RMB

<u>Year ahead: weak and uncertain global outlook a key risk to Namibia's economy</u>

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The global economy will contend with slower economic growth in 2023 according to Rand Merchant Bank's (RMB) Africa Year-Ahead Outlook. A recessionary like environment is expected and both the IMF and World Bank have slashed their growth forecasts materially owing to elevated interest rates, deteriorating financial conditions and a slowdown in growth enhancing investments. The Russia-Ukraine war remains the key geopolitical risk, the effects of which are being costly to the global economy.

"The weak global outlook presents a key risk to external demand for mining commodities and tourist services. We therefore expect GDP growth to moderate from 4.1% in 2022 to 3.0% in 2023. Although moderating, growth remains above its five-year historic trend supported by the primary industries more specifically related to mining production and exploration activity and the spill over effects thereof" says Ruusa Nandago, FirstRand Namibia Economist.

She however cautions that mining and exploration activity will not necessarily translate to a material improvement in employment and consumption capacity, given that these industries constitute less than 2% of overall employment. "We expect a constrained consumer environment as disposable income comes under pressure following two years of rising inflation and interest rates, compounded by limited job opportunities, poor real wage growth and high levels of indebtedness. The effects of these were already evident in the poor growth observed in household private sector credit extension and the residential property market in 2022," says Nandago.

"On the investment front, Namibia will see increased investments in 2023 related to mining sector production and exploration activity, green hydrogen pilot projects and NamPower's renewable energy projects. These will, however, not be sufficient to materially raise overall gross fixed capital formation as the government's fiscal consolidation programme will keep public capital expenditure subdued. "Consequently, the construction sector, which has remained in contraction for six consecutive years, will continue to be subdued as government spending on capital projects remains lacklustre" she adds.

RMB expects inflation to retreat in 2023, averaging 5.2% from 6.1% in 2022. The moderation of inflation will be on the back of lower global inflation as global growth slows, oil and food prices normalise, supply chain pressures unwind, and the unprecedented interest rate hikes subjugate inflation expectations. According to Nandago, inflation risks are tilted to the upside as global oil and food prices remain volatile and susceptible to climate and geopolitical shocks, which might cause inflation to persist for longer.

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Barring any further inflation shocks, a global shift in monetary policy stance is expected, to either pause or slowdown the pace of interest rate hikes in 2023. After raising rates by a cumulative 300bps in 2022, RMB expects the pace and magnitude of rate hikes in Namibia to reduce in 2023, and for the hiking cycle to peak in the first half of the year. "We expect rates to end the year at 7.25% and for the cutting cycle to begin in the first half of 2024. The trajectory of rate movements is highly dependent on the path of interest rate movements in South Africa, necessitated by the currency peg to the Rand" Nandago explains.

She further added that the budget balance will come in at -6.0% of GDP for 2022/23 and -4.6% for 2023/24. This will be driven by higher SACU revenues as the 2022 South African Medium-Term Budget Policy Statement has revised overall SACU transfers higher by 31% in 2022/23 and 37% in 2023/24. Revenue growth will further be supported by an increase in mining related taxes and royalties as well as improved collection efficiency given the newly established Namibia Revenue Agency.

RMB CEO Philip Chapman reiterated Nandago's sentiments adding that despite the challenges that might lie ahead with the broadening of inflation in many economies around the world, Namibia has opportunities that we can explore to cushion the impact of cost pressures from disrupted supply chains and historically tight labour markets.

"The cost-of-living crisis calls for structural reforms that have a large, direct effect on household disposable income and reduce price pressures. Policies, aimed at bolstering the business climate, investing in skills development as well as boosting agricultural productivity coupled with the acceleration of investments into clean technologies and energy efficiency could help Namibians mitigate the challenges ahead thus improving household incomes and economic growth, and inclusion" Chapman concludes.