ISSUE
42
October
2022

MINISTRY OF FINANCE - EPAS

Quarterly Economic Update

This Issue…

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

GLOBAL ECONOMY

IMF WEO July 2022 update

The IMF has revised their 2022 growth prospects, downwards to 3.2% in 2022, which is 0.4 percentage points lower than the April 2022 forecast. The downward revision reflects the outturn for the first half of 2022, as global output declined due to the impact of lower-than-expected outturn in the US and Europe as well as a downturn in Russian and China.

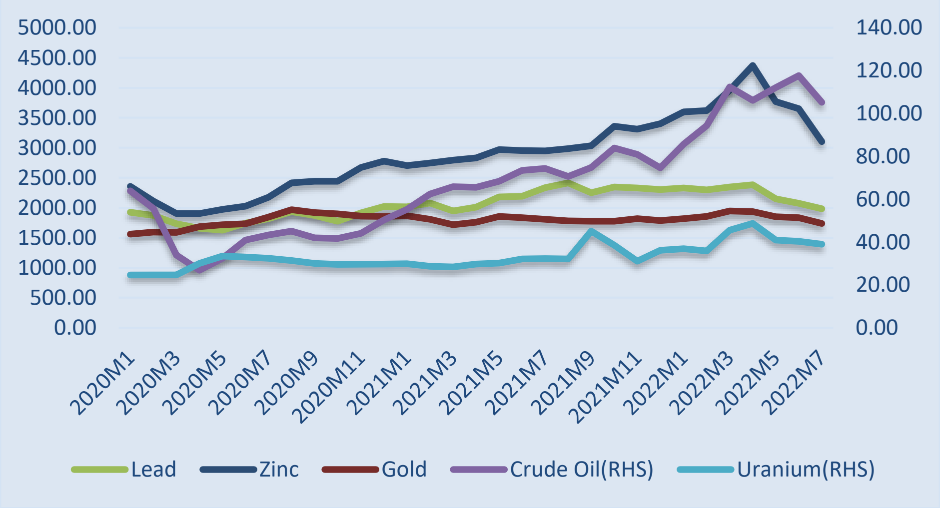
The downward revision in economic growth was based on the current assumption of, higher-than-expected, and increasing inflation in US and Euro area leading to lower consumption; downturn in China due to Covid-19 outbreak and lockdown restrictions which led to decline in output, lower consumption as well as supply disruptions and decline in output from Russia (fuel, wheat, oil, etc) as the war rages on. The growth for 2023 was also revised downwards by 0.7 percentage points to 2.9 percent on the back of high possibility of downside risks materializing.

To defuse the impact of high inflation, for a stable macroeconomic policy, policymakers are trying to tame inflation. The tightening of monetary policy is a necessary measure to dampen inflation but will inevitably have real economic costs, however, any delay will only exacerbate them. Targeted fiscal support may help cushion the impact in a short-term, but such policies will need to be offset by increased taxes or lower government spending.

COMMODITY PRICES

The IMF All Commodity Price Index recorded an annual increase of close to 39.0 percent year-on- year, however, monthly the index recorded a contraction of 0.7 percent during the month of July. The annual increase was attributed mainly to the rise in the *fuel (energy) price index*, which rose by 90.1 percent annually and 4.9 percent monthly (base metal index fell by 19.7 percent y-o-y and 16.8 percent m-o-m). The *all-metal price index* contracted by 19.7 percent y-o-y and 16.8 percent m-o-m, with the annual decrease premised on lower prices of *copper*, *gold* and *lead* that suffered from the instability in the China real estate market.

Figure 1 Commodity prices in US$(/metric tons, pound & oz)



IMF primary commodity prices: August 2022

The war in Ukraine has dealt a major shock to commodity markets. Particularly those where Russia and Ukraine are key exporters, including energy, fertilizers, and grains. These price increases come on top of already tight commodity markets due to a solid demand recovery from the pandemic, as well as numerous pandemic-related supply constraints. The wheat prices increased by 32.2 percent y-o-y but contracted by 19.0 percent m-o-m as one of the Ports under Russian control in Ukraine was opened.

Generally, most commodity prices recorded an increase on an annual basis during 2022. *Lithium* prices reached an all-time high by 360,5 percent (from U$ 95 767,61 to U$ 441052,34) y-o-y, supported by continued strong demand from the electronics sector, electrical cars, and global supply disruptions.

On the other hand, *Uranium* spot prices grew by 20.1 percent (from U$ 32,34 to U$38,94) on an annual basis, while gold prices saw a contraction of 2.9 percent (from U$1807,09 to U$1737,38) y-o-y.

Copper prices declined by 20.4 percent (from U$9450,82 to U$7544,81) y-o-y, compared to 37.6 percent growth in previous year. The annual decreases are supported by the disruption in the real estate sector in China and the uncertainty around the new variants of the COVID-19. *Zinc prices* registered an increase in value by 5.4 percent (from U$ 2947,52 to U$ 3105,36) y-o-y. The *IDEX* rose by 11.7 percent on an annual basis. The increase is in line with higher *diamond prices* as the demand for luxury goods backed by gradual recovery at global level.

