ISSUE
50
JANUARY
2025

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

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

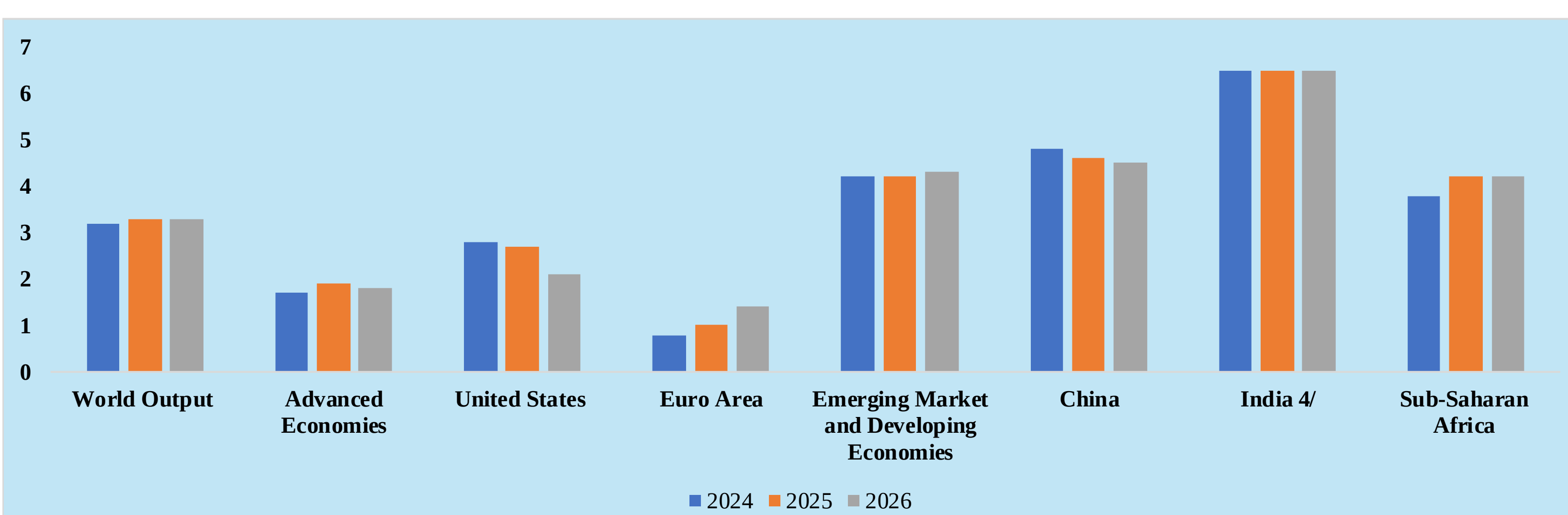
This Issue…

1.1 GLOBAL AND REGIONAL ECONOMIES

According to the IMF's World Economic Outlook (WEO) January 2025 update, the global economy continues to hold steady although the degree of grip varies widely across countries. The growth for the global economy is projected at 3.2 percent for 2024 and 3.3 percent for 2025 and 2026 signaling growth to have fallen below the historic average of 3.7 percent (2000-2019). The growth forecast for 2025 is broadly unchanged from the October 2024 WEO, primarily on account of an upward revision in the United States' growth offsetting downward revisions in other major economies. The revision in the global GDP is attributed to the lower-than-expected growth in the third quarter of 2024 which was 0.1 percentage point below what was anticipated in October 2024 WEO.

In the ***advanced economies,*** growth is projected to be at 2.7 percent in 2025, representing a 0.5 percentage point (pp) higher than the October forecast, in part reflecting carryover from 2024 as well as robust labour markets and accelerating investment, among other signs of strength. The revised growth is supported mainly by the United States, since her underlying demand remains robust, reflecting strong wealth effects, a less restrictive monetary policy stance, and supportive financial conditions.

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



Source: IMF, WEO 2025

Growth continues to be subdued in the ***euro area,*** and it is expected to pick up but at a more gradual pace than anticipated in October 2024, with geopolitical tensions continuing to weigh on sentiment. Weaker-than-expected momentum at the end of 2024, especially in manufacturing, and heightened political and policy uncertainty explain a downward revision of 0.2 pp to 1.0 percent in 2025. Going forward, growth is set to rise to 1.4 percent in 2026, on the back of stronger domestic demand, as financial conditions loosen, confidence improves, and uncertainty recedes somewhat.

