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# MINISTRY OF FINANCE
## *Quarterly Economic Update*

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Regular Updates

- Global, Sub-Saharan Africa & Domestic Economic Developments
- Consumer Price Index/Inflation
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## GLOBAL ECONOMIC DEVELOPMENTS

Global growth is projected[1] to reach 3.9 percent in 2018 and 2019, but the expansion is becoming less even, and risks to the outlook are mounting. The rate of expansion appears to have peaked in some major economies and growth has become less synchronized.

In the United States, near-term momentum is strengthening in line with the April 2018 IMF WEO forecast, and the US dollar has appreciated by around 5 percent in recent weeks. Growth projections have been revised down for the euro area, Japan, and the United Kingdom, reflecting negative surprises to activity in early 2018.

Among emerging market and developing economies, growth prospects are also becoming more uneven, amid rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals. Growth projections have been revised down for Argentina, Brazil, and India, while the outlook for some oil exporters has strengthened.

The **advanced economies'** growth is expected to remain above trend at 2.4 percent in 2018 - similar to 2017 - before easing to 2.2 percent in 2019 (Table 1). The forecast for 2018 is lower by 0.1 percentage point compared to the April 2018 WEO, largely reflecting greater-than-expected growth moderations in the euro area and Japan after several quarters of above-potential growth.

***Table 1: Overview of the World Economic Outlook Projections, % growth rates***

| | **2018** | **2019** |
|---|---|---|
| World Output | 3.9 | 3.9 |
| Advanced Economies | 2.4 | 2.2 |
| US | 2.9 | 2.7 |
| Euro Area | 2.2 | 1.9 |
| Emerging Market & Developing Economies | 4.9 | 5.1 |
| China | 6.6 | 6.4 |
| India | 7.3 | 7.5 |
| Latin America & Caribbean | 1.6 | 2.6 |
| Brazil | 1.8 | 2.5 |
| Mexico | 2.3 | 2.7 |
| Sub-Saharan Africa | 3.4 | 3.8 |
| Nigeria | 2.1 | 2.3 |
| South Africa | 1.5 | 1.7 |

*Source: IMF WEO, April 2018 Update*

In the *United States*, near-term momentum in the economy is expected to strengthen temporarily in line with the April 2018 WEO forecast, with growth projected at 2.9 percent in 2018 and 2.7 percent in 2019.

Substantial fiscal stimulus together with already-robust private final demand will lift output further above potential and lower the unemployment rate below levels last registered 50 years ago, creating additional inflationary pressures. Imports are set to pick up with stronger domestic demand, increasing the US current account deficit and widening excess global imbalances.

Growth in the ***euro area*** economy is projected to slow gradually from 2.4 percent in 2017 to 2.2 percent in 2018 and to 1.9 percent in 2019 (a downward revision of 0.2 percentage point for 2018 and 0.1 percentage point for 2019 compared with the April 2018 WEO). Forecasts for 2018 growth have been revised down for Germany and France after activity softened more than expected in the first quarter, and in Italy, where wider sovereign spreads and tighter financial conditions in the wake of recent political uncertainty are expected to weigh on domestic demand.

The growth forecast for ***Japan*** has been marked down to 1.0 percent for 2018 (0.2 percentage point below the April 2018 WEO projections) following a contraction in the first quarter, owing to weak private consumption and investment. The economy is expected to strengthen over the remainder of the year and into 2019, aided by stronger private consumption, external demand, and investment.

**Emerging market and developing economies** have experienced powerful crosswinds in recent months: rising oil prices, higher yields in the United States, dollar appreciation, trade tensions, and geopolitical conflict. The outlook for regions and individual economies thus varies depending on how these global forces interact with domestic idiosyncratic factors.

Financial conditions remain generally supportive of growth, though there has been differentiation across countries based on economic fundamentals and political uncertainty. With the updraft on oil exporters from higher oil prices largely offset by the combined drag on other economies from the forces described above, the group's overall 2018 and 2019 growth forecasts remain unchanged from the April 2018 WEO at 4.9 and 5.1 percent, respectively.

Emerging and Developing Asia is expected to maintain its robust performance, growing at 6.5 percent in 2018-19. Growth in **China** is projected to moderate from 6.9 percent in 2017 to 6.6 percent in 2018 and 6.4 percent in 2019, as regulatory tightening of the financial sector takes hold and external demand softens. **India's** growth rate is expected to rise from 6.7 percent in 2017 to 7.3 percent in 2018 and 7.5 percent in 2019, as drags from the currency exchange initiative and the introduction of the goods and services tax fade.