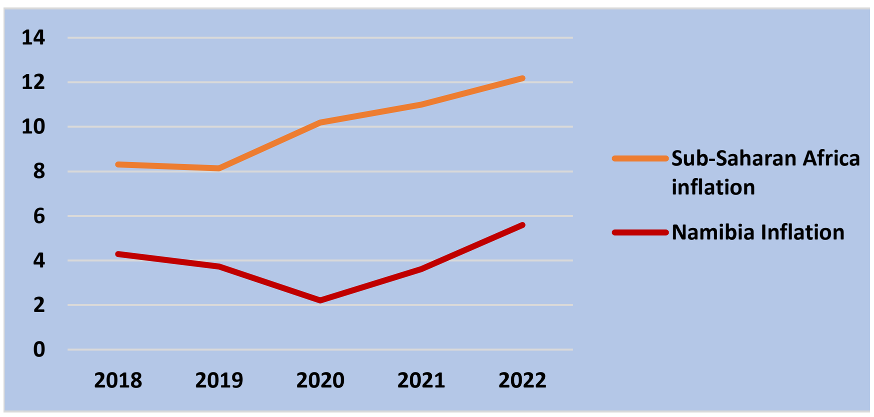
IDEX LINK: http://www.idexonline.com/diamond_prices_index
https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022

REGIONAL ECONOMY

Climate change and chronic food insecurity in sub-Saharan Africa

Food insecurity continues to escalate across sub-Saharan Africa (SSA) countries. In 2022, about 123 million people (12 percent of SSA's population) are projected to be suffering from high malnutrition and unable to meet minimum food consumption needs. Moreover, with the challenges induced by the COVID-19 pandemic such as rising unemployment, falling incomes, the lasting adverse impact on food supply chains from lockdowns and the impact of Russia-Ukraine war which resulted in global cereal shortages as well as higher fuel prices inflating food import bills. Climate change on the other hand is set to further intensify food insecurity and potentially jeopardize hard-earned development gains in the region.

Figure 2. Sub-Saharan Africa and Namibia Inflation 2018-2022



Sources: IMF World Economic Outlook database and NSA

The rising frequency and intensity of droughts, floods, cyclones, higher temperatures, and sea levels are set to exacerbate this number (123 million people with high malnutrition) by hampering agricultural production and food distribution. After each major climate event, people die of hunger and the survivors are less productive. Over the longer term, poor nutrition hurts early childhood development, educational attainment, and earnings potential. Consequently, increased food insecurity could jeopardize the hard-earned improvements in incomes, education, and health outcomes across SSA in recent decades. These and other serious humanitarian and socio-economic implications could also fuel conflict and large-scale migration.

Macroeconomic Consequences

All these impacts may lead to an increase in food prices, food shortages and inflation which disproportionately affect poorer households through declines in incomes and purchasing power, exacerbating inequalities. At a moment on average, in SSA, 40 percent of households' spending is on food and this number rises to 60 percent for the poorest households, where half of SSA's population already lives below the poverty line.

Policies proposal.

Addressing the lack of resilience to climate change, critically underlying chronic food insecurity in SSA, will require careful policy prioritization against a backdrop of financing and capacity constraints.

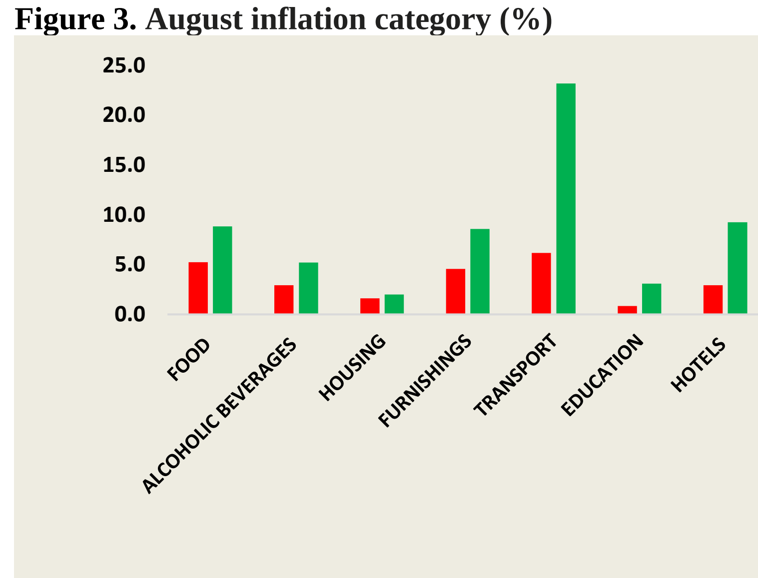
- ✓ Fiscal policies focused on social assistance and efficient public infrastructure investment can improve poorer households' access to affordable food, facilitate expansion of climate-resilient agricultural production, and support quicker recovery from adverse climate events
- ✓ Improving access to finance and digitalization is key to stepping up private investment in agricultural resilience and productivity as well as improving the earning capacity and food purchasing power of poorer rural and urban households
- ✓ Greater regional trade integration and resilient transport infrastructure enable sales of one country's bumper harvests to its neighbours' facing shortages. Tariff reduction and regional alignment of agricultural and product market laws and regulations (especially with respect to water, seeds, and fertilizer) will all be elemental.

AUGUST INFLATION

The average annual inflation for **August** increased to 7.3 percent, compared to 3.4 percent recorded in the same period of the preceding year, thus, year on year (y-o-y) inflation increased by more than 3.9 percentage points.

The monthly inflation rate for August went down from 1.0 percent recorded in July to 0.3 percent registered in August. The increase in the annual inflation was mainly driven by the increases in prices of the *transport sector* that accounted for 3.3 percentage point of total inflation, followed by *food and non-alcoholic beverages* which contributed 1.6 percentage point. *Alcoholic beverages and tobacco* as well as *housing*, recorded a contribution of 0.7 percentage point and 0.5 percentage point respectively. The remaining categories contributed a cumulative 1.1 percentage point toward overall inflation.