In ***emerging market and developing economies***, growth performance in 2025 and 2026 is expected to broadly follow that of 2024 growth. Compared to the projection in October, growth for China in 2025 is marginally revised upward by 0.1 pp to 4.6 percent. This revision reflects carryover from 2024, and the fiscal package announced in November largely offsetting the negative effect on investment from heightened trade policy uncertainty and property market. Similarly, growth in India slowed more than anticipated, led by a sharper than expected deceleration in industrial activity. In the interim, the Sub-Saharan Africa economy is estimated to grow by 4.2 percent in 2025 anchored on the performance of both Nigerian and South Africa economy.

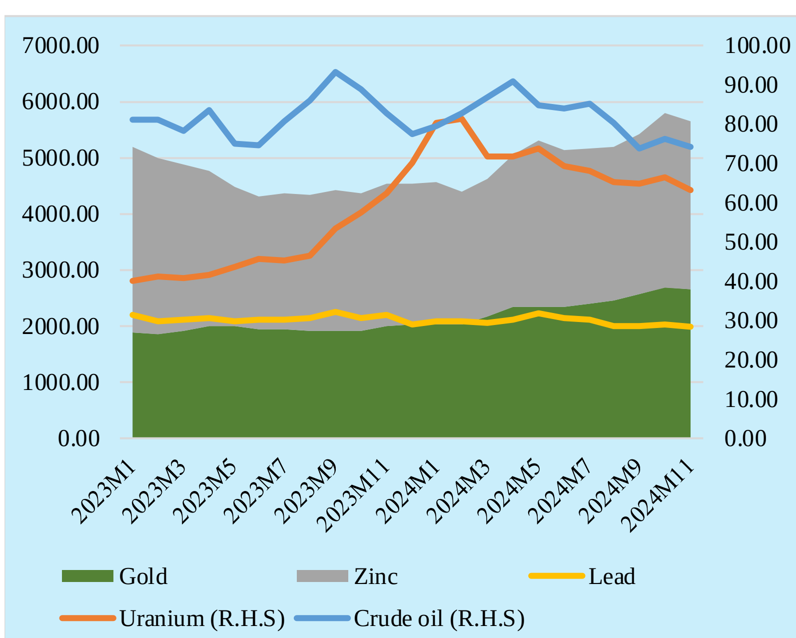
1.2 RISKS TO THE GLOBAL ECONOMIC OUTLOOK

The risks to outlook in the medium term is anchored to the downside, with global growth expected to be lower than the average growth of 2025–26. Whereas in the near-term risks, ***are tilted to the upside in the United States*** as well as the elevated policy uncertainty and headwinds from ongoing adjustments (in particular, energy in Europe and real estate in China). An intensification of ***protectionist policies***, for instance, in the form of a new wave of tariffs could ***exacerbate trade tensions, lower investment, reduce market efficiency, distort trade flows, and again disrupt supply chains. Looser fiscal policy in the United States,*** which is driven by new expansionary measures such as tax cuts, could boost economic activity in the near term, with small positive spillovers onto global growth. But in the longer run, ***this may require a larger fiscal policy adjustment that could become disruptive to markets and the economy, by potentially weakening the role of US Treasuries as the global safe asset, among other things.***

1.3 COMMODITY PRICES

The ***all-metal price index*** registered a marginal growth of 0.7 percent year-on-year and contracted by 0.3 percent month-on-month. The annual increase is premised on higher prices from of precious metal while the marginally higher prices of base metals increased. However, the prices of **cobalt and lithium** contracted significantly and had a drag-down effect on the impact on the base metal prices. The ***base metals*** seem to have been highly affected by developments happening in the Chinese economy especially the reduced demand for electric vehicles and related industries and the turmoil in the real estate**.**

Figure 1:Commodity prices in US$(metric tons, pound & Oz)



Source: *IMF, WEO January 2025*

Lithium prices declined by 41.4 percent in 2024 compared to a contraction of 58.6 percent in 2023 of the same periods, owing to the slowdown in demand for electrical Vehicle (EV) and the general uncertainty in China. ***Uranium*** spot price registered a marginal growth of 1.4 percent on an annual basis, and it has been trending upwards during 2024, and it is assumed that demand is going to continue during 2025.

Gold prices recorded a growth of 33.6 percent in 2024 compared to 14.9 percent in 2023. The growth in 2024 is on the back of the high interest rates 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 grew by 10.8 percent in 2024 compared to the slow growth of 1.7 percent in 2023 in the month under review. The increase in the period under review was supply despite the uncertainty.