## COMMODITY PRICE DEVELOPMENTS

**Oil**[1] prices are forecast to average $65 a barrel over 2018, up from an average of $53 a barrel in 2017, on the back of strong demand from consumers and restraint by oil producers, while metals prices are expected to rise 9 percent in 2018, also on a pickup in demand and supply constraints.

Although oil prices are projected to decline from April 2018 levels, they should be supported by continued production restraint by OPEC and non-OPEC producers and strong demand. Upside risks to the forecast include constraints to U.S. shale oil output, geopolitical risks in several producing countries, and concerns the United States may not waive sanctions against Iran.

Downside risks include weaker compliance with the oil producers' agreement to restrain output or outright termination of the accord, rising output from Libya and Nigeria, and a quicker-than-expected rise in shale oil output.

Prices for **energy commodities** - which include oil, natural gas, and coal - are forecast to jump 20 percent in 2018, a 16 percentage point upward revision from October's outlook. The metals index is expected to rise as a 9 percent drop in iron ore prices is offset by increases in all base metals prices, led by nickel, which is forecast to rise 30 percent.

**Agricultural** commodities, including food commodities and raw materials, are anticipated to see a price rise of over 2 percent this year on diminished planting prospects. Weather disruptions are expected to be minimal.

Accelerating global growth and rising demand are important factors behind broad-based price increases for most commodities and the forecast of higher commodities prices ahead.

## SUB-SAHARAN AFRICA

The recovery in Sub-Saharan Africa is set to continue, supported by the rise in commodity prices. For the region, growth is expected to increase from 2.8 percent in 2017 to 3.4 percent this year, rising further to 3.8 percent in 2019 (0.1 percentage point higher for 2019 than forecast in the April 2018 WEO).

The upgraded forecast reflects improved prospects for **Nigeria's** economy. Its growth is set to increase from 0.8 percent in 2017 to 2.1 percent in 2018 and 2.3 percent in 2019 (0.4 percentage point higher than in the April WEO for 2019) on the back of an improved outlook for oil prices.

Despite the weaker-than-expected first quarter outturn in **South Africa** (in part due to temporary factors), the economy is expected to recover somewhat over the remainder of 2018 and into 2019 as confidence improvements associated with the new leadership are gradually reflected in strengthening private investment. But growth prospects remain weighed down by uncertainty about property rights.

Meanwhile, the **Angolan** economy is struggling with the rebalancing of the global oil market. Oil represents about one third of its GDP and over 95 percent of its exports, and the sharp and prolonged decline in its price since mid-2014 has had a significant impact on Angola's economy.

Angola has external imbalances, including forex shortages, which have hurt the private sector, and rapidly declining reserves. Net international reserves have decreased by 20.4percent since the beginning of the year, reaching $15.6 billion in August 2017, its lowest level since early 2011. This was mainly the result of the National Bank of Angola's strategy to defend the currency and combat inflation by re-pegging it at 165.9 kwanzas per US dollar.

Angola's current economic crisis underscores its need to diversify its economy and reduce its dependency on oil revenues. Despite enormous potential to increase the amount of area under cultivation and crop yields, and diverse agri-climate regions in the country, the agriculture sector only represents about 11percent of GDP.

## DOMESTIC ECONOMIC DEVELOPMENTS

### 1. Gross Domestic Product (GDP)

The first quarter GDP for 2018 growth remained weak, recording a contraction of 0.1 percent, albeit a slight improvement relative to the decline of 0.4 percent registered in the corresponding quarter of 2017.

The marginal improvement in performance is largely driven by the *construction* sector that posted strong growth of 23.7 percent in real value added relative to the contraction of 36.9 percent recorded in the corresponding quarter of 2017.

Furthermore, slight improvements were observed in the *wholesale and retail trade* and *transport and communication* sectors. Wholesale and retail trade sector posted a negative growth of 1.3 percent, indicating that demand for goods and services remain suppressed however, showing signs of recovering, when compared to the same period of 2017, whereas transport and communications registered a growth of 2.5 percent during the period under review.

Despite the observed improvement, government activities dragged the performance of the economy, posting contractionary growths across due to fiscal consolidation by central government. Furthermore, decelerating growths were recorded in sectors such as *hotels and restaurants* (5.3 percent), manufacturing (2.1 percent) and fishing (13.6 percent).