Figure 3. August inflation category (%)



Souse: *NSA August 2022*

Transport sector recorded the highest inflation of 23.2 percent, with 17 percentage points higher compared to 6.2 percent registered in the same period of 2021. The increase in the price of transportation was prompt by the increases of prices in the operation of *personal transport equipment* which registered an increase of 35.5 percent for the period under review, from an increase of 10.3 percent in same period in the preceding year, however lower compared to the month of July. In addition, *public transportation* also grew by 6.4 percent from the contraction of 8.7 in 2021 and 4.1 percent in July 2022.

food and non-alcoholic registered an inflation of 8.8 percent compared to 5.2 percent recorded in August 2021 as well as 8.4 percent from the previous month. The increase in the price of food was driven by the subgroup of oil *and fats* that grew by 26.1 percent up from 18.1 percent recorded in the preceding year, followed by *fruits* that registered 20.0 percent up from 12.0 percent recorded in the same period of 2021. On the monthly basis the price of *fruits* went down as compared to 24.5 registered in July. On the other hand, *food, bread, and cereal* subgroup registered an increase in inflation from 8.4 percent and 8.9 percent in July to 8.9 percent and 9.8 percent in August respectively.

Alcoholic beverages, and *tobacco* recorded an inflation of 5.2 percent compared to 2.9 percent recorded in August 2021. The increase emanated from the price increase of Alcoholic beverages which grew by 5.4 percent compared to 1.7 percent in the same period of 2021.

Hotels, cafes and restaurants inflation increased to 9.3 percent compared to 2.9 in August last year, this increase was contributed mostly by accommodation which registered an increase of 16.5 percent for the month compared to 3.0 percent in 2021, the increase is a result of the removal of travel restrictions which led to an increase in occupancy rate.

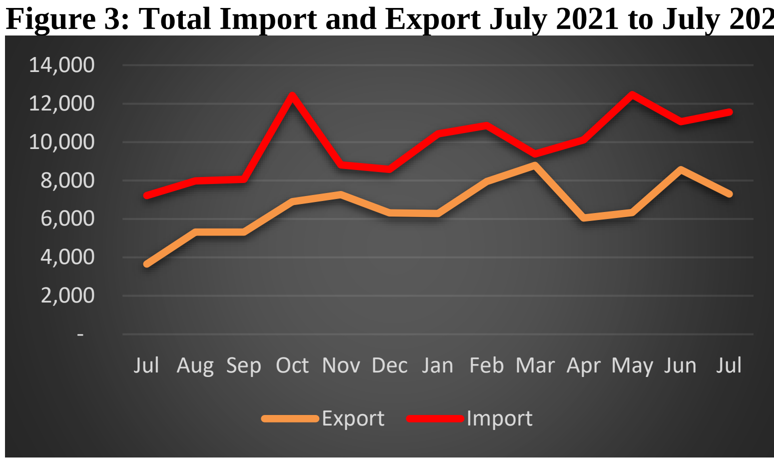
Additionally, *furnishings, household equipment and maintenance of the house* subgroup category also recorded an increase in inflation rate of 8.6 percent for the month under review. Though the *Hotel and household equipment* subcategories recorded an increase in price level, their weight toward overall inflation is minimal hence it has a little impact.

The *Education* sector recorded a moderate growth of 2.8 percent during the period under review compared to a growth of 1.1 percent registered in 2020. The increase in the price was prompt to *the primary and secondary education* subsector that registered a growth of 3.1 percent during 2021 compared to 1.7 percent in 2020.

TRADE STATISTICS

Namibia's trade balance registered a deficit of N$4.2 billion for July, a worse-off performance compared to the trade deficit recorded in 2021 during the same month which was only N$ 3.5 billion. The higher trade deficit stemmed from total import that rose by 60.1 percent in July on an annual basis from N$7.2 billion recorded in July 2021 to N$11.5 billion, while exports grew by 99.6 percent from N$ 3.6 billion to N$ 7.2 billion under the same period- however still lower than imports.

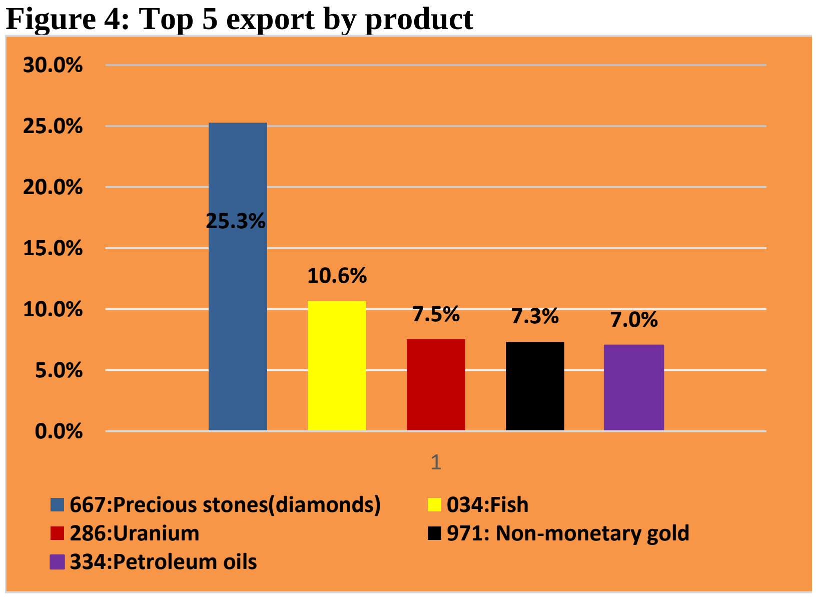
Figure 3: Total Import and Export July 2021 to July 2022



Source: NSA, 2022

On the monthly basis, export earnings declined by 14.8 percent to N$7.2 billion in July from N$ 8.5 billion in June 2022. The monthly decline was buoyed by decreases in the value of export of uranium down by 54.4 percent to N$ N$652 million, precious stones-diamonds up by 12.0 percent to N$250 million, fish down by 28.2 percent to N$ 301 million, while Ores and concentrates of base metals decreased by 40.9 percent to N$78 million. For the month of July, the top 5 export products were precious stones(diamonds), as top exported product followed by fish, uranium, non-monetary gold, and petroleum oils.