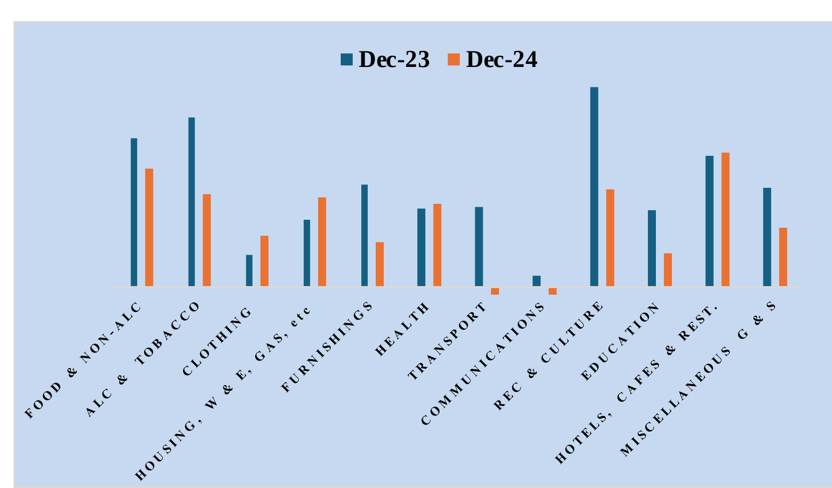
Zinc prices recorded a growth of 18.1 percent in 2024, compared to a contraction of 13.5 percent in 2023. The increase in the demand for this mineral is driven by developments in the real estate market in China and a general uptick in demand. **The Diamond IDEX[1]** contracted by 12.1 percent on an annual basis, reflecting lower prices on the back of lower demand and in line with higher interest rate imposed by central banks globally in the fight against inflation during 2024.

2. NCPI- DECEMBER 2024

The average annual inflation for **December 2024** stood at 3.4 percent, in line with the deceleration trend over the year, from a 5.3 percent inflation in **December** the previous year. On a monthly basis, the inflation grew by 0.3 percent compared to 0.2 percent the previous month. The *food & non-alcoholic beverages* accounted for 1.2 percentage points followed by *housing electricity & water, gas & other fuels* at a weight of 1.1 percentage points. *alcoholic beverages & tobacco* accounted for 0.6 percentage points while the rest of the categories accounted for the remaining 0.5 percentage points including *transport* that contributed to shrinking the overall inflation by 0.2 percentage points.

The slower inflation rate for **December** was on account of the decline in the inflation for *transport* and *communication* while the inflation for *furnishings, equipment and maintenance*, *food and non-alcoholic beverages*, *alcoholic beverages and tobacco* as well as *education* recorded decelerated inflation rates. On the other hand, *housing, water & electricity, gas & other fuels*, *hotels & restaurants* as well as *health* recorded higher inflation rates and as such drove the growth in inflation for the period under review.

Figure 3: December NCPI for 2023 & 2024 for the basket with major items



Source: NSA 2025

Inflation rate for *food and non-alcoholic beverages, alcoholic beverages and tobacco* and *furnishings, equipment and maintenance* stood at 5.9 percent, 4.6 percent and 2.2 percent in December 2024 compared to 7.4 percent, 8.4 percent and 5.1 percent in December 2023, respectively. The education category also recorded lower inflation of 1.7 percent in the period under review compared to the 3.8 percent growth in prices of 2023 during the same review period.

This general deceleration is in line with reducing cost of fuels as reflected in the contraction of prices in transport. The transport category recorded a dis-inflation with a contraction of 1.4 percent compared to an inflation of 4.0 percent during the same period of the previous year. The contraction in this category is evident in the *purchases of vehicles* cost that trended lower and the prices of *operation of personal transport equipment* contracted on account of lower fuel prices. Communication recorded a dis-inflation of 1.2 percent compared to 0.5 percent inflation during the same period of 2023.