Additionally, the following sectors recorded slower growths in real value added, *mining and quarrying* (4.7 percent), *financial intermediation* (1.4 percent) and *agriculture and forestry* (1.4 percent), accordingly. Real GDP growth for the fourth quarter of 2017 was revised downward to a contraction of 1.5 percent from a decline of 1.0 percent previously recorded. This represents a decline of 0.5 percentage points. According to NSA report, the revision in the data was solely necessitated by the updated data received from sources.

### 1. Performance of the different sectors

The ***agriculture and forestry*** sector posted a slower growth of 1.4 percent in real value added during the quarter under review in comparison to a strong growth of 16.5 percent recorded in the corresponding quarter of 2017.

The notable slow performance in the sector is mainly driven by the livestock farming sub-sector that decelerated to 1.9 percent compared to a strong growth of 19.3 percent recorded in the same quarter of 2017. The decline in the livestock sub-sector is driven by the substantial increase in live cattle exports to South Africa without value addition causing huge decline in inventory and disinvestment in stock.

Cattle export to abattoirs and butchers recorded a growth of 37.7 percent compared to a decline of 35.1 percent recorded in the corresponding quarter of 2017. However, this gain is reversed by a decline in inventories and investment. Furthermore, Small stock marketed to abattoirs and butchers decelerated further, posting a decline of 39.5 percent compared to a decline of 10.2 percent recorded in the corresponding quarter of 2017.

Cattle exported live to South Africa and Angola surged up to a growth of 53.2 percent while small stock exported live to South Africa and Angola posted a decline of 8.8 percent during the period under review.

On the other hand, crop farming sub-sector eased to a 10.9 percent growth in real value added compared to stronger growth of 15.8 percent recorded in the previous quarter of 2017. The slow performance is primarily attributed to reduced field that were cultivated across the country as a result of late rainfalls

Meanwhile ***fishing and fish processes on board***, is estimated to have registered a decline of 13.6 percent in real value added during the first quarter of 2018 compared to a growth of 5.9 percent recorded during the corresponding quarter of 2017.

The poor performance of the sector comes on the backdrop of declining fish landings accompanied by rising fuel costs and currency appreciation remains the limiting factors.

The ***mining and quarrying*** sector registered a slow growth of 4.7 during the first quarter of 2018 compared to a strong growth of 14.0 percent recorded in the corresponding quarter of 2017.

The slow performance in the mining and quarrying sector is attributed to the declines in real value added for the following sub-sectors: *metal ores* (18.1 percent), and *other mining and quarrying* (28.5 percent), respectively.

The sub-sector *metal ores* posted a decline of 18.1 percent in real value added compared to a strong growth of 52.5 percent registered in the corresponding quarter of 2017. The poor performance is attributed to *zinc* and *lead* production that contracted to (6.8 percent and 49.8 percent), respectively, while *gold* production slowed down to 1.6 percent.

The ***manufacturing*** sector on the other hand, is estimated to have recorded a decline of 2.1 percent in real value added during the first quarter of 2018 compared to a strong growth of 3.9 percent recorded in the corresponding quarter of 2017.

The weak performance in the manufacturing sector is mainly attributed to a decline in real value added recorded in the *non-metallic minerals* sub-sector (26.7 percent). In addition, basic *non-ferrous metals* posted declines of 12.8 percent during the period under review compared to 10.2 percent in the corresponding quarter of 2017 in real value added.

Despite slow growth, other sub-sectors like *leather and leather products*, *meat processing* and *beverages* recorded growths in real value added of 22.5 percent, 11.2 percent and 6.9 percent in the first quarter of 2018, respectively.

During the first quarter of 2018, the *electricity and water* sector moderated to a slow growth of 1.9 percent in real value added, compared to a strong growth of 16.0 percent recorded in the corresponding quarter of 2017.

The notable slow performance is attributed to the *electricity* sub-sector that registered a decline of 5.9 percent in real value added compared to a strong growth of 24.8 registered in the corresponding quarter of 2017. This performance is attributed high intermediate consumption that is due to imports of electricity which increased significantly.

After having registered declines for the past eight consecutive quarters, *construction* sector recovered by registering a strong growth of 23.7 percent in the first quarter of 2018.

The performance in the sector is attributed to a strong growth in real value in government expenditure on construction and the value of buildings completed that registered strong growth of 36.6 percent and 104.5 percent compared to a decline of 50.6 percent and slower growths of 1.5 percent recorded in the same period in 2017.