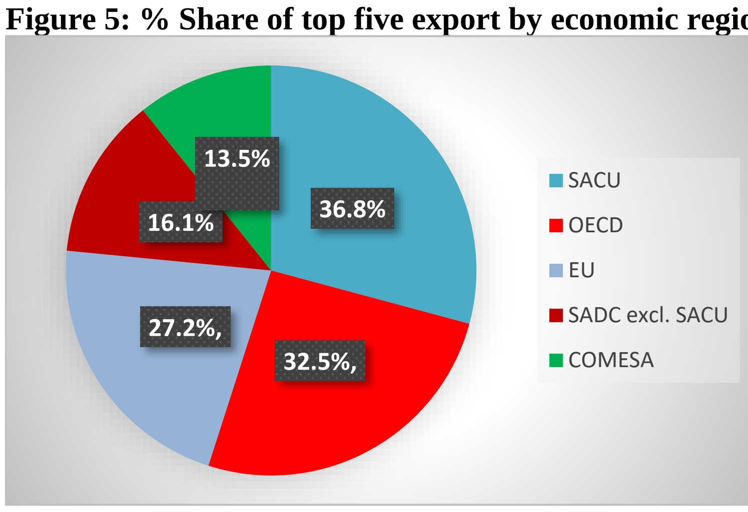
Figure 4: Top 5 export by product



Source: NSA, 2022

SACU emerged as the largest export destination for Namibia's goods during the month under review with a 36.8 percent as a share of total exports (Figure 5). The OECD and EU followed in the second and third positions absorbing 32.5 percent and 27.2 percent of Namibia's total export share, respectively. SADC excl. SACU market absorbed 16.1 percent of Namibia's total exports and finally, 16.1 percent of Namibia's total exports was absorbed by the COMESA market.

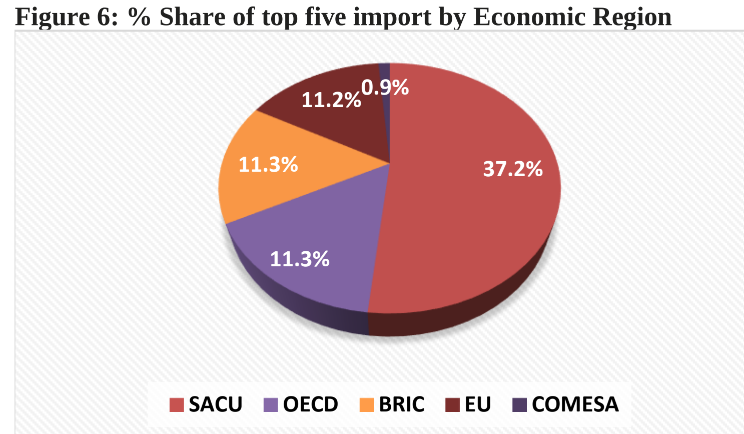
Figure 5: % Share of top five export by economic region



Source: *NSA, 2022*

For the month under review SACU continued to be the largest source of imports for Namibia, accounting for 37.2 percent of total imports in July 2022. Mainly motor vehicles for the transportation of goods. Motor vehicles for the transportation of persons and Alcoholic beverages from SACU (**figure 6**). The OECD came second with a share of 11.3 percent. BRIC and the EU countries accounted for 11.3 percent and 11.2 percent, respectively, Namibia imported mostly Petroleum oils from BRIC. While EU supplied her with Ores and concentrates of precious metals and Copper ores and concentrates. Finally, COMESA accounted for 0.9 percent which comprises in-organic chemical elements, feeding stuff for animals and Essential perfumery oils.

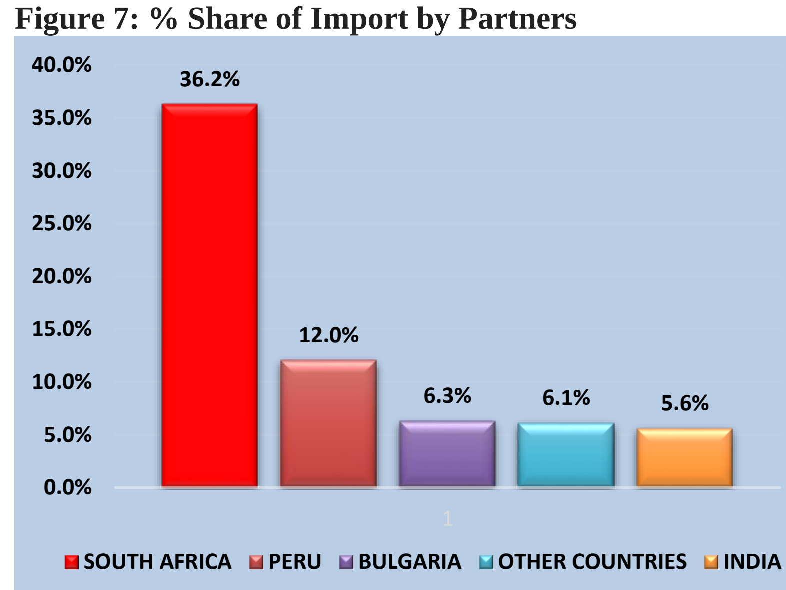
Figure 6: % Share of top five import by Economic Region



