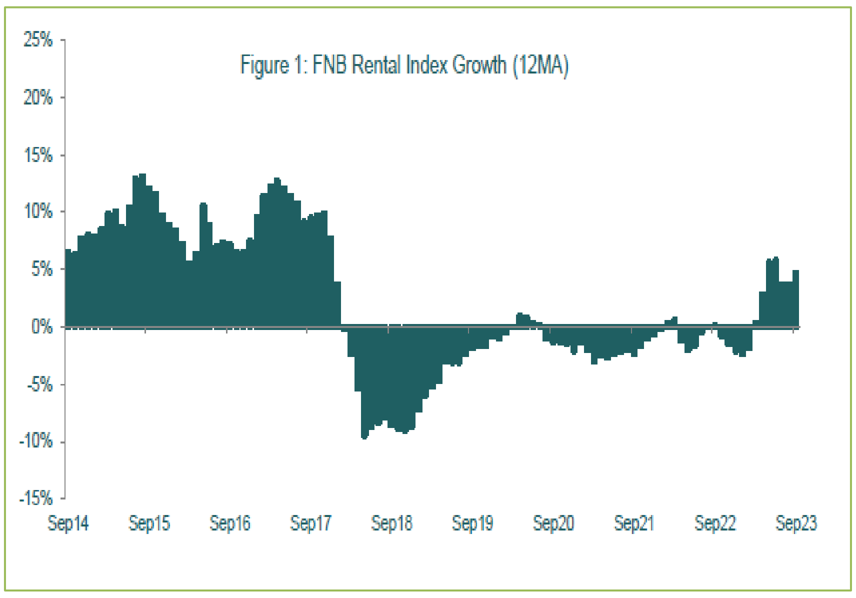
Figure 6: Land delivery



Rental price index

The rental price index has recorded substantial growth both year-on-year and quarter-on-quarter of 4.7% in Q3 2023 and 5.8% in Q2 of 2023 relative to a mire growth on 0.1 % in Q3-2022. The growth is anchored the performance of the more than 3-bedroom segment, while the 1 and 2-bedroom segments recorded contractions of 4.6% and 9.0% respectively. The average rental price for this segment recorded growth of 9.2% annually to an average price of N$22 703, this led a rental yield remaining at 7.0 % since Q3-2022. A rental yield of 7.0% which is significantly higher than an inflation rate of 5.9% annual average for 2023.

Figure 7: FNB Q3 2023 Rental Index



Source: FNB, 2023

Amidst constraint consumer demand and the high inflationary environment as well as low supply of housing, the rental market has remained resilient, and demand seems to have recovered significantly following the impact of the pandemic. Ordinarily, the current macroeconomic environment is expected to be constraint throughout all the markets and especially, for the rental market, however the situation is different in Namibia as the appetite for rental housing is increasing as well as the prices despite the high interest rate environment. This might be in line with the sentiments in the global housing market where there is greater appetite for rental and less appetite for buying.

The deposit to rent ratio has remained fairly stable at 4.2 % compared to 4.4% recorded the same period last year. The reason behind the stable ratio is supported by the increases in both prices as well as the deposit rates. As with the increases in prices, the deposit rates have also increased due to their correlation. The increase in deposit rates reflects a resilient market given that in Namibia rental deposits are not a mandatory requirement and is charged on a voluntary basis.

In conclusion, is can be stated that the housing market is fairly stable, and the rental segment is expected to remain resilient with positive growth prospects. The demand for housing will remain high as the population continues to grow and the slacking supply. All relevant entities need to make concerted efforts to increase the supply of housing as demand is expected to increase further with improvements in economic activities.

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