The *wholesale and retail trade* sector is estimated to have registered a decline of 1.3 percent in real value added during the first quarter of 2018 compared to a decline of 6.3 percent registered in the corresponding quarter of 2017.

The performance of the sector remained suppressed and is reflected in the sales of vehicles that posted a declining growth of 22.4 percent in revenue for the first quarter 2018 compared to a decline of 16.6 percent recorded in the same quarter of 2017.

The *hotels and restaurants* sector is estimated to have recorded a decline in real value added of 5.3 percent in the first quarter of 2018 compared to a growth of 3.3 percent registered in the same quarter of 2017.

The performance in the sector stems from the number of room and bed nights sold that registered declines of 5.5 percent and 0.4 percent compared to strong growth of 12.2 percent and 14.5 percent recorded in the corresponding quarter of 2017.

### 1. Inflation

Namibia's overall inflation decelerated during the first quarter of 2018 compared to the corresponding period during 2017, mainly due to a sharp decline in inflation for food and housing. Inflation slowed to 3.5 percent during the first quarter of 2018, from 7.7 percent during the corresponding quarter of 2017.

The slower price growth was mainly as a result of a significant deceleration in inflation for the categories food and non-alcoholic beverages as well as housing during the period under review. This was mainly on account of the favourable exchange rate and improved agricultural production coupled with a sharp decline in rental payments for dwellings during the period under review.

### 1. Balance of payments

During the first quarter of 2018, Namibia's **current account deficit** narrowed significantly both on an annual and quarterly basis. The current account deficit improved to N$521 million in the first quarter of 2018, compared to a higher deficit of N$814 million in the first quarter of 2017.

This was primarily attributed to the improvement in the merchandise trade deficit, coupled with increased receipts on the secondary income account. Likewise, the current account deficit improved by N$1.4 billion on a quarterly basis, from N$1.9 billion recorded in the previous quarter, supported by improvements in the balances on the trade and services accounts.

On a quarterly basis, the **merchandise trade deficit** also improved during the first quarter of 2018, due to a significant reduction in the import bill. In this regard, Namibia's merchandise trade deficit improved by 47.7 percent to N$2.0 billion during the first quarter of 2018 from N$3.8 billion recorded in the fourth quarter of 2017. This was primarily due to a notable reduction in imports of foreign goods by 14.7 percent to N$16.2 billion during the period under review. The downward trend in merchandise imports was mainly reflected in lower import payments in the categories consumer goods, vehicles, aircraft and vessels, and products of the chemical industries. In contrast, the seasonally adjusted trade balance widened by 9.1 percent to N$3.4 billion during the period under review, compared to the final quarter of 2017.

## 2. Fiscal Developments

Central Government's **budget deficit** is estimated to narrow during the FY2018/19, compared to the preceding fiscal year, although remaining above the set ceiling. The budget deficit as a percentage of GDP is estimated to narrow to 4.3 percent in FY2018/19, compared to 5.2 percent recorded during the FY2017/18. The improvement is due to the envisaged relatively sharper decline in expenditure. Central Government's expenditure for the FY2018/19 is estimated to decline by 1.6 percent to N$65.0 billion during the period under review. Furthermore Central Government's revenue is estimated to decline slightly by 0.2 percent to N$56.7 billion during the same period as a result of an anticipated decline SACU receipts.

The Government's **debt stock** increased both on an annual and quarterly basis, during the FY2017/18. Total Government debt stock stood at N$74.0 billion during the period under review, representing yearly and quarterly increases of 11.1 percent and 1.8 percent, respectively. The yearly increase was reflected in both domestic and foreign debt during the FY2017/18. Similarly, the quarterly increase was reflected in domestic borrowing as a result of higher allotment of both Treasury Bills and Internal Registered Stock. Foreign borrowings, however, declined quarter-on-quarter mainly due to the exchange rate appreciation. Total debt as a percentage of GDP stood at 41.3 percent, representing yearly and quarterly increases of 1.8 percentage point and 0.7 percentage points, respectively. The ratio of debt to GDP remained higher than the Central Government debt ceiling of 35.0 percent of GDP.

*Sources:*

1. *Bank of Namibia Quarterly Bulletin, June 2018*
2. *National Statistics Agency, Quarter 1 2018 data*
3. *World Economic Outlook of the International Monetary Fund, April 2018 Update*
4. *World Bank Commodity Markets Outlook, April 2018.*

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