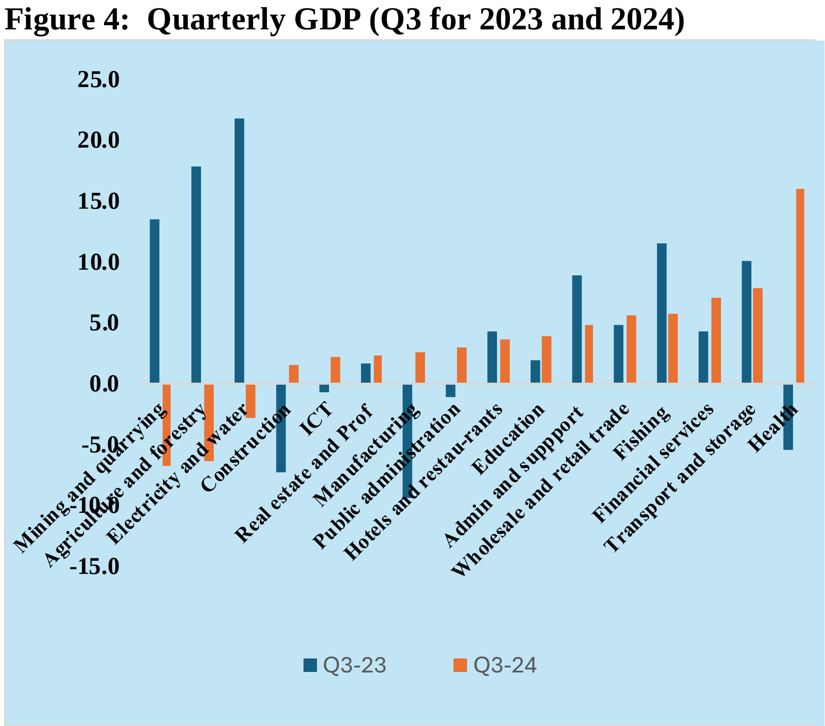
On the other hand, the growth in prices of *housing, water & electricity, gas & other fuels* increased by 4.4 percent in 2024 compared to 3.4 percent, which was slower in 2023 of the same review periods. This was on the account of increases in all the subcategories except the electricity and other fuel subcategory that recorded a decelerated price growth. *Hotels, cafes* and *restaurant* recorded a higher inflation of 6.7 percent in the current year compared to a marginally lower rate of 6.5 percent in the preceding year due to higher prices in the catering sub-category.

The overall average inflation for 2024 stood at 4.2 percent, slightly lower than the 4.8 percent projected for the year. This slower inflation outturn is better for the economy and especially so for household consumption and general public affordability.

3. Q3 GDP PERFORMANCE

The Namibian economy is said to have recorded a growth of 2.8 percent during Q3 2024, a relative slowdown compared to a growth of 3.1 percent recorded during the same period in 2023. This slowdown was mainly driven by contraction in the primary industries and lower output from the secondary industries, with growth mainly sustained by the tertiary industries (service sector).

Figure 4: Quarterly GDP (Q3 for 2023 and 2024)



Sources: NSA 2024

The 2.8 percent growth was supported by activities in the service sector especially health, transport and storage and financial services. The health sector recorded a staggering growth of 16.0 percent in current year compared to a slower growth of 3.5 percent in Q3 of the previous year. The *transport and storage* sector recorded a marginally slower growth of 7.9 percent compared 10.0 percent in the previous year's Q3. The *financial sector* recorded a strong growth of 7.1 percent in 2024 compared to a growth of 4.3 percent during the same period of the previous year. This strong growth was supported by an increase in both deposit and insurance premiums.

Although the *fishing, admin & support services and hotels & restaurants* sectors recorded growths of 5.8 percent, 4.9 percent and 3.7 percent, the quarter under review it was a relative slowdown compared to 11.6 percent, 8.9 percent and 4.3 percent, respectively in the same quarter last year. While the *public admin, ICT and construction sector* recorded growth recovery of 3.0 percent, 2.2 percent and 1.6 percent compared to contractions of 1.1 percent, 0.7 percent, and 7.3 percent respectively.

The *manufacturing sector* also recorded a recovery of 2.6 percent, compared with a contraction of 9.4 percent the previous year during the same time.

