The Namibian Economy 2018 Outlook

A new year should mean new beginnings but we're off to a rough start in the land of the brave. Not very much is going our way economically speaking but we have well over 300 days to possibly turn things around.

Growth has been stunted since early 2016 and the economy made a turn for the worst in 2017 recording three consecutive quarters of negative growth. The weakness in the economy is reflected in the labour market where unemployment has reached a 34% high. The Central Bank projects a growth rate of 0.6% for the year 2017 but it is hard to imagine that our economy is not in a full on recession at present.

Once again the decline in the construction sector weighed down on the whole economy having contracted by over 26% on an annual basis in 2016 and considering the successive periods of contractions experienced during the previous year (the latest reading was -39.9% in Q3'17) we cannot expect a reversal in the trend in the near future. Five years ago this sector's growth peaked above 55% and continued to yield high growth rates until the start of 2016 when it plunged into negative territory and has not managed to recover since. The combined effects of a 64.7% decline in mining construction and the reduction of government expenditure on building, (-37.9% in Q3'17) as a consequence of the contractionary fiscal policy, has shaken the sector. While the mining sector may have bounced back, the decline in construction projects was due to the completion of those that were in progress. Furthermore, fiscal consolidation is also still in effect. Therefore, it is unlikely that the construction sector will benefit from the mining sector's recovery or any fiscal stimulation from the government during this year.

High unemployment, a structural weakness of the economy, is worsened by the current phase in the economic cycle and has consequences for domestic consumption. Further evidence of the strain that Namibian households face is the rate of credit growth which has continued to decline (now at 4.7%) even after interest rates came down in the middle of 2017. The falling domestic demand has in turn caused business to slow down as reflected in a meagre 1.3% growth in business credit. Government consumption has also been reigned in since the realization for the need to adopt a policy of fiscal consolidation. The general suppression of consumption in the economy has consequences for overall economic growth in 2018.

One of the toughest challenges has been the achievement of a favourable and sustainable fiscal position. It is this struggle – to maintain a palatable debt level and to narrow the budget deficit – that led to the relegation of the country's sovereign credit rating to non-investment grade status. While it was suggested in the medium term budget that fiscal consolidation could be intensified, there is a point at which tightening fiscal policy can become counterproductive and rather stifle economic growth. The year-end budget report also revealed that the revenue target was missed. Considering the rising unemployment rate and that about a third of revenue comes from income tax, shrinking the deficit will not come easy and will probably not be realized this year.

The good news is that global factors, such as the bullish commodity markets and an improvement in the economies of our trading partners, place hope on the horizon for the Namibian economy in 2018/2019. The recovery in demand for commodities which was expected in 2017 is finally coming through this year with construction projects and manufacturing on the rise in advanced economies. The improvement in global trade conditions fortunately coincides with the increase in domestic diamond and uranium production. Exports will not only be boosted by commodity trade but tourism should also pick up as unemployment recedes in those countries causing an improvement in their standard of living and resurgence in demand for travel.

Rainfall is yet to reach the levels that were expected following the drought but agricultural output has nevertheless recovered. Livestock and crop production did not disappoint in 2017 and the overall sector's growth peaked in the second quarter just above 20%.

The outcome of the ANC election in neighbouring RSA has stimulated business confidence and we have already witnessed an appreciation in our currency. Angola seems set to recover as the price of oil edges up and their government embarks on major restructuring. The downturn in these respective economies had adverse consequences for our own because of our strong trade relations, therefore, their recovery would be beneficial for our own.

The resurgence of some optimism concerning South Africa as political uncertainty abates, coupled with declining inflation as well as an improvement in international trade, might put the possibility of interest rate cuts back on the agenda in 2018. If cuts materialize this would contribute to strengthening economic growth.

Twenty-seventeen may very well have been a recession but the outlook has improved. Growth for 2018 could be around 1.5% rising to 2.5% in 2019.

View your balance and transact on your Capricorn Asset Management Portfolio using the Bank Windhoek Mobile App and Internet Banking Platform

These electronic channels enable the Bank Windhoek clients to view and transact on their Capricorn investment portfolio.

Please note that these instructions may take up to 2 working days to be processed. The cut-off times on Namibian business days for any investment deposit or withdrawal to be effected the same day is 11:00.

The cut-off time for amounts in excess of N$5 million or for 3rd Party Fund Managers investments deposit or withdrawals to be effected the same day is 09:00.

Any deposit or withdrawal instructions received after the indicated cut-off times will be processed the next business day.

Our shared Bank Windhoek clients can visit their nearest Bank Windhoek Branch, advisor or our offices to enable this feature and in return make investing easy and more accessible.

Should you have any queries please contact our Sales & Channel Support department at 061 - 299 1950 or cam.service@capricorn.com.na