Sources: *NSA, 2022*

As usual South Africa remain the source of import destination for Namibia taking up 36.2 percent however lower as compared to 50 percent recorded in July 2021. Peru took the second position of 12 percent. Followed by Bulgaria, other countries and India with 6,3 percent, 6.1 percent, and 5.6 percent respectively. All these countries combined they provided Namibia with total import amounting to 66.2 percent, lower than 71.5 percent recorded in July 2021. But an increase in comparison to 62.5 percent recorded in June 2022 **(figure 7).**

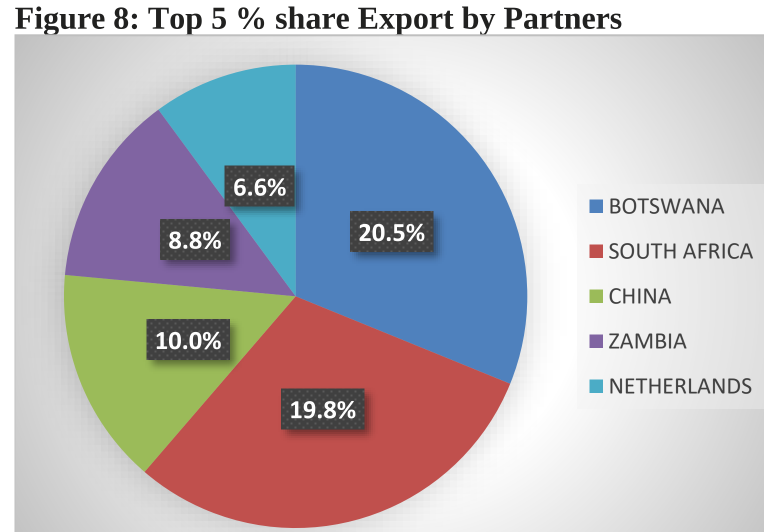
Figure 7: % Share of Import by Partners



Source: NSA, 2022

For the month of July most of Namibia export was destined for the Botswana market, accounting for 20.5 percent for the country's export **(Figure 8).** South Africa took the second position taking up 19.8 percent of the export. Followed by China with 10.0 percent, Zambia and Netherland by 8.8 percent and 6.6 percent respectively. These top five export market accounted for 65.7 percent compared to 49.5 percent recorded in the same period of previous year. On monthly basis the accumulated export percentage was 10.7 higher in July 2022 compared to 55.0 percent recorded in June 2022. Namibia exported mostly precious metal to Botswana and South Africa. Fish was destined for the Zambian market and Uranium for China market.