This recovery was mainly supported by increased activities in the following subsectors *basic non-ferrous metals, beverages, grain mill products* and *leather* and *leather products.*

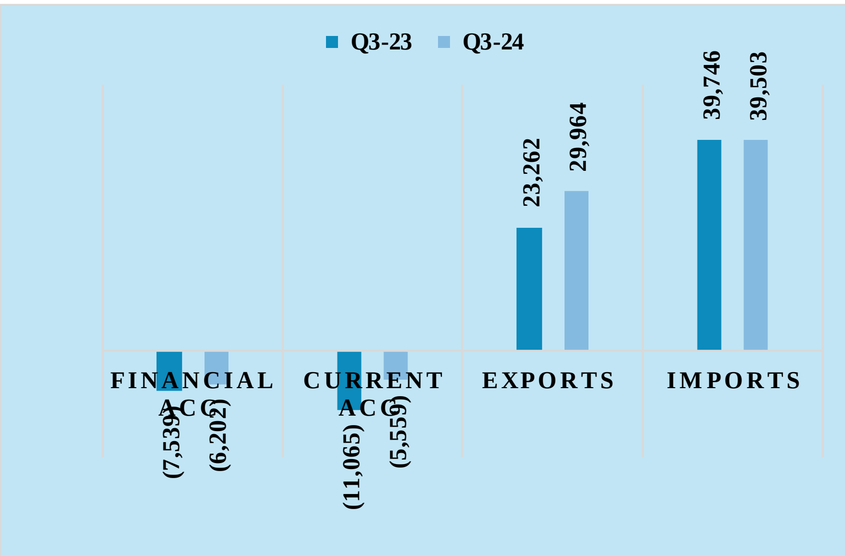
The contraction growth in the *mining, agriculture* and *electricity* and *water* had a drag down effect on growth. The *mining sector* recorded a contraction of 6.7 percent in the third quarter of 2024 compared to a growth of 13.5 percent during the same period of 2023 on account of decline in the production of *diamonds* and reduced activities in the mineral exploration. While *agriculture, electricity and water* recorded contractions of 6.3 percent and 2.8 percent compared to higher growth of 17.8 percent and 21.9 percent, respectively. This contraction was mainly attributed to the drought situation that the country was going through, that caused water scarcity for both crop farming and electricity generation, while the livestock subsector recorded lower levels of cattle marketed.

Although the 2.8 percent growth level for Q3 in 2024 is slower than the same period of the previous year, it adds up to an average growth rate of 3.3 percent for three quarters of 2024 so far and this gives us confidence that the overall turnout will be in line with the estimated 3.6 percent growth as per the MEWG projections.

4. BALANCE OF PAYMENTS

The third quarter's **current account** recorded a deficit of N$5.6 billion, a 50 percent improvement compared to the same period of the previous year when the deficit was at N$11.1 billion. The improved deficit amount can be accorded to the better performance of the trade account as well as secondary income account. Thus, reflecting lower net borrowing from the rest of the world down to N$ 5.0 billion from a staggering N$ 10.5 billion.

Figure 5: Current and Financial Account for Q3 of 2023 & 2024



Source: BON, 2024

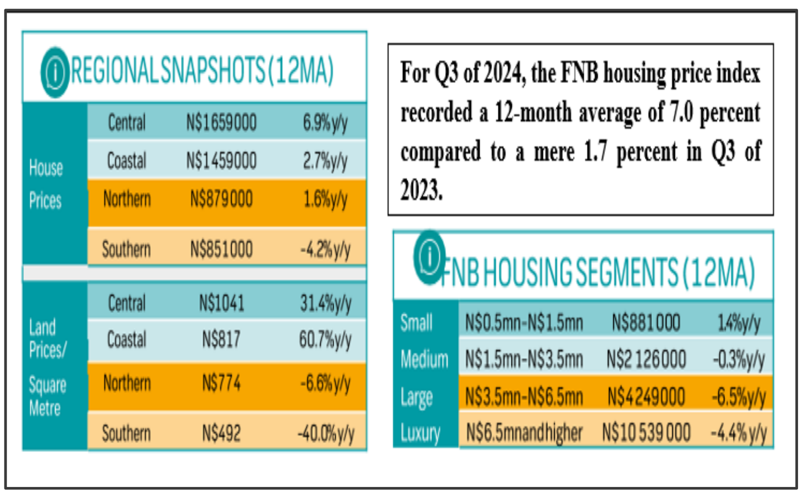
The **trade balance recorded** a deficit of N$9.5 billion compared to worse position of N$16.5 billion the previous year of the same period, on the account of exports which grew by 29 percent faster compared to imports that contracted by 1.0 percent annually. The growth in **exports** was supported by higher exports of other mineral products (mostly *gold & uranium*) which grew by over 100 percent and re-exports which grew by 12 percent. The decline **of imports** was mainly driven by lower imports of *mineral fuels, oils and related products* which contracted by 26 percent. The **secondary income** account increased by 11 percent on account of higher receipts from SACU.

The **financial account** recorded contracted by 18 percent at the end of the quarter under review with a net inflow of N$6.2 billion compared to an inflow of N$6.2 billion during the same period of 2023. The lower inflows are attributed to lower inflows into the *net direct investment* recorded a lower net inflow of N$5.6 billion compared to an inflow of N$10.1 billion in the same period of 2023, due to lower *equity* other than *re-investment of earnings* that declined by 67 percent. While the net outflow from other investments is attributable to an outflow from net acquisition of financial assets (currency & deposits).

5. NAMIBIAN HOUSING/RENTAL PRICE INDEX

The FNB housing price index has recorded an annual average growth of 7.0 percent during the third quarter of 2024. This reflects as the highest growth rate since Q1 of 2021, when compared to 1.7 percent in Q2 of 2024 and 3.3 percent recorded in Q3 of 2023. In terms of the different segments, all the segments of the housing market recorded declines except the small house segment that recorded a growth of 1.4 percent in the third quarter compared to contractions of 0.3 percent, 6.5 percent and 4.4 percent for the medium, large and luxury segments respectively. Despite these developments, the nation average housing prices increased to N$1,303,179.00 compared to N$1,263,673.00 in Q2 of 2024 and N$1,218,086.00 in Q3 of 2023.

Figure 4: FNB pricing index for Q3 of 2024



REGIONAL SNAPSHOTS (12MA)

House Prices	Central	N$1659000	6.9%y/y
	Coastal	N$1459000	2.7%y/y
	Northern	N$879000	1.6%y/y
	Southern	N$851000	-4.2%y/y
Land Prices/ Square Metre	Central	N$1041	31.4%y/y
	Coastal	N$817	60.7%y/y
	Northern	N$774	-6.6%y/y
	Southern	N$492	-40.0%y/y

For Q3 of 2024, the FNB housing price index recorded a 12-month average of 7.0 percent compared to a mere 1.7 percent in Q3 of 2023.

FNB HOUSING SEGMENTS (12MA)

Small	N$0.5mn-N$1.5mn	N$881000	1.4%y/y
Medium	N$1.5mn-N$3.5mn	N$2 126000	-0.3%y/y
Large	N$3.5mn-N$6.5mn	N$4249000	-6.5%y/y
Luxury	N$6.5mnandhigher	N$10 539 000	-4.4% y/y

Source: FNB, 2024

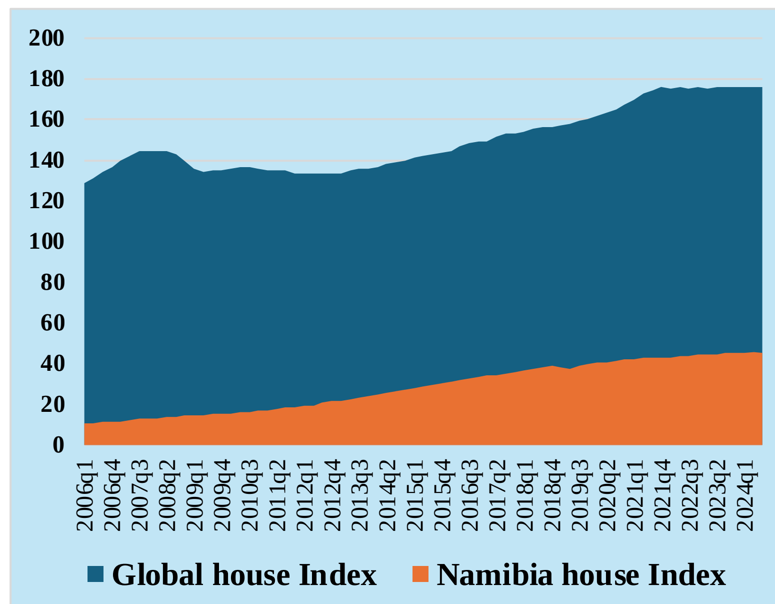
In terms of the volume of transaction, although it was a contraction of 8.2 percent, its still represents an improvement from the contraction of 17.7 percent in Q2 of 2024 and the contraction of 28.3 percent in Q3 of 2023. This improvement was prompted by activities in the Khomas region and although the other regions remained contractionary, there were significant improvements.