Figure 8: Top 5 % share Export by Partners

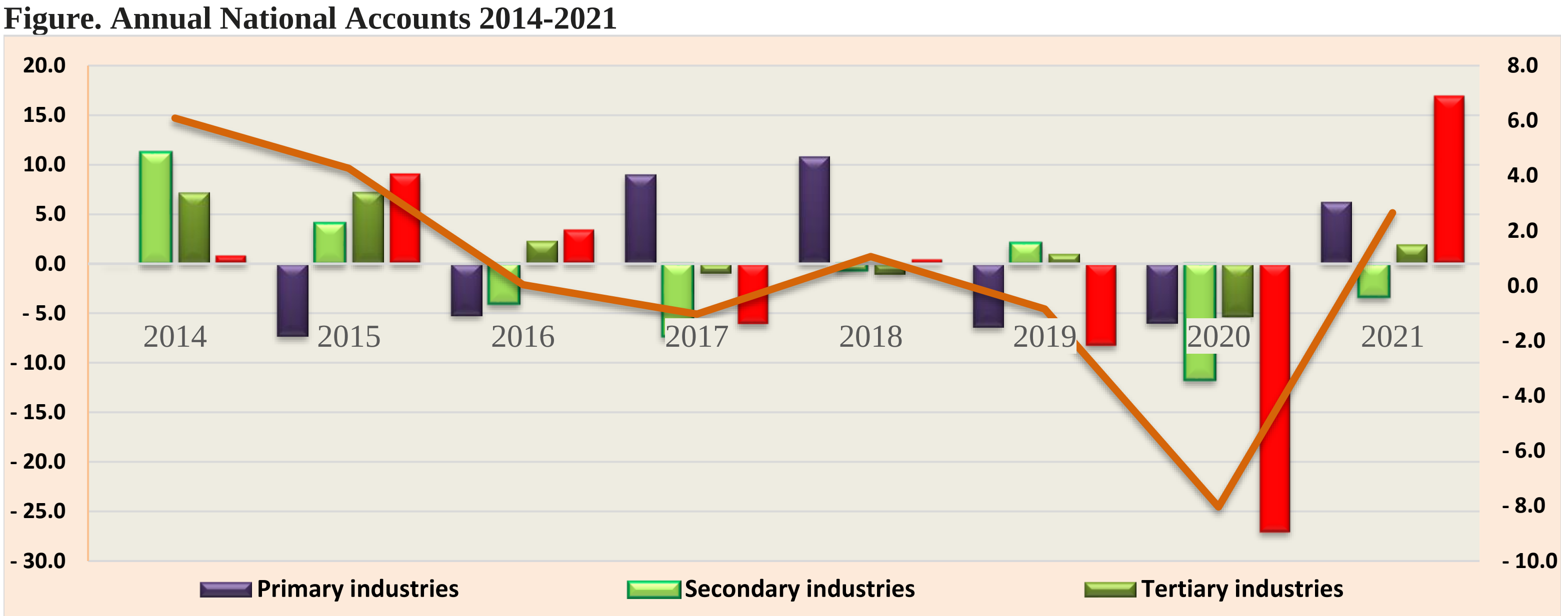


Source: NSA, 2022

NATIONAL ACCOUNTS 2021

According to the recent released Annual National Accounts 2021 by NSA, the economy recorded a recovery in 2021, with a growth of 2.7 percent in 2021, coming from a contraction of 8.0 percent in 2020. The growth was propelled by the recovery in the **primary and tertiary industries** as well as an improvement in the **secondary industries** from a double-digit contraction to a single digit contraction.

Figure. Annual National Accounts 2014-2021



Source: NSA 2022

Primary industries grew by .2 percent in 2021 compared to the contraction of 6.0 percent in 2020. The growth expansion in the **primary industries** is supported by growth of 10.0 percent in *mining and quarrying* as compared to the contraction of 15.0 percent in 2020. The growth in *mining and quarrying* was supported by the strong growth of 15.3 percent and 47.5 percent in *uranium* and *other mining and quarrying* respectively. On the other hand, the *metal ores* contracted by 0.6 percent for the period under review, which is a better performance when compared to a contraction of 20.7 percent reported in 2020. The contraction was attributed to a reduction in production of *copper and manganese* minerals as some mine closed and went under care and maintenance. The *agricultural sector* also recorded a growth of 2.0 percent in 2021 however, lower than 6.3 percent recorded in 2020. The slow growth in *agriculture* in 2021 is attributed to the low growth in *crop farming and forestry* of 4.8 percent compared to 77.3 percent in 2020 due to a delay in rain. The *livestock subsector* posted a marginally growth of 0.8 percent from a double-digit decline in 2020.

Secondary industries contracted grew by 3.3 percent in 2021 compared to a double-digit contraction of 11.7 percent in 2020 due to a 1.4 percent decline in *manufacturing* sector in comparison to a decline of 17.1 percent registered in 2020. The improved performance in the *manufacturing* sector in the year under review was mainly due to growth from *beverage*, *Grain mill products* and *textile and wearing apparel* posted strong a growth of 17.7 percent, 8.7 percent, and 21.6 percent, compared to decreases of 32.5 percent, a growth of 8.1, a decline of 3.1 percent in 2020, respectively. Though contracted the better performance is also attributed to the slower deceleration recorded in the *basic nonferrous metals', other food products and diamond processing*' which contracted by 44.4 percent, 5.9 percent, and 11.0 percent in 2021 compared to contractions of 46.8 percent, 15.1 percent, and 12.6 percent in 2020, respectively.

Electricity and water sector posted a decline of 6.1 percent compared to 25. 9percent growth in 2020, the decrease in the sector is due to a reduction in electricity production that recorded a decline of 13.1 percent in 2021 compared to an increase of 52.2 percent in 2020 thus the poor outturn is attributed to the increased imports that resulted in high cost and low value added.

Construction on the other hands, continue to contract, declining by 11.1 percent in 2021, compared to 11.6 recorded in 2020. The decline in this subgroup is attributed to the sharp declines in government expenditure on construction projects and the value of buildings completed.

Tertiary industries grew by 1.9 percent in 2021 compared to a contraction of 5.8 percent in the preceding year due to the to the growth recorded in the *hotel and restaurant sector* of 8.8 percent in 2021 from a contraction of 25.4 percent in 2020. The growth witnessed within this subgroup category sector was prompt by the relaxation of COVID-19 travel and gathering restrictions, resulting in high demand for leisure, conferencing, and accommodation services.

Growth was also supported by the growth in the *wholesale and retail trade* subgroup that recorded an increase of 6.1 percent during 2021, compared to a decline of 11.7 percent in 2020. The increase resulted from increased final demand that was reflected in vehicles, supermarkets, furniture, and wholesale outlets.

Furthermore, *transport and storage* sector rose by 2.2 percent in 2021 from a decline of 22.8 recorded in 2020. The positive performance for this sector is primarily influenced subcategories of other *supporting and auxiliary transport* activities, *railway transport* and *post and courier* activities' that recorded contraction of 53.1 percent, 8.1 percent, and 6.2 percent during the period, respectively.

Q1 2022

On the quarterly basis the domestic economy recorded a growth of 5.3 percent in the first quarter of 2022 when compared to a decline of 4.9 registered in the corresponding quarter of 2021. The increase in the growth was mainly driven by the resurgent of the *mining and quarrying*' sector which registered a strong growth of 23.5 percent. Similar observations were noticeable in the *manufacturing*, with transport and storage and financial services' sectors that also recorded growths in real value added of 7.5 percent, 6.3 percent, and 5.1 percent, respectively. In addition, other sectors such as health, agriculture, and forestry', information and communication as well as hotels and restaurants' posted growths of 8.9 percent, 5.9 percent, 4.8 percent, and 4.4 percent, accordingly. However, Construction activities remained subdued, posting a decline of 7.5 percent while the fishing sector registered a modest decline of 2.0 percent during the period under review. The strong performance in the mining and quarrying sector is attributed to diamond mining, metal ores mining and 'other mining and quarrying' subsectors that posted strong growths in real value added for the period under review.

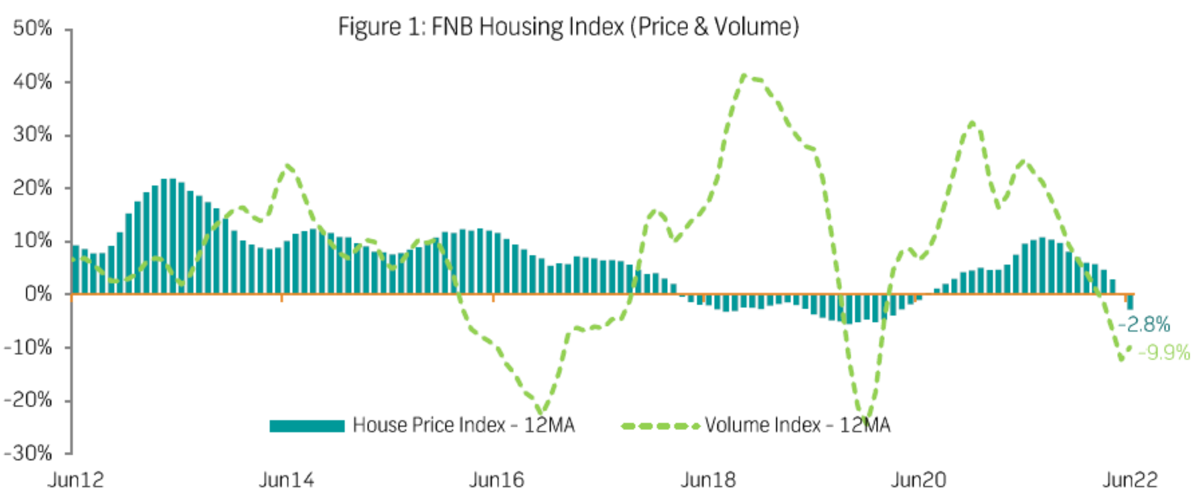
On the other hand, the positive performance in the manufacturing is due to beverages, other food products and meat processing' subsectors that registered strong growths of 25.5 percent, 17.7 percent, and 15.6 percent during the period under review, compared to the corresponding quarter of 202. Moreover, transport and storage sector improved because of airport services, air transport, port services, freight transport by road and passenger transport by road that posted growth rates of 24.7 percent, 105.7 percent, 8.9 percent, 3.4 percent, and 11.3 percent, respectively. The financial sector also recorded a strong growth that emanated from both banking and insurance subsectors that recorded growth rates of 2.7 percent and 7.0 percent, respectively

Furthermore, the robust performance in the agricultural sector is attributable to the Livestock farming subsector that registered a steady recovery, expanding by 5.7 percent in real value added during the period under review compared to a contraction of 6.1 percent posted in the parallel quarter of 2021. The improved performance is owed to the growth in cattle marketed to export approved abattoirs and butchers as well as in live cattle and small stock exported. Hotels and restaurants growth is prompt to the increase in airline capacities (passenger arrivals) which led to an increase in demand for leisure and conferencing activities. As a result, 'Hotels' and 'Restaurants' subsectors witnessed 2.6 percent and 6.5 percent increase in real value of revenues during the period under review, accordingly

SPECIAL FEATURES: FNB HOUSE PRICES INDEX AND PROSPECT FOR MID-TERM REVIEW

The **FNB housing index** recorded a 12-month moving average contraction of 2.8 percent at the end of June 2022 compared to a growth of 9.6 percent over the corresponding period of 2021. Likewise, the 12-month national weighted average house price stood at N$ 1,173059 in June 2022 down from N$ 1,211382 in June 2021. Even the small segment which is usually the dominant in the market registered a contraction of 0.8 percent year on year (y-o-y) in the second quarter of 2022 compared to a growth of 7.3 percent y-o-y as the same period of preceding year.

Figure 9: FNB overall Residential Property Index



Source: FNB quarter 2 Report

Moreover, the contraction in the house prices was observed across all regions in the country with the coastal region recording the highest contraction of 20.8 percent y-o-y to N$ 1253000, followed by the southern region that posted a negative growth of 7.9 percent to N$761 000. On the other hand, the central region registered a decline of 4.0 percent to N$156 400 and the northern region recorded the least contraction of 2.7 percent y to N$852 000 at the end of June 2022.

Figure 10: House Prices and Land Prices per square Metre

REGIONAL SNAPSHOTS (3MA)			
House Prices	Central	N$1 564 000	-4.0% y/y
	Coastal	N$1 253 000	-20.8% y/y
	Northern	N$852 000	-2.7% y/y
	Southern	N$761 000	-7.9% y/y
Land Prices / Square Metre	Central	N$486	-21.8% y/y
	Coastal	N$196	-44.4% y/y
	Northern	N$1 241	26.2% y/y
	Southern	N$878	-15.6% y/y

FNB HOUSING SEGMENTS (3MA)			
Small	N$0.5mn-N$1.5mn	N$858 000	-0.8% y/y
Medium	N$1.5mn-N$3.5mn	N$2 152 000	0.3% y/y
Large	N$3.5mn-N$6.5mn	N$4 196 000	3.7% y/y
Luxury	N$6.5mn and higher	N$8 250 000	-56.5% y/y