On the **land delivery note, r**esidential plot sales recorded a recovery from the contractionary state since 2021, with a growth of 9.3 percent in Q3 of 2024 from a contraction of 9.5 percent in Q2 of 2024 and a contraction of 27.4 percent in Q3 of 2023. The significant improvement is driven by the central and northern regions which moved out of contractionary territory with growth rates of 0.8 percent and 0.9 percent in 2024, respectively. Similarly, the southern region posted growth of 302.8 percent in Q3 of 2024, whilst the coastal region registered a further of 25.0 percent in 3Qof 2024.

AFFORDABILITY AND HOUSING ISSUES

The global housing market landscape has undergone dramatic challenges in recent years, including declining transactions, slowing price growth, and worsening affordability. In most countries, the gap between household incomes and property values has widened notably over the last decade, while soaring mortgage rates have curbed mortgage borrowing. Some of the well-established housing markets such as Hong Kong, Germany, France, and the United Kingdom saw house prices decline in the first quarter of 2024. On the other hand, Turkey, Russia, and the United Arab Emirates recorded double-digit growth. On average across countries, housing is less affordable today than during the house price bubble that preceded the global financial crisis of 2007-2008, according to a newly developed dataset.

Figure 5: Global and Namibia House Index 2006q1 to 2024q3



Source: IMF and FNB 2024

The slow growth in the real estate sector is buoyed by the high-interest rate environment which had a significant impact on households' income and in turn house market as well as the lenders. A significant growth was observed in the non-performing loan in the global and Namibia with growth of individuals, especially the young generation may be the most disillusioned as they see their ability to buy or rent diminished just as they plan to start families.

The causes are complex and varied, but the stakes are unambiguous: shelter means stability, security, and a sense of belonging. It is an essential part of well-being and a recognized human right. Similarly, a house is a source of economic assets, making it a source of debt and wealth. That makes it central to understanding why economies endure boom-and-bust cycles.

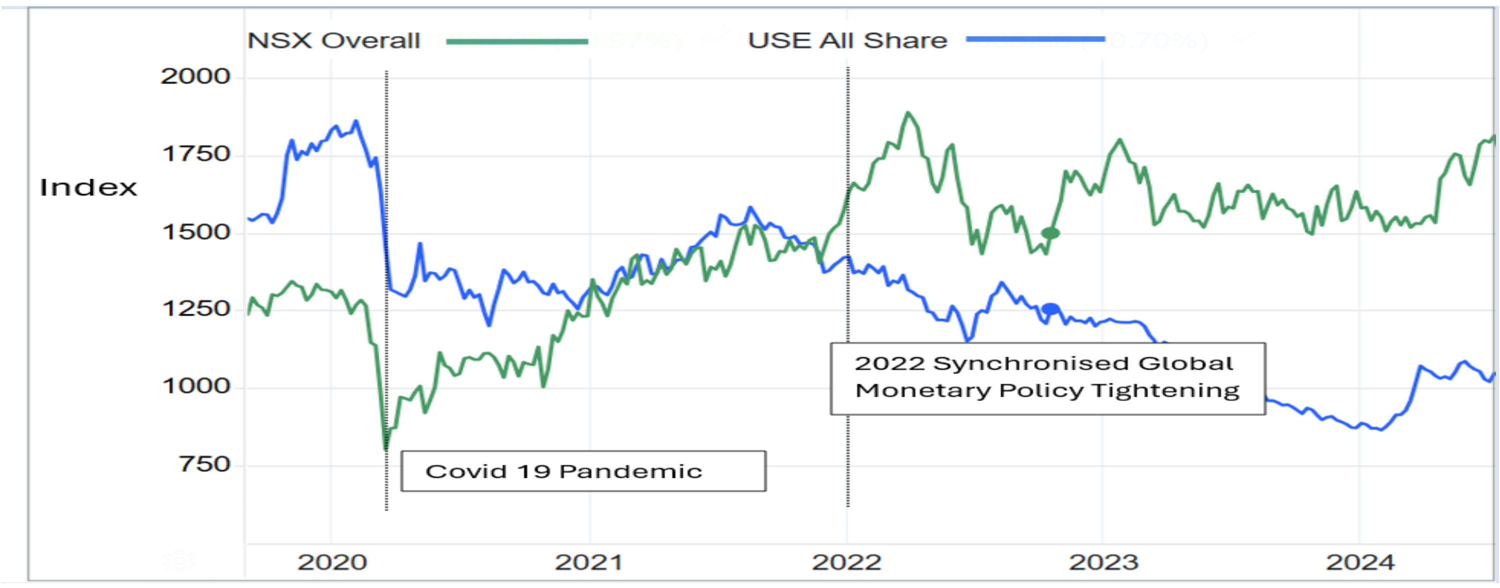
Certainly, the disruptions to housing markets from the pandemic and its aftermath featuring elevated uncertainty and fragile political dynamics should serve as a warning that governments cannot continue ignoring the world's housing affordability crisis. Accelerating climate change with sea level rise, widespread wildfires, and extreme weather events now threatens an already inadequate global supply of housing. Moreover, surging migration puts even more stress on shelter and its affordability. It is therefore, imperative that policymakers need to rise to the challenge of making housing affordable again, this time on a sustainable basis through a comprehensive plan.

SPECIAL FEATURE: IS THERE A CORRELATION BETWEEN THE CAPITAL MARKET AND EXTERNAL SHOCK? A CASE STUDY OF NAMIBIA AND UGANDA.

Generally, the African continent has faced considerable hurdles in accessing global capital markets, be it for governments or private sector, which are mostly due to underlying structural constraints and base effects in the growth cycle. These constraints limit the growth of native enterprises, reducing Africa's competitiveness in global markets. To overcome these concerns, many African countries have made significant investments in financial system infrastructure to ensure that the financial sector grows. This is expected to mobilize resources and promote broad participation in capital markets. For instance, Uganda has made efforts to ease access to the Uganda securities exchange (USE) by integrating individual stock trading accounts with day-to-day payment systems such as the digital mobile money system. Additionally, the government and stock exchange partners have further expanded the trading portfolio to include government bonds and individuals can trade in securities at the lowest currency denomination.

In the same vein the Namibian government has also supported the stock market in terms of policies which lead to the establishment of the Namibia Stock Exchange (NSX) and issuing of the government instruments on this platform. However, these efforts by governments and private sector continue to be prone to risks from unprecedented shocks which are both endogenous and exogenous. Given the increased globalization, contagion from global shocks has been swift and Africa (Namibia and Uganda) has been no exception in experiencing the ripple effects. One unique case of an exogenous shock that arose completely out of the financial system is the Covid-19 pandemic. The pandemic had the immediate effect of crashing financial markets. As shown in the below figure, both Uganda and Namibia were on a steady trajectory of increased market capitalisation and stock value during the pre-pandemic era. However, there was an instant clash in market valuation following the announcement of the first Covid- 19 patients in both Namibia and Uganda.

Figure 6: Stock Market Movement in Namibia and Uganda



Source: NSX and USE, 2024

Both markets crashed by close to 25% revealing the fragility in African countries' financial markets. This event forms a basis for the identification strategy in assessing the correlation of capital markets and shocks. First, it should be noted that the Covid 19 pandemic was completely unanticipated and that for the purpose of this article, it conforms to the pre-trend's assumption in the design of event studies. The first question follows directly, i.e. is stock market volatility dependent on exogenous shocks such as the Covid 19 pandemic and would the effects persist?

Although there was a trend shift after the pandemic, it is difficult to predict how quickly the market would respond to shocks. For instance, there is no actual data on how long it would take for the stock exchanges in these nations to stabilize or recover to their pre-shock levels. The solution to this problem is to define short observation windows that allow one to easily isolate the Covid-19 shock and ensure that no other shocks have infiltrated the econometric specifications. Since determining long observation windows runs the risk of attributing stock market volatility to other shocks.

It is possible to see the presence of additional shocks outside of the suggested observation window. After the pandemic's impacts subsided, many economies only fully open in 2022. This was a special time due to supply disruptions, which led to uncontrollably high inflation as aggregate demand in most countries exceeded supply. Later, this was combined with the conflict between Russia and Ukraine, which led to a problem in the supply of oil and wheat cereal. The impact of these various shock criteria on the stock markets is still an open question. The aforementioned occurrences marked the beginning of the 2022–2023 synchronized monetary policy tightening cycle. The outcomes were terrible and varied by country in several dimensions.

Figure 6 reinforces the narrative by demonstrating the discrepancy in stock market indexes between countries. It is notable that following the shock valuations the Namibian stock market steadily increased and then returned to equilibrium. However, in Uganda, stock valuations have steadily declined for nearly two years. This shows that the stock market can be affected by both exogenous and endogenous shocks. This is an important discovery and policy-makers should make use of it to recognize transitory and persistent shocks.

This publication was produced by:

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