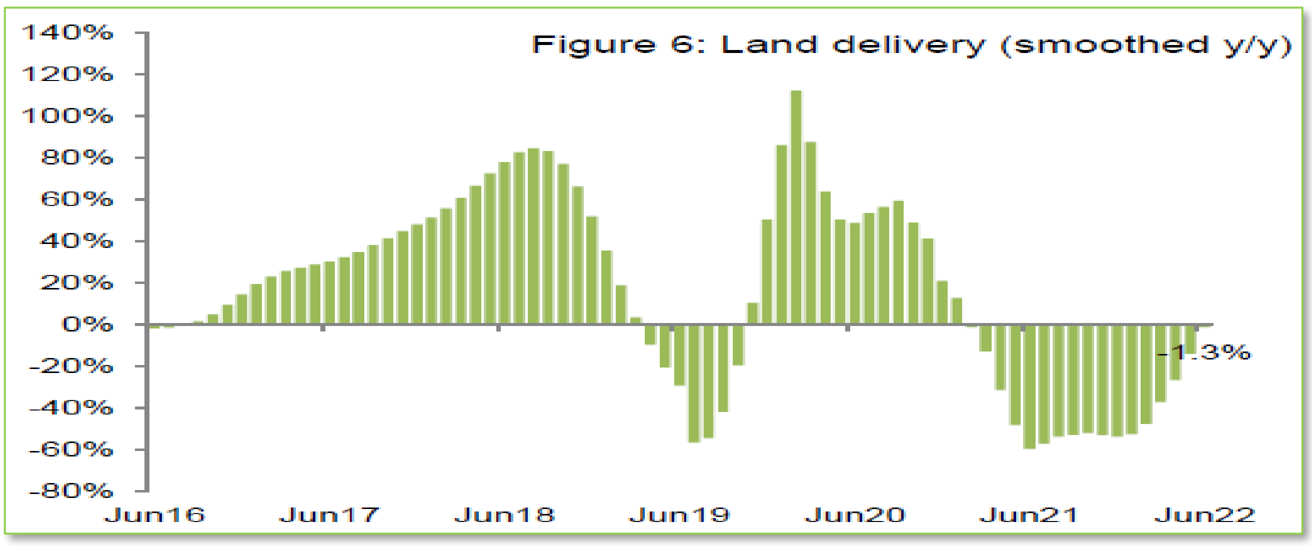
Source: FNB quarter 2 Report

The supply-side has been at the core of the housing market dynamics waning the demand on the back of deteriorating macroeconomic environment which seemingly to have taking a toll on the market. This was evident from lower-than-expected sales of houses within the small segment. The small segment recorded a contraction of 0.8 percent in the second quarter of 2022 from a growth of 7.3 percent registered in the same period of 2021, this is unusually within this segment as it is usually the main driver of sales within the market.

Land Delivery

The sales of residential plots continue to improve, as it recorded a contraction of 1.3 % at the end of June 2022 compared to a contraction of 59.8% percent over the same period of 2021. The improvement in the land delivery was mainly driven by the coastal and northern region that registered growth of 14.0% and 1.6% compared to the decline of 68.6% and 62.6% in June 2021, respectively. However, central, and southern region continue to slack behind when it comes to the delivery of land recording a contraction in the sales of land of 9.5% and 47.4% in the period under review compared to a contraction of 4.5% and 70.3 % in June 2021.

Figure 11: Land Delivery



Source: FNB quarter 2 Report

Housing market overview

The decline in the *house prices index* is affiliated to the macroeconomic environment for instance, the rising in inflation combined with interest rate hikes by a cumulative 175 bps over a period of seven months by the Bank of Namibia. Which continues to put pressure on consumer, given that job opportunities remain limited and wage growth stagnates. At moment households are mostly borrowing to finance their consumptions and not to buy new properties.

Prospects in the medium-term review

Urbanization in Namibia and the associated urban land and housing crisis has in recent years become a central topic of public debate. Rapid urbanization is partly attributed to rural underdevelopment, which attracts large numbers of people to urban centres. Since independence, legacies of historical spatial inequality in urban areas have been compounded by inadequate and insufficient measures to address the urban land and housing question. With this create a need for the National Housing policy (NHP) to be revised this year, the current revision was necessitated by a shifting policy direction in the urban land and housing sector in response to the economic situation requiring larger policy impact with reduced capital outlay, recent developments in the housing sector, fragmentation of policies, programmes, and projects and the lack of a detailed Implementation Action Plan as envisaged by the 2018 Guidelines for Public Policy Making by the National Planning Commission (NPC). The revision of the NHP outlines the overarching framework for a focused, affordable, and pragmatic approach to progressively realize adequate housing for the largest majority in Namibia in the short (2022), medium (by 2024), and long term (beyond 2026).

The short and medium-term policy focus will be on:

- ✓ Participatory Informal Settlement Upgrading to unlock housing opportunities for the priority target groups (Ultra-low and Low-income households) at the required scale.
- ✓ Incremental Greenfield Development to pre-empt further informal settlement formation; and
- ✓ Urban densification to increase spatial opportunities through regulatory review and development incentives.

Therefore, the housing crisis which was exacerbated by the lack of investor appetite in affordable housing, different institution resolved to enter into the Affordable Housing Market agreement and started with the actual construction of houses through a programme to be known as the Windhoek Housing Programme (WHP). This programme birthed to what is called the Informal Settlement Upgrading Affordable Housing Pilot Project (ISUHPP). The project initiative is carried out by the Ministry of Urban and Rural Development, the City of Windhoek, the National Housing Enterprise (NHE). The signed memorandum of understanding (MoU) between these institutions stipulated that 1200 houses will be constructed in the low-income area in Windhoek. To date the initiative has constructed close to 410 houses since its inception in 2020 and at a moment 40 houses are under construction. Going forward and with the initiative of affordable houses the houses price index is expected to register some improvement.

This publication was produced